



May 22, 2013

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

Re: Crestview Partners III, L.P.

Dear Trustees:

Crestview Partners ("Crestview" or the "Firm") is seeking to raise \$3.0 billion for Crestview Partners III, L.P. (the "Fund" or "Crestview III"). Crestview was founded in 2004 by Barry Volpert and Tom Murphy (together the "Founders"). The Founders began their careers at Goldman Sachs together in 1986 and have known each other for over 25 years. Both held senior-level positions at Goldman Sachs; Mr. Volpert was the former head of European private equity and co-COO of global private equity, while Mr. Murphy was head of the financial sponsors banking group. The Founders are supported by six additional partners who are responsible for the management of the Firm's focus industry groups. The Fund will continue the Firm's strategy of making opportunistic, value-oriented investments in companies experiencing significant dislocations in out-of-favor industries. The Fund will aim to make \$100 to \$350 million equity investments in companies with enterprise values of up to \$2.0 billion. A first close on an estimated \$1.0 to \$1.5 billion is expected to occur by June 30, 2013. The Fund expects the first close to be a dry close and doesn't anticipate drawing commitments until the beginning of 2014, or if capital is needed earlier for the initial investment in the Fund. The General Partner will commit at least 6% of the Fund's aggregate Commitments.

Crestview will target opportunities where valuations do not accurately reflect fundamentals, or where improving trends are not appreciated by the market. Opportunities may include complex deals in out-of-favor industries, industries in transition, or companies in financial or operational distress. Crestview has developed its contrarian investment strategy based on the partners' prior investment experiences in various market cycles. The Firm believes that the Fund will be well positioned to continue to take advantage of opportunities that arise from dislocations over the next few years due to the slow recovery following the Global Financial Crisis.

Crestview pursues a sector focused strategy in industries where the team has extensive experience and expertise. Crestview's partners have direct operating experience in asset management, financial services, and media, while the Firm's senior advisors have direct operating experience in energy, financial services, healthcare, automotive, consumer/retail, and real estate. Fund I focused on the media, healthcare, and financial services sectors, and the energy sector was added in Fund II. Crestview will opportunistically pursue investments outside of the Firm's core sectors but only in select instances that present compelling risk/reward profiles and where the team has experience and expertise.



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 and private equity professionals.
- 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.

The individuals at Portfolio Advisors who were primarily involved in the due diligence process for Crestview Partners III, L.P. are:

William Indelicato - Managing Director, Connecticut Office

Jeff Gruccio – Vice President , Connecticut Office

Amanda Peacock – Senior Associate, Connecticut Office

Based on the above, Portfolio Advisors recommends that PSERS commit to up to \$150 million of limited partnership interests in Crestview Partners III, L.P. 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,

WILLIAM J. INDELICATO
MANAGING DIRECTOR

Private Equity Fund Commitment



Crestview Partners III, L.P.

June 11, 2013

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Michael Tyler
Sr. Investment Analyst, Private Markets

Crestview Partners III, L.P. – Private Equity Fund

Overview

- The targeted fund size is \$3.0 billion
- Investments will range from \$100 million to \$350 million in a single transaction
- Fund seeks two to four investments per year, primarily in the U.S.A.
- Focus on opportunistic, value-oriented investments in companies experiencing dislocations in out-of-favor industries
- Fund III to have 12 to 15 portfolio companies, as in prior funds
- Co-Investment opportunities will be available

Fund Strategy

- Firm will primarily target media, financial services, healthcare, and energy sectors
- Contrarian investment strategy focuses on market dislocations within the Firm's target industries
- Focus on unique opportunities allows lower entry multiples than the industry averages
- Use flexible deal structuring capability to make investments using recapitalizations, balance sheet restructuring, or platform build-ups due to unique market dislocations
- Leverage experienced partners broad networks to gain preferred access into unique situations

Investment Team

- 8 Partners: all 8 are committed to Fund III
- 15 investment professionals (5 principals, 3 vice-presidents, 7 associates), plus 8 Senior Advisors
- 20 professionals dedicated to finance/operations and administrative team
- Firm has experienced unusually limited turnover since inception

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Crestview Partners III, L.P. – Private Equity Fund

GP “Value Add” to Portfolio Companies

- Crestview will be able to actively concentrate on 12-15 portfolio companies, to spend time and effort working to improve the operations and value of companies
- Crestview holds an average of two board seats per company. They have successfully recruited senior executives to companies, played a key role in introducing portfolio companies to new customers, and provided advice and experience in regard to capital markets and add-on acquisitions

Performance as of (3/31/13)

| Fund Name | Commitment | Vintage Year | Net Multiple | Net IRR |
|-----------------------------------|-------------------|---------------------|---------------------|----------------|
| Crestview Partners L.P: | \$150M | 2005 | 1.42x | 6.88% |
| Crestview Partners II L.P: | \$200M | 2008 | 1.24x | 11.56% |
| All funds since inception: | | | 1.32x | 8.03% |

Market Opportunity

- Crestview believes there continues to be availability of value-oriented investments in companies experiencing significant dislocations in our-of-favor industries
- Crestview will target opportunities where valuations do not accurately reflect fundamentals or where improving trends are not appreciated in the market. Opportunities may include complex deals in out-of-favor industries, industries in transition, or companies in financial or operational distress

Crestview Partners III, L.P. – Private Equity Fund

History with PSERS

- This would be PSERS third commitment with Crestview Partners

Board Issues

- Pennsylvania Presence – 7 investments, 38 locations, 1,217 employees, \$76 million annual payroll, PSERS portion of cost is \$92.2 million, current value is \$97.3 million (12.31.12 data)
- Placement agents – None
- PA political contributions – None
- Relationship with consultant – Portfolio Advisors - None

Recommendation

- Staff, together with Portfolio Advisors LLC, recommends that the Board invest an amount not to exceed \$150 million plus reasonable normal investment expenses

Notice: This document was presented to the Public School Employees' Retirement Board at the public meeting at which the Board acted on the resolution to which the information relates. The sole purpose for posting the presentation information on this website is to enable the public to have access to documents that were utilized at a public meeting of the Public School Employees' Retirement Board, and no other purpose or use is intended.