


**COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

DATE: September 14, 2006
SUBJECT: Quadrangle Capital Partners II, L.P.
TO: PSERS' Finance Committee
FROM: Charles J. Spiller 
Director of Alternative Investments

On December 9, 2004, PSERS' Board approved an investment of an amount equal to \$175 million, plus reasonable normal investment expenses, in Quadrangle Capital Partners II, L.P. The fund was originally \$1.8 billion and PSERS actually received an allocation of \$168 million.

After making three investments, the General Partner has seen the opportunity to increase the deal size from approximately \$100 million per deal to approximately \$150 million. In order to achieve this increase while maintaining portfolio diversity, the General Partner is raising an additional \$400 million to bring the final Fund size to \$2.2 billion. The investors committing the additional \$400 million would not participate in the three existing Fund investments.

Due to our relationship with the General Partner, PSERS has been given the opportunity to receive a portion of the additional allocation.

Based on the long track record of Quadrangle, staff recommends that PSERS increase its commitment to Quadrangle Capital Partners II, L.P. from \$175 million to \$250 million.

Please contact me if you want a copy of the recommendation from December 9, 2004.