

July 10, 2008

MEMORANDUM TO: State Investment Council

FROM: William G. Clark
Director

SUBJECT: Proposed Private Equity Investments in JP Morgan Venture Capital Institutional Investors IV LLC, Lehman Brothers Secondary Opportunities Fund II, L.P. and Lindsay Goldberg Fund III.

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 three proposed private equity investments: a \$100 million commitment to JP Morgan Venture Capital Institutional Investors IV LLC, a \$100 million commitment to Lehman Brothers Secondary Opportunities Fund II, L.P. and a \$200 million commitment to Lindsay Goldberg Fund III, L.P.

Please note that these investments will be authorized pursuant to Articles 69 and 90 of the Council's regulations. The investments in Lehman Brothers Secondary Opportunities Fund II, L.P. and Lindsay Goldberg Fund III will be considered "Buyout Funds" and JP Morgan Venture Capital Institutional Investors IV LLC 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 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.

JP Morgan Venture Capital Institutional Investors IV LLC is a venture capital commingled fund-of-funds focusing on early stage companies, emphasizing the technology, communications and life sciences sectors. The general partner seeks to identify underlying partnerships with successful investment teams, high quality deal flow and a proven ability to build companies. The GP has a proven track record of executing its strategy and generating top-quartile returns as well as proven access and established relationships with top tier venture firms. The JP Morgan team is constructed of dedicated private equity professionals with venture capital experience and relationships dating back 25 years. 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.

Lehman Brothers Secondary Opportunities Fund II, L.P. will continue prior funds' strategy of investing in secondary private-equity limited partnership interests that have generally matured. The GP will seek to draw on the global network of Lehman Brothers Holding Inc. (the "Firm") to source proprietary deal flow and to perform comprehensive acquisition due diligence. The Fund will be managed by an experienced team which has closed nearly \$4 billion in secondary transactions since 1991 and managed Fund I after joining Lehman Brothers from Deutsche Bank in 2004. As with its predecessor, the Fund targets partnerships that have completed or are near the end of their investment period, enabling the team to effectively value the underlying portfolio companies and acquire them generally at a discount. The GP is making a substantial commitment (\$250 million) to the Fund. Again, we believe the management fees are reasonable, and all other legal and economic terms are fair and consistent with market standards.

Lindsay Goldberg Fund III will seek to make investments in small to mid-market companies with \$100 to \$500 million of equity in each portfolio company, either in an initial transaction or in multiple transactions over time. The Fund will seek opportunities where portfolio companies can be built with strategic acquisitions and provide advice on excellent business practices with the end desired result of producing market-leading enterprises with exceptional management. Lindsay Goldberg's investment philosophy / strategy is to partner with well-managed, closely held businesses / family-owned businesses and entrepreneurial led businesses to help facilitate their growth. Utilizing low leverage, LG tries to ensure the appropriate capital structures are in place to support the portfolio companies' growth, providing management the necessary resources to execute their initiatives. The management fees are reasonable, and all the legal and economic terms associated with the partnership are fair and consistent with market standards.

Formal written due diligence reports for the proposed investments were sent to each member of the Investment Policy Committee of the Council on July 3, 2008, and a

meeting of the Committee was held on July 9, 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.

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 July 17, 2008 meeting.

WGC: cpp
Attachment

State Investment Council
Page 2
July 10, 2008