Private Debt Fund Commitment

Cerberus Institutional Partners VI, L.P.

June 11, 2015
Cerberus Institutional Partners VI, L.P. – Private Debt Fund

Overview
• Cerberus Institutional Partners VI, L.P. (CIP VI) is being raised with a hard-cap of $4.0 billion
• Opportunistic investment strategy, primarily across two categories
  ➢ Private Equity (e.g., operationally challenged companies, non-core/non-performing divisions or subsidiaries, and businesses in liquidation)
  ➢ Distressed Securities and Assets (e.g., NPLs, residential and commercial mortgage securities and assets, corporate debt, structured loans)
• Cerberus will seek to build a diversified portfolio with approximately 100 to 200 investments

Market Opportunity
• Cerberus anticipates compelling investment opportunities during the Fund’s investment period (4 years) in areas where Cerberus has considerable experience; particularly in European NPLs, private equity and mortgage-related investments. Furthermore, other investments and strategies may become attractive in the short term or in the longer term on an opportunistic basis, such as corporate distressed debt. As such, the Fund’s multi-strategy approach should provide Cerberus with flexibility to pursue these additional investments that may become attractive during the Fund’s investment period.

Investment Approach
• Cerberus has a flexible investment approach and can invest in the equity or debt of a company
• Individual investments will generally represent less than 5% of total fund commitments
• Geographically, CIP VI will focus on North America, Western Europe, and Asia
• Cerberus expects the fund to be invested across multiple industries

Investment Team
• Cerberus has a staff of approximately 500 persons, including approximately 150 investment professionals
• Cerberus has 40 Senior Executives and Managing Directors who have been with the firm for 10+ years
• Cerberus is headquartered in New York, with 9 additional offices throughout the U.S., Europe and Asia
Cerberus Institutional Partners VI, L.P. – Private Debt Fund

GP “Value Add”
- Exclusive global Operations Team, consisting of 118 former senior executives and functional experts. The team is led by Chan Galbato who was the President of Services and Commercial Distribution at Home Depot. The operations team has been invaluable across the spectrum from sourcing investments to pre-acquisition due diligence, developing turnaround plans and monitoring portfolio investments.

Potential Risk/Mitigant
- Risk: Underperforming large-sized companies in Series IV
  - Mitigant: Cerberus has since refined its private equity strategy with a focus on investments in the mid-market.

PSERS History & Performance (as of 12/31/2014)
A commitment to Cerberus VI will represent PSERS’ seventh commitment to Cerberus

<table>
<thead>
<tr>
<th>Fund (mm)</th>
<th>Portfolio</th>
<th>Vintage</th>
<th>Commitment</th>
<th>Contributions</th>
<th>Distributions</th>
<th>Market Value</th>
<th>Net IRR</th>
<th>MOIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cerberus Institutional Partners, L.P. (Series 2)</td>
<td>Private Debt</td>
<td>2001</td>
<td>$ 200.0</td>
<td>$ 173.1</td>
<td>$ 536.6</td>
<td>$ 4.2</td>
<td>27.1%</td>
<td>3.1x</td>
</tr>
<tr>
<td>Cerberus Institutional Partners, L.P. (Series 3)</td>
<td>Private Debt</td>
<td>2003</td>
<td>100.0</td>
<td>81.1</td>
<td>140.7</td>
<td>21.3</td>
<td>13.2%</td>
<td>2.0x</td>
</tr>
<tr>
<td>Cerberus Institutional Partners, L.P. (Series 4)</td>
<td>Private Debt</td>
<td>2006</td>
<td>400.0</td>
<td>369.7</td>
<td>289.2</td>
<td>281.9</td>
<td>8.0%</td>
<td>1.5x</td>
</tr>
<tr>
<td>Cerberus Institutional Partners V, L.P.</td>
<td>Private Debt</td>
<td>2012</td>
<td>200.0</td>
<td>191.5</td>
<td>19.2</td>
<td>244.3</td>
<td>24.3%</td>
<td>1.4x</td>
</tr>
<tr>
<td><strong>Sub-Total (Institutional Partners)</strong></td>
<td></td>
<td></td>
<td><strong>$ 900.0</strong></td>
<td><strong>$ 815.3</strong></td>
<td><strong>$ 984.7</strong></td>
<td><strong>$ 551.7</strong></td>
<td><strong>18.0%</strong></td>
<td><strong>1.9x</strong></td>
</tr>
<tr>
<td>Cerberus Levered Loan Opportunities Fund I, L.P.</td>
<td>High Yield</td>
<td>2011</td>
<td>$ 200.0</td>
<td>$ 164.9</td>
<td>$ 138.5</td>
<td>$ 57.1</td>
<td>8.6%</td>
<td>1.2x</td>
</tr>
<tr>
<td>Cerberus Levered Loan Opportunities Fund II, L.P.</td>
<td>High Yield</td>
<td>2012</td>
<td>225.0</td>
<td>138.6</td>
<td>11.2</td>
<td>161.4</td>
<td>13.4%</td>
<td>1.3x</td>
</tr>
<tr>
<td><strong>Sub-Total (Levered Loan Opportunities)</strong></td>
<td></td>
<td></td>
<td><strong>$ 425.0</strong></td>
<td><strong>$ 303.5</strong></td>
<td><strong>$ 149.7</strong></td>
<td><strong>$ 218.5</strong></td>
<td><strong>10.4%</strong></td>
<td><strong>1.2x</strong></td>
</tr>
<tr>
<td><strong>Grand Total (Cerberus)</strong></td>
<td></td>
<td></td>
<td><strong>$ 1,325.0</strong></td>
<td><strong>$ 1,118.7</strong></td>
<td><strong>$ 1,134.4</strong></td>
<td><strong>$ 770.2</strong></td>
<td><strong>17.5%</strong></td>
<td><strong>1.7x</strong></td>
</tr>
</tbody>
</table>

See Last Page for Disclaimer
Board Issues

• Pennsylvania Presence:

<table>
<thead>
<tr>
<th>Investment Name</th>
<th>No. of Locations in PA</th>
<th>No. of Employees in PA</th>
<th>2014 Payroll YTD through 9/30/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia Pacific – Bluelinx</td>
<td>2</td>
<td>38</td>
<td>$1,740,000</td>
</tr>
<tr>
<td>Keane</td>
<td>2</td>
<td>276</td>
<td>$22,227,000</td>
</tr>
<tr>
<td>YP Holdings</td>
<td>3</td>
<td>71</td>
<td>$4,080,546</td>
</tr>
<tr>
<td>Albertsons</td>
<td>45</td>
<td>5,256</td>
<td>$98,010,800</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>5,641</td>
<td>$126,058,346</td>
</tr>
</tbody>
</table>

• Placement Agents: Monument Group Inc. and Axius Partners Pty Limited have been retained by Cerberus to serve as placement agents for the Fund. Placement agent fees will be borne by Cerberus and there will be no placement agent cost charged to the Partnership.

• PA Political Contributions: None

• Relationship with Consultant:
  ➢ Portfolio Advisors’ Fund of Funds have made the following commitments to Cerberus Funds: PAPEF II $6 M – Cerberus Series III; PAPEF III $5 M – Cerberus Series III; PAPEF IV $20 M – Cerberus Series IV

Recommendation

• Staff, together with Portfolio Advisors, recommends that the Board invest an amount not to exceed $200 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.
April 8, 2015

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

Re: Cerberus Institutional Partners VI, L.P.

Dear Trustees:

Cerberus Capital Management (“Cerberus” or the “Firm”) is organizing its sixth fund, Cerberus Institutional Partners VI, L.P. (the “Fund” or “CIP VI”) to make investments in distressed securities and assets as well as in control-oriented private equity turnarounds. These investments will be made primarily in the United States and Western Europe, and opportunistically in Asia. Cerberus is led by CEO & Senior Managing Director, Stephen A. Feinberg, who started the firm in 1992. Cerberus maintains offices domestically in New York, Chicago and Los Angeles and internationally in London, Baarn, Frankfurt, Berlin, Dubai, Beijing, Tokyo and Taipei. The Fund is seeking capital commitments of $4.0 billion. A first closing of approximately $1-2 billion is expected in the second quarter of 2015. The General Partner will commit $175 million to the fund.

Cerberus believes that successful distressed investing is much less dependent on cyclical events than is commonly assumed, and that elements of distress are present in all markets, and in all phases of the economic cycle. While there are cyclical drivers to distressed investing, especially on the credit side, many opportunities are driven by poorly managed businesses experiencing operational and/or financial distress. Cerberus seeks opportunities where it can leverage its experience and broad skill set across the distressed spectrum to create value. With experience in investing in all parts of the capital structure, Cerberus can utilize its resources to pursue a broad range of both active and passive investment strategies. This flexibility allows Cerberus to choose among a broad base of investment opportunities across asset classes and markets, and to exercise discretion as to the allocation and deployment of capital in order to seek compelling returns, while minimizing downside risk.

Cerberus will continue to pursue a flexible and opportunistic investment strategy focused on two broad categories:
1.) Distressed private equity, including operational turnarounds, non-core/non-performing divisions or subsidiaries and businesses in liquidation; and
2.) Distressed securities and assets including non-performing loans (“NPLs”), residential and commercial mortgage securities and assets, corporate debt and structured loans.

To a lesser extent, the firm will also selectively pursue investments in other areas, including lending and distressed real estate on an opportunistic basis. Cerberus may also use leverage for liquidity and investment
purposes as well as derivative instruments for hedging portfolio positions, currency risk and to opportunistically enhance returns.

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 and private equity professionals. The on-site due diligence visit was performed on March 31, 2015.
- 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 Debt Partnership component of the portfolio.

The individuals at Portfolio Advisors who were primarily involved in the due diligence process for the Fund are:

- Donna Smolens – Managing Director, Darien Office
- Mckay Dunn – Associate, Darien Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to $200 million of limited partnership interests in Cerberus Institutional Partners 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,

WILLIAM J. INDELICATO
MANAGING DIRECTOR