State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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March 9, 2007

MEMORANDUM TO: State Investment Council

FROM: William G. Clark
Director

SUBJECT: **Proposed Private Equity Investments in Court Square Capital Partners II, InterMedia Partners VII, Goldman Sachs (Separate Account) and Lehman Brothers (Separate Account)**

This due diligence memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9 (a) to report on four proposed private equity investments: a $100 million commitment to Court Square Capital Partners II; a $25 million commitment to InterMedia Partners VII (note: this $25 million commitment is incremental to the $50 million commitment that was presented to the Council at the November 2005 meeting); a $200 million commitment to a separate account to be managed by Goldman Sachs (note: this $200 million commitment will supplement our original $200 million commitment to this separate account that was presented to the Council at the August 2005 meeting), and a $100 million commitment to a separate account to be managed by Lehman Brothers.

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. The Court Square, InterMedia and Goldman Sachs investments will be considered "Buyout Fund" investments and the Lehman Brothers investment will be considered a "Venture Capital Investment" as defined under N.J.A.C. 17:16-90.1.

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 (myself in an acting capacity) and the applicable Asset Class Consultant (Strategic Investment Solutions for private equity, or "SIS") in coordination with the DOI Investment Committee (Ike Michaels, Deputy Director and myself).

As a result of internal and external sourcing, the DOI Investment Committee identified the proposed investments. SIS and Division staff proceeded to undertake extensive due diligence on the proposed investments. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

Based on this due diligence, the Division has determined that each of the proposed investments meet the criteria for investments set forth in the Alternative Investment Procedures.

The investments that we are proposing focus on the domestic middle market buyout sector (Court Square Capital Partners II and InterMedia Partners VII), the European middle market buyout sector (Goldman Sachs) and New Jersey based private equity funds and investments (Lehman Brothers).

Court Square Capital Partners II will primarily focus on identifying and investing in U.S.-based middle-market companies capable of generating earnings growth in excess of either their underlying industry or their historical performance. The Fund will target companies in which there is an opportunity to capitalize on unrecognized and/or untapped revenue potential, implement sustainable cost reductions and/or execute accretive acquisitions. Court Square will continue to benefit from the Investment Team's independent and broad network built over 20+ years, the majority of which was spent as the private equity arm of Citigroup. The general partner has a proven track record of executing its strategy and generating top-quartile returns. The general partner has substantial capital committed to the Fund thus aligning our interests with those of the general partner. The management fees are reasonable, and all the legal and economic terms associated with the partnership are fair and consistent with market standards.

InterMedia Partners VII will seek to apply its unique blend of investing, structuring, and operations expertise, focusing on media sector investments that have not yet become strategically imperative for corporate buyers, and which require more operating and industry expertise than is typically possessed by traditional private equity funds. The two primary principals, Leo Hindery, Jr. and Peter Kern, have extensive operating experience in the media space, including building a cable television franchise that was ultimately sold to TCI, and building the Yankees Entertainment and Sports Network, LLC (i.e., the "YES" network) into a successful enterprise. This $25 million commitment is incremental to the $50 million commitment that was presented to the Council at the November 2005 meeting. Since this time, the firm has successfully executed on its stated strategy and the investments made to the date by the fund are performing well.

Goldman Sachs Separate Account primarily focuses on European middle-market buyout funds. This separate account was established to explicitly invest in International Buyout funds with significant investment exposure to European-based companies. After negotiating the details of the separate account arrangement, a partnership agreement establishing the separate account was finalized on February 28, 2006. Since that time, Goldman Sachs has demonstrated the ability to identify and access top quarter European buyout funds. Goldman Sachs has identified, performed due diligence and committed to twelve funds and one co-investment totaling $152.3 million in commitments (76.1% of the original $200 million program). Even though the original agreement with Goldman Sachs was not finalized until February 2006, they started to source and perform due diligence on potential investments for the account immediately after the August 2005 Council meeting. Overall, Division staff has been extremely pleased with the level of diligence and client service provided by Goldman Sachs. Furthermore, we believe continued exposure to European private equity funds is critical for diversification purposes as well as obtaining an appropriate risk adjusted return on the Division's portfolio. The management fees are reasonable, and all the legal and economic terms associated with the partnership are fair and consistent with market standards.

Lehman Brothers-New Jersey Direct Investment Fund- NJDIF (Separate Account) is designed to achieve attractive investment returns while providing economic benefit to the State of New Jersey by constructing a diversified portfolio of funds and direct investments that are either headquartered in New Jersey and/or have significant operations in the State. Attractive investment returns will be generated through investing in leading venture capital and private equity firms and making direct investments in well positioned venture and growth oriented companies identified by these funds and other leading private equity funds. We believe that NJDIF will provide direct and indirect economic benefits to the State of New Jersey by providing job and sales growth across numerous industry sectors and supporting growth of "breeder" industries including technology and life sciences. The New Jersey Direct Investment Fund (NJDIF) will principally make investments in (i) private equity funds; (ii) private companies and/or (iii) companies issuing securities outside of a public offering that are based in, have or plan to have substantial operations in, or promote economic development in, the State of New Jersey. The focus of the Fund will include, but not be limited to, venture capital, growth equity or small to mid-cap buyout investments. Furthermore, the fund manager (Lehman Brothers) will contribute a significant amount to the partnership and will be incentivised with an appropriate carried interest structure.

A formal written due diligence report for these proposed investments was sent to each member of the Investment Policy Committee of the Council on March 2, 2007, and a meeting of the Committee was held on March 7, 2007. In addition to the formal written due diligence reports, all other information obtained by the Division on this investment was made available to the Investment Policy Committee.

*SIC Investment Committee Fund Review Memo

To:	**State Investment Council**
From:	**SIC Investment Committee**
Date:	**March 9, 2007**
Subject:	**Court Square Capital Partners II Recommendation**

Fund Facts

Fund Name:	Court Square Capital Partners II
Fund Type:	Middle Market Buyout Fund
Current Fund Size:	$2.5 billion
Previous Fund Size/Vintage:	$2.6 billion / 2001
Final Close:	April-07
Fund Address:	399 Park Avenue New York, NY 10022

GP Contact Info

Name:	John K. Kim
Telephone:	212-559-7615
Email:	jkim@courtsquare.com

Summary of Terms and Investment Strategy

Investment Strategy:	The Fund will primarily make equity invetments in middle market sized buyouts of companies that possess strong growth potential.
Geographic Focus:	United States based global businesses
GP Co-Investment Amount:	$150 million
Terms:	
Term:	10 years from final closing date with three 1-year extentions
Investment period:	5 years
Management Fee:	1.5% per annum of the aggregate Commitments of the Limited Partners and thereafter 1.0% of (i) aggregate unreturned capital and (ii) unreturned capital commitments reserved for follow-on investments.
Other Fees:	80% of net portfolio company fees will be applied as an offset to the Management fee.
Hurdle Rate:	8%

NJ AIP Program:

Recommended Allocation:	$100 million
% of Fund:	4.00%
% of New Jersey State Pension Plan:	0.13%
% of AIP Private Equity Allocation ($3.5b):	2.86%
% of Private Equity Allocation for FY07 ($1.875b):	5.33%

LP Advisory Board Membership:	TBD
Consultant Recommendation:	Yes
Compliance with SIC "Pay to Play" Reg:	Side letter required

*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.