Private Debt Fund Commitment

Venor Special Situations Fund II, L.P.

March 12, 2015

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Venor Special Situations Fund II, L.P. – Private Debt Fund

Overview

- Invests in distressed and special situation investments through debt and equity investments with a goal of 20% returns
- The target for the Fund is $300 million with a $500 million hard cap
- Focus on middle market companies with capital structures between $250 million and $2.5 billion
- Venor expects the fund to have approximately 10 to 12 investments
- The firm was established in October 2005

Investment Approach

- Seeks investments higher in the capital structure such as corporate bonds, bank loans
- Focus will be on investments in the US and Western Europe
- Research for new deals will be bottom-up security research rather than broad macro themes
- The firm will seek a margin of safety (value) in each investment
- Venor will employ a buy and hold approach on it's equity investments

Investment Team

- The Co-Chief Investment Officers (CIO's) have over 40 years of combined experience
- The Co-CIO's will be responsible for portfolio construction
- Venor has a team 9 investment professionals and 7 additional professionals in various roles

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GP "Value Add"

- The Firm's goal is to identify investments where it can efficiently deploy its resources to realize the potential value for an investment. All else being equal, the Firm's preference is to purchase good companies with bad balance sheets where the Firm can leverage its extensive experience in restructurings to enhance value. In addition, the Firm will opportunistically participate on investor committees if it feels such actions can enhance its visibility of an investment's eventual outcome

Market Opportunity

- The recent market trends have created an illiquidity premium that rewards investors for committing capital to longer duration investments. Such investments can command a premium of between 500bps – 1000bps compared to the more liquid alternatives
- Accommodative monetary policy has allowed many companies to take on excess leverage, which has led to record issuance levels in the high yield market

Performance As Of December 31, 2014

Fund Name	Vintage Year	Net Multiple	Net IRR
Fund I	2008	1.32x	25.9%

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Risks/Mitigants

- Key person risk – This is mitigated by the key person language that permits LPs to cease the investment period if either Co-CIO leaves the firm
- Flagship Fund redemptions – This is mitigated by a new policy from 2008 where an investor has to give Venor a 90-days notice prior to a withdrawal and can only withdraw 25% of its capital per notice

History with PSERS

- This will be PSERS first commitment to Venor

Board Issues

Pennsylvania Presence - Venor has no controlling ownership in a PA company

PA political contributions - None

Placement Agents - Pulse Capital was used for European and Middle East investors. Venor will pay this cost

Relationship with Consultant - None

Recommendation

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

February 18, 2015

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

Re: Venor Special Situations Fund II, L.P.

Dear Trustees:

Founded in 2005, Venor Capital Management LP ("Venor" or the "Firm") invests in value and event-driven opportunities in stressed and distressed corporate situations primarily in the United States and Western Europe. The Firm invests across the capital structure with a preference for investments higher in the capital structure, such as corporate bonds, bank loans and other fixed-income securities. The Firm is launching Venor Special Situations Fund II, L.P. ("Fund II" or the "Fund") to take advantage of evolving market conditions that have created compelling distressed credit and special situation investment opportunities. Fund II will primarily invest alongside the Firm's main hedge fund, Venor Capital Master Fund Ltd. (the "Flagship Fund"), and will consist of longer-duration and/or less-liquid investments. Venor is targeting $500 million of capital commitments for the Fund with a first closing scheduled for April 1, 2015. The General Partner expects to commit between $15 million and $20 million to the Fund.

Fund II will seek less-liquid and longer-duration investment opportunities within the stressed and distressed corporate markets primarily in the United States and Western Europe. The Fund will invest primarily alongside Venor's core Flagship Fund in opportunities that will benefit from a buy-and-hold approach. It's anticipated that approximately 80% of the Fund II portfolio will consist of investments also held by the Flagship Fund. Investments will be made on a pari passu basis between the two vehicles until the optimal position size in the Flagship Fund has been met. Note that the average position in the Flagship Fund typically comprises 3% to 7% of total NAV, and as of December 31, 2014, the Flagship Fund had a NAV of approximately $962 million. Over the past five years, the longer-duration, less-liquid investments that would have been eligible for Fund II have accounted for approximately 20% of the Flagship Fund portfolio on average. Importantly though, these investments have been a key driver of the Flagship Fund's returns, accounting for nearly 40% of the gross gains generated over this time. Fund II will also have the ability to opportunistically invest in investments that are deemed to be too illiquid for the Flagship Fund.

Within the stressed and distressed corporate space, Venor focuses on opportunities arising from catalyst-driven events such as bankruptcy proceedings, post-bankruptcy security issuances, announced acquisitions, corporate divestitures, regulatory changes, covenant violations and asset sales. The Fund will look for investments with catalyst-driven events expected to occur in 18 to 36 months. The Firm targets middle market companies as they are often under-valued and attract less competition. Venor defines the middle market as companies with capital structures between $250 million and $2.5 billion. Target companies will typically be well-positioned with hard assets, strong cash flow dynamics and dominant market positions, but plagued by some form of resolvable distress. In general, Venor focuses on finding investments that are trading at significant discounts to intrinsic value, which helps mitigate some of the downside risks.

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 January 22, 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
Geoffrey Kelleman – Senior Associate, Darien Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to $100 million of limited partnership interests in Venor Special Situations Fund II, 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

9 Old Kings Highway South, Darien, Connecticut 06820 203.662.3456