OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
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www.opers.org

MEMORANDUM

DATE: July 3, 2007

TO: OPERS Retirement Board Members
Chris DeRose - Executive Director

CC: Jennifer Hom, Director – Investments
Greg Uebele, Senior Investment Officer – External Management

FROM: Paul Rodgers, Portfolio Manager – Private Equity

RE: Private Equity Update

Purpose
This memo provides a general update for the private equity activities.

General
Ohio-Midwest Discretionary Mandate
On June 14, Credit Suisse held another "Breakfast Lecture Series" event in Dayton. The event attracted an audience of fifty people with the interaction between panelists and audience members once again vibrant. Those in attendance learned about the Ohio-Midwest initiative and its early results, the decision by OPERS to further support the program with another $50 million of capital, as well as the opportunities and attractiveness of investing in Ohio.

One of the benefits of these meetings, beyond education and networking, is to stimulate deal flow opportunities. Credit Suisse's Mel Carter reported shortly after the event that an entrepreneur in attendance approached one of the Ohio-Midwest Fund's general partners and initiated a dialogue about the potential sale or recapitalization of his business. Such a meeting most likely would not have occurred had the Dayton event not taken place.

Private Equity Procedures
Staff is in the process of revising its General Partner Selection and Administration procedures to reflect the changes resulting from the shift in the advisory services model as well as improvements made with regard to workflow. Staff is coordinating this activity with Hamilton Lane, Investment Accounting, Audit, Legal, and Fund Management.

Deal Flow
Investment opportunities detailed below were evaluated in a manner consistent with the 2007 Investment Plan and the General Partner Selection Procedures. Staff will continue to focus due diligence efforts on partnership opportunities with repeatable, successful investment strategies that complement the existing portfolio composition. For reference, a summary of our selection

steps is included on the final page of this memo. As described above, staff is in the process of revising the General Partner Selection and Administration procedures.

Domestic Corporate Finance
In May, staff was successful in closing two commitments totaling $250 million: a $150 million commitment to Carlyle Partners V, LP and a $100 million commitment to New Mountain Partners III, LP. OPERS is a limited partner in each manager's previous funds. An executive summary for Carlyle V and New Mountain III is included with this report as Attachment A and Attachment B, respectively.

Staff continues its efforts on identifying opportunities in the lower end of the buyout market, defined loosely as funds targeting equity investments of between $5 and $25 million. Buyout funds focusing on such investments typically raise funds between $100 and $700 million. For efficiency purposes, due to resource constraints and the number of funds required to achieve proper diversification, staff is exploring the possibility of accessing this market segment through fund of fund investments. Over the past several months, staff has had conference calls or met with a number of potential managers currently fundraising and will make a recommendation in the coming months.

Domestic Special Situations
In late April, staff submitted subscription documents for a $75 million commitment to Avenue Special Situations V, LP a $5 billion fund focusing on non-control distressed debt in companies located in the US and Western Europe. In 2005, OPERS committed $50 million to Avenue Special Situations Fund III. An executive summary report for Avenue V is included with this report as Attachment C.

Staff is nearing completion on a commitment to MatlinPatterson Global Opportunities Fund III, LP, a $5 billion distressed debt fund. MatlinPatterson is a New York-based firm specializing in distressed debt and investing in both the US and Western Europe. In June, staff received final approval from the Private Equity Committee, pending successful legal negotiations, to commit $50 million to Fund III. Staff will include an executive summary for MatlinPatterson III in next month's update memo.

Domestic Venture Capital
Over the past month, staff has been working on completing due diligence on two venture capital partnerships: JMI Equity Fund VI (JMI VI) and Paul Capital Top-Tier Investments III (Paul TT IV). In late April, staff received preliminary approval from the private equity committee to proceed with due diligence on JMI VI with the intent of committing $25 million. In early June, staff received approval to proceed with a potential commitment of $50 million to Paul TT IV. Below is a brief description of both opportunities.

JMI VI – A Baltimore, MD-based manager focused on investing between $5 and $30 million in early and later stage software and business services companies located throughout North America. The manager is seeking to raise $600 million for Fund VI. OPERS committed $25 million to JMI V in 2005.

Paul TT IV – A San Francisco-based fund of funds manager focused on investing between $10 and $25 million in high quality venture capital partnerships.

The fund will invest predominately in U.S. funds focused on early-stage information technology investments. The manager is seeking to raise $650 for Paul TT IV. OPERS committed $75 million to Paul TT III.

Summary of 2007 Commitments through June 30, 2007
($ in millions)

Partnership	Type	Closing	Commitment
Green Equity Investors V	Dom. Corporate Finance	January	$75
OCM Opportunities Fund VII	Special Situations	March	$25
OCM Principal Opportunities Fund IV	Special Situations	March	$50
Ohio PERS/CSFB Midwest Fund	Discretionary	April	$50
Avenue Special Situations Fund V	Special Situations	April	$75
Carlyle Partners V	Corporate Finance	May	$150
New Mountain Partners III	Corporate Finance	May	$100
Total			**$525**

Missed Meetings

In June Permira held its annual investor meeting in London. Staff did not attend because the meeting conflicted with the OPERS Investment Forum. This was the second consecutive year staff did not attend the Permira meeting due to the conflict with the forum.

Coller Capital held its annual meeting in Rome, Italy in June. Staff did not attend because it was decided that the cost of travel outweighed the benefit.

Next Steps

As always, we seek to provide the right balance of information to meet your needs and welcome your feedback on this private equity update format.

Summary General Partner Selection Steps

Preliminary Due Diligence
If an opportunity is approved for preliminary due diligence, staff and the advisor will prepare and present a preliminary due diligence report to the Private Equity Committee (PEC) for review and approval. The report will include an overview of the following items:

- Firm Description
- Investment Strategy
- Management and Investment Process
- Competition
- Track Record
- Portfolio Fit
- Terms and Conditions
- Due Diligence Efforts
- Strengths and Weaknesses
- Recommendation

If approved for final due diligence, a soft circle commitment is made to the general partner, internal counsel is notified, and special counsel is requested to perform a preliminary review. The deal log will be modified to indicate any status changes.

Final Due Diligence
If an opportunity is approved for final due diligence, staff and the advisor will prepare and present a final due diligence report to the PEC for review and approval. Staff will perform on-site due diligence and the report will include an assessment of the following items:

- All information from the preliminary report
- Detailed track record analysis
- Summary reference call information
- Special counsel review of terms and conditions
- Comprehensive due diligence checklist
- Final due diligence report and recommendation from the advisor

If approved, a hard circle commitment is made to the general partner and negotiation of terms and conditions is initiated. The deal log will be modified to indicate any status changes.

Closing
The following items are required for a commitment closing:

- PEC approval of the final due diligence report
- Written approval of the Senior Investment Officer - External Management, Fund Management, Internal Counsel and Director-Investments
- Opinion letter from special counsel
- Approved side letter

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Attachment A

Executive Summary Report

Carlyle Partners V, LP

May 2007

Investment Rationale

Staff maintains an active awareness of investment opportunities, seeking to select the best partnership opportunities consistent with the 2007 Annual Investment Plan. In particular, the 2007 Annual Investment Plan calls for continued investment in managers who have demonstrated consistent top-quartile investment performance across all areas, but specifically in the area of domestic corporate finance. Following OPERS Commitment Approval Procedures, staff has made a further commitment to the Carlyle Group's latest domestic corporate finance fund, Carlyle Partners V, LP ("Carlyle"):

Staff believes a commitment to Carlyle is a prudent investment based upon the following:

- Strength and depth of the Carlyle team as strong generalists with proven sector expertise.
- Complimentary fit with OPERS' other large corporate finance firms.
- The Carlyle Group continues to successfully execute its strategy resulting in top quartile performance across three of its prior four funds with an estimated Gross IRR of approximately 33.1% as of December 31, 2006.
- The Carlyle Group employs a consistent risk-focused investment philosophy that is instilled in each investment professional, resulting in predictable investment decisions and stable results.
- Prior Carlyle Funds have had a relatively low loss ratio thereby mitigating the risk that is otherwise normally present with buyout funds generally and this low loss ratio is anticipated from the firm going forward.

Firm

Based in Washington, D.C., The Carlyle Group was established in 1987 by Bill Conway, Dan D'Aniello and David Rubenstein (three founders). The Carlyle Group is now one of the world's largest private equity firms, with nearly $52 billion under management and employing 401 investment professionals in 27 offices throughout the United States, Europe and Asia.

Strategy

Carlyle Partners V, LP ("Carlyle V") will apply the same investment strategy that it has successfully employed with prior funds. The primary objective of Carlyle V is to make equity and equity-related investments through leveraged buyout transactions primarily in the United States. Carlyle V will attempt to achieve majority control of the board of directors or significant influence over governance of the company. Of the 69 investments made by the Carlyle Group in Funds II through IV, 95% of the equity has been invested where the Carlyle Group, either alone or among a consortium, acquired control of the target company.

Management and Investment Process

Since its inception, The Carlyle Group has benefited from a stable group of investment professionals who have worked together on many transactions and have invested significant amounts of capital. As part of its investment strategy, the Carlyle Group has formed industry-focused teams. These industry teams have developed a deep knowledge base of particular industries and industry segments. The Carlyle Group believes that this approach provides it with a significant advantage in identifying, executing and managing its investments.

Competition

Multi-billion dollar buyout firms compete with each other as well as corporate strategic buyers on deals. Competition from numerous other Buyouts funds including Blackstone, TPG, Apollo, and Hellman & Friedman can be stiff. The Carlyle Group's ability to source deals on a proprietary basis and avoid auction-like situations has historically been high and staff believes that this unique sourcing capability will continue in their next fund. Accordingly, Carlyle is well-positioned to source excellent deals for its investors.

Track Record

Staff and Pacific Corporate Group have performed a thorough analysis of the Carlyle Group's track record. Further information is available upon request.

Portfolio Fit

The private equity portfolio's exposure to Domestic Corporate Finance partnerships is listed in the table below. There have been limited recent additions to the portfolio, creating opportunities to add exposure to this class.

Fund Name	Vintage	Commitment (mil)	Strategy
Blackstone Capital Partners IV	2003	$175	**Generalist**
Blackstone Capital Partners V	2005	$150	**Generalist**
Texas Pacific Group IV	2003	$100	**Generalist**
Texas Pacific Group V	2006	$125	**Generalist**
Hellman & Friedman Capital Partners V	2004	$75	**Generalist**
Hellman & Friedman Capital Partners VI	2007	$125	**Generalist**
Carlyle Partners IV	2005	$150	**Generalist**
	Total	$900	

Terms and Conditions:

Partnership:	Carlyle Partners V, LP
General Partner:	The Carlyle Group, LLC
Vintage:	2007
Final Close:	3rd quarter 2007
Fund Size:	$15 billion
Asset Class:	Domestic Corporate Finance
Expected Return:	> 15% Net IRR
GP Commitment:	A minimum of $700 million
Term:	Ten years with up to two one-year extensions
Investment period:	Five years from initial closing
Advisory Board:	OPERS will participate as a member
Placement Agent:	N/A

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Attachment B

Executive Summary Report

New Mountain Partners III, LP

April 2007

<u>Investment Rationale</u>

The 2007 Annual Investment Plan calls for four to six corporate finance commitments and the Private Equity Staff's pacing model anticipated New Mountain would return to the market this year. The Private Equity portfolio made a $50 million commitment to Fund II in 2004. A recommitment to New Mountain will continue the strategy of building a portfolio of select top-tier funds and backing those funds at similar commitment levels in subsequent funds provided they maintain their investment strategy and demonstrate an ability to produce above average performance.

Staff believes a recommitment to New Mountain is a prudent investment based on the following:

- New Mountain's defensive growth, low leverage strategy provides diversification benefits within the corporate finance allocation.
- New Mountain has had no bankruptcy or write-down of any fund investment since the firm began and Mr. Klinsky has not had a loss of any principal on any fund investment made by New Mountain or his predecessor firm since 1989.
- Their flat culture provides a differentiated and attractive environment for private equity professionals, leading to low staff turnover and firm stability.

<u>Firm</u>

New Mountain was established in 2000 by Steven Klinsky and currently manages over $3.3 billion in two private equity funds ($2.3 billion) and one public equity fund ($1.0 billion). Their public equity fund, New Mountain Vantage ("Vantage"), was established to leverage the numerous opportunities uncovered by New Mountain's existing private equity business, but do not represent control opportunities. Upon the formation of Vantage, three Senior Advisors and two Managing Directors were hired to lead the public vehicle. There is no overlap among the holdings or investment staff of the private and public funds, although the Vantage professionals sit in on the private equity investment committee meetings. Steven Klinsky is the sole owner of New Mountain's management company, and no outside entity or individual will have any ownership stake or economic interest in the GP.

<u>Strategy</u>

Summary

NMP III will invest in middle market leveraged acquisitions, build-ups, recapitalizations, control restructurings, management buyouts and growth equity investments in North American companies with enterprise values ranging from $100 million to $1 billion. New Mountain is targeting at least a $3 billion fund size and typical equity investments will range between $100 million to $500 million across eight to twelve investments. As a comparison, Fund II, a $1.5 billion fund, had a typical equity investment range between $50 million to $200 million across eight to ten investments. The Fund will invest no more than 20% outside of the U.S. and Canada and allocate a maximum of 20% to any single portfolio company.

Differentiation

New Mountain is adept at identifying highly attractive and undervalued industry sectors using a top down approach, and then spending months confirming the investment thesis and building the Firm's leadership in the sector. New Mountain targets non-cyclical, profitable, and successful companies in attractive industries and then works with management to raise these companies to a much higher level of growth and valuation. A focus on "defensive growth" sectors and disciplined use of leverage results in consistent returns in both strong and weak economic environments. The efforts result in the fact that New Mountain has had no bankruptcy or write-down of any fund investment since the firm began and Mr. Klinsky has not had a loss of any principal on any fund investment made by New Mountain or his predecessor firm since 1989.

Sourcing
New Mountain identifies target companies by way of their top down analysis and exhaustive industry research. As a result, New Mountain tends to proactively target companies rather than only purchasing companies already for sale. In addition to internal efforts, the investment professionals leverage their contacts and advisor relationships to identify potential targets. Since forming NMP I, no portfolio company was purchased through a sealed-bid auction.

Due Diligence & Selection
The majority of due diligence is performed by New Mountain itself, although it will supplement its own analysis by hiring specialized outside consultants such as Bain (education), CSP (federal IT), Mobius (filters), Fountain (animal health), and Petsky Prunier (specialty media).

During the first few months of each year, New Mountain's Managing Directors decide on which sectors to focus the firm's efforts. These assignments are distributed to the VPs and Associates for the identification of possible investment themes.

As previously mentioned, New Mountain may spend months performing a "deep dive" into an industry. An internal working team is assigned to the project and constructs proprietary databases, develops relationships with outside consultants, brokers, bankers, and experienced industry operating managers in order to gain the deepest possible level of understanding of the industry. Once a specific investment idea is identified, they triangulate their thesis against these contacts, which allows for a multi-front analysis and stronger decision making capabilities.

During the due diligence process, weekly staff meetings take place where every investment professional is encouraged to raise ideas or concerns. These meetings help to identify potential risks and areas that require further analysis. The entire investment team represents the investment committee and must reach a consensus to proceed or not to proceed for every investment. If a consensus cannot be reached, Steve Klinsky will make the final decision.

Execution & Monitoring
In nine of the ten investments made in Fund's I and II, New Mountain used little or no third party debt at the time of the investment. Initial acquisition debt for its tenth transaction was less than 4x trailing EBITDA. This is in stark contrast to the broader LBO industry.

In seven of the ten investments, New Mountain's own securities have been in the form of debt with warrants or preferred stock, rather than common equity. This provides them with yield, seniority in the capital structure, and downside protection.

Upon purchasing a company, New Mountain will generally recruit a new senior management team. They will leverage the members of their Management Advisory Board as well as a special retainer relationship with a leading executive recruiting firm to identify top tier operating professionals. At inception, New Mountain's portfolio companies are already profitable and growing. New Mountain's goal is to help these companies attain a much higher level of growth and profitability by working with management to develop and execute a new growth strategy. Current management is encouraged to rollover a significant, but not controlling, equity ownership post acquisition.

Exit
New Mountain seeks to exit investments quickly but also at a point that maximizes total value. Exit paths will range from strategic sales, secondary buyouts or an IPO. New Mountain is targeting a realized gross IRR of 30% for its investments, which it has exceeded historically.

Management and Compensation

New Mountain is owned and led by Steven Klinsky and has twenty-six investment professionals and approximately forty employees in total, all located at their headquarters and only office in New York. An eight-member Managerial Advisory Board as well as rotating executives in residence provides further professional capabilities.

Compensation
All investment professional receive a base salary, discretionary bonus as well as an opportunity to receive carry, either actual carry (MDs, Senior Advisors and VPs) or “phantom carry” (associates and support staff).

Carry vests on an investment-by-investment basis over three years following that specific investment. Carry is not tied to age, seniority or dollars invested in the general partner, but rather the perceived contribution to the team as a whole, which is determined by Mr. Klinsky.

Employee Turnover
New Mountain has not lost any senior investment professional since the firm began. Since closing Fund II, New Mountain has added two senior advisors and seven associates spread across the investments, investor relations and administrative departments. In 2006, two associates left the firm to pursue business school and another associate left to lead philanthropic work, with Mr. Klinsky serving as a member of her advisory board. Five new associates have been hired and plan to start in September of 2007. New Mountain continues to search for quality additions to it senior team who will also fit within the firms culture.

Culture
New Mountain prides itself on the extremely flat culture where every investment professional is encouraged to participate at all levels, and personal politics are absolutely discouraged. At each investment committee meeting, Mr. Klinsky begins by asking the associates for their thoughts about the opportunity. After meeting with many individuals at all levels, it is clear that they all understand exactly what type of investment New Mountain targets, the process by which they execute their investments, and their differentiated approach compared to larger buyout firms that use leverage to drive returns.

Competition

New Mountain will face competition from other buyout funds and strategic investors targeting similar companies. Although, because of its top down, deep dive approach to proactively identify target companies, New Mountain will often times find itself alone in negotiating a purchase. There have also been cases where a target company’s management becomes convinced that New Mountain was the most “value added” partner for their business and entered into exclusive negotiations before final bids were due. Their proactive search process and reputation as being value creators will set them apart from competitors.

Track Record

Staff and Pacific Corporate Group have performed a thorough analysis of New Mountain's track record. Further information is available upon request.

Portfolio Fit

The private equity portfolio's exposure to Domestic Middle Market Corporate Finance partnerships is listed in the table below. The most recent addition to the portfolio was the $75 million commitment to Green Equity Investors V. The addition of New Mountain will serve to continue the build-up of the portfolio's domestic middle market corporate finance exposure and help offset the tilt to large buyout funds.

Terms and Conditions

Partnership:	New Mountain Partners III, LP
General Partner:	New Mountain Capital, LLC
Vintage:	2007
Final Close:	TBD
Fund Size:	$5 billion hard cap
Asset Class:	Domestic Corporate Finance
Expected Return:	>15% Net IRR
GP Commitment:	At least $50 million
Term:	Ten years subject to two consecutive one-year extensions
Investment Period:	Five years
Advisory Board:	OPERS will not participate as a member
Placement Agent:	Credit Suisse

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Attachment C

Executive Summary Report

Avenue Special Situations Fund V, LP

April 2007

Investment Rationale

The 2007 Annual Investment Plan calls for three to five Special Situation commitments totaling $75 to $150 million. Staff anticipated Avenue Special Situations Fund V ("Avenue V' or "ASSF V") would return to the market in 2007, which was noted in the pacing model for a planned $75 million commitment. OPERS' first investment in the ASSF strategy was a $50 million commitment to their 2005 vintage Fund IV. A recommitment to ASSF V will continue the OPERS Private Equity Program's strategy of being a long-term, stable investor with a select group of managers, provided they maintain a consistent investment strategy and have the ability to produce above average returns.

Staff believes a recommitment to Avenue Capital Partners ("Avenue") is a prudent investment based on the following:

- Avenue has demonstrated the ability to source and execute on its strategy, resulting in a solid track record of performance through its four previous funds.
- Current record levels of high yield and leveraged loans issuances will present investors with a strong pipeline of distressed debt opportunities.
- In the event of an economic slowdown, ASSF V's strategy should provide the portfolio with a level of downside protection.
- Well-established firm with a talented management team and deep investment staff.

Firm

In 1996, Marc Lasry and Sonia Gardner founded Avenue Capital Partners to invest in the debt or other obligations of companies in financial distress across a variety of industries. Occasionally, the fund will invest in deeply distressed equity securities, which it believes meet an appropriate risk/reward profile. Mr. Lasry and Ms. Gardner (who are siblings) each have nearly twenty-two years experience in distressed and distressed-related investing. The two began working together in 1987 for Cowen & Company, managing partners' capital for distressed securities investments. In 1989, Mr. Lasry and Ms. Gardner formed Amroc Investments, LP to manage $100 million for an affiliate of the Robert M. Bass Group. In 1991, Mr. Lasry and Ms. Gardner formed Amroc Investments, LLC to capitalize on their distressed market expertise. At the time of its formation, Amroc LLC operated predominately as a broker-dealer; however, it has developed into a leading investor of trade claims of bankrupt companies.

In October 2006, Morgan Stanley purchased a minority ownership stake (approximately 14%) in Avenue. Proceeds of the sale were used to assist Mr. Lasry and Ms. Garner fulfill their commitments to the various Avenue partnerships thereby further aligning the interest of the GP with its LPs.

Since forming Avenue Capital Partners, the firm has grown to 245 employees, including 130 investment professionals, managing $12.4 billion across five complimentary strategies.

Strategy

The Fund will make mainly US non-control investments in financially, distressed, middle market and large cap companies using a top down/bottom up analysis approach to identifying opportunities. The top down process involves first the development of global macro themes by specifically anticipating industries undergoing rapid change, cyclical recession or regulatory adversity and then determining potentially attractive investment opportunities within target industries. The Fund believes attractive opportunities are those situations where it understands the market/trading dynamics, is able to create positions at substantial discounts to asset value and which have appropriate risk/reward characteristics. The Fund's bottom up or fundamental research process then analyzes historical trends, develop a framework for detailed financial modeling, evaluates the capital structure, searches for positive catalysts for debt and equity appreciation as well as examines bankruptcy and other legal issues.

Avenue has specifically targeted four sub sectors of distressed investing where it expects to invest Fund V commitments- Distressed and stressed debt (target allocation 75%-80%), Post-reorganization and leveraged equity (target allocation 10%-15%), Trade claims and secured lending (target allocation up to 5%), and finally a special emphasis on European distressed opportunities that fall into the first three categories (target allocation 10%-15%).

Avenue primarily focuses on a trading strategy, i.e. buying senior secured and unsecured, distressed bonds and earning current interest income. Investments are typically acquired at a deep discount to par of 30% - 60% (for 40-70 cents) during a company's reorganization (does not necessarily need to be a bankruptcy proceeding). Avenue builds its positions over time from an initial, smaller stake into a bigger core position. A position may involve numerous purchased securities (e.g. bonds, bank debt, equities, private placement notes, subordinated debt) and capital structures (e.g. senior secured and unsecured bonds, subordinated debt) of a single company. Avenue expects that the Fund will hold between 40-50 core positions with an average holding period of between 12 and 24 months. Avenue does not use additional leverage in its investments thereby further reducing potential fund volatility.

US and Global Presence
Avenue V will focus primarily on US opportunities but a maximum of 20% of the total commitments may be allocated to non-North American investments (and a maximum of 10% outside North America and Europe). Avenue expects to invest between 5%-10% of the commitments in European distressed situations where the Fund will be co-investing with Avenue's European distressed hedge funds. The Manager only considers investments in Asia if such investments have a relation to the US (no co-investments with Avenue's Asian distressed funds).

<u>Management and Investment Process</u>
Co-founders Marc Lasry and Sonia Gardner lead the firm's investment activities as managing members of the Investment Manager. The investment team comprises 24 investment professionals who collectively have over 290 years of relevant experience in distressed investments, special situations and capital markets, representing an average of 12 years per professional.

Throughout its eleven-year history, Avenue has experienced turnover in its senior investment professionals. While there has been turnover of some senior staff, the two co-founders and Senior Portfolio manager, Bruce Grossman, have been with the fund since inception or since 1999. As the vast majority of their net worth is tied up in the firm, they are unlikely to consider leaving the firm anytime soon.

Deep Carry and Equity Ownership
A large portion of the investment professionals' compensation is attributable to the performance of their primary fund. SCM estimates that a majority of the carry generated by ASSF V will be allocated to the ASSF V team. Avenue's investment professionals with equity ownership benefit not only from the performance of their respective fund, but also from the performance of all of Avenue's investments. All carry allocations are vested after five years. The carry and equity ownership is allocated to all investment professionals at the VP level and higher.

Since raising ASSF IV, Avenue has lost two professionals who left to join competitors. Demand for experienced distressed debt players is currently high. With the completion of the new $5 billion fund raise and the associated fee income, Avenue will be even better positioned to minimize undesirable turnover of staff going forward. Despite the competitive market for talent, Avenue has recently hired several key professionals from other firms with deep, complimentary experience, which will significantly expand the firm's ability to cover available market opportunities.

Portfolio Managers have full authority to buy and sell
ASSF V will not utilize an investment committee in managing the portfolio. Any investment professional may bring forward an investment opportunity. Bruce Grossman will review the opportunity to determine if it merits further consideration. If yes, further due diligence is performed and pricing is determined as well as exit paths. Every investment decision requires the approval of Bruce Grossman, but may be later overruled by Marc Lasry.

Competition
ASSF V will face competition from other distressed debt private equity funds and hedge funds that have recently raised capital. ASSF V must leverage its long successful history of distressed debt investing to differentiate itself from others in the industry and uncover unique opportunities. ASSF V also has the flexibility to search for investments outside of the U.S. (primarily in Canada and Europe).

Track Record
Staff and SCM Strategic Capital Management have performed a thorough analysis of Avenue's track record. Further information is available upon request.

Portfolio Fit
The private equity portfolio's exposure to Special Situation funds that follow a similar strategy is limited to the Oaktree Opportunities Fund VI and VII and Avenue Special Situations Fund IV. A commitment to Avenue V will provide a differentiated return profile that will become even more attractive if debt markets begin to slow. Staff anticipates possibly making an additional commitment to a control-oriented distressed investor later in 2007 with which it has not previously invested. Despite these new commitments, the pacing model indicates the overall exposure to Special Situations will be slightly below long-term allocations targeted in the 2007 Annual Investment Plan, so a further commitment to Avenue V is appropriate.

Terms and Conditions

Partnership:	Avenue Special Situations Fund V, LP
General Partner:	Avenue Capital Partners V, LLC
Vintage:	2007
Final Close:	TBD
Fund Size:	$5 billion hard cap
Asset Class:	Domestic Special Situations
Expected Return:	>20% Net IRR
GP Commitment:	At least 2% of total capital commitments or $100 million whichever is less.
Term:	Five years, with two 1-year extensions at GP discretion and two 1-year extensions with approval of a majority of LP interest.
Investment Period:	Three years
Advisory Board:	OPERS will not participate as a member
Placement Agent:	None