



PSERS PRIVATE EQUITY PARTNERSHIPS PROGRAM

**Recommendation for Investment in
Crestview Partners II, L.P.**

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Crestview Partners II, L.P.

EXECUTIVE SUMMARY

Crestview Partners is a private equity firm with a contrarian orientation. The firm targets \$100-250 million equity investments in companies with enterprise values up to \$3 billion. The firm has substantially invested \$1.5 billion in their initial fund ("Fund I") over the last three years, and is seeking to raise a \$2.5 billion successor fund ("Fund II"). The general partner will commit \$150 million to Fund II, in addition to the \$100 million commitment to Fund I.

Crestview expects to generate superior performance through patience, selectivity and concentration. There will be years in which they do not complete any new investments. This was true in their first year in business. Crestview plans to build a concentrated portfolio of 10-15 investments, as was done in Fund I. This allows their team to spend substantial time and effort working to improve the value of its companies. Crestview expects the recent market reversals and challenging credit environment will lead to a significant increase in distressed opportunities and special situations over the next few years. Crestview is well positioned to pursue these opportunities.

INVESTMENT STRATEGY

Crestview searches for unusual investment opportunities arising from major dislocations, financial distress, out-of-favor industries or special situations. There is so much competition for good private equity investment opportunities that a plain vanilla deal through an auction process typically is very expensive. Accordingly, Crestview searches where the pendulum has gone too far in one direction or another. For example, following Hurricanes Katrina, Rita and Wilma, there were substantial losses in the reinsurance sector, estimated at \$80-\$100 billion. Crestview began looking for investment opportunities arising from this dislocation and ultimately completed two investments: Lancashire Holdings, a start-up insurer led by a very experienced underwriter; and Paris Re, a divestiture by Axa of its reinsurance division. Following the bankruptcy of Adelphia Communications, Crestview negotiated an acquisition of their Puerto Rican subsidiary, OneLink. Following the volume declines and financial distress and bankruptcies in the automotive industry, Crestview identified Key Safety, an airbag manufacturer with a strong business model, and acquired the company. Key Safety is growing, profitable and has strong momentum in China, Eastern Europe and Mexico. Following the reversal of the mortgage REIT and subprime mortgage markets, Crestview identified and invested in FBCM, a healthy subsidiary of the mortgage REIT FBR. On the distressed side, at a time when there was a significant concern regarding Charter Communication's long term health, and a related sell off of their bonds, Crestview accumulated a position at a discounted price, believing that either the bonds would give Crestview an influential position in any restructuring or asset sale, or the company's performance would improve and the prices would trade higher. Most of the investments have arisen from some type of dislocation.

Relationship Edge

Crestview's partners and senior advisors have a broad network of relationships and access. These relationships lead to opportunities to identify and to create attractive investment opportunities. In many cases, Crestview knows the owners or managers of private companies that are seeking capital for growth or other purposes. These entrepreneurs seek a partner they can trust and who will add value. Crestview is a natural partner in these situations, given the experience of their partners and their selective, concentrated strategy. In one investment, for example, a partner had a long relationship with the owner of a business seeking to fund \$1 billion of acquisitions. Crestview developed a strategy where they would commit up to \$190

million of equity and assist in arranging \$1 billion of debt financing. In another situation, Crestview's partner had a long relationship with the chief executive of a public company who wanted a private equity partner to investigate a going private transaction. In a third situation, a CEO of a subsidiary was introduced to a Crestview partner through a mutual friend, and decided to work with us to acquire his company from the parent. Unless Crestview has an edge, usually through a relationship, they generally move on to the next opportunity.

Industry Know-how

Crestview's partners have direct operating experience in asset management, financial services and media. Their senior advisors have direct operating experience in financial services, automotive, retail, and real estate. Their founding investors have direct operating experience in many industries, including energy, shipping, insurance, manufacturing, homebuilding and technology. Crestview has substantial investment experience in healthcare and many other industries. Nine of their eleven investments have been in the industries they have targeted: financial services, media and healthcare. The remaining two investments were in industries where a senior advisor or limited partner had direct experience and co-invested with Crestview.

Creative Structuring

Crestview is focused on preservation of capital, and are prepared to employ creative structures and trading strategies to achieve their investment objectives. They do not insist on absolute control in every case. Rather, they focus on sufficient control to implement their investment strategy and operating objectives. They would prefer to share control at a reasonable valuation than to pay too much. They have negotiated investments with direct, majority control, like Munder, Key and Symbion; shared control with other like-minded investors, like One Link, Lancashire, and Paris Re; completed non-control minority investments with strong minority rights, like FBCM, Oxbow and Value Options; and employed trading strategies with downside protection and multiple avenues for value creation, like Charter. They have negotiated investments with seller notes linked to subsequent performance, e.g. Munder, and with longer, structured exit rights, especially in the minority investments. In each case, they are focused on negotiating an agreement that meets the needs of their business partners and achieves their objectives. In addition, they are careful to use appropriate leverage for their investments, and to avoid excess leverage, even when it is easily available. For companies with some cyclical, such as broker-dealers or asset management, they use very modest or no leverage. In most cases, they could borrow more than they choose to in the current environment. They do not make investments, which are dependent on the availability of excessive leverage to generate attractive returns.

Value-Added Strategy

Crestview looks for situations where they can add value through the experience and relationships of their partners. This is especially significant in the middle market, where their relationships and access can provide a competitive advantage to their portfolio companies. They have recruited excellent independent board members to Key, VO, FBCM, and other companies, for example. They have recruited new senior management to VO. They have used their relationships to introduce their companies to new customers, e.g. at Key, FBCM, Lancashire and Munder. They also provide advice and experience in capital markets and mergers and acquisitions to all of our portfolio companies.

Patient Exit

Crestview always considers potential exit strategies as part of its initial investment analysis. They have a strong alignment of interest with their limited partners through the substantial GP participation. Good investments are difficult to identify and close, and they hold their successful

investments as long as the value continues to increase. Accordingly, they would prefer a higher investment multiple to a short term, high IRR. They are happy to own good investments for 5-7 years, or more. Most often, the timing of their exits will be driven by market conditions, strategic logic, or management considerations. For the current fund, five of the eleven investments already have some liquidity. OneLink completed a recapitalization in March 2007, returning 55% of the capital, and Lancashire completed an IPO in December 2005. Charter is a public company. FBCM and Paris Re completed initial public offerings in June and July 2007, respectively. Crestview will consider a wide array of exit possibilities for each investment, including sales to trade buyers, public offerings of equity securities, dividend recapitalizations and open market sales of debt securities. They have substantial experience with each type of potential exit.

INVESTMENT PROCESS

Crestview's investment process has been designed to evaluate investment opportunities using consistent criteria and to allocate resources efficiently. The Investment Committee includes all six investment partners of the firm: Messrs. Delaney, DeMartini; Hurst; Marcus; Murphy and Volpert. Decisions are made at the Investment Committee on a consensus basis. Each new investment requires the unanimous approval of the Investment Committee.

High quality deal flow is a key success factor at Crestview. The more potentially attractive investments reviewed, the better the chances of selecting wisely. Crestview sees over 200 potential investments each year, and they aim to complete only three to five investments. Accordingly, their screening process is critical. All potential investments are reviewed by a partner who makes an initial determination regarding their attractiveness. These preliminary decisions are based on an evaluation of the quality of the business, the competitive dynamic and fundamental position of the industry, competitive advantages and disadvantages, the management team, potential valuation, transaction dynamics, likely competition for the transaction, potential upside, downside risk, and Crestview's relative advantage compared to other potential investors. In general, Crestview will not pursue an opportunity unless they believe they have a significant edge – superior insight, information, relationships, potential value-added, or ability to move quickly and decisively.

Transactions that pass this initial review are discussed with the Investment Committee for preliminary approval to proceed. Approved potential deals are assigned to a team of two partners and two additional investment professionals. The investment teams are then responsible for Crestview's comprehensive due diligence efforts, budget, structuring, contract negotiations and financing. Crestview will commit capital to an investment only after a rigorous due diligence effort. Crestview is assisted in this effort by a broad network of relationships across a variety of industries, including many leading industry consultants and advisors. Crestview often relies as well on the expertise of their senior advisors and selected limited partners.

Weekly reports are submitted to the Investment Committee by the investment team and each deal is discussed at Crestview's weekly meeting. At each critical stage of a transaction, Investment Committee approval is required, including final negotiations; receipt of financial commitments from financing sources; final negotiation of contracts; and ultimate contract execution.

CRESTVIEW MANAGEMENT

Barry Volpert co-founded Crestview in 2004, following his retirement as a partner of Goldman Sachs. At Crestview, Mr. Volpert is Chairman of the Investment Committee and specializes in contrarian themes. In his 22-year investment career, Mr. Volpert has consistently identified

opportunities arising out of dislocations or special situations. At Goldman, Mr. Volpert was a founding member of the private equity business in 1985, and from 1991-2003 served as one of the leaders of this global business, ultimately heading the Merchant Banking Division in Europe and serving as co-COO of the Principal Investment Area worldwide. In this period, Goldman raised nine private equity, distress and mezzanine funds totaling over \$14 billion dollars. Mr. Volpert served as a member of the Investment Committee and the Whitehall Real Estate Investment Committee which oversee all of Goldman's corporate and real estate investment funds. He was responsible, along with others, for many of Goldman's significant private equity investments, including: Cadillac Fairview; Cognis GmbH; Insilco Corporation; Kabel Deutschland; Maryland Cable; Messer Griesheim; Rockefeller Center; Trillium Investments; USG Corporation; Westminster Health Care; and Wincor-Nixdorf GmbH. Mr. Volpert was also a member of the board of directors of Goldman Sachs International, the European Management Committee and the firm's Strategy Committee. While at Goldman, Mr. Volpert was responsible for investing \$3.1 billion of private equity capital that has generated \$7 billion in value and a 31.4% gross IRR on realized and unrealized investments as of December 31, 2006. He has served as a director of many public and private companies, and currently is a director of Key Safety, Lancashire Holdings and Oxbow Carbon and will be a director of Value Options when that transaction closes.

Tom Murphy co-founded Crestview in 2004, following his retirement as a partner from Goldman Sachs. Mr. Murphy leads Crestview's healthcare effort, in addition to sourcing investment opportunities in other industries through his wide network of relationships. At Goldman, Mr. Murphy co-founded and led the Financial Sponsors Group and led the firm's investment banking effort in the Southeast region, focusing on healthcare companies. Mr. Murphy developed many of Goldman's important corporate and financial sponsor client relationships. In addition to his investment banking responsibilities, Mr. Murphy was responsible, along with others, for originating and/or managing ten private equity and mezzanine capital investments made by Goldman Sachs. He served on the board of directors of three of these companies. These investments aggregated \$549 million and generated \$1.1 billion in value to date. Mr. Murphy is a director of Key Safety, FBCM and will be a director of Symbion when that transaction closes.

Bob Hurst joined Crestview in 2004, after a distinguished career at Goldman Sachs. At Crestview, Mr. Hurst focuses on transaction origination, especially with private companies, entrepreneurs and financial institutions. Mr. Hurst has developed a deep and broad network of relationships during his career that are helpful in sourcing proprietary investment opportunities for Crestview. At Goldman, Mr. Hurst spent 30 years in a variety of leadership positions, including head of the Investment Banking Division from 1990 to 1999. Following Goldman's IPO, Mr. Hurst became a Vice Chairman and Director, focused on company-wide initiatives in addition to client responsibilities. During the decade of his leadership, the Investment Banking Division experienced tremendous growth, with revenues increasing five-fold, to approximately \$4 billion, and the employee base increasing to over 2,000. During this period, Goldman Sachs ranked as the leading mergers and acquisitions advisory firm, the leading underwriter of equity securities and a leading underwriter of debt securities. Mr. Hurst is a director of Oxbow Carbon and Paris Re and will be a director of Value Options when that transaction closes.

Rich DeMartini joined Crestview in 2005 and leads our asset management strategy. Crestview focuses on identifying asset management companies with excellent performance where Crestview can assist in their growth and success, capitalizing on the trend towards independent firms out-performing captive entities. Mr. DeMartini had a long, distinguished career building and leading asset management businesses at Morgan Stanley, Dean Witter and Bank of America. He was responsible for leading businesses with approximately \$350 billion in assets

under management, over \$1 billion in EBITDA and 10,000 employees. In addition, he has significant acquisition experience having led or managed many successful prior acquisitions including: Van Kampen Investments; A. B Asesores; and Marsico Capital. Mr. DeMartini serves as chairman of Munder Capital Management and is a director of FBCM.

Jeff Marcus joined Crestview as a partner in 2004 and leads Crestview's media strategy. Mr. Marcus is a successful media and communications entrepreneur. He was previously the President and CEO of AMFM, Inc. (formerly Chancellor Media Corporation), one of the nation's largest radio broadcasting companies. Mr. Marcus was also the founder and CEO of Marcus Cable Company, in which Goldman Sachs made a substantial investment. Marcus Cable raised \$479 million of private equity from leading institutional investors, including Goldman Sachs, and generated a 2.6x multiple of capital for these investors. Marcus Cable managed the assets of Maryland Cable, another Goldman Sachs portfolio company, which generated a 3.1x multiple of invested capital for Goldman. Mr. Marcus is a director of OneLink Communications.

Bob Delaney joined Crestview as a partner in 2007, following his retirement as a partner of Goldman Sachs. Mr. Delaney had substantial experience at Goldman in private equity, distressed investing, leveraged finance and healthcare. Mr. Delaney helped expand Goldman Sachs' private equity business in Asia by establishing and heading Goldman's private equity business in Japan and then leading the private equity business for all of Asia. He will lead Crestview's strategy in pursuing investments in companies facing financial distress. Mr. Delaney will be a director of Symbion when that transaction closes.

FINANCE AND ADMINISTRATIVE LEADERSHIP

Wing Keith joined Crestview in 2004 as a partner and Chief Operating Officer. She was previously the COO of Oak Hill Capital Management, Inc. ("Oak Hill"). At Crestview, Ms. Keith has responsibility for a broad range of operating and management activities, including: investor relations; business processes and policies; human resources and organizational infrastructure. Prior to Oak Hill, Ms. Keith was a senior vice president at Lehman Brothers Inc. where she was a banker and the chief administrative officer for the media & telecommunications and mergers & acquisitions investment banking groups.

Evelyn Pellicone joined Crestview in 2007 as Chief Financial Officer. Previously, she spent eight years at Apax Partners, L.P in New York, where she was the U.S. CFO from 2002-2007. Ms. Pellicone is responsible for the financial management and reporting at Crestview.

SENIOR ADVISORS

Riprand Graf V.U.Z. Arco-Zinneberg

Graf Arco-Zinneberg is a Senior Advisor at Crestview. He currently is President and founder of American Asset Corporation (AAC), a real estate investment and development company in the USA headquartered in New York City. Born in 1955 in Munich, Germany, Riprand Graf Arco was raised in Germany and Austria. Educated in Germany, he studied architecture at the Technical University in Munich and holds an engineering and architectural master's degree (dipl. Ing Univ.). In 1982, he left Germany for the USA to work in Charlotte, N.C. for a real estate development company. He subsequently moved to Toronto, Canada to work for the Lehndorff Group of Companies, a real estate investment firm. In 1987, he founded AAC, a privately held real estate development firm specializing in the development of shopping centers, offices and industrial parks throughout the southeastern USA. AAC employs approximately 150 people, holds a real estate portfolio in excess of 6,500,000 square feet with average annual portfolio growth of more than 15% (with total development assets exceeding \$1.8 billion). Riprand Graf Arco also holds majority interests in farming, forest products, brewery and real

estate interests in Germany, Austria and Czech Republic. He is a member of the International Chapter of YPO as well as associated with the Wharton Real Estate Center at The University of Pennsylvania.

Barry Friedberg

Barry S. Friedberg is a Senior Advisor at Crestview. He also serves as President and CEO of FriedbergMilstein, a CLO manager with \$1.4 billion of assets under management. Prior to that, he was an Executive Vice President of Merrill Lynch & Co., Inc. and a member of the firm's Executive Management Committee. He was responsible for management of the Global Investment Banking Group from 1985 until 1993. Mr. Friedberg is Chairman of the Board of the New York City Ballet, a member of the Boards of Directors of Boys & Girls Harbor, Inc. and Lincoln Center for the Performing Arts, and a member of the Council on Foreign Relations.

Stephen Friedman

Stephen Friedman is a Senior Advisor at Crestview. He also currently serves as Chairman of Stone Point Capital, a private equity firm focused on financial institutions. From December 2002 to December 2004, Mr. Friedman served as Assistant to the President of the United States for Economic Policy and Director of the National Economic Council. He was a Senior Principal of MMC Capital from 1998 to 2002. In 1994, Mr. Friedman retired as Chairman of Goldman, Sachs & Co. He was Chairman or Co-Chairman from 1990-1994, and he served as Co-Chief Operating Officer from 1987 to 1990. Mr. Friedman joined Goldman, Sachs & Co. in 1966 having previously held a position as law clerk to a federal district court judge and as an attorney in New York City from 1963 to 1966. Mr. Friedman recently was re-elected to the board of directors of The Goldman Sachs Group, Inc. and previously served as a director of various public companies including Wal-Mart Stores, Inc. He is Chairman Emeritus of the Board of Trustees of Columbia University and formerly served as Chairman of the Finance Committee of Memorial Sloan-Kettering Cancer Center, a Trustee of The Brookings Institution and a member of the Aspin/Brown Commission on the Roles and Capabilities of the U.S. Intelligence Community and the President's Foreign Intelligence Advisory Board. Mr. Friedman received a B.A. from Cornell University and an L.L.B. from Columbia Law School.

Alan McCollough

Mr. McCollough is a Senior Advisor at Crestview. Formerly at Circuit City Stores, Inc., where he took over leadership of the company in June 2000 after 13 years of extensive experience in merchandising and store management, two of the retailer's primary operating areas. Circuit City is the second largest U.S. electronics retailer, headquartered in Richmond, Virginia. Mr. McCollough began his professional career with the textile manufacturer Milliken and Company. Over his 12 years at Milliken, Mr. McCollough held various positions, including cost accountant, director of quality, manufacturing plant manager, and director of marketing. Mr. McCollough joined Circuit City in 1987 as general manager of corporate operations. He became president and chief operating officer in 1997, which made him responsible for activities involving human relations and resources, management information systems, merchandising, store operations, and planning. He also oversaw the growth of the company's CarMax automobile superstore businesses and spun it out in 2002. In 2000, he assumed as well the role of CEO and in 2002 he was named Chairman of the Board of Directors. Mr. McCollough received a BS from Missouri Valley College and an MBA from Southern Illinois University. He served in the U.S. Navy as an operations officer on a minesweeper.

Sir Nicholas Scheele

Sir Nick Scheele is a Senior Advisor at Crestview. He began his 38-year career at Ford in 1966. He became senior executive of Ford of Mexico in 1988, where he directed manufacturing and

marketing operations. He next served as Chief Executive Officer of Jaguar Cars Ltd., from 1992 to 1999. In January 2000, Sir Nick was elected Chairman, Ford of Europe, and in August 2001 was appointed Group Vice President of Ford North America. From October 2001 through November 2004, Sir Nick served as President, Chief Operating Officer and Director of Ford Motor Company and was a Member of the Office of the Chairman and Chief Executive Committee of the Board of Directors. In June 2001, Mr. Scheele was knighted by Queen Elizabeth II along with the Order of St Michael and St George for his services to British exports. Sir Nick is deeply involved in charity and community support projects. He was voted a lifetime member of the National Society for the Prevention of Cruelty to Children and either has been or remains active in numerous charitable causes including the Save the Children Fund, the St Basil's Appeal for Homeless Children, the British Motor Industry Benevolent Fund, the Advisory Boards of Coventry and Durham Universities, the British American Chamber of Commerce, the Fullbright Commission and as Chancellor of Warwick University. Sir Nick serves as Non-Executive Chairman of the Board of Key Safety Systems.

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 90.9 percent of the committed capital, but not to exceed \$200 million plus reasonable normal investment expenses, in a side fund to Crestview Partners II, 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.