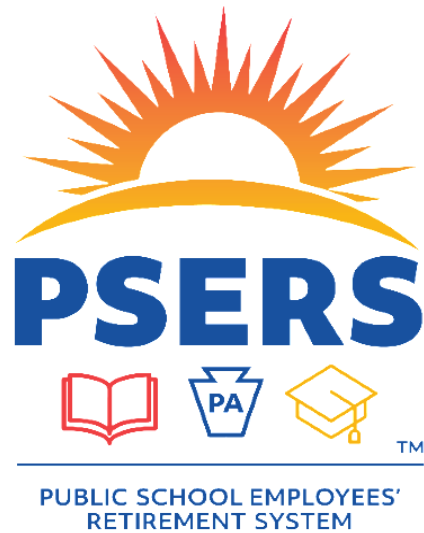


PSERB Resolution 2024-28
Re: ICG Europe Mid-Market Fund II SCSp
May 31, 2024

RESOLVED, that the Public School Employees' Retirement Board (the "Board") adopts the recommendation of the Investment Committee to invest an amount not to exceed €150,000,000 plus reasonable and normal investment expenses, to ICG Europe Mid-Market Fund II SCSp and/or related investment vehicles.

The final terms and conditions of the investment are subject to legal due diligence and must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of Executive Director, as evidenced either by the appropriate signatures on, or by a memo to that effect appended to, the implementing investment contracts.



ICG Europe Mid-Market Fund II SCSp Private Credit Recommendation

Sean Sarraf, CFA, CAIA
Portfolio Manager

Michael Severance, CAIA
Intermediate Investment
Professional

May 2024

Today's Presentation

ICG Europe Mid-Market Fund II SCSp (“MMF II” or the “Fund”)

Main Presentation

1. Asset Class Considerations
 - *Recommendation is consistent with PSERS' Strategic Asset Allocation (SAA) and current year commitment planning*
2. Recommendation Overview
 - *PSERS IO and Aksia recommend committing €150 million to MMF II*
3. Strategy & Expertise
 - *Demonstrated expertise in the structured solutions in the European middle market*
4. Investment Considerations
5. Investment Highlights

Appendix

- Private Credit Dashboard
- Investment Committee Disclosure
- Performance Information

1. Asset Class Considerations

Recommendation is consistent with PSERS Strategic Asset Allocation (SAA) and most recent pacing analysis

PSERS SAA and Pacing

1. PSERS SAA has established long-term targets of 6.0% to Private Credit.
2. The current overweight is due to the Q4'2021 change in the SAA target from 8% to 6%.
3. PSERS and Aksia's latest pacing analysis suggests \$550M – \$750M of commitments annually beginning in 2024 to maintain our target exposure to Private Credit.
4. This analysis is revisited frequently based on the actual performance of the Private Credit allocation and the broader PSERS portfolio.

SAA Allocation	
Private Credit Target	6.0%
Private Credit Actual	7.5% ¹
Pacing Budget for 2024	
Pacing Budget Range	\$550 - \$750M
Primary Investments	
2024 YTD Commitment	\$0
Today's Recommendations	\$158.8M ³
Co-Investments	
2024 YTD Commitment	\$0M
Total Primary and Co-Investments	\$158.8M ³
Remaining Budget ²	\$491.2M
Est. Remaining Primary Fund Recommendations	\$375M
Expected to be in Target Budget Range for 2024?	Yes
Est. Co-Investment Capacity	\$293M ⁴

2. Recommendation Overview

PSERS IO and Aksia recommend committing €150 million to MMF II

Key Term	
Firm Name	Intermediate Capital Group (LSE:ICP)
Investment Professionals / Employees	60 / 580
Fund Name	ICG Europe Mid-Market Fund II SCSp
Strategy Invested Capital, as of Q4'23 (Flagship / Mid-Market)	€17.8 billion (€15.9 billion / €1.9 billion)
Target Return	16% Net Return
Target Fund Size / Hard Cap	€2.0 billion / €2.5 billion
Recommended Commitment Amount	€150 million
GP Commitment	€75 million
Fund Structure	Closed-End
PSERS Existing Relationship	Yes
Notable Investment Committee Disclosure ¹	None

3. MMF II Strategy & Expertise

Demonstrated expertise in the structured solutions investing in the European middle market

Experienced Team: The Fund's strategy is a segmentation of ICG's Flagship European strategy which has an over 30-year track record of successful Pan-European investment. ICG has eight offices across Europe allowing for a local presence in each of its target markets. The Investment Committee brings continuity with over 100 years of collective experience working on ICG's European investment team, with an average tenure of 26 years per member.

Flexible Investment Strategy: ICG's investment strategy allows the Fund to invest flexibly in partnership with management teams to meet their stated objectives. The ICG Europe Strategy has evolved to focus on hybrid debt and structured equity investments, enabling cross-capital structure investment. The Fund may also invest in a variety of transaction types including corporate, opportunistic, and sponsor-backed situations, allowing MMF II to consistently deploy capital across market cycles to the transaction type offering the best relative value.

Consistency of Returns: ICG's approach to financing performing, market-leading businesses, coupled with downside-protected structures, has resulted in consistency of returns over time. ICG has historically achieved performance in line with private equity strategies, they have done so more consistently along a narrower range of outcomes, while deriving more than two-thirds of returns from credit instruments historically.

4. Investment Considerations

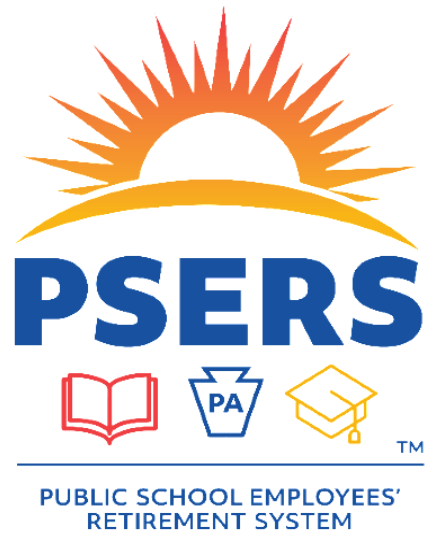
The Fund is expected to face risks consistent with European credit and structured equity investments, and staff believes that ICG has identified appropriate mitigants to those risks.

Risk	Detail	Mitigating Factors
Borrower Default Risk	As with any credit-related investment, a key risk to the Fund is default risk, or the risk that underlying borrowers fail to make required principal or interest payments.	<p><i>ICG portfolio companies typically exhibit a sustained track record of recurring revenue generation from products or services with proven market acceptance and low risk of technological obsolescence, prior to ICG's investment.</i></p> <p><i>In the event of a default, ICG has demonstrated an ability to maximize recovery, achieving an average gross MoC of 1.1x on defaulted transactions since in caption of the strategy.</i></p>
Portfolio Concentration	Relative to other private credit strategies, the Fund expects to have a more concentrated portfolio of 15 – 20 positions	<p><i>ICG has historically achieved narrowly banded returns on the portfolio level, despite featuring relatively concentrated portfolios. This speaks to the Firm's investment selection, partnering with strongly performing businesses, as well as structuring capabilities, which allows for both downside protection and enhanced controls via Board participation.</i></p>
Scaling Team and Strategy	The Mid-Market series has since scaled in terms of fund size and team head count. Gareth Knight, strategy lead, must manage the growing team size while ensuring deployment of a much larger fund.	<p><i>ICG has proven effective at managing increasingly larger fund sizes, as evidenced in the Flagship series, which has deployed successively larger funds within their investment periods while generating attractive returns.</i></p> <p><i>Mr. Knight brings with him 16 years of experience at ICG, including as a senior member of the ICG Flagship European team and is a respected leader within the Firm.</i></p>

5. Investment Highlights

Strong performance, established European presence, and Downside protection

Highlight	Detail
Established Presence in Fragmented European Market	The European market is highly fragmented, consisting of diverse cultures and languages. For this reason, counterparties often choose ICG as a strategic partner to scale through geographic expansion, both across Europe and globally. This value-additive approach sets ICG apart from other scaled debt providers in Europe and allows ICG to maintain a high cost of capital.
Downside Protection	In addition to structural protections such as minimum contractual returns, equity subordination, and investor consents for subsequent indebtedness, ICG also seeks enhanced governance rights in each of its transactions. As a result of these protections, the ICG European Strategy has an attractive realized loss ratio of 0.9% historically.
PSERS' Strong Performance with ICG	PSERS' has previously committed €739 million to ICG-managed funds and co-investments, which have generated a net IRR / MoC of 15.8% / 1.62x, in Euro terms. MMF I is performing well, with a current Net IRR / Net MOIC of 24.5% / 1.44x, respectively, in Euro terms.

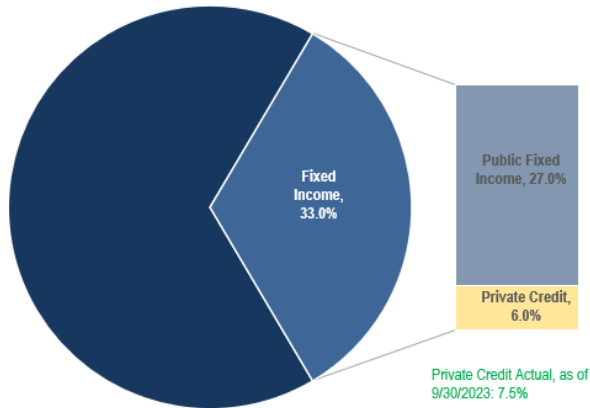


Appendix

Private Credit Portfolio *as of September 30, 2023*

Allocation

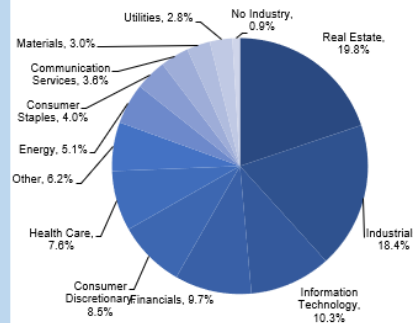
Target Allocation to Private Credit
as of 9-30-2023



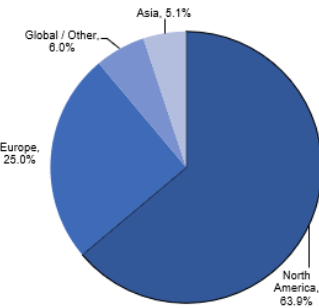
Note: 7.5% figure sourced from Verus 2023 3Q - Total Fund Report

Diversification

Sector Diversification



Geography



Performance

Recent Fund Deployment (\$M)

Item	Amount (\$M)
2022 Budget Items	
Whitehorse Liquidity Partners V LP	\$200.0
Clearlake Opportunity Partners III	\$100.0
Sixth Street Lending Partners	\$250.0
2023 Budget Items	
Park Square SMA (CP V Strategy Inclusion)	\$115.0
PIMCO Commercial Real Estate Debt Fund II	\$200.0
TCI Real Estate Partners Fund IV	\$200.0

PSERS Private Credit Portfolio Performance

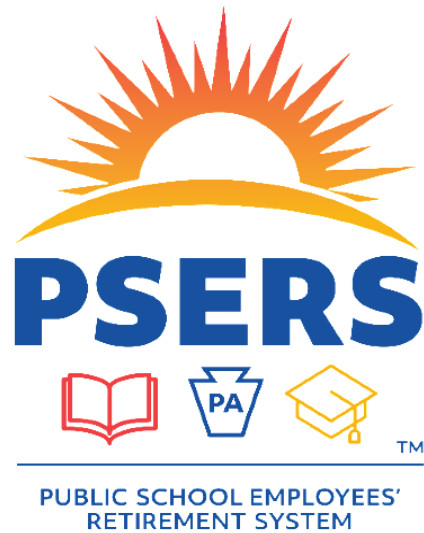
	Time-Weighted					Dollar-Weighted		
	1-YR	3-YR	5-YR	10-YR	ITD	KS PME	Direct Alpha	ITD
Direct Lending	12.6%	10.9%	7.9%	9.4%	8.0%	1.08x	2.8%	9.9%
Mezzanine	15.3%	11.0%	12.1%	10.3%	11.1%	1.15x	4.5%	10.8%
Distressed & Special Situations	7.5%	10.2%	6.7%	7.3%	7.0%	1.02x	0.6%	8.4%
Specialty Finance	11.5%	22.4%	17.0%	10.8%	10.8%	1.05x	3.5%	9.6%
Real Estate Credit	9.8%	7.4%	0.6%	1.5%	1.5%	0.91x	-4.1%	2.4%
Real Assets Credit	15.1%	29.8%	7.8%	4.3%	4.9%	0.90x	-2.7%	3.1%
Total Portfolio	10.0%	12.2%	7.5%	7.6%	7.3%	1.04x	1.1%	8.5%
Benchmark	15.3%	8.2%	6.6%	6.4%	6.8%			

Investment Committee Disclosure

Detail on PA presence and political contributions included in confidential memo

Disclosure	Response
Relationship with Aksia	As of January 31, 2024, twelve (12) current Aksia advisory clients have made total aggregate subscriptions and commitments of \$4.8 billion and six (6) current investment management clients have made total aggregate subscriptions and commitments of \$1.5 billion across investments managed by Intermediate Capital Group PLC (\$6.3 billion total). As of April 19, 2024, there is one other Aksia client considering a commitment to ICG Europe Mid-Market Fund II. ¹
Introduction Source	PSERS IOP
Compliance with Placement Agent Policy	As confirmed by PSERS' Office of Chief Counsel on April 23rd, 2024, this investment complies with the Public School Employees' Retirement Board Placement Agent Policy.
PA Political Contributions	None.
PA Presence	None for recommended strategy.
Potential Conflicts	PSERS is not aware of any actual or potential conflicts of interest that would be created by PSERS' investment in MMF II.
Litigation Disclosure	ICG receives communications from regulators and may be involved in litigation from time to time in the ordinary course of business and to the best of the sponsor's knowledge, the Firm and its funds are not involved in any litigation which has or may have a material effect on the Firm or MMF II.
Has the Firm reimbursed and/or paid for PSERS IOP travel in the past two calendar years?	No
Certification of Diligence Costs	IOP certifies that PSERS paid all travel costs, if any, and was not reimbursed for the travel costs related to due diligence of MMF II.

1. Please note that this information, which is available to PSERS upon request, is subject to change pending further review and decision making between Aksia and its clients



ICG Europe Mid-Market Fund II SCSp Private Credit Recommendation

Sean Sarraf, CFA, CAIA
Portfolio Manager

Michael Severance, CAIA
Intermediate Investment
Professional

May 2024

Manager Recommendation Memo

April 16, 2024

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

Re: ICG Europe Mid-Market Fund II SCSp

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, Objectives, and Guidelines, a commitment of up to EUR 150 million to ICG Europe Mid-Market Fund II SCSp (the "Fund").

Intermediate Capital Group PLC ("ICG" or the "GP") is a UK-headquartered, EUR 81 billion, global alternative investment manager founded 34 years ago. The GP has a flagship strategy in their Europe series that has grown substantially in recent years, completing larger deals. With the slight shift in strategy of the flagship offering, the GP launched a complementary 'Mid-Market' offering to target opportunities previously captured by the flagship strategy.

The Fund is expected to target smaller transactions than the flagship funds, but with the same basic strategy. Investment activity is expected to comprise hybrid or structured equity investments whereby the GP aims to occupy approximately the middle third of invested capital structures attaching behind generally modest levels of senior debt, but sitting in front of common equity. Investments will typically be structured across a number of tranches of investment from equity combined with various debt instruments of increasing seniority to create a blended 'intermediate' investment risk profile.

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

- Due diligence of ICG's investment process, including a review of the sponsor, investment strategy, market positioning, investment personnel, and risk management;
 - Most recent on-site investment due diligence visit was conducted January 25, 2024.
- Due diligence of ICG's operations, including a review of its organizational structure, service providers, regulatory and compliance, LPA and financial statement analysis;
 - Most recent on-site operational due diligence visit was conducted February 16, 2024.
- Evaluation of the ICG strategy within the context of the current investment environment; and
- Appropriateness of the ICG 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 these funds, since their needs, objectives, and circumstances may not be identical to those of PSERS. 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,



Tim Nest
Partner, Head of Private Credit



Simon Fludgate
Partner, Head of Operational Due Diligence