



**PSERS PRIVATE INVESTMENT PROGRAM**

**Recommendation for Investment in  
KRG Capital Fund IV, L.P.**

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# KRG Capital Fund IV, L.P.

## EXECUTIVE SUMMARY

KRG Capital Fund IV, L.P., a Delaware limited partnership (the “U.S. Fund”) and KRG Capital Fund IV-A, L.P., a Cayman Islands exempted limited partnership or a Delaware limited partnership, to be determined (“Fund IV-A” and, together with the U.S. Fund and any other parallel funds, the “Partnership” or “Fund IV”) are being established by the principals of KRG Capital Partners (“KRG” or the “Firm”) to act as the lead equity sponsor in executing leveraged acquisitions focused on middle market “buy and build” strategies in niche industry sectors positioned to benefit from global macro-economic and demographic growth trends. KRG Capital Management, L.P. with respect to its Class IV series (the “General Partner” or “KRG IV”) generally will target platform companies that are (a) among the emerging leaders in their market niche, (b) capable of delivering additional value to the end customer through a broader product or service offering, developed either internally or acquired through follow-on acquisitions, (c) positioned to benefit from KRG’s implementation of “change” through strategic, organizational and operational improvements, and (d) require a minimum of approximately \$50 million of equity up to 20% of Fund IV commitments (including add-on acquisitions) to complete the acquisition strategy. KRG is seeking total capital commitments for Fund IV of \$1.25 - \$1.9 billion with the General Partner and its affiliates expecting to commit 3% of total commitments.

## KRG CAPITAL PARTNERS

KRG was founded in early 1996 by Mark M. King, Bruce L. Rogers and Charles R. Gwirtsman. The Firm began executing its buy and build investment strategy at that time by raising debt and equity on a deal-by-deal basis for individual companies acquired by KRG (“Pre-Fund”). The success of its initial consolidation strategies led KRG to raise its first committed institutional fund in 1999, KRG Capital Fund I, L.P. (“Fund I”), and subsequently KRG Capital Fund II, L.P. (“Fund II”) in 2001 and KRG Capital Fund III, L.P. (“Fund III”) in 2005. Total capital commitments to each fund are \$202 million, \$450 million, and \$715 million, respectively. KRG continues to generate substantial deal flow and, with Fund III now approximately 80% invested or committed (including a reserve for future fees and expenses), is currently evaluating potential investment opportunities for Fund IV platform companies.

Since inception, the Firm has built an experienced and multi-faceted team with backgrounds in private equity, business development, operations, legal, accounting and finance. This team of 28 investment professionals (including six professionals that are expected to begin employment within the next 30 to 90 days) is led by nine Managing Directors and supported by an administrative staff of 12 additional team members. The Firm has completed over 100 buyout transactions since inception, and, over the last four and a half years, has deployed approximately \$1.2 billion of equity, including \$439 million of equity facilitated by KRG as direct co-investment alongside the funds. With an average initial platform acquisition purchase price of \$96 million (\$46 million average purchase price including add-on acquisitions), an historical realized loss ratio of less than 1% over the Firm’s 11-year history, and superior returns as illustrated below, KRG has solidly positioned itself as one of the leading investors in middle market buyouts.

## INVESTMENT STRATEGY

KRG IV intends to continue to execute the same middle market buy and build strategy the Firm has utilized effectively since its inception in 1996. The strategy begins with investments in well-managed, middle market, platform companies that are profitable, have strong growth prospects and operate in fragmented industries. KRG IV will then work closely with its management

teams, developing the platforms into larger and more valuable enterprises through the implementation of an acquisition and organic growth strategy focused on delivering a broader product or service offering to the company's customers, organizational improvements including enhancing management teams, and effecting positive operational change. An integral factor in accomplishing this goal is the extensive role KRG IV will play post-investment, providing in-depth support to its companies in a variety of areas. The following are the key elements of KRG IV's investment strategy:

- **Top-Down Investment Approach.** The foundation of KRG's investment strategy is its top-down investment approach. KRG identifies macro-economic and demographic trends upon which an investment thesis is built (e.g., aging population, infrastructure spending, regulatory trends, contract manufacturing and outsourcing trends), researches targeted industries both independently and with the assistance of industry consultants, validates the viability of a customer-centric buy and build strategy and then pursues a suitable platform company within that sector.
- **Alternative Deal Sourcing Techniques.** The increasingly competitive nature of the private equity market has led KRG to complement its comprehensive in-house origination effort with alternative deal sourcing techniques. These techniques include (a) building strategic alliances with industry experts to search for best-in-class platform companies in a particular industry, (b) closely monitoring results of auction deals, providing an ability to quickly re-engage if the deal does not close with another bidder and (c) developing a comprehensive intermediary marketing strategy, including hosting annual conferences and distributing quarterly newsletters. Three out of eight platform companies in Fund III and a substantial number of add-on acquisitions, however, have been acquired on a proprietary basis.
- **Obtain "Best-in-Class" Platform Company.** The identification of an appropriate platform company is critical to a successful buy and build strategy. KRG IV will generally require that a platform company be (or have the potential to quickly become) an industry leader in its niche (i.e., "best-in-class") and that it possess a core management team that has the talent, vision, reputation and motivation necessary to execute the buy and build strategy.
- **Implement "Change" to Drive Value.** KRG seeks investment opportunities where it can effectively implement change to drive growth and increase enterprise value. This capability includes the following primary elements:
  - **Growth Strategy.** A key determinant in ascertaining whether or not a particular growth strategy has merit is an analysis of how the acquisition or organic growth strategy will add definable and significant value to the end customer. Value to the end customer may include: higher quality of service, broader or more sophisticated product offerings, better supply chain management, more efficient distribution methods, expanded geographic presence or other definable improvements in the customer's business model. If the analysis does not result in the identification of a clear benefit to the end customer, KRG IV will generally not pursue the opportunity.
  - **Organization.** KRG generally works with management to optimize the organizational infrastructure to align the business with management and customer needs and expectations. KRG also seeks to augment platform company management teams to enhance competencies in areas such as sales and marketing, information systems, human resources, and finance and accounting, and has an extensive track record of recruiting experienced and talented professionals for such positions.
  - **Operations.** Although KRG is not involved in day-to-day operating decisions of its portfolio companies, the Firm's deal teams are regularly communicating and interacting

with management teams on operational opportunities and challenges, as well as identifying and implementing quality initiatives, including acquisition integration. In certain situations, however, KRG has allocated its own internal resources or retained external consultants to assist portfolio companies with operating challenges, demonstrating a willingness to support companies in a variety of situations, and successfully avoiding the loss of any portfolio company. The objective of this hands-on approach is to efficiently and effectively prioritize and execute with management those initiatives that will lead to building the greatest enterprise value over the investment period. All of KRG IV's investment professionals are expected to participate in these activities, providing a diverse set of resources and skills to all platform companies.

**Offer Entrepreneurs Continuing Equity and Management Participation Through a “Recap.”** KRG IV will frequently structure its acquisitions as leveraged recapitalizations, allowing the owner to achieve partial liquidity while continuing to have a meaningful equity stake (including additional performance-based contingent upside) and remaining actively involved in the operations of the company. This structure is ideal for an entrepreneur looking for some personal liquidity but who also desires a financial partner to significantly enhance the company's growth opportunities. The potential total value of a seller's equity rolled-over into the new platform company can be as much as, or significantly more than, the total value received in the initial sale.

**Emphasize Meaningful Management Equity Participation.** KRG IV will emphasize significant management ownership in all of its platform companies and strives to be creative in developing equity incentives that align investor and management economic and strategic interests. In addition, KRG IV will seek to incentivize management teams through stock purchase, stock option and performance-based contingent stock opportunities (stock earned based upon Fund IV's actual return on investment) that focus management on KRG IV's strategic investment objectives. In addition to rollover stock or direct investment by management, KRG IV will generally allocate between 10% and 25% of each platform's common equity to these combined equity incentive programs.

**Control Investment Position.** KRG IV generally will seek to acquire a majority ownership interest in each portfolio company, either directly or with its institutional equity co-investors. Additionally, KRG IV expects to obtain the right to appoint a majority of the board of directors in each company, further securing its position as the control investor, and providing the firm with the authority necessary to execute the overall investment strategy.

**Partner with Equity and Debt Providers.** KRG has developed extensive and deep relationships with a number of lending groups and institutional equity co-investors, the majority of whom are investors in KRG's previous funds. While KRG has paid industry syndication fees to its lead senior and mezzanine lenders, KRG often relies on its strong lending relationships to effectively create its own bank syndications or “clubs” for a particular deal. In the last 12 months, KRG has successfully closed two “mega club” senior facilities exceeding \$300 million with significant oversubscription; one for Collect America and the other for Marquette Transportation. This network is a key strategic advantage for KRG, particularly during periods of tighter debt markets or when portfolio companies experience temporary performance challenges. The Firm also allows its lending partners to invest alongside KRG, and to date has provided mezzanine debt and direct equity investments to nearly 25 different limited partners in Funds I, II and III.

**Focus on the Exit.** KRG has built its platform companies with one financial objective in mind: to build a company that will become a compelling and dynamic acquisition candidate for a strategic buyer. KRG IV will seek to achieve this objective with a three-pronged growth strategy

aimed at (a) delivering new products and services to existing customers, (b) increasing market share or geographic presence and (c) acquiring additional companies to accomplish the same in a more rapid manner. KRG has found that keeping management and the Firm focused on the ultimate financial objective of building an attractive acquisition candidate significantly improves the strategic decisions made in the development of the platform company.

## INVESTMENT CRITERIA

While the Firm will continue to remain flexible in its pursuit of acquisition opportunities, KRG IV will focus its activities in sectors that expand upon themes that have proven successful for KRG, including healthcare services, life sciences, medical technology, transportation/logistics, infrastructure/energy, construction products, specialty finance and marketing services. KRG's track record and capital invested in the three related sectors of healthcare services, life sciences and medical technology has resulted in the development of a "franchise" in these areas, with recognition by the intermediary community of the Firm's substantial expertise and success. KRG views transportation/logistics and the combined related areas of infrastructure/energy and construction products as its second and third core "franchises," while specialty finance and marketing services represent emerging sectors for KRG.

Through implementation of a top-down investment approach, Fund IV will focus on industries with the following basic characteristics:

- **Strong Macro Economic and Demographic Growth Trends.** Fund IV will target industries that are driven by favorable macro-economic and demographic growth trends. The investment strategy is designed to result in platform company growth rates in excess of prevailing industry averages.
- **Niche Manufacturing, Distribution or Service Industries.** Fund IV will focus on companies engaged in manufacturing, distribution or service industries. Fund IV will seek platform companies engaged in specialties or "niches" within their broader industries that have a potential for higher levels of future growth and profitability than competitors. Additionally, although KRG does not presently have platform investments in the aerospace/defense/government services and specialty chemicals industries, the Firm has evaluated a number of investment opportunities in these sectors, and KRG IV is expected to continue to expand on these efforts.
- **Fragmented Industries.** Fund IV will seek investments in fragmented industries where significant opportunities exist for a buy and build strategy. Each industry will be evaluated to determine whether a suitable number of add-on acquisition targets exist and whether the competitive environment is favorable for the creation of a large industry leader. Once an industry is validated, KRG IV will then seek platform company investment opportunities with the following basic characteristics:

## INVESTMENT PROCESS

KRG has developed a disciplined process to identify and analyze attractive investment opportunities, receive feedback and insights from the entire Firm, structure and consummate transactions and work with portfolio company management teams to generate attractive returns. This process facilitates open communication and active debate, which encourages thorough analysis and sound investment decisions.

- **Deal Sourcing.** KRG's top-down investment approach has allowed it to proactively identify attractive industry sectors that the Firm focuses on to build critical market knowledge, insights and relationships. This has allowed the Firm to efficiently and effectively screen deal

flow to determine whether the opportunity meets KRG's investment criteria. In addition, as a leader in the middle market, KRG has generated substantial investment opportunities through its network of professionals, industry experts, intermediaries, investment banks and lenders. In an increasingly competitive market, KRG IV will focus its efforts on (a) proprietary deal flow generation through "KRG Direct," a deal sourcing program based upon in-depth research of targeted industries, and building strategic alliances with industry experts in identified top-down sectors, (b) effective screening of intermediary/ competitive investment opportunities and (c) alternative deal sourcing techniques such as (i) mining and leveraging the rolodex and expertise of in-house former operating executives, accountants, lawyers and money managers, (ii) active involvement with industry-specific investment bankers who focus on KRG's key areas of interest and (iii) engagement of the "buy-side" intermediary community in targeted sectors.

Once a platform company is acquired, KRG collaborates with the platform company's management team to identify strategic targets that bring more products and/or service offerings to the customer. KRG IV and management will pursue these opportunities together, making initial contact with targets through direct calls and meetings or through participation at industry trade shows. KRG has historically been very successful sourcing add-on acquisitions on a proprietary basis due to its subject matter expertise and extensive contacts gained by being in the industry, and to the platform company management team's existing relationships with the owners and management teams of best-in-class potential acquisition targets.

- **Comprehensive Due Diligence.** The Firm conduct's rigorous due diligence on prospective investments and continually refines its due diligence processes, developing consistent methodologies and tools for addressing and mitigating risk. Key elements of KRG IV's due diligence process will typically include the following:
  - **Industry Diligence.** Industry research and analysis will continue to be essential and fundamental aspects of the due diligence process. Instead of solely relying on more conventional sources of industry information (e.g., market research reports, market intelligence databases or industry trade group resources), KRG IV will seek to identify a combination of former executives, operational consultants, and/or industry-specific management consultants who are "intimate" with the given industry to assist in evaluating the competitive landscape, industry history and evolution, market dynamics, and acquisition activity. In some cases, KRG may have already forged an industry expert relationship through its KRG Direct program, further enhancing industry due diligence.
  - **Accounting & Tax Diligence.** Industry knowledge integrated into the accounting and tax due diligence process increases the probability of an adequate and relevant scope of inquiry. KRG IV will seek to draw upon the knowledge of its outside financial advisors, lenders, investors, strategic alliance partners and other market participants to identify key accounting and tax issues that are unique to a specific industry or situation, and will use this knowledge to customize its standard due diligence request list. KRG IV will also routinely utilize outside accounting and tax advisors to assist with this area of due diligence.
  - **Legal Diligence.** KRG has formed in-depth relationships with several law firms who have worked extensively with the Firm in the past. Consistently working on numerous transactions with the same legal teams promotes a thorough and consistent scope of work. In addition to standard legal inquiries, additional due diligence areas covered will generally include intellectual property (e.g., patent protection), organizational structure, environmental exposure and contingent liabilities. Tax attorneys from these same law

firms may also work in concert with the tax accountants to consistently analyze and address current or potential issues.

- **Financial Modeling.** KRG conducts extensive modeling procedures to evaluate a prospective investment's potential returns over a five-year period. Such procedures include an internally generated, and extremely detailed "bottoms up" model identifying all key drivers of a particular business and the variables that could affect such drivers. The resulting five-year financial projections are then tested for sensitivity, and all prospective platform investments presented to the Investment Committee are generally accompanied by three separate financial models: one based on management's key assumptions, one based on KRG's key assumptions, and a third which incorporates a downside financial projection.
- **Human Resource Review.** During the due diligence process, KRG IV will spend a significant amount of time with managers and key employees to identify strengths and weaknesses of a given management team. The Firm may also engage an independent management assessment firm to validate whether the key managers have the competencies and characteristics necessary to execute the corporate "vision." Frequently, KRG initiates a search for additional key managerial talent prior to the acquisition closing. KRG IV will also not make an investment without first performing background checks on key managers and employees. Extensive local and national governmental agencies, as well as confidential reference checks when applicable, are utilized to gather data.
- **Customers / Suppliers.** KRG IV will perform one-on-one or telephonic interviews with key customers and suppliers to gain a greater understanding of (a) a company's core value proposition, performance and reputation within an industry, (b) the customer's perception of "switching costs" and (c) any potential threats or weaknesses. KRG IV may also engage outside firms to confidentially assess the strengths of customer relationships. These steps serve as another independent verification of management's (or the company's) strengths and challenges and may reveal industry trends that might otherwise go unnoticed.
- **Deal Review and Approval.** A thorough and consensus-driven investment approval process is important. The Firm will typically hold a weekly meeting for all investment professionals that includes an update on each portfolio company as well as an entire segment devoted to discussing new platform opportunities. KRG professionals will strive to obtain feedback on potential transactions as early as possible to determine whether it is appropriate to devote Firm resources to evaluating the opportunity, and to obtain the perspectives of other professionals of the Firm on relevant issues.

Once KRG IV agrees to pursue a platform opportunity, next steps will include assigning a deal team and submitting a pre-screening memo and model to the Investment Committee, which is comprised of the nine Managing Directors. If the investment opportunity is approved, two Managing Directors will review the final letter of intent. Prior to closing, KRG IV will convene a final Investment Committee meeting to discuss the results of due diligence and to approve the final investment structure. Approval will require the affirmative vote of six out of nine Investment Committee members and the affirmative vote of three out of five of the original five Managing Directors. Additionally, Investment Committee meetings will typically be attended by all investment professionals to allow the team to benefit from the knowledge base of the entire Firm.

Add-on acquisitions will generally not require a formal pre-screening meeting as this topic is discussed in the weekly Firm meetings. However, the final Investment Committee approval

will be the same as that for platform acquisitions, even if the acquisition is made with the company's cash-on-hand or through the existing credit facility.

- **Leverage Philosophy.** KRG IV typically will utilize an efficient capital structure designed specifically for the anticipated growth strategy for the platform company. Rather than putting in excess equity to effectively pre-fund add-on acquisitions, a company's capital structure will be re-examined at the time of each add-on acquisition. The buy and build strategy allows KRG to restructure a company's balance sheet periodically to adjust to different credit environments and to changes in a company's operating performance. Additionally, the financial investment in operational change together with the complexities associated with operating in a leveraged environment require that a platform company's leverage structure be somewhat more conservative, as compared to more aggressive leverage ratios typically used in middle market private equity.
- **Post-Investment Involvement.** KRG is a hands-on Firm that strives to be a value-added resource to each of its platform companies. Although KRG presently holds a minimum of two board seats in its existing portfolio companies, the Firm does not make day-to-day operating decisions for its portfolio companies. The deal teams, however, have actively supported their companies in a number of ways including:
  - **Platform Post-Investment Actions.** In the final stages of acquiring a platform company, the relationship with sellers/management shifts from "buyer and seller" to "partners," and KRG and management actively begin working together to set the stage for future growth. Immediate steps taken post-investment have included the following:
    - Expectations Pact.** In the spirit of partnership, KRG and management agree to an expectations pact that commits each party to a list of fundamental components of effective management. This document outlines the roles and responsibilities for KRG and the management team in areas such as strategic planning, acquisition activity, financial reporting and compliance, board governance and lender and investor relations. KRG begins introducing these concepts in the final weeks leading up to closing, and formalizes the pact in a meeting pre- or post-closing with the executive management team and the deal team. This tool is especially valuable for those entrepreneurs and managers who have historically enjoyed more autonomy and may be unaccustomed to KRG's hands-on approach.
    - Strategic Planning.** KRG typically coordinates and facilitates in-depth strategic planning sessions to formalize the "shared vision" developed with the sellers/management during due diligence by (a) establishing the long-term organic and acquisition growth strategy, (b) analyzing the competitive landscape and outside factors that could influence ultimate success (e.g., SWOT analysis), (c) understanding the company's value proposition to its customers, and (d) identifying organizational design issues and areas of management that may need supplementing. These sessions have produced deliverables and timelines, have identified the parties accountable for the actions, and are closely monitored for completion by KRG deal teams.
    - Post-Investment Plan.** KRG produces a Post-Investment Plan summarizing a master list of items to be completed by both management and KRG in the first 90 to 180 days post closing. The plan generally covers accounting and finance, legal, treasury, human resources (benefits and personnel) and information systems matters, and was designed to focus management and KRG on those tasks and initiatives that will create the most immediate added value after the acquisition has been completed.



**Dashboard/Flash Reporting.** KRG has collaborated with management to develop weekly dashboard and flash reports that measure key indicators of operating and financial performance, highlighting trends before they have a financial impact (positive or negative) on the business. Real-time monitoring allows all parties to capture significant trends early-on and mitigate their impact more quickly.

- **Add-On Acquisitions.** KRG and management have worked closely together in establishing a “target list” of acquisition candidates and initiating contact with these prospective targets, with KRG taking the lead role in completing the acquisition. This role has included negotiating indications of interest and letters of intent, financial modeling, completing due diligence (with assistance from management on operational matters), arranging financing, and negotiating final equity and debt documentation. KRG is particularly focused on acquisition integration, collaboratively working with management to develop and implement a detailed acquisition integration plan that is designed to allow the platform company management to continue focusing on the core business as well as the subsequent integration of the acquired business.
- **Operational Improvements and Opportunities.** KRG has endeavored to drive accretion in its investments by delivering a higher value proposition to the company’s customers (e.g., new products and services), improving operational efficiencies and capitalizing on the resulting increase in cash flows. The Firm recognizes that platform company leadership teams may encounter unfamiliar challenges along the way. KRG has worked closely with its companies to solve such challenges by providing services that include:

**Identification of Cost Reduction Initiatives.** KRG has been actively engaged in portfolio management since 1996, and several investment professionals have previous senior-level operational and financial experience in companies outside of private equity. Portfolio companies benefit from this broad experience as the Firm has proactively provided insight on situations encountered previously that may result in cost savings. Whether reviewing benefit plans (e.g., carriers or coverage), evaluating staffing levels (e.g., sufficiency or excess) or analyzing a key business process (e.g., freight management), KRG can provide input and guidance in solving such problems effectively and efficiently.

**Introduction of Quality Initiatives.** Quality initiatives are broadly defined as an action that results in (a) enhanced customer satisfaction, (b) improved operational efficiency and scalability, (c) increased return on investment and (d) enriched employee satisfaction. KRG has developed several processes for increasing quality, and either sources solutions with existing, internal resources or provides portfolio companies with an introduction to pre-qualified vendors with subject matter expertise. The most frequent areas of support typically include strategic planning, key business metric development, process improvement/re-engineering, human resource processes and change acceleration. All deal teams are actively engaged in these activities.

**Operational Advice and Mentoring.** KRG recently hired two former industry executives to serve as Managing Directors of KRG, and KRG IV is seeking to hire one to two additional executives in senior positions. These individuals will bring either significant sector expertise to the firm (e.g., healthcare and construction products) or capabilities expertise (e.g., former CFO’s or IT professionals), and will not only serve as integrated members of KRG IV’s deal teams, but will be actively involved in deal sourcing activities.

**Management Recruiting & Development.** KRG has actively managed the recruiting process for all senior management team members, having directed (or participated in)

more than 150 management team additions or transitions since its inception. An extensive network of relationships with senior operating executives as well as outside recruiters is utilized to rapidly identify candidates. For senior executives (e.g., CEOs and COOs), an independent management assessment firm may be engaged by the Firm to validate whether the candidate's management profile is suitable for the position, thereby mitigating the potential risk of an inappropriate hire. Once a candidate is hired, KRG often facilitates a management assimilation session, which allows a manager to "hit the ground running" by minimizing cultural or management style issues that may arise between a new leader and their team.

- **Firm-Wide Portfolio Monitoring.** In addition to a specific deal team's monitoring of individual investments, KRG IV will have a team of its investment professionals who, while not actively involved in a portfolio company, will review that company's financial and operational performance each quarter. This process is utilized to effectively create an internal "audit team" to consistently and objectively evaluate the platform company's performance as well as the deal team's actions, providing input and guidance as necessary. KRG currently prepares for these quarterly reviews by having deal teams circulate to all Firm members a write-up of each company documenting (a) current initiatives and their status, (b) summary quarterly and year-to-date financial results, (c) an analysis of key financial and operating performance metrics and (d) a recommendation of the investment's valuation based on recent and projected performance. Significant action items from this meeting are monitored for completion/compliance by the Firm's Investment Committee.
- **Exit Strategies.** KRG IV will seek to build platform companies into market-leading enterprises that will become compelling and dynamic acquisition candidates for strategic buyers. KRG IV may also consider sales to financial buyers and public offerings for its portfolio companies. The timing and method of exiting a portfolio company is expected to be based on a number of key factors including (a) the company's EBITDA growth (both organically and by add-on acquisitions) compared to the anticipated growth in the original investment plan and relative to its future prospects, (b) the current state of the industry in which the company operates, as well as leverage and equity market conditions and (c) Fund IV's investment period and constraints on additional funding. To date, KRG has successfully exited 16 companies, ten of which were sold to strategic buyers and six of which were sold to a financial buyer.

## ORGANIZATION

KRG was founded in early 1996 by Mark M. King, Bruce L. Rogers and Charles R. Gwirtsman to execute buy and build investment strategies. Messrs. King, Rogers and Gwirtsman have been instrumental in defining the Firm's strategy, and ultimately building the team and internal processes that have led to KRG becoming a leading middle market buyout firm. These efforts have evolved the Firm into an experienced and multi-faceted team of 28 investment professionals with backgrounds in private equity, operations, business development, corporate finance, law, leveraged lending, and accounting and finance. Seven of the Managing Directors below have nearly ten years experience investing together as a team and the eighth Managing Director (Blair J. Tikker) brings over 25 years of operational experience to the Firm.

As noted in the biographies below, a number of the Firm's senior investment professionals have progressed through the organization assuming greater roles and responsibilities, resulting in a significant expansion of the junior investment team. Additionally, the Firm's recruiting plan for the next six to twelve months includes hiring one to two additional senior investment professionals and one to two junior investment professionals.

## INVESTMENT PROFESSIONALS

**Mark M. King, Co-Founder and Managing Director.** Mark M. King, 46, has over 23 years experience in private equity, buyouts and corporate finance. Mr. King has served as a member of the KRG Investment Committee since the Firm's inception and was the lead Managing Director for KRG's investments in ATI, Case Logic, Cetero Research, Collect America, HMS Healthcare, Marquette Transportation (co-led with Mr. Gwirtsman), Specialty Research, Sun Valley and White Cap. Prior to forming KRG, Mr. King led numerous industry consolidations in areas such as industrial distribution, telecom and engineering services, and was the co-founder of Industrial Services Technologies, Inc. ("IST"), a \$120 million provider of maintenance services to the refinery, fertilizer and chemicals industries. Mr. King also served as President and Vice Chairman of IST prior to its sale to another industry consolidator. Mr. King attended the University of Denver, Menlo College and the University of Oklahoma.

**Bruce L. Rogers, Co-Founder and Managing Director.** Bruce L. Rogers, 44, has 20 years of experience in private equity, corporate mergers and acquisitions and corporate finance. Mr. Rogers has served as a member of the KRG Investment Committee since the Firm's inception and was the lead Managing Director for KRG's investments in Accellent, Aspen Marketing, CIVCO, Risk Management Solutions, SPI Manufacturing (co-led with Mr. Gwirtsman), and TerraMarc Industries. Prior to forming KRG, Mr. Rogers was a partner with the national law firms of Hogan & Hartson, L.L.P. and Kirkland & Ellis LLP, specializing in corporate mergers and acquisitions, leveraged buyouts and corporate finance. While practicing at Hogan & Hartson, L.L.P. and Kirkland & Ellis LLP, Mr. Rogers represented both corporate clients and private equity firms domestically and internationally.

Mr. Rogers is the former Chairman of the Board of Directors of Push America, a national non-profit organization serving people with disabilities. Mr. Rogers is the founder of Push America's national cross-country cycling event, "The Journey of Hope." Mr. Rogers received his law degree from Duke University, attended the Rome Center for International Law in Italy and earned a BBA degree in Management and Finance from Stetson University.

**Charles R. Gwirtsman, Co-Founder and Managing Director.** Charles R. Gwirtsman, 53, has over 20 years of experience in private equity, mergers and acquisitions, buyouts and corporate finance. Mr. Gwirtsman has served as a member of the KRG Investment Committee since the Firm's inception and was the lead Managing Director for KRG's investments in Corporate Training, FMI (co-led with Mr. Hamilton), Focus, Global Employment Solutions, Marquette Transportation (co-led with Mr. King), SPI Manufacturing (co-led with Mr. Rogers), TransCore, and Trinity. Prior to co-founding KRG, Mr. Gwirtsman served as a Senior Vice President with Fiduciary Capital Management Company as part of a team managing two mezzanine debt funds. Prior to joining Fiduciary Capital Management, Mr. Gwirtsman served as a Corporate Vice President with Paine Webber, Inc. in the Private Finance Group, where he was responsible for advising, structuring and placing debt and equity securities. He also served as an investment banker at E.F. Hutton, where he was responsible for analyzing and originating transactions in the transportation equipment leasing, financial services and oil and gas sectors.

Mr. Gwirtsman serves as a director of Modtech Holdings, Inc. (NASDAQ:MODT) and Global Employment Holdings, Inc. (OTCBB:GEYH). He also serves on the boards of Building Bridges for Peace, a non-profit organization committed to improving dialogue between Israeli, Palestinian and American teenagers; Friends of Yemin Orde, which represents Yemin Orde youth village in Israel; and Denver Academy, a school for children with learning differences. Mr. Gwirtsman earned a BA degree in English from Columbia University and an MBA degree in Finance from the University of Denver.

**Christopher J. Lane**, *Managing Director*. Christopher J. Lane, 45, has been a Managing Director of KRG since 1997, and has over 20 years of diverse business experience in corporate strategy, business development, finance and operations as a principal and advisor. Mr. Lane has served as a member of the KRG Investment Committee since 1997 and was the lead Managing Director for the Firm's investments in Celebrity, East Coast, Scivex, and Tecta. He also served in an operating role for four years at White Cap and led the turnaround of Case Logic. Mr. Lane has completed numerous transactions including mergers, acquisitions, recapitalizations, public offerings and going-private transactions. Additionally, Mr. Lane has recruited, selected and coached numerous senior executives in a wide range of industries. Prior to joining KRG, Mr. Lane was a partner in a professional services firm providing acquisition and litigation support services. Mr. Lane also co-founded and served as a board member of companies that performed auditing, redemption and data management services and created large-scale public record databases.

Mr. Lane previously served on the boards of the Orange County Government Practices Oversight Committee, and graduated from the University of California, Irvine with a BA in Economics and an MBA in Management.

**Charles A. Hamilton**, *Managing Director*. Charles A. Hamilton, 58, has been a Managing Director of KRG since 1999, and has over 35 years of experience in the fields of investment research, investment banking and private equity management. Mr. Hamilton has served as a member of the KRG Investment Committee since 1999, and has acted as the lead Managing Director for the Firm's investments in FMI (co-led with Mr. Gwirtsman), Interior Specialists, The Tensar Corporation and Varel. Prior to joining KRG, Mr. Hamilton served as a Managing Director of First Analysis Corporation ("First Analysis"), a Chicago-based investment research and investment management firm, and was also a Managing Director of Robertson, Stephens & Co. and a successor entity, RS Investment Management, for over 18 years. Previously, Mr. Hamilton was responsible for a joint-venture private equity fund management arrangement between Robertson, Stephens and First Analysis.

Mr. Hamilton graduated from the University of California, Berkeley in 1971 with a BS in Finance.

**Christopher J. Bock**, *Managing Director*. Christopher J. Bock, 37, joined the Firm in 1997 as a Senior Associate, and was promoted to Principal in 1999, Director in 2006 and Managing Director in 2007. Mr. Bock will join the Firm's Investment Committee for Fund IV. Mr. Bock has over 15 years of private equity and corporate finance experience, and has worked on eight KRG industry consolidations and completed over 30 acquisitions. Mr. Bock has a broad range of industry experience including transportation and logistics, consumer products, human resource outsourcing, med-tech/life sciences and power/energy. Prior to joining KRG, Mr. Bock served as an Assistant Vice President at NatWest Markets in New York and Hong Kong in the Project Finance Advisory Group from 1993 to 1997. From 1992 to 1993, he was an analyst at Hambro Resource Development, Inc., a New York-based investment bank. Mr. Bock has served as a director of KRG portfolio companies Case Logic, Cetero Research, Collect America, FMI, Global Employment Solutions and Tecta. and was an officer and regular board observer of TransCore. Mr. Bock earned a BA from Amherst College.

**Steven D. Neumann**, *Managing Director*. Steven D. Neumann, 40, joined the Firm in 1998 as a Senior Associate, and was promoted to Principal in 1999, Director in 2006 and Managing Director in 2007. Mr. Neumann will join the Firm's Investment Committee for Fund IV. Mr. Neumann has over 15 years of private equity and corporate finance experience and has worked on nine industry consolidations and completed over 35 acquisitions. Mr. Neumann has a broad range of experience including healthcare services, life sciences, med-tech, construction products and oil and gas services. Prior to joining KRG, Mr. Neumann served as a Vice

President for a regional investment banking firm from 1996 to 1998. From 1992 to 1996, Mr. Neumann served as a Manager in the Corporate Finance Services Group with the San Francisco office of Coopers & Lybrand. Mr. Neumann has served as a director of KRG portfolio companies ATI, Focus, Interior Specialists, Scivex, TerraMarc, and Trinity, and was an officer and regular board observer of Accellent. Mr. Neumann earned a BS in Accounting and a Master of Science in Finance from the University of Colorado.

**Blair J. Tikker**, *Managing Director*. Blair J. Tikker, 51, joined the firm in 2006 as a consultant, primarily focused on assisting KRG with deal sourcing and organizational development in its portfolio companies, and was brought in-house as a Managing Director in 2007. Mr. Tikker has over 25 years of experience in the healthcare industry, and will join the Firm's Investment Committee for Fund IV. Prior to joining KRG, Mr. Tikker worked for a number of hospital systems, physician groups and managed care companies. In 1995, he was named the CEO of Sloans Lake Managed Care ("SLMC") until Centura Health purchased the company in August of 1997. Thereafter, Mr. Tikker and his partners formed the PhyLink Group to manage and consult for physician groups, and in 2001 Mr. Tikker, along with several others, acquired SLMC back from Centura Health. KRG acquired SLMC in 2004, and the company became the platform for HMS Healthcare. Mr. Tikker served as the CEO of HMS Healthcare from 2001 until its sale to a strategic buyer in 2005. Prior to SLMC, Mr. Tikker was President of Porter/Littleton Hospitals from 1992 to 1994, and a corporate Senior Vice President for Rocky Mountain Adventist Healthcare System from 1989 to 1994. Prior to that, he was the CEO of Columbine Medical Group for two years.

Mr. Tikker serves as director of KRG portfolio companies ATI and Risk Management Solutions. Mr. Tikker also serves on the board of Correctional Healthcare Companies which provides healthcare to jail inmates in over eight states, and Pacific Union College, his Alma Mater. Mr. Tikker holds a Bachelor of Science Degree in Business Administration from Pacific Union College.

## **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 97 percent of the committed capital, but not to exceed \$300 million plus reasonable normal investment expenses, in a side fund in KRG Capital Fund 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.