



February 16, 2012

Board of Trustees
Pennsylvania Public School Employees' Retirement System
5 North 5th Street
Harrisburg, PA 17101

Re: Cerberus Institutional Partners V, L.P.

Dear Trustees:

Cerberus Capital Management (“Cerberus” or the “Firm”) is organizing its fifth fund, Cerberus Institutional Partners V, LP (the “Fund” or “CIP V”) to make investments in all types of distressed assets on a global basis and in control-oriented private equity turnarounds focused on the middle market. The Fund is seeking capital commitments of \$3.75 billion. The geographic footprint of the fund will be oriented to the United States, Western Europe and Developed Asia. Cerberus will continue to pursue a flexible and opportunistic investment strategy focusing on two broad categories: 1.) Distressed private equity, including operational turnarounds and other private investments; and 2.) Distressed securities and assets including distressed corporate debt and mortgage investments. To a lesser extent, the firm will also selectively pursue investments in other areas including lending and distressed real estate and purely on an opportunistic basis. Cerberus expects that up to 65% of the investments in Fund V will be in distressed credit or related-credit investments with the remainder invested in distressed private equity opportunities.

Cerberus is able to execute on this opportunistic distressed strategy because of its platform of dedicated teams encompassing Operational Private Equity, Distressed Corporate Debt, Mortgages, NPLs and Structured Products coupled with its dedicated in-house Operations Team. This extensive team of investment professionals allows the firm to make passive, active and control investments in a wide range of industries and countries. Specific deal teams will bring together the relevant expertise from across the firm as needed. The investment team consists of 130 professionals with broad discipline, knowledge and distressed experience. They are supported by an Operations Team of 120 industry executives (52 currently employed at portfolio companies). This team consists of seasoned former industry executives, functional experts and financial planning and analysis teams. The industry executives assist in sourcing and due diligence, and will serve as executives or board members in portfolio companies. The functional experts will work with companies on a specific project basis. The financial planning and analysis team monitors the financial performance of existing portfolio companies.

Cerberus is led by CEO & Senior Managing Director, Stephen A. Feinberg, six other Senior Managing Directors and its Chief Compliance Officer/Managing Director. Cerberus maintains offices domestically in New York, Chicago and Los Angeles and internationally in London, Baarn, Frankfurt, Berlin, Dubai, Beijing, Tokyo and Taipei.

Portfolio Advisors' recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines.

- Detailed due diligence, including interviews with industry peers, private equity professionals and CEOs of portfolio companies.
- Evaluation of the composition of the investment team, how they work together, compensation structure and other factors that help determine whether a group is likely to be able to replicate past successes as currently configured.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- The strategy proposed for the Fund is appropriate for the Private Equity Partnership component of the portfolio.

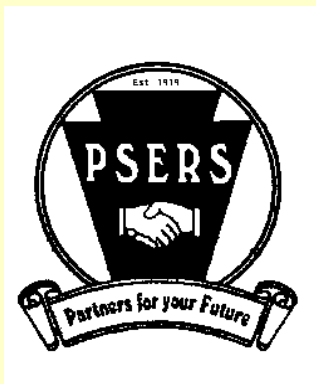
Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$200 million of limited partnership interests in Cerberus Institutional Partners V, L.P. Portfolio Advisors makes this recommendation considering the General Partner's qualifications and PSERS' overall investment guidelines.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in the Fund, since their needs, objectives and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits of the Fund. Portfolio Advisors does not provide legal or other non-investment-related advice.

Sincerely,

A handwritten signature in blue ink, appearing to be 'J. P. ...', is written over a light blue horizontal line.

Portfolio Advisors, LLC



Private Debt Fund Commitment

Cerberus Institutional Partners V, L.P.

March 8, 2012

See Last Page for Disclaimer

Charles J. Spiller, Managing Director,
Private Markets & Real Estate

Cerberus Institutional Partners V, L.P. – Private Debt Fund

Overview

- Targeted fund size is \$3.75 billion
- Will invest in control-oriented private equity, including operational turnarounds; and distressed corporate debt; European non-performing loans and distressed mortgage investments
- Cerberus Institutional Partners V (Fund V) will have approximately 75 to 150 investments

Investment Approach

- Cerberus has a flexible investment approach in that they can invest in the equity or debt of a company
- Individual investments generally are expected to represent 5% or less of capital commitments
- Geographically, the Fund will focus on North America, Western Europe, and Asia, but at least 50% of the assets will be in North America
- Fund V expects to be invested across multiple industries

Investment Team

- Cerberus has a staff of approximately 450 persons, including over 130 investment professionals and 120 professionals in its operations team
- There are 27 Senior Executives or Managing Directors with at least 10 years of experience at Cerberus
- Cerberus has 11 offices throughout the U.S., Europe and Asia

GP “Value Add”

- Cerberus value-add is its Operations Team which has 120 members. The team is led by Robert Nardelli who was the CEO of Home Depot and Chrysler. The operations team has been invaluable across the spectrum from sourcing investments to pre-acquisition due diligence, developing turnaround plans and monitoring portfolio investments

Cerberus Institutional Partners V, L.P. – Private Debt Fund

Performance

- Cerberus Institutional Partners II (Fund II) which is a vintage 2001 fund, has a net IRR of 27.2% and MOC 2.90x as of 9/30/11
- Cerberus Institutional Partners III (Fund III) which is a vintage 2003 fund, has a net IRR of 13.0% and MOC 1.75x as of 9/30/11
- Cerberus Institutional Partners IV (Fund IV) which is a vintage 2006 fund, has a net IRR of 6.4% and MOC 1.25x as of 9/30/11

Market Opportunity

- Cerberus believes that in the near term, there is undoubtedly a larger than normal opportunity in the global distressed sector resulting from overleveraged corporate capital structures created in the boom years that have not yet been adequately addressed. With total high yield and leveraged loan maturities of nearly \$1.4 trillion in 2011 through 2018 in the United States and €355 billion in Western Europe over the same time period, compelling investment opportunities appear likely in both the private equity and distressed debt spaces

History with PSERS

- This will be PSERS fifth commitment with Cerberus:
 1. PSERS committed \$200 million to Cerberus Fund II which is a vintage 2001 fund
 2. PSERS committed \$100 million to Cerberus Fund III which is a vintage 2003 fund
 3. PSERS committed \$400 million to Cerberus Fund IV which is a vintage 2006 fund
 4. PSERS committed \$200 million to Cerberus Levered Loan Opportunities Fund I which is a vintage 2011 fund

Cerberus Institutional Partners V, L.P. – Private Debt Fund

Board Issues

- Pennsylvania Presence – Set forth below are Cerberus' PE investments that have a regional or main headquarters or employees in PA:
 - Keane Group (headquarters): located in Lewis Run, PA. 160 employees as of 1/27/12
 - Guilford Mills (manufacturing facility): located in Pine Grove, PA. 300 employees as of 1/27/12
 - Bluelinx: located in New Stanton and Allentown, PA. 38 employees as of 1/27/12
- Placement agents – Monument Group Inc. has been retained to serve as placement agent for Cerberus Fund V. Monument's placement agent fees will be borne by Cerberus and not the Cerberus Fund V investors
- PA political contributions – Neither Cerberus nor its employees have made any political contributions for state or local office in the Commonwealth of Pennsylvania during the prior three year period
- Relationship with consultant – Portfolio Advisors' Fund of Funds have made the following commitments to Cerberus Funds: PAPEF II \$6 M – Fund III; PAPEF III \$5 M – Fund III; PAPEF IV \$20 M – Fund IV

Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed \$200 million plus reasonable normal investment expenses