State of New Jersey

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DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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ANDREW P. SIDAMON-ERISTOFF
State Treasurer

February 3, 2014

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Acting Director

SUBJECT: **Proposed Investment in TPG Opportunities Partners III, L.P. and an additional investment in a related separate account**

The New Jersey Division of Investment ("Division") is proposing an investment of $100 million in TPG Opportunities Partners III, L.P. (The "Fund" or "TOP") and an additional investment of up to $200 million into a separate account that will combine two existing Division mandates, Knight/TPG NPL-Residential, L.P. and Knight/TPG NPL-Commercial, L.P., into one entity and broaden the strategy. The Pension Fund previously committed $100 million to each of the Knight separate accounts in March 2012. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

The Division is recommending this investment based on the following factors:

Experienced management team: TPG Special Situations Partners ("TSSP") is the dedicated $10 billion credit and special situations platform of TPG led by Alan Waxman, who ran Goldman Sachs' Americas Special Situations Group, an on-balance sheet, proprietary investing platform with approximately $8 billion of capital under management. Moreover, the 74 person team is headed by a cohesive and experienced Partner group. The 7 TSSP Partners all worked together at Goldman before founding TSSP and have over 100 years of combined investing experience.

Performance: Both of the TOP predecessor funds and NPL vehicles have produced Net Internal Rates of Return greater than 20%.

Attractive Opportunity Set: The separate account's flexible mandate allows the fund to capitalize on liquid and illiquid credit dislocations through economic cycles. In addition to the team's focus on corporate distressed situations, they will also target idiosyncratic investments such as distressed asset sales from commercial banks, medical royalties, re-performing real estate loans and mortgage servicing rights.

Differentiated sourcing capabilities: The team has consistently demonstrated a competitive edge in sourcing transactions at materially off-market terms by employing an "on the ground" and direct sourcing model. The platform has nine sourcing and servicing platforms across three continents which gives it access to hard to reach asset classes.

A report of the Investment Policy Committee ("IPC") summarizing the details of the proposed investment is attached.

Division Staff and its private equity consultant, Strategic Investment Solutions, undertook extensive due diligence on the proposed investment in accordance with the Division's Alternative Investment Due Diligence Procedures.

As part of its due diligence process, staff determined that the fund has not engaged a third-party solicitor (a "placement agent") in connection with New Jersey's potential investment.

We will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern the investment. In addition, the proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

The TPG Opportunities Partners III, L.P. investment and the additional separate account investment are authorized pursuant to Articles 63 and 23 of the Council's regulations and will be considered global diversified credit investments as defined under N.J.A.C. 17:16-23.1. As a result of the consolidation of the mandates, the Knight/TPG NPL-Residential, L.P. investment, currently classified as a private equity debt related investment, will be reclassified as a global diversified credit investment.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the Committee was held on January 14, 2014. In addition to the formal written due diligence report, all other information obtained by the Division on the investment was made available to the IPC.

We look forward to discussing the proposed investment at the Council's February 3, 2014 meeting.

Attachments

Fund Name: TPG Opportunities Partners III, L.P. and Separate Account — February 3, 2014

Contact Info: Meghan Reynolds, 345 California Street, Suite 3300, San Francisco, CA 94104

Fund Details:

Total Firm Assets:	$55.7 billion
Strategy:	Debt Related
Year Founded:	1992
Headquarters:	San Francisco, CA
GP Commitment:	1%

Key Investment Professionals *:*

Alan Waxman *–Managing Partner and Chief Investment Officer of TSSP, and a TPG Partner and member of TPG's Executive Committee. Prior to joining TPG, he was a Partner at Goldman Sachs. During his career at Goldman Sachs, he co-headed AmSSG, which invested Goldman Sachs' capital in both the public markets and private transactions in distressed and special situations.*

Joshua Easterly *– TPG Partner and Partner Managing Director of TSSP. Based in New York, Mr. Easterly is also the Co-Chief Investment Officer of TSL Advisers, LLC, the investment adviser for TSL. Mr. Easterly serves as the Chairman of TSL's Board of Directors. Prior to joining TSSP, Mr. Easterly was a Managing Director at Goldman Sachs, where he worked in AmSSG with Alan Waxman and most recently held the position of AmSSG's Chief Investment Officer.*

Investment Summary

TOP III is a special situations investment fund, focusing on deep value opportunities across the credit cycle. Specifically, the three major areas of emphasis will include Asset Special Situations, Corporate Distressed-for-Control, and Corporate Dislocations. TOP will seek top-down investment themes in dislocated sectors as well as bottom-up situational opportunities where it can exploit idiosyncratic or secular issues to structure investments with a skewed risk-adjusted return profile. Within the Division's proposed more flexible separate account mandate, TPG Special Situations Partners will seek to supplement its existing credit products by investing across the capital structure and return spectrum in niche dislocations. The account will co-invest in deals from TOP III and, subject to receipt of regulatory relief, the direct middle market lending platform, TSL. Additionally, the account will target related opportunities that represent attractive risk/reward, but are not appropriate for the TOP and TSL investment mandates, e.g., due to their respective return objectives and/or duration. The TSSP platform provides significant versatility and infrastructure, which is vital for TOP III as it seeks to capitalize on shifting dislocations across the credit sphere.

Existing and Prior Funds

Funds	Vintage Year	Strategy	Returns as of June 30, 2013*
TOP I	2009	Debt Related	22% Net IRR, 1.46x Net TVPI
TOP II	2012	Debt Related	23% Net IRR, 1.12x Net TVPI
Residential - NPL vehicle	2012	Debt Related	28% Net IRR, 1.14x Net TVPI
Commercial- NPL vehicle	2012	Debt Related	27% Net IRR, 1.14x Net TVPI
TSL	2011	Debt Related	12% Net IRR, 1.17x Net TVPI

*Returns as provided by Strategic Investment Solutions

IRR = Internal Rate of Return ; TVPI = Total Value to Paid-In

Vehicle Information:

Inception:	2013	**Auditor:**	**KPMG LLP**
Fund Size:	TOP III $3.2 billion; Separate Account $400 million committed	**Legal Counsel:**	**Cleary, Gottlieb, Steen & Hamilton LLP**
Management Fee:	TOP III 1.5% on committed ; Separate Account 1.0% on invested		
Carry:	TOP III 20% ; Separate Account 15%		
Hurdle Rate:	TOP III 8% ; Separate Account 6%		
Additional Expenses:	100% Fee offset		

NJ AIP Program

Recommended Allocation:	TOP III $100 million ; Separate Account additional $200 million	**LP Advisory Board Membership:**	**Yes**
% of Fund:	TOP III 3.125% , Separate Account 99%	**Consultant Recommendation:**	**Yes**
		Placement Agent:	**No**
		Compliance w/ Division Placement Agent Policy:	**N/A**
		Compliance w/ SIC Political Contribution Reg:	**Yes**

*This review memorandum was prepared in accordance with the State Investment Council rules governing the Alternatives Investment Program and the policies and procedures related thereto.