



# Pennsylvania Public School Employees' Retirement System

Investment Review – For Period Ending March 31, 2007  
Commodities Manager Candidate Review  
Brigade Capital Management, LLC

**William G. Bensur, Jr., CFA**  
Managing Director

June 21, 2007

## **Tab 2**

### **Commodities Manager Candidate Review**

# Investment Manager Summary

## Commodities Manager Candidates

*As of March 31, 2007*

Subject Product	Assets Managed <i>(Millions)</i>		Inception Date		
	Firm	Subject Product	Firm	Subject Product	
<b>BlackRock</b>	Enhanced Commodity Fund	\$1,124,627	\$110	1988	2006
<b>Lehman Brothers Asset Management, Inc.</b>	Strategic Commodity Fund	\$236,000	\$1,551	1992	1987
<b>Schroders</b>	AS Commodity Fund	\$251,542	\$860	1804	2005

# Investment Performance Comparison

## Commodities Manager Candidates For Periods Ending March 31, 2007

	Year-to-Date	One Year	Three Years	Five Years	Seven Years
<b>BlackRock *</b>	<b>0.28%</b>	<b>13.48%</b>	<b>11.04%</b>	<b>17.88%</b>	<b>18.97%</b>
<b>Lehman Brothers</b>	<b>6.53%</b>	<b>7.94%</b>	<b>11.79%</b>	<b>16.50%</b>	<b>14.30%</b>
<b>Schroders</b>	<b>3.78%</b>	<b>12.54%</b>	<b>-</b>	<b>-</b>	<b>-</b>
DJ AIG Commodity Index	4.59%	9.39%	8.16%	14.46%	13.56%
GSCI Commodity Index	5.20%	-9.43%	6.13%	12.82%	13.43%

\* Product Inception October 2006 / Back-tested Data March 1991 Through September 2006

# Risk / Return Analysis \*

## Commodities Manager Candidates *For Periods Ending March 31, 2007*

	Information Ratio	
	Three Years	Five Years
<b>BlackRock</b>	<b>0.37</b>	<b>0.43</b>
<b>Lehman Brothers</b>	<b>0.77</b>	<b>0.33</b>
<b>Schroders</b>	<b>0.41 ^</b>	<b>1.25 ^^</b>

\* Information Ratio vs DJ AIG Commodity Index

^ One-Year Information Ratio

^^ Information Ratio Since Inception – October 31, 2005

# BlackRock

## Enhanced Commodity Fund

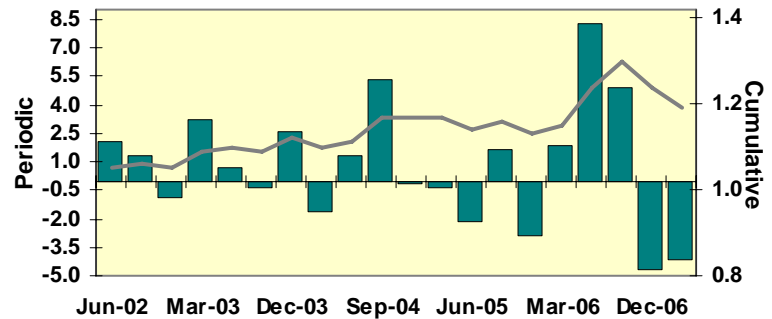
### Firm Overview

As of March 31, 2007

- **Ownership**
  - Merrill Lynch (49%) / PNC (34%) / Employees-Public Ownership (13%)
- **Assets Under Management**
  - Firm: \$1.1 Trillion
  - Subject Product: \$110.0 Million
- **100% Internal Research**

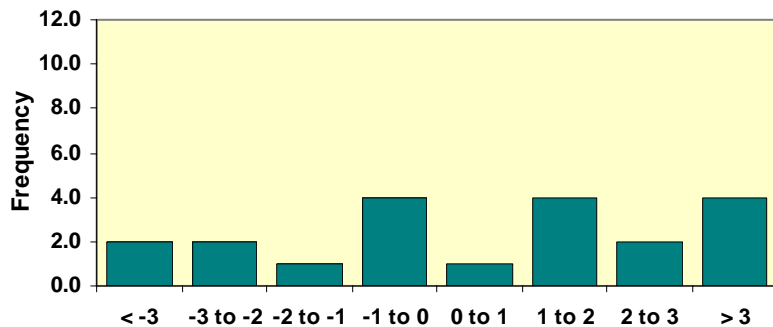
### Value Added vs DJ AIG Commodity Index

March 31, 2002 Through March 31, 2007



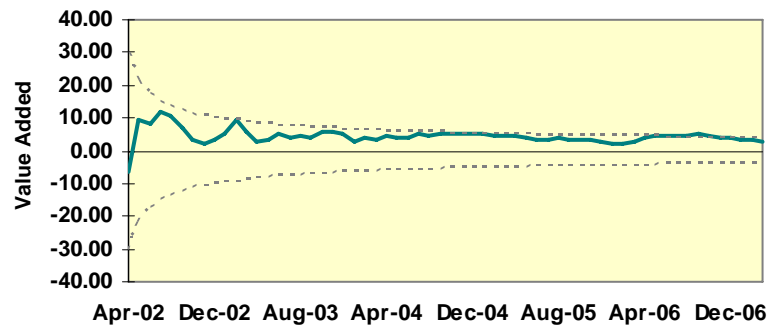
### Quarterly Excess Return Histogram

March 31, 2002 Through March 31, 2007



### Excess Return vs DJ AIG Commodity Index

March 31, 2002 Through March 31, 2007



Excess Return:	2.98	Info Ratio:	0.43	N:	8.7
Excess Risk:	6.87	T-Stat:	0.97		

\* Product Inception October 2006 / Back-tested Data March 1991 Through September 2006

# Lehman Brothers Asset Management, Inc.

## Strategic Commodities LLC (Gresham)

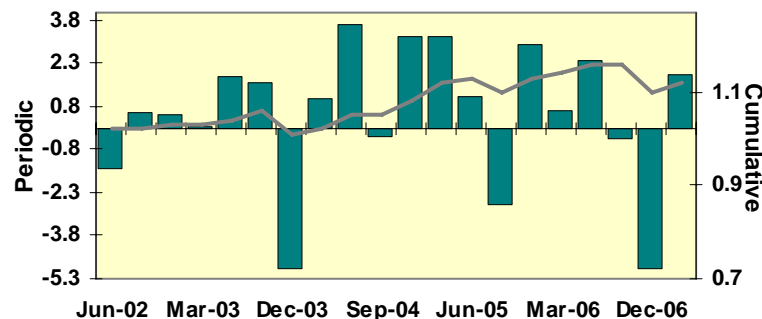
### Firm Overview

As of March 31, 2007

- **Ownership**
  - Publicly-Owned
- **Assets Under Management**
  - Firm: \$236.0 Billion
  - Subject Product: \$1.6 Billion
- 100% Internal Research

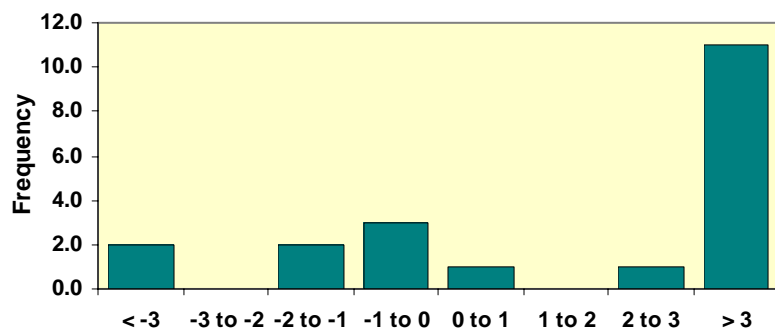
### Value Added vs DJ AIG Commodity Index

March 31, 2002 Through March 31, 2007



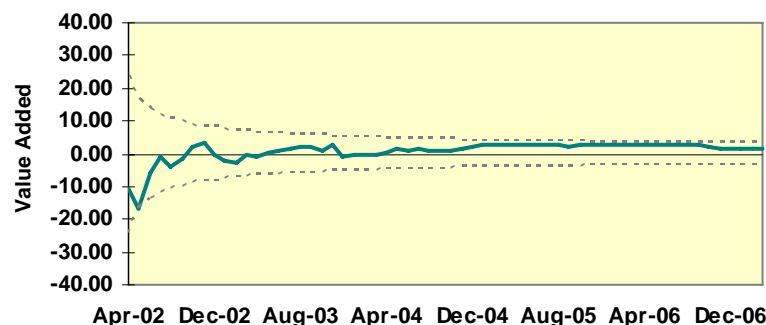
### Quarterly Excess Return Histogram

March 31, 2002 Through March 31, 2007



### Excess Return vs DJ AIG Commodity Index

March 31, 2002 Through March 31, 2007



Excess Return:	1.77	Info Ratio:	0.33	N:	15.4
Excess Risk:	5.42	T-Stat:	0.73		

# Schroders

## AS Commodity Fund

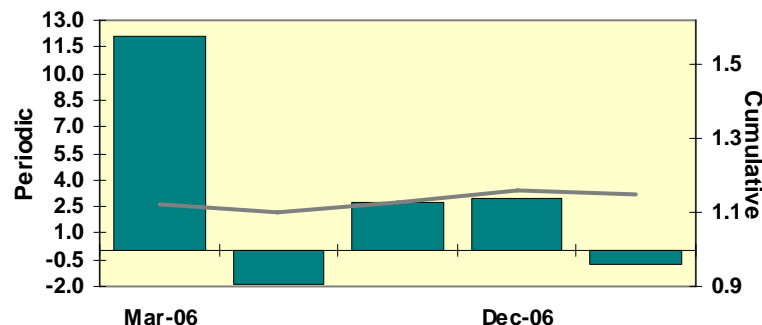
### Firm Overview

As of March 31, 2007

- **Ownership**
  - Wholly-Owned Subsidiary Schroders plc
- **Assets Under Management**
  - Firm: \$251.5 Billion
  - Subject Product: \$860.0 Million
- **100% Internal Research**

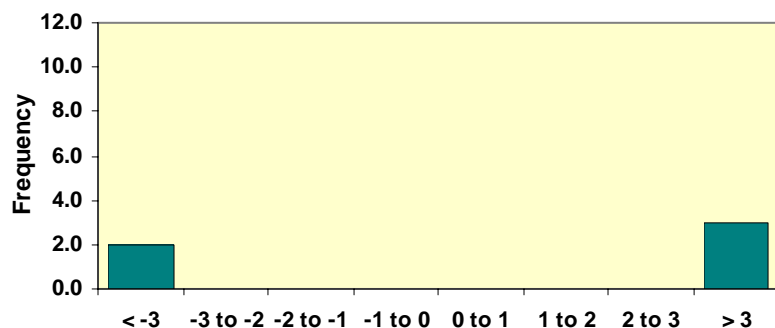
### Value Added vs DJ AIG Commodity Index

October 31, 2005 Through March 31, 2007



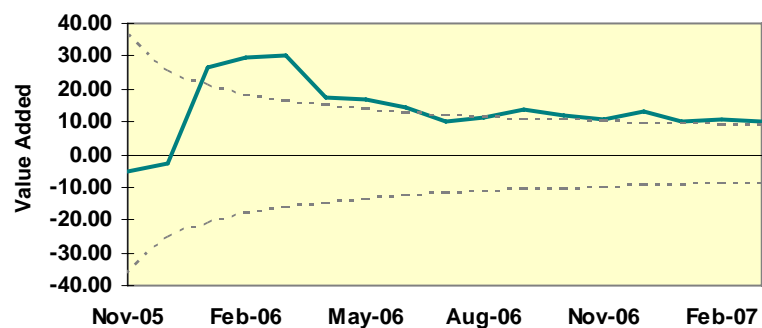
### Quarterly Excess Return Histogram

October 31, 2005 Through March 31, 2007



### Excess Return vs DJ AIG Commodity Index

October 31, 2005 Through March 31, 2007



Excess Return:	10.22	Info Ratio:	1.25	N:	1.0
Excess Risk:	8.15	T-Stat:	1.49		

\* Product Inception



# Correlation of Excess Return \*

## Commodities Manager Candidates vs Existing Commodities Managers Rolling Three-Years Ending March 31, 2007

	BlackRock	Lehman Brothers	Schroders **	Credit Suisse	Deutsche **	Wellington
<b>MANAGER CANDIDATES</b>						
BlackRock	1.00					
Lehman Brothers	0.09	1.00				
Schroders **	0.19	0.05	1.00			
<b>EXISTING MANAGERS</b>						
Credit Suisse	0.12	0.27	-0.41	1.00		
Deutsche **	-0.09	0.38	0.06	0.43	1.00	
Wellington	0.07	0.24	0.00	-0.31	0.33	1.00

\* Excess Returns vs DJ-AIG Commodity Index  
\*\* Rolling One-Year Period

# Commodities Manager Candidate Review

## Observations and Recommendation

- Observations
  - Lehman Brothers Asset Management, Inc.
    - Active strategy
    - Low tracking error
    - Low correlations to existing managers
  - Schroders
    - Active strategy
    - Low correlations to existing managers
- Recommendation
  - Staff and Wilshire recommend that PSERS retain Lehman and Schroders for commodity exposures