

Manager Recommendation Memo

April 11th, 2012

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

Re: Aeolus Property Catastrophe Fund I LP

Dear Trustees:

Aksia LLC, having been duly authorized by the Board of PSERS, has evaluated and herewith recommends a direct allocation to Aeolus Property Catastrophe Fund I LP ("Aeolus"). In the ongoing development of PSERS' portfolio of absolute return funds, Aksia recommends an initial allocation in line with Exhibit D of PSERS Investment Policy Statement, Objectives, and Guidelines.

Aeolus is manager focused in insurance-linked securities, concentrated within property catastrophe risk. The manager's approach is based on offering a tailored solution to their clients, protection on the periphery where traditional protection cannot be bought. The fund's assets are fully collateralized and obtained via private transactions. The manager offers a differentiated approach to the insurance-linked securities space with sufficient barriers to entry. Potential investors should be aware of the possibility of multiple meaningful events during the same renewal period, which would result in large portfolio losses as the manager is exposed to tail events in the industry.

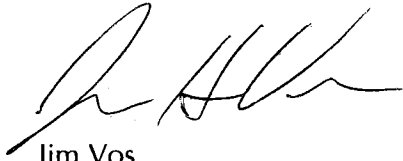
Aksia's recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines.

- Due diligence of Aeolus's investment strategy, including a review of their investment strategy, investment team and structure, and risk management process.
- Pending due diligence of Aeolus's operations, including an operations and infrastructure review, regulatory and compliance review, private placement memorandum review, Form ADV review, and financial statement review.
- Evaluation of Aeolus's investment strategy within the context of the current investment environment.
- Appropriateness of Aeolus for the Absolute Return component of PSERS' portfolio.

This recommendation is confidential, given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in Aeolus, 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 Aeolus Property Catastrophe Fund I LP. Aksia manager recommendation memos should be reviewed with other Aksia due diligence materials, including the full Investment Review and Operational Review. In addition, please consult your tax, legal and/or regulatory advisors before allocating to any private investment fund.

Please feel free to contact us should you have any questions about this recommendation.

Respectfully,

A handwritten signature in black ink, appearing to read 'J. Vos', with a stylized, cursive style.

Jim Vos
CEO and Head of Research

A handwritten signature in black ink, appearing to read 'Norman Kilarjian', with a stylized, cursive style.

Norman Kilarjian
Partner, Head of Tactical Trading and Relative
Value



Absolute Return Program Allocation

Aeolus Capital Management Ltd. Aeolus Property Catastrophe Fund I, LP

April 26, 2012

Robert E. Little, CPA
Portfolio Manager
External Public Markets, Risk & Compliance

Aeolus Capital Management Ltd.

Aeolus Property Catastrophe Fund I, LP

Overview of Aeolus Capital

- Aeolus Reinsurance Ltd. was founded in 2006 by Peter Appel and David Eklund
- Aeolus Capital was formed in 2011 as the successor firm to Aeolus Reinsurance
- Fully owned by employees of the firm
- Has deployed over \$11 billion into the reinsurance market since the inception of the firm

Investment Team

- 16 employees as of March 31, 2012
 - Aeolus underwrites two portfolios a year (a mid-year portfolio and a January portfolio)
 - Each portfolio consists of approximately 20-40 property catastrophe contracts
 - Each contract is underwritten by senior management

Aeolus Capital Management Ltd.

Aeolus Property Catastrophe Fund I, LP

Opportunity

- There is a large need for capital in the reinsurance market
- Returns are generated by charging an insurance premium for assuming risk from an insurance company that wants to reduce their exposure to catastrophes (i.e. hurricane or earthquake)
- The insurance linked securities market is generally not correlated with the broader financial markets

Aeolus Capital Management Ltd.

Aeolus Property Catastrophe Fund I, LP

Fund Strategy

- Insurance companies' desire to shed catastrophe exposure offers the potential to generate returns
- The insurance market is controlled by relationships and information flow
- Aeolus' client-specific property catastrophe reinsurance products underwritten by senior management allow them to meet client needs and build longstanding relationships with higher retention rates
- These relationships allow Aeolus to participate in private market transactions which are often priced at a premium to the market
- Writing a small number of contracts with each renewal period allows Aeolus to adjust its model for each transaction

AEOLUS CAPITAL MANAGEMENT LTD.

AEOLUS PROPERTY CATASTROPHE FUND I, LP

Performance, net of fees (through 02/29/2012)

	YTD	1 Year	3 Year	5 Year	Inception to Date
Aeolus Property Catastrophe Fund I, LP	2.11%	-0.89%	11.73%	15.36%	14.44%

The returns presented above are net of a 2% management fee and 15% performance fee. The returns assume an equal investment in the January renewal series and the mid-year renewal series with capital and profits reinvested annually.

Inception date: January 2007

AEOLUS CAPITAL MANAGEMENT LTD.

AEOLUS PROPERTY CATASTROPHE FUND I, LP

PSERS Objective

- Invest in uncorrelated return streams
 - Historical correlation with the MSCI ACWI IMI: -0.10
 - Historical correlation with the DJ UBS Commodity Index: -0.16
 - Historical correlation with the Barclays Aggregate Index: 0.14
 - Historical correlation to PSERS' largest absolute return managers:
 - AQR Offshore Multi-Strategy: -0.12
 - BlackRock Global Alpha: 0.04
 - Bridgewater Pure Alpha: 0.04
 - Brigade Leveraged Capital Structures: -0.03
 - Historical correlation to PSERS' other insurance linked securities manager:
 - Nephila Capital - Palmetto Fund, Ltd.: 0.63
- Annualized Return and Volatility of the Aeolus Property Catastrophe Fund since 01/2007
 - Annualized Return: 14.44%
 - Standard Deviation: 10.81%
 - Sharpe Ratio: 1.19

Portfolio Use

- Staff intends to invest \$200 million with Aeolus Capital Management Ltd. (equally split between the mid-year series and the January series) and include this investment in the Absolute Return Program.

Aeolus Capital Management Ltd.

Aeolus Property Catastrophe Fund I, LP

Fund Terms

- Management fee: 2%
- Performance Fee: 15% of the increase in NAV
- Hurdle rate: None
- High water mark: Not applicable
- Lock up period: One year
- Redemption Fee: Not applicable
- Liquidity: Not applicable
- Gate: Not applicable
- Transparency: Risk-level transparency is available on a weekly basis

NOTE – At the end of one year, PSERS will have the option to withdraw our capital or roll over our capital into the next fund series.

* Aeolus intends to implement an open-ended fund structure beginning with the January 2013 fund series. Terms of that fund have not yet been finalized.

Aeolus Capital Management Ltd.

Aeolus Property Catastrophe Fund I, LP

Other

- Relationship with Aksia: None
- Placement Agents: None. Aeolus has entered into a Confidentiality Agreement with Barclays Bank PLC which permits Barclays to disclose certain confidential information to potential investors that have a relationship with Barclays.
- Political Contributions in PA: None
- Introduction Source: Barclays Bank PLC
- History with PSERS: This investment would be the first investment with Aeolus Capital Management Ltd.

AEOLUS CAPITAL MANAGEMENT LTD.

AEOLUS PROPERTY CATASTROPHE FUND I, LP

Recommendation

Staff, together with Aksia LLC, recommends (i) that the Board invest \$100 million in the Aeolus Property Catastrophe Fund I, LP (the mid-year fund series), (ii) that the Board invest \$100 million in the Aeolus Property Catastrophe Fund I, LP (the January fund series), and (iii) that the Investment Office shall have the discretion to invest additional sums within the target ranges approved by the Board in Exhibit D of the Investment Policy Statement, Objectives and Guidelines, as amended from time to time provided that any investment of an additional sum by the Investment Office shall be reported to the Board in a timely manner.

DISCLAIMER: This document was presented to the Public School Employees' Retirement Board at the public meeting at which the Board acted on the resolution to which the information relates. The sole purpose for posting the presentation information on this website is to enable the public to have access to documents that were utilized at a public meeting of the Public School Employees' Retirement Board, and no other purpose or use is intended.

Appendix - Correlations

Correlation (as of 02/2012)	Aeolus Property Catastrophe Fund I, LP	MSCI AC World Index IMI	DJ UBS Commodity	Barclays Aggregate	Barclays Global Aggregate
Aeolus Property Catastrophe Fund I, LP	1.00				
MSCI AC World Index IMI	-0.10	1.00			
DJ UBS Commodity	-0.16	0.67	1.00		
Barclays Aggregate	0.14	0.15	0.08	1.00	
Barclays Global Aggregate	0.04	0.48	0.45	0.75	1.00



Absolute Return Program Allocation

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