PSERS PRIVATE INVESTMENT PROGRAM

Recommendation for Investment in
OCM Opportunities Fund VII & VIIb, L.P.

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Director of Private Markets and Real Estate

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OCM Opportunities Fund VII & VIIb, L.P.

EXECUTIVE SUMMARY

Oaktree Capital Management, LLC

Oaktree was formed in April 1995 and is an independent investment management firm with in excess of $32 billion committed to its management. Oaktree's Principals have focused on inefficient and alternative markets for over 25 years. Oaktree emphasizes an opportunistic, value-oriented approach to investment niches in distressed debt, high yield bonds, private equity (including power infrastructure), convertible securities, real estate, emerging markets securities, mezzanine financing and Japanese equity securities. Oaktree will be the investment manager of both Funds, and Oaktree-controlled entities will be the general partners of Fund VII and Fund VIIb (each, a "General Partner"). From 1988 to 1995 at Trust Company of the West and TCW Asset Management Company (collectively, "TCW"), and since 1995 at Oaktree, the investment teams now at Oaktree that work on closed-end funds for private investments have raised over $22 billion of committed capital and have invested more than $18 billion.

Oaktree's primary firm-wide goal is to achieve high returns while bearing less-than-commensurate risk. Oaktree plans to reach this goal by taking advantage of market inefficiencies in which financial markets and their participants fail to value accurately companies and interests therein and/or fail to make available to companies the capital they reasonably require. The investment professionals responsible for investing and managing the capital of the Fund (the "Managers") intend to achieve this goal primarily by investing in situations where a company or its owners are undergoing, are considered likely to undergo or have undergone *(i)* reorganization under U.S. federal bankruptcy laws or similar laws in other countries or *(ii)* other extraordinary transactions, such as debt restructurings, reorganizations and liquidations outside of bankruptcy. The Fund also may make investments in situations where the Managers do not expect the company or its owners to undergo reorganization, restructuring or other similar extraordinary transactions if prices of such investments reflect a high market expectation of reorganization, restructuring or other similar extraordinary transaction.

Oaktree's defining characteristic is its adherence to the highest professional standards, which has yielded several important benefits. First and foremost, this characteristic has allowed Oaktree to attract and retain an extremely talented group of investment professionals. Further, it has permitted the distressed debt investment team to build strong relationships with banks and other financial institutions as well as brokers, restructuring advisors and bankruptcy attorneys. This network of contacts is instrumental in obtaining preferential access to investment opportunities, some of which are made available to Oaktree on a highly selective, and in some cases exclusive, basis. Finally, over the last 18 years it has resulted in the placement of approximately $12 billion of capital under the distressed debt investment team, positioning it among the leading participants in this market and contributing greatly to the distressed debt investment team's ability to source transactions, to understand the current market and to execute its investment strategy.

Investment Team; Predecessor Funds

Oaktree's investment team is one of the oldest, largest and most respected participants in the distressed debt, high yield bond and convertible securities communities. Of Oaktree's Principals and other professionals, 18 focus on the management of distressed debt and related activities and will work directly on the Fund. Members of this group have been responsible over the past 18 years for investments in distressed debt for Oaktree through OCM Opportunities Fund, L.P. ("Opps I"), OCM Opportunities Fund II, L.P. ("Opps II"), OCM Opportunities Fund III, L.P. ("Opps III"), OCM Opportunities Fund IV, L.P. ("Opps IV"), OCM Opportunities Fund IVb, L.P. ("Opps IVb"), OCM Opportunities Fund V, L.P. ("Opps V") and OCM Opportunities Fund VI, L.P. ("Opps

VI", the "Opportunities Funds") and related accounts. Some members worked for TCW and attained debt fund experience through six TCW Special Credits Funds and related accounts ("Special Credits Funds" and together with the Opportunities Funds and related accounts, the "Distressed Debt Funds"). To date, the Distressed Debt Funds have been characterized by prompt investment and divestment, a relatively low incidence and severity of loss, attractive returns and a high rate of repeat participation on the part of their investors.

The individuals who will work on the Fund have built an excellent record since 1988. From 1988 to 1995 at TCW and since 1995 at Oaktree, the distressed debt investment team now at Oaktree has invested over $12.0 billion in capital using the distressed debt investment philosophy proposed for the Fund and has turned this capital into approximately $19.1 billion of value, of which approximately $15.2 billion has been realized to date. $9.5 billion has been distributed since the beginning of 2003. The implicit aggregate gains equate to a gross internal rate of return ("Gross IRR") of approximately 24.2% and an internal rate of return net of all fees and expenses (including management fees and the general partner's or investment manager's carried interest or incentive allocations, if any) ("Net IRR") of 19.3%.

Opps V, with approximately $1.2 billion of committed capital, and Opps VI, with approximately $1.8 billion of committed capital, are the only Oaktree distressed debt funds still in their investment periods. Opps V is scheduled to enter its liquidation period on June 2, 2007. Opps V has drawn and has invested or committed for investment 100% of its committed capital. Opps VI is scheduled to enter its liquidation period on July 28, 2008. As of December 19, 2006, Opps VI has drawn approximately 95% of its committed capital and has invested or committed for investment more than 85% of its committed capital.

The distressed debt investment team prides itself on its record of promptly investing the Distressed Debt Funds' capital—typically about 90% within 12 to 24 months of each Distressed Debt Fund's formation—and of harvesting and returning most of its investors' capital within two years following commencement of the liquidation period, albeit the pace has been slower for some Distressed Debt Funds and much quicker for recent Distressed Debt Funds.

The distinguishing characteristics of Oaktree's distressed debt investment team include its analytical skill, legal and bankruptcy expertise, restructuring experience, proprietary deal flow, broad market knowledge and trading acumen, all of which are required for successful investment performance in this area. Historically these characteristics have enabled Oaktree's distressed debt investment team to achieve excellent returns without incurring significant risk to principal.

Investment Process

In implementing the Fund's investment strategy, the Managers seek to create value at all stages of the investing process. The foundation for all investments, and the basis for the success that has been enjoyed to date, is the thorough analysis by the Managers of a company's fundamentals and intrinsic value. Next, the Managers utilize skillful trade execution in an attempt to obtain relatively low purchase prices that provide substantial "downside protection." After an investment is made, the Managers seek to continue to add value by actively participating in relevant restructurings, whether inside or outside of formal bankruptcy proceedings. When appropriate, the Managers seek to add significant value by leading restructuring negotiations and engineering capital structures that provide both flexibility and room for growth. After a reorganization, the Managers closely monitor the progress of the investment, sometimes sitting on boards of directors or appointing designees to such boards, and occasionally by providing financial and business advice to the Fund's portfolio companies. Importantly, the Managers also seek to determine the optimal time and strategy for maximizing the return on investment.

PHILOSOPHY AND APPROACH

The investments of the Fund are intended to provide the opportunity for substantial capital appreciation without subjecting principal to undue risk of loss. The Fund will seek to achieve these objectives primarily through investment in situations where a company or its owners are undergoing, are considered likely to undergo or have undergone reorganization under U.S. federal bankruptcy laws or similar laws in other countries ("bankruptcies") or other extraordinary transactions, such as debt restructurings, reorganizations and liquidations outside of formal bankruptcy proceedings ("workouts"). The Fund also may make investments in situations where the Managers do not expect a company or its owners to undergo reorganization, restructuring or other similar extraordinary transactions if the prices of such investments reflect a high market expectation of reorganization, restructuring or other similar extraordinary transaction. The foregoing companies or owners, collectively or individually as the context may require, are sometimes referred to in this Memorandum as "reorganization companies" or "extraordinary transaction companies," as appropriate, and collectively as "distressed companies." To a limited extent, the Fund may also invest in other instruments that are undervalued, focusing primarily on debt and equity securities relating to special event-driven situations or control investments.

Bankruptcies

The Fund will make investments in situations where a company or its owners are involved in or are emerging from reorganization proceedings under U.S. federal bankruptcy laws or similar laws in other countries, as well as those considered likely to become involved in such proceedings, are often available at prices that are depressed in relation to underlying asset values or the prospects for recovery. These low prices result from the tendency of many investors and lenders to sell their interests when they or a company they own enters, or has just emerged from, bankruptcy proceedings or shows signs of serious financial distress. Such sales are often made without full analysis of the value of underlying assets or the potential for successful reorganization, or are dictated by laws, policies or restrictions or other considerations. The Fund will acquire securities and obligations of reorganization companies, including those which have recently undergone reorganization, when the Managers' analysis indicates that the price has declined to a point where the underlying asset values protect against loss of the Fund's principal and where the prospects for markedly higher post-reorganization values provide the potential for significant appreciation.

Workouts

The Fund may invest in situations where a company or its owners may be, or may have been, engaged in or emerging from other transactions such as debt restructurings, reorganizations and liquidations outside of bankruptcy. The Managers use screening and analytical procedures similar to those described above for reorganization companies when making and disposing of investments in extraordinary transaction companies. The exact timing of particular investments and sales will vary. Investments may be made either before or after plans for restructuring, reorganization or liquidation are announced or commenced, depending on the circumstances. Investments may be sold at any time during or after the workout process. The Fund's investments in extraordinary transaction companies may make it feasible and desirable for the Fund to participate actively in these workouts.

Control-Type Investments

The Fund may invest in control investments. Generally, however, the Fund does not expect to participate in the day-to-day management of such companies or to exercise operational control. Large equity holdings, especially if the Fund has designated one or more directors of the issuer, could nevertheless result in diminished liquidity with respect to portfolio securities because of trading and confidentiality restrictions and could entail additional securities law compliance requirements and costs. Some large debt investments, through conversion to equity, also could result in the Fund owning a significant percentage of a company's voting securities and thus affect the Fund's liquidity with respect to such investment.

Special Situations and Non-Distressed Investments
While the Managers will be obligated to invest most of the Fund's assets in distressed companies, each Fund will have the flexibility to invest, in the aggregate and based on cost, up to the greater of $1 billion or 35% of its total Capital Commitments at any time in non-distressed investments. These investments typically will involve special situations tied to specific events outside the distressed arena where the Fund can purchase securities or obligations for less than their worth.

B FUND STRUCTURE

The Fund currently is being organized as two funds, Fund VII and Fund VIIb. Fund VIIb will invest using the same investment strategy and investment professionals. The two-fund structure is being offered to provide Oaktree with sufficient flexibility to address the issues of fund size, supply in the distressed debt marketplace and other timing considerations. Fund VIIb will be one of Oaktree's classic "b funds", where this fund structure permitted them to take maximum advantage of highly profitable distressed debt investment opportunities in 1990 (TCW Special Credits Fund Iib), 1992 (SCF IIIb) and 2002 (Opps Ivb). By assembling capital commitments for Fund VIIb on an anticipatory basis investors will have a guaranteed position in the fund and eliminate two separate committee approvals.

B Fund details:

- Fundraising for Fund VIIb will end no more than one year after its first closing
- The capital of Fund VII will begin to be invested first, as if VIIb didn't exist.
- Management fees on VIIb will be calculated in the same way for periods of the same duration, but they will not commence until 10% of the capital of VIIb has been invested or until VII has become 80% invested, upon the sooner of which the investment period of VIIb will begin.
- If 10% of the capital of VIIb has not been invested with four years of its first closing, investors who so request will be released from their undrawn capital commitments.

MANAGEMENT TEAM

Distressed Group Senior Management

Howard S. Marks, Chairman
Since the formation of Oaktree in 1995, Mr. Marks has been responsible for ensuring the firm's adherence to its core investment philosophy, communicating closely with clients concerning products and strategies, and managing the firm. From 1985 until 1995, Mr. Marks led the groups at The TCW Group, Inc. that were responsible for investments in distressed debt, high yield bonds, and convertible securities. He was also Chief Investment Officer for Domestic Fixed Income at TCW and President of TCW Asset Management Company, the largest of the TCW companies. Previously, Mr. Marks was with Citicorp Investment Management for 16 years, where from 1978 to 1985, he was Vice President and senior portfolio manager in charge of convertible and high yield securities. Between 1969 and 1978, he was an equity research analyst and, subsequently, Citicorp's Director of Research. Mr. Marks holds a B.S.Ec. degree *cum laude* from the Wharton School of the University of Pennsylvania with a major in Finance and an M.B.A. in Accounting and Marketing from the Graduate School of Business of the University of Chicago, where he received the George Hay Brown Prize. He is a CFA charterholder and a Chartered Investment Counselor. Mr. Marks chairs the Investment Board of the University of Pennsylvania.

Bruce A. Karsh, President

Bruce Karsh is President and co-Founder of Oaktree. The managers of most of Oaktree's private funds, representing approximately $12 billion in assets, report to him. He also serves as portfolio manager for Oaktree's distressed debt and Japan Opportunities Funds, and is actively involved in managing the firm. Prior to co-founding Oaktree, Mr. Karsh was a Managing Director of TCW and its affiliate, TCW Asset Management Company, and the portfolio manager of the Special Credits Funds for seven years. Before joining TCW, Mr. Karsh worked as Assistant to the Chairman of Sun Life Insurance Company of America and of SunAmerica, Inc., its parent. Prior to that, he was an attorney with the law firm of O'Melveny & Myers. Before working at O'Melveny & Myers, Mr. Karsh served as an appellate clerk to the Honorable Anthony M. Kennedy, presently Justice of the United States Supreme Court. Mr. Karsh holds an A.B. degree in Economics *summa cum laude* from Duke University, where he was elected to Phi Beta Kappa. He went on to earn a J.D. from the University of Virginia School of Law, where he was the Notes Editor of the *Virginia Law Review*. Mr. Karsh currently serves as a Trustee on the Duke University Board of Trustees and is the Chairman of the Board of Directors of Duke's investment management company.

Richard Masson, Principal

Mr. Masson is a co-founder of Oaktree. From 1995-2003 he served as the head of distressed debt analysis. Formerly, he was Managing Director of TCW and its affiliate, TCW Asset Management Company, and head of the Special Credits Analytical Group. Prior to joining TCW in 1988, Mr. Masson worked for three years at Houlihan, Lokey, Howard and Zukin, Inc., where he was responsible for the valuation and analysis of securities and businesses. Prior to Houlihan, Mr. Masson was a Senior Accountant with the Comprehensive Professional Services Group at Price Waterhouse in Los Angeles. Mr. Masson holds a B.S. degree in Business Administration from the University of California at Berkeley and an M.B.A. in Finance from the University of California at Los Angeles. He is a Certified Public Accountant.

Distressed Group North America Team

Scott L. Graves, Managing Director

Prior to joining Oaktree in 2001, Mr. Graves served as a Principal in William E. Simon & Sons' Private Equity Group where he was responsible for sourcing, structuring, executing and managing corporate leveraged buy-outs and growth capital investments. Before joining William E. Simon & Sons in 1998, Mr. Graves worked at Merrill Lynch & Company in the Mergers and Acquisitions Group, where he focused on leveraged buy-out situations and the valuation of public and private companies. Prior thereto, Mr. Graves worked at Price Waterhouse LLP in the Audit Business Services division. Mr. Graves received a B.A. degree in History from the University of California at Los Angeles and an M.B.A. in Entrepreneurial Finance from the Wharton School at the University of Pennsylvania. He is a Certified Public Accountant.

Lowell W. Hill, Managing Director

Prior to joining Oaktree in 1996, Mr. Hill was a Senior Vice President of Dabney/Resnick, Inc., where for three years he analyzed debt instruments with special focus on distressed and bankrupt situations. Before that, he spent five years at Price Waterhouse as a consultant performing corporate financial advisory, valuation and restructuring services. Mr. Hill graduated with a B.A. degree in Economics *magna cum laude* from the University of California at Berkeley and is a Certified Public Accountant.

Kenneth Liang, Managing Director

Mr. Liang serves as the distressed debt group's counsel and works on restructurings and reorganizations. From Oaktree's formation in 1995 until June 2001, Mr. Liang was Oaktree's General Counsel. Earlier, he served as a Senior Vice President at TCW with primary legal responsibility for Special Credits Funds investments and, before that, as Senior Corporate Counsel at Dole Food Company and as an Associate at the law firm of O'Melveny & Myers.

Mr. Liang holds a B.S. degree in Business Finance and Economics from the University of Southern California and a J.D. from Georgetown University Law Center. He is a member of the State Bar of California.

Robert O'Leary, Managing Director
Prior to joining Oaktree in 2002, Mr. O'Leary served as an Associate at McKinsey & Company, where he worked primarily in the Corporate Finance and Strategy practice. Before attending Harvard Business School, Mr. O'Leary worked for two years at Orion Partners, a private equity firm, where he focused on investments in private companies. Prior thereto, he worked at McKinsey & Company as a Business Analyst. Mr. O'Leary graduated with a B.A. degree in Economics *magna cum laude* from Pomona College and an M.B.A. in Business Administration from Harvard Business School.

Rajath Shourie, Managing Director
Mr. Shourie joined Oaktree in 2002 after having spent two years at Goldman, Sachs & Co. as an Associate in the Principal Investment Area. Prior experience includes three years as a management consultant at McKinsey & Co. Mr. Shourie holds a B.A. degree in Economics from Harvard College, where he was elected to Phi Beta Kappa. He then went on to receive an M.B.A. from Harvard Business School, where he was a Baker Scholar. Mr. Shourie is fluent in Hindi.

Distressed Group London Team

Pedro Urquidi, Managing Director
Prior to joining Oaktree in 2005, Mr. Urquidi spent ten years at Morgan Stanley & Co., Inc., where from 2001 to 2004 he worked in London as Head of Morgan Stanley's European Special Situations Group as well as overall Risk Manager for the firm's European High Yield, Bank Debt and Distressed Debt businesses. Between 1994 and 2001, he worked in New York and Hong Kong as a Trader in Morgan Stanley's Global High Yield Group including roles as Head of Emerging Market Corporate Trading and Senior High Yield Trader. Mr. Urquidi graduated with an A.B. degree in Economics from Princeton University and an M.B.A. in Finance from Columbia Business School.

Chris Boehringer, Vice President
Prior to joining Oaktree in March 2006, Mr. Boehringer spent two years at Goldman Sachs in the European Special Situations Group. Prior to Goldman, he was Co-Founder and Director of FITravel Corporation, an internet-based distribution system for travel products. Prior experience includes five years in Leveraged Finance at Warburg Dillon Read/SG Warburg and two years at LTU GmbH & Co. Mr. Boehringer holds a B.A. degree in Economics from Harvard University and an M.B.A. from INSEAD in France, where he graduated with distinction and was the recipient of the INSEAD Canadian Foundation Scholarship. Mr. Boehringer is proficient in German, French and Japanese.

Federico Canciani, Assistant Vice President
Mr. Canciani joined Oaktree in March 2006 from the Distressed Situations group at MatlinPatterson Advisers (Europe) LLP. Prior experience includes three years at TerraFirma Capital Partners as an Associate and two years in M&A and Corporate Finance Advisory at Goldman Sachs. Mr. Canciani received a Laurea Degree in Business Administration from the Università Commerciale Luigi Bocconi in Milan, Italy. He is fluent in Italian, English, Spanish and French.

Franck Laval, Assistant Vice President
Prior to joining Oaktree in 2006, Mr. Laval worked as a senior analyst on the Distressed Debt desk at Trafalgar Asset Managers in London. Earlier, he spent over four years as a Manager in the

Corporate Restructuring Group at Close Brothers Corporate Finance in London. Prior to that, he spent four years as an Executive in the M&A division at Close Brothers S.A. in Paris, France. Mr. Laval received a degree with honors in Applied Mathematics from Limoges University, France. He then went on to receive a postgraduate Degree in Banking, Finance and Insurance and a Master's degree in Financial Economics from Paris Dauphine University, France. Mr. Laval is fluent in French and English, and has a working knowledge of Spanish.

Frankfurt Team

Hermann T. Dambach, Managing Director
Prior to joining Oaktree in 2004, Mr. Dambach served as an Executive Director in the Financial Sponsors department of Morgan Stanley. Before that, he spent four years at Credit Suisse First Boston in the Global Energy Group. Prior experience includes nine years with Chase Manhattan Bank AG and four years with Südwestdeutsche Landesbank. Mr. Dambach holds degrees in Business Administration for Banking & Management (Diplom Bankbetriebswirt) from Bankakademie Frankfurt e.V. and from Sparkassenakademie in Rastatt (Diplom Sparkassenbetriebswirt).

Philipp Riekert, Vice President
Prior to joining Oaktree in 2006, Dr. Riekert spent over three years at Drueker & Co. GmbH, where he served as a Vice President in Mergers and Acquisitions. Prior thereto, he served as an Associate in the Global Advisory and Financial Sponsor Coverage groups at J.P. Morgan Securities Ltd. in Tokyo. Prior experience includes BASF, Bayer, Bertelsmann Shanghai, Boston Consulting Group, Linklaters and MAK Partners Ltd. Dr. Riekert received an M.A. degree from Stanford University where he was an ERP Scholar and M.B.A. (Diplom-Kaufmann) and Ph.D. (Dr.rer. pol.) degrees from WHU—Otto Beisheim School of Management, where he was a Scholar of the German National Merit Foundation. Dr. Riekert is fluent in German, English and Japanese.

Nebil Senman, Vice President
Prior to joining Oaktree in 2005, Mr. Senman spent seven years in the real estate consulting and corporate finance practice of Ernst & Young (formerly Arthur Andersen). As a director, with responsibility for managing assignments and work groups, he provided real estate transaction advice, led commercial due diligence, valued real estate assets and advised on structuring real estate funds. Mr. Senman is a Chartered Surveyor of the Royal Institution of Chartered Surveyors (RICS). He was awarded a post-graduate diploma in real estate management from the European Business School, Germany. Mr. Senman holds a Master's degree in Civil Engineering and Business Administration from Technische Universität Berlin and a Master's degree in International Management (Diplom-Wirtschaftsingenieur) from ESCP-EAP European School of Management.

Japan Opportunities Team

Takefumi Ooka, Managing Director
Mr. Ooka joined Oaktree in 2002 from J.P. Morgan, where he served as an Analyst, gaining experience in investment banking and mergers and acquisitions. Prior to that, Mr. Ooka worked for General Electric as a commercial manager in the Power Systems Group. Before that, he spent five years at Mitsubishi Corporation as a manager in the Information Systems and Machinery Group. Mr. Ooka received a B.A. degree in Engineering from Keio University in Tokyo, Japan.

Colin Bekemeyer, Senior Vice President
Mr. Bekemeyer joined Oaktree in 2006 after having spent three years as a Director at Taiyo Pacific Partners, L.P. Prior experience includes three years as an Investment Banking Associate in the Media and Telecommunications group at J.P. Morgan Securities, Inc. and three years as a Business Analyst at A.T. Kearney Management Consulting in Tokyo. Mr. Bekemeyer holds an

A.B. degree *cum laude* in East Asian Studies from Harvard University, an M.B.A. in International Financial Economics from The Wharton School and an M.A. degree in International Studies from The School of Arts and Sciences at the University of Pennsylvania.

Yasuhiro Yamamoto, Vice President
Mr. Yamamoto joined Oaktree in 2005 from Nomura Securities Co., where he served as an Equity Analyst covering electronic components companies. Prior to that, Mr. Yamamoto worked for GMAC Commercial Mortgage Corp. as an Executive Assistant to the CFO. Before that, he spent two years at Itochu Corporation as an Accounting Analyst. Mr. Yamamoto received an M.B.A. from Columbia Business School and a B.A. degree in Economics from Keio University in Tokyo, Japan. He is fluent in Japanese, English and Spanish.

CONCLUSION/RECOMMENDATION

Based upon the successful track record, prior relationship, and experience of the principals and the recommendation of PSERS' consultant, Portfolio Advisors, staff recommends that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed $75 million plus reasonable normal investment expenses, in OCM Opportunities Fund VII, L.P. and $125 million plus reasonable normal investment expenses in OCM Opportunities Fund VIIIb, L.P. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director.