



Private Debt Fund Commitment

Avenue Europe Special Situations Fund, L.P.

May 1, 2008

Avenue Europe Special Situations Fund, L.P. – Debt Fund

Overview

- Fund size is 1.5 billion Euros with no hard cap yet established
- The fund will focus on senior secured debt and unsecured debt
- Avenue has been investing in European debt securities for 4 years

Fund Strategy

- Investments will be made in companies that are in financial distress or undergoing restructuring; companies undergoing operational difficulties; companies in industries that are in turmoil; and companies that are undervalued due to extraordinary events
- Pennsylvania Presence – N/A

Avenue's Geographic Investment Strategy

- ◆ General focus on creditor-friendly jurisdictions
 - Investment focus on the United Kingdom, Germany, the Benelux countries and Ireland
- ◆ Risk/return profile must justify investment in less creditor-friendly jurisdictions
 - Opportunistically invest in France, Italy and Central Europe
- ◆ Avenue carefully studies each jurisdiction's bankruptcy laws and precedents to determine the ability of a creditor to:
 - Take and retain security (ability to execute on the collateral)
 - Commence and control the insolvency process



Avenue Europe Special Situations Fund, L.P. – Debt Fund

Investment Team

- The Avenue Europe team is comprised of 18 investment professionals based in London, Munich and New York
- The team's scale, experience and local network allows them to source investment opportunities directly and to conduct extensive due diligence internally

GP "Value Add"

- Avenue Europe has extensive experience in helping negotiate the best deal for creditors, usually leading the creditor committee, while taking into account each country's restructuring/bankruptcy laws

Performance

- A 14.59% gross IRR for the period July 1, 2004 through January 31, 2008

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Market Opportunity

- Staff and Portfolio Advisors believe there is a large opportunity in European distressed debt given the turmoil in the credit markets

History with PSERS

- PSERS has invested in several Avenue funds: Avenue Asia Special Situations Fund II, III and IV; Avenue Special Situations Fund II, III, IV, and V; and Avenue Real Estate Fund

Recommendation

- Staff, together with Portfolio Advisor's, recommends that the Board invest an amount equal to 90.9 percent of the committed capital, but not to exceed €200 million plus reasonable normal investment expenses, in a side fund

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