

# Commonwealth of Pennsylvania Public School Employees' Retirement System

**DATE:** July 27, 2011

**SUBJECT:** Brigade Distressed Value Offshore Fund Ltd. Recommendation

**TO:** Members of the Board

**FROM:** James H. Grossman, Jr., CPA, CFA  
Managing Director of External Public Markets, Risk & Compliance

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At the August Finance Committee meeting, staff and Aksia will recommend that PSERS invest in the Brigade Distressed Value Offshore Fund Ltd. (Brigade DV Fund) managed by Brigade Capital Management. This fund is an open-ended distressed debt fund investing in distressed securities across the full spectrum of capital structures and market capitalizations. Their focus will be on bankruptcy process, litigation, balance sheet reorganizations and liquidations. We anticipate that the fund will generate low to mid-teens net returns over a market cycle.

Brigade Capital Management, an asset management firm specializing in high yield and distressed debt investing, was formed by Don Morgan and Pat Kelly in 2006. Don was the lead portfolio manager at MacKay Shields from 2000-2006 where he managed PSERS long-only high yield portfolio. PSERS was an early investor in Brigade's flagship hedge fund, the Brigade Leveraged Capital Structures Fund (Brigade LCS Fund), a long/short credit fund investing throughout the capital structure of U.S. and non-U.S. leveraged companies. The Brigade LCS Fund has an annualized performance since inception of 8.16%, net of all fees. In 2010, Brigade hired Ivan Krsticevic from Elliott Management Corporation to lead the effort, along with Don Morgan, in creating the Brigade DV Fund. The Brigade DV Fund has an inception date of January 1, 2011 with firm capital. Over the past few months, PSERS has been working with Brigade to become the lead investor in this fund. Brigade has offered attractive terms to PSERS to be the lead investor, including a management fee concession and a hurdle rate.

Staff likes the Brigade DV Fund due to the strength of Brigade's investment professionals, the attractive economic terms, and the small size of the fund imbedded within a larger organization. The small size of the Brigade DV Fund will allow Brigade to invest in smaller companies where there is generally less capital chasing these opportunities.

Included for your review are Aksia's recommendation, a PowerPoint presentation prepared by staff, and the resolution recommending the investment in the Brigade Distressed Value Offshore Fund Ltd.

If you have any questions or comments prior to the meeting, please contact me at 717-720-4703.