



Report to Board of Administration

Agenda of: **DECEMBER 23, 2014**

From: Thomas Moutes, General Manager

ITEM: **III-G**

SUBJECT: NOTIFICATION OF COMMITMENT OF UP TO \$20 MILLION IN GLENDON OPPORTUNITIES FUND, L.P.

Recommendation:

That the Board receive and file this notice.

Discussion:

Consultant Recommendation

Portfolio Advisors, LLC (Portfolio Advisors), LACERS' private equity investment consultant, recommended a commitment of up to \$20 million in Glendon Opportunities Fund, L.P. (GOF or Fund), a projected \$1 billion special situations strategy managed by Glendon Capital Associates, LLC (Glendon or GP).

Key Terms of the Fund

Investment Term	3 years; subject to a one-year extension at the discretion of the GP.
Fund Term	4 years from the end of the investment term (7 to 8 years total); plus 2 one-year extensions with consent of LP Advisory Committee.
Management Fee	Investment Period: 2% of aggregate commitments (\$400,000 per year for LACERS during the investment period) Post-Investment Period: 1.5% of the net invested capital
Carry / Preferred Return	20% / 8%
GP Commitment	\$30 million

Background

Glendon was founded in 2013 by Matt Barrett, Brian Berman, Holly Kim, and Eitan Melamed, who previously served as the Managing Directors of Barclays Asset Management Group (BAMG), the Special Situations Group of Barclays, from 2006 to 2013. Prior to BAMG, Mr. Barret, Mr. Berman, and Ms. Kim worked together as Managing Directors of Oaktree Capital Management's distressed debt platform. The firm consists of 15 employees and is based in Santa Monica.

GOF is Glendon's first fund. Based on GOF's projected fund size of \$1 billion, the GP does not qualify as an emerging investment manager pursuant to the LACERS Emerging Investment Manager Policy.

Investment Thesis

Glendon makes credit and equity investments in markets experiencing distress and dislocation. Since market dislocations are episodic, the GP has a flexible investment approach and will invest across a broad range of regions, industries, asset classes, and investment types. The GP conservatively underwrites investments, building in appropriate downside protections while seeking to generate returns as market stress subsides, often as a result of restructuring, reorganization, or the return of normal market and liquidity conditions. Investment opportunities typically include stressed and distressed company securities, post-reorganization securities, downgraded securities, tax-exempt bonds, asset-backed securities, and special situations such as company liquidations and rescue financing. For the Fund, the GP intends to build a diversified portfolio of investments based in the U.S. and the European Union.

Placement Agent

The GP has engaged Park Hill Group LLC as placement agent for the Fund.

Staff Recommendation

Staff concurred with Portfolio Advisors' recommendation. The commitment has been consummated pursuant to the LACERS Discretion in a Box Policy; no Board action is required.

Strategic Plan Impact Statement

Investing in Glendon Opportunities Fund, L.P. will allow LACERS to maintain exposure to private equities, pursuant to the target asset allocation, which is expected to help LACERS achieve satisfactory long-term risk adjusted investment returns (Goal IV).

This report was prepared by Jimmy Wang, Investment Officer I, Investment Division.

RJ:BF:JW:ag

Attachments: 1) Portfolio Advisors Recommendation
2) Workforce Composition
3) Discretion in a Box



PORTFOLIO
ADVISORS LLC | Glendon Opportunities
Fund, LP

December 2014



FINAL INVESTMENT REPORT

FUND INFORMATION

General Partner:	Glendon Capital Associates, LLC
Fund:	Glendon Opportunities Fund, LP
Firm Inception:	2013
Target Size / Hard Cap:	\$1.0 billion / \$1.0 billion
Strategy:	Special Situations
Sub-strategy:	Stressed and distressed company securities; post-reorganization securities; downgraded securities; tax-exempt bonds, asset-backed securities
Geography:	Global
Team:	4 Officials/Managers, 10 Professionals and 1 Office/Clerical worker
Senior Partners:	Matthew Barrett, Brian Berman, Holly Kim and Eitan Melamed
Location:	Los Angeles – Headquarters; New York
Industries:	General
Equity Investments:	Flexible

KEY TERMS

- Commitment Period:** Three years from the final closing date, subject to a one-year extension at discretion of the General Partner
- Fund Term:** Four years from the end of the Commitment Period, plus 2 one-year extensions with the consent of the LP Advisory Committee
- Management Fee:** Commitment period: 2.0% of aggregate invested capital (which excludes written-off investments)
Thereafter: 1.5% of aggregate invested capital (which excludes written-off investments)
- Fee Offset:** 100% of any arrangement, monitoring, directors, break-up, transaction, management consultant and other fees paid to the General Partner with respect to any Partnership investment
- Carry / Hurdle:** 20% / 8%
- GP Commitment:** At least the lesser of 3% of total capital commitments and \$30 million
- Key Man:** Matthew Barrett, Brian Berman, Holly Kim & Eitan Melamed – two of four cease to be active

INVESTMENT HIGHLIGHTS

- Experienced and cohesive investment team
- Flexible investment strategy addressing cyclical markets
- Favorable acquisition of diversified, seasoned portfolio of investments

RECOMMENDATION

Portfolio Advisors recommended that LACERS commit to purchase up to \$25.0 million of limited partnership interests in Glendon Opportunities Fund, LP

Disclosure Statement

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THE INFORMATION HEREIN IS NOT INTENDED TO PROVIDE, AND SHOULD NOT BE RELIED UPON FOR, ACCOUNTING, LEGAL OR TAX ADVICE OR INVESTMENT RECOMMENDATIONS. YOU SHOULD CONSULT YOUR TAX, LEGAL, ACCOUNTING OR OTHER ADVISORS ABOUT THE MATTERS DISCUSSED HEREIN.

THE FUND WILL NOT REGISTER AS INVESTMENT COMPANIES UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "COMPANY ACT") IN RELIANCE UPON THE EXEMPTION UNDER SECTION 3(C)(7) THEREUNDER, AND, ACCORDINGLY, THE PROVISIONS OF THE COMPANY ACT WILL NOT BE APPLICABLE TO THE FUND.

AN INVESTMENT IN THE FUND WILL BE SUITABLE ONLY FOR CERTAIN SOPHISTICATED INVESTORS WHO HAVE NO NEED FOR IMMEDIATE LIQUIDITY IN THEIR INVESTMENT. SUCH AN INVESTMENT WILL PROVIDE LIMITED LIQUIDITY BECAUSE INTERESTS IN THE FUND WILL NOT BE FREELY TRANSFERABLE AND MAY GENERALLY NOT BE WITHDRAWN. THERE WILL BE NO PUBLIC OR SECONDARY MARKET FOR INTERESTS IN THE FUND, AND IT IS NOT EXPECTED THAT A PUBLIC OR SECONDARY MARKET WILL DEVELOP.

Disclosure Statement (continued)

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Vendor Glendon Capital Associates, LLC
 Address 1620 26th Street, Suite 2000N
 Santa Monica, CA 90404

Date Completed: October 9, 2014

Category

TOTAL COMPOSITION OF WORK FORCE									
<u>Occupation</u>	<u>African American Full Time</u>	<u>Hispanic Full Time</u>	<u>Asian or Pacific Islander Full Time</u>	<u>American Indian/Alaskan Native Full Time</u>	<u>Caucasian (Non Hispanic) Full Time</u>	<u>Total Employees Full Time</u>	<u>Percent (%) Minority Full Time</u>	<u>Gender Full Time</u>	
								<u>Male</u>	<u>Female</u>
Officials & Managers*	0	0	1	0	3	4	25.00%	3	1
Professionals	0	1	0	0	9	10	10.00%	9	1
Technicians	0	0	0	0	0	0	N/A	0	0
Sales Workers	0	0	0	0	0	0	N/A	0	0
Office/Clerical	0	0	0	0	1	1	0.00%	0	1
Semi-Skilled	0	0	0	0	0	0	N/A	0	0
Unskilled	0	0	0	0	0	0	N/A	0	0
Service Workers	0	0	0	0	0	0	N/A	0	0
Other	0	0	0	0	0	0	N/A	0	0
Total	0	1	1	0	13	15	13.33%	12	3

Discretion in a Box

	Role of Board	Role of Staff	Role of Private Equity Consultant
Strategy/Policy	<ul style="list-style-type: none"> • Select Private Equity Consultant. • Approve asset class funding level. • Annually review, provide input, and adopt investment policies, procedures, guidelines, allocation targets, ranges, and other assumptions. 	<ul style="list-style-type: none"> • With Private Equity Consultant and General Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board. 	<ul style="list-style-type: none"> • With staff and General Consultant, develop policies, procedures, guidelines, allocation targets, ranges, assumptions for recommendation to the Board.
Investment Selection	<ul style="list-style-type: none"> • Review investment analysis reports. • Interview and approve investments in new management groups of amounts greater than \$25 million prior to investment. • Interview and approve investments in follow-on partnerships of amounts greater than \$40 million prior to investment. • May refer investments to Private Equity Consultant and staff for preliminary screening. Such referrals are to be considered only for the purpose of enlarging the candidate pool, and are not to be considered to be a Board endorsement or request for differentiated consideration. 	<ul style="list-style-type: none"> • May refer investments to Private Equity Consultant for preliminary screening. Such referrals are to be considered only for the purpose of enlarging the candidate pool, and are not to be considered to be a staff endorsement or request for differentiated consideration. • Conduct meetings with potential new investments prior to recommending to the Board, if practical. • In conjunction with Private Equity Consultant, invest up to \$25 million for new partnerships, and up to \$40 million for follow-on funds without Board approval. If staff opposes, refer to Board for decision. • In conjunction with Private Equity Consultant, make recommendations to Board for approval for investments over \$25 million in new partnerships, or over \$40 million in follow-on funds. • Execute agreements. 	<ul style="list-style-type: none"> • Conduct extensive analysis and due diligence on investments. • Recommend for Board approval investments over \$25 million for new managers, or over \$40 million in follow-on funds. • With staff concurrence, approve investment of up to \$25 million for new partnerships, and up to \$40 million in follow-on funds. • Provide investment analysis report for each new investment. • Communicate with staff regarding potential opportunities undergoing extensive analysis and due diligence. • Coordinate meetings between staff, Board, and general partner upon request. • Negotiate legal documents.
Investment Monitoring	<ul style="list-style-type: none"> • Review quarterly, annual, and other periodic monitoring reports. 	<ul style="list-style-type: none"> • Review quarterly, annual and other periodic monitoring reports prepared by Private Equity Consultant. • Conduct meetings with existing managers periodically. • Attend annual partnership meetings when appropriate. • Fund capital calls and distributions. • Review Private Equity Consultant's recommendations on amendments. • Execute amendments to agreements. 	<ul style="list-style-type: none"> • Maintain regular contact with existing managers in the portfolio to ascertain significant events within the portfolio. • Recommend amendments to staff for approval. • Provide quarterly, annual, and other periodic monitoring reports.