



## State of New Jersey

DEPARTMENT OF THE TREASURY  
DIVISION OF INVESTMENT  
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*State Treasurer*

January 29, 2015

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough  
Director

SUBJECT: **Proposed Investment in TPG Growth III, L.P.**

The New Jersey Division of Investment ("Division") is proposing an investment of up to \$150 million in TPG Growth III, L.P. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

The Division is recommending this investment based on the following factors:

**Consistent Top Quartile performance:** TPG Growth funds have consistently demonstrated top quartile performance on a net Total Value to Paid-In ("TVPI"), Internal Rate of Return ("IRR") and Distributions to Paid-In ("DPI") basis through various market cycles. As of June 30, 2014, TPG Star, a 2007 vintage fund, is marked at a net 13.78% IRR, 1.62x TVPI, and a DPI of 0.64x, while TPG Growth II, a 2011 vintage fund, is marked at a net 33.22% IRR, 1.37x TVPI, and a DPI of 0.05x. Prior to the founding of the dedicated Growth platform in 2007, the firm had an established track record of small- and middle-market growth equity and buyout investing, having previously invested \$2.3 billion in transactions below \$100 million, ultimately creating \$9.0 billion in total value, representing a 4.0x multiple of cost. As of June 30, 2014, TPG Star and Growth II are ranked as top quartile versus the Thomson Reuters C/A Benchmark for Global Growth Equity.

**Experienced Investment and Operating Team:** TPG Growth is comprised of 40 dedicated professionals, including nine operating professionals that have a wide range of operating and investing experience across the developed and developing markets in both small/middle market and growth companies. Operating professionals have been successful in driving portfolio level value creation by upgrading and partnering with management on core operational initiatives. The TPG STAR portfolio, as a result of the TPG Growth team's active, hands-on involvement following the initial investment, has experienced a 19% aggregate year over year revenue growth and 23% Earnings before Insurance Taxes and Depreciation and Amortization growth since 2009.

**Proven Investment Strategy and Competitive Advantages:** TPG Growth has remained disciplined in adhering to its small- and middle-market focus, targeting companies under \$1 billion in enterprise value. Fund III's targeted size of \$3 billion allows the team ample flexibility to pursue both growth and small/middle market transactions, while TPG's flagship buyout fund

provides a natural cap to the size of the deals the fund will be pursuing, ensuring the team remains nimble in terms of sizing and execution.

**Proven Ability to Leverage the TPG Global Platform:** In addition to its global footprint, TPG's professionals and collaborative culture have built an integrated investment platform across geographies, skill sets and asset classes which the TPG Growth team leverages to produce differentiated deal flow and drive superior risk-adjusted investment returns. Of the 50 investments made by the TPG Growth team since the inception of the TPG Growth platform, 84% were proprietary to the Firm, or sourced in limited competition. The Firm has over 700 employees and advisors, including over 350 investment and operating professionals, working across a global footprint of 17 offices worldwide.

A report of the Investment Policy Committee ("IPC") summarizing the details of the proposed investment is attached.

Division Staff and its private equity consultant, Strategic Investment Solutions, undertook extensive due diligence on the proposed investment in accordance with the Division's Alternative Investment Due Diligence Procedures.

As part of its due diligence process, staff determined that the fund has not engaged a third-party solicitor (a "placement agent") in connection with New Jersey's potential investment.

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 the investment. We have obtained a preliminary Disclosure Report of Political Contributions in accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. We will obtain an updated Disclosure Report at the time of closing.

Please note that the investment is authorized pursuant to Articles 69 and 90 of the Council's regulations. TPG Growth III, L.P. will be considered a private equity buyout investment, as defined under N.J.A.C. 17:16-90.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the Committee was held on January 14, 2015. In addition to the formal written due diligence report, all other information obtained by the Division on the investment was made available to the IPC.

We look forward to discussing the proposed investment at the Council's January 29, 2015 meeting.

Attachments

Fund Name: TPG Growth III, L.P.

January 29, 2015

Contact Info: Meghan Reynolds, 345 California St., Suite 3300, San Francisco, CA 94104

Fund Details:

Firm AUM (\$bil):	\$65 billion	<b>Key Investment Professionals:</b> <b>William McGlashan Jr.</b> , Founder and Managing Partner of TPG Growth and a member of TPG’s leadership committees. Prior to joining the firm in 2004, Mr. McGlashan served as the chairman and CEO of Critical Path, Inc., where he oversaw a major financial and operational restructuring of the company beginning in 2001. <b>Ransom Langford</b> , Partner based in New York. Mr. Langford leads the Industrials and Business Services sectors for TPG Growth. Prior to joining TPG Growth in 2009, he was a Managing Director at J.H. Whitney & Co., LLC (“J.H. Whitney & Co.”) from 2000 to 2009. <b>Scott Gilbertson</b> , Partner based in San Francisco. Mr. Gilbertson leads the TPG Growth Ops Group. The TPG Growth Ops Group is responsible for driving shareholder value creation by contributing to the investment process and by actively engaging with portfolio companies to drive revenue growth, operational effectiveness and profit enhancement. Prior to joining TPG Growth in 2007, Mr. Gilbertson was Senior Vice President of Merchandising (Chief Merchant) at Under Armour Performance Apparel and CEO of Ludi Labs, Inc. Formerly, he was a member of the TPG Ops Group from 1998 to 2003 <b>Matt Hobart</b> , Partner based in San Francisco. Mr. Hobart leads the Healthcare and Financial Services sectors for TPG Growth. Prior to joining TPG Growth in 2004, Mr. Hobart was the Vice President of Corporate Development for Critical Path, Inc., where he was part of a turnaround team that led the company through a major financial and operational restructuring.
Strategy:	Buyout	
Year Founded:	1992	
Headquarters:	California	
GP Commitment:	at least 2% of commitments	

Investment Summary

TPG Growth III is the primary investment vehicle for small- and middle-market growth equity and buyout investment opportunities requiring an average equity commitment of \$50 million to \$100 million. TPG Growth falls within the broader global alternative investment platform of the firm, which was founded in 1992 by David Bonderman and James Coulter and encompasses private equity, credit, real estate and public equity. Currently, the firm has \$65 billion in AUM and over 700 employees and advisors, including over 350 investments and operating professionals, spread across 17 offices worldwide, including six in the US in addition to international locations in Europe, Asia, Australia and South America. TPG Growth will invest primarily in North America and Asia, and will be weighted toward sectors including industrials, business services, transportation, retail and consumer products, technology, and healthcare services; and make control and growth equity investments with governance rights, while also considering select investments in early-stage opportunities.

Existing and Prior Funds

Funds	Vintage Year	Strategy	Returns as of 6/30/2014
Fund I	2007	Buyout	13.78% Net IRR, 1.62x Net TVPI, 0.64x Net DPI
Fund II	2011	Buyout	33.22% Net IRR, 1.37x Net TVPI, 0.05x Net DPI

Net IRR = Internal Rate of Return; Net TVPI = Total Value to Paid-In; Net DPI= Distributions to Paid-In

Vehicle Information:

Inception:	2015	Auditor:	KPMG LLP,
Fund Size (\$mil.):	\$3.0 billion	Legal Counsel:	Cleary Gottlieb Steen & ...
Management Fee:	A blended rate of 1.66% during the commitment period		
Carry:	20%, or 25% if the Fund as a whole achieves over a 2.5x multiple and a 20% net IRR		
Hurdle Rate:	8%		
Fee Offset:	100% offset		

NJ AIP Program

Recommended Allocation (\$mil):	up to \$150,000,000	LP Advisory Board Membership:	Yes
% of Fund:	5%	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	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.