State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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State Treasurer

June 10, 2005

MEMORANDUM TO: State Investment Council

FROM: William G. Clark
Director

SUBJECT: **Proposed Private Equity Investments in Warburg Pincus IX, Oak Hill Capital Partners II, L.P. and Quadrangle Capital Partners II, 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 three proposed private equity investments: a commitment of $200 million to Warburg Pincus IX, a commitment of $75 million to Oak Hill Capital Partners II, L.P. and a commitment of $50 million to Quadrangle Capital Partners II, L.P.

Please note that these investments will be authorized pursuant to Articles 69 and 90 of the Council's regulations, which will become effective on June 20, 2005. All three investments are considered to be "Buyout Investments" as defined under N.J.A.C. 17:16-90.2 (a). We are presenting these three investments at this time because they all have expected "closing dates" within the next 60 days.

We have attached a presentation titled "Alternative Investment Program and Procedures" as Exhibit 1 to this memorandum. This attachment will be referenced throughout this memorandum.

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). Included in Exhibit 1 is a discussion of the process utilized by the Division to identify potential private equity investments for inclusion in the program.

As a result of internal and external sourcing, the DOI Investment Committee identified these three proposed investments. As a result, SIS and Division staff proceeded to undertake extensive due diligence on these three proposed investments.

The steps included as part of this due diligence are detailed in the latter portion of Exhibit 1 on the page 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, each fund is supported by other similar investors (i.e., other large pension funds). The management fees for each investment are competitive, 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 and would indicate an ability to generate superior returns.

The DOI Investment Committee held a meeting on June 1, 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 three 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 June 2, 2005, and a meeting of the Committee was held on June 8, 2005. In addition to the formal written due diligence reports, all other information obtained by the Division on these three 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.

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 exceed the planned fund size), in which case our proposed commitment amount may be reduced by the general partner.

In addition, we are working 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 more of these general partners.

We look forward to discussing these three proposed private equity investments at the Council's June 16, 2005 meeting.

WGC:cae
Attachments

*SIC Investment Committee Fund Review Memo

To:	**State Investment Council**
From:	**SIC Investment Committee**
Date:	**June 8, 2005**
Subject:	**Quadrangle**

Fund Facts

Fund Name:	QUADRANGLE CAPITAL PARTNERS II, L.P.
Fund Type:	Large Buyout / Private Equity
Current Fund Size:	$1.25 billion
Previous Fund Size/Vintage:	$1.0 billion / 2000
Final Close:	August-05
Fund Address:	375 Park Avenue New York, NY 10152

Summary of Terms and Investment Strategy

Investment Strategy:	The partnership will invest in middle-market companies as well as larger companies.
Industry Focus:	Media and communication sectors, primarily: (1) content companies and (2) distribution companies.
Geographic Focus:	80% - North America and 20% - Europe
GP Co-Investment Amount:	$50 million / 4%
Terms:	
Commitment Period:	5 years
Term:	10 years with two consecutive 1-year extensions
Management Fee:	1.75% of committed capital during commitment period; 1.75% of capital contributions thereafter
Other Fees:	50% of all transaction, break-up and other fees will be used to offset the management fee.
Hurdle Rate:	8%

NJ AIP Program:

Recommended Allocation:	$50 million
% of Fund:	4.00%
% of New Jersey State Pension Plan:	0.07%
% of AIP Private Equity Allocation ($3.5b):	1.43%
% of Buyout Allocation ($1.75b):	2.86%

LP Advisory Board Membership:	To be negotiated
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.