



Opportunistic Fixed Income Allocation

Brigade Distressed Value Offshore Fund Ltd.

July 27, 2011

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Brigade Distressed Value Offshore Fund Ltd.

Overview of Brigade Capital Management

- SEC registered investment advisor
- Founded in 2006 by Don Morgan and Pat Kelly
- Firm manages approximately \$8.2 billion as of July 1, 2011 in 5 different products:
 - Leveraged Capital Structures Fund: \$4.8 billion (PSERS investment: \$847.3 million)
 - CLO Assets: \$1.3 billion
 - Credit/Opportunistic Assets: \$1.2 billion
 - High Yield Assets: \$0.9 billion
 - Distressed Value Offshore Fund: \$32 million (inception date January 1, 2011)

Investment Team

- Experienced team of 25 professionals
- Veteran business and operations team of 30 professionals
- 17 employee partners

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Distressed Opportunities

- Nearly \$1 trillion of debt will mature over next five years according to Credit Suisse
- Brigade believes the upcoming distressed cycle will span multiple industries and asset classes
- Persistent macroeconomic headwinds combined with a low growth environment will continue to promote uncertainty
- Impending “wall of maturities” will prove challenging, particularly if the economy struggles
- Record issuance, including dividend deals and reemergence of covenant-lite issues, highlights the market’s short-term memory and potential for further distress
- A multitude of complicated capital structures presents opportunities for experienced investment teams to source and lead complex financial restructurings

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Value Proposition

- Brigade has an experienced team of 25 investment professionals which combines industry specialization with dedicated distressed expertise
- Brigade has a disciplined approach which utilizes a fundamental, bottom-up research process
- Brigade investment professionals have been investors in capital restructurings and bankruptcy reorganizations for over 15 years
 - They have a long and successful history in leading complicated capital structure reorganizations
- Small fund imbedded within a larger organization
- Broad partnership structure further incentivizes investment professional to share investment ideas and work collaboratively

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Performance, net of fees, through June 30, 2011 of the Brigade Leveraged Capital Structures Fund*

	2007**	2008	2009	2010	2011	ITD
CS Fund	10.15%	(17.14%)	39.63%	7.66%	3.75%	8.16%

* - Performance is net of 1.5% management fee and 20% performance fee

** - Inception date: January 1, 2007

History with PSERS

- This would be PSERS second investment with Brigade
 - Invested \$600 million, net, in the Brigade Leveraged Capital Structures Fund
 - \$500 million on September 1, 2007
 - \$125 million on May 1, 2009
 - \$125 million on June 1, 2009
 - (\$50 million) on April 1, 2010
 - (\$50 million) on July 1, 2010
 - (\$50 million) on October 1, 2010
 - NAV as of June 30, 2011: \$847.3 million

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PSERS Objective

- To earn low- to mid-teens net returns over a market cycle
- To invest in an open-ended distressed debt fund
- To broaden the high yield allocation into higher prospective return opportunities

Portfolio Use

- Staff intends to invest \$100 million in the Brigade Distressed Value Offshore Fund Ltd. and include this investment in the High Yield allocation

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Other

- Relationships with Aksia: None
- Placement Agents: None
- Political Contributions in PA: None
- Introduction Source: Current Relationship with Brigade

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Recommendation

Staff, together with Aksia LLC, recommends that the Board invest in the Brigade Distressed Value Offshore Fund Ltd., in an amount within the target ranges established in Exhibit D of the Investment Policy Statement, Objectives and Guidelines.

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