PSERS
PUBLIC SCHOOL EMPLOYEES'
RETIREMENT SYSTEM

Public Investment Memorandum

Sixth Street Fundamental Strategies Partners (A), L.P.

Private Credit Commitment

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April 23, 2020

Executive Summary

PSERS' Investment Office Professionals ("IOP"), together with Aksia, recommend that PSERS invest $200 million in Sixth Street Fundamental Strategies Partners (A), L.P. (the "Fund"). This recommendation is based on our assessment of the investment strategy and our evaluation of Sixth Street Partners, LLC and its affiliates ("Sixth Street" or the "Firm").

Fund Name	Sixth Street Fundamental Strategies Partners (A), L.P.
Firm Name	Sixth Street Partners, LLC
Target Fund Size / Hard Cap	$2.0 billion / None
Recommended Commitment Amount	$200.0 million
Existing Relationship	Yes
Source of Funds	Cash
Asset Class / Sub Asset Class	Private Credit / Distressed & Special Situations
Investment Office Oversight	Charles J. Spiller, Deputy CIO / Non-Traditional Investments James F. Del Gaudio, Senior Portfolio Manager
External Consultant Oversight	Aksia LLC

Sixth Street (formerly TPG Sixth Street Partners or TSSP) is a global credit and credit-related investment platform with ~$35 billion in assets under management as of December 31, 2019. Sixth Street was co-founded in 2009 by Alan Waxman (Managing Partner and Chief Investment Officer) and is currently managed by 18 Partner Managing Directors and employs ~250 professionals with offices in San Francisco, New York, Houston, Dallas, Boston, London, Hong Kong, Melbourne, and Luxembourg. Prior to forming Sixth Street, Mr. Waxman was the Co-Head and Chairman of the Americas Special Situations Group ("AmSSG") at Goldman Sachs ("GS"), where he also worked with seven of the other Sixth Street Partner Managing Directors. Until recently, Sixth Street was a fully integrated investing platform within TPG Capital ("TPG"). However, in January 2020, Sixth Street and TPG together decided to pursue their respective next phases as independent organizations, and the TSSP platform has been rebranded as Sixth Street Partners. This is the latest in a decade-long evolution of the relationship between the two firms as Sixth Street autonomously controlled and managed its business prior to the separation.

The Fund is targeting $2 billion in capital commitments and seeks to generate attractive risk-adjusted returns primarily through the purchase of secondary stressed and distressed public credit along with opportunistic public situations investments ("Fundamental Strategies"). While the Fund is Sixth Street's first dedicated Fundamental Strategies vehicle, this effort is a continuation of strategies that Sixth Street has employed for over a decade within other Firm products. Through December 31, 2019, Sixth Street has invested $4.1 billion across more than 100 such investments and has generated a 24.0% gross IRR.

PSERS and Sixth Street have a long-standing partnership dating back to the Firm's inception and represents PSERS' second largest total exposure (NAV plus unfunded commitments) across the Private Credit portfolio at ~$1.07 billion as of December 31, 2019 (including the recently activated TAO Contingent vehicle). To date, PSERS has committed $1.2 billion across five Sixth Street-managed funds including:

- $100 million to TPG Opportunities Partners II (A), L.P. in 2011 ("TOP II")
- $150 million to TPG Opportunities Partners III (A), L.P. in 2014 ("TOP III")
- $150 million to TSSP Opportunities Partners IV (A), L.P. in 2018 ("TOP IV")
- $100 million to TOP NPL (A), L.P. in 2012
- $700 million to TSSP Adjacent Opportunities Partners via three separate tranches (TAO 2.0/2014, TAO/3.02015, and TAO Contingent/2018) of the PSERS TAO Partners Parallel Fund, L.P. (the "PSERS TAO").

Investment Team

Sixth Street was co-founded in 2009 by Alan Waxman and is currently managed by 18 Partner Managing Directors and employs ~250 professionals. The Fundamental Strategies team within Sixth Street consists of 14 investment professionals, with global leadership from Bornah Moghbel, Sixth Street Co-Founding Partner and Co-Head of Global Corporate Investing. Each member of the Fundamental Strategies team has spent the majority of his or her career focused on corporate credit investing. In aggregate, the Firm has ~140 investment professionals based in San Francisco, New York, Houston, Dallas, Boston, London, Hong Kong, and Melbourne. Sixth Street operates under a "one-team" construct, in which team members have key focus areas but frequently act as generalists and are incentivized to share opportunities across the platform, independent of specific vehicles or strategies, when sourcing and underwriting potential investments.

Market Opportunity

Notwithstanding the COVID-19 crisis, substantial risks were already building in the financial system over the last several years, setting the stage for a compelling investment opportunity set for Fundamental Strategies. According to Sixth Street, the historically prolonged economic expansion (~12 years) and chase for yield has led many lower quality, and/or short-term focused asset managers to continue investing in riskier and highly levered secondary and originated debt transactions. These risk factors include: (1) the rapid growth of corporate debt outstanding, (2) increasing leverage ratios among corporate issuers, and (3) worsening legal protections in credit documents (i.e. covenant-lite).

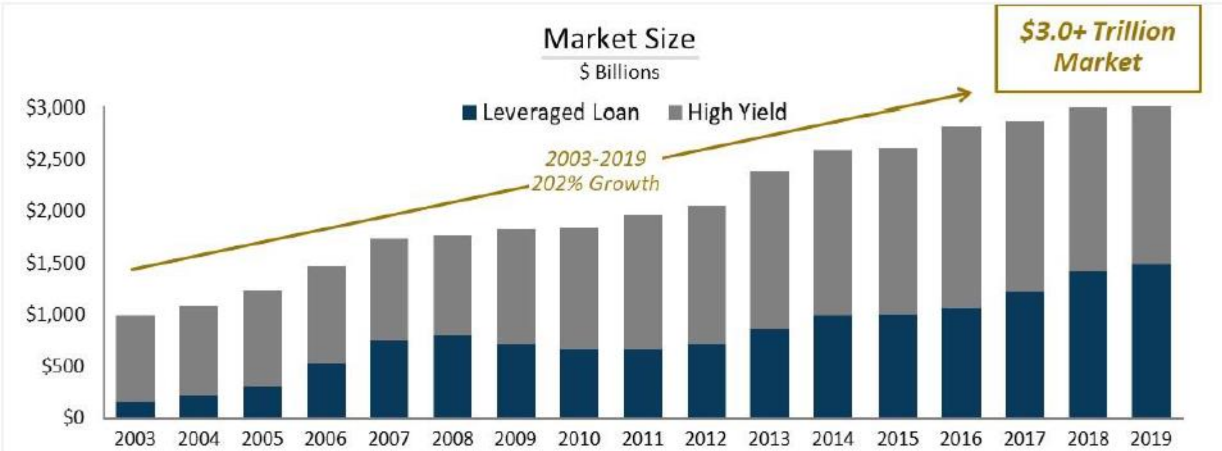
In March 2020, following the longest economic expansion in American history, risk assets rapidly repriced in the face of the COVID-19 crisis. As of April 2020, the COVID crisis continues to significantly impact individuals and families in tragic ways. In parallel, financial markets are rapidly evolving in a fashion we have not seen previously, including during the 2008 Global Financial Crisis ("GFC"). As of this writing, data coming from around the world is too mixed to be able to narrow the band of outcomes on so many of the obvious questions about COVID-19. However, PSERS' IOP agree with Sixth Street that while this is a public health crisis first, there is a real and looming potential for it to spill over into a full-on credit and liquidity crisis. Should this occur, it could create an even greater investment opportunity set for the Fund given its focus on stressed/distressed public credit. According to Aksia's 2020 Private Credit Annual Strategy Outlook, COVID-19 is catalyzing global credit issues across both large cap and middle market sectors, and a large corporate opportunity set is developing in the U.S. levered loan and high yield space. As such, Aksia currently recommends overweighting Distressed & Special Situations strategies.

Asset price volatility periodically flares up and can arise from multiple sources including, but not limited to, industry disruption, more restrictive central bank policy, recessions, geopolitical events, and widespread flight-to-quality environments. Windows of opportunity can also arise in challenged sub-sectors even in the absence of a broader economic downturn. The effects of the post-GFC regulatory environment and resulting changes to market structure have also altered the competitive landscape. PSERS' IOP and Sixth Street have observed the following changes to market structure: (1) the disintermediation of banks by the capital markets and alternative capital managers, (2) decreased competition from traditional hedge fund players, and (3) the growth of passive investing and indexing. As a result, Sixth Street is well-positioned to take advantage of dislocations given the current structural backdrop. While credit and liquidity crises are not desirable for existing assets in terms of mark-to-market valuation and potential impairment risk, it is highly desirable to arm high-conviction managers such as Sixth Street with dry powder to take advantage of market dislocations in order to generate attractive future returns.

The following exhibits further illustrate the above-mentioned risk factors which have the potential to create future periods of heightened volatility in credit markets, and in turn, may serve to generate compelling alpha-oriented return opportunities for the Fund.

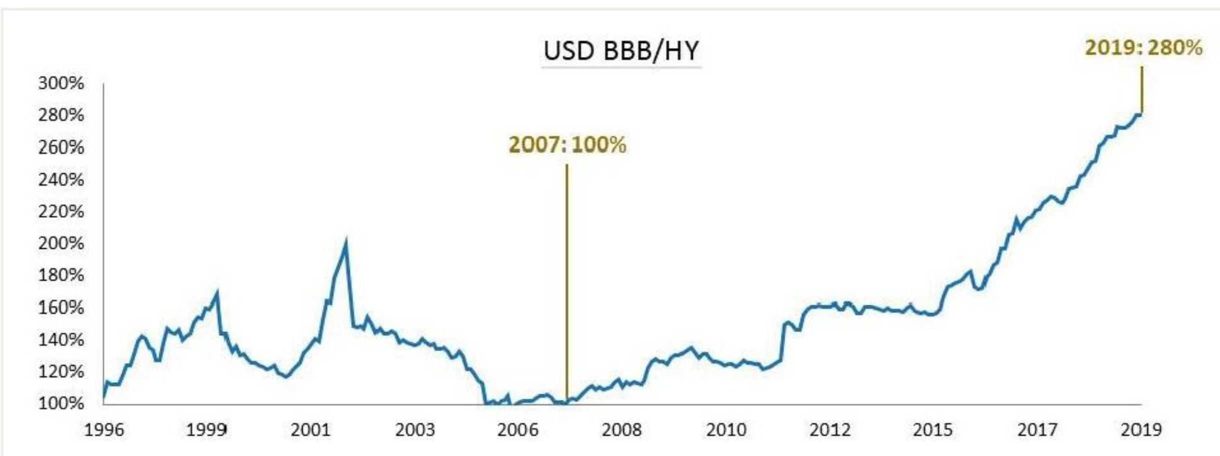
Rapid Growth of Corporate Credit Markets

Leveraged finance markets have grown substantially since the Global Financial Crisis, now reaching $3 trillion in size across high yield and leveraged loan markets in the U.S. and Europe. The leveraged loan market has more than doubled over the past 10 years as the CLO (collateralized loan obligation) industry has absorbed significant capital inflows.



Source: Compiled by Sixth Street based on data from JP Morgan as of 12/2019. Includes US and European High Yield Bonds and Leveraged Loans.

The BBB segment of the investment grade market has seen even more rapid growth than leveraged finance and now constitutes nearly $3 trillion of debt. Technical selling around deteriorating credit quality for investment grade bonds has emerged as a source of opportunity for the Fundamental Strategies team. The BBB segment of the investment grade market has outpaced the growth of high yield and is now 2.8x the size of the high yield market. According to Sixth Street, this outsized ratio means that supply-demand dynamics in future downgrade cycles have the potential to cause severe disruption in high yield, stressed, and distressed debt markets.

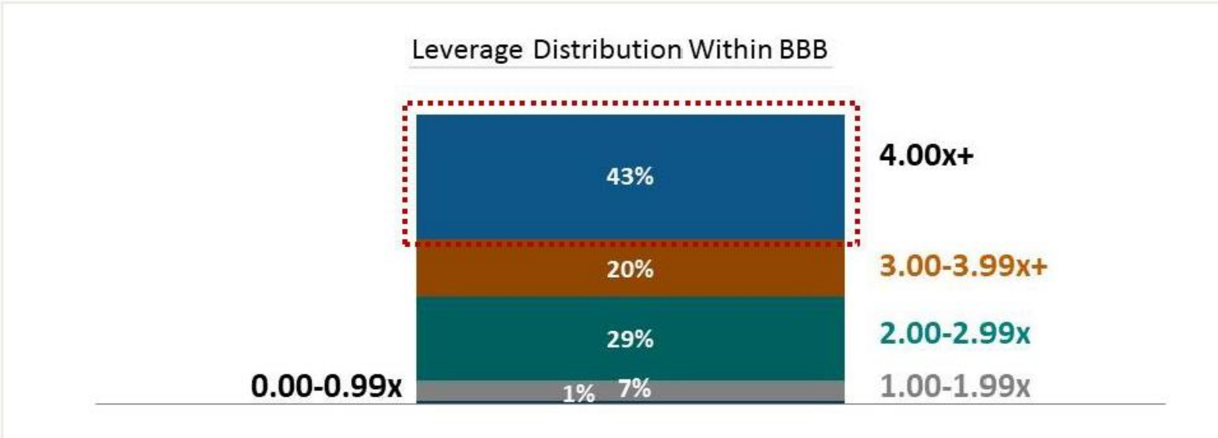


Source: Compiled by Sixth Street based on data from Deutsche Bank, Bloomberg Finance LP, BAML/ICE. As of 10/2019, based on USD BBB/HY as of 12/2019.

Using prior downgrade cycles as a guide and overlaying them on today's markets, Sixth Street believes that the supply of downgraded investment grade bonds (i.e. fallen angels) could be 20x greater than previous periods of distress. This projected amount of supply could grow the high yield market by approximately $660 billion, or ~45% according to JP Morgan.

Increasing Corporate Leverage

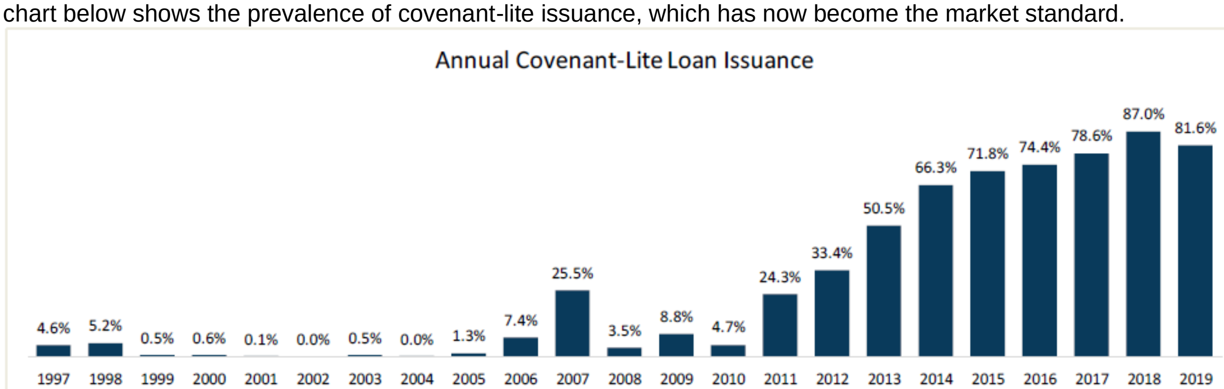
Increasing levels of corporate leverage are another risk factor that may contribute to the duration and severity of the next dislocation. Bank loans now stretch deeper into the capital structure with less subordinated debt providing a cushion than at any point in history. At the same time, total leverage levels are at all-time highs. At 5.1x EBITDA, average total leverage multiples for large corporate loans are above the pre-GFC peak levels. Within the investment grade market, leverage is also rising. In fact, 43% of BBB-rated debt is now levered over 4x. According to Sixth Street, a leverage multiple of more than 4x has historically been indicative of sub-investment grade credit, implying that nearly half of BBB-rated debt should be considered high yield based on leverage ratios alone.



Source: Compiled by Sixth Street based on Bloomberg data. As of 11/2019. Data includes non-financial, BBB-rated companies in the S&P 1500 index; Leverage defined as gross debt dividend by adjusted EBITDA.

Worsening Credit Documentation Standards

The global reach for yield has caused a desire for investors to put capital to work, even if that means accepting sub-standard legal protections. Historically, investors in the leveraged loan market benefitted from financial covenants protecting them if company performance deteriorated. Investors have forsaken their rights to these covenants and now accept documentation alterations that are increasingly beneficial to issuers at the expense of investors. The chart below shows the prevalence of covenant-lite issuance, which has now become the market standard.



Note: Compiled by Sixth Street based on data from JP Morgan, as of 01/2020.

As investors become increasingly willing to accept worse protections, corporate issuers have in turn become more aggressive in their forecasting assumptions. An S&P analysis of 42 LBO transactions in 2019 compared EBITDA projections when the LBO transactions were marketed to actual performance two years later. The study showed evidence of aggressive forecasting assumptions. A staggering 94% of the LBO transactions missed their EBITDA projections. In many instances, the degree of the miss was substantial, with 52% of the LBO transactions missing EBITDA projections by 33%, and 32% of the transactions missing EBITDA projections by over 50%. See graphic on the following page.

EBITDA	
	2018
% Miss Projections	94%
% Miss > 10%	84%
% Miss > 25%	55%
% Miss > 33%	52%
% Miss > 50%	32%

Note: Compiled by Sixth Street based on data from S&P analysis of 42 LBO and M&A transactions originated during 2016. Numbers show companies' actual 2018 performance relative to management projections presented at deal inception.
Source: S&P, *When The Cycle Turns: The Continued Attack of The EBITDA Add-Back.*

Aggressive EBITDA forecasts have increased the risk to the debt investing community. Secured lenders have effectively granted credit at higher leverage and greater risk than they anticipated due to the diminished profit potential of their borrowers. Looking at the same LBO transactions in 2016 and comparing the leverage forecasts with actual outcomes two years later, we can see that 90% of the transactions missed their leverage forecasts as well.

Leverage	
	2018
% Miss Projections	90%
% Miss > 1x	71%
% Miss > 2x	65%
% Miss > 3x	42%
% Miss > 5x	23%

Note: Compiled by Sixth Street based on data from S&P analysis of 42 LBO and M&A transactions originated during 2016. Numbers show companies' actual 2018 performance relative to management projections presented at deal inception.
Source: S&P, *When The Cycle Turns: The Continued Attack of The EBITDA Add-Back.*

Investment Strategy

Sixth Street expects to invest in the secondary or public markets with most investments concentrated in stressed and distressed credit, opportunistic public situations, and "2-step" solutions. Consistent with the investment process employed across Sixth Street, Fundamental Strategies is expected to target a long-term oriented, downside-protected strategy focused predominately on "first-dollar" investments across geographies and industries. Sixth Street will employ a flexible, thematic approach to sourcing and investing, allowing them to migrate into and out of investment themes, sub-sectors, geographies and various parts of the capital structure in an economic and credit cycle-aware manner. The business model is predicated on applying the "Sixth Street Playbook" to investments in the secondary market by (i) the early identification of investment themes, (ii) consistent execution of their tested process to evaluate themes and identify investment opportunities with favorable dynamics, and (iii) ultimately migrating away from themes when investment conditions become less attractive. Sixth Street may also selectively invest in primary investments or other illiquid situations that arise from its thematic approach to investing. Sixth Street expects to build a portfolio of 20-30 core positions, and investment sizing will be scaled up or down based on the level of conviction and attractiveness of the risk/reward skew. In terms of geographic exposure, Sixth

Street currently expects 10-30% of new investments to be sourced from outside the U.S., largely from developed markets such as Europe, Australia, New Zealand, and Canada.

The table below summarizes the Fund's three primary opportunity sets:

Opportunity Set	Description
Stressed Public Credit ("Corporate Stressed")	• Target senior portions of the capital structure • Typically consist of leveraged loans and bonds secured by a lien on a company's assets that offer substantial downside protection and attractive long-term risk-adjusted returns • Downside protection may come in several forms, including via asset value that is uncorrelated to the core operating business, high cash-yielding assets, collateral in unrelated businesses, or low exposure relative to the value of the collateral or underlying intrinsic value
Distressed Public Credit ("Corporate Distressed")	• Seek investments that maximize risk/reward skew through mix of downside protection coupled with upside optionality • Targets themes and businesses that are (a) misunderstood by the market, (b) under-managed, (c) experiencing cyclical or secular headwinds, or (d) impacted by idiosyncratic events • Seeks to create the underlying businesses at deep discounts to intrinsic value and target fulcrum security where the team expects opportunity to lead a restructuring process and ultimately improve the business trajectory
Opportunistic Public Situations and "2-Step" Solutions	• Through-the-cycle opportunities that typically offer less correlated return streams - both to the rest of the portfolio and, in many cases, to the overall macroeconomic environment • "2-step" refers to a transaction where an initial investment in a company leads the team to build conviction and then to identify or create a second opportunity to invest

Investment Structure:

Sixth Street seeks to generate strong alpha-oriented returns across multiple market cycles, and the Fundamental Strategies portfolio will generally be constructed to target gross returns in the mid to high-teens and 1.4x-1.8x Gross Multiple on the fund overall. Sixth Street expects a significant portion of the portfolio will be cash generative either through contractual cash payments (e.g., interest, amortization) or other consistent realization events. Since inception, cash generating investments have made up roughly 73% of the historical Fundamental Strategies investments and have been underwritten to a year-one cash yield of 6%. Cash generative investments help accelerate payback periods, minimize volatility, and narrow the expected range of outcomes in cases where underwriting models rely on accrued gains or multiple expansion to drive returns. Sixth Street expects a significant portion of the portfolio will be first-dollar or near-first-dollar risk (meaning they are made at or near the top of the capital structure or have a first lien on assets) as they construct a portfolio focused on capital preservation. In the historical Fundamental Strategies investments, 88% of the portfolio exhibits first or near-first-dollar attachment, while 62% of the portfolio has downside protection via liquidation preference. While the Fundamental Strategies team expects much of the portfolio to be in debt securities, certain investments may offer upside convexity given purchases prices below par.

Aside from a subscription facility utilized to reduce the administrative burden on investors by aggregating cash movements over short periods of time, Sixth Street does not anticipate using financial leverage in this strategy. In terms of FX management, Sixth Street expects to hedge all non-USD positions back to USD using rolling forward currency sales to protect against declines in the value of investments or commitments as a result of fluctuations in currency exchange rates.

Investment Instruments

Fundamental Strategies investments will typically consist of bank debt (i.e. leveraged loans) or bonds secured by a lien on the company's assets.

Portfolio Fit

The Fund will be allocated to the Distressed & Special Situations bucket of PSERS' Private Credit portfolio and the table below summarizes PSERS' projected exposure inclusive of a recommended $200 million commitment:

Investment Type ($M)	NAV	%	Unfunded[1]	%	Total Exposure[1]	%
Distressed & Special Situations	$ 2,266.9	42.7%	$ 1,463.2	45.8%	$ 3,730.0	43.9%
Direct Lending	1,250.2	23.6%	576.7	18.1%	1,826.9	21.5%
Real Estate Credit	261.1	4.9%	737.3	23.1%	998.4	11.7%
Mezzanine	481.7	9.1%	258.1	8.1%	739.8	8.7%
Real Assets Credit	459.0	8.6%	157.3	4.9%	616.3	7.3%
Structured Credit	508.1	9.6%	0.0	0.0%	508.1	6.0%
Specialty Finance	79.6	1.5%	0.0	0.0%	79.6	0.9%
Total	**$ 5,306.5**	**100.0%**	**$ 3,192.6**	**100.0%**	**$ 8,499.1**	**100.0%**

(1) Include post Q4'2019 pending/closed commitments.

A commitment to the Fund allows PSERS to broaden its relationship with a high-conviction manager that is well-positioned to execute their investment strategy during the current, complex market environment. The Fund's return target meets the return objective for PSERS' Private Credit portfolio of generating double-digit net returns over the life of the investment. Given the current market environment, the Fund has the potential to generate outsized returns relative to our typical 9% - 13% net target.

Investment Highlights

- Experienced & Cohesive Senior Management Team / Established Platform
- Broader / More Attractive Risk-Adjusted Return Opportunity as a Result of COVID-19 Crisis
- Strong Fundamental Strategies Track Record
- Diverse Capability Set and Flexible Strategy Enables Migration Throughout the Credit Cycle
- Downside - Focused Mindset
- Restructuring Capabilities
- Well-Resourced Back & Middle Office

Investment / Risk Considerations

- Impact of Central Bank Intervention on Market Opportunity
- PSERS' Existing Exposure to Fundamental Strategies Investments
- Sixth Street Disaffiliation with TPG Capital
- Key Person Provision

Investment Committee Disclosure

Relationship with Aksia	Aksia represents both non-discretionary and discretionary clients with commitments to various Sixth Street-managed investments. It is not yet known if additional Aksia clients will commit to this Fund.
Introduction Source	Fund Sponsor
Placement Agent	No third-party placement agent
PA Political Contributions	None Disclosed
Potential Conflicts	None Disclosed
PSERS History with the Investment Manager	Yes, PSERS previously committed $1.2 billion across five TSSP-managed partnerships.
Litigation Disclosure	Sixth Street receives communications from regulators and is involved in litigation from time to time in the ordinary course of business. PSERS is not currently aware of any litigation which has or may have a material effect on the Fund.
PSERS Allocation Implementation Committee Approval	April 23, 2020

Aksia

Manager Recommendation Memo

April 21, 2020

Board of Trustees
Commonwealth of Pennsylvania, Public School Employees' Retirement System ("PSERS")
5 North Fifth Street
Harrisburg, PA 17101

Re: Sixth Street Fundamental Strategies Partners (A), L.P.

Dear Trustees:

Aksia LLC ("Aksia"), having been duly authorized by the Board of PSERS, has evaluated and hereby recommends, in line with PSERS' Investment Policy Statement and Private Credit Policy, a commitment of up to $200 million to Sixth Street Fundamental Strategies Partners (A), L.P. (the "Fund").

Sixth Street Partners, LLC ("Sixth Street") (formerly TPG Sixth Street Partners or TSSP) is a global credit and credit-related investment platform with approximately $35 billion in assets under management as of December 31, 2019. Sixth Street was founded in 2009 by Alan Waxman (Managing Partner and Chief Investment Officer) and other former senior professionals from Goldman Sachs' Special Situations Group.

The Fund is Sixth Street's first standalone vehicle for its Fundamental Strategies offering, although Fundamental Strategies is a sub-strategy that has existed since the firm's inception within TSSP Adjacent Opportunities (vehicles collectively referred to as "TAO Global"), TSSP Opportunities ("TOP"), and TSSP Specialty Lending ("TSLX"). The Fund is targeting a $2 billion capital raise and will focus on (i) stressed public credit, (ii) distressed public credit, and (iii) "2-step" and other opportunistic/special situations. Sixth Street believes that high-quality businesses are repricing and trading at stressed levels, which provides an opportunity for the Fund to buy sound credits at attractive levels, with optionality for shorter duration given multi-year underwritten hold periods by the manager.

Aksia believes Sixth Street to have a strong, established platform with an experienced team. As a firm Sixth Street has generated strong returns across its various credit-oriented investment products. Fund investors will benefit from the GP's global origination efforts, relationships and experienced investment and operating professionals. Across the market Sixth Street has demonstrated an ability to identify proprietary opportunities on a global basis and within different sectors, and they have experience driving restructurings in the event that the investment landscape evolves into more credit market stress, including credit downgrades, defaults, and bankruptcies.

In addition to the above, Aksia believes this is a compelling time to commit to the Fund because the repercussions of the COVID-19 pandemic have created opportunities in distressed debt that have not existed since the Global Financial Crisis.

Aksia's recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines:

- Due diligence of the Fund's investment process, including a review of the sponsor, investment strategy, market positioning, investment personnel, and risk management;
  - Most recent investment due diligence review conducted March 18th, 2020 and April 9th, 2020.
- Due diligence of the Fund's operations, including a review of its organizational structure, service providers, regulatory and compliance, LPA and financial statement analysis;
  - Most recent operational due diligence review conducted April 8th, 2020.
- Evaluation of the Fund's strategy within the context of the current investment environment; and
- Appropriateness of the Fund's strategy as a component of PSERS' portfolio.

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. Aksia manager recommendation memos should be reviewed with other Aksia due diligence materials, including the due diligence reports. In addition, please consult your tax, legal and/or regulatory advisors before allocating to any private investment fund.

Please feel free to contact us should you have any questions about this recommendation.

Respectfully,

Patrick Adelsbach
Partner, Head of Credit Strategies

Simon Fludgate
Partner, Head of Operational Due Diligence