

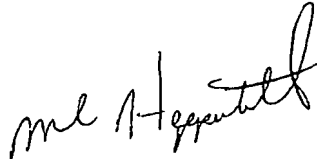
Commonwealth of Pennsylvania  
Public School Employees' Retirement System

**DATE:** May 1, 2008

**SUBJECT:** Sankaty Credit Opportunities Fund IV Investment Recommendation

**TO:** Members of the Board

**FROM:** Mark Heppenstall, CFA  
Managing Director, Fixed Income



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At the upcoming Finance Committee meeting on May 1, 2008, the Sankaty team will make a presentation regarding their Credit Opportunities Fund.

The recent credit turmoil in the fixed income markets has created attractive total return opportunities for long-term investors such as PSERS. While the turmoil began in the sub-prime mortgage market, the credit crunch has recently impacted all the fixed income spread sectors. The Sankaty Credit Opportunities Fund IV will be designed to take advantage of market dislocations by investing in the following four asset classes: 1) stressed/distressed bank loans and bonds; 2) mezzanine investments; 3) structured products; and 4) special situations. The portfolio will have a flexible structure, which will enable Sankaty strategically shift among the various credit-based investments based upon the market environment.

The Sankaty team consists of 130 people including 70 investment professionals. The firm places a strong emphasis on research across the full spectrum of corporate credit. The first three Sankaty credit opportunity funds have provided consistently strong performance during both up and down market cycles. The current environment for the credit markets should enable Sankaty to successfully exploit market inefficiencies and continue to generate positive results for investors.

PSERS staff and Wilshire will recommend the following:

A commitment of \$500 million to the Sankaty Credit Opportunities Fund IV, L.P. This commitment is expected to close in June 2008 with investment drawdowns expected to occur during the subsequent five years and an anticipated term of ten years. The anticipated size of the Fund is between \$4 billion and \$5 billion.

This commitment will bring our total invested plus committed capital to the high yield and opportunistic fixed income sector to just below 5.0% of the total fund.

If you have any questions or comments, please contact me at 717-720-4726.