

September 10, 2008

MEMORANDUM TO: State Investment Council

FROM: William G. Clark  
Director

SUBJECT: Proposed Private Equity Investments in Partners Group  
Secondary Fund 2008 and Welsh, Carson, Anderson & Stowe  
XI, LP (aka WCAS XI).

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 two proposed private equity investments: a \$75 million commitment to Partners Group Secondary Fund 2008 and a \$100 million commitment to WCAS XI.

Please note that these investments will be authorized pursuant to Articles 69 and 90 of the Council's regulations. The investments in Partners Group Secondary Fund 2008 and WCAS XI are considered "Buyout Funds" as defined under N.J.A.C. 17:16-90.1.

The Alternative Investments Procedures adopted by the Council on February 21, 2008 require any potential alternative investment opportunities to be identified and initially evaluated by the applicable staff of the Division of Investment ("DOI") and the applicable asset class consultant (Strategic Investment Solutions for Private Equity or "SIS") in coordination with the DOI Investment Committee (Director, Deputy Director, and the Senior Staff member for the applicable alternative asset class).

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 the proposed investments meet the criteria for investments set forth in the Alternative Investments Policy.

Welsh, Carson, Anderson & Stowe XI, L.P. is a middle-market buy-out firm focused on investments primarily in the healthcare and information/business services sectors. WCAS is one of the oldest firms within private equity and since 1989 has largely focused on the two aforementioned sectors. The firm's history and experience within these two sectors allows the general partner to leverage its industry specialization, operational focus and management network to opportunistically invest in later stage buyouts and special situations as well as provide capital to meet the needs of growing businesses and/or businesses that can take advantage of burgeoning new markets. The team has breadth and depth, comprised of twelve senior partners and eleven senior operating executives, focused on operating initiatives to drive growth and enhance the value of the fund investments. The general partner has substantial capital committed to the Fund thus aligning our interests with those of the general partner. We believe the management fees are reasonable, and all other legal and economic terms are fair and consistent with market standards.

Partners Group Secondary 2008 will continue prior funds' strategy of investing in younger primary funds ("manager secondaries") and financial secondaries (relatively mature underlying funds). Partners Group is one of the world's largest independent alternatives asset management companies, with approximately CHF 25.4 billion in AUM as of June 30, 2008. The firm's approach is value oriented, seeking to acquire secondary investments at an attractive discount to intrinsic value. Accordingly, Partners Group seeks (1) to invest in high quality funds and managers, based on its assessment of intrinsic value and (2) to obtain favorable deal flow and purchase prices through their edge in sourcing, structuring and closing transactions. The market for secondary transactions we believe is becoming more attractive and Partners Group has the team and proven track record to take advantage of the coming opportunity. We believe the management fees are reasonable, and all other legal and economic terms are within reason. NJDOI has been an investor with Partners Group and is on the Advisory Board of Partners Group Secondary 2006.

Formal written due diligence reports for the proposed investments were sent to each member of the Investment Policy Committee of the Council on September 5, 2008, and a meeting of the Committee was held on September 10, 2008. In addition to the formal written due diligence reports, all other information obtained by the Division on the 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 the proposed investments to the full Council pursuant to Step 3 of the Alternative Investments Procedures. Under these procedures, the Council may adopt or otherwise act on this report.

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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 these investments. In addition, the proposed investments 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 may not be reached with the general partners.

We look forward to discussing the proposed private equity investments at the Council's September 18, 2008 meeting.

WGC: cpp

Attachment