SDCERA
Strength. Service. Commitment.

May 20, 2010

To: Board of Retirement
Mr. Brian White, CEO
Mr. Lee Partridge, Integrity Capital, Portfolio Strategist
Ms. Lisa Needle, Assistant CIO

From: Yegin Chen, Investment Officer

Discussion / Action on Gores Capital Partners III

I. Executive Summary

Proposed Investment Commitment

Staff requests Board approval of a $50 million commitment to Gores Capital Partners III (together with its co-investment and related vehicles, "Gores III" or the "Fund"), managed by The Gores Group and affiliates ("Gores"). Key reasons include high expected returns from a proven investor with a 20+ year track record as well as a favorable investment climate for distressed, turnaround, and carve-out situations in the U.S. and Europe.

Fund Strategy

The Fund will make control investments in underperforming and undervalued middle-market businesses, mostly in the U.S. and Western Europe. It will generally invest with the same investment strategy employed by Gores since its inception -- unlocking value through in-house dedicated operational expertise to handle complicated carve-out, turnaround, and similar situations. Staff expects major sectors of investment to include technology, telecommunications, industrial, and business services, with some activity in media, healthcare, and security.

Key Fund Terms Summary

Total Fund Size:	$1.5 billion target, with hard cap of $2.0 billion.
Fund Term:	10 years, with two possible one-year extensions.
Gores Group Commitment:	$50 million committed thus far.
Investment Period:	Five years.
Management Fees:	During investment period, 1.85% per annum of commitments. Afterwards, 1.5% of active investments.
Distribution Type:	Deal by deal.
Preferred Return:	8% per annum after return of investor capital.
Catch-up:	80% to GP and 20% to LP.
Carried Interest Split:	80% to LP and 20% to GP.
Break-up & Other Fees:	Management fees will generally be reduced by: 100% of directors' fees, and 80% of transaction, break-up, and other fees. Operational consulting fees are not shared with the Fund.
Other Key Terms:	Key Person, clawback, true-up, and an LP advisory committee.

SDCERA Portfolio Considerations

Previous SDCERA Commitments to Gores Group:	None
Recommendation's Portion of Total PE Commitments	5.2%
Recommendation's Portion of Total SDCERA Portfolio	0.67%

Classification of BCP VI in the Private Equity Portfolio Plan (summary in the Appendix):

- Satellite Fund -- Distressed Strategy,
- Developed Markets -- US/Canada, Western Europe, etc.

II. The Fund – Gores Capital Partners III

Staff requests Board approval of a $50 million commitment to Gores Capital Partners III ("Gores III" or the "Fund"), the third fund managed by Los-Angeles-based The Gores Group ("Gores" or the "Firm"). Key reasons include:

- Attractive expected returns from a proven operationally-oriented investor, Mr. Alec Gores and his team, with a 20-year track record and a gross annual IRR in excess of 25%;
- Continued expected abundance of opportunities in turnarounds, distress, and carve-out transactions in the U.S. and Western Europe;
- Backing a group with the differentiated value proposition of driving operational improvements through extensive in-house expertise with particular experience in technology-based businesses.

The proposed $50 million commitment amount would represent approximately 0.67% of the SDCERA portfolio, commensurate with the commitment-sizing level for a satellite investment in the Distress & Special Situations strategy. Consultant Albourne concurs with the recommendation.

Fund Size and Timing – Gores III was launched with a target size of $1.5 billion in early 2009. The initial close took place in August 2009. As of April 2010, Gores III had secured $1.04 billion in commitments. Per the Fund's documents, the final closing may occur no later than twelve months after the initial close.

The Fund's investors include public pensions such as the Teacher Retirement System of Texas, State of Florida, State of Oregon, Mass PRIM, and State of Wisconsin. Other entities committing to the Fund come from the fund-of-fund, corporate pension, and similar communities.

Fund Strategy – Gores III will invest with the same strategy, employed successfully since the Firm's inception, of making control investments in middle-market turnarounds, restructurings, distressed situations, carve-out transactions and value-oriented situations.

Gores targets acquisitions in negotiated equity transactions that provide the opportunity to use Gores' operating skills to create long-term value. Gores uses its exclusive, internal consulting team – Glendon Partners – to improve the operations of portfolio companies.

The Fund's target businesses tend to be mature with established customer bases, sustainable revenues from contracts, and high switching costs for customers, but where the inherent value may be obscured. Factors that can obscure the value of these mature businesses include the following:

- Operational or financial/balance sheet distress;
- Unfocused and/or poorly executed business strategies; and
- Under-utilized assets, including working capital, real estate, intellectual property and brand.

Gores anticipates being the lead and sole investor in most of the Fund's transactions. The Fund will target certain types of complex situations where Gores has had significant experience and success:

- Complex carve-out & divestiture transactions -- Divisions of larger companies which have been deemed to be noncore assets, where the corporate parent may overlook the division's value or be forced to divest the division due to its own operational issues;

- Turnarounds and restructurings -- Underperforming businesses, which are undergoing operational challenges or presenting opportunities for operational enhancement and/or are inappropriately capitalized;

- Distressed situations -- Companies facing operational and/or financial distress in which Gores has an opportunity to make an investment at any level of the capital structure, including debt with an intent to control, or distressed situations in which an operationally or financially-challenged corporate parent may be forced to divest one or several assets quickly; and

- Value-oriented situations -- Companies that are currently performing, but are available to Gores at an attractive value due to the Gores' ability to conduct due diligence rapidly and identify value creation opportunities effectively.

In carve-out and divestiture transactions, Gores often partners with corporate sellers of assets so that the corporate seller retains upside benefit from the transaction and subsequent performance improvement.

Generally, Gores III expects to make investments in the form of common stock, preferred stock, convertible securities, mezzanine debt and/or senior debt. Gores seeks to leverage each investment with as much debt as is practical without putting undue financial pressure on the portfolio company; it typically uses a combination of asset-based debt as well as cash flow loans. Gores tends not to buy debt positions for trading or toehold positions of debt with a view toward conversion to equity.

Rather than exiting investments via the public markets, Gores achieves investment realizations most often through sales to strategic acquirers or through distributions after the companies have been returned to profitability.

<u>Anticipated Fund Portfolio and Investment Parameters</u> – Similar to Gores Capital Partners II ("Gores II"), Gores anticipates that Gores III will invest in approximately 12 to 20 portfolio companies with investment sizes typically from $50 million to $250 million. The resultant portfolio would include approximately 12-20 investments across several industries. Approximately three to six investment transactions per year are expected for the Fund, resulting in the Fund's being fully invested in about three to five years. Based on its historical experience, Gores expects the Fund's typical investment holding period to be from two to four years.

The Fund's portfolio is subject to the following parameters:

- Concentration – No more than 20% of the aggregate amount of capital commitments may be invested into any one Investment.
- Geography – Though the Fund may invest globally, it may not invest more than 30% of aggregate capital commitments in companies organized under outside of the United States and Canada.

Further, in the partnership agreement, the Fund is prohibited from investing in the following:

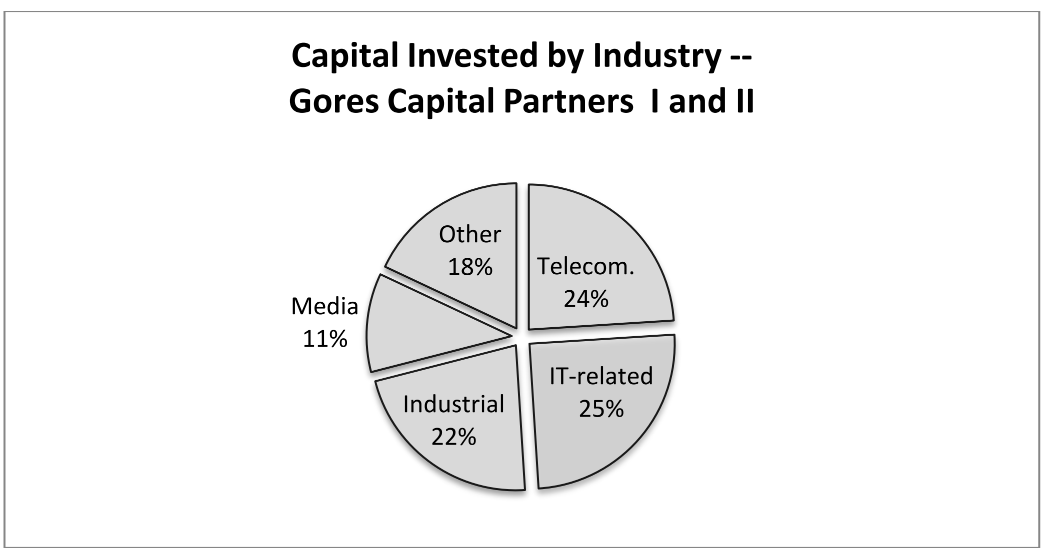
- Publicly traded companies, including private placements, unless the Fund exerts or intends, in good faith, to exert significant influence on the management or operations of the company;
- Tender offers for the equity securities of any publicly held corporation without the approval of the corporation's board of directors;
- Futures contracts, derivatives, or similar investment vehicles except where such investments relate to the Fund's portfolio companies;
- Companies whose sole business consists of acquiring and disposing of U.S. real property interests;
- Any blind-pool investment fund in which Gores affiliates do not retain investment discretion or which Gores affiliates would pay management fee or carried interest;
- Start-up companies;
- Any business with principal activities of owning or developing working interests in oil and gas properties.

The Fund is also prohibited from incurring indebtedness, including guarantees of loans and obligations of portfolio companies, at any point in time greater than 20% of aggregate commitments.

Also, without the unanimous consent of the LP advisory committee, the Fund shall not do the following:

- Invest in or sell a portfolio company to any company in which Alec Gores or any of his affiliates have a substantial interest;
- Invest in any portfolio company in which a predecessor fund or Gores holds an interest.

Industries of Investment – Alec Gores started his career in the 1980s in the then-nascent area of business information technology, and for many years The Gores Group made its reputation in transactions related to technology and telecommunications. Gores' first two funds deployed the bulk of its capital into IT-related businesses (25%), telecommunications (24%), and industrial (22%).



Staff thus anticipates sectors of Gores III investment to primarily include information technology-related (including IT services, software, and hardware), telecommunications, and industrial businesses, with some activity in media, healthcare and security businesses. Gores does not expect the Fund to invest in financial services, retail, or oil & gas businesses.

Geography of Fund Investments-- The Fund's investment scope is global, including emerging markets. Gores sees sizable distress-related opportunities and less competition in Europe, and thus expects a significant proportion of the Fund to be invested there. Gores has significant expertise and relationships in Europe, and has built up its London-based team over the last several years. As a result of Gores' European presence and relationships, five of the 19 platform investments, and 28% of capital invested, in GCP I and GCP II are businesses based in Europe.

However, at least 70% of the Fund is required to be deployed in companies organized in the U.S. and Canada.

SDCERA and San Diego County Relationships -- SDCERA has previously invested in several distress strategy funds, including some targeting operationally-distressed companies of larger transaction sizes than the middle-market ones that the Fund will focus on.

Staff had been screening numerous distress strategy funds over the last several quarters, had been aware of Alec Gores' and his brother's investment activities since early 2009, and began examining Gores in more detail earlier this year. Since then, staff has met in Los Angeles with several Gores and Glendon professionals at multiple levels, including CEO Alec Gores, the COO, most of the Senior Managing Directors, most of the Group Managing Directors, Vice Presidents, an Associate, as well as two Glendon Managing Directors. These interactions have furthered understanding of the firm's approach, strategy, and team.

Consultant Albourne has had many interactions with Gores involving several Albourne and several Gores professionals. Albourne has performed due diligence, including an operational review, of Gores and concurs with staff's recommendation to commit $50 million to Gores III.

There are no known family or financial relationships involving SDCERA investment staff and Gores.

Gores reports no known investments with major operations in San Diego County.

Finally, Gores reports that none of its senior team members have made political contributions to anyone in San Diego County in the last five years.

Legal Counsel for the Fund & the General Partner – Weil, Gotschal & Manges LLP is legal counsel.

Independent Auditors --KPMG LLP has been auditing Gores funds since the inception of GCP I in 2003. There has been no change of auditors. No investment vehicle managed by Gores has ever received a qualified audit opinion or material restatement, according to Gores.

Placement Agents – No placement agent was involved in the proposed investment commitment to Gores III, although the Fund has employed Lazard Frères & Co. LLC and Lazard & Co. Limited (collectively "Lazard") to assist in the capital raising. Lazard was not involved in the relationship between SDCERA and Gores. Gores reports that under the contract terms, the Fund would pay Lazard a fee based on the total amount raised by the Fund, regardless of Lazard's involvement or lack of involvement with particular limited partners. This payment by Gores to Lazard thus would not represent an additional cost to SDCERA.

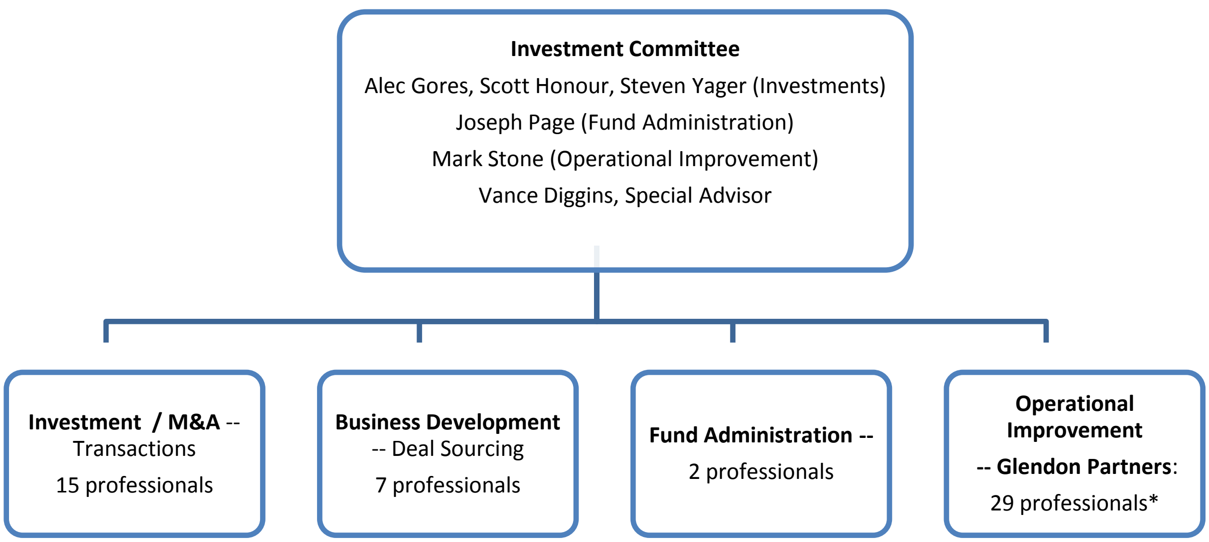
Gores is also contemplating possibly engaging one or more additional sub-agents for the Fund. These sub-agents would not be compensated for any potential SDCERA commitment to the Fund, according to Gores.

III. The Gores Group

Overview

The Gores Group is focused on a single investment strategy and a single fund line. It is headquartered in Los Angeles, California with offices in Boulder, Colorado and London, England. The Gores team includes 53 senior professionals organized into four major areas, headed by the six-member investment committee with five members drawn from those areas plus a special advisor. The chart below depicts the group's organization.

Gores Group Organization



*Glendon's 29 operational improvement professionals are overseen by a Senior Managing Director of The Gores Group.

History and Track Record

The Gores Group was founded in 1987 by Mr. Alec Gores. Mr. Gores self-funded and founded Executive Business Systems (EBS) in Michigan in 1978 to distribute and develop business software systems. After growing his firm to over 200 employees, Mr. Gores sold EBS to CONTEL in 1986. Mr. Gores subsequently started using his personal wealth and knowledge of how computer systems enhance operations to acquire and operate several technology businesses. In the mid-1990s, Mr. Gores and his team formalized their organization and began acquiring businesses for investment purposes.

From 1995 through 2003, The Gores Group invested the personal capital of Mr. Gores, deploying $97.6 million into 24 transactions. These investments returned over $786 million of proceeds as of the end of December 2009, for a gross IRR in excess of 100% and a TVPI (total value to paid-in capital) of 8.1x.

In November 2003, Gores closed its first institutional private equity fund with $400 million of committed capital, Gores Capital Partners I ("Gores I"). Starting in 2004, this fund made 13 investments, which have produced an IRR in excess of 30% annually and a TVPI of 2.4x, with five investments still to be realized.

Gores then raised Gores II, which held a final closing in July 2007 with $1.3 billion in commitments. As of March 2010, GCP II has completed seven investments for over $687 million, and has reserved some 73% of committed capital. Preliminary valuations indicate an IRR in excess of 15% annually and a TVPI of 1.4x.

Gores' strong private equity investment performance is indicated by the performance overview (as of March 2010) in the table that follows.

GORES INVESTMENT PERFORMANCE

($ figures in millions)

Fund (Vintage)	Invested Capital	Realized Proceeds	Remaining Value	Total Value	TVPI	Gross IRR
Pre-fund ('95-'03)	$98	$787	$1	$788	8.1	150%
Gores I ('04)	$315	$408	$356	$765	2.4	35%
Gores II ('07)	$687	$38	$918	$956	1.4	19%
Realized Investments	$242	$1,194	$27	$1,222	5.0	51%
All Investments	$1,100	$1,234	$1,276	$2,510	2.3	28%

Notes: Gross IRR figures for all realized investments and for all investments are computed on a conservative time-zero IRR basis; the corresponding figures computed using actual calendar-based times are 149% and 148%.

The "All Investments" IRR figure assumes terminal values based on Gores-provided valuations.

Gores reports only three investments, out of 30 realized investments made since 1995, have returned less capital than investment cost. In these three investments, Gores deployed a total of $4.7 million and recovered $2.5 million (0.5x invested capital), for a loss of $2.2 million since 1995. All of these three investments were made by Gores during its pre-fund period of 1995 through 2003.

Organization

The following sections describe each major organizational area of The Gores Group.

Investment Committee – The investment committee includes founder Alec Gores, four senior professionals from the various areas of the firm, and a special advisor. This group of senior executives – not including the special advisor -- also manages Gores on a day-to-day basis. The members have an average tenure at Gores Group of over eleven years. Further, some investment committee members have worked together in other capacities since the 1980s, such as at Alec Gores' first company (S. Yager and V. Diggins) or through companies invested in by The Gores Group (S. Yager).

Business Development – Gores has a dedicated business development team of seven professionals in the U.S. and Europe with the primary responsibility of sourcing transactions globally. Their backgrounds include operations, business development in technology, and finance. The firm's investment performance has been driven in large part by its ability to source attractive deals with limited competition from other buyers.

Investment – Gores's investment team (sometimes referred to as the M&A team) consists of a dedicated group of 15 professionals based in the U.S. and Europe specializing in transaction structuring, execution, and exit of opportunities. Their backgrounds typically including private equity or investment banking experience coupled with business degrees. The majority of the senior investment professionals began working together at Gores prior to the formation of Fund I.

Fund Administration – This group includes two senior professionals – the COO and the Controller - overseeing a small group of fund accountants, database personnel, human resource staff, etc. The group uses the Investran system for reporting and other communications with limited partners.

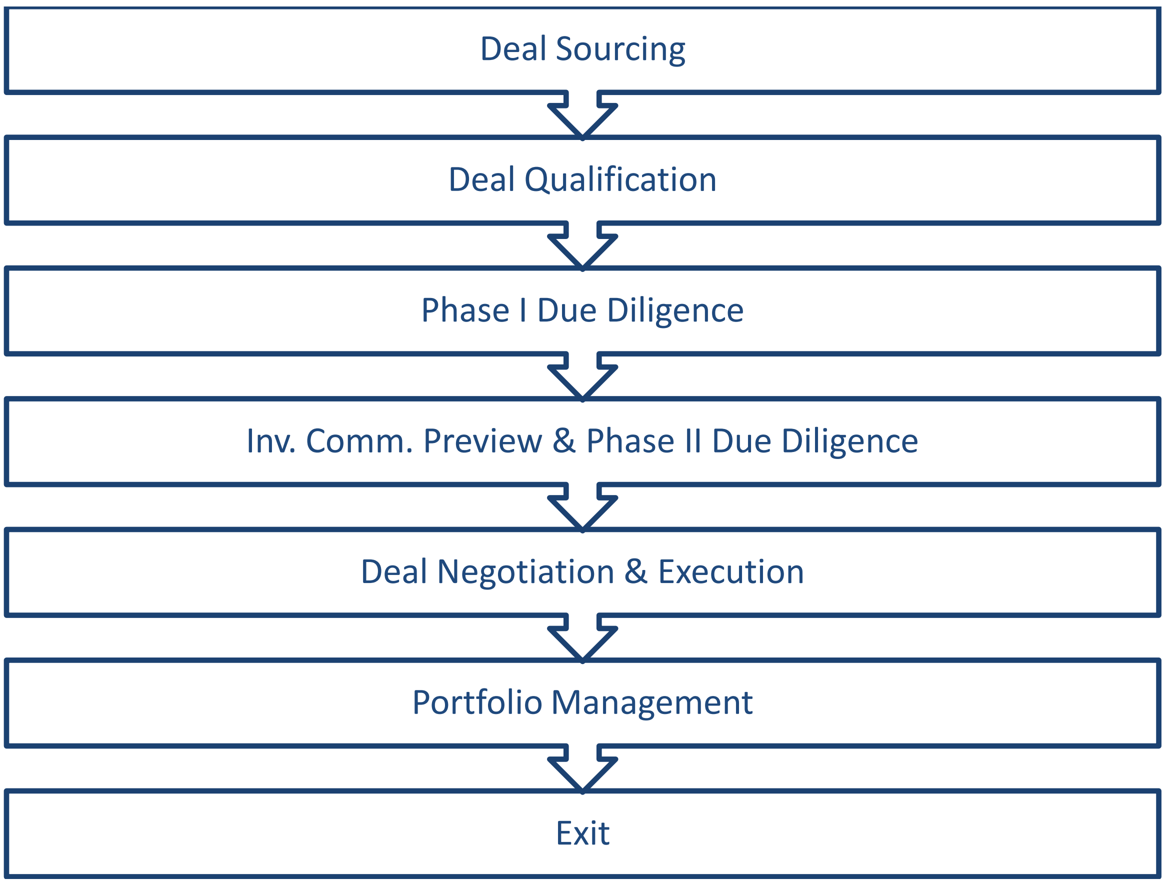
Operational Improvement – Finally, The Gores Group features a unique arrangement involving a dedicated operating partner, Glendon Partners, Inc. ("Glendon"), where most of Gores' operational expertise is located. On an exclusive basis, Glendon provides consulting services to Gores portfolio companies and assists the Gores investment team in providing operational due diligence and portfolio oversight. Gores believes that having a dedicated in-house operations consulting team provides significant advantages in terms of access to top talent, speed in conducting due diligence, and reduced reliance on outside advisors.

Glendon consists of 29 professionals based in the U.S. and Europe. Many have substantial senior-level operating experience with major technology-related and telecommunications companies in functional areas that include corporate development, operations, sales, information technology, supply chain, etc. Glendon also features professionals with legal, finance, accounting, and tax backgrounds that are applied to portfolio companies' issues and which enable Gores to structure many of its transactions.

Glendon charges the Gores portfolio companies for its services on a fee-per-hour basis at rates consistent with market standards. Glendon does not receive any of the Fund's management fees or carry. Glendon uses its fee revenues to cover its operational costs, and receives no payments from Gores except to the extent that Gores specifically engages Glendon professionals to provide services. In addition, certain Glendon senior executives receive small equity interests in the Gores portfolio companies on which they work.

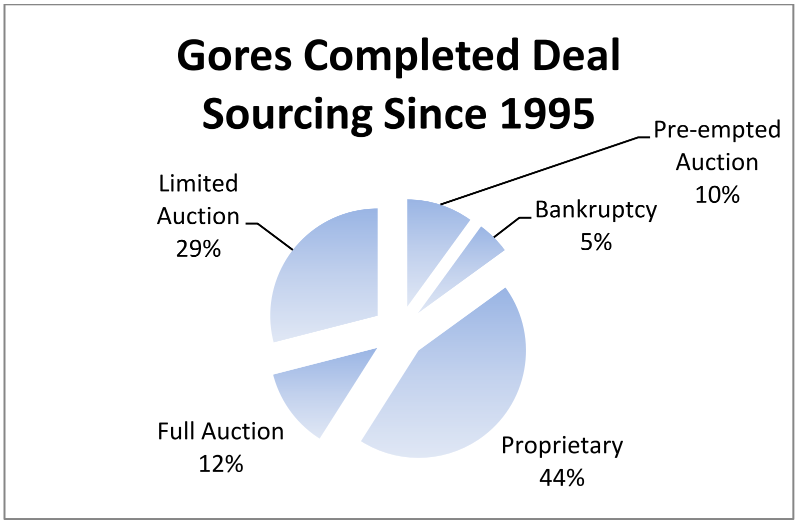
INVESTMENT PROCESS

Gores maintains rigorous processes that have proven successful for over 20 years. Gores generally seems to involve its operations professionals at an earlier stage in the investment process than many other private equity firms, which is believed to provide significant advantages in due diligence and value enhancement. The Gores investment process is outlined below.



Deal Sourcing **--** Gores sources over 500 investment opportunities per year. At any one time, Gores will typically be actively pursuing and evaluating in excess of 35 transaction opportunities.

Gores places a strong emphasis on sourcing its investments independently. As a result, some 44% of the Firm's investments since 1995 have originated from independent, proprietary sources, as indicated by the chart that follows.



The business development team also monitors deals in the market including corporate bankruptcies and auctions. As a result of these relationships and networks, Gores regularly receives inbound calls from companies or advisors looking for a buyer with the Firm's capabilities. Gores' outbound relationship efforts have also resulted in invitations to participate in company-managed, limited auctions and to look at corporate divestitures on an exclusive or semi-exclusive basis.

In addition, Gores' investment professionals claim an extensive network of relationships with entrepreneurs, managers of high-yield and distressed debt funds, other leveraged buyout firms, hedge funds and investment and commercial banks. As a result, Gores claims to be consistently among the firms contacted to review restructuring, turnaround or other complex investment opportunities.

<u>Deal Qualification</u> -- The decision to make an investment actually begins during Gores' deal qualification process, in which the firm's business development team reviews and filters investment opportunities. If an investment opportunity appears to meet initial investment criteria, the deal is transitioned to a team of investment professionals responsible for further refining financial analysis on the investment and submitting a preliminary indication of interest, if applicable. Once a transaction has been qualified by Gores, the opportunity becomes part of the deal pipeline and is reviewed at weekly meetings.

<u>Phase I Due Diligence</u> -- After submitting an initial indication of interest, the Gores deal team lead will partner with a team of Glendon professionals to begin due diligence. The first phase of due diligence is likely to be conducted by a small team of two or three professionals and may include a management presentation, a visit to the business' facilities and preliminary financial and structuring analysis. Phase I due diligence is used primarily as a screening process to determine if the investment opportunity is sufficiently attractive to proceed with additional due diligence.

Gores may spend as little as a day to as much as two or three weeks on Phase I due diligence. If the opportunity continues to look attractive, Gores will commence Phase II due diligence. Historically, Gores has conducted Phase I due diligence on approximately 20% to 25% of the investment opportunities identified each year.

<u>Investment Committee Preview and Phase II Due Diligence</u> -- Before committing the full resources of an operations due diligence team to a transaction, members of the Investment Committee will review an

investment opportunity and determine whether to move forward with full due diligence. This decision is based on valuation expectations of the seller, competitive dynamics of the transaction, industry segment of the target and a variety of other factors.

In Phase II, Gores, assisted by Glendon professionals, will perform more detailed due diligence. Gores may also call upon management from its existing or former portfolio companies, as well as internal and external resources to develop a detailed understanding of the business, based on a review of sales forecasts and current order backlog, operating expense line item detail, working capital management, information technology and facilities issues, among other items. Gores, assisted by Glendon, will then develop a pro forma operating plan, often with the input of the target firm's management team, which is designed to be implemented immediately upon the close of an acquisition by Gores.

Historically, Gores has conducted Phase II due diligence on approximately 5% of the deal leads that it sources each year and completes investments in approximately 20% or more of these opportunities. A significantly longer process than Phase I due diligence, Phase II due diligence generally can last from two to eight weeks.

The final stages of Phase II due diligence are often conducted simultaneously with the negotiation and execution of an acquisition. Information derived from the due diligence process is used to assist the deal team leads throughout the negotiation and documentation processes.

<u>Deal Negotiation and Execution</u> -- Upon the completion of due diligence, Gores, in conjunction with Glendon, will generally (i) finalize a detailed operating model for the target business; (ii) formalize its due diligence findings in a report to the Investment Committee; and (iii) outline the key issues that need to be addressed in the negotiation of transaction documentation.

Prior to finalizing the transaction negotiations, the Investment Committee will review the transaction and determine (i) what negotiation strategy should be used in light of the seller's pricing expectations and the competitive dynamics of the transaction, and (ii) valuation and/or structuring constraints for Gores to complete an investment.

Prior to completing an investment, the Investment Committee will complete a final review of each transaction. Gores works on a consensus basis and the Investment Committee will work to form a consensus on whether to make the investment.

<u>Portfolio Management</u> **--** The Firm's control-oriented investment strategy emphasizes a "hands-on," partnership approach with senior management to realize full operational value. A control-oriented strategy is important given Gores' proactive investment philosophy, as it enables the Firm to make any changes at portfolio companies deemed necessary. Although each portfolio company is managed autonomously, the management teams report to the senior members of Gores and Glendon. When it consummates a transaction, Gores and Glendon work with portfolio company management to ensure that the agreed-upon operating plan, which formed the basis of the investment decision, is being implemented. Typical strategies incorporated in these operating plans include the following:

- Refocusing the business on core products and competencies;
- Rationalizing expense structures;
- Reinvigorating employee & customer relationships;
- Driving sales growth;
- Identifying additional sources of cash flow.

Once an investment is executed, Gores and Glendon actively drive the execution of the operating plan, and on occasion, members of Glendon will fill roles in the management of the portfolio company.

The Gores deal team lead monitors portfolio companies' performance, pursues complementary or add-on acquisition strategies, completes any divestiture transactions, and evaluates and effects exit strategies. Gores investment professionals typically sit on the boards of directors of those companies that they helped acquire.

<u>Exit</u> -- Gores employs multiple techniques for realizing value from its investments. It typically structures its investments to provide a return of invested capital through distributions or recapitalizations and to monetize its full investments through either sale transactions or other exit alternatives. In addition to sales transactions, Gores occasionally evaluates opportunities to exit through public offerings and other creative opportunities when markets permit.

KEY TEAM MEMBERS

The Gores investment committee is responsible for all of the Fund's investment decisions. Experience and expertise of its six members are described in the sections that follow. Five of the six investment committee members have backgrounds rooted in operations.

<u>Alec E. Gores</u> – *Chairman and Chief Executive Officer*. Mr. Gores founded his firm in 1987, is a member of the investment committee, and oversees Gores' investment activities and investment portfolio. Mr. Gores began his career as an entrepreneur and operating executive. In 1978, Mr. Gores self-funded and founded Executive Business Systems ("EBS"), a developer and distributor of vertical business software systems. Within seven years, EBS had become a leading value-added reseller in Michigan and employed over 200 people. In 1986, Contel purchased EBS. Based on his knowledge of how computer systems could improve business operations, Mr. Gores subsequently began acquiring under-valued and underperforming businesses, typically technology-related carve-outs from larger entities, and then improving their operations. Mr. Gores earned a B.S. in Computer Science from Western Michigan University.

<u>Scott M. Honour</u> – *Senior Managing Director.* Mr. Honour is a member of Gores' investment committee and is responsible for originating and structuring transactions, and overseeing portfolio company exits. Prior to joining Gores in 2002, Mr. Honour was an investment banker focusing on private equity related transactions at UBS Warburg, where he was a Managing Director, and earlier at Donaldson, Lufkin & Jenrette ("DLJ") and at DLJ Merchant Banking. Mr. Honour currently serves on the Boards of Directors of RealDolmen, First Communications and Westwood One. Mr. Honour earned a B.S. in Business Administration and a B.A. in Economics, *cum laude*, from Pepperdine University and an M.B.A. in Finance and Marketing from The Wharton School of the University of Pennsylvania.

<u>Mark R. Stone</u> – *Senior Managing Director.* Mr. Stone is a member of Gores' investment committee and is responsible for Gores' worldwide operations team, oversight of all Gores' portfolio companies, and operational due diligence efforts. Prior to joining Gores in 2005, Mr. Stone was CEO of Sentient Jet, a provider of private jet memberships; CEO of Narus, a global telecommunication software company; and CEO of Sentex Systems, an international security and access control manufacturing company. Earlier in his career, Mr. Stone was Corporate General Manager of Citysearch, a multi-billion dollar new media

organization, and with The Boston Consulting Group as a member of the high technology and industrial goods practices. Mr. Stone serves on the Boards of Directors, including being the Chairman, of numerous Gores I and Gores II portfolio companies. He earned a B.S. in Finance concentrations from the University of Maine and an M.B.A. in Finance and Multinational Management from The Wharton School of the University of Pennsylvania.

<u>Steven C. Yager</u> – *Senior Managing Director*. Mr. Yager is a member of Gores' investment committee and is responsible for originating and structuring transactions as well as overseeing portfolio company exits. He has been working with members of the Gores team since the 1980s, when he served as General Manager at Executive Business Systems (Alec Gores' first company) and then its acquirer, Contel Business Systems. Mr. Yager subsequently became President and CEO of Artemis International Solutions (a pre-fund portfolio company of Gores) from 1997 to 2002, and then from 2002 onward, worked within The Gores Group. At Artemis, he led a turnaround and restructuring initiative, and was responsible for an acquisition as well as the sale of Artemis to a publicly-traded Finnish software company. During the course of his career, Mr. Yager also served as CEO of Aonix, Executive Vice President of Business Development for Medaphis Physician Services, and in the sales & marketing department of Burroughs. Mr. Yager serves on several Boards of Directors. He earned a B.A. in Business Administration and Economics from the University of Michigan.

<u>Joseph P. Page</u> – *Chief Operating Officer.* Mr. Page is a member of Gores' investment committee and oversees the Firm's financial and administrative functions. Prior to joining Gores in 2004, Mr. Page was Senior Principal and Chief Operating Officer for Shelter Capital Partners, a southern California-based private investment fund. Prior to that, he held various senior executive positions with several private and public companies controlled by MacAndrews & Forbes ("M&F"). While at M&F, he was Vice Chairman of Panavision, CFO of The Coleman Company and CFO of New World Communications. Prior to M&F, Mr. Page was a Partner at Price Waterhouse. Mr. Page serves on the Board of Directors of RealDolmen. Mr. Page earned a B.S. in Accounting and an M.B.A. from Loyola Marymount University of Los Angeles.

<u>Vance Diggins</u> – *Senior Advisor*. Mr. Diggins is a member of Gores' investment committee. Mr. Diggins has worked with Mr. Gores for over 20 years and formerly served as President and CEO of Gores. Mr. Diggins was instrumental in working with Alec Gores to build the Firm's management team and infrastructure. In 1983, Mr. Diggins joined EBS (Alec Gores' first company) as a sales representative before playing a key role in driving operational improvements in companies purchased by Gores. Mr. Diggins began his career in sales management at Burroughs Corporation. Mr. Diggins earned his B.A. in Business Administration from Michigan State University.

IV. Potential Conflicts of Interest

Gores and its affiliated entities are subject to several potential conflicts of interest in managing the Fund. These potential conflicts will arise primarily from the involvement of Gores and affiliates in other activities that may conflict with those of the Fund. Potential conflicts of interest may not necessarily be resolved in favor of the interests of the Fund's limited partners.

Key mitigants of some of these conflicts for Gores III limited partners include the significant capital committed by the general partner into Gores III as well as Gores' interest in maintaining good relations and reputation with the limited partners of its sole line of investment funds (the Gores Capital Partner funds). Further, Gores III legal documents provide for many protections for the limited partners in the Fund, including parameters under which the Fund must operate and items requiring limited partner advisory committee approvals.

The following paragraphs provide a sample of some key potential conflicts of interest, based in part on the confidential private placement memorandum.

Glendon's Services to Portfolio Companies **--** Certain operations and legal professionals previously employed by Gores have formed Glendon Partners, a consulting group that renders professional services exclusively to Gores and its portfolio companies. Such consulting services are consistent with those that would be provided by third-party advisors/consultants.

In exchange for such services, Glendon is entitled to receive under its agreements with portfolio companies fees based on hourly rates that Gores claims are consistent with market standards and management equity in the portfolio company. In addition, the Fund may pay fees to Glendon for due diligence and other transaction expenses in connection with unconsummated transactions. Gores and certain principals have certain contractual rights to control and direct Glendon's activities. An important mitigant of this potential conflict of interest is that neither Gores nor the general partner is permitted to have any economic interest in the operations of Glendon.

Transaction and Related Fees **--** The general partner and its affiliates may receive certain "transaction fees" from portfolio companies and in connection with consummated and unconsummated transactions (e.g., break-up, commitment, transaction, consulting and advisory fees). These types of fee arrangements sometimes cause misalignment of interests, particularly if fee income enjoyed by the general partner or affiliates proves sizable compared to investment returns.

The Fund's fee sharing arrangements mitigate many potential misalignments of interests. As set forth elsewhere in this memorandum, 80% of the Fund's transaction fees will be credited against future management fees payable by the Fund. Additionally, the general partner and its affiliates may receive certain "directors fees" from portfolio companies, 100% of which will be credited against future management fees payable by the Fund.

Allocation of Personnel – Gores' principals – its senior people -- are expected to devote a portion of their time and attention to manage investments made by Gores and its affiliates outside of the Fund. However, the principals intend to devote a significant amount of time sufficient to and as may be necessary to prudently manage the investment activities of the Fund. Mitigants of this potential conflict of interest include the sizable capital commitment these principals have made to the Fund.

V. Key Issues for Consideration

In addition to standard investment risks, there are important issues to consider when evaluating the Fund stemming from its investment strategy or other factors. The paragraphs that follow highlight some key business considerations of particular relevance to SDCERA.

Concentrated Portfolio – Compared to many other private equity funds, the Fund will make a limited number of investments, with an estimated total of 12 to 20 total investments. Further, the Fund has the ability to concentrate its investments by committing as much as 20% of aggregate commitments into a single investment. It is also permitted to commit all of its assets into a single industry, unlikely as that scenario may be.

As such, the Fund's aggregate return may be affected by the performance of a single investment or sector. In particular, if the Fund's capital raised is less than the targeted amount, the Fund may invest in fewer portfolio companies and thus be less diversified than many other private equity funds.

Gores seeks to mitigate the potential risks of a concentrated portfolio by employing intensive due diligence, its in-house operational capabilities, and its approach of seeking operational control of portfolio companies. Further, a review of the track records of Gores I and Gores II suggests that Gores constructs its portfolio with industry diversification, commitment sizing, and timing diversification in mind.

Investments in Technology and Telecommunications Industries – A significant portion of the Fund may be invested in technology and telecommunications companies, which may involve risks greater than those generally associated with diversified investment funds. These technology and telecommunications firms face challenges including rapidly changing market conditions and/or competitors, new competing products, and regulatory actions. These and similar factors can have a material adverse effect on the Fund's value.

Factors mitigating the risks of investing in these sectors include the Gores Group's developing expertise in other investment areas such as healthcare, as well as its strong track record in technology and telecommunications.

Availability and Use of Leverage – Disruption in the credit markets may reduce Gores' ability to finance some of its transactions, resulting in fewer deals or less attractive deal terms.

The Fund may include portfolio companies whose capital structures have leverage. Although borrowings by the Fund's companies have the potential to enhance overall returns, the leverage may impair these companies' ability to finance their future operations and capital needs, and increase the exposure of the portfolio companies to adverse economic factors such as rising interest rates, downturns in the economy, or deteriorations in the condition of the portfolio company or its industry. Moreover, the Fund may invest in securities not protected by financial covenants or limitations on additional indebtedness or in junior securities subject to the greatest risk of loss.

Investment in Distressed Companies **--** The Fund may make Investments in the securities and obligations of distressed and bankrupt issues, including debt obligations that are in covenant or payment default. The repayment of defaulted obligations is subject to significant uncertainties, particularly if a lengthy workout or bankruptcy proceedings are involved.

There are also fraudulent conveyance considerations that could, among other things, result in a court's invalidating or subordinating the Fund's instruments by which it extended credit to portfolio companies. In addition, under certain circumstances, payments to the Fund, and potentially distributions by the Fund to limited partners, may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment, or similar transaction under applicable bankruptcy and insolvency laws.

Potential for Headline Risk – Mr. Alec Gores and some relatives have attracted some media attention, possibly because of Mr. Gores' being a successful businessman based in the Beverly Hills area, an area well-covered by the media and relatively near to San Diego. Further, The Gores Group's investment strategy of acquiring control stakes in underperforming established companies may have greater potential for headline coverage than many other investment strategies that typically are lower profile.

However, there is no evidence that any media publicity has affected the investment capabilities of The Gores Group or Mr. Gores himself. Further, there is no evidence that Mr. Gores himself has actively sought the limelight or uses his investments for objectives other than generating returns.

Litigation -- Gores and its affiliates have periodically been subject to litigation in the ordinary course of business at various levels. The Fund's private placement memorandum highlights several cases involving previous Gores funds or portfolio companies. These cases were all settled or dismissed, with the exception of one case involving a previous fund, Gores II, still in mediation.

Gores' sourcing strategy includes sometimes aggressively acquiring assets in a zero-sum contest of companies potentially on the verge of liquidation; this type of strategy may produce more legal disputes than other sourcing strategies involving non-distressed situations.

Further, from time to time, Gores and its affiliated investment vehicles have been named as defendants in routine commercial and employment-related disputes involving portfolio companies.

According to Gores, no past litigation, investigations, or proceedings have been material to Gores or its principals. Finally, Gores and its principals do not expect any pending litigation to have a material effect on Gores, its private equity funds, or its principals.

APPENDIX

Private Equity Portfolio Plan

	(1) Exposure After April Commitments	(2) Proposed Additions	(3) = (1)+(2) Pro-Forma Exposure	(4) Exposure Target	(5)=(4)-(3) Pro-Forma Room for Future Additions
Buyout & Growth	4.4%	0.0%	4.4%	7.0%	2.6%
Venture Capital	1.8%	0.0%	1.8%	1.7%	(0.1%)
Distress & Special Situations	2.1%	0.7% **Gores III**	2.8%	7.0%	4.2%
Niche	0.3%	0.0%	0.3%	1.8%	1.5%
Total	**8.6%**	**0.7%**	**9.3%**	**17.5%**	**8.2%**

Exposure = NAV + Unfunded commitments