PSERS PRIVATE EQUITY PARTNERSHIPS PROGRAM

Recommendation for Investment in
New York Life Capital Partners IV, L.P.

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INTRODUCTION

New York Life Capital Partners IV, L.P. (“NYLCAP IV” or the “Fund”) is a targeted $600 - $800 million co-investment fund being formed to take advantage of the co-investment opportunities available to PSERS, New York Life Insurance Company (“New York Life”), and the Pennsylvania State Employees’ Retirement System (“PA SERS”) from the private equity partnerships each invests in. The Fund will initially be capitalized with up to a $300 million commitment by New York Life, a $200 million commitment by PSERS, and an expected commitment of $100 million or more by PA SERS. The Fund may include other limited partners in subsequent closings. NYLCAP IV will be the fourth co-investment fund managed by NYLCAP Manager LLC (“NYLCAP” or the “Firm”), an investment manager of alternative investments for institutional investors. The Fund will target a gross annual internal rate of return (“IRR”) of 20%-25% on its investment portfolio.

NYLCAP is managed by six senior principals (the “Managing Principals”), with over 120 years of collective investment experience and an average tenure at New York Life of 14 years. The Managing Principals have a long and successful track record, committing more than $7.5 billion to alternative investments and generating strong returns across all three of NYLCAP’s product lines: co-investment, mezzanine, and limited partnership investing. Since 1991, the Managing Principals have committed over $1.4 billion to 102 co-investments. This portfolio is comprised of: (i) $1.2 billion committed through the Firm’s three existing co-investment funds, New York Life Capital Partners, L.P. (“NYLCAP I”), New York Life Capital Partners II, L.P. (“NYLCAP II”), and New York Life Capital Partners III, L.P. (“NYLCAP III”) and (ii) $252 million invested on behalf of New York Life prior to the formation of NYLCAP I (the “Prefund Portfolio”). NYLCAP I and II were each capitalized with $400 million of capital, with $200 million from each of PSERS and New York Life. NYLCAP III was capitalized with $450 million of capital, with $200 million from each of PSERS and New York Life and $50 million from PA SERS.

NYLCAP Co-Investment Returns as of 6/30/07 ($ millions)

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Vintage Year</th>
<th>Total Invested Capital</th>
<th>Number of Investments</th>
<th>Realized Gross IRR</th>
<th>Total Gross IRR</th>
<th>Total Net IRR</th>
</tr>
</thead>
<tbody>
<tr>
<td>NYLCAP III</td>
<td>2005</td>
<td>$349.7</td>
<td>21</td>
<td>79.8%</td>
<td>17.7%</td>
<td>[XX.X%]</td>
</tr>
<tr>
<td>NYLCAP II</td>
<td>2001</td>
<td>$422.7</td>
<td>32</td>
<td>49.8%</td>
<td>44.0%</td>
<td>[XX.X%]</td>
</tr>
<tr>
<td>NYLCAP I</td>
<td>1999</td>
<td>$414.5</td>
<td>26</td>
<td>5.3%</td>
<td>2.8%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Prefund(*)</td>
<td>1991</td>
<td>$252.4</td>
<td>23</td>
<td>27.1%</td>
<td>27.1%</td>
<td>27.1%</td>
</tr>
</tbody>
</table>

(1) Prefund investments were not made through a fund structure and were therefore not subject to management fees and carried interest.

NYLCAP’s strong investment performance results from applying an active management style to a portfolio that many investors treat passively. The cornerstone of NYLCAP’s strategy is to source co-investment deal flow through the Firm’s strong relationships with top performing financial sponsors and then conduct significant due diligence on each opportunity to independently verify both the investment premise and the fit with the sponsor’s key areas of expertise. NYLCAP has broad access to the financial sponsor community through the large and diversified limited partnership portfolios of the Fund’s existing limited partners, New York Life, PSERS and PA SERS. The Managing Principals leverage their deep fund advisory expertise gained from over 15 years of managing New York Life’s fund advisory business to seek out those sponsors (the “Core
NYLCAP has leveraged the Core Partner relationships and its access to the resources of New York Life’s investment management subsidiaries, primarily New York Life Investment Management Holdings, LLC (“NYLIM”), to create a differentiated approach to co-investing. This approach consists of a targeted, stable source of high quality deal flow, a unique due diligence network, and a partnership approach to investing.

The Fund intends to focus on co-investment opportunities in transactions sponsored by the Core Partners in the United States and Western Europe. The Fund will typically hold $15 million to $50 million in any given transaction, although smaller or larger investments may be made where appropriate. The Managing Principals intend to diversify the Fund’s portfolio by limiting investments in any single company, industry or geography. The Fund will target a gross IRR of 20%-25% on its investment portfolio.

The Managing Principals intend to build the Fund’s portfolio by following the investment strategy they have successfully employed since 1991. This strategy complements NYLCAP’s differentiated approach to co-investing and has five key elements:

- Originate deal flow through Core Partner relationships
- Independently verify investment premise through a unique due diligence network
- Strictly adhere to established investment criteria
- Follow a disciplined investment process
- Actively monitor portfolio companies

**Originate Deal Flow Through Core Partner Relationships**

The Managing Principals leverage the limited partnership investments of New York Life, PSERS and PASERS to form strong relationships with the Core Partners. NYLCAP seeks to develop continuous points of contact with the Core Partners, including participation on advisory committees and attendance at the Core Partners’ annual meetings, where appropriate, attendance at board meetings for portfolio companies where NYLCAP has board observer rights, and ongoing interactions regarding both existing and new co-investment and mezzanine activity. These continuous points of contact allow the Managing Principals to stay abreast of the Core Partners’ deal pipelines, allowing NYLCAP to actively pursue those opportunities that fit both the Core Partner’s expertise and the Fund’s investment criteria. Throughout various market environments, the Core Partners have provided a consistent source of high quality deal flow.

For more than fifteen years, NYLCAP and its predecessors have been valuable partners to sponsors looking to fulfill their financing objectives. Due to NYLCAP’s differentiated approach to co-investing, the Core Partners have come to rely on NYLCAP to provide key benefits such as structuring expertise, a swift response, certainty of execution for approved transactions, and unique due diligence insights. NYLCAP has a large, dedicated team of experienced investment professionals that can complete substantial due diligence in a timely manner. In addition, NYLCAP can work with its mezzanine fund to arrange financing for multiple layers of the capital structure, where appropriate, further simplifying the Core Partners’ financing execution. Finally, NYLCAP can leverage its unique due diligence network to identify and share insightful due diligence findings that are often unavailable to the lead sponsor.

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NYLCAP’s differentiated strategy and partnership approach to investing have created relationships with the Core Partners that extend beyond the typical limited partner or co-investor/sponsor relationship. In addition to providing a consistent source of high quality deal flow, the depth of the Core Partner relationships allows for greater sharing of information between NYLCAP and the sponsors and frequently provides the Firm early access to potential transactions before they are widely marketed. This provides NYLCAP with additional time for due diligence and the ability to work alongside the sponsor through all stages of the transaction, furthering the Managing Principals’ understanding of both the investment opportunity and the Core Partner’s due diligence process. NYLCAP’s early involvement with transactions and collaborative approach to due diligence often results in the Firm receiving its desired allocation in the transaction.

**Independently Verify Investment Premise Through a Unique Due Diligence Network**

The majority of NYLCAP’s deal flow is generated through the Core Partner relationships and is pre-screened by these top-performing sponsors prior to the Firm’s involvement. In addition to reviewing the due diligence findings of the Core Partners, the Managing Principals conduct significant independent due diligence on each opportunity and develop their own assessment of the attractiveness of the opportunity and the appropriate risk/return structure.

NYLCAP has unique due diligence capabilities due to the combination of the Managing Principals’ extensive investment experience and the Firm’s access to the expertise of the Core Partners and NYLIM’s investment professionals. In addition, through the Core Partners’ portfolio companies and NYLIM’s private placement portfolio, NYLCAP has access to the management teams of thousands of private companies through which it can gain valuable information ranging from macro industry trends and competitive dynamics to specific insights on a target company’s management team.

**Strictly Adhere to Established Investment Criteria**

The Fund will target opportunities where the sponsor has relevant expertise, a quantifiable history of successful investing, and a proven ability to add tangible value to the company involved in the transaction. Through the depth of the Core Partner relationships, the Managing Principals become well acquainted with the Core Partners’ investment professionals, strategies, and processes, and can use this knowledge to concentrate on those transactions that best fit within a Core Partner’s expertise.

The Fund will seek to invest in companies that have proven management teams, strong and sustainable cash flows, and competitive advantages in industries with barriers to entry. A high priority will be placed on companies that have relatively low exposure to cyclical downturns, a low threat of obsolescence or rapid technological change, and low customer and geographic concentrations. The Fund will focus on transactions where the growth thesis can be validated and where the exit strategy has been clearly identified. Potential exit strategies are likely to include trade sales to strategic or private buyers, initial public offerings, and recapitalizations. The Managing Principals will analyze comparable transactions, potential purchasers, public market opportunities, and the growth plans of the company to determine the relative capital appreciation potential and an appropriate valuation.

**Follow a Disciplined Investment Process**

Prospective investments are first screened for appropriate risk/return characteristics and discussed among all of the Managing Principals at weekly deal review meetings and through informal meetings as appropriate. If the Managing Principals determine that additional due diligence is warranted, a deal team is assembled, typically consisting of
two Principals, a Vice President or a Senior Associate, and an Associate. Assigning two Principals per deal team ensures continuity and a high level of diligence.

After initial due diligence, which typically involves one or more meetings or conference calls with both company management and the Core Partner, a promising transaction is reviewed in greater depth at a weekly deal review meeting. If the Managing Principals achieve a consensus to proceed, additional due diligence is completed, typically involving further meetings and discussions with both management and the Core Partner, independent verification of the investment premise as described above, tours of plant facilities, and review of sponsor due diligence materials. In-depth reviews of legal, labor, regulatory, environmental, accounting, and other issues are also undertaken, as appropriate.

If the Managing Principals unanimously agree to proceed with the transaction, the deal team presents the transaction to a committee for final approval (the “Investment Committee”). The 9 member Investment Committee, comprised of the Managing Principals (6) and NYLIM senior management (3), reviews the capital appreciation potential, structure and risk/return profile of a proposed transaction prior to an approval decision by majority vote.

**Actively Monitor Portfolio Companies**
The active monitoring of investments is critical to the successful performance of the Fund. The deal team for any given transaction maintains ongoing contact with the Core Partner and/or company management, attends board meetings as appropriate, and conducts regular financial reviews. Financial performance is analyzed and tracked against the original underwriting case and disseminated among the team members in monthly monitoring reports. In addition, NYLCAP maintains a portfolio scorecard that highlights those investments that require special attention or review. These investments are then reviewed in detail at quarterly portfolio review meetings and through ongoing interactions with the Core Partner and/or the company’s management team, as appropriate. Through active portfolio management, the Managing Principals are well positioned to work proactively with financial sponsors and/or company management to quickly identify and resolve potential issues or deteriorating situations. The Managing Principals can also provide input on potential exit strategies and acquisition opportunities during discussions with the Core Partners and/or company management.

**INVESTMENT HIGHLIGHTS**

**Experienced Management Team**
The Fund will be managed by a strong, experienced, and stable team of six Managing Principals with over 120 years of collective investment experience and an average tenure at New York Life of 14 years. John Schumacher and Adam Clemens, NYLCAP’s CEO and President, respectively, have worked together at New York Life since 1991 and successfully built New York Life’s alternative investment program. The Managing Principals have a long and successful track record, committing more than $7.5 billion to alternative investments and generating strong returns across all three of NYLCAP’s product lines: co-investment, mezzanine and limited partnership investing. The Managing Principals are supported by a dedicated staff of investment professionals, including two Principals, three Vice Presidents, two Senior Associates, and four Associates. The Fund will also benefit from the insight and experience of senior executives of NYLIM, including Brian Murdock, CEO and President.
Differentiated Co-Investment Strategy
NYLCAP has leveraged the Core Partner relationships and its access to the resources of NYLIM to create a differentiated approach to co-investing. This approach consists of a targeted, stable source of high quality deal flow, a unique due diligence network, and a partnership approach to investing. Throughout various market environments, the Core Partners have provided a consistent source of high quality deal flow that is pre-screened prior to the Firm’s involvement, increasing the potential for strong investment performance by the Fund. Through these Core Partner relationships and NYLIM’s more than 245 investment professionals, as well as access to the management teams of the Core Partners’ portfolio companies and NYLIM’s private placement portfolio, the Managing Principals can supplement their extensive investment experience with proprietary insights into target companies, industries, and management teams that are unavailable to the lead sponsor. Through more than fifteen years of partnering with sponsors looking to fulfill their financing objectives, the Core Partners have come to rely on NYLCAP to provide a swift response, certainty of execution for approved transactions, and due diligence insights generated from the Firm’s unique due diligence capabilities.

Strong Deal Flow
The Fund’s relationships with the Core Partners provide a targeted, stable source of high quality deal flow. The depth of the Core Partner relationships allows for greater sharing of information between NYLCAP and the sponsors and frequently results in the Firm gaining access to potential transactions before they are widely marketed. This early access provides NYLCAP with additional time for due diligence and the ability to work alongside the sponsor through all stages of the transaction, furthering the Managing Principals’ understanding of both the investment opportunity and the Core Partner’s due diligence process. NYLCAP’s early involvement with transactions and collaborative approach to due diligence often results in the Firm receiving its desired allocation in the transaction.

Unique Due Diligence Network
NYLCAP confirms the sponsor’s investment thesis and the target company’s prospects through independent diligence prior to investing. The Managing Principals’ supplement their more than 120 years of combined investment experience with the collective expertise of the Core Partners and NYLIM’s more than 245 investment professionals. In addition, NYLCAP has access to the management teams of thousands of private companies through the Core Partners and NYLIM’s portfolios that may be customers, suppliers, or competitors of the target company. Through this unique due diligence network, NYLCAP often gains proprietary insights into target companies, industries and management teams that are unavailable to the lead sponsor.

Superior Track Record
The Managing Principals have a long and successful track record managing alternative investments, generating strong returns across all three of NYLCAP’s product lines: co-investment, mezzanine and limited partnership investing. Since 1991, the Managing Principals have committed over $1.4 billion to 102 co-investments. This portfolio is comprised of: (i) $1.2 billion committed through NYLCAP’s three existing co-investment funds, NYLCAP I, NYLCAP II, and NYLCAP III, and (ii) $252 million invested on behalf of New York Life prior to the formation of NYLCAP I.

New York Life Sponsorship
The Fund will benefit from the sponsorship of New York Life, a Fortune 100 company and one of the world’s largest life insurance firms. New York Life will commit up to $300
million to the Fund, demonstrating its continuing commitment to the Firm, the Managing Principals, and the private equity asset class. In addition, the Fund will benefit from NYLCAP’s relationships with the sponsors comprising New York Life’s private equity portfolio and the enhanced due diligence capabilities resulting from access to NYLIM’s substantial credit and industry expertise.

**MANAGEMENT OF THE FUND**

The Fund will be managed by NYLCAP Manager LLC, a registered investment advisor and manager of alternative investments for institutional investors. NYLCAP is managed by six Managing Principals with over 120 years of collective investment experience and an average tenure at New York Life of 14 years. All of the Managing Principals have extensive private market investment experience, including private equity and mezzanine investing, and leveraged lending. The Managing Principals are supported by a dedicated staff of investment professionals, including two Principals, three Vice Presidents, two Senior Associates, and four Associates.

The Investment Committee is comprised of the Managing Principals and NYLIM executives, Brian Murdock, CEO and President, William Cheng, Managing Director, and Jae Yoon, Managing Director. Once the deal team has validated a transaction’s investment thesis through extensive due diligence, the transaction is presented at a weekly team meeting. Only after the Managing Principals come to a unanimous decision to pursue the transaction will the deal team present the investment to the Investment Committee. The Investment Committee reviews the capital appreciation potential, structure and risk/return profile of a proposed transaction prior to an approval decision through a majority vote.

Biographies for the NYLCAP members of the Investment Committee are provided below:

**John Schumacher, CEO**
Mr. Schumacher joined New York Life in 1991 and is currently CEO of NYLCAP, responsible for overseeing all NYLCAP investment activities. Prior to co-founding NYLCAP, Mr. Schumacher was the Head of the $14 billion Private Finance Group of New York Life. Previously, Mr. Schumacher was a Vice President in the Private Placement Department at Manufacturers Hanover Trust Company, where he began his career in 1983. Mr. Schumacher earned a BA in History in 1978 from Columbia College and an MBA in 1989 from New York University’s Stern School of Business.

**Adam Clemens, President**
Mr. Clemens joined New York Life in 1991 and is currently President of NYLCAP, responsible for overseeing all NYLCAP investment activities. Prior to co-founding NYLCAP, Mr. Clemens was the Head of Private Equity and Leveraged Finance within New York Life’s Private Finance Group. Prior to joining New York Life, Mr. Clemens was a Vice President with Manufacturers Hanover Trust Company in the Private Placement Department, where he began his career in 1984. Mr. Clemens earned a BS in International Economics, cum laude, in 1984 from Georgetown University and an MBA in 1989 as a Beta Gamma Sigma graduate from Columbia University. Mr. Clemens is a holder of the Chartered Financial Analyst designation.

**Steven Benevento, Senior Managing Principal**
Mr. Benevento joined New York Life in 1995 and is currently a Senior Managing Principal primarily responsible for co-investments and limited partnership investing. Prior to NYLCAP, Mr. Benevento managed a portfolio of private equity, mezzanine and non-investment grade debt investments within New York Life’s Private Finance Group.
Previously, Mr. Benevento worked in the investment group of TIAA-CREF where he focused on debt and mezzanine investments in the private market. Mr. Benevento earned a BS in Finance, summa cum laude, in 1987 from the State University of New York at Albany and an MBA in 1991 from New York University’s Stern School of Business. Mr. Benevento was a Beta Gamma Sigma honoree as both an undergraduate and graduate student. Mr. Benevento is a holder of the Chartered Financial Analyst designation.

Thomas Haubenstricker, Senior Managing Principal
Mr. Haubenstricker joined New York Life in 1991 and is currently a Senior Managing Principal primarily responsible for mezzanine and limited partnership investing. Previously, Mr. Haubenstricker was Co-Head of the Private Finance Group overseeing $14 billion in assets. Since joining New York Life, Mr. Haubenstricker has assumed positions of increasing responsibility, including an overseas assignment when he established New York Life’s London affiliate in 1994. Prior to joining New York Life, Mr. Haubenstricker worked at Prudential Financial where he focused on leveraged financings in their Private Placement Group. Mr. Haubenstricker earned a BS in Chemical Engineering, with honors, in 1982 from Michigan State University and an MBA in 1987 from the Wharton School of the University of Pennsylvania.

Quint Barker, Managing Principal
Mr. Barker joined NYLCAP in 2000 and is currently a Managing Principal primarily focused on co-investments and limited partnership investing. Prior to NYLCAP, Mr. Barker was a Vice President in PaineWebber’s Principal Transactions Group, where he co-managed a $1 billion portfolio of alternative investments, which included the firm’s, the Chairman’s, and other top executives’ venture capital, LBO equity, real estate, and hedge fund investments. Prior to PaineWebber, Mr. Barker worked in the Private Equity and Private High Yield division of New York Life, where he managed a portfolio of private equity, mezzanine, and non-investment grade debt investments. Mr. Barker earned a Bachelor of Electrical Engineering degree in 1990 from Georgia Tech and an MBA in 1994 from Duke University. Mr. Barker is a holder of the Chartered Financial Analyst designation.

David Bangs, Managing Principal
Mr. Bangs joined NYLCAP in 2006 and is currently a Managing Principal focused on fund investing. Prior to NYLCAP, Mr. Bangs was in charge of Investment Grade Public and Private Bonds including structured products and was the Co-Head of the Private Finance Group at NYLIM. Mr. Bangs joined New York Life in 1996 from Kemper Securities where he was responsible for all aspects of originating, structuring and placing private placements, primarily for middle market companies. Prior to that, he worked for Manufacturers Hanover Trust working on all aspects of their private placements business. Mr. Bangs earned a BA in Political Economy in 1983 from Johns Hopkins University and an MBA in Finance in 1989 from New York University.

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 $200 million plus reasonable normal investment expenses, in New York Life Capital Partners IV, 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.