



PSERS PRIVATE EQUITY PARTNERSHIPS PROGRAM

**Recommendation for Investment in
Milestone Partners III, L.P.**

Charles J. Spiller
Director of Private Markets and Real Estate

December 12, 2007

Milestone Partners III, L.P.

EXECUTIVE SUMMARY

Overview

Milestone Partners III, L.P. ("**Milestone III**" or the "**Fund**") is seeking capital commitments of \$200-\$240 million to fund a portfolio of equity and equity like investments in lower middle market companies with superior management teams, stable financial performance and product and service lines that offer attractive risk/reward profiles. The goal is to achieve annual rates of return in excess of 30% for the Fund's limited partners (the "**Limited Partners**").

Founded in 1995 with predecessor vehicle Milestone Capital Partners, L.P. ("**Milestone I**"), Milestone Partners Management Co., LP (the "**Management Company**" or "**Milestone**") is a private equity firm based in the greater Philadelphia area that has become a recognized leader in acquiring controlling interests in companies with values generally between \$15 million and \$100 million. Milestone generally invests between \$5 million and \$25 million per company and targets seasoned, well-managed companies with niche market positions, stable cash flow and identifiable organic or acquisition related growth opportunities. Many of Milestone's targeted companies are closely held businesses or divisions of larger corporations to which Milestone provides capital to support ownership transitions, management buyouts, recapitalizations or pure growth initiatives. The Fund, Milestone Partners III GP, L.P. (the "**General Partner**"), the Management Company and the Principals are often referred to collectively as "**Milestone**".

Since inception, Milestone has consistently focused on acquiring companies through leveraged buyouts in the lower end of the middle market, a segment significantly underserved. The smaller transactions that define the lower middle market are attractive because they are typically less competitive, are often negotiated directly with business owners and are consistently acquired at lower purchase price multiples than transactions completed with larger companies, resulting in less financial risk without sacrificing the opportunity for private equity type returns.

INVESTMENT STRATEGY

Milestone generates deal flow through a highly disciplined, proactive and thesis-driven approach. In addition to being opportunistic on individual leads, the Principals also analyze selected markets from a macro perspective, assessing industry characteristics and competitive dynamics to aggressively seek the best companies within those sectors to purchase. Milestone is not in the business of acquiring struggling companies and trying to fix their flaws in a limited time frame. Instead, they target growth-oriented companies that are already successful. Milestone seeks businesses it can impact by providing fresh capital, and by leveraging their experience, knowledge and network to help take these companies from good to great. Milestone uses the following criteria as the core of a rigorous review process for identifying those investments, including initial screening, due diligence (with the assistance of outside parties) and management assessment:

Quality Management Teams with Demonstrated Industry Expertise – Milestone will generally invest only in companies with proven management teams that have demonstrated records of success, including profit and loss responsibility, within their respective industries. Milestone seeks entrepreneurs who are of the highest integrity, accept advice and criticism willingly, have a professional demeanor in their interactions with investors, customers, partners and advisors and possess the ability to attract and motivate talent. The Principals will generally avoid opportunities where the fundamental

components of a strong management team are not already in place and likely to remain in place after closing.

Sustainable Margins and Growth – Milestone targets companies that have attractive historical growth records and solid operating margins which are sustainable into the foreseeable future. These types of companies often benefit from identifiable and sustainable competitive advantages such as intellectual property, exclusive customer relationships, manufacturing processes or highly regarded branded products.

Market Leader or Leadership Potential – Milestone places paramount importance on investing in companies that have significant competitive advantages within a particular market that give them a defensible competitive position and the potential to emerge, or maintain their position, as market leaders in their industry.

Attractive Transaction Structure and Pricing – Milestone will seek to make investments for the Fund at attractive valuations relative to a company's existing cash flow and core asset base. Milestone will typically invest through common and preferred equity and equity related securities but may also utilize alternative deal structures to minimize risk and enhance the probability of upside success for each investment.

Clear Exit Strategy – A deep understanding of an investment's exit alternatives is a critical element in evaluating an investment opportunity. Investments must have multiple potential exit alternatives which should not be dependent on industry cycles. Milestone typically works closely with portfolio companies to improve financial controls, reinforce infrastructure and refine growth strategies in order to develop a company ready for sale to a universe of buyers that has often been identified prior to making the investment. The universe of buyers generally includes both strategic buyers in similar or related industries and larger financial buyers. In addition to carefully analyzing and considering the potential exit strategies before making an investment, the Principals will revisit the exit strategy on a regular basis during the Fund's ownership period.

Defensible and Validated Financial Assumptions – A company's projected financial assumptions must be defensible based on historical financial performance and comparable industry metrics. Future revenue projections will be analyzed thoroughly through customer interviews and overall market analysis. Above all, the target company must demonstrate the ability to achieve its projected growth rates and maintain attractive gross margins through both a history of meeting earnings targets and systematic and sound financial analyses.

Platforms Ready to Achieve Growth Through Acquisition – Milestone generally seeks to invest in companies that can become platforms for add-on acquisitions. These add-on acquisitions can often be executed at lower entrance multiples than their related platform companies due to size, customer concentration and lack of well developed systems, among other factors. Once integrated, these add-on acquisitions can provide meaningful multiple accretion upon exit. However, Milestone has also demonstrated the ability to invest successfully in companies that can achieve substantial organic growth and are not dependent on their ability to complete add-on acquisitions to meet their return objectives.

Solid Business Culture – Success depends on more than a strong management team and a positive, hard working, profit-oriented corporate culture is crucial to the future success of a business. A business should have a history of meeting its projections, managing its profit and loss, maintaining an efficient balance sheet and continuously improving itself in all operational aspects. If such a culture does not exist, it is a

daunting task, even for a superior management team, to create this culture on the timetable necessary for achieving superior returns for investors within a three to seven year time horizon.

Impact Potential – Milestone generally seeks to make investments that have the potential to provide investors with at least three times their invested capital and represent anticipated gross proceeds on exit equal or greater in value to 15% of the committed capital of the Fund. This scale is critical since significant time, attention and resources will be invested in each portfolio company.

INVESTMENT PROCESS

Due Diligence

Milestone brings to bear a comprehensive and complementary set of experiences in completing due diligence on prospective investments. Pre-acquisition, Milestone evaluates an acquisition candidate's management, culture, market, financials, operations, systems and procedures. Milestone makes judicious use of outside advisors during the pre-acquisition process. In general, the outside advisors fall into one of two categories: third-party consultants or operating partners. Customary advice required on every investment includes accounting, background checks, market intelligence, consulting, legal, benefits and insurance, asset appraisals and environmental diligence. When using third-party consultants, Milestone is careful to minimize any potential broken deal costs by leveraging its long-term relationships and by focusing on transactions with a high likelihood of closing. Operating partners are typically individuals known to Milestone from previous investments or through other relationships. These operating partners may accompany Milestone on initial company visits and due diligence trips, as well as participate in internal meetings. Their compensation is usually structured as a reimbursement of expenses and sometimes as a modest consulting fee.

ACTIVE PORTFOLIO COMPANY MANAGEMENT

The most significant value creation occurs after the closing of an acquisition. Utilizing their collective experience, including serving on the boards of more than 45 companies throughout their careers, and acting as advisors to many other boards, the Principals take an active role in portfolio companies. The Principals build the management teams, advise on strategy and develop operating guidelines (both financial and non-financial) that contribute to success and position the company for a successful exit. Their overall approach is to be a resource, not a burden, to their management partners.

Post acquisition, Milestone does not rely on financial engineering to create returns for its investors. Rather, they acquire companies with the goal of not only building a larger, more profitable company for the next owner but also building one that is "turn-key" ready to provide the new owner with ample identifiable upside with the appropriate operational foundation. This approach involves developing and proving out the business strategy, enhancing and closing gaps in the management team, investing in systems and refining operational procedures. Achievement of these objectives requires the creation of a comprehensive, customized strategic plan, along with a list of critical action items necessary to create both short-term profits and long-term enterprise value. Examples of specific action items that Milestone would typically assist a portfolio company in handling include:

- addressing succession planning or senior management issues;
- discontinuing unprofitable product or service lines;
- developing a focused growth strategy;

- enhancing product design or development capabilities;
- streamlining manufacturing or warehousing operations;
- analyzing and improving existing sourcing procedures and vendors;
- reducing working capital requirements;
- promoting cross-fertilization among portfolio companies to capitalize on “low hanging fruit” in product sales and cost savings initiatives;
- enhancing data gathering systems and reporting;
- developing standardized monthly reporting and quarterly board packages; and
- changing or enhancing management information systems.

Milestone also encourages the senior management of its portfolio companies to leverage their complementary expertise in overlapping areas of interest. To that end, Milestone holds an annual “**Executive Conference**” for the key senior managers of its portfolio companies to foster a support network. One of the results of these efforts is that Milestone developed a shared services program among its portfolio companies with a goal of realizing cost savings on the procurement of common goods and services.

As a portfolio company’s operations mature, their Principals develop a sound understanding of the strengths and weaknesses of an entrepreneurial management team and its capacity for growth. Their Principals will also actively identify acquisition and merger candidates through their extensive network of industry contacts. Once an attractive add-on candidate is identified, Milestone typically leads the negotiations relating to the purchase of any acquisition. In addition, Milestone assumes the responsibility for structuring and assembling required financing and enhancing management’s financial credibility with lenders and underwriters.

EXIT STRATEGY

Milestone begins with the end in mind, exerting significant influence over each portfolio company with respect to growth and exit strategies. Generally, the Fund anticipates a typical holding period of three to seven years during which Milestone controls the acquired company’s board and utilizes its own expertise as well as the specialized knowledge of the appropriate individuals from its group of operating partners. Milestone establishes a formal reporting procedure for each portfolio company, meeting and speaking regularly with the portfolio company’s management between board meetings. Their Principals develop options for and eventually implement the timing and strategy for exiting each investment, typically through a sale. They may, at times, realize increases in portfolio company equity value through partial recapitalizations in which they maintain their equity position in the portfolio company. Although they typically engage investment banks to run competitive sales processes to facilitate their exit from investments, Milestone takes an active role in negotiating and closing the sale of each of its portfolio companies.

OPERATING PARTNERS

Milestone’s relationships with and access to a large and diverse network of operating partners provide strong support to Milestone’s ability to successfully source, diligence, negotiate and close transactions as well as their ability to add value to their portfolio companies through add-on acquisitions or organic growth. No individual operating partner will have relevant experience for every opportunity evaluated. Therefore, their Principals leverage their network to find the most appropriate operating partner for each situation based on experience and personality. Before closing, operating partners are usually compensated on a per diem basis. If a transaction is completed, the operating partner may receive the opportunity to co-invest in the

transaction and, if appropriate, may also assume a position on the board of the portfolio company. In summary, operating partners supplement and complement the experiences of the Principals and further their ability to add value to the portfolio companies and generate returns for their investors in line with their investment objectives.

MANAGEMENT

Milestone's four Principals are Brooke B. Hayes, Robert G. Levine, John P. Shoemaker and W. Scott Warren, each of whom has significant and extensive experience in the lower middle market. The four Principals have worked together since 2002 and have interacted with each other in various capacities for over twenty years. The Principals, along with Milestone's other investment professionals and support personnel, have demonstrated the ability to work together as an effective and cohesive team. Biographies and transaction experience for the Principals are set forth below.

Brooke B. Hayes, Partner - Mr. Hayes joined Milestone in 2002, having spent most of his career in middle market corporate finance and private equity. From 1999 to 2002, he was an Associate in the Investment Banking Group of J.P. Morgan H&Q in San Francisco and New York, where he focused on executing mergers and acquisitions, equity and debt transactions. From 1995 to 1997, Mr. Hayes worked for the Stratum Group in New York, where he analyzed and invested in numerous middle market transactions utilizing senior and mezzanine capital. Prior to his tenure at Stratum, Mr. Hayes worked in the corporate finance group at First Fidelity Bank (First Union). Mr. Hayes earned his BS in Economics and an MBA from The Wharton School of the University of Pennsylvania. He is married with four children.

Robert G. Levine, Partner - Mr. Levine started Milestone in 1995 after previously focusing his career on executing middle market merger and acquisition transactions and practicing business law. From 1985 to 1995, first in the Investment Banking Group of Lehman Brothers and subsequently as a Principal at Legg Mason Wood Walker, Mr. Levine completed dozens of middle market transactions, primarily for niche manufacturing and distribution companies. Prior to transitioning to investment banking, Mr. Levine practiced business law for three years in Denver, Colorado with the firm of Atler, Zall and Haligman. Mr. Levine earned a BA from Northwestern University, a JD from George Washington University and an MBA from the Wharton School of the University of Pennsylvania. He is married with two children.

JOHN P. SHOEMAKER, PARTNER - Mr. Shoemaker joined Milestone in 2002 having spent most of his career in the lower middle market private equity field. He was previously a Managing Director of Internet Capital Group, where he developed and executed a strategy for building a portfolio of investments in the financial services area. From 1996 to 2000, Mr. Shoemaker was a Managing Director and the head of the Philadelphia office of Mellon Ventures, where he focused on sourcing and executing lower middle market leveraged buyouts. From 1994 to 1996, Mr. Shoemaker was Vice President of Corporate Development for RAF Industries, focusing on acquiring lower middle market manufacturing companies. He was also both a corporate lawyer for Reed Smith Shaw & McClay in Philadelphia and an investment banker for Morgan Stanley in New York. Mr. Shoemaker holds a BA from the University of Pennsylvania and a JD from Boston College Law School. He is married with two children.

W. SCOTT WARREN, PARTNER - Mr. Warren started Milestone in 1995 after devoting most of his prior career to middle market leveraged buyouts and corporate finance. From 1989 to 1995, he was a Managing Director at both Philadelphia First Group and at Beacon Capital, private merchant banking firms with a primary emphasis on arranging middle market leveraged buyouts, recapitalizations and growth financings. From 1986 to 1989, Mr. Warren was a Vice President in the Investment Banking Group of Lehman Brothers where he represented buyers

and sellers of middle market companies. From 1979 to 1986, Mr. Warren was with the investment arm of the Philadelphia National Bank, first in international private equity investing and then as head of the Private Placement Department. Mr. Warren graduated from the University of Virginia's McIntire School of Commerce with a BS in Finance. He is married with two children.

Adam H. Curtin, Vice President - Mr. Curtin joined Milestone in 2003 from Merrill Lynch where he contributed to the completion of a variety of mergers and acquisitions, equity and debt transactions as an Analyst in both the Consumer Products and High Yield groups within the Investment Banking Group in New York. Mr. Curtin graduated from The Pennsylvania State University with a BS in Finance and a Minor in Economics.

Geoffrey B. Veale, Vice President - Mr. Veale joined Milestone in 2005 from Jefferies Capital Partners, a middle market private equity firm in New York, where he was an Associate focused on sourcing and executing leveraged buyout transactions in the industrial and consumer industries. Prior to joining Jefferies Capital Partners, Mr. Veale was an Associate in the Mergers and Acquisitions Group of J.P. Morgan. Mr. Veale graduated from Washington & Lee University with a BS in Business Administration. He is married.

John J. Nowaczyk, Director of Business Development - Mr. Nowaczyk joined Milestone in 2007, bringing with him 15 years of investment banking and consulting experience focused on mergers and acquisitions and private finance, primarily with lower middle market and emerging growth companies. He was previously a Vice President in the Strategic Advisory Group of Legg Mason Wood Walker. Prior to that, he served as an Associate in the investment banking department with Paine Webber, Incorporated. He began his career as a Financial Analyst in the investment banking department of Kidder, Peabody & Co. Incorporated. Mr. Nowaczyk received a BA from Harvard College. He is married with two children.

David J. Andrzejewski, Analyst - Mr. Andrzejewski joined Milestone in 2006 after graduating from the University of Pennsylvania with a BA in International Relations. Mr. Andrzejewski previously worked as an intern for Northrop Grumman in the Program Finance and Marketing & Business Development departments over two summers.

Mark B. Martinelli, Chief Financial Officer - Mr. Martinelli joined Milestone in 2004 having spent his prior career in public accounting, private equity and investment consulting. Previously, he was with Berwind Capital Partners where he served as Vice President of Finance and Administration and was responsible for fund accounting. Before joining Berwind, Mr. Martinelli served as Chief Financial Officer for Brinker Capital Holdings, Inc. and was responsible for accounting, tax, insurance, cash management, banking, financial reporting and human resources. Prior to entering the private company arena, Mr. Martinelli was in Public Accounting with PricewaterhouseCoopers. Mr. Martinelli is a non-active CPA and earned his BS in Accounting from the University of Delaware. He is married with three children.

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 \$60 million plus reasonable normal investment expenses, in a side fund to Milestone Partners III, 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.

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Summary of PSERS' Key Investment Requirements

General Partner Commitment	10% of PSERS' commitment in a side fund
Subordination	Yes, with an Escrow account
Indemnification Standard	Prudent Expert
8% Preferred Return	Yes
Catch-Up	Yes, 100%
Carried Interest	17.5 % on initial \$31.25 M of PSERS' commitment; thereafter 20%
Co-Investment Rights	Yes
L.P. Advisory Board Representation	Yes
Annual & Valuation Committee Meeting Expense Reimbursement	Yes
Key Man Provision	Either W. Scott Warren or John P. Shoemaker; or both Robert G. Levine and Brooke B. Hayes
No Fault Divorce Provision	Yes
Clawback	Yes
Management Fee	1.75% of committed capital during commitment period; thereafter, 1.75% of invested capital

This Fund meets all of PSERS' contractual terms.

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Milestone Partners II Performance
As of 9/30/2007 (\$ in millions)

Date	Company	Capital Invested	Cash Realized	Unrealized Return	Total Return	Gross IRR	Return Multiple
Jul-04	Knights Apparel	\$7.0	-	-	-	-	-
Feb-05	Red-Oak	\$1.4	-	-	-	-	-
Aug-07	Follow-On Investment ⁽¹⁾	\$9.0	-	-	-	-	-
	Knights Apparel Total	\$17.4	-	\$17.4	\$17.4	0%	1.0x
Aug-04	Good Health Natural Foods	\$6.0	-	-	-	-	-
Nov-06	Follow-On Investment	\$0.9	-	-	-	-	-
	Good Health Natural Foods Total	\$6.9	-	\$4.1	\$4.1	(18%)	0.6x
May-05	CODi	\$5.8	\$6.6	\$8.2	\$14.8	73%	2.6x
Nov-05	United Road Towing	\$10.6	-	-	-	-	-
Jun-06	Boston	-	-	-	-	-	-
Mar-07	X-Pert	-	-	-	-	-	-
May-07	RDO	-	-	-	-	-	-
	United Road Towing Total	\$10.6	-	\$40.8	\$40.8	109%	3.8x
Jun-06	Bodybuilding.com	\$10.0	\$10.0	\$28.0	\$38.0	211%	3.8x
Jul-06	Outlook Group	\$8.0	-	\$17.3	\$17.3	94%	2.2x
May-07	Interconnect Devices	\$14.0	-	\$14.0	\$14.0	0%	1.0x
Total		\$72.7	\$16.7	\$129.8	\$146.5	54%	2.0x

(1) Committed, but not drawn



November 28, 2007

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

Re: Milestone Partners III, L.P.

Dear Trustees:

Portfolio Advisors, LLC, having been duly authorized by the Board of PSERS, has evaluated Milestone Partners III, L.P. (the "Fund"). The Fund will focus on leveraged buyouts transactions of well-established companies with enterprise values of up to \$100 million in a variety of industries. The Fund's typical investments will require between \$5 million and \$25 million of equity. Previous investments include niche manufacturing, value added distributors, and service companies that target consumer, industrial and commercial end-users. The Fund will not invest in startup, retail, real estate or technology deals. The General Partner will target opportunities in the mid-Atlantic region of the United States; however, the manager reserves the right to do deals on a national basis. The typical transaction will be structured as 25% to 45% equity with the balance being senior or subordinated debt.

The following criteria define Milestone's investment process that includes initial screening, due diligence with outside consultants and management assessment:

- *Quality Management Teams with Demonstrated Industry Expertise.* Milestone will invest only in proven management teams with a demonstrated record of success. The Principals identify key managers and partner with them. Key managers will have meaningful financial stakes in the success or failure of the company. The Principals avoid opportunities where the CEO is not already in place or seeks to exit shortly after closing.
- *Sustainable Margins and Growth.* Milestone will target companies that have the potential for attractive growth in revenues and cash flow as well as increasing margins.
- *Market Leader or Leadership Potential.* Milestone places significant importance on investing in companies that are market leaders, or have the potential to emerge as the leader, in their respective niche markets.
- *Attractive Transaction Structure and Pricing.* Historically, Milestone has been able to invest in companies at attractive cash flow multiples. The average multiple on the

platform investments have averaged less than 5.5x cash flow. Investments are typically in the form of common or preferred equity.

- *Clear Exit Strategy.* Exit opportunities are clearly defined prior to investing. Companies must have multiple exit opportunities that are industry-cycle independent.
- *Defensible and Validated Financial Assumptions.* A company's projected financial assumptions must be defensible based on historical performance and comparable to industry standards.
- *Solid Business Culture.* A good indication of future success comes from a positive, hard working, profit-oriented corporate culture.
- *Impact Potential with Minimum Downside.* Milestone targets investments that it believes have the potential to provide limited partners with at least three times invested capital.

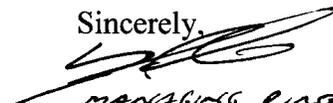
Portfolio Advisors' recommendation is based upon the following analytical factors and is made within the context of PSERS' investment guidelines.

- Detailed due diligence, including interviews with industry peers, private equity professionals and CEOs of portfolio companies.
- Evaluation of the composition of the investment team, how they work together, compensation structure and other factors that help determine whether a group is likely to be able to replicate past successes as currently configured.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- The strategy proposed for the Fund is appropriate for the Private Equity Partnership component of the portfolio.

Based on the above, Portfolio Advisors recommends that PSERS commit up to 25% or \$60 million of limited partnership interests in the Fund. Portfolio Advisors makes this recommendation considering the General Partner's qualifications and PSERS' overall investment guidelines.

This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in the Fund, since their needs, objectives and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits of the Fund. Portfolio Advisors does not provide legal or other non-investment-related advice.

Sincerely,



MANAGING DIRECTOR
Portfolio Advisors, LLC



Public Schools Employees' Retirement System
Investment Committee
December 2007

MILESTONE PARTNERS III, L.P.

“THIS INVESTMENT RECOMMENDATION IS BEING PRESENTED FOR CONSIDERATION IN THE INTEREST OF MEETING CERTAIN TIME CONSTRAINTS IMPOSED BY THE GENERAL PARTNER AND/OR THE PORTFOLIO ADVISORS' CLIENT NAMED ABOVE, AND REMAINS SUBJECT TO THE REVIEW OF FINAL FUND OFFERING AND/OR LEGAL DOCUMENTS THAT ARE NOT YET AVAILABLE.”

Offering and Status

Milestone Partners (“Milestone”) is seeking to raise \$200 million (\$240 million “hard cap”) for Milestone Partners III, L.P. (the “Fund” or “Fund III”) to invest in lower middle market growth companies with a focus on service and niche manufacturing businesses. The General Partner will commit 10% of the aggregate commitments to a side car parallel Fund, in accordance with PSERS’ investment policy. Institutional Investors expected to commit to the Fund include: Davidson College Endowment, Allianz, BBT, Sigular Guff and Parish Capital.

Recommendation

Portfolio Advisors’ recommendation is made within the context of PSERS’ investment guidelines and investment opportunities that meet these guidelines. Portfolio Advisors recommends that PSERS commits to purchase up to 25% or \$60 million of limited partnership interests in the Fund. Drawdowns are expected to occur throughout a five-year investment period. The Fund has a 10 year term with two one-year extensions. PSERS also made a \$29.9 million investment in milestone’s prior fund.

Portfolio Advisors recommends this investment for the following reasons:

Key Investment Considerations

Experienced Principals

- Milestone’s investment professionals have over 55 years of combined private equity investment experience with a strong focus on the lower middle market.
- Two of the four Principals have worked together in various capacities for over 18 years.
- The Principals have significant prior relevant experience in disciplines such as mergers and acquisitions, finance, corporate law, and general management gained while employed at firms such as Lehman Brothers, Morgan Stanley, Mellon Ventures, Philadelphia National Bank, Reed Smith and RAF Industries.

Attractive Performance and Value Creation

- Milestone II has generated a gross IRR of 62.0% and a 2.0x multiple on invested capital.

- Milestone I has generated a 30.0% gross IRR with a 3.0x multiple on its six investments as of September 30, 2007.
- Milestone II has completed seven portfolio company investments and several add-on acquisitions, with a combined transaction value of over \$275 million.

Lower Middle Market Focus

- The Fund targets companies with enterprise values of up to \$100 million.
- Equity investment transactions range from \$5 million to \$25 million. This segment of the market is usually less efficient and fragmented, which often results in less competition for deals and lower purchase price multiples.
- Since these companies are often performing below their potential, Milestone has the ability to grow these companies and improve operational efficiencies.

Proprietary Deal Flow

- Well established network and database that includes 3,300 intermediary contacts from over 1,500 firms
- Robust calling and meeting program
- All seven transactions in Fund II have been sourced on a proprietary basis

Alignment of Interest

The General Partner will commit at least \$5 million.

Investment Risks

Competitive Market

A primary risk associated with an investment in the Fund is the ongoing ability of the firm to identify, source and execute investments at attractive valuations. Recently, there has been increasing competition in the lower middle-market. This could adversely affect purchase multiples, as well as proprietary access to deal flow. Portfolio Advisors believes that this risk is mitigated by the lower middle market focus where the types of transactions anticipated by the Fund usually get done with little publicity as most often the Principals are dealing directly with family members or CEOs directly. The disciplined investment process followed by the Principals should also benefit the Fund with attractive purchase price multiples.

Lack of Operational Experience

The Principals of the organization have significant private equity experience as well as experience in legal, investment banking and business advisory roles. However, the team does lack operational experience. To mitigate this risk, the Principals work with a wide range of senior entrepreneurs and operating executives who have extensive experience in a broad range of industries. These relationships give Milestone an additional dimension by enhancing its industrial knowledge and complementing its transactional skills. These relationships are also helpful in validating the potential of target companies.

Financing Risk

In the current credit market environment it may be more difficult to execute and complete the recapitalization sub strategy. PA has reviewed the portfolio and believes this risk is mitigated by the health of the portfolio, revenue growth rate and Milestone's long relationship with local intermediaries.

Fund Focus and Strategy

Milestone, based in Saint Davids, PA., intends to follow the same strategy it has successfully executed since 1996. The Fund will focus on leveraged buyouts, management buyouts, recapitalizations and buy/build strategies of well-established companies with enterprise values of up to \$100 million and EBITDA of \$3 million to \$15 million in a variety of industries. Milestone's typical transactions require between \$5 million and \$25 million of equity in companies with leading positions in niche markets, stable cash flows, and identifiable growth prospects. The Fund seeks majority control investments but will invest in minority positions on a select basis. Previous investments include niche manufacturing, value added distributors, and service companies that target consumer, industrial and commercial end-users. The Fund will not invest in startup, retail, real estate or technology deals. The General Partner will primarily target opportunities in the mid-Atlantic region of the United States; however, the manager reserves the right to invest across the United States on an opportunistic basis.

Milestone seeks situations where equity is the source of 25% to 45% of the transaction and the balance is senior or subordinated debt. The General Partner typically acquires businesses in partnership with existing management. The Fund expects to invest in 3-4 portfolio companies per year with the entire portfolio containing 8-12 companies during its term. The Fund is targeting gross annual IRRs of 35% with a typical holding period range of 3-7 years.

Many transactions in the lower middle market occur on a non-auction basis and therefore are not accessible to most private equity firms. In order to gain access to these lower middle market transactions, Milestone has developed extensive relationships with regional business brokers, accountants, attorneys, investment advisors, insurance agents and other trusted business professionals who advise on these non-auction transactions. Many of Milestone's most effective referral sources are located outside of major cities and present Milestone with attractive, often proprietary, opportunities. Milestone is presented with over 800 investment opportunities per year of which, approximately 250 meet Milestone's criteria and are reviewed in detail. Milestone currently has run rate of approximately 42 "qualified" leads per month which means that Milestone has agreed to confidentiality and has received detailed information.

Milestone tracks its deal flow and contacts through Salesforce.com. Currently, their database has approximately 3,300 intermediary contacts from over 1,500 firms. This database grows through selective mailings as well as sponsorship and attendance at regional tradeshows and conferences. The Principals are active in various community associations such as Team Pennsylvania Foundation and various academic boards to increase Milestone's exposure. Another significant source of deal flow comes from their industry and operating executive contacts. Milestone regularly works with a wide range of senior entrepreneurs and operating executives who have

extensive experience in a broad range of industries. These operating executives, who are also often investors, are the source of proprietary deal opportunities. Moreover, they also provide a level of credibility at the initial introduction to a potential investment, provide assistance in due diligence and enhance post-investment performance through board participation and operating roles.

The following criteria define Milestone's investment process that includes initial screening, due diligence with outside consultants and management assessment:

- *Quality Management Teams with Demonstrated Industry Expertise.* Milestone will invest only in proven management teams with a demonstrated record of success. The Principals identify key managers and partner with them. Key managers will have meaningful financial stakes in the success or failure of the company. The Principals avoid opportunities where the CEO is not already in place or seeks to exit shortly after closing.
- *Sustainable Margins and Growth.* Milestone will target companies that have the potential for attractive growth in revenues and cash flow as well as increasing margins.
- *Market Leader or Leadership Potential.* Milestone places significant importance on investing in companies that are market leaders, or have the potential to emerge as the leader, in their respective niche markets.
- *Attractive Transaction Structure and Pricing.* Historically, Milestone has been able to invest in companies at attractive cash flow multiples. Investments are typically in the form of common or preferred equity.
- *Clear Exit Strategy.* Exit opportunities are clearly defined prior to investing. Companies must have multiple exit opportunities that are industry-cycle independent.
- *Defensible and Validated Financial Assumptions.* A company's projected financial assumptions must be defensible based on historical performance and comparable to industry standards.
- *Platforms Ready to Achieve Growth Through Acquisition.* Milestone seeks to invest in companies that can become platforms for add-on acquisitions. Add-on acquisitions often are executed at lower entrance multiples and once integrated, add-on acquisitions can provide meaningful multiple accretion upon exit.
- *Solid Business Culture.* A good indication of future success comes from a positive, hard working, profit-oriented corporate culture.
- *Impact Potential with Minimum Downside.* Milestone targets investments that it believes have the potential to provide limited partners with a three times multiple on invested capital.
- *Impact Potential.* Milestone seeks to make investments that have the potential to provide investors with at least three times their invested capital.

Utilizing their collective experience, including serving on the boards of over 30 companies throughout their careers, Milestone's investment professionals take an active role in portfolio companies post-investment. The Principals assist in building management teams, identifying acquisition candidates, advising on strategy, developing operating guidelines and positioning the company for exit. The investment team develops and implements the timing and strategy for exiting each investment, either through a recapitalization or sale to strategic or other financial

buyers. Milestone takes the lead role in negotiating and closing the sale of each of its portfolio investments. This has been confirmed through reference calls with several portfolio company CEO's.

General Partner Profile/Organization

Milestone Partners was founded in 1995 by Robert G. Levine and W. Scott Warren. The organization operates out of one office in Saint David, PA. Prior to forming Milestone, the two worked together in various capacities for over 15 years, including four years executing middle market buyout transactions at Lehman Brothers.

The Principals, together with other members of the Milestone team of professionals, have over 55 years of aggregate lower middle market private equity experience. The Principals offer broad experience in the buyout market, acquiring and operating companies, facilitating mergers and acquisitions and placing private institutional equity and debt of all types. Detailed biographies of the professionals are set forth in **Appendix A**.

The partners control the General Partner and the Management Company. The General Partner will make all investment decisions for the Fund. All significant internal and operational decisions are discussed and agreed to by all partners unanimously. In addition, the Principals meet daily on an informal basis and monthly to discuss strategic and operational issues. The Principals and chief financial officer manage the internal financial functions, including reporting and cash management. Milestone provides quarterly updates on all existing investments and furnishes annual audited GAAP financial statements and tax information about the Milestone investment funds to each investor.

The firm is expected to hire at least two additional professionals at the analyst/associate level to assist in financial modeling, due diligence and portfolio monitoring. There have been two professionals that left Milestone in the past five years. Tom Bell was a former operating partner who retired from Milestone for professional reasons following the weak performance of the two deals he led. Patrick Hanraty was a vice president/principal at Milestone and left to pursue investment banking opportunities. Portfolio Advisors does not view these two departures as significant as they both were at the firm for relatively short periods of time and worked on only two deals.

Investment Record

Milestone II has completed seven portfolio company investments and several add-on acquisitions, with a combined transaction value of over \$275 million. As of September 30, 2007, Milestone II had invested or committed \$72.2 million of its approximately \$120 million of committed capital and completed three leveraged recapitalizations of two of its companies, returning approximately \$16.7 million of invested capital without diminishing its ownership position in the recapitalized companies.

Milestone I was managed by some of Milestone III's Principals and had an investment philosophy similar to that of Milestone II and Milestone III. Milestone I has achieved a gross IRR of 30.0% on approximately \$36.6 million of invested capital including realized and

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unrealized returns as of September 30, 2007. There is one remaining investment, E&B Giftware, which is valued at approximately \$63.0 million.

A summary of Milestone Partners investment performance as of September 30, 2007 is as follows:

**Milestone Partners
Summary of Investment Performance**

(\$ millions)	Milestone I	Milestone II	Total
Date of Investment	1996 – 2003	2004	1996 – 2004
Number of Investments	6	7	13
Realized Investments:			
Number	5	0	5
Cost	\$24.6	\$0.0	\$24.6
Realized Proceeds	\$41.3	\$0.0	\$41.3
Multiple	1.7x	-	1.7x
Unrealized Investments:			
Number	1	7	8
Cost	\$12.0	\$72.7	\$84.7
Realized Proceeds	\$11.2	\$16.7	\$27.9
Unrealized Value	\$62.6	\$129.8	\$192.4
Total Value	\$73.8	\$146.5	\$220.3
Multiple	6.0x	2.0x	2.6x
Total Investments:			
Cost	\$36.6	\$72.7	\$109.3
Total Value	\$115.1	\$146.5	\$261.6
Multiple	3.0x	2.0x	2.4x
Gross IRR	30.0%	62.0%	
Net IRR	NA ⁽¹⁾	57.2% ⁽²⁾	

(1) Milestone I was a pledge fund.

(2) Net IRR per Privilege as of June 30, 2007.

Milestone Partners III's investments include:

Knights Apparel, Inc., located in Oak Brook, IL, is a leading producer of team sports apparel, such as jerseys and sweatshirts, for mass market and mid-tier retailers. To date, Milestone III has invested \$17.4 million in the company, including two add-on acquisitions. The investment is held at cost. *Knights Apparel* is expected to be sold in 2008.

Good Health Natural Foods, Inc., located in Greensboro, NC, is a leading producer of natural and organic consumer products with a focus on reduced fat salty snack foods and personal care products. To date, Fund III has invested \$6.9 million including one add-on acquisition. The investment is currently held at 0.6x cost. The company has underperformed since Milestone's initial investment; however, the partners have completely overhauled the existing management and have stabilized the company's operating performance. The General Partner is expecting the investment to return capital.

CODi, Inc. is a growing provider of laptop computer bags and IT accessories located in Harrisburg, PA. In May 2005, Fund III invested \$5.8 million in CODi. In July 2006, CODi completed a recapitalization transaction and redeemed 100% of the outstanding preferred stock plus accrued dividends. This resulted in a cash payment to the Fund of \$6.6 million. The investment is currently valued at \$8.2 million which generates a total return of 2.6 times. The Fund is currently exploring a sale of this company to a strategic buyer in 2008.

United Road Towing, Inc. is the largest automobile towing company in the United States. Fund III has invested a total of \$10.6 million. The investment is currently valued at \$40.8 million or 3.8 times cost.

Bodybuilding.com is a leading e-tailer of an extensive line of dietary and nutritional supplements. In June 2006, Milestone III invested \$10.0 million in the company and currently values the investment at \$38.0 million or 3.8 times cost. This company is currently expected to be acquired by a strategic investor at a significant multiple to cost.

Outlook Group Corp., located in Neenah, WI, is a leading provider of printing, packaging, and direct marketing services. Fund III invested \$8.0 million in the company and is currently valuing the investment at \$17.3 million or 2.2 times cost.

Interconnect Devices, Inc. designs, manufactures, and sells spring contact probes, connectors and interfaces to aerospace, military, electronic, medical, semiconductor, printer circuit board, radio, telephone and automotive companies. Fund III invested \$14.0 million in the company. The deal closed in May 2007 and is currently valued at \$14.0 million.

Due Diligence

Portfolio Advisors professionals have met with Milestone Partners' investment team through due diligence meetings onsite at their office and in Portfolio Advisors' Darien, CT office. Reference checks with portfolio company management executives, lenders and other investors confirm the positive impressions we have on the individuals and the organization, including the investment judgment, execution capability, integrity, discipline and deal sourcing capability of the Principals.

MILESTONE PARTNERS III, L.P.
SUMMARY OF PRINCIPAL TERMS

- Size:** \$200 million target and expected hard cap at \$240 million.
- The Fund:** Milestone Partners III, L.P., a Delaware limited partnership. The General Partner is Milestone Partners III GP, L.P., a Delaware limited liability company.
- GP Investment:** The General Partner will commit at least \$5 million to the Fund.
- Term:** Ten years from the First Closing with up to two one-year extensions at the discretion of the General Partner.
- Investment Period:** Five years from the Final Closing.
- Management Fee:** 2% per annum of aggregate Capital Commitments during the investment period and 1.75% of aggregate Invested Capital thereafter. Management fee will be reduced by 50% of all transaction, monitoring, and break-up fees paid by portfolio companies. The Partnership shall bear all Organizational Expenses up to \$800,000.
- Distributions:**
- (1) 100% to the Limited Partner until such Limited Partner has received distributions equal to aggregate contributions with respect to all Realized Investments;
 - (2) 100% to the Limited Partner until such Limited Partner has received distributions equal to an 8% preferred return with respect to all Realized Investments;
 - (3) 100% to the General Partner until cumulative distributions to the General Partner equal 20% of the sum of the aggregate Preferred Return; and
 - (4) 20% to the General Partner and 80% to the Limited Partners
- Clawback:** Upon final liquidation of the Fund, the General Partner will contribute to the Fund for distribution to the Limited Partners any carried interest allocated to the General Partner that exceeds 20% of Cumulative Net Distributions, net of income taxes.
- No Fault:** The Fund may be terminated for Cause at any time upon prior written notice to the General Partner by the vote of two-thirds in interest of the Limited Partners; provided, however, that the General Partner shall have 60 days to remedy or otherwise cure such Cause for removal.

Key-Man:

If at any time during the Investment Period, two out of the four Principals cease to be active in the Fund's affairs for any reason during any 24-month period, the Investment Period will automatically be suspended and no additional investments (other than previously identified investments and follow-on investments) may be made. Within 60 days, the General Partner will present a plan for replacing the departed Key Persons or otherwise continuing the Fund's investment activities (the "Key Person Plan") to the Limited Partners Advisory Committee. If the Key Person Plan is approved by the Limited Partners Advisory Committee, the suspension of the Investment Period will be lifted. If neither the Key Person Plan nor an alternative plan is approved, the General Partner will so notify the Limited Partners and the Investment Period will automatically terminate as of the date that is 120 days after such notification unless a majority in interest of the Limited Partners elects to continue the Investment Period before the end of such 120 day period.

Diversification:

- (1) No more than 17.5% of aggregate Commitments will be invested in any single portfolio company, provided that the Fund may invest up to 25% in any single portfolio company if such investment includes (or is anticipated to include) both an equity investment in a portfolio security and a Bridge Financing that the General Partner reasonably expects will be refinanced within 12 months such that the investment after such financing would not exceed the 17.5% cap.
- (2) No more than 20% of aggregate Commitments will be invested in publicly traded securities unless (a) the Fund made its investment when the issuer was a private company, (b) the Fund will have significant influence over the company; or (c) the securities were acquired as a PIPE (Private Investment in Public Equity) in connection with a contemplated "going-private" transaction.
- (3) The Fund will not invest in (a) publicly traded securities where the investment is opposed by the board of directors or a majority of shareholders; (b) any real estate company; (c) commodities, options, futures, currency swaps or foreign exchange contracts (other than in connection with hedging investments in portfolio securities); or (d) pooled investment vehicles paying management fees or carried interest.
- (4) The Fund will not invest more than 20% of aggregate Commitments in securities of companies with headquarters or principal places of business outside the United States and Canada.

Appendix

Brooke B. Hayes, Partner

Mr. Hayes joined Milestone in 2002, having spent most of his career in middle market corporate finance and private equity. From 1999 to 2002, he was an Associate in the Investment Banking Group of J.P. Morgan H&Q in San Francisco and New York, where he focused on executing mergers and acquisitions, equity and debt transactions. From 1995 to 1997, Mr. Hayes worked for the Stratum Group in New York, where he analyzed and invested in numerous middle market transactions utilizing senior and mezzanine capital. Prior to his tenure at Stratum, Mr. Hayes worked in the corporate finance group at First Fidelity Bank (First Union). Mr. Hayes earned his BS in Economics and an MBA from The Wharton School of the University of Pennsylvania.

Robert G. Levine, Partner

Mr. Levine started Milestone in 1995 after previously focusing his career on executing middle market merger and acquisition transactions and practicing business law. From 1985 to 1995, first in the Investment Banking Group of Lehman Brothers and subsequently as a Principal at Legg Mason Wood Walker, Mr. Levine completed dozens of middle market transactions, primarily for niche manufacturing and distribution companies. Prior to transitioning to investment banking, Mr. Levine practiced business law for three years in Denver, Colorado with the firm of Adler, Zall and Haligman. Mr. Levine earned a BA from Northwestern University, a JD from George Washington University and an MBA from the Wharton School of the University of Pennsylvania.

John P. Shoemaker, Partner

Mr. Shoemaker joined Milestone in 2002 having spent most of his career in the lower middle market private equity field. He was previously a Managing Director of Internet Capital Group, where he developed and executed a strategy for building a portfolio of investments in the financial services area. From 1996 to 2000, Mr. Shoemaker was a Managing Director and the head of the Philadelphia office of Mellon Ventures, where he focused on sourcing and executing lower middle market leveraged buyouts. From 1994 to 1996, Mr. Shoemaker was Vice President of Corporate Development for RAF Industries, focusing on acquiring lower middle market manufacturing companies. He was also both a corporate lawyer for Reed Smith Shaw & McClay in Philadelphia and an investment banker for Morgan Stanley in New York. Mr. Shoemaker holds a BA from the University of Pennsylvania and a JD from Boston College Law School.

W. Scott Warren, Partner

Mr. Warren started Milestone in 1995 after devoting most of his prior career to middle market leveraged buyouts and corporate finance. From 1989 to 1995, he was a Managing Director at both Philadelphia First Group and at Beacon Capital, private merchant banking firms with a primary emphasis on arranging middle market leveraged buyouts, recapitalizations and growth financings. From 1986 to 1989, Mr. Warren was a Vice President in the Investment Banking Group of Lehman Brothers where he represented buyers and sellers of middle market companies.

From 1979 to 1986, Mr. Warren was with the investment arm of the Philadelphia National Bank, first in international private equity investing and then as head of the Private Placement Department. Mr. Warren graduated from the University of Virginia's McIntire School of Commerce with a BS in Finance.

Adam H. Curtin, Vice President

Mr. Curtin joined Milestone in 2003 from Merrill Lynch where he contributed to the completion of a variety of mergers and acquisitions, equity and debt transactions as an Analyst in both the Consumer Products and High Yield groups within the Investment Banking Group in New York. Mr. Curtin graduated from The Pennsylvania State University with a BS in Finance and a Minor in Economics.

Geoffrey B. Veale, Vice President

Mr. Veale joined Milestone in 2005 from Jefferies Capital Partners, a middle market private equity firm in New York, where he was an Associate focused on sourcing and executing leveraged buyout transactions in the industrial and consumer industries. Prior to joining Jefferies Capital Partners, Mr. Veale was an Associate in the Mergers and Acquisitions Group of J.P. Morgan. Mr. Veale graduated from Washington & Lee University with a BS in Business Administration.

John J. Nowaczyk, Director of Business Development

Mr. Nowaczyk joined Milestone in 2007, bringing with him 15 years of investment banking and consulting experience focused on mergers and acquisitions and private finance, primarily with lower middle market and emerging growth companies. He was previously a Vice President in the Strategic Advisory Group of Legg Mason Wood Walker. Prior to that, he served as an Associate in the investment banking department with Paine Webber, Incorporated. He began his career as a Financial Analyst in the investment banking department of Kidder, Peabody & Co. Incorporated. Mr. Nowaczyk received a BA from Harvard College.

David J. Andrzejewski, Analyst

Mr. Andrzejewski joined Milestone in 2006 after graduating from the University of Pennsylvania with a BA in International Relations. Mr. Andrzejewski previously worked as an intern for Northrop Grumman in the Program Finance and Marketing & Business Development departments over two summers.

Mark B. Martinelli, Chief Financial Officer

Mr. Martinelli joined Milestone in 2004 having spent his prior career in public accounting, private equity and investment consulting. Previously, he was with Berwind Capital Partners where he served as Vice President of Finance and Administration and was responsible for fund accounting. Before joining Berwind, Mr. Martinelli served as Chief Financial Officer for Brinker Capital Holdings, Inc. and was responsible for accounting, tax, insurance, cash management, banking, financial reporting and human resources. Prior to entering the private company arena, Mr. Martinelli was in Public Accounting with PricewaterhouseCoopers. Mr. Martinelli is a non-active CPA and earned his BS in Accounting from the University of Delaware.

Milestone Partners III, L.P.

- * Investment Strategy: The Fund will primarily invest in lower middle market companies with niche market positions, superior management teams & stable financial performance.
- * Geographic Focus: North America.
- * History with PSERS: PSERS has committed to the prior Milestone Fund – Milestone Partners II, L.P.
- * Targeted Fund Size: \$240 Million
- * Recommended PSERS Commitment: \$60 million



Overview Presentation to PSERS

Introduction

- Fund:
 - Milestone Partners III
- Target Size:
 - \$ 200 million
- Timing:
 - First closing first quarter 2008
- Portfolio:
 - 10 - 12 Portfolio Companies
- Investment Size:
 - \$12 - \$15 million average initial investment
- Return Target:
 - >30% IRR

Partner Background Information

45 years of combined experience/5 years investing together

Robert G. Levine

- Co-Founded Milestone Partners 1995
 - Legg Mason (investment banking)
 - Lehman Brothers (investment banking)
 - Adler, Zall and Haligman (business law)
 - The Wharton School of the University of Pennsylvania (MBA with Distinction)
 - George Washington University (JD)
 - Northwestern University (BA)
-

W. Scott Warren

- Co-Founded Milestone Partners 1995
 - Philadelphia First Group (merchant banking)
 - Lehman Brothers (investment banking)
 - Philadelphia National Bank (private equity/investment banking)
 - University of Virginia's McIntire School of Commerce (BS in Finance)
-

John P. Shoemaker

- Joined Milestone as a Partner in 2002
 - ICG (private equity)
 - Mellon Ventures (private equity)
 - RAF Industries (private equity)
 - Morgan Stanley (investment banking)
 - Boston College Law School (JD)
 - University of Pennsylvania (BA)
-

Brooke B. Hayes

- Joined Milestone in 2002
 - JP Morgan H&Q (investment banking)
 - The Stratum Group (leveraged finance)
 - First Union (corporate finance)
 - The Wharton School of the University of Pennsylvania (BS in Economics and MBA)
-

Talented Support Professionals

Adam H. Curtin
Vice President

- Joined Milestone Partners in 2003
- Merrill Lynch (investment banking)
- The Pennsylvania State University (BS in Finance and Minor in Economics)
- Graduated Summa Cum Laude

Geoffrey B. Veale
Vice President

- Joined Milestone Partners in 2005
- Jefferies Capital (private equity)
- JP Morgan (investment banking)
- Washington & Lee University (BA in Business Administration)
- Graduated Cum Laude

John J. Nowaczyk
Director, Business
Development

- Joined Milestone Partners 2007
- Legg Mason Wood Walker Inc. (investment banking)
- Paine Webber Inc. (investment banking)
- Kidder, Peabody, & Co. Inc. (investment banking)
- Harvard College (BA)

David J. Andrzejewski
Analyst

- Joined Milestone Partners in 2006
- The University of Pennsylvania (BA in International Relations)

Mark Martinelli
CFO

- Joined Milestone Partners in 2004
- Berwind Capital Partners
- Brinker Capital Holdings
- Pricewaterhouse Coopers
- The University of Delaware (BS)

Investment Parameters

Transactions:	Leveraged buyouts, management buyouts, recapitalizations and buy/build strategies
Characteristics:	Companies must have attractive organic and/or acquisition growth prospects with sustainable, expandable margins and solid management teams
Geographic Focus:	U.S.-based companies
Ownership:	Majority control (minority investments on a selective basis)
Industry Focus:	Niche manufacturers and value-added distribution or service companies focused on industrial, consumer and commercial end-users
EBITDA Size:	\$3 - \$15 million
Transaction Size:	\$15 - \$100 million
Investment Size:	\$5 - \$25 million of equity

Fund III Basic Terms

Fund Size	\$200 million
Minimum Commitment	\$1 million
Term of Fund	Ten years from Initial Closing
Capital Drawdown	G.P. discretion; not more than 17.5% of fund per transaction
G.P. Investment	At least \$5 million
Preferred Return	8% annually on funded capital
Management Fee	2.0%
Distributions	Order of Distributions: <ol style="list-style-type: none">(1) L.P. contributed capital(2) L.P. preferred return(3) G.P. catch-up(4) 80/20 split L.P./G.P.

Note: Milestone has agreed to PSERS specific terms



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