

INDEX OF MINUTES

PRIVATE EQUITY INVESTMENT ADVISORY COMMITTEE

April 12, 2006

Item		Action	Page #
-			
<u>APPROVAL OF AGENDA</u>	<i>Approved</i>		2
<u>APPROVAL OF MINUTES</u> March 8, 2006	Approved		2
DISCUSSION AND VOTE ON GF CAPITAL PRIVATE EQUITY FUND, L.P.	\$30 million/National Pgm		3-6
DISCUSSION AND VOTE ON INTERMEDIA PARTNERS VII, L.P.	\$30 million/National Program		6-7
<u>NEW BUSINESS</u> [pp. 8-9]			
<u>OLD BUSINESS</u> None.			

MINUTES OF THE
PRIVATE EQUITY INVESTMENT ADVISORY COMMITTEE
OF THE
NEW MEXICO STATE INVESTMENT COUNCIL

Santa Fe, New Mexico

April 12, 2006

ROLL CALL

A regular meeting of the New Mexico Private Equity Investment Advisory Committee of the New Mexico State Investment Council was called to order on this date at approximately 9:15 a.m. in the State Investment Council conference room, 2055 S. Pacheco Street, Suite 325, Santa Fe, New Mexico. A quorum was present:

Members Present:

Mr. Gary B. Bland, State Investment Officer, Acting Chair
Mr. Tom Bonafair, Public Member [by telephone]
Mr. Willie Giron, Public Member

Members Excused:

Mr. Andrew Davis, NMSIC Member, Chairman
Mr. Bill Enloe, Public Member

Legal Counsel Present:

Mr. Zack Shandler, Attorney General's Office

Staff Present:

Mr. Greg Kulka
Mr. Adam Levine
Mr. Bryan Otero
Mr. Charles Wollmann

Guests Present:

[See Guest List.]

INTRODUCTION OF GUESTS

Guests and Members were introduced.

APPROVAL OF AGENDA

Mr. Giron moved approval of the Agenda, as published. Mr. Bland seconded the motion, which passed 3-0 by voice vote.

APPROVAL OF MINUTES: March 8, 2006

Mr. Bonafair pointed out that the minutes of the last few meetings have been missing large chunks of debate and discussion that should have been included because Committee members were concerned about certain issues, and those should have been in the record. He asked that this situation be rectified in the future.

Upon motion by Mr. Bland, seconded by Mr. Giron, the Minutes of the March 8 meeting were approved 3-0 by voice vote, as submitted, and noting the concerns of Mr. Bonafair.

REVIEW OF ALLOCATION PLAN

Saul Meyer of Aldus Equity Partners stated that Aldus was recommending \$30 million commitments to two funds today, GF Capital (Mid Buyout) and InterMedia Partners (Large Buyout). He said these commitments would bring the NMSIC to 80% of its total Buyout portfolio recommendations for 2006.

DISCUSSION AND VOTE ON GF CAPITAL PRIVATE EQUITY FUND, L.P.

Mr. Meyer stated that Aldus is recommending a \$30 million investment in this \$250 million buyout Fund. He said GF Capital has unique deal sourcing and is looking at deals with total enterprise values of an extremely broad range of \$10 million to \$400 million per deal, although they will be making equity investments of \$10 million to \$40 million within those deals.

Mr. Meyer stated that, since 1993, the team has invested a total of \$540 million in 13 companies, generating over \$1.2 billion in market value, much of which has been realized. He said this track record includes early stage transactions, growth capital and buyouts/recapitalizations — overall, their track record has returned

more than 2x and their growth IRRs are between 55% and 88%, depending on the fund.

Mr. Meyer noted that two of the three principals in the firm, present today, Gary Fuhrman and Erik Baker, have been working together for more than 12 years. He said this Fund is an outgrowth of the GF Merchant Bank, which was started in 2001. He stated that it was important to note that GF's clients did not use them as a typical third-party investment bank or as intermediaries; rather, they used GF as they would typical private equity investors and typical private equity advisors. He said past and present clients include Edgar Bronfman, Jr. (also a member of their advisory committee), the Lauder Family and Tommy Hilfiger.

Mr. Meyer said Aldus conducted full background checks and there were no concerns.

Mr. Bland noted that New England Pension Consultants has already vetted GF Capital through the hedge fund side.

Addressing strategy, Mr. Meyer said GF focuses on media and entertainment and branded consumer products, and strategy includes control and non-control buyouts, recaps and growth equity. He said Aldus likes the fact that all of their deals were not the result of auctions or failed auctions, but from creating deal sourcing from their proprietary network. He noted that they also use this impressive network of high net worth individuals to locate operating executives with whom they have had past relationships.

Mr. Meyer noted that GF Capital has generated returns that are superior to the buyout benchmarks, positioning the firm within the top decile of the buyout peer group and the top quartile of the venture peer group.

Addressing terms, Mr. Meyer said GF is committing \$5 million to the Fund, and transaction fees are split 80/20, which Aldus feels is a good split and shows adequate alignment of interest.

Mr. Fuhrman and Mr. Baker introduced themselves to the Committee. Offering background, Mr. Fuhrman stated that GF Capital is a money-managing firm with about 80 employees and \$4.5 billion under management. He said GF historically has invested alongside and advised leading families and CEOs in transactions, and traditionally has done transactions on a deal-by-deal basis. He said institutions that were interested in investing with GF, but couldn't invest on that basis, encouraged them to do an institutional fund, which was why they were before the Committee today.

Mr. Fuhrman stated that GF was interested in proving to institutions in the private equity world that they can make money for them as well; however, they

were not looking to have many relationships on the institutional side — maybe five to ten — because they like to keep relationships close and have no interest in a broad marketing effort.

Mr. Fuhrman and Mr. Baker presented and reviewed slides.

Mr. Bland asked for additional discussion on GF's focus and where there was synergy among the sectors in their portfolio.

Mr. Fuhrman responded that, while there are not necessarily any synergies within the portfolios of what they are going to invest in, GF has had experience in these sectors for 20 years and so is familiar with the customers, businesses and management teams in these areas, and therefore feels it can make the most impact there.

Mr. Baker added that there is a brand element within media and entertainment; for instance, Warner Music is really a collection of brands with its artists.

Mr. Meyer noted that focus was one of Aldus's questions, as well. He said a review of GF's track record has examples of GF operating successfully in each of those spaces.

Mr. Fuhrman stressed that GF's focus on the middle market will be on the Fund, which will get priority and be filled first — so there will be no conflict between the families and the Fund. He said they have made that clear to the families and to the institutions, who encouraged GF to do that.

Mr. Bonafair asked how many of GF Capital's 80 employees will be engaged in this particular Fund.

Mr. Fuhrman referred to an organizational chart of the GF Capital Equity Team, of which he was the head. He stated that he was spending the majority of his time on this \$250 million Fund, which he was able to do because he has a CEO at the family office and one of his partners is running their hedge fund activities. He stated that the Fund would be handled by a team of eight professionals (a vice president has yet to be hired) and their investment team would include Edgar Bronfman and Alex Zubillaga.

Mr. Bonafair commented that obviously the family firms such as Tommy Hilfiger have defensible places that they play with their businesses, so wondered if GF Capital plans to stay within that particular zone of activity as it looks for private investments.

Mr. Fuhrman responded that they would stay within that zone of activity. He added that, in addition to Hilfiger and other firms cited in their presentation, there

are more than 100 other leading CEOs and families, almost all of whom are in the media consumer branding space as well.

Mr. Bonafair asked how the Fund is doing at this point, and Mr. Fuhrman responded that they have very strong interest from New York State, New York City, State of Puerto Rico and other institutional investors. He said the families have been limited to 10% of the Fund, or \$25 million, a suggestion made by some of the early-on institutional investors.

Mr. Fuhrman also clarified that GF wants to fill the Fund first with the larger deals, although no more than \$40 million from an investor, and then will offer co-investment to their partners.

Mr. Meyer noted that Aldus was one of the advisory groups working with some of the potential investors early on in this Fund, and it was Aldus that recommended a limit of \$250 million. He explained that, while GF has put to work \$500+ million, managing institutional money is different, and Aldus thought it important for GF to prove themselves with a smaller fund.

Mr. Fuhrman stated that they have raised or soft-circled \$125+ million at this point.

Responding to questioning from Mr. Meyer on what benefits GF sees from not going to auctions, Mr. Fuhrman stated that staying out of auction helps the pricing, but what helps it more is that GF tries to have the sellers keep a retained interest in the company when possible, even though GF likes to control. He said GF does three or four deals a year and is not interested in cashing out people at extreme prices if it is going to do a lot of hard work going forward.

Mr. Bland asked who steps in and turns things around when things go wrong, and Mr. Fuhrman responded that are extremely hands-on and lean heavily on their network, which has expertise in the sectors involved.

Addressing exit strategies, Mr. Fuhrman said they focus on the public markets and also have a big network of strategic buyers. He said recaps are popular today but GF doesn't depend on them.

Mr. Bonafair noted that GF will be deploying this capital at a faster rate than usual, and asked if that will pose a problem for them.

Mr. Fuhrman responded that they felt they would be able to deploy the capital within two to three years.

Mr. Bland moved that the PEIAC recommend a commitment of \$30 million, or an amount not to exceed 20% of the funds raised, from the National

Private Equity Program to GF Capital Private Equity Fund, L.P. subject to and contingent upon New Mexico State law, New Mexico State Investment Council policies and negotiation of final terms and conditions and completion of appropriate paperwork.

Mr. Giron seconded the motion, which passed 3-0 by voice vote.

DISCUSSION AND VOTE ON INTERMEDIA PARTNERS VII, L.P.

Mr. Meyer stated that this \$1 billion Fund is focused on the media space, and their IRR is 32+% on \$840 million invested, which they have more than doubled; and most significantly, they have had no write-offs.

Mr. Meyer stated that InterMedia's strategy is to invest in control investments in media content providers that specifically target audiences that are currently undervalued and underserved by the mainstream media, and to make investments with add-on acquisitions to build multiple media platforms and then strategically reposition the platforms.

Mr. Meyer said two of the principals of the firm, present today, Leo Hindery and Peter Kern, have been together for at least 12 years. He said all background checks came out clean on InterMedia Partners.

Mr. Meyer said management fees are within the acceptable range, and the GP commitment of 5% up to \$50 million is impressive and at the upper end of GP contributions.

Mr. Meyer said the strategy of this Fund is very different from each of the media funds that the PEIAC has looked at before. He said InterMedia's strategy is centered on a cluster-based approach to building strategic value, where it creates a platform to dominate a community of interest, then uses the platform as an entry point into a category which it then supplements with add-on investments in Cable/TV Networks, Content Acquisition/Creation, Commerce, Publishing, Radio and Internet. He said they target different ethnicities, enthusiasts, location, age and gender.

Mr. Meyer stated that the team has an incredible amount of experience, starting platforms such as the YES Network; and the InterMedia executive advisory board includes Sen. Tom Daschle and Curtis Symonds, former president and CEO of Symonds Synergy Group.

Mr. Meyer stated that InterMedia has a distinctive approach that is not typical of a buyout strategy, and they do not depend on leverage to drive value in a portfolio company; instead, they focus on creating unique strategies in areas where there

are gaps in the current content. He said this strategy leverages the operational transactional strength of the team. He added that the consistency of this unique cluster-based strategy has yielded strong returns in the past; most significantly to Aldus, they have never written off an investment nor have they lost capital in the past.

Messrs. Hindery and Kern gave a slide presentation.

Responding to questioning from Mr. Bonafair on why InterMedia was jumping to such a large sized fund, Mr. Hindery said the size of this Fund, at \$1 billion, is substantially dictated by the strategy. He said InterMedia was one of the first three funds in the media industry, in 1988, and today the media comprises somewhere between 25% and 33% of the U.S. economy. He said InterMedia needs a fund of this size to be as responsible as possible in the portfolio of value that they build.

Mr. Hindery said the one contribution InterMedia can most readily bring is sweat equity — the management is from the industry and relies on its actual operating experiences — and their “sine qua nons” are: 1) target investment segments must have real growth and/or untapped value; 2) team’s operating expertise must create significant added value; 3) barriers to competition must exist, and 4) assets must be inherently attractive to strategic buyers.

Mr. Hindery said that part of their strategy is to make a strong beachhead investment in the platform that they have created. He said this amounts to \$100-\$200 million of equity capital at risk per initiative. He stated that InterMedia must create true strategic value, in a relatively short time, that is valuable to the strategic buyers. He said InterMedia has never viewed itself as traditional private equity; by everyone’s measure, they are very control oriented and build value from the operator’s side. He said this “gap strategy” has served their investors well.

Mr. Kern added that InterMedia is building groups of investments that are large enough to attract corporate buyers; for instance, they sold Telemundo to NBC for 50 times EBITDA. He said that, to make them large enough for today’s strategic buying community, InterMedia needs the \$100-\$200 million of equity to build a category that will cause the buyers to take notice.

Mr. Bland moved that the PEIAC recommend a commitment of \$30 million, or an amount not to exceed 20% of the funds raised, from the National Private Equity Program to InterMedia Partners Fund VII, L.P. subject to and contingent upon New Mexico State law, New Mexico State Investment Council policies and negotiation of final terms and conditions and completion of appropriate paperwork.

Mr. Bonafair seconded the motion, which passed 3-0 by voice vote.

NEW BUSINESS

Advisor Brian Birk presented an informal update on the NM Private Equity Investment Program and NM Co-Investment Partners Program.

NM Private Equity Investment Program

Mr. Birk stated that the NMPEIP is in compliance at this time with about one to two years of capital remaining — it is difficult to say exactly how much capital is out there because a number of things are in process today, including three funds and two direct investments, including t/Space.

Mr. Birk reported that, as of 9/30/05, \$219 million of capital has been committed and \$118 million drawn; while this is not close to the statutory limit of \$248 million capital drawn, they are starting to watch things a little more closely because of the volume of activity in the program.

Addressing performance, Mr. Birk reported that, in the third quarter of 2005, the program multiplier turned positive and is now 1.06x. He said this is primarily due to the markup in Eclipse due to their last round of financing — a substantial win for the State. He cautioned the Committee, however, that there has been a tremendous amount of capital deployed in the past two years; and as such, they are not completely through the J-curve. He added that, while it is expected that performance will start trending up as these companies and funds mature, it will not be a straight line.

NM Co-investment Partners

Mr. Birk reported that there are currently ten investments in the portfolio, and presented highlights of some of the companies.

Advent Solar: Continues to hit all major milestones and targets, and recently broke ground on its new facility at Mesa del Sol, which should be operational by the end of 2006.

Eclipse: On track to receive FAA approval in June.

Earthstone: Expected to achieve cash flow breakeven this year. They have made tremendous strides in their operations and in solidifying their position with major distribution chains. There is also a significant upside in a couple of new industrial applications that are quite promising for the company.

TCI Medical: They have had some challenges of late. GE purchased Amersham about 18 months ago, and in January 2006 brought in new managers

who have aggressively moved into this space with low pricing and excellent terms. Several scenarios are being reviewed to determine how TCI Medical can remain viable, including strategic alternatives.

Exigen Diagnostics: They have been approached by several investment banks to put together the final round or possibly take them public much sooner than anticipated.

On another matter, Mr. Bland said there has been some dissatisfaction with Fort Washington over their reticence in giving recommendations, and this is being addressed.

OLD BUSINESS

None.

**NEXT MEETING DATE: WEDNESDAY, MAY 3, 2006, IN DALLAS, TX
AT 9:00 A.M.**

ADJOURN

Its business completed, the Private Equity Investment Advisory Committee adjourned the meeting at approximately 10:45 a.m.

Accepted by:

Andrew Davis, Chairman

Respectfully submitted,

Judith S. Beatty, Committee Reporter

