



State of New Jersey

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Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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State Treasurer

October 3, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investments in TPG Opportunities Partners II, L.P. & Related Separate Account Vehicles**

The New Jersey Division of Investment ("Division") is proposing an investment of \$100 million in TPG Opportunities Partners II, L.P. ("TOP") and \$200 million into separate accounts (New Jersey/TPG NPLs – Commercial & New Jersey/TPG NPLs – Residential). This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

TPG formed TOP in 2009 to capitalize on liquid and illiquid credit dislocations and other special situations on a dynamic basis across various economic cycles. TOP began investing in May 2009 through separately audited entities primarily within TPG Partners VI, L.P. and TPG Financial Partners, L.P. The Division's relationship with TPG Opportunities Partners began in May 2011 with a \$200 million investment to TOP's direct lending vehicle TPG Specialty Lending.

TOP is the primary TPG investment platform for credit investing, and is forming TPG Opportunities Partners II to serve as its principal investment vehicle to pursue special situations and distressed investments across the credit cycle in corporate and asset special situations.

The proposed separate accounts will take advantage of the opportunity within the Commercial and Residential non-performing loan space. These accounts will participate alongside TOP II. It should also be noted that these vehicles will have a three year investment period with the option for NJ to extend as it sees fit. The Division has also negotiated favorable terms with a management fee of 0.5% on invested capital and 15% carry.

The Division of Investment ("Division") Staff and its private equity consultant, Strategic Investment Solutions, undertook extensive due diligence on these proposed additional investments. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

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 each investment. In addition, each proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that TPG Opportunities Partners II, L.P. and one of the related separate vehicle investments (New Jersey/TPG NPLs – Residential) are authorized pursuant to Articles 69 and 90 of the Council's regulations and will be considered debt-related investments, as defined under N.J.A.C. 17:16-90.1. The second related separate vehicle investment (New Jersey/TPG NPLs – Commercial) is authorized pursuant to Articles 23 and 63 of the Council regulations and will be considered a bank loan fund as defined under N.J.A.C. 17:16-23.1.

Formal written due diligence reports for the proposed investments were sent to each member of the Investment Policy Committee and a meeting of the Committee was held on September 8, 2011. In addition to the formal written due diligence reports, all other information obtained by the Division on the investment was made available to the Investment Policy Committee.

We look forward to discussing the proposed investments at the Council's October 13, 2011 meeting.

Attachments

State Investment Council Fund Review Memo

To: State Investment Council
From: Division of Investment
Date: October 13, 2011
Subject: TPG Opportunities Partners II, L.P. & Related Separate Account
Vehicles Investment Recommendation

Fund Facts

Fund Name:	TPG Opportunities Partners II Fund/TPG NPL Residential and Commercial
Fund Type:	Distressed
Current Fund Size:	\$1.5 billion
Previous Fund Size/Vintage:	\$1.857 billion/2009
Final Close:	TBD
Fund Address:	345 California St, Suite 3300 San Francisco, CA 94104

GP Contact Info

Name:	Alex Waxman
Telephone:	415-486-5959
Email:	awaxman@tpg.com

Summary of Terms and Investment Strategy

Term:	TOP II – December 31st of the seventh year following the final closing but may be extended by the general partner with the consent of the advisory committee of up to two consecutive additional one-year periods. NPL Separate Accounts - The term of the Partnership shall commence as of the Initial Closing Date and shall continue in full force and effect until the completion of the term of the TOP II Funds. However, the term of the Partnership may be extended by the General Partner with the Consent of a majority in interest of the Limited Partners.
Investment period:	TOP II – End of three years, after the final closing. NPL Separate Accounts – The commitment period of the NPL vehicles will terminate at the same time as the commitment period of the TOP II funds.
Management Fee:	TOP II – Initial closing, 1.25% of committed capital. NPL Separate Accounts - During the term of the NPL vehicle, the fee will be 0.5% of invested capital and, post the commitment period, 0.5% lesser of fair market value or cost.
Other Fees:	TOP II – 100% offset against the management fee of all net proceeds received by the management company for any financial consulting fees, directors' fees, advisory fees, monitoring fees, origination fees, transaction fees and break-up fees. and break-up fees. Organization Expenses – up to \$3 million. NPL Separate Accounts - 100% offset against the management fee of all net proceeds received by the management company for any financial consulting fees, directors' fees, advisory fees, monitoring fees, origination fees, transaction fees and break-up fees. Organization Expenses – up to \$1 million.
Carry/Performance Fee:	TOP II – Deal by deal carry structure. 20% general partner carry and a 100% catch-up for any net proceeds attributable to the disposition of a portfolio investment. NPL Separate Accounts – European waterfall carry structure. 15% general partner carry.
Attorney:	Cleary Gottlieb Steen & Hamilton LLP
Auditor:	KPMG LLP
Accounting Firm:	

NJ AIP Program:

Recommended Allocation:	300,000,000.00
% of Fund:	15.00%

LP Advisory Board Membership:	TOP II - YES NPL Separate Accounts - YES
Consultant Recommendation:	YES
Placement Agent:	NO
Compliance with Division Placement Agent Policy:	N/A
Compliance with SIC Political Contribution Reg:	YES