



Pennsylvania Public School Employees' Retirement System

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

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June 21, 2007

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Brigade Capital Management, LLC

Brigade Capital Management, LLC

Leveraged Capital Structures Fund

Background

- Former MacKay Shields High Yield investment team
 - Donald E. Morgan, Managing Partner, Lead Portfolio Manager
 - Managed \$17 billion at MacKay
 - Team history of seven years
 - PSERS has a relationship history with the investment team

- Multi-strategy approach focused on securities of leveraged balance sheets
 - Objective: Generate 15% net-of-fee returns with a focus on capital preservation
 - Investment Strategies
 - Long / Short High Yield
 - Distressed Debt
 - Capital Arbitrage
 - Long / Short Leveraged Equities
 - Hedging and liquidity for downside protection
 - Seeks to maintain an active short book to hedge market risk and to generate profit
 - Invests in predominantly liquid securities and leverage opportunistically
 - Controls exposure at the issuer, industry and international levels

Brigade Capital Management, LLC

Leveraged Capital Structures Fund *Recommendation*

- Highly-regarded team
- New fund
 - Five months of history
 - Available capacity
- Staff and Wilshire recommend that PSERS retain Brigade for investment in the Leveraged Capital Structures Fund
 - Approximately \$500 million
- Brigade will formally present to the PSERS Board