WURTS ASSOCIATES
INSTITUTIONAL INVESTMENT CONSULTANTS

MEMORANDUM

To: **Board of Trustees, Fresno County Employees' Retirement Association**

From: **Jeffrey MacLean, CEO and Senior Consultant**

Date: **March 28, 2012**

Re: **Private Equity Review and Oaktree Opportunities Fund IX Recommendation**

This memorandum reviews FCERA's private equity program's commitment level and strategy diversification. Given remaining capacity, Wurts & Associates recommends a $15 million commitment to the Oaktree Opportunities Fund IX to gain additional distressed debt exposure.

Wurts & Associates last reviewed the private equity program in conjunction with the 2011 Asset Allocation Study, leading to a $30 million commitment to the KKR Mezzanine Partners I, LP, which focuses on middle/upper-middle market firms with EBITDA ranging between $40 million and $300 million. Our research suggested opportunities in mezzanine debt as lenders are able to command better loan covenants and lend at high rates but get better credit risk through lower leverage levels. As of December 31, 2011, FCERA has capacity to commit an additional $42 million to private equity, based on the market value gap and funding estimate below.

Private Equity Commitment Model as of 12/31/11			
A	Total Plan Assets	-	2,978,599,413
B	Total Private Equity Market Value*	-	180,212,000
C	Target Private Equity Market Value	A * 7%	208,501,959
D	Private Equity Market Value Gap	C - B	28,289,959
E	Funding Estimate	D * 1.5	***42,434,938***

* Private Equity market values are provided by the General Partner(s).

Global deleveraging continues to fuel the current distressed credit cycle. FCERA started with the commitment to the 2010 vintage Angelo Gordon Capital Recovery Partners VII, LP, an actively managed, diversified portfolio of distressed corporate debt that primarily invests at the top of the capital structure in senior or secured debt instruments. Angelo Gordon actively participates in the restructuring/bankruptcy process. Currently, FCERA has a 31% exposure to debt-related investments. In addition to the most recent commitment to the 2011 vintage KKR Mezzanine Partners I, LP, FCERA has smaller debt exposures through Hamilton Lane Private Equity Fund VI (a vintage 2007 fund of funds) and three 1998-2002 vintage distressed debt funds in liquidation. The table below illustrates the current exposure to the various private equity strategies.

Strategy Diversification as of 12/31/11		
	% of current PE market value	incl $15m addl commitment
Venture and growth equity	27%	25%
Buyout	30%	28%
Debt-related	31%	36%
Secondaries	9%	9%
Co-Investments	3%	3%
Total Private Equity	100%	100%

An additional $15 million commitment to distressed debt would result in a 36% exposure to debt-related investments. This specific strategy exposure is relatively high, but given the cyclicality of distressed debt investing, one that is appropriate for current market opportunities. Wurts & Associates Manager Research Group has vetted a number of distressed debt funds over the last four years. Of the most recent group of distressed debt managers, Oaktree Opportunities Fund IX will invest in senior and secured debt, sometimes for control. Investments are held throughout the entire restructuring process during which Oaktree remains highly active. Additionally, Oaktree allows for greater flexibility in European distressed debt (up to a 65% exposure) which could benefit from market overreaction to the European sovereign debt crisis. The Oaktree Opportunities Fund IX is open for commitments until its final close in the third quarter 2012. The other vetted options, Brookfield Special Situations Fund III and Stone Tower Capital Credit Solutions Fund, will have their final close on March 31, 2012 and will no longer be available for FCERA consideration. The manager evaluation for the Oaktree Opportunities Fund IX is attached.

Manager Evaluation: Oaktree Capital Management

Oaktree Opportunities Fund IX, L.P.

Strategy Basics

Asset Class:	Distressed Debt
Firm Inception:	1995
Firm Assets:	$80 billion
Expected Strategy Assets:	$3.5 billion
First Close:	March 2012
Final Close (estimated):	July 2012
Min. Commitment:	$2 million stated
Fund Term:	10 Years[1]
Investment Period:	3 Years
Management Fee:	1.6%[2]
GP Carried Interest:	20%[3]
Preferred Return:	8%

The Fund bears organization expenses up to $2.5 million

Firm Background and History

Oaktree Capital Management ("Oaktree") was founded in 1995 by Howard Marks, Bruce Karsh, Steve Kaplan, Larry Keele, Richard Masson (retired) and Sheldon Stone. These principals joined together beginning in the mid-1980s to specialize in less efficient and alternative markets: high yield bonds, convertible securities, distressed debt, principal investments and distressed real estate activities. Oaktree is comprised of eight principals and over 600 staff members in Los Angeles (headquarters), New York, Stamford (Connecticut), Amsterdam*, Frankfurt, London, Luxembourg*, Paris, Beijing, Hong Kong, Seoul, Singapore and Tokyo.

In June 2011, the firm registered documents with the SEC to initiate an Initial Public Offering. While the firm is not yet publicly listed, the principals' intentions to do so in the near future have been made clear. In 2007, the firm listed approximately 25% of its equity on the GSTru platform, a grey market sponsored by Goldman Sachs to enable secondary trading by institutional investors. The principals own 50% of the firm and will retain voting control; employees own the remaining 25%. Ability to liquidate equity positions is limited for the first three and a half years post-IPO.

[1] Subject to automatic renewals up to 15 years to avoid in-kind distribution or forced sale of illiquid assets at unattractive prices at Oaktree's discretion
[2] 1.6% paid quarterly in advance on lesser of commitments or cost basis; 100% offset by all transaction fees, director fees, break-up fees, etc.; no fee payable after 11th anniversary of Investment Period Start Date
[3] Subject to 80/20 catch-up after preferred return hurdle achieved

The firm manages almost $80 billion across various strategies, the largest of which are distressed debt opportunities ($22B), global control investments ($15B) and high yield debt ($13B). The firm's institutional client base is diverse with public funds ($22B) and corporate plans ($21B) representing over half the firm's assets.

Strategy Background & Philosophy

Oaktree is recognized as a leading distressed debt and high yield bond specialist with an intense orientation toward managing risk. The firm points to its depth of human capital, thorough research and acute attention to risk as competitive advantages.

Oaktree believes "the most important thing[4]" is the relationship between price and value. At the core of this thought is the reasoning that almost any asset has the potential to be a great investment if acquired at a low enough price. Alternatively, assets may just as easily be – and more frequently are – priced to offer the investor a poor return on investment. Thus, the team at Oaktree approaches markets with caution and attempt to keep an asset's fundamental justification for value always in perspective. The approach results in the team's estimation of an intrinsic value, rigorously derived, for every potential investment. Only when the team strongly believes in their estimate and that estimate is much higher than the current price of the asset will they invest.

Another pillar of Oaktree's approach is "defensive investing" which they summarize as an insistence on solid, identifiable value at a bargain price; diversification rather than concentration; and avoidance of reliance on macro-forecasts and market timing. Oaktree's focuses on "investing scared" and planning for the probability of losses that may stem from information disadvantage, surprise events or "bad luck." Investing with a significant margin of safety between purchase price and intrinsic value estimate, they believe, protects the strategy from severe losses and positions the portfolio for outsized risk-adjusted gains.

[4] Howard Marks published a book summarizing his and Oaktree's philosophy entitled *The Most Important Thing: Uncommon Sense For the Thoughtful Investor* (Columbia Business School Publishing, 2011).

The strategy proposed for Opportunities Fund IX will rely on the same contrarian, opportunistic philosophy and process the firm has executed over almost twenty years. The distressed debt strategy seeks capital appreciation without undue risk of loss through investments primarily in debt and equity securities and other obligations of financially distressed entities, with a strong preference for obscure and out-of-favor opportunities. In the current Fund, European assets are expected to represent close to two-thirds of the capital committed while U.K., Australian and North American assets are likely to comprise the remainder.

Following S&P's downgrade of U.S. debt and the deepening of the European sovereign debt crisis, the firm began to see more opportunities. They anticipate Opps VIIIb will be fully invested in 2012 if the current environment continues and could reach capacity in certain individual names sooner. Thus, Oaktree has decided to form the Fund now.

Oaktree believes today's markets are one of the most appealing investment environments to exist in several years. Many U.S. companies are still burdened by unresolved debt problems (i.e., excessive leverage and pending maturities largely from the 2003-2008 LBO market). Any slowdown in U.S. corporate growth would have a significant impact on the supply of U.S. distressed investment opportunities, though prices are likely to fluctuate and bargains may present themselves only in spurts.

To date, the supply of distressed investment from European banks has been muted since they have not adequately provisioned and cannot mark the assets to market sale prices since they would expose the banks as undercapitalized and likely insolvent. European banks will need to collectively raise vast equity capital before they can shed the troubled assets, but once supply of distressed assets arises in Europe, Oaktree believes it will be plentiful.

Investment themes are likely to include debt of companies in industries under pressure and where maturities are of concern; commercial real estate in which refinancing prospects are poor; specialty finance opportunities, given the dearth of bank lending activity despite the need for financing solutions. Emergent themes include Europe, broadly speaking; investment in the power sector given disruptions in the balance of supply and demand for natural gas; and residential real estate.

Senior loans are likely to dominate the opportunity set rather than leveraged loans since many companies took advantage of open markets between 2009 and June 2011 to issue high yield bonds and extend maturities – creating more potential supply in both the U.S. and Europe.

Key Investment Professionals

Of Oaktree's Principals and other professionals, approximately thirty members focus on the management of distressed debt and related activities and will work directly on the Fund. Oaktree's distressed debt team is based in Los Angeles with access to team members across the globe. Bruce Karsh leads the team and has done so since 1988, prior to co-founding the firm. The team's senior members have worked together on most of Oaktree's Opportunities Funds.

Bruce Karsh, President and Portfolio Manager
Mr. Karsh is the portfolio manager of Oaktree's Distressed Debt and Value Opportunities strategies, and the manager of most of Oaktree's closed –end funds report to him. He is also actively involved in managing the firm. Prior to co-founding Oaktree, Mr. Karsh was a Managing Director of TCW and its affiliate, TCW Asset Management Company, and the portfolio manager of the Special Credits Funds for seven years. Prior to joining TCW, Mr. Karsh worked as Assistant to the Chairman of Sun Life Insurance Company of America and of SunAmerica, Inc., its parent. Prior to that, he was an attorney with the law firm of O'Melveny & Myers. Before working at O'Melveny & Myers, Mr. Karsh served as an appellate clerk to the Honorable Anthony M. Kennedy, presently Justice of the U.S. Supreme Court. Mr. Karsh holds an A.B. degree in Economics *summa cum laude* from Duke University, where he was elected Phi Beta Kappa. He went on to earn a J.D. from the University of Virginia School Of Law. Mr. Karsh serves as the Chairman of the Board of Directors for Duke University's investment management company.

Scott Graves, Managing Director and Co-Portfolio Manager
Prior to joining Oaktree in 2001, Mr. Graves served as a Principal in William E. Simon & Sons' Private Equity Group where he was responsible for sourcing, structuring, executing and managing corporate leveraged buy-outs and grown capital investments. Before joining William E. Simon & Sons in 1998, Mr.

Graves worked at Merrill Lynch & Company in the Mergers and Acquisitions group, where he focused on leveraged buy-out situations and the valuation of public and private companies. Prior thereto, Mr. Graves worked at Price Waterhouse LLP in the Audit Business Services division. Mr. Graves received a B.A. degree in History from the University of California at Los Angeles and an M.B.A. in Entrepreneurial Finance from the Wharton School at the University of Pennsylvania. He is a Certified Public Accountant (inactive).

Robert O'Leary, Managing Director and Co-Portfolio Manager

Prior to joining Oaktree in 2002, Mr. O'Leary served as an Associate at McKinsey & Company, where he worked primarily in the Corporate Finance and Strategy practice. Before attending Harvard Business School, Mr. O'Leary worked for two years at Orion Partners, a private equity firm, where he focused on investments in private companies. Prior thereto, he worked at McKinsey & Company as a Business Analyst. Mr. O'Leary graduated with a B.A. degree in Economics *magna cum laude* from Pomona College and an M.B.A. in Business Administration from Harvard Business School.

Rajath Shourie, Managing Director and Co-Portfolio Manager

Mr. Shourie joined Oaktree in 2002 after having spent two years at Goldman, Sachs & Co. as an Associate in the Principal Investment Are. Prior experience includes three years as a management consultant at McKinsey & Co. Mr. Shourie holds a B.A. degree in Economics from Harvard College, where he was elected to Phi Beta Kappa. He then went on to receive an M.B.A. from Harvard Business School, where he was a Baker Scholar. Mr. Shourie is fluent in Hindi

These and the other Oaktree professionals have cultivated strong relationships with over 200 different bankers, brokers, restructuring advisors, and other financial and distressed debt investors that provide the firm with investment opportunities.

Process

The Fund will engage in the same distressed debt investment strategy employed by the prior fund, Oaktree Opportunities Fund VIIIb which began investing in 2011, but only after that prior fund has become 80% committed or invested (or, if earlier, once Opps VIIIb's investment period ends).

As of October 27, 2011, Opps VIII was 95% committed on its $4.5 billion of capital while Opps VIIIb, which began investing in 2011, was 20% committed on its $2.7 billion of capital. Opps VIIIb's liquidation period is scheduled to begin August 2014; however, the firm believes market conditions afford the likelihood that the Fund will be drawn in its entirety during 2012.

Fund IX may serve as the overflow investor for opportunities that exceed investment restrictions of Opps VIIIb. Given the accelerated pace of investments over the last half of 2011, the firm launched Fund IX in anticipation of initial capital calls likely projected by July 2012.

Investment opportunity sourcing occurs through the firm's deep team of experienced managers and analysts, each of whom cultivate relationships with banks, dealers, sponsors and corporate executives around the world. Substantially all investments in both public and private debt are executed through brokers. Unlike a private equity fund, most individual investment positions are established over time through multiple secondary market purchases from different sellers. Additionally, the Fund shares trading operations with Oaktree's High Yield Bond and Real Estate Groups. This provides synergy in accessing investments for the Fund, particularly in situations where the capital required to fund an opportunity is in excess of the other groups' concentration limitations or other restrictions.

The foundation for all investments is thorough analysis of a company's fundamentals and intrinsic value. Prior to reviewing an investment with the portfolio manager, analysts will often prepare a two-page due diligence summary report. Page one contains a qualitative assessment of the industry and business situation, as well as considerations of the specific security under review; page two contains all applicable numerical and analytic data on the prospective investment. This step often leads the analyst to prepare a fuller and more detailed report.

First, the team determines the value of the underlying company and the range of potential values for the company upon exit from a restructuring. Assessing the volatility of the potential future values enables meaningful analysis of the appropriate price to pay for a claim on the company's value.

Second, they analyze the company's capital structure, the amount and seniority of the various claims and the prices at which each trade. An opportunity may be present when the price of a claim is well below the range of values that claim is estimated to receive upon restructuring. They typically invest in senior claims where the value to be received for a claim is more certain and the key variable is timing.

Finally, the team analyzes the restructuring process to assess the likely timing of the outcome. With a full understanding of price, value and timing, they forecast the potential returns from an investment. As price, and to the extent timing is, controllable the key to successful analysis is accurate valuation.

At this point, the team tactically trades into positions in an attempt to obtain relatively low purchase prices that should provide substantial "downside protection." After an investment is made, the team seeks to continue adding value by actively participating in relevant restructurings, whether inside or outside of formal bankruptcy proceedings.

When appropriate, the team seeks to add significant value by leading the restructuring negotiations and engineering capital structures that provide both flexibility and room for growth in value of the acquired securities. The typical solution to distress is to restructure the company's balance sheet to reduce the amount of debt to a serviceable level. The company is often solvent at the reduced debt level and company operations are thereby preserved.

After a reorganization event, the team closely monitors the progress of each investment, sometime holding board seats, and occasionally provides financial and strategic advice. The team is also vigilant to determine the optimal time and strategy for exiting and maximizing the return on investment.

Risk Management

To preserve flexibility with respect to investment opportunities, the Fund is subject to very few specific limits or proportions:

- No more than 15% of Capital Commitments at cost may be invested in securities issued by a single issuer,
- No more than 35% of Capital Commitments at cost invested in "non-distressed investments,"
- No more than 50% of Capital Commitments at cost may be invested in securities or obligations of Foreign Entities,
- Warrants and call premiums are limited in aggregate to 10% of the Total Net Assets; put options may be sold on up to 20% of the underlying Total Net Assets; warrants or options issued in exchanges or at the consummation of a company's reorganization or restructuring will not be included in this limitation,
- No more than 25% of Total Net Assets may be subject to short sale obligations,
- The Fund will not purchase securities on margin other than for temporary basis and as otherwise permitted by short sale, swaps and other derivative transactions,
- The Fund will not investment than 5% of Capital Commitments in notional index-based derivatives for purposes other than hedging,
- The Fund will not invest more than 50% of Capital Commitments in notional derivatives or synthetic securities that reference a single entity or obligor for purposes other than hedging, and
- The Fund will not invest more than 10% of Total Net Assets in any other pooled multiple-investment fund managed by a third-party, except in connection with its investments or to purchase interests in funds or other entities on a distressed, secondary basis.

While no assurance can be made regarding the investment and divestment pace of the Fund, the investment team typically deploys capital within 12 to 24 months of formation. A substantial majority of capital has generally been returned to investors within two years following commencement of the liquidation period, though some variation naturally exists among funds of different vintage years.

In keeping with the philosophical tenets of Oaktree, the principals elected not to draw $1.1 billion of capital commitments from Opportunities Fund VIIb once they determined the market opportunity had diminished. Counter to conventional industry practice, the firm did not alter its fundamental discipline and pursue higher risk investments in an effort to deploy the most capital and earn more management fee revenues. Additionally, the principals scaled back the target size of the subsequent fund as their view of market continued to reflect a contracting supply of investment opportunity. This disciplined approach to appropriately sizing funds and limiting asset gathering activity when necessary stands as a tangible reference to the firm's commitment to its founding principles and supports an expectation of continued vigilance on behalf of investors' interests.

Potential Risks

Investment in OCM Opportunities Fund IX presents several risks. The primary risk is that investments in the underlying funds fail to appreciate in value and generate cash flow sufficient to achieve returns commensurate with the level of risk. The experience and background of the firm's professionals and their ability to restructure, renegotiate and ultimately step in to manage companies through control investing is an advantage that mitigates concerns in this area and enables the fund to recapture value.

Inherent with investments in distressed opportunities is the level of market and business risk present in each target company. Investors are still heavily exposed to the effects of changes in macroeconomic factors on the target companies which may not be well-diversified given Oaktree's philosophy and investing approach. Additionally, financial markets may at times lack liquidity or reasonable pricing mechanisms which could unduly influence valuation marks of underlying assets and could also restrict the fund's ability to exit positions when desired.

Oaktree's reliance on counterparties and other financial intermediaries creates a potential risk in the event of market instability or broad-based financial distress in the banking systems of the U.S., U.K. and Europe. These financial institutions may further be subject to legal, regulatory or reputational risks that negatively impact the fund. The firm actively manages these risks in an effort to mitigate potential impacts.

As disclosed earlier, the firm has filed documents to eventually list the company stock on a public exchange platform. Wurts & Associates prefers ownership to be closely held by the key decision-makers and principals of firm and yet widely distributed among the other key investment professional of the organization. The current direction toward freely exchangeable shares of the company is seen as a negative development in the long-term, which depends in part on the continued incentives of the professionals to adhere to the principles and philosophy that has allowed the firm such success to date. Some evidence suggests previously-private firms may suffer some performance deterioration following IPO's since GP's may be encouraged to focus on quarterly earnings and other short-term metrics to the detriment of long-term performance and investors' best interest. These concerns are partially mitigated by the current expectation that the firm's principals intend to take no salary and instead rely on their shares of carried interest and substantially-retained equity in the firm.

As in the past, the Fund is being organized as two funds: Fund IX and – potentially – Fund IXb. Whether Fund IXb will ultimately be formed and its potential size are unknown at this time. If Fund IXb is formed, it will invest using the same investment strategy and professionals. The dual-fund structure provides Oaktree flexibility to react to dynamic market conditions and to address issues of fund size, supply in the distressed debt marketplace and other timing considerations. If formed, Fund IXb would only be utilized once Fund IX is 80% drawn down, committed or reserved for follow-on investment; and, only if the GP determines it is appropriate to raise more capital in light of market conditions, if an investment of Fund IX exceeds the Fund's investment restrictions or if it is not prudent for Fund IX to make the investment on its own. If Fund IXb is utilized, both Funds will invest *pro rata* in proportion to their respective total available capital, subject to guideline restrictions and principles of diversification and risk management.

Performance

Since 1988, the primary individuals affiliated with this strategy have deployed over $30 billion in capital using the distressed debt investment philosophy proposed for the Fund and has returned approximately $46 billion in value, of which approximately $25 billion has been realized to date. The implicit aggregate gains equate to a gross internal rate of return of approximately 23.6% through September 30, 2011 (18.3% net of fees).

For all previous funds that have been liquidated, the strategy has realized a 1.7 times multiple of contributed capital (defined as the total net value divided by contributed capital). For currently liquidating funds, the strategy is estimated to deliver a 1.5 times multiple of contributed capital. Active funds are currently carried at a 1.1 times multiple (refer to the summary table at the end of this document).

A related $1.6 billion open-end fund, Oaktree Value Opportunities Fund, L.P. ("VOF"), exists for investors seeking more liquidity and a broader charter than the OCM Opportunities Fund IX described in this document. While VOF's investment strategy is similar to that of the Fund, VOF is open-end following an initial three-year lockup and may employ different investment tactics than those anticipated to be used by the Fund. Also, in its non-distressed investments, VOF may be more aggressive, oriented more toward short-term trading, and may make greater use of such things as *leverage, shorting, and derivatives*. VOF has returned 34.2% cumulative return through year-end 2011 since inception in September 2007, which results in an annualized return of 7.0% (versus HFRI Distressed Debt Index of 5.2% cumulative and 1.2% annualized). While this open-end fund offers superior liquidity for investors and tracks a similar opportunity set, it has the potential to experience materially different return and volatility compared to the proposed closed-end fund. VOF is not herein being recommended as a surrogate for the Opps IX Fund, but does exist as a relatively more aggressive option for those clients unable to assume the illiquidity of a ten-year plus structure.

Recommendation

Wurts & Associates believes that Oaktree presents a compelling investment case within the distressed debt opportunity set. Much of the firm's expectation of future success relies on the team's analytic skill, legal and bankruptcy expertise, restructuring experience, proprietary deal flow, broad market knowledge and sound philosophic principles of investing. Historically, this combination of characteristics enabled Oaktree's distressed debt investment team to achieve strong overall returns without incurring significant risk to capital which we believe is likely to continue with OCM Opportunities Fund IX.

February 2012

Glossary of Terms

Investment Period/ Capital Drawdown Period: A period when the General Partner (GP), or the investment team, is allowed to invest the committed capital and reinvest any proceeds from its earlier investments. Once the period ends, any realized investment proceeds will be paid out to Limited Partners (LPs).

Preferred Return: A return that accrues to the Limited Partners prior to the GP's carried interest. However, once the preferred return hurdle is met, the GP generally earns a disproportionate "catch-up" to equilibrate its carried interest.

Carried Interest: The portion of return after management fees and preferred return that accrues to the General Partner; also called Incentive or Performance Fee. This allows the GP to share in the returns of the Fund.