



PSERS PRIVATE INVESTMENT PROGRAM

Recommendation for Investment in Capital International Private Equity Fund V, L.P.

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CAPITAL INTERNATIONAL PRIVATE EQUITY FUND V (CIPEF V), L.P.

Executive Summary

Capital International, Inc. (“Capital International” or the “Manager”) is seeking to raise its fifth emerging markets private equity fund, Capital International Private Equity Fund V, L.P. (“CIPEF V” or the “Fund”). The Fund is targeting capital commitments of \$1 billion with an investment objective to generate long-term capital appreciation and superior returns by making private equity and equity-related investments primarily in global emerging markets.

Since 1992, Capital International has invested in 59 portfolio companies across four emerging markets private equity funds with an aggregate amount invested of \$1.2 billion. Over that time, the Capital International Private Equity Funds (“CIPEF”) program has evolved from regionally focused funds (CIPEF I and CIPEF II) to a global bottom-up strategy for CIPEF III and CIPEF IV (together, the “CIPEF Global Funds”) that seeks to capitalize on the most compelling investment opportunities as measured in “real-time” across emerging markets on a risk-adjusted basis. CIPEF V will pursue the same strategy employed in the prior CIPEF Global Funds.

The emerging economies today generate just over half of global economic activity (on a purchasing power adjusted basis) and a disproportionately high share of global GDP growth, including an estimated 39% of global GDP growth generated by the “BRIC” economies of Brazil, Russia, India and China. Structural changes of recent years have stimulated a positive environment for private equity investing in emerging markets. CIPEF will consider investments in various sectors, with a focus on market-leading local companies and well-positioned exporters. The CIPEF team will evaluate and select investments using a time-tested and disciplined investment process and intends to target companies with enterprise values typically in the range of \$100 million to \$1 billion.

Across all four previous funds, the CIPEF team has effectively leveraged the long-standing power and reach of Capital International, one of the largest investors in emerging markets. Capital International is widely regarded as a pioneer in emerging markets investing, with over 19 years of emerging markets investment experience and, as of December 31, 2006, over \$26 billion in emerging markets assets under management. Capital International is a part of The Capital Group Companies, Inc. (the “Capital Group”) and one of its global institutional managers. Capital Group is a privately owned, global investment management firm with roots dating back to 1931.

Capital International has established a successful, long-term private equity track record. According to a June 2006 survey conducted by Cambridge Associates LLC, each of the CIPEF Global Funds ranked within the top quartile for the following private equity fund categories in their respective vintage years: Emerging Markets, Global (excluding U.S.), U.S. and Western Europe. Performance was based on estimated net aggregate IRR for each CIPEF Global Fund.

The CIPEF Global Funds have outperformed the S&P 500 Index from 1992 to 2006. A comparison of the net cash flows with respect to realized investments through December 31, 2006 to like amounts invested in the S&P 500 Index for the same periods, shows that the CIPEF Global Funds delivered an annual premium of 22.6% above the S&P 500 Index.

The CIPEF Global Funds have likewise outperformed the MSCI Emerging Markets Index (“MSCI EM Index”) from 1992 to 2006. A comparison of the net cash flows with respect to

realized investments through December 31, 2006 to like amounts invested in the MSCI EM Index for the same periods, shows that the CIPEF Global Funds delivered an annual premium of 10.4% above the MSCI EM Index.

The CIPEF program has been led by its founders, Koenraad Foulon (London) and Lam Nguyen-Phuong (Singapore), since 1992. Capital International has methodically built a team of seasoned and diverse private equity investment professionals. The ten investment Partners (including Messrs. Foulon and Nguyen-Phuong) have an average of 20 years of investment experience and an average tenure with the CIPEF team of ten years. An essential component of CIPEF's success has been the stability, longevity and continuity of its team.

The CIPEF team operates as a fully integrated unit of, and benefits from close collaboration with, Capital International's global institutional research group, which includes 80 industry, country and macroeconomic research analysts. This global research infrastructure has been the foundation for the organization's successful investment management business. This integration affords it a distinctive global investment perspective and competitive advantage in sourcing, evaluating, monitoring and exiting private equity investments. Capital Group's employee ownership and the investment in the CIPEF Global Funds by Capital Group's affiliates as well as a large group of senior associates throughout the organization contribute to a strong alignment of interest with CIPEF investors and a culture of cooperation and sharing of research information within Capital International. These organizational attributes will continue to provide them with a distinctive advantage in global emerging markets private equity investing.

Investment Strategy

The investment objective for CIPEF V is to generate superior long-term capital appreciation primarily through privately negotiated equity and equity-related investments in emerging markets companies. CIPEF V will continue the successful global opportunistic strategy of the prior CIPEF Global Funds.

While the emerging markets as a whole are poised for strong long-term growth, CIPEF is conscious that each market or region within emerging markets is still subject to economic, industry and investment cycles as well as other developments that can affect the private equity investment climate for a country or even a region. Such cycles and developments are often difficult to predict. In contrast to a regional or country-focused fund model, which requires an implicit long-term, top-down country or regional allocation, CIPEF V can build a globally diversified portfolio in "real time" by selecting the most compelling investments on a risk-adjusted basis across geographic and industry lines.

Extensive emerging markets private equity experience, in collaboration with Capital International's large in-house global research group, provides them with a unique capability to source deals and perform in-depth due diligence analysis. This competitive strength underlies CIPEF's bottom-up investment approach. This capability, in combination with a global, opportunistic approach, has been successful for the prior CIPEF Global Funds and will be applied for CIPEF V.

To reinforce exit prospects, CIPEF V intends to seek investments in market-leading local companies and well positioned exporters, which can be expected to be in the path of global strategic consolidation and/or capital markets expansion (i.e., future IPO candidates). As recent CIPEF III and CIPEF IV exits illustrate, certain emerging markets companies will have both trade sale and IPO exit prospects available concurrently.

As with CIPEF IV, the Fund will seek to acquire i) influential minority positions with the intent to exercise meaningful influence over the company's strategic direction and operations, as secured by contractual rights covering board representation, governance matters and exit alternatives; and ii) control "buy-out" positions. In the earlier years of the CIPEF program, control positions in leading companies in the emerging markets were not commonly offered for sale and locally sourced senior debt financing for buy-outs was less available. As illustrated by the presence of four buy-out investments in the CIPEF IV portfolio, as emerging markets mature and local senior debt financing sources open, the CIPEF team has been successful in originating and/or participating in control buy-out transactions. This trend should continue in the CIPEF V portfolio.

Investment criteria

Potential portfolio companies will be analyzed on broad criteria including the following:

- Strong local management with a proven track record and, in some cases, a strategic partner who adds value through technological, managerial or marketing/financial expertise;
- "Like-minded" key shareholders;
- A demonstrated ability or potential for profitability and relatively stable and predictable cash flows;
- Strong prospects to sustain or achieve a leading local market position and/or sustainable competitive export advantage;
- Superior growth potential;
- Attractive valuation; and
- A clear and identifiable range of exit possibilities at the time of investment primarily relying on either a trade sale to a potential list of multinational, regional or local strategic buyers expected to seek to consolidate market position and/or a local or global "money center" IPO.

Active ownership

CIPEF is an active investor and typically takes significant minority positions with extensive contractual management rights, including participation on the board of directors, or control positions. CIPEF actively engages management and other key shareholders to influence strategy and implement various operational improvements with the ultimate goal of maximizing the fundamental success and value of its portfolio companies.

Differentiation

CIPEF has the ability to deliver superior returns based on the following key differentiators:

Leading emerging markets experience

CIPEF is one of the world's most experienced and successful private equity investors in emerging markets, where it has focused exclusively for the past 14 years. During this time, CIPEF has made 59 investments in portfolio companies that conduct business in over 30 countries across Asia, Africa, Central Asia, Central and Eastern Europe, Latin America, the Middle East and Russia. Capital International is widely regarded as a pioneer in emerging markets investing, with over 19 years of emerging markets investment experience and, as of December 31, 2006, over \$26 billion in emerging markets assets under management.

Superior track record across multiple investment cycles

Since 1992, CIPEF has made 59 investments in portfolio companies that conduct business in over 30 countries, 26 sectors and several market cycles. As of December 31, 2006, the CIPEF Global Funds have made 32 investments, of which 21 have been fully or partially realized and represent an aggregate gross IRR of 30.0% and multiple of cost of 2.5x. Through the same date, CIPEF has fully or partially realized 48 investments across all four CIPEF funds, which realizations have achieved an aggregate gross IRR of 22.0% and multiple of cost of 2.3x.

Global, bottom-up approach

CIPEF's global, bottom-up approach allows them to remain disciplined and to capitalize in "real time" on the most promising opportunities across multiple regions and sectors. This is particularly important in emerging markets which tend to experience relatively larger and less predictable swings in investment sentiment and flows. While CIPEF's bottom-up style avoids top-down propositions and focuses on the merits of each individual opportunity, this approach has indirectly enabled CIPEF to capitalize on market cycles in various regions, for example:

- **Asia:** CIPEF moved quickly in Korea after the 1997-1998 financial crisis; in contrast, CIPEF reviewed many opportunities in China but chose not to invest for the CIPEF Global Funds until 2004 when it began to find opportunities with the right quality of management and other ingredients necessary for successful private equity investments. Since that time, CIPEF has made several investments in China.
- **Emerging Europe:** CIPEF invested actively and successfully in a number of attractive opportunities in Russia in advance of the positive macroeconomic effects of high oil prices.
- **Latin America:** CIPEF considered but avoided many opportunities during the Latin American private equity boom in the late 1990s. CIPEF subsequently invested in several leading companies in Argentina, Brazil and Colombia when markets reached the bottom and before most other investors had re-grouped.
- **Africa and the Middle East:** While Africa is not a large private equity market, CIPEF has invested successfully with a highly selective approach.

In addition, a disciplined, global approach has helped CIPEF avoid the pitfalls of momentum investing. For example, CIPEF remained highly selective during the 1999-2000 "tech bubble." CIPEF's flexible approach, aided by its integrated global research resources, allows the team to be highly selective and disciplined in today's most rapidly growing markets, such as China and India.

Proven investment access to market leaders

CIPEF's experience and proprietary relationships, combined with Capital International's presence and resources as one of the largest investors in emerging markets, often make CIPEF a valued private equity partner and provides the team access to attractive investment opportunities. CIPEF has invested, in most cases as sole or lead investor, in such local emerging markets champions as:

- the leading brewer in Korea,
- the leading magazine publisher in Brazil,
- the leading manufacturer in China of both mainstream and specialty warp knit fabrics,
- the leading outdoor advertising firm in Russia and other Eastern European

- markets,
- the leading out-of-home advertising firm in China,
 - the leading cable TV systems operator in Taiwan,
 - the leading service food retailer in Argentina,
 - the leading bank in Colombia,
 - the leading cable TV content company in Korea,
 - the leading mobile telecommunications company in sub-Saharan Africa,
 - the leading for-profit provider of higher education services in India,
 - the leading pharmaceutical company in Egypt and
 - the worlds leading exporter of bleached eucalyptus market pulp, based in Brazil.

Stable, seasoned team

CIPEF's investment team is one of the most experienced and successful in emerging markets private equity investing. The ten investment Partners have an average of 20 years of investment experience and have worked together for an average of ten years. CIPEF's Investment Committee is comprised of seven individuals with an average of 29 years of investment experience. The CIPEF team is backed by the vast resources of Capital International, including in-house accounting and legal expertise.

Ability to identify and create value in portfolio companies

To date, CIPEF has achieved its investment performance primarily by identifying and investing in compelling businesses with strong management and helping to drive growth and improve fundamental performance. With respect to the realized investments from the CIPEF Global Funds, portfolio company revenue grew on average over 150% from the year of CIPEF's investment to the year of exit. CIPEF develops a thorough knowledge of each portfolio company prior to investment, identifying the drivers of performance and developing plans to meet performance objectives. This includes a proactive approach to strengthening management, implementing needed financial restructurings, helping to drive acquisitions and other corporate finance transactions and facilitating the transfer of global industry knowledge to the company. CIPEF has used much less acquisition debt financing in the past than is typical in developed markets private equity. In CIPEF V, the team intends to selectively augment investment performance through the use of portfolio company debt financing where appropriate.

Sustained, successful exit record

CIPEF has consistently demonstrated an ability to realize its investments successfully. To date CIPEF has achieved 48 full or partial realizations, resulting in aggregate gross proceeds of \$1.7 billion across numerous markets, sectors and cycles, and has done so primarily through the capital markets, trade sales and leveraged recapitalizations. The CIPEF team has developed close relationships with the world's leading capital market underwriters and M&A advisors, and its integration within Capital International affords unique insights into the future interests of global acquirers expanding into emerging markets.

Deep resources of Capital International

Capital International is one of the largest investors in emerging markets stock markets. CIPEF gains invaluable, proprietary insights, introductions to opportunities and other assistance from Capital International's investment professionals focused on emerging markets and developed markets while keeping in mind the larger global perspective. The contacts and expertise of the larger group of Capital International investment

professionals benefit CIPEF in the sourcing and evaluation stages, adding value post-investment and planning and executing exit strategies. Many of these individuals are among the most informed, experienced and successful investment analysts and portfolio managers in the world. Importantly, such individuals are highly accessible and make an important contribution to the CIPEF investment process.

Culture of commitment and teamwork

Over the past 75 years, Capital Group has become one of the world's leading investment organizations with a strong culture of placing clients' interests first. The management companies within Capital Group have an intense commitment to achieving long-term investment results through intellectual rigor and investment discipline. In addition, Capital Group's employee ownership and its sole focus on investment management further strengthens a special culture of collaborative teamwork and open communication which has contributed to the organization's unusually low turnover of investment professionals. Over 185 associates throughout the organization invested in one or both of the CIPEF Global Funds and their significant participation is expected to continue in CIPEF V. CIPEF pursues the same core values as the overall organization and is likewise intensely committed to a global, disciplined, bottom-up investment process focused on serving the long-term interests of its investors.

The world's new growth engine

With approximately 85% of the world's population, just over half of the world's total GDP when measured in purchasing power parity and approximately 40% of world exports, the emerging markets now represent a major driver of the world economy. Emerging markets economies have grown at an average real annual rate of 6.4% since the beginning of the decade — more than double the 2.3% growth rate of the developed economies.

It is estimated that over the next 20 years, 72% of global economic growth on a purchasing power parity basis will be generated by the emerging markets. More fiscally responsible and market-oriented governments, the global flow of capital and goods, mobilization of tens of millions of under-utilized workers, infrastructure build-out, increasing levels of private ownership, improving management and the development of domestic consumer markets are among the many factors driving dramatic productivity gains in emerging markets.

While emerging markets economies will continue to experience cycles and be affected by specific events, both positive and negative, important structural changes over the last ten years have positioned emerging markets economies for more sustainable economic growth and made them generally less vulnerable to the periodic crises that marked the past. Specifically:

- Emerging markets economies are now running large and persistent current account surpluses rather than the deficits that were so often a feature of the mid-1990s. Importantly, the shift to current account surpluses can be seen in all three major emerging markets regions and is not just an Asian phenomenon. Such surpluses have fueled a build-up of \$2.7 trillion in foreign exchange reserves which together with flexible exchange rates significantly mitigate the kinds of dislocations in emerging markets which characterized the 1980s and 1990s.
- Reliance on exports as the primary engine of growth has declined. The economies of Asia in particular have become more diversified and domestic demand has become an important driver of economic activity. About half of Asia's trade is now intra-regional and less dependent on exports to the U.S.

- Fiscal behavior and economic policy in general have improved substantially. Fewer countries are running large fiscal deficits. Central banks have become more independent and have shown a high degree of vigilance against inflation. Many governments have mandated greater transparency in financial reporting and modernized market regulations. As a result, emerging markets countries have gained substantial credibility with both domestic and foreign investors, contributing to lower long-term interest rates. Recent years have seen a large number of major market reforms: deregulation, privatization of state-owned enterprises, rationalization of tax structures and reduction of import tariffs. These policy changes have allowed privately owned enterprises to flourish and operate on a more level, efficient and profitable playing field.

Investment team

KOENRAAD C. FOULON is a Private Equity Senior Managing Partner and a Director and Senior Vice President of Capital International. His main responsibilities are the CIPEF program and portfolio management for Europe. As a co-founder of the CIPEF program, he has served as the Chairman of the Private Equity Investment Committee for each of the four prior CIPEF funds. Mr. Foulon joined Capital International's organization in 1990. Mr. Foulon earned a distinction in economics from the University of Louvain, Belgium. He is based in London.

Investment experience: 30 years

LAM NGUYEN-PHUONG is a Private Equity Senior Managing Partner and the Research Director of the CIPEF Program. He is also a Director and Senior Vice President of Capital International. As a co-founder of the CIPEF program, he has served as the Vice Chairman of the Private Equity Investment Committee for each of the four prior CIPEF funds. He joined Capital International's organization in 1992. Mr. Nguyen-Phuong graduated from Ecole Centrale (Paris, France) and the Stanford University Graduate School of Business. He is based in Singapore.

Investment experience: 30 years

ASHLEY DUNSTER is a Private Equity Managing Partner with primary responsibility in Europe, the Middle East and Africa. In 2006, he became a member of the Private Equity Investment Committee. Prior to joining the CIPEF team in 1997, his experience included four years at the European Bank for Reconstruction and Development, where his focus was private equity in emerging Europe. Mr. Dunster received a BE in civil engineering from the University of Melbourne and a Masters degree in mathematics from Oxford University. He is based in London.

Investment experience: 18 years

LEONARD L. KIM is a Private Equity Managing Partner with primary responsibility in Asia. Prior to joining the CIPEF team in 1997, his experience included being a director of Peregrine Capital Limited, the corporate finance/investment banking arm of the Peregrine Group, where he was responsible for the coordination and execution of corporate finance transactions in Asia for the firm's multinational clients. Mr. Kim holds a BS degree in electrical engineering from Stanford University. He is based in Singapore.

Investment experience: 18 years

WILLIAM BANNISTER-PARKER is a Private Equity Partner with primary responsibility in

Europe, the Middle East and Africa. He joined the CIPEF team in 1994. His prior experience includes five years with Bank of Boston and two years with Bankers Trust in emerging Europe. Mr. Bannister-Parker received a BA (cum laude) from Dartmouth College and an MBA from the Amos Tuck School of Business Administration. He is based in London.

Investment experience: 22 years

MARTIN E. DIAZ PLATA is a Private Equity Partner with primary responsibility in Latin America. Prior to joining the CIPEF team in 2003, he had spent seven years with Donaldson, Lufkin & Jenrette (now Credit Suisse), first as an investment banking associate, then as a principal of DLJ Merchant Banking Partners, in New York and Buenos Aires. Mr. Diaz Plata is a graduate of Universidad Externado de Colombia and holds an MBA from Columbia University Graduate School of Business. He is based in London.

Investment experience: 14 years

STEWART GIBSON is a Private Equity Partner with primary responsibility in global emerging markets. In 2006, he became a member of the Private Equity Investment Committee. Prior to joining the CIPEF team in 1996, he had spent four years at the European Bank for Reconstruction and Development. Mr. Gibson received an AB (magna cum laude with highest honors) in history from Harvard College. He is based in London.

Investment experience: 17 years

JAMES M. HO is a Private Equity Partner with primary responsibility in Asia. Prior to joining the CIPEF team in 1996, Mr. Ho's experience included being a vice president of global equity investments at Bank of America in Hong Kong. Mr. Ho received a BA in economics from the National Taiwan University and an MBA from The Wharton School at the University of Pennsylvania. He is based in Hong Kong.

Investment experience: 20 years

VIVEK KALRA is a Private Equity Partner with primary responsibility in Asia. Prior to joining the CIPEF team in 1999, he spent over seven years as a management consultant and later as a principal with McKinsey & Company in India and New York. Before that, Mr. Kalra earned an MBA from the Stanford University Graduate School of Business, and a Bachelor of Technology in electrical engineering from the Indian Institute of Technology in Bombay, India. He is based in Singapore.

Investment experience: 15 years

GUILHERME LINS is a Private Equity Partner with primary responsibility in Latin America, focusing on Brazil. Prior to joining the CIPEF team in 2000, his experience included eight years with JPMorgan, first as an associate in the Latin American Mergers & Acquisitions Group in New York and São Paulo, and then as a vice president covering JPMorgan's industrial clients in Brazil. Mr. Lins received a BSc in chemical engineering from Universidade Federal do Rio de Janeiro and a management degree from Ecole des Hautes Etudes Commerciales-HEC in Paris. He is based in Geneva.

Investment experience: 18 years

JAMES E. MCGUIGAN is a Private Equity Partner focusing on investor relations. He joined the CIPEF team in 2000 after spending over 16 years as a lawyer and later as an investment banker in the U.S. and Tokyo handling Asia-related cross-border mergers & acquisitions and direct investment transactions. Mr. McGuigan received a JD from the

University of Oregon School of Law and a BS in finance from the University of Oregon. He is based in San Francisco.

Investment experience: 26 years

NICK CHEN is a Private Equity Associate with primary responsibility in Asia. Prior to joining the CIPEF team in 2005, he had spent six years with JPMorgan Investment Banking in New York and Hong Kong where he was most recently a vice president of the Asia M&A group with a focus on China-related cross-border M&A transactions. Before that, he spent two years with Towers Perrin in the U.S. as a management consultant. Mr. Chen received his BA (summa cum laude) in economics from Franklin and Marshall College. He is based in Singapore.

Investment experience: 9 years

IRINA GRIGORENKO is a Private Equity Associate with primary responsibility in Europe, the Middle East and Africa. Prior to joining the CIPEF team in 2006, she spent over four years with McKinsey & Company where she was most recently the engagement manager for Corporate Finance & Strategy Practice. Ms. Grigorenko earned an MBA from INSEAD in Fontainebleau, France, an MA in international finance from the University of Amsterdam, and a BS in accounting (with highest distinction) from the University of Kansas. She is based in London.

Investment experience: 7 years

FERNANDO PINTO is a Private Equity Associate, with primary responsibility in Latin America. Prior to joining the CIPEF team in 2006, he spent over five years with Goldman Sachs & Co. in the U.S. and Brazil where he was most recently an associate in the Latin America Investment Banking Division, advising multinational and Latin American corporations on mergers and acquisitions and equity and debt financings. Mr. Pinto earned an MBA from the Stanford University Graduate School of Business, a Law Degree from the University of São Paulo, and a BA in Public Administration from Fundação Getulio Vargas. He is based in London.

Investment experience: 8 years

CHRISTIAN SKAANILD is a Private Equity Associate, with primary responsibility in Central and Eastern Europe, the Middle East, Africa and Asia. Prior to joining the CIPEF team in 2001, he spent two years with Antfactory as an investment associate (in London and in Tokyo) and before that, three years with Accenture as a strategy consultant. Mr. Skaanild received his BA (honours) in industrial economics from the University of Nottingham. He is based in Singapore.

Investment experience: 11 years

CONCLUSION/RECOMMENDATION

Based upon the successful track record and experience of the principals and the recommendation of PSERS' consultant, Portfolio Advisors, staff recommends that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed \$200 million plus reasonable normal investment expenses, in Capital International Private Equity Fund V, L.P. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director.