State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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July 15, 2005

MEMORANDUM TO: State Investment Council

FROM: William G. Clark
Director

SUBJECT: **Proposed Private Equity Investments in Blackstone Capital Partners V, L.P. and Apollo Investment Fund VI, L.P.**

This due diligence memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.12 (e) to report on two proposed private equity investments: a commitment of $100 million to Blackstone Capital Partners V, L.P. and a commitment of $100 million to Apollo Investment Fund VI, L.P.

Please note that these investments will be authorized pursuant to Articles 69 and 90 of the Council's regulations which became effective on June 20, 2005. Both investments are considered to be "Buyout Investments" as defined under N.J.A.C. 17:16-90.2 (a).

The Alternative Investments Procedures adopted by the Council on January 20, 2005 require any potential alternative investment opportunities to be identified and initially evaluated by the Head of Alternative Investments of the Division (Cesar Baez) and the applicable Asset Class Consultant (Strategic Investment Solutions for private equity, or "SIS") in coordination with the DOI Investment Committee (Cesar Baez, Gerry Gibbs and myself).

As a result of internal and external sourcing, the DOI Investment Committee identified these proposed investments. As a result, SIS and Division staff proceeded to undertake extensive due diligence on these two proposed investments. As a reminder, the steps included as part of this due diligence are detailed on Exhibit 1 entitled "Due Diligence Checklist." The steps included on this checklist encompass all of the items identified in Step 3 of the Alternative Investments Procedures for selection of alternative investments.

Based on this due diligence, the Division has determined that each of the proposed investments meets the criteria for investments set forth in the Alternate Investment Procedures. The interest of the general partner for each investment is aligned with those of Common Pension Fund E, with substantial co-investments by the general partners, in each case exceeding the standard 1% commitment. Moreover, we believe that each fund will be supported by other similar investors (i.e., other large pension funds). The management fees for each investment are reasonable, and other legal and economic terms are "LP-friendly." Each of the funds has a deep and experienced investment team and investment strategy that has resulted in top quartile or above-median investment track records for preceding funds and would indicate an ability to generate superior returns.

The DOI Investment Committee held a meeting on June 29, 2005 with representatives of SIS to review the proposed due diligence report prepared by SIS and staff and other information for each of these proposed investments. After reviewing this material, the DOI Investment Committee approved the above-referenced commitment amounts for each of these two investments.

A formal written due diligence report for each of the proposed investments was sent to each member of the Investment Policy Committee of the Council on July 1, 2005, and a meeting of the Committee was held on July 11, 2005. In addition to the formal written due diligence reports, all other information obtained by the Division on these two investments was made available to the Investment Policy Committee.

After review of the extensive due diligence, the Investment Policy Committee of the Council decided to report on these proposed investments to the full Council pursuant to Step 4 of the Alternative Investments Procedures. Under these procedures, the Council may adopt or otherwise act on this report.

As with the initial three investments presented in June, please note that the Division may not be able to obtain the full commitment amounts being proposed for each of these funds. We believe that each of these funds may be oversubscribed (i.e., total commitments will exceed the planned fund size), in which case our proposed commitment amount may be reduced by the general partner.

In addition, 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 "pay to play" regulation (N.J.A.C. 17:16-4). While we are confident that we will work through these issues, the potential exists that a successful resolution will not be reached with one or the other of these general partners.

We look forward to discussing these proposed private equity investments at the Council's July 21, 2005 meeting.

WGC:cae
Attachments

*SIC Investment Committee Fund Review Memo

To:	**State Investment Council**
From:	**SIC Investment Committee**
Date:	**July 18, 2005**
Subject:	**Blackstone Capital Partners**

Fund Facts

Fund Name:	Blackstone Capital Partners V, L.P.
Fund Type:	Large cap Buyout / Private Equity
Current Fund Size:	$12.5 billion: $11 billion main fund; $1.5 billion supplemental fund
Previous Fund Size/Vintage:	$8.45 billion: BCP IV - $6.45 billion 2002; BCOM - $2 billion 2000
First Close:	October-05
Fund Address:	345 Park Avenue New York, New York 10154

Summary of Terms and Investment Strategy

Investment Strategy:	Investing in large cap buyouts
Industry Focus:	Diverse
Geographic Focus:	United States and Europe
GP Co-Investment Amount:	$200 million / 1.8%
Terms:	
Term:	10 years
Management Fee:	1.5% of commitments up to $6.5 billion and 1% thereafter.
Other Fees:	Management fees are reduced 50% of net breakup, topping, commitment, monitoring, transaction, directors' and organizational fees up to the amount of the broken deal expenses. Investment banking fees are not shared with the Fund.
Hurdle Rate:	8%

NJ AIP Program:

Recommended Allocation:	$100 million
% of Fund:	0.91%
% of New Jersey State Pension Plan:	0.14%
% of AIP Private Equity Allocation ($3.5b):	2.86%
% of Buyout Allocation ($1.75b):	5.71%

LP Advisory Board Membership:	No
Consultant Recommendation:	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.