PSERS PRIVATE INVESTMENT PROGRAM

Recommendation for Investment in New Mountain Partners III, L.P.

Charles J. Spiller
Director of Alternative Investments

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New Mountain Partners III, L.P.

EXECUTIVE SUMMARY

New Mountain Capital, L.L.C. (together with its affiliates, "New Mountain Capital", "New Mountain" or the "Firm") is organizing New Mountain Partners III, L.P. (together with its parallel funds, "New Mountain III" or the "Fund") to seek significant long-term capital appreciation through direct private equity and equity-related investments. The Firm has a target capitalization of $3 billion for the Fund and intends to pursue the same highly successful strategy that New Mountain has employed since its inception.

New Mountain III will seek to invest in leveraged acquisitions, build-ups, recapitalizations, control restructurings, management buyouts, pre-public offering opportunities and growth equity transactions. The Fund expects to typically target North American companies with enterprise values ranging from $100 million to $1 billion and will typically invest between $100 million and $500 million of equity per transaction. The Fund expects to generally target a gross compound annual internal rate of return ("IRR") for its investments of 30%, and the investments made in both of its prior private equity funds have exceeded this target to date.

New Mountain's mission since its inception has been to be "best in class" in the new generation of private equity as measured by returns, control of risk, service to its limited partners and the quality of the businesses it builds. New Mountain has emphasized growth and investor value added, rather than debt, as the best path to achieving higher returns. The Firm is particularly strong in its ability to identify highly attractive and undervalued industry sectors "top down"; to build competitive advantages in these sectors; to proactively seek out and acquire the best available companies in these chosen sectors at attractive prices and without auctions; and then to work intensively with management to build the value of these companies.

New Mountain Capital was established in 1999 and currently manages private equity and public equity capital with aggregate capital commitments and assets under management totaling more than $3.3 billion.

New Mountain's first private equity fund, New Mountain Partners, L.P. (together with its parallel funds, "New Mountain I" or "Fund I"), was established in January 2000 with approximately $770 million in aggregate commitments. Fund I achieved notable success even during the severe public equity market downturn of 2000 to 2002, acquiring five platform companies diversified across a range of carefully selected high growth and noncyclical industries. As of December 31, 2006, two of these five investments have been fully realized, generating $633.6 million of realized proceeds, a 63.5% gross IRR and a 3.0x multiple of cost. Assuming no appreciation on the remaining investments still held in full, New Mountain I's total portfolio has achieved a gross IRR of 37.6%.

New Mountain's second private equity fund, New Mountain Partners II, L.P. (together with its parallel funds, "New Mountain II" or "Fund II"), was established in January 2005 with approximately $1.55 billion in total commitments. New Mountain II has invested, has reserved to invest or has terms agreed to invest approximately $ 990 million of fund capital across six companies in five diversified and carefully selected industries. New Mountain II's total portfolio has achieved a gross IRR of 36.2% in the January 1, 2005 to December 31, 2006 period.

Since its inception in 2000, New Mountain has generally sought to buy companies which are safe and defensive on the downside, but where the Firm sees significant return potential on the upside through growth and investor value added. The name "New Mountain" itself symbolizes the Firm's intention to build great and lasting companies in the industries it selects, and to build itself as an institution in the same way.

New Mountain typically seeks its investment opportunities proactively and has not acquired any business in a sealed bid auction since the Firm began. The Firm may spend months identifying the best sectors top down and additional months in industry "deep dives", building competitive advantages in the sector, forming alliances with the top managers and brokers, searching out the best specific opportunity and negotiating an appropriate price.

The Firm has never had a bankruptcy in any of its portfolio companies and seeks to tightly control risk by focusing on high quality businesses in the most "defensive growth" sectors (that is, in industries that prosper in both good and bad macroeconomic environments, but which still have the opportunity to achieve rapid expansion and high valuations at exit). While the Firm will use debt as prudent, New Mountain has generally used leverage conservatively by traditional private equity standards. In nine of its ten portfolio companies, New Mountain has used little or no third party debt to fund its initial investment. Additionally, New Mountain has frequently acquired control in companies where the existing shareholders retain a large ongoing equity stake. In such cases, New Mountain's investments have often been structured as convertible preferred shares or as debt with warrants (senior to these common shareholders) and New Mountain's funds have themselves been protected as the company's most senior lender.

Along with returns and control of risk, the Firm has also consistently focused on "best in class" client service as central to its mission. New Mountain has sought to maintain a frequent, friendly and transparent communication with its investors, and the interests of New Mountain's general partner and limited partners are closely aligned. The Firm's investments professionals have committed over $100 million to all the Firm's investment funds to date, and will commit at least $50 million into New Mountain III.

Mission to be "best in class": New Mountain's mission is to be "best in class" in the new generation of private equity as measured by returns, control of risk, service to its limited partners and the quality of the businesses it builds. The intention to be best in class is central to the Firm's culture and methods. The Fund's strategy is designed to work in both strong and weak macroeconomic environments and to emphasize growth and value added, rather than debt, as the best path to exceptional returns in this current decade.

Deep management team and organizational resources: New Mountain's team consists of twenty-six professionals, led by ten managing directors and five senior advisors. In addition, the Firm calls upon the experience of its management advisory board, teams of operating managers at its portfolio companies, and "executives in residence," as needed. The quality and depth of New Mountain's staff along with its non-political, team-oriented and intellectually honest culture, are fundamental to the strength of the Firm.

Consistent investment strategy and execution: All of New Mountain's private equity investments to date have been characterized by: (i) top down identification of an attractive defensive growth sector; (ii) acquisition of portfolio companies outside of sealed bid auctions; (iii) intensive post-investment work with management to build the value of its portfolio companies; (iv) tight control of risk; and (v) expectation of high returns. New Mountain has pursued its strategy consistently throughout the investment periods of both Fund I and Fund II, and intends to continue to successfully pursue this strategy for Fund III.

Competitive advantages in attractive industry sectors: New Mountain seeks to identify the best defensive growth sectors top down, and then works to become the most advantaged investor in these sectors. In this way, the Firm gains all the advantages of a specialized firm while preserving all the flexibility of a generalist, and without being forced to invest in any sector at an inopportune time. The Firm can also become expert in lesser known or smaller sectors that would not support an entire fund dedicated solely to them.

Proprietary and proactive transaction flow; proven ability to acquire without auctions: Once New Mountain identifies the best business models in an industry sector, the Firm moves to acquire its selected companies proactively. New Mountain has not acquired any company in a sealed bid auction since the Firm began.

Tight control of risk: In order to control the risks of its investments, New Mountain seeks to target leading, cash flow rich companies in non-cyclical defensive growth industries which are protected by high barriers to competitive entry. The Firm diversifies its portfolio among industries, performs extensive due diligence prior to investment and closely monitors and supports its companies post-investment. New Mountain has generally used debt conservatively. In nine of the Firm’s last ten investments, New Mountain has used little or no third party debt at the time of its investment; in six of the last ten investments New Mountain’s securities have themselves been structured as debt or preferred stock, with a current yield and with a position in the capital structure that is senior to common shareholders.

MANAGEMENT OF THE FUND

Background

New Mountain is working to establish itself as a lasting, preeminent institution, with a strong and enduring culture. The Firm’s culture is built around its mission to be “best in class” in the new generation of private equity. A positive emphasis is placed on: (i) intellectual honesty without personal politics; (ii) a flat organization with “hands on” active senior leadership; (iii) rapid opportunities to advance based on merit; (iv) shared rewards; and (v) ethics, rigor and a dedication to being the very best. New Mountain relies on all members of its team to achieve its results. A wide array of New Mountain team members have played key roles in each of the Firm’s successful past efforts. The Firm is continually adding to its team over time, and itself seeks to become a “new mountain” in the field of private equity for the decades ahead.

New Mountain also seeks to be a leader in service to its limited partners. The Firm has instituted fully web-enabled reporting and archiving through the IntraLinks™ system. It provides extensive multi-page letters explaining its investment strategy at the time each investment is made. New Mountain supports public disclosure of its overall fund returns, and seeks to provide ready information access to its managing directors and staff.

New Mountain’s leadership team consists of twenty-six professionals, including ten managing directors and five senior advisors. In addition, the Firm leverages the experience of its Limited Partner Advisory Committee, a Management Advisory Board, teams of operating managers at New Mountain's portfolio companies and "executives in residence" as needed. New Mountain's investment team has been carefully assembled from top talent drawn from the nation's most respected firms and institutions. It has been built to include a wide range of ages, experience and training in private equity, institutional asset management, investment banking, consulting, accounting and general management.

New Mountain Professional Team

Steven B. Klinsky, 50, *Managing Director, Founder and Chief Executive Officer*, established New Mountain and Fund I in January 2000. Prior to founding New Mountain, Mr. Klinsky was co-founder of Goldman Sachs & Co.'s Leverage Buyout Group (1981-1984) where he helped execute over $3 billion of pioneering transactions for Goldman Sachs and its clients. He then joined Forstmann Little and Co. as an Associate Partner (1984-1986) and a General Partner (1986-1999), helping to oversee seven private equity and debt partnerships totaling over $10 billion in capital. Mr. Klinsky was the most senior partner of Forstmann Little outside of the Forstmann family for a majority of the 1990s, which was a period of great investment success for that firm. [Mr. Klinsky's most significant transactions with Forstmann Little include the acquisition of General Instrument Company ($1.5 billion enterprise to more than $10 billion enterprise value over nine years); Ziff Davis Publishing Co. ($1.4 billion enterprise value to $2.1 billion in approximately one year); the Yankee Candle Company ($500 million value to $1.0 billion in approximately one year); Thompson Miniwax Co. (a $200 million gain in two years) and Sybron, Inc. (a twelve-fold return on investment in two years.)] Mr. Klinsky and Forstmann Little did not have a write-off or write-down on any fund investment made during Mr. Klinsky's last eleven years with that firm, from 1988 until his retirement on June 30, 1999.

Mr. Klinsky received his B.A. in economics and political philosophy, with high honors, from the University of Michigan in 1976. He received his M.B.A from Harvard Business School (class of 1979) and his J.D., with honors, from Harvard Law School (class of 1981). He is or has been chairman or a director of numerous corporations, including Strayer Education, Inc., Surgis, Inc., Overland Solutions, Inc., Apptis, Inc., National Medical Health Card Systems, Inc., MailSouth, Inc., Deltek Systems, Inc., Connextions, Inc., General Instrument Corporation, The Thompson·Minwax Co. and The Yankee Candle Company, Inc.

Michael B. Ajouz, 33, *Managing Director*, joined New Mountain in 2000. He was previously associated with Kohlberg Kravis Roberts & Co. from 1998 to 2000, where he conducted extensive analytical evaluations in over twenty industries. From 1996 to 1998 he was an analyst in the Mergers and Acquisitions and Corporate Finance Departments of Goldman, Sachs & Co., where he evaluated and executed a number of strategic transactions. From 1995 to 1996 he was an analyst at the economic consulting firm, Cornerstone Research.

He received his B.S., summa cum laude, in Economics with a concentration in finance from The Wharton School, University of Pennsylvania, in May, 1995. He is a director of Apptis, Inc., National Medical Health Card Systems, Inc., Deltek Systems, Inc., and Connextions, Inc.

Adam J. Collins, 35, *Managing Director and CFO*, joined New Mountain in 2001. He previously worked at Goldman, Sachs & Co. from 1996-2000 in the Controllers group and in 2001 in the Real Estate Principal Investment area. Prior to Goldman Sachs, he worked at KPMG from 1994-1996 where he earned his CPA.

He received his B.S. in Accounting from Babson College in May 1994 and graduated summa cum laude. He is a director of Apptis, Inc.

David M. DiDomenico, 36, *Managing Director*, joined New Mountain in 2005. He was previously associated with Lehman Brothers' Neuberger Berman division from 2002 to 2005 where, in partnership with Andrew Wellington, he was responsible for managing over $3 billion of institutional and mutual fund assets. From 1999 to 2002, Mr. DiDomenico was a member of the acquisitions team at Starwood Capital Group where he focused on corporate and real estate transactions. From 1998 to 1999, he was an analyst at Tiger Management.

Mr. DiDomenico received his A.B. magna cum laude in Government from Harvard College in 1992 and his M.B.A. from the Stanford Graduate School of Business in 1998.

Michael T. Flaherman, 41, *Managing Director*, joined New Mountain in 2003. Before joining New Mountain, Mr. Flaherman most recently served as Chairman of the Investment Committee of CalPERS, the nation's largest pension system with approximately $150 billion in assets at the time of his tenure. In his capacity as chairman, Mr. Flaherman led board decision-making on all aspects of CalPERS' investment strategy, including asset allocation, as well as CalPERS' investment program in domestic and international equity and fixed income, real estate and private equity. His role also included oversight responsibility of CalPERS' investment operations, comprising 130 investment staff and nearly 300 external investment manager and consultant relationships.

Mr. Flaherman is a graduate of Harvard College and has a master's degree from the Massachusetts Institute of Technology (MIT). He is a director of National Medical Health Card Systems, Inc.

Douglas F. Londal, 41, *Managing Director*, joined New Mountain in 2004. He was a member of the Mergers & Acquisitions Department of Goldman, Sachs & Co. from 1991 to 1995. Most recently, Mr. Londal was a Managing Director in the Principal Investment Area of Goldman Sachs from 1995 to 2004, where he was responsible for investing on behalf of GS Capital Partners 2000, L.P. and GS Mezzanine Partners III, L.P. Among other positions at Goldman Sachs, Mr. Londal has served as co-head of the Merchant Banking investing effort in the Americas, and has been directly involved in investing over $1.5 billion in private equity and mezzanine in transactions valued at over $8 billion.

Mr. Londal received his B.A. in economics from the University of Michigan in 1987 and his M.B.A. from the University of Chicago Graduate School of Business in 1991. Mr. Londal is the non-executive chairman of MailSouth, Inc. and is a director of Connextions, Inc. Prior to joining New Mountain, Mr. Londal served as chairman of Village Voice Media, LLC, and as a director of 21st Century Newspapers, Inc., Berry Plastics Corporation, Meadowbrook Meat Company, Inc., Mack Printing Group, Medical Arts Press Inc., NextMedia Investors, LLC, Orion Power Holding, Inc., Ruth's Chris Steak House, Inc. and Sensus Metering Systems Inc.

Thomas W. Morgan, 37, *Managing Director*, joined New Mountain in 2000. He was a private equity investment professional with Bain Capital, Inc. from 1994 to 2000, and has completed transactions spanning a wide range of industries, including heavy manufacturing, consumer products, entertainment and technology. In addition, he has worked extensively with several of Bain Capital's portfolio companies in capacities ranging from financial advisor to consultant on Internet strategy development. From 1991 to 1994, Mr. Morgan was an investment-banking analyst with CS First Boston in its Mergers and Acquisitions and Structured Finance areas.

Mr. Morgan earned his B.A. in History and Political Science from Williams College in 1991, magna cum laude, and his M.B.A. from Harvard Business School in 1998. He is a director of MailSouth, Inc.

Alok Singh, 52, *Managing Director*, joined New Mountain in 2002. He was a founding member and Managing Director of the Bankers Trust Securities Mergers & Acquisitions Group (1984-1992). As Senior Managing Director for Bankers Trust Securities (1992-1997), he was responsible for the firm's investment banking activities in the consumer and retail sectors and led its relationships with a number of major multi-industry and consumer product clients. Mr. Singh was elected to the Partnership Group of Bankers Trust Company in 1994. Subsequently, Mr. Singh served in the Financial Sponsors Group of Deutsche Bank Alex Brown (1997-2001). Most recently, Mr. Singh led the Corporate Financial Advisory Group for the Americas for Barclays Capital, where he established the group upon joining the firm in March 2001.

He received his B.A. in economics and history from New York University in 1974 and his M.B.A. in Finance from New York University in 1975. Mr. Singh is non-executive chairman of Overland Solutions, Inc., and a director of Apptis, Inc., Deltek Systems, Inc. and Validus Holdings, Ltd. He is a fellow of the Foreign Policy Association, a member of the Economic Club of New York and a member of the advisory board of Sonenshine Partners.

Andrew B. Wellington, 38, *Managing Director*, joined New Mountain in 2005. He was a Managing Director and Portfolio Manager at Lehman Brothers' Neuberger Berman division from 2002 to 2005 where, in partnership with David DiDomenico, he managed over $3 billion of institutional and mutual fund assets. Before assuming the role of Portfolio Manager, he was Vice President and Associate Portfolio Manager from 2001 to 2002. Prior to this, Mr. Wellington was at Pzena Investment Management where he was a Principal and Portfolio Manager from 1999 to 2001, and a Research Analyst from 1996 to 1998. He has also worked as a management consultant for Booz-Allen & Hamilton from 1992 to 1995, and First Manhattan Consulting Group from 1990 to 1992.

Mr. Wellington earned his B.S. in Economics from the University of Pennsylvania's Wharton School, summa cum laude, in 1990. He also earned his B.S. in Engineering from the University of Pennsylvania, summa cum laude, in 1990.

J. David Wargo, 53, *Managing Director*, helped to establish New Mountain in 2000. He is an investor with over twenty-five years of experience in communications and other industries. Mr. Wargo was a security analyst and partner of State Street Research and Management Company from 1978 to 1985; Senior Vice President and partner of Marble Arch Partners from 1985 to 1989; Managing Director and Senior Analyst of The Putnam Companies, 1989 to 1992; and founder of Wargo & Co., an investment company purchasing public equities in the communications industry since 1993. In the private equity arena, he has acted as a consultant for TCI Technology Ventures, Inc., Liberty Media Corporation and related entities on a variety of transactions since 1993.

Mr. Wargo received his B.S. in physics from M.I.T. in 1976; his M.S. in nuclear engineering from M.I.T. in 1976; and his M.B.A. from the Sloan School of Management at M.I.T. in 1978. He is a current director of Liberty Digital, Inc., On Command Corporation and Strayer Education, Inc, a former member of the Investment Committee of TCI Technology Ventures, Inc. and a former director of Liberty Media Corporation and GEMSTAR-TV Guide International.

CONCLUSION/RECOMMENDATION

Based on 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 25 percent of the committed capital, but not to exceed $300 million plus reasonable normal investment expenses, in New Mountain Partners III, L.P. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director.