



PSERS PRIVATE EQUITY PARTNERSHIPS PROGRAM

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

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Quadrangle Capital Partners II, L.P.

Executive Summary

Quadrangle Capital Partners II LP (the “Fund” or “QCP II”), with a target size of \$1.25 billion, is being formed by Quadrangle GP Investors II LP (the “General Partner” and, together with their affiliates, “Quadrangle” or the “Firm”), an affiliate of Quadrangle Group LLC. The Fund’s objective is to build on the success of Quadrangle’s previous fund, Quadrangle Capital Partners LP (together with its parallel funds, “QCP I”), by targeting superior returns through investment in a portfolio of media and communications businesses that will leverage Quadrangle’s significant expertise and broad network of industry relationships. Quadrangle’s investment expertise, deep industry knowledge, ability to add value to its portfolio companies and its principals’ experience working together have led to the success of QCP I.

Compelling Investment Opportunity

The Fund will typically target investments ranging in size from \$25 million to \$125 million in approximately 20 portfolio companies. As in QCP I, the vast majority of the Fund’s investments to come with significant attributes of influence and/or control. It is anticipated that most of QCP II’s investments will be made in North America and, to a lesser extent, Europe and that the targeted investment holding period is expected to range from three to five years.

Quadrangle intends to continue in QCP II, the focused, disciplined and active approach employed in QCP I. As a result, the Fund is well-positioned to provide investors with strong returns.

Management Team

Well Established and Experienced Investors. In the years since its founding in March 2000, Quadrangle has become recognized as a leading participant in media and communications private equity. Steven Rattner, Peter Ezersky, Michael Huber, Joshua Steiner and David Tanner (the “Principals”) have an aggregate of more than 75 years of experience investing in and advising media and communications companies and have worked together on average for more than a decade. Prior to forming Quadrangle, the Principals worked together at Lazard Frères & Co. LLC (“Lazard”). Steven Rattner was Deputy Chairman of Lazard and Peter Ezersky and Joshua Steiner were the two Managing Directors leading the Media and Communications Group, in which Michael Huber served as a Vice President. David Tanner, who had 12 years of previous private equity experience at E.M. Warburg, Pincus & Co. LLC, was a Managing Director and co-head of Lazard Capital Partners, Lazard’s private equity business.

Quadrangle's Principals are highly qualified to identify, research, invest in and add value to attractive companies within the media and communications industries. With decades of collective experience in these industries, the Principals have developed a deep network of relationships with leading companies, executives and entrepreneurs, as well as extensive transaction experience. In addition, the Principals' long professional experience working together helps ensure that Quadrangle functions efficiently and collegially and maximizes the time spent evaluating, pursuing, executing and monitoring investment opportunities.

Principals

Steven Rattner, *Managing Principal, 52*. Prior to the formation of Quadrangle in March 2000, Mr. Rattner served as Deputy Chairman and Deputy Chief Executive Officer of Lazard. In addition to his management responsibilities, Mr. Rattner founded Lazard's Media and Communications Group and was involved in many of the largest and most important transactions in the industry. Among the companies with which Mr. Rattner worked were Bertelsmann, McCaw Cellular Communications, America Online, The New York Times Company, Nextel, Paramount Communications, Time Warner, Continental Cablevision, USA Networks, Comcast and the Newhouse family interests (Random House and Advance Publications). He has worked with a number of private equity firms on their investments in the industry, including Kohlberg Kravis Roberts & Co., Thomas H. Lee Partners and Providence Equity Partners Inc. He currently serves on the boards of three public companies - Cablevision Systems, InterActiveCorp and ProSieben - as well as on the boards of a number of private QCP portfolio companies. Mr. Rattner, who joined Lazard in 1989 as a general partner, was previously a Managing Director at Morgan Stanley, where he also founded the Communications Group. Before beginning his investment banking career in 1982 with Lehman Brothers, Mr. Rattner was employed by The New York Times for nearly nine years, initially as assistant to James Reston, the columnist, and subsequently as an economic correspondent in New York, Washington and London. Mr. Rattner graduated from Brown University with honors in Economics and was awarded the Harvey Baker Fellowship.

Peter Ezersky, *Managing Principal, 43*. Prior to the formation of Quadrangle in March 2000, Mr. Ezersky was a Managing Director of Lazard, where he headed the firm's worldwide Media and Communications Group. At Lazard, Mr. Ezersky worked on a broad range of transactions. Among the companies with which Mr. Ezersky worked were America Online, Comcast, Continental Cablevision, Paramount Communications, Polygram, Time Warner and Ziff Communications. In addition, he worked with a number of private equity firms on their investments in the industry, including Kohlberg Kravis Roberts & Co., Boston Ventures and Forstmann Little & Co. He currently serves on the Board of Directors of Publishing Group of America and the Management Committee of GT Brands Holdings, LLC. Prior to joining Lazard, Mr. Ezersky was a Vice President in the Mergers & Acquisitions group of The First Boston Corporation in New York. Mr. Ezersky was previously a Law Clerk to Judge Ralph K. Winter of the U.S. Court of Appeals for the Second Judicial Circuit, New Haven, CT and New York, NY. Mr. Ezersky received a J.D. from the Yale Law School, where he was an Editor of *The Yale Law Journal* and received a B.A., *summa cum laude*, in Political Science from Amherst College, where he was a member of Phi Beta Kappa.

Michael Huber, *Managing Principal*, 35. Prior to joining Quadrangle in June 2000, Mr. Huber was a Vice President in the Media & Communications Group of Lazard in New York, where he worked on advisory assignments for both traditional and new media clients. He currently serves on the Board of Directors of Publishing Group of America and NuVox Communications. At Lazard, Mr. Huber worked with companies including Comcast, 24/7 Media, Lighthouse Global Network, and Young Broadcasting. Prior to joining Lazard, Mr. Huber was a Senior Associate at Donaldson, Lufkin & Jenrette, (“DLJ”) in its Media and Communications Group where he worked with clients such as Esat Telecom, Harte-Hanks, Western Wireless, Young & Rubicam and Ziff-Davis/ZDNet. Prior to joining DLJ, Mr. Huber worked as a consultant in the Madrid office of National Economic Research Associates in their European telecommunications practice. He was also an economic analyst for BellSouth. Mr. Huber received a B.A. in Mathematics, magna cum laude, from Macalester College, where he was a member of Phi Beta Kappa, and an M.B.A. from the Sloan School of Management at MIT. He also studied economics at the Universidad Complutense de Madrid on a Rotary Foundation Scholarship.

Joshua Steiner, *Managing Principal*, 38. Prior to the formation of Quadrangle in March 2000, Mr. Steiner was a Managing Director of Lazard and a member of the Media and Communications Group, where he worked on advisory and financing assignments for clients in various industries including electronic and print publishing, television and radio broadcasting, telephony and data communications, online distribution and content, and cable, wireless and satellite video distribution and programming. Companies with which Mr. Steiner has worked with include Comcast, Bell Canada Enterprises, Infogrames Entertainment and Time Warner. He currently serves on the Board of Directors of Pathfire, Inc. Prior to joining Lazard, Mr. Steiner was the Chief of Staff for the United States Department of the Treasury, where he was responsible for managing the Secretary of Treasury’s staff and served as his adviser on domestic and international policy, as well as management and communications issues. Mr. Steiner received a M. St. in Modern History from Oxford University, and a B.A. in History from Yale University.

David Tanner, *Managing Principal*, 45. From June 1998 to the formation of Quadrangle in March 2000, Mr. Tanner was a Managing Director of Lazard and managing principal and co-head of Lazard Capital Partners, a \$160 million private equity fund affiliated with Lazard. Mr. Tanner co-managed a group at Lazard Capital Partners consisting of nine professionals, and made private equity investments in middle market growth companies in North America. Prior to Lazard, Mr. Tanner was with Warburg, Pincus from 1986 through the end of 1997, and was a Managing Director beginning in January 1993. He was responsible for identifying, executing, and monitoring investments in media and communications, as well as in a variety of other industries. Mr. Tanner is a member of the Management Committee of Access Spectrum, LLC, Bresnan Broadband Holdings LLC and Global Energy Decisions, LLC. Mr. Tanner previously served as a Director of more than fifteen public and private companies. Mr. Tanner received a J.D. from New York University School of Law, where he won the Alvin A. Feldman Award for outstanding scholarship in the area of Corporate and Commercial Law, a Diploma of Economics from the London School of Economics, and a B.A. with Honors in History from Princeton University.

Other Quadrangle Professionals

Upon the founding of Quadrangle in early 2000, a fundamental goal of the Principals was to develop a strong, stable and collegial firm culture that would allow Quadrangle to attract and retain the most talented professionals. This goal has been achieved. All Quadrangle employees have profit participation and team turnover has been minimal. Additionally, it is the Firm's policy to seek to promote from within and focus on providing career growth to its team members.

Quadrangle Investment Strategy

Quadrangle will continue to utilize the same proven investment strategy successfully employed in QCP I. The key elements to Quadrangle's investment strategy are:

- Use Quadrangle's **sector-focused experience and expertise** to identify trends in the media and communications sectors that may lead to attractive investment opportunities;
- Invest in companies that exhibit strong operating fundamentals at appropriate valuations; and
- Employ **diverse transaction structures** to maximize the number of opportunities and returns available to the Fund.

Sector Focus

As in QCP I, Quadrangle seeks to invest in media and communications companies that are well-positioned to capitalize on today's rapid technological evolution, sector growth or valuation anomalies. In particular, the Fund is expected to invest in: (i) "content" companies that create, aggregate or reconstitute information for business, entertainment or educational purposes (e.g., newspapers, magazines, books, databases, education, programming); and (ii) "distribution" companies that transport content (e.g., data, voice or video) through analog, digital, broadcast, broadband and wireless networks to institutional and residential users. These sectors are marked by rapidly changing technology, evolving business models and fluctuating markets. Consequently, a disciplined investment strategy that leverages Quadrangle's extensive industry-specific expertise and unique network of relationships is crucial to the Fund's success. To date, QCP I has invested in four "content" companies, eight "distribution" companies and three companies with business models combining aspects of both "content" and "distribution."

Strong Company Fundamentals at Appropriate Valuations

As it did in QCP I, Quadrangle seeks to invest in companies with strong fundamentals at appropriate valuations and is guided by the following key principles:

Target sound underlying economic models. Quadrangle seeks to make investments in companies that provide the potential for extraordinary returns without the risk commensurate with reliance on excessive leverage, future access to the capital markets or significant exit multiple expansion. Consequently, Quadrangle's objective is to identify companies with sound underlying economic models in order to ensure that factors such as competition, high customer acquisition costs, unwarranted reliance on third parties or short-term capital needs do not unduly undermine performance. Quadrangle looks to achieve its targeted returns by investing in companies where value is created through internal growth, rather than relying solely on the availability of favorably-priced public capital or multiple expansion at the time of exit.

Identify competitive advantages. Quadrangle pursues companies that, as a result of competitive advantages inherent in their products, services or distribution channels, have identified opportunities to capture disproportionate market share or decisively supplement growth. Companies with a differentiated product or service proposition should have stronger prospects for revenue growth and margin expansion. Conversely, Quadrangle looks to avoid investing in companies that offer commodity-like services or products in markets where competition is based almost entirely on price.

Seek excellent management teams. Quadrangle looks to partner with excellent management teams and devotes substantial effort in evaluating prospective management partners. Quadrangle bases its assessment on a variety of factors, the most important of which is the experience such individuals have developed in their prior related endeavors. In addition, Quadrangle seeks to structure each transaction such that company management and Quadrangle will have parallel interests in the long-term appreciation in the value of the company's stock. Management teams are generally asked to make substantial personal investments in their companies and are rewarded with significant equity incentives. In many cases, Quadrangle will supplement portfolio company management teams by identifying and recruiting industry executives to serve as additional investors or board members.

Capitalize on under-appreciated businesses. Quadrangle looks to invest in well-managed companies that are valued at the low end of the historical trading range of comparable companies as a result of general market sentiment or over-reaction to short-term factors. Quadrangle utilizes its extensive industry experience to analyze valuations within a historical context. As a result, Quadrangle focuses on opportunities to invest at reasonable valuations in "out-of-favor" sectors or in companies where, in Quadrangle's opinion, the growth prospects are under-appreciated. By contrast, the Fund will try to avoid situations where the public and private markets have become overly enamored of the latest trend or concept.

Diverse Capital Structures and Growth Models

Quadrangle's strategy is to invest in middle market companies and larger, more mature, businesses through a variety of structures: buyouts in the upper middle market, later stage growth capital, buildups, distressed debt opportunities, larger leveraged transactions and

structured investments in public companies. In QCP I, Quadrangle successfully assembled an attractive portfolio that includes all of its target transaction types. Quadrangle's ability to capitalize on opportunities in its sectors is significantly enhanced through the diversity of the structuring mechanisms available to it. This investment flexibility enhances the deal flow and the overall investment returns of the Fund and enables it to:

- Invest in middle market growth companies that may have disproportionate upside potential relative to the size of investment;
- Facilitate transactions by achieving the various goals of management and sellers through the creative design of appropriate capital structures;
- Capitalize on market dynamics that frequently lead to valuation discrepancies for over-leveraged, or "distressed," situations;
- Take advantage of unusually attractive larger buyout opportunities sourced through Quadrangle's network of relationships; and
- Lower aggregate portfolio risk through diversification without compromising the potential for exceptional returns.

Buyouts in the Middle Market. Quadrangle looks to invest in traditional leveraged buyouts of relatively mature, middle market companies with sales typically in the range of \$50 million - \$500 million. Quadrangle will look for opportunities where the Fund can invest \$50 to \$125 million to gain a control position in conservatively capitalized companies.

Later Stage Growth Capital. The Fund will seek to invest capital into established but growing enterprises to fund capital expenditures and provide additional working capital necessary for continued growth. In many cases, capital market dynamics offer relatively few attractive opportunities for these companies to raise capital from sources other than private equity. As a result, Quadrangle is able to structure its investments into senior preferred equity investments, which minimize downside risk while retaining significant upside in order to generate attractive rates of returns.

Buildups. Quadrangle seeks investment opportunities in which the Fund can buy a strong "platform" company in a fragmented industry to serve as a base for acquiring other companies in the same industry. The Fund will focus on businesses that can grow through attractively priced, synergistic acquisitions, thereby enhancing cash flow growth. If successful, Quadrangle can build the platform company into a major industry presence that could attract the attention of strategic buyers.

Larger Leveraged Transactions. As a result of the industry expertise of the Principals, Quadrangle has the opportunity to partner with other high-quality financial sponsors to invest in larger leveraged transactions to acquire attractive media and communications assets where Quadrangle possesses unique skills or resources and can be a value-added, active partner.

Distressed Situations. Quadrangle leverages the expertise of its distressed debt team to invest in the debt securities of over-leveraged media and communications companies that are trading at significant discounts to comparable companies because of the “distressed” condition of their balance sheet. In certain circumstances, Quadrangle may seek to acquire significant positions in publicly traded debt at substantial discounts and negotiate that position into an active role in the restructuring of the company’s balance sheet. These investments offer both meaningful downside protection and equity-like returns that are often in excess of the expected returns available to equity sponsors in traditional leveraged buyouts, particularly those completed pursuant to competitive processes.

Structured Investments in Public Companies. As a result of its experience and relationships in the media and communications sectors, it will be able to identify disconnects in the capital markets that create investment opportunities to acquire strong assets at attractive valuations. The Fund looks to capitalize on potential dislocations between fundamental value and public trading levels by structuring and investing in new securities in public companies that have equity upside while being supported by a substantial equity cushion. Quadrangle intends that the new securities in which it invests will carry typical private equity rights, including the right to appoint directors to the board of the company, certain negative control rights and the ability to trigger an exit.

Conclusion/Recommendation

Based upon the successful track record and experience of the principals and the recommendation of PSERS’ consultant, Portfolio Advisors, staff recommends a commitment of \$175 million of committed capital to Quadrangle Capital Partners II, L.P. subject to final terms and conditions satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director.