



PSERS PRIVATE INVESTMENT PROGRAM

**Recommendation for Investment in
Platinum Equity Capital Partners II, L.P.**

Charles J. Spiller
Director of Private Markets and Real Estate

May 3, 2007

PLATINUM EQUITY CAPITAL PARTNERS II, L.P.

EXECUTIVE SUMMARY

Platinum Equity Capital Partners II, L.P. (the “Partnership” or “Fund II”) is being formed by Platinum Equity, LLC (together with affiliates, “Platinum” or the “Firm”) to acquire controlling stakes in undermanaged or underperforming businesses and execute operations-intensive turnarounds that meaningfully increase the enterprise value of those businesses.

Fund II will benefit from a highly differentiated investment strategy that has delivered consistent returns and created substantial value since Platinum’s inception in 1996. The Partnership will invest in companies that are underperforming or experiencing complex operational problems but have underlying value that can be unlocked with the application of Platinum’s operations-intensive investment approach.

Platinum has demonstrated its ability to proactively source and purchase these businesses at attractive entry prices; to mitigate risk and use its extensive operational capabilities to improve their performance, profitability and enterprise value and then to exit these businesses at a substantial multiple of original investment.

This operations-intensive approach to value creation, which Platinum refers to as M&A&O[®], is proprietary and highly differentiated. It has generated significant financial returns for the Partnership.

Fund II is seeking aggregate capital commitments of \$1.5 billion. The General Partner and its affiliates will make a meaningful commitment and invest an amount equal to at least 5% of the Partnership’s aggregate capital commitments. In addition, the General Partner will augment its contribution with an additional amount allocated for co-investment alongside Fund II.

Overview of Platinum Equity

Platinum is a privately held acquisition firm headquartered in Beverly Hills, California, with principal offices in Boston, New York and Paris. The Firm was founded in 1995 by Tom Gores, a self-made entrepreneur with more over 15 years of experience as a senior investment professional, and is managed by a team of Partners and Principals with substantial operations capability and experience.

The team is cohesive and stable, with Partners averaging nearly 10 years with the Firm and Principals averaging more than six years. Collectively, these Partners and Principals have worked together, on average, for approximately eight years and are responsible for all of Platinum’s 113 transactions, including 74 acquisitions and 39 exits, in 49 portfolio investments.

Platinum has invested \$953.6 million since 1996, generating more than \$2.1 billion in realized proceeds and nearly \$3.5 billion in total value for a gross compound annualized internal rate of return (“IRR”) of 362% and a 3.6x multiple of cash invested. Platinum’s first institutional fund, Platinum Equity Capital Partners, L.P. (“PECP I” or “Fund I”), had a first close on October 31, 2003 and a final close on July 1, 2004. Capital commitments to PECP I totaled \$700 million, including more than \$116 million committed by Platinum. In addition, Platinum committed to co-invest at least \$114 million more alongside partners in all Fund I investments.

As of December 31, 2006, PECP I had invested \$506.7 million in 16 portfolio investments comprising 23 acquisitions (including add-ons), with realized proceeds of \$602.1 million and an additional unrealized value of \$1.08 billion.

From a return standpoint, Fund I has generated a 6.5x multiple of cash invested and a 291% gross IRR from fully realized investments and current investments with realized proceeds in excess of cash. Including current investments that have not yet generated proceeds in excess of cash, Fund I has generated a 3.3x multiple of cash invested and a 133% gross IRR.

Investment Strategy

Platinum's investment strategy is disciplined, focused and consistent. The Firm's proprietary M&A&O process is highly differentiated from other buyout firms, including those that define themselves as operations specialists.

Platinum's approach minimizes financial risk through comprehensive diligence and balance sheet analysis, conservative entry pricing and the rapid return of invested capital. It mitigates operational risk through a highly structured and fully integrated diligence, execution, transition and operations process. It focuses on key business characteristics that apply to potential acquisition targets across a broad spectrum of market sectors.

The Firm acquires underperforming or non-core assets that typically are orphaned in some context, often as a non-core unit of a larger corporate parent. These assets may have strong underlying business characteristics, including long-term customer relationships; mission-critical products and services or other factors that make that customer base "sticky"; established brands; sizeable market shares and predictable revenue and value locked in the balance sheet. However, these companies typically are underperforming operationally and posting results that are below expectations on key metrics. In some cases, they face significant operating losses. The losses are often compounded by such factors as low access to financial and intellectual capital; inertia in the face of market changes in transitioning industries and difficulty managing fundamental business operations to preserve value in the balance sheet.

Platinum's M&A&O approach deploys comprehensive operational capabilities at the earliest stages of the investment process, which allows the Firm to gain an earlier and deeper understanding of a target company, the risks it faces and the potential for resolving operational problems and creating real value. This approach allows the Firm to view a business differently than other buyout firms, to mitigate financial risk by striking the right entry price and understanding where the holes in the business are and to develop a comprehensive plan for operational turnaround even before a transaction is consummated.

Post-acquisition, Platinum implements a process-oriented transition that stabilizes and strengthens a portfolio company by refocusing its strategic direction, defining new operating and financial objectives, implementing cost reduction programs and business process improvements and augmenting its existing management. By quickly and effectively solving operating problems, Platinum can rapidly improve a portfolio company's cash flow and lay the foundation for longer-term value creation and growth both organically and through the successful integration of add-on acquisitions.

This strategy is both labor- and process-intensive. It has been developed and honed by a stable and experienced team over the course of more than 100 transactions in the past 10+ years.

Distinctive Characteristics

There are several characteristics that make the Partnership an attractive opportunity for potential investors, including:

- ***Outstanding Track Record.*** Since 1996, Platinum has created approximately \$3.5 billion in total value on \$953.6 million of cash invested in 74 acquisitions (including add-

ons), for a gross IRR of 362% and a 3.6x multiple of cash investment. This includes \$1.7 billion in total value created since 2004 in Fund I, which has invested \$506.7 million in 16 portfolio investments, realized \$602.1 million in proceeds and generated a gross IRR of 133% and a 3.3x multiple of cash investment.

- ***Experienced and Cohesive Management Team.*** Collectively, the Partners and Principals have been responsible for each of Platinum's 113 transactions, including 74 acquisitions and 39 exits in 49 portfolio investments in the United States and Europe. The Partners have worked together for an average of approximately 10 years and the Partners and Principals have worked together for an average of approximately eight years. This experience, cohesiveness and stability have been key factors in its success.
- ***Comprehensive Operations Expertise.*** Platinum has a deep roster of experienced executives with substantial capability and experience in managing complex operational situations. With approximately 100 executives dedicated to the overall M&A&O process, Platinum has in-house expertise across a wide range of functional disciplines, including legal, real estate, tax, accounting, treasury and cash management, information technology, human resources and benefits, sales and marketing, public affairs and branding. These resources allow Platinum to (i) understand a business better and quicker during the pre-acquisition diligence phase, (ii) strike the right entry price, (iii) prepare and execute comprehensive action plans immediately upon closing a transaction, (iv) ensure a seamless transition with minimal disruption in customer service and business performance, (v) result in a rapid improvement in a portfolio company's cash flow and (vi) lay the foundation for long-term value creation.
- ***Focused Investment Strategy.*** Platinum will continue to invest in businesses that are undermanaged, underperforming or experiencing some degree of operational difficulty – but exhibit strong underlying business characteristics that form the basis for value creation once operational problems are solved. Platinum targets North American and European businesses, but will review opportunities in other geographic regions if they fall within the scope of Platinum's focused strategy.
- ***Acquisitions from Strategic Sellers.*** Significant opportunities exist to acquire businesses at compelling valuations from sellers looking to divest non-core assets and whose selling criteria is not exclusively price. In addition, the current volatility in certain industries is creating more and larger opportunities to invest in businesses that perform below expectations and Platinum is well-positioned to capitalize on these opportunities because its fundamental approach is not sector-focused but instead business characteristics-focused. The Firm has proven its ability to execute transactions and create value across a wide variety of industries with acquisitions from a broad cross-section of strategic sellers including, Alcatel, AT&T, Bayer, BASF, Dow Jones, Fujitsu, General Electric, Global Crossing, Hays plc, Hoescht-Aventis, IBM, Kemper Insurance, Lucent Technologies, McKesson, Motorola, Noranda, Philips, Textron, TUI AG and WorldCom.
- ***Add-on Acquisitions to Build Market Leaders.*** Platinum builds substantial value by acquiring a platform company and pursuing attractive add-on acquisitions to consolidate fragmented markets. Platinum has the experience and skills to effectively identify, acquire and integrate platform add-ons to build potential market leaders.
- ***Ability to Mitigate Operational Risk.*** Because of its in-house capabilities and the comprehensive nature of its M&A&O diligence, Platinum develops a deeper understanding of operational issues earlier in the process. This allows the Firm to develop a comprehensive plan for resolving those issues. Consequently, Platinum tends

to have a higher tolerance for operational risk than financial buyers who do not understand the issues as well.

- **Low Tolerance for Financial Risk.** Although the Firm's capital base has grown significantly, Platinum has maintained a fundamental discipline in pricing its acquisitions and does not chase artificially inflated entry multiples. The Firm minimizes financial risk by striking the right entry price, managing cash with discipline inside portfolio acquisitions and swiftly recovering invested capital as operations improve and cash flow exceeds operating costs.
- **Substantial Investment by the General Partner.** It is in the best interest of the Partnership for Platinum to properly align its interests with Limited Partners in generating significant financial returns. As such, the General Partner and its affiliates will make a meaningful commitment and invest an amount equal to at least 5% of the Partnership's aggregate capital commitments. In addition, the General Partner will augment its contribution with an additional amount allocated for co-investment alongside Fund II.

MANAGEMENT AND PROFESSIONAL STAFF

PARTNERS

Tom Gores, Managing Partner. Mr. Gores is the Founder, Chairman and CEO of Platinum Equity. He established the firm 1995 and has led all of its transactions. Prior to founding Platinum, he was an equity participant at Gores Enterprises and was responsible for sourcing and executing deals and operating portfolio companies. Prior to that, in 1988, Mr. Gores co-founded Ventech Software, a supply management software company, which was sold in 1991. Mr. Gores serves on the board of trustees for the Los Angeles County Museum of Art, and has served on the boards of both the UCLA Medical Center and St. Joseph's Hospital in Los Angeles, CA. He received a Bachelor's degree in Real Estate Finance from Michigan State University.

David M. Anglin, Partner. Mr. Anglin, who joined Platinum in 1996, serves as the firm's chief technology strategist with responsibility for analysis and execution of technology components in the mergers and acquisition process. Prior to joining Platinum, Mr. Anglin served as the Chief Technology Officer for Foresight Software, Inc. Prior to joining Foresight Software, he served as Technology Fellow and Director of Technology for Dun & Bradstreet Software. Mr. Anglin received a Bachelor's degree in Computer Science and Accounting from Oral Roberts University and an MBA with a concentration in Management and Finance from Oral Roberts University.

Robert Archambault, Partner. Mr. Archambault, who joined Platinum in 1997, is responsible for operations strategy in the mergers and acquisitions process. Pre-acquisition, he is responsible for evaluating all aspects of a target company's business operations to determine its suitability for acquisition and value creation. Post-acquisition, he works closely with the executive management of the acquired company to set the strategy, budget and transition plan. Prior to joining Platinum, he was Vice President of Professional Services and Business Development for Pilot Software, Inc. Mr. Archambault received a Bachelor's degree in Management from New York Maritime College.

John H. Diggins, Partner. Mr. Diggins, who joined Platinum in 1996, is responsible for deal sourcing and business development. He previously served as CEO of two Platinum portfolio companies, Pilot Software, Inc. and Foresight Software, Inc. Prior to joining Platinum, Mr. Diggins held senior level sales and marketing positions with Dun & Bradstreet, GEAC Computer and MAI Systems and prior to that he worked with Mr. Gores at Ventech Software. Mr. Diggins

earned a Bachelor's degree in Business Administration from the University of New Mexico.

Robert J. Joubran, Partner. Mr. Joubran, who joined Platinum in 1996, is responsible for treasury, transition and integration functions for newly acquired companies. Prior to joining Platinum, Mr. Joubran served as Senior Vice President of Sales for Banyan Systems and prior to that he worked with Mr. Gores at Ventech Software. He earned a Bachelor's degree in Marketing and Business Administration from the University of Michigan.

Eva M. Kalawski, Partner. Ms. Kalawski, who joined Platinum in 1997, is the firm's General Counsel and Secretary. In that capacity, she oversees all legal issues relating to due diligence, mergers and acquisitions and transitions, as well as the legal affairs of Platinum's portfolio companies. Prior to joining Platinum, she was Vice President of Human Resources, General Counsel and Secretary for Pilot Software, Inc. Ms. Kalawski earned a Bachelor's degree in Political Science and French from Mount Holyoke College and a Juris Doctor degree from Georgetown University Law Center.

Johnny O. Lopez, Partner. Mr. Lopez, who joined Platinum in 1995 immediately after its formation, heads Platinum's mergers and acquisitions group and oversees sourcing, evaluation and execution of investment opportunities. Prior to joining Platinum, Mr. Lopez worked with Mr. Gores at Ventech Software. He earned a Bachelor's degree in Business Administration and Finance from the University of the Pacific.

Philip E. Norment, Partner. Mr. Norment, who joined Platinum in 1997, leads the operations component of Platinum's M&A&O organization. In that capacity, he is responsible for evaluation of target acquisitions, execution of their transition and integration into the Platinum portfolio, and post-acquisition business strategy and operations for portfolio companies. Prior to joining Platinum, Mr. Norment held a variety of senior executive operations positions including Chief Operating Officer at Pilot Software, Inc. He earned a Bachelor's degree in Economics, cum laude, from the University of Massachusetts and an MBA with a concentration in Finance from the University of Massachusetts.

Brian Wall, Partner. Mr. Wall, who joined Platinum in 2000, is responsible for the structuring and execution of acquisition and divestiture transactions. He also oversees the firm's business development and M&A presence in Europe. Prior to joining Platinum, Mr. Wall was an Officer in the United States Air Force, and worked with defense contractors including Lockheed Martin and Boeing in acquiring and developing mission critical satellite and missile systems for the U.S. Government. Mr. Wall serves on the board of directors for Junior Achievement of Southern California. He received a Bachelor's degree in Management from the United States Air Force Academy and an MBA in Corporate Finance from the University of Southern California.

Robert J. Wentworth, Partner. Mr. Wentworth, who joined Platinum in 1997, leads teams responsible for financial analysis and modeling in connection with the mergers and acquisitions process. He previously served as President and CEO of the firm's portfolio company NextiraOne. Prior to joining Platinum, Mr. Wentworth was President and CEO of Alden Electronics and a Senior Manager at Ernst & Young. He received a Bachelor's degree in Accounting and Finance at Bentley College.

PRINCIPALS

Mark Barnhill, Principal. Mr. Barnhill, who joined Platinum in 2002, manages functions related to business development, investor relations, fund administration and corporate and external affairs. Prior to joining Platinum, he was a Senior Partner at Fleishman-Hillard Inc., a unit of Omnicom Group Inc. Previously, he was a newspaper executive at the Los Angeles Daily News and an adjunct professor at the University of Southern California's Annenberg School for Communication.

Roger A. House, Jr., Principal. Mr. House, who joined Platinum in 1997, oversees screening, analysis and qualification of new investment opportunities sourced by Platinum's business development team. Prior to joining Platinum, he was an area sales manager for United Stationers Inc. Mr. House received a Bachelor's degree in Finance from Pennsylvania State University.

Jacob Kotzubei, Principal. Mr. Kotzubei, who joined Platinum in 2002, is responsible for the structuring and execution of acquisition and divestiture transactions. Prior to joining Platinum, he spent eight years working on mergers and acquisitions, most recently as a Vice President of the High Technology Group and the head of the East Coast Semiconductor Group at Goldman Sachs & Co. and prior to that as an attorney at Sullivan & Cromwell. Mr. Kotzubei received a Bachelor's degree in Philosophy from Wesleyan University and a Juris Doctor degree from Columbia University School of Law, where he was elected a member of the Columbia Law Review. He is a member of the New York State Bar.

E. James Levitas, Principal. Mr. Levitas, who joined Platinum in 2000, is responsible for the structuring and execution of acquisition and divestiture transactions. Prior to joining Platinum, he was a Senior Associate in Investment Banking for Houlihan Lokey Howard & Zukin, and a Financial Analyst in the Mergers and Acquisitions group at Nuveen & Co. in Chicago. Mr. Levitas received a Bachelor's degree in Economics from Northwestern University and an MBA from the Anderson School at the University of California at Los Angeles.

Michael W. Scott, Principal. Mr. Scott, who joined Platinum in 2001, is responsible for managing the transition of acquired companies into Platinum Equity's portfolio. In that capacity, Mr. Scott is responsible for the evaluation of business plans, coordination and evaluation of management teams, and the comprehensive review and restructuring of business processes as required. Prior to joining Platinum, he was a Vice President of Operations at Uniteq Applications Systems, Inc. Mr. Scott received a Bachelor's degree in Computer Science from the University of Tennessee and a Master's degree in Computer Science from the University of North Carolina.

Robert J. Wymbs, Jr., Principal. Mr. Wymbs, who joined Platinum in 2000, is responsible for the structuring and execution of acquisition and divestiture transactions. Prior to joining Platinum, he spent four years with the Los Angeles Dodgers Major League Baseball franchise and three years at McKinsey & Company. Mr. Wymbs received a Bachelor's degree in Electrical Engineering from Rutgers University and an MBA from the University of Pennsylvania's Wharton School.

Matt Young, Principal. Mr. Young, who joined Platinum in 2001, is responsible for the structuring and execution of acquisition and divestiture transactions. Prior to joining Platinum, Mr. Young worked in the Technology Investment Banking Group at Bear Stearns & Co. Previously, he was a Contracting Officer in the United States Air Force for five years where he worked at acquiring multi-billion dollar military satellites, including the Milstar satellite system from Lockheed Martin. Mr. Young received a Bachelor's of Science degree in Management from the United States Air Force Academy and an MBA with an emphasis in Finance from the

University of Southern California.

Steve Zollo, Principal. Mr. Zollo, who re-joined Platinum in 2003, is responsible for overseeing portfolio company operations, finance, and overall strategy development. Prior to re-joining Platinum, Mr. Zollo was corporate vice president of operations and technology at Call_Solutions.com. Previously, he was president of OnPoint LP, a Platinum Equity portfolio company, and founder and president of Innovative Business Solutions. Mr. Zollo attended the SUNY Farmingdale Criminal Justice Undergraduate Program and completed various Executive education programs at Darden Graduate School of Business Administration (Executive Financial Management) and University of Michigan Business School (Strategies for Global Competition).

EXECUTIVES

Mary Ann Sigler, Chief Financial Officer. Ms. Sigler, who joined Platinum in 2004, is the firm's Chief Financial Officer and is responsible for accounting, tax and financial reporting for the firm and its investments. Prior to joining Platinum, Ms. Sigler was senior partner at Ernst & Young LLP, where in her 25-year tenure she was involved in several high profile acquisitions and dispositions for clients such as the Los Angeles Dodgers, AOL Time Warner and Lockheed Martin Corporation. She received a Bachelor's degree in Accounting from the California State University at Fullerton and a Master's Degree in Business Taxation from the University of Southern California.

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 90.91 percent of the committed capital, but not to exceed \$300 million plus reasonable normal investment expenses, in a side fund in Platinum Equity Capital 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.