



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Strategic Partners Real Assets II, L.P.

Infrastructure Commitment

William P. Stalter
Senior Portfolio Manager

May 24, 2017



Recommendation:

Staff, together with Portfolio Advisors, recommends to the Board a commitment of up to \$200 million to Strategic Partners Real Assets II, L.P. ("SP RA II", the "Partnership" or the "Fund"). Strategic Partners ("Strategic Partners", "Strategic Partners Fund Solutions" or the "Firm"), a New York City based investment firm, is sponsoring the Fund to focus on acquiring secondary interests in mature infrastructure and real asset private funds on a global basis.

Firm Overview:

Strategic Partners was established in 2000 and since its founding has raised over \$28 billion dedicated to private equity, venture capital and real asset fund solutions. SP RA II is the 18th global secondary fund managed and led by the Strategic Partners team members. Having been in existence for over 16 years, Strategic Partners is recognized as an innovative and market-leading secondary private equity investor, with broad transaction capabilities on a global scale through its network of strong relationships, as well as a leading reputation for executing transactions on a fair, timely and confidential basis. The Strategic Partners team of 42 investment professionals is led by Founder and Co-Head, Stephen Can and Co-Head, Verdun Perry, each of whom have been with Strategic Partners since its inception.

Strategic Partners is wholly-owned by The Blackstone Group ("Blackstone"), one of the world's leading investment firms. Blackstone is based in New York, with offices in Beijing, Dubai, Dublin, Düsseldorf, Hong Kong, Houston, London, Los Angeles, Madrid, Mexico City, Montecito, Mumbai, Paris, San Francisco, São Paulo, Seoul, Shanghai, Singapore, Sydney and Tokyo. Blackstone's alternative asset management businesses include investment vehicles focused on private equity, real estate, hedge fund solutions, non-investment grade credit, secondary funds and multi-asset class exposures falling outside of other funds' mandates. The firm was founded in 1985 by Stephen A. Schwarzman, its current Chairman and CEO, and Peter G. Peterson (who retired from the firm in 2008). Hamilton E. "Tony" James serves as Blackstone's President and Chief Operating Officer and J. Tomilson Hill serves as Vice Chairman.

In addition to Strategic Partners, Blackstone engages in the following businesses:

Private Equity
Private Equity investments span a wide range of industries and continents in businesses large and small with assets under management as of December 31, 2016 of \$63 billion. This business provides businesses with the capital to realize their growth potential. This capital helps portfolio companies launch new business initiatives, make acquisitions and upgrade technologies and systems to support their long-term plans.
Tactical Opportunities (BTO)
Blackstone Tactical Opportunities – with \$17 billion in assets under management as of December 31, 2016 – is an investment program that seeks to generate attractive risk-adjusted returns by pursuing an opportunistic investment strategy across asset classes, capital structures, and geographies. Blackstone sponsored and organized Tactical Opportunities on the basis of the high volume of attractive non-traditional investment opportunities that are available to Blackstone, but typically are not pursued through traditional investment fund mandates. By virtue of having a leading presence in the Private Equity, Real Estate, Credit and Hedge Fund Solutions asset classes, Blackstone recognized it could coalesce the existing positive synergies these businesses yield for each other into a specific investment program that would actively pursue these high-quality, non-traditional investment opportunities.
Credit (GSO)
GSO is one of the world's largest credit-oriented alternative asset managers, with a focus on delivering attractive risk-adjusted returns and capital preservation. GSO's assets under management as of December 31, 2016 are \$93 billion. A team of over 325 professionals constitutes one of the largest in the industry, with a deep reservoir of credit expertise and experience across a range of market cycles, further enhanced by access to Blackstone's global resources and perspective. The solutions GSO offers draw upon a range of non-investment grade disciplines such as leveraged loans, high yield bonds, distressed debt, mezzanine lending and rescue financing.



Real Estate

Blackstone's real estate group was established in 1991 and is the largest private equity real estate investment manager in the world today with \$102 billion of assets under management through its opportunistic, core+ and debt strategy businesses as of December 31, 2016. It is a global business with investments and people in the United States, Europe, Asia and Latin America. Portfolios include premier properties in top locations, with a diverse mix of hospitality, office, retail, industrial and residential investments.

Hedge Fund Solutions (BAAM)

Blackstone Alternative Asset Management ("BAAM") is the world's largest discretionary allocator to hedge funds, with \$71 billion in assets under management as of December 31, 2016. The platform's process is designed to carefully select managers across a range of strategies and to create customized capacity with talented investment managers. Over the past decade, BAAM's principal solutions business has evolved into one that offers a diverse array of commingled and customized investor solutions, including long-only replacement strategies, special situations investing, emerging manager platforms, permanent capital vehicles, and a multi-manager platform.

Fund Size

Strategic Partners Real Assets II, L.P. is seeking equity commitments of \$1.0 billion.

Investment Strategy:

SP RA II will invest opportunistically in cases where a prospective seller's original real assets fund commitments range in size from \$100,000 for a single fund holding to \$150 million or more for a portfolio of funds. While SP RA II has a global investment mandate, it is anticipated that the majority of its commitments will be made to funds managed by North American, U.K. and Western European sponsors. Like its predecessor fund, SP RA I, SP RA II will seek significant capital appreciation primarily through the purchase of secondary interests in mature, high-quality infrastructure funds from investors seeking liquidity prior to the termination of these funds. The Fund may consider, albeit to a lesser extent, primary investments in infrastructure funds, as well as direct co-investments in infrastructure opportunities.

The portfolio composition is expected to include assets within the utility, power generation, energy renewables, transportation, waste management, shipping, parking and midstream and upstream energy industries.

Investment Team:

SP RA II will have an investment committee that is responsible for approving all investments by the Fund and is composed of Strategic Partners' senior team members in New York, London and San Francisco. The investment committee for SP RA II will include the following senior investment professionals of Strategic Partners – Stephen Can, Verdun Perry, Joshua Blaine, Peter Song, David Corey, Boriana Karastoyanova, Brian Kolin, Mark Bhupathi, David Symons, David Fox and Jameson Mones. Investment committee approval will require the affirmative approval of a majority of voting members, with each investment committee member casting one vote. The table below highlights the experience of the key investment professionals:

Name	Title	Yrs. Experience Firm / Total	Prior Experience
Stephen Can	Sr. Managing Director, Founder & Co-Head	17 / 24	IBM Pension Fund
Verdun Perry	Sr. Managing Director, Co-Head	17 / 19	Morgan Stanley
Joshua Blaine	Sr. Managing Director	16 / 17	JP Morgan
Peter Song	Managing Director, COO and Gen. Counsel	17 / 17	Fried, Frank, Harris, Shriver & Jacobson
David Corey	Managing Director	16 / 16	Davis Polk & Wardwell
Boriana Karastoyanova	Director	15 / 15	Citigroup
Brian Kolin	Director	15 / 15	GN Capital
Mark Bhupathi	Director	13 / 13	Citigroup



Name	Title	Yrs. Experience Firm / Total	Prior Experience
David Symons	Director	13 / 13	Cooper-Horowitz
David Fox	Director	10 / 10	Strategic Partners
Jameson Mones	Director	11 / 11	Strategic Partners

Investment Instruments:

The Fund will primarily acquire limited partnership interests in infrastructure and real asset-related funds on a secondary basis. Investments may be purchased directly or on a structured basis which may include some deferral mechanism.

Investment Structure:

The Fund is a Delaware Limited Partnership. The Partnership's general partner will be Strategic Partners Fund Solutions Associates RA II L.P., a Delaware limited partnership (the "General Partner"), of which the general partner will be SPFSA RA II L.L.C., a Delaware limited liability company. Strategic Partners Fund Solutions Advisors, L.P. (the "Manager" or "Strategic Partners") will serve as the Fund Manager.

Market Opportunity:

The market for direct core, brownfield infrastructure assets is highly competitive. This capital is being sourced globally, however sovereign wealth funds, Canadian and European pension funds and insurance companies are especially active deploying capital into these assets. Conversely, there is a growing supply of maturing real asset and infrastructure fund interests in the market, as certain investors endeavor to exit older vintage fund investments in favor of direct core assets. As these fund interests are generally fully-specified, there is a compelling opportunity to acquire fund interests at meaningful discounts to net asset values. Coupled with the team's willingness and ability to transact on opportunities of nearly all sizes, a diversified portfolio with shorter duration and better visibility can be achieved.

Additional rationale for disposing of fund interests which creates buying opportunities for the Strategic Partner's team includes: (i) divestment of non-core general partner relationships, (ii) strategic and opportunistic sales from LPs, (iii) growing number of asset restructurings, (iv) overhaul of illiquid, legacy assets portfolios and (v) pressing liquidity needs.

Investment Highlights:

Proven Investment Strategy
While focusing on fundamental analysis and extensive information gathering, Strategic Partners pursues a highly analytical investment approach encompassing detailed analyses of underlying portfolio companies. They are able to re-price real assets based on current company and industry dynamics. As an early mover in the real assets secondary market, the team is well-established thus positioned as market leader and preferred counterparty.
Deep & Cohesive Team
The firm is comprised of 42 dedicated investment professionals located in New York, London and San Francisco, and led by Founder and Co-Head Stephen Can and Co-Head Verdun Perry, who have each been with Strategic Partners since its inception. The average tenure of the Fund's eleven most senior investment professionals is approximately 15 years.
Preferred Counterparty
Strategic Partners is one of the most active secondary buyers in the world, completing on average one transaction per week, often with repeat sellers. Since inception, Strategic Partners has completed over 1,000 transactions across various strategies, representing interests in over 2,850 unique underlying funds.



Investment Considerations:

Competition for Secondary Investments
<p>The activity of identifying, completing and realizing attractive secondary investments is competitive and involves a high degree of uncertainty. The availability of investment opportunities will generally be subject to market conditions. In addition, the Fund will be competing for secondary investments with other secondary investment vehicles, as well as financial institutions and other investors. Over the past several years, both the number of competitors for secondary investments and their available capital have increased, and additional capital will likely be directed at this sector in the future.</p> <p>Strategic Partners has been actively investing in secondary interests for over 16 years and has achieved a strong track record on an absolute and relative basis. Additionally, the Strategic Partners platform manages secondary funds which are focused on buy-out, real estate and real assets. Having reliable sources of capital across multiple asset classes makes Strategic Partners a favored counterparty for sellers that are interested in transacting on multi-asset class portfolios.</p>
Reliance on Underlying Fund Sponsors
<p>The Fund expects to invest in primarily third party-sponsored domestic and international privately offered investment funds. The Fund will not have an active role in the management of the underlying funds or their portfolio investments. Moreover, the Fund may not have the opportunity to evaluate the specific investments made by any underlying fund after the Fund's date of investment in such underlying fund before they are made, and may not be able to dispose of its investment in an underlying fund if the General Partner or the Manager is dissatisfied with such underlying fund's performance. The general partners of the underlying funds will generally have sole and absolute discretion in structuring, negotiating and purchasing, financing, monitoring and eventually divesting investments made by such underlying fund. Accordingly, the returns of the Fund will depend significantly on the performance of these unrelated sponsors and could be substantially adversely affected by the unfavorable performance of such sponsors.</p> <p>Members of the Strategic Partners team have the ability to leverage the sourcing, underwriting and execution capabilities of Strategic Partner's market-leading franchise, Over the long-term, Strategic Partners has demonstrated its ability to selective cull through portfolios, acquiring mature funds that are nearly fully-specified, thus mitigating blind pool investment risks.</p>

PSERS History & Performance:

Since 2000, PSERS has committed approximately \$1.7 billion to 12 Strategic Partners-sponsored partnerships. As of December 31, 2016, they have generated a 14% net IRR and a 1.45x net MOIC for PSERS. The table below summarizes PSERS' historical performance by partnership:

Fund (\$mm)	Portfolio	Vintage	Commitment	Contributions	Distributions	NAV	Net IRR	Net MOIC
PE Funds								
Strategic Partners I	PE	2001	\$200	\$193	\$307	-	17%	1.6x
Strategic Partners II	PE	2003	300	293	496	5	34%	1.7x
Strategic Partners III	PE	2005	200	218	247	47	6%	1.3x
Strategic Partners IV	PE	2008	100	95	125	26	14%	1.6x
Strategic Partners V	PE	2011	150	116	123	63	21%	1.6x
Strategic Partners VI	PE	2014	150	88	30	91	28%	1.4x
Strategic Partners VII	PE	2016	250	11	-	15	NM	1.4x
Total Private Equity			\$1,350	\$1,013	\$1,328	\$246	19%	1.6x
VC Funds								
Strategic Partners III VC	PE	2005	\$50	\$56	\$60	\$14	6%	1.3x
Strategic Partners IV VC	PE	2008	50	57	59	19	8%	1.4x
Total Venture Capital			\$100	\$113	\$120	\$33	7%	1.4x



<u>Fund (\$mm)</u>	<u>Portfolio</u>	<u>Vintage</u>	<u>Commitment</u>	<u>Contributions</u>	<u>Distributions</u>	<u>NAV</u>	<u>Net IRR</u>	<u>Net MOIC</u>
Real Estate Funds								
Strategic Partners II RE	RE	2003	\$75	\$74	\$106	\$5	20%	1.5x
Strategic Partners III RE	RE	2005	75	80	33	15	(7%)	0.6x
Strategic Partners IV RE	RE	2008	75	77	57	19	0%	1.0x
Total Real Estate			\$225	\$231	\$195	\$39	0%	1.0x
Total Strategic Partners			\$1,675	\$1,357	\$1,643	\$318	14%	1.45x

Portfolio Fit:

A commitment to the Fund will be allocated to the Infrastructure portion of PSERS' Real Assets portfolio. As of May 2017, PSERS' target allocation to the Infrastructure asset class is 2%. PSERS' current exposure has primarily been achieved by investing in public markets. As private market investments are funded, the public markets exposure is reduced. In May 2016, PSERS' Board of Trustees approved a \$100 million commitment to International Infrastructure Finance Company II, L.P. ("IIFC II"), a closed-end infrastructure lending fund and in December 2016 PSERS' Board of Trustees approved a \$100 million commitment to GCM Grosvenor Customized Infrastructure Strategies II, L.P. ("CIS II"). PSERS' closed on the IIFC II and CIS II commitments in 2017 and has funded \$21.9 million and \$23.1 million, respectively. PSERS' staff expects to close on Blackstone Strategic Partners Real Assets II during the 3rd quarter of 2017.

As there are a relatively limited number of established large-scale real asset-centric secondary fund sponsors, Strategic Partners is well-positioned to capitalize on the maturing supply of real asset secondary positions being made available in the global marketplace.

Liquidity & Leverage Profile:

The Fund is expected to be invested ("Investment Period") within four years of its final closing, with the ability to extend for an additional one-year. The term of the Fund ("Term") will be 12 years and will be subject to four one-year extensions. The General Partner may employ leverage on a Fund-wide basis or as part of structuring targeted investment opportunities. The Fund also may hedge certain market risks through the use of derivative instruments.



Finance Committee Disclosure:

Relationship with Portfolio Advisors:	Portfolio Advisors has not invested in Strategic Partners
Placement Agent:	None used for PSERS, Compass Group Global Advisors hired for capital raise in certain South American countries.
PA Political Contributions:	None Disclosed
PA Presence:	N/A
Conflicts:	None Disclosed
History with PSERS:	Yes
PSERS Allocation Implementation Committee Approval:	Approved on May 24, 2017

Oversight Responsibility:

Investment Office:	Charles J. Spiller Deputy CIO, Non-Traditional Investments
	William P. Stalter Senior Portfolio Manager
External Consultant:	Portfolio Advisors LLC



May 9, 2017

Board of Trustees
Commonwealth of Pennsylvania
Public School Employees' Retirement System
5 North 5th Street
Harrisburg, PA 17101

Re: Strategic Partners Real Assets II, L.P.

Dear Trustees:

The Blackstone Group L.P. (together with its affiliates, "Blackstone") is seeking to raise \$1.0 billion for Strategic Partners Real Assets II, L.P. (the "Fund", the "Partnership", or "SP RA II"). SP RA II will continue the approach of SP RA I, primarily seeking capital appreciation through the purchase of high quality real assets from investors seeking liquidity prior to fund termination. The Fund will focus on mature and stabilized core and core-plus infrastructure assets in the United States and Western Europe. To a lesser extent, SP maintains the ability to opportunistically invest in energy, agriculture, mining, shipping, timberland and water sectors. SP RA II held an initial closing in the second quarter of 2017. SP RA II is expected to commence its investment period in the second quarter of 2017.

The Strategic Partners team will selectively invest in original commitments that range in size from \$100,000 for a single fund holding to \$100 million or more for a portfolio of funds. Other aspects of the investment strategy that should provide the Fund a competitive advantage include:

- ◆ **Targeting Mature and Funded Portfolios** – A key factor in the Fund's investment strategy is its focus on buying mature portfolios. Strategic Partners will focus on funded portfolios to reduce blind pool risk. Targeting mature assets generally results in a reduced duration profile.
- ◆ **Efficient Execution and Closing Process** – Strategic Partners believes their global reputation among sellers should assist in structuring and facilitating secondary transfers. Strategic Partners has demonstrated expertise closing secondary transactions in a professional, timely and flexible manner that meets the needs of both sellers and fund managers. SP has established efficient processes, allowing the team to complete on average one to two transactions per week.
- ◆ **Leveraging the Blackstone Platform** – Founded in 1985, Blackstone is a leading global alternative asset manager with over \$360 billion of assets under management. Blackstone has 2,200+ employees in 21 offices worldwide as of February 2017. Blackstone's alternative asset management businesses comprise the management of private equity funds, real estate funds, hedge fund solutions, credit-oriented funds, closed-end mutual funds and secondary funds. Accordingly, the investment experience of Blackstone's professionals should provide unique industry perspectives that augment Strategic Partners' investment analysis.
- ◆ **Seasoned Real Asset Focus** – Strategic Partners believes there is significant opportunity in mature real assets. The strategy will be centralized around core and core-plus infrastructure assets in the



United States and Western Europe, with opportunistic exposure to energy, agriculture, mining, shipping, timberland and water sectors.

Portfolio Advisors' recommendation is based upon the following analytical factors and is made within the context of Commonwealth of Pennsylvania Public School Employees' Retirement System's ("PSERS") investment guidelines.

- Detailed due diligence, including interviews with industry peers and private equity professionals. The on-site due diligence visit was performed on March 22, 2017.
- Evaluation of the composition of the investment team, how they work together, compensation structure and other factors that help determine whether a group is likely to be able to replicate past successes as currently configured.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- The strategy proposed for the Fund is appropriate for the Infrastructure portion of the portfolio.

The individuals at Portfolio Advisors who were primarily involved in the due diligence process for the Fund are:

William Indelicato – Managing Director, Darien Office
Patrick Gerbracht – Senior Vice President, Darien Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$200 million in Strategic Partners Real Assets II, L.P. Portfolio Advisors makes this recommendation considering the General Partner's qualifications and PSERS' overall investment guidelines.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in the Fund, since their needs, objectives and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits of the Fund. Portfolio Advisors does not provide legal or other non-investment-related advice.

Sincerely,

WILLIAM J. INDELICATO

MANAGING DIRECTOR