



December 28, 2011

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

Re: Denham Commodity Partners Fund VI, L.P.

Dear Trustees:

Denham Capital Management LP (“Denham”) is organizing Denham Commodity Partners Fund VI LP (the “Fund” or “Fund VI”) to make investments in industries, companies and assets involving energy and commodities, in particular Oil & Gas, Metals & Mining and Power & Renewables (the “Sector”). The Fund will pursue investments globally across all industries relating to the Sector, all stages of the corporate and asset lifecycle and all segments of the capital structure. Denham is led by CEO & CIO, Stu Porter, two co-Presidents, and two Managing Partners who form the Investment Committee. Denham maintains offices domestically in Boston, MA, Houston, TX, Short Hills, NJ, and internationally in London, São Paulo and Singapore. The Fund is seeking capital commitments of \$2.5 billion with a hard cap of \$3.25 billion.

Denham seeks to generate superior risk-adjusted returns in all commodity and energy price regimes, and to mitigate the market directional component of transaction returns. Denham seeks returns primarily from potential value dislocations and from operational enhancements. To assist in accomplishing the above goal, Denham employs a two-stage investment approval process. Initially, Denham filters the universe of potential transactions through formal investment theme vetting. Chosen themes embed strategies, geographies or commodities that may offer superior returns in view of associated commodity, development, political, regulatory or currency risk. Then, particular transactions are evaluated under a given theme. Denham believes that the establishment of thematic investment targets enhances the competition for scarce capital among prospective themes and transactions, and focuses the activities of Denham’s Sector professionals (the “Deal Team”) members on the most attractive Sector candidates.

Both investment theme and transaction review processes entail formal proposal and evaluation of a particular value dislocation hypothesis. Each of the three groups comprising Denham’s Investment Team (collectively, the Deal team, Risk Group and Portfolio Services Group) has an established and coordinated role in theme and transaction development and evaluation. After closing a transaction, there is continued collaboration across the Denham team with a view towards accomplishing the stated investment thesis. In particular, the Deal Team and the Portfolio Services Group work closely with management teams on post-close value enhancements. These operational and commercial initiatives are key parts of the Fund’s investment program.

Denham maintains an operational focus on its investments by actively engaging with the management teams of its portfolio companies. During the ownership period of a particular asset, Denham will offer active support to its portfolio companies through, for example: (i) identifying and recruiting key additions to management teams and boards of directors; (ii) defining strategic

direction and establishing business plans that measure execution and results; (iii) providing operational and functional insights; (iv) leveraging Denham's network to provide commercial opportunities and access to prospective industry partners; and (v) sourcing and structuring of follow-on acquisitions. Denham seeks board or similar representation on its portfolio companies by Deal Team members, Operating Partners and Senior Advisors, when and where appropriate.

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.

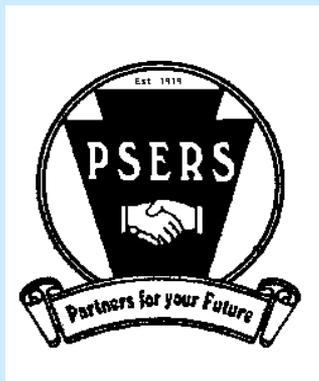
Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$100 million of limited partnership interests in Denham Commodity Partners Fund VI, L.P. Portfolio Advisors makes this recommendation considering the General Partner's qualifications and PSERS' overall investment guidelines.

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. S.', is written over a light blue horizontal line.

Portfolio Advisors, LLC



Private Equity Fund Commitment

Denham Commodity Partners Fund VI, L.P.

January 19, 2012

See Last Page for Disclaimer

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

Denham Commodity Partners Fund VI, L.P. – Private Equity Fund

Overview

- The Fund will invest focus on investing in oil & gas exploration, metals & mining, and power & renewables
- Denham expects to invest from \$50 million to \$200 million per transaction
- Denham expects a portfolio of 18 to 22 companies
- The Fund has a target of \$2.5 billion and a hard cap of \$3.25 billion

Fund Strategy

- Denham divides its Oil & Gas initiatives into four subsectors: upstream exploration & production (“E&P”); transportation, gathering and processing (“midstream”); products and refining (“downstream”) and oilfield services and supply (“oilfield services”).
- Denham’s Metals & Mining Deal Team will seek investments for the Fund in metals and mining assets in various regions across the globe, with a specific focus on southern Africa, Latin America and Australasia.
- Denham’s Power & Renewables Deal Team seeks to leverage its deep operational and commercial experience to uncover investment opportunities globally in conventional power assets (such as natural gas- and coal-fired power plants) and renewable power sources (such as solar, wind, geothermal and biomass projects).

Investment Team

- The investment team has collective experience of almost 570 years
- The current Denham team consists of 32 investment professionals
- Denham has offices in Boston, Houston, Short Hills (NJ), London, Sao Paulo, and Singapore

Denham Commodity Partners Fund VI, L.P. – Private Equity Fund

GP “Value Add”

- Denham seeks to create value through operational improvements to its portfolio companies. Denham’s Investment Team brings strategic, managerial, structural, operational and financial expertise to each portfolio company. For example: (i) identifying and recruiting key additions to management teams and boards of directors; (ii) defining strategic direction and establishing business plans that measure execution and results

Performance

- Denham V a vintage year 2008 fund, has a net 1.1x MOC and a 7% IRR as of 6/30/11
- Denham IV a vintage year 2006 fund, has a net 1.5x MOC and a 15% IRR as of 6/30/11
- Denham III a vintage year 2005 fund, has a net 1.3x MOC and a 7% IRR as of 6/30/11
- Denham II a vintage year 2003 fund, has a net 1.7x MOC and a 16% IRR as of 6/30/11
- Denham I a vintage year 2000 fund, has a net 3.5x MOC and a 72% IRR as of 6/30/11

Market Opportunity

- Investment opportunities for the Fund will be driven by two key macro-level premises: (i) the continued globalization and growth of both emerging and developed economies that should sustain strong demand for energy and commodities products and services and (ii) the evolving response to concerns regarding power efficiency, exposure to commodity volatility, diversity of supply and climate change that should create demand for innovative solutions to energy needs.

See Last Page for Disclaimer

Denham Commodity Partners Fund VI, L.P. – Private Equity Fund

History with PSERS

- This will be PSERS first private equity commitment with Denham Capital

Board Issues

- Pennsylvania Presence – Yes, two companies involved in the services side of the Marcellus Shale: Multi-Shot Energy Services in West Alexander (Fund V) and Greene’s Energy Group in Imperial and Towanda (Fund IV)
- Placement agents – Denham is using Park Hill Group. Placement agent costs are part of the organizational expenses. PSERS will be rebated for its pro rata cost of the placement fees
- PA political contributions – None
- Relationship with consultant – Portfolio Advisors has not invested in any previous Denham investment vehicle. Portfolio Advisors is currently having an internal discussion to determine if Denham Commodity Partners Fund VI is a potential fit in their fund of funds

Recommendation

- Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed \$100 million plus reasonable normal investment expenses

Notice: 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.