Public Investment Memorandum

Bain Capital Special Situations Asia II, L.P.

Private Credit Commitment

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Executive Summary

PSERS' Investment Office Professionals ("IOP"), together with Aksia, LLC ("Aksia") recommend that PSERS commit an amount not to exceed $125 million plus reasonable normal investment expenses to Bain Capital Special Situations Asia II, L.P. (the "Fund" or "SSA II") and/or related investment vehicles. This recommendation is based on our assessment of the investment strategy and our evaluation of Bain Capital Credit L.P. and its affiliates ("BCC" or the "Firm").

Fund Name	Bain Capital Special Situations Asia II, L.P.
Firm Name	Bain Capital Credit L.P.
Target Fund Size / Hard Cap	$1.5 billion / TBD
Recommended Commitment Amount	$125 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 Sean T. Sarraf, Investment Professional
External Consultant Oversight	Aksia LLC

Bain Capital Holdings, LP ("Bain" or "Bain Capital") is a global alternative asset manager founded in 1984 with total AUM of approximately $130 billion. Bain Capital Credit, LP, founded as Sankaty Advisors in 1998 to focus on credit investments, is the credit affiliate of Bain Capital and has grown into a global organization of over 360 employees operating from a network of ten offices around the world. Prior to establishing the Special Situations Asia ("SSA") fund series, BCC completed Asian special situations investments primarily through their global Distressed and Special Situations ("DSS") fund series. Since 2005, Bain Capital has successfully invested ~$15 billion across Asian markets and has more than 200 professionals across 10 offices in the region, while BCC has invested and committed to invest ~$4 billion in distressed and special situations investments in Asia over the same period.

BCC launched SSA II to continue its pan-Asia special situations strategy and to take advantage of a growing opportunity set in the Asia Pacific ("APAC") region post-Covid-19. The Fund is targeting $1.5 billion in capital commitments (up to an expected $2 billion) for its second dedicated Asian special situations fund. The SSA strategy has a broad investment mandate which covers the full credit special situations spectrum, from distressed/non-performing loans ("NPLs") to growth-oriented capital solutions, with a core regional focus on Australia, India, China, and Southeast Asia, as well as selective allocations to Japan and South Korea. The Firm has resourced this strategy with an 80+ person team dedicated to special situations investments in Asia, while leveraging Bain Capital's diverse investment platform, comprised of over 1,000 professionals globally.

PSERS previously committed $75 million to Bain Special Situations I, L.P. ("SSA I" or "Fund I") which was held in the Bain Capital Credit Managed Account (PSERS), L.P. (the "PSERS SMA"). As of June 2021, SSA I has invested or committed to invest 94% of its capital commitments, and PSERS' investment in SSA I has generated a of 21.7% / 1.4x net IRR / net MoC, since inception through March 31, 2021.

PSERS and Bain have an established relationship, and to-date PSERS has committed approximately $2.2 billion across seven Bain-managed funds including:

- $500 million to Bain Capital Credit Managed Account (PSERS), L.P. in 2009 (the "PSERS SMA")

  - Including PSERS' $75 million commitment to SSA I
- $475 million to Sankaty Credit Opportunities IV, L.P. in 2008 ("COPs IV")
- $250 million to Bain Capital Middle Market Credit 2010, L.P. in 2010 ("MMC'10")
- $350 million to Bain Capital Distressed & Special Situations 2013 (A), L.P. in 2012 ("DSS'13")
- $190 million to Bain Capital Middle Market Credit 2014, L.P. in 2013 ("MMC'14")
- $250 million to Bain Capital Distressed & Special Situations 2016 (A), L.P. in 2015 ("DSS'16")
- $200 million to Bain Capital Distressed & Special Situations 2019 (A), L.P. in 2019 ("DSS'19")

Market Opportunity

Secular market forces continue to shape the opportunity set for special situations investing throughout the APAC region. These forces (described below) are expected to continue through the life of the Fund and to further develop following the Covid-19 crisis that began in early 2020. While each local market brings different opportunities, they share common themes that form key tenets of the Fund's market opportunity:

1) Immature local financing markets

Despite near-term headwinds, Asia's long-term growth story is expected to remain intact, and this expected growth should necessitate significant capital investment. However, traditional bank debt is often difficult for small and medium-sized enterprises to access, and traditional equity financing is rarely a good fit for these businesses.

While local bank lending remains dominant in the APAC region, accounting for approximately 75% of credit, compared to ~20% in the United States and ~50% in Europe[1], this lending is often rule-based, formulaic, and primarily targeted at large-cap companies. Small or medium-sized businesses globally, and in Asia specifically, receive a disproportionately small share of bank financing relative to what their contribution is to gross domestic product ("GDP") and employment would suggest is appropriate.

Furthermore, public equity markets remain volatile and immature in most Asian geographies making them either inaccessible to or impractical for many middle market corporates. Whether the cost to IPO is too high or the risk of volatility in thinly traded markets is too great, many business owners are dissuaded from raising public equity. Private equity is also an incomplete solution, as many mid-sized businesses prefer to avoid equity dilution and loss of control or are deterred by valuation gaps. In these situations, when traditional forms of capital are scarce, SSA II can take advantage of these dynamics by being a provider of liquidity and a flexible capital partner.

[1] Data as of December 31, 2019. Source: Alternative Credit Council APAC (2020), *Private Credit in Asia*. StepStone Private Debt, COVID-19 Market Survey May 2020; Reuters, Credit Suisse, Bloomberg; Barclays Asia High Yield Index

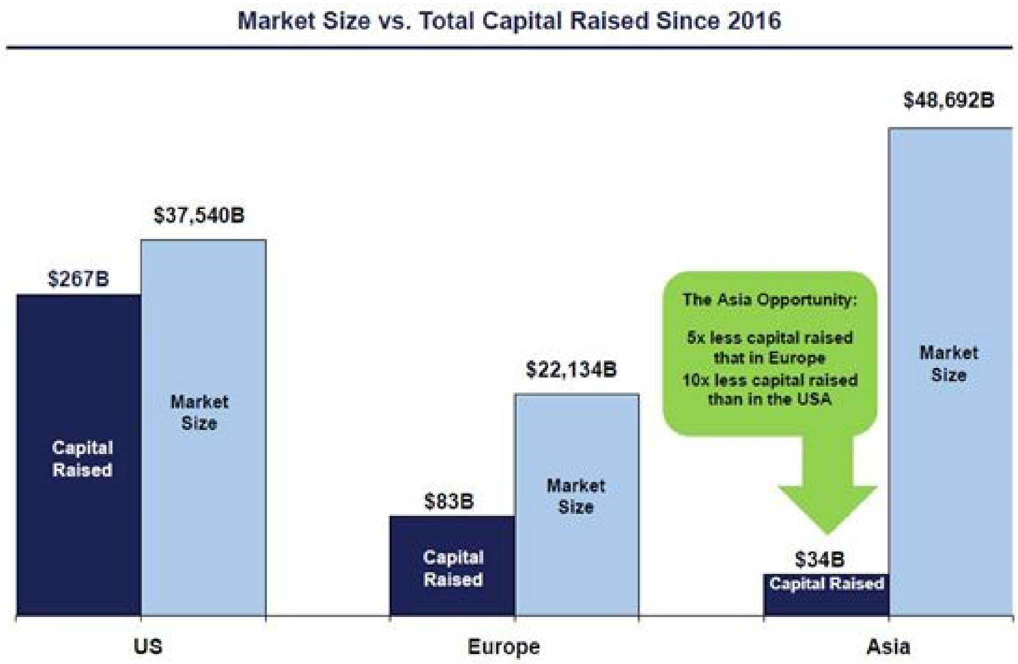
2) The credit cycle has turned

Over the course of the past decade, a global flood of liquidity has driven an Asia-wide boom in credit. Private sector leverage materially outgrew GDP, resulting in misallocated capital and weakened lending standards in many markets.

Leading up to 2020, credit growth slowed and the stock of NPLs rose substantially. Facing both economic and political uncertainty, the APAC region is overdue for a period of sustained credit correction, according to BCC. This dynamic has been exacerbated by Covid-19, which has created a sizeable and actionable opportunity set as liquidity needs persist across markets, and bankruptcies rise in the region. For example, according to Aksia's *Pan-Alts Strategy Outlook (July 2021)*, China is expected to experience an acceleration in NPL recognition post-Covid-19, following the expiration of borrower forbearance.

3) Structurally lower competition

Following the Global Financial Crisis in 2008, regulators increased banking supervision and capital requirements, forcing most investment bank special situations programs (i.e., proprietary trading desks) to exit the region. While a limited number of local alternative investment firms have raised capital throughout Asia in the past decade to fill the void created by banks retreating, these firms have typically had narrow investment mandates and limited capital, focusing on only a few core markets or sectors. More recently, a handful of large global investment firms have begun to allocate some capital to the region, but have done so with limited local infrastructure, small teams, and narrow investment mandates (see chart below illustrating private capital raised in recent years versus relative market size for credit investments by region).



(1) Source: Preqin. Includes distressed debt, mezzanine, and special situation funds closed between January 1, 2016 to May 2020
(2) Source: Bank for International Settlements. Market size means total private non-financial debt. Asia includes Australia, China, Hong Kong, Indonesia, India, Japan, Malaysia, Singapore, Korea, and New Zealand. Data as of September 10, 2019.

Given Bain's dedicated local presence and integrated global platform, there are relatively few peers that compete directly with BCC's pan-Asian scope and strategy breadth. Due to these competitive advantages, the Fund is well-positioned to execute on the current market opportunity with much less competition than special situations funds operating in North American or European markets.

BCC has timed their SSA II fundraise to remain capitalized and execute on the aforementioned market opportunity as Fund I's investment period comes to a close. As of June 2021, 94% of SSA I commitments have been called, with the ability to recycle capital until the investment period ends in March 2022.

Investment Strategy

The Fund seeks to generate attractive risk-adjusted returns by capturing value in complex situations and mispriced assets while providing creative solutions to address capital shortfalls throughout the APAC region. SSA II will employ an opportunistic strategy that can dynamically pivot between thematic opportunities and geographies as they become attractive. The Fund will also be capital structure agnostic, seeking to identify investments that offer the most attractive risk-adjusted return, and will structure transactions to protect against downside risk, while allowing for participation in upside convexity. The SSA strategy relies on three core verticals linked by the common objective of providing liquidity where traditional forms of capital are scarce:

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- **Capital Solutions**: Within this vertical, the Fund will structure bespoke solutions for businesses and assets that require specialized primary capital, driven by idiosyncratic or thematic catalysts. This deal type is cross capital structure, ranging from senior secured debt to equity. Typically, deals are structured to participate in equity upside but with credit-like downside protection, controls, and often a cash yield.

- **Deleveraging**: Capitalizes on motivated sellers (e.g., large financial institutions) who prioritize compliance with regulatory rules or institutional pressure over the price at which they dispose of assets, such as NPLs and non-core assets and business units.

- **Distressed**: Identifies value in cyclical industries and over-levered companies and assets, where the SSA team observes deep value and/or strong asset backing and has the resources and expertise to affect complex workouts and operational turnarounds. These transactions can be secondary purchases, rescue capital solutions, and either activist or control investments.

To tackle large or complex opportunities, the SSA strategy can leverage the broader Bain Capital platform to increase the size of any given deal team as needed and may employ the targeted use of specialized external advisors to further enhance team resources.

Given the Fund's opportunistic approach, composition by deal type, geography, and underlying security will vary based on prevailing market conditions and the SSA team's judgment as to the best allocation to achieve targeted returns. Notwithstanding, it is anticipated the Fund's investments will be ultimately split in line with the following ranges:

Investment Type	Estimated % of Total Capital Invested
Capital Solutions	40% - 60%
Deleveraging	20% - 40%
Distressed	20% - 40%

The Fund will target a recycling multiple of 1.3x – 1.5x during the investment period, and similar to SSA I, Fund II is expected to take a balanced approach to portfolio construction to enable diversified exposure to core themes and geographies.

Investment Structure:

Investment returns are expected to be derived through a combination of interest income and equity participation. The strategy seeks to mitigate downside risk through a variety of forms, including discounted entry valuations, contracted cash flows, preferential cash realizations, covenants, put features, minimum returns, and hard assets in collateral. The strategy also seeks to achieve upside through a combination of direct equity participation (including additional purchase rights), step-up rates, options, warrants, and high contractual yields. Creative deal structuring is also helpful in producing incentives that facilitate quicker investment realizations, such as early repayment of debt. While sources of return will vary by investment type, a typical targeted return profile is composed of 6% – 7% cash yield, with the remaining return derived from capital appreciation.

The Fund will target 25 – 40 individual positions (after recycling) with position sizes averaging between 3% – 5% of total portfolio value. Average SSA II check sizes will range from $30 – $60 million, with a targeted hold period of three to five years. Overall, SSA II will seek to generate a 15% – 20% / 1.5x – 2.0x gross IRR / MoC, with expected gross returns from each core strategy vertical as depicted below:

Investment Type	Estimated % of Total Capital Invested	Target IRR	Target Multiple on Invested Capital
Capital Solutions	40% - 60%	15% - 25%	1.3x - 2.5x
Deleveraging	20% - 40%	15% - 20%	1.25x - 1.5x
Distressed	20% - 40%	20% +	1.5x +

In terms of currency management, the Fund's functional currency is the U.S. Dollar, and although the Firm maintains discretion not to hedge, Bain will typically fully hedge the principal amount of non-USD positions back to USD through foreign currency forward contracts.

With respect to leverage, SSA II will not employ fund-level leverage to enhance returns, however, the Fund will utilize a subscription line facility to reduce the administrative burden related to capital calls by aggregating cash movements over short periods of time. In addition, the Fund expects to incur acquisition financing in certain portfolio investments. At the asset level, the majority of investments are expected to be unlevered; similar to SSA I, the Fund may use asset-level leverage selectively (non-recourse to the Fund) depending on the investment type. Without the approval of the Advisory Board, the Fund will not borrow more than the greater of 35% of commitments and NAV excluding the subscription line of credit.

Investment Instruments

The Fund may seek to achieve its investment objectives through several investment instruments, including but not limited to: real estate mortgages, real assets, corporate guarantees, aviation leases, liquidation preferences, preferential cash realizations, senior secured debt, mezzanine loans, junior debt, structured junior capital, structured equity, asset-backed equity, NPL portfolios, and common equity.

Team

Bain Capital Credit is led by CIO, Founder, and Managing Partner Jonathan Levine. In total, the Firm has 367 employees, 162 of whom are investment professionals. Bain Capital Credit Asia is led by Managing Director Barnaby Lyons, who is also the strategy head and lead portfolio manager for Bain SSA II.

Bain Capital established its presence in Asia in 2005. At the time, credit professionals invested in the Asia Pacific region from London. When the SSA team moved to Hong Kong in 2015, Bain Capital Credit accelerated its efforts to establish a deep presence in markets across the region. Today, the SSA strategy has a dedicated team of 85 professionals, while Bain Capital Credit and Bain Capital Private Equity have a combined 200 employees in 10 local offices across the APAC region. Since 2005, BCC has successfully invested or committed to invest ~$4 billion in distressed and special situations investments in Asia.

BCC's culture is team-oriented and performance-driven. All investment professionals at the Vice President-level and above share in the economics of the performance of funds, creating a pride of ownership and alignment of interests with limited partners. The organizational structure is intentionally flat to promote collaboration and intellectual debate. As a result, employee turnover has remained low, and the Firm has experienced limited departures since the start of Fund I. BCC strives to promote from within to perpetuate its culture. Due to this approach, all but two of Bain Capital Credit's Managing Directors were promoted from within the BCC ranks, providing for a depth of institutional knowledge and team continuity. Moreover, the team size has grown meaningfully since SSA I, further enhancing deal team resources and its local geographic footprint across the region.

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Portfolio Fit

The Fund will be allocated to the Distressed & Special Situations strategy within the PSERS' Private Credit portfolio. The table below summarizes PSERS' projected exposure inclusive of a recommended $125 million commitment to SSA II, as of March 31, 2021:

Investment Strategy ($M)	NAV	%	Unfunded	%	Total Exposure	%
Distressed & Special Situations	$2,862.2	48.6%	$1,179.3	39.2%	$4,041.5	45.4%
Direct Lending	$1,245.4	21.1%	$773.3	25.7%	$2,018.7	22.7%
Real Estate Credit	$339.0	5.8%	$611.9	20.3%	$950.8	10.7%
Mezzanine	$598.7	10.2%	$194.0	6.4%	$792.7	8.9%
Real Assets Credit	$394.7	6.7%	$75.6	2.5%	$470.3	5.3%
Structured Credit	$335.5	5.7%	$0.0	0.0%	$335.5	3.8%
Specialty Finance	$103.8	1.8%	$176.4	5.9%	$280.3	3.1%
Total Portfolio	**$5,891.2**	**100%**	**$3,010.5**	**100%**	**$8,901.7**	**100%**

(1) Includes post Q1'2021 pending/closed commitments.
(2) Values may be slightly off due to rounding
(3) Includes currency hedge

A commitment to the Fund allows PSERS to further diversify geographically by increasing exposure to the APAC region. The Fund's return target meets the return objective for PSERS' Private Credit portfolio over the life of the investment.

Investment Highlights

- Experienced Senior Investment Team and Growing Platform
- Local Presence / Scalability
- Attractive Market Opportunity
- Flexible, Thematic Approach to Pan-Asian Investing
- Strong SSA Track Record and Downside Protection
- PSERS' Strong Performance in Predecessor Fund (SSA I)
- Geographic Diversification / Complementary Exposure

Investment / Risk Considerations

- Current Skewed Return Profile of Fund I
- Underperformance of Deleveraging / Non-Performing Loan Investments in Fund I
- Weak Key-Person Provision
- Economic Terms Relative to DSS 19
- Evolution of Bain Capital Credit Exposure in PC Portfolio
- ESG Considerations
- Geopolitical and Regulatory Risk

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Investment Committee Disclosure

Relationship with Aksia	Aksia LLC does not have any clients in Bain Capital Special Situations Asia II
Introduction Source	Fund Sponsor
Placement Agent	In accordance with Board policy, no placement agents were used, and no payments from or on behalf of PSERS to Placement Agents shall be made in connection with securing PSERS' investment in the Fund. While there will be no placement agents used in connection with PSERS' investment in the Fund, Bain Capital Credit does have an agreement in place with Alpine Capital Advisors to assist with the fundraising and investor relations efforts of the Bain Capital Credit strategies, including Special Situations Asia II, in Latin America.
PA Political Contributions	Yes. Political contributions required to be reported under 25 P.S.§3260(a) were made in the previous year.
Conflicts	PSERS is not aware of any actual or potential conflicts of interest that would be created by PSERS' investment in the Fund.
PSERS History with the Investment Manager	Yes, PSERS previously committed $2.2 billion across seven Bain-managed partnerships.
Litigation Disclosure	Bain Capital Credit receives routine communications from regulators and is not involved in litigation related to its investment advisory business or the funds. PSERS is not currently aware of any litigation which has or may have a material effect on the Fund.
PSERS Allocation Implementation Committee Approval	September 9, 2021