



State of New Jersey

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September 29, 2017

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in TPG Growth IV, L.P. & The Rise Fund**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$125 million to TPG Growth IV, L.P. and up to a \$75 million commitment to The Rise Fund, both of which will be managed by TPG Growth. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

TPG Growth is the small- and middle-market growth equity and buyout platform of TPG. Both TPG Growth IV and The Rise Fund will be managed by the same investment team utilizing the same disciplined underwriting standards, but the Rise Fund will be the exclusive vehicle for impact investments. These two funds present an attractive opportunity to expand the Division’s relationship with TPG Growth, one of the top-performing relationships in the Division's Private Equity Portfolio. The Division has been a “Day One” investor with TPG Growth, having committed to each of their past three funds.

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

Strong Performance versus Benchmarks: TPG Growth funds have consistently generated attractive performance through various market cycles, exceeding the relevant benchmark returns with each fund. As of 6/30/17, TPG Star, a \$1.3bn 2007 vintage fund, is marked at a net 10.6% Internal Rate of (“IRR”), 1.5x Total Value to Paid-In (“TVPI”), while TPG Growth II, a \$2.0bn 2011 vintage fund, is marked at a net 25% IRR, 2.0x TVPI. TPG Growth III, a \$3.1bn 2015 vintage fund, is still early in its life but is showing promising results with a net 13.7% IRR and 1.1x TVPI. Prior to the founding of the dedicated Growth platform in 2007, TPG had an established track record of small- and middle-market growth equity and buyout investing, having previously invested \$2.2 billion in transactions below \$100 million, ultimately creating \$8.7 billion in total value, representing a nearly 4.0x multiple of cost.

Experienced Investment Team: TPG Growth IV: TPG Growth is comprised of 57 dedicated investment professionals, including 11 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.

The Rise Fund: Senior Rise leadership team is comprised of experienced TPG professionals supported by the same investment team that is responsible for TPG Growth investments and supplemented by “Impact Sector Experts” across targeted industries. In addition, Rise will leverage TPG global resources, Elevar, and The Bridgespan Group and has its own separate “Founders’ Board” comprised of leading public figures such as Laurene Powell Jobs, Bono, Mo Ibrahim, etc.

Business Building Expertise: TPG has 53 individuals across the firm focused on the operational and business building aspects of its portfolio companies. The team is specialized across sectors and functions (such as human capital, digital engagement) and has been successful in driving portfolio level value creation by upgrading and partnering with management on core operational initiatives to help build and grow their businesses.

Disciplined Investment Approach: TPG has remained disciplined in adhering to its small- and middle-market focus, targeting companies under \$1 billion in enterprise value. Growth IV’s targeted fund size of \$3 billion (consistent with Fund III) allows the team ample flexibility to pursue both growth and small/middle market transactions, while TPG’s flagship buyout funds provide 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. The Rise Fund will maintain TPG Growth’s measured approach to financial underwriting and deal execution, while the analytical “multiple of impact” test provides a quantifiable approach to disciplined impact investing.

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, skillsets and assets, which the TPG Growth team leverages to produce differentiated deal flow and drive superior risk-adjusted investment returns.

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

Division Staff and its private equity consultant, TorreyCove Capital Partners 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 IV, L.P. & The Rise Fund 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 September 20, 2017. 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 October 4, 2017 meeting.

Attachments

Fund Name: TPG Growth IV, L.P.

September 29, 2017

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

Fund Details:

Firm AUM (\$bil.):	\$73 billion	<p>Key investment professionals: William McGlashan Jr., 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. Matt Hobart, 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. Ransom Langford, 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. Scott Gilbertson, 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. Steve Ellis, Managing Partner of TPG’s Global Operations and Business Building Group based in San Francisco. Prior to joining the firm in 2015, Mr. Ellis served as CEO of Asurion, the world’s leading provider of technology protection services with over \$6 billion in revenue and 16,000 employees. Prior to joining Asurion, Mr. Ellis spent nearly 20 years with Bain & Company, where he served as Worldwide Managing Director (CEO) from 2005 to 2012.</p>
Strategy:	Buyout	
Year Founded:	1992	
Headquarters:	San Francisco, CA	
GP Commitment:	at least 2 % of LP commitments	

Investment Summary	Existing and Prior Funds			
<p>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.</p> <p>TPG Growth IV is the primary investment vehicle for global small- and middle-market growth equity and buyout investments. Similar to the prior Growth funds, Fund IV will pursue both control and non-control investments in small and middle market growth equity and buyout opportunities across a variety of sectors primarily in the U.S. and Asia and opportunistically in other developing markets. Growth IV will continue the strategy of targeting growth equity investments and invest in middle-market opportunities, while selectively considering later-stage venture investments.</p>				
	<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of 6/30/2017</i>
	Fund I	2007	Buyout	10.6% Net IRR, 1.53x Net TVPI, 1.07x DPI
	Fund II	2011	Buyout	25.0% Net IRR, 2.00x Net TVPI, 0.40x DPI
	Fund III	2015	Buyout	13.7% Net IRR, 1.08x Net TVPI, 0.18x DPI
	IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI= Distributions to Paid-In			

Vehicle Information:

Inception:	2017	Auditor:	KPMG LLP,
Fund Size (\$mil):	\$3.0 B target/\$3.5 B hard cap	Legal Counsel:	Cleary Gottlieb Steen & Hamilton LLP and Morris, Nichols, Arshst & Tunnel
Management Fee:	1.75% of capital commitments during the commitment period; thereafter, or when management fees begin to accrue for a successor fund, 1.25% of actively invested capital.		
Carry:	20%; 25%*		
Hurdle Rate:	8%		
Additional Expenses:	100% management fee offset		

*20% if an LP achieves a cumulative Multiple of Money (“M-o-M”) net of management fee, Carried Interest and fund expenses (the “Net M-o-M”) of less than 2.5x; or • 25% if an LP achieves a cumulative Net M-o-M of 2.5x or greater and a Net IRR of 20% or greater

NJ AIP Program			
Recommended Allocation (\$mil):	up to \$125 million	LP Advisory Board Membership:	Yes
% of Fund:	3.57% (based on \$3.5B Fund size)	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.

Fund Name: The Rise Fund

September 29, 2017

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

Fund Details:

Firm AUM (\$bil.):	\$73 billion	Key investment professionals: William McGlashan Jr. , 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. Mike Stone , CIO of The Rise Fund. He is also the Founder & Managing Partner of FS Investors, which is his family office where he makes personal investments. Previously, he was Founder and non-executive Chairman of J.H. Whitney Investment Management, LLC, which focused on Asia-based hedge funds and prior to that, he was a management consultant with Bain & Company. Maya Chorengel , The Rise Fund Impact Partner based in San Francisco. Ms. Chorengel leads the impact assessment of The Rise Fund. Prior to joining the firm in 2017, she co-founded Elevar Equity in 2008, a premium venture firm focused on impact investing. Prior to Elevar, Ms. Chorengel was Managing Director of the Dignity Fund, a private investment fund where she structured and completed local currency debt financings for high-growth microfinance institutions on four continents and prior to the Dignity Fund, she was at Warburg Pincus, a leading, global private equity investor. Steve Ellis , Managing Partner of TPG’s Global Operations and Business Building Group based in San Francisco. Prior to joining the firm in 2015, Mr. Ellis served as CEO of Asurion, the world’s leading provider of technology protection services with over \$6 billion in revenue and 16,000 employees. Prior to joining Asurion, Mr. Ellis spent nearly 20 years with Bain & Company, where he served as Worldwide Managing Director (CEO) from 2005 to 2012.
Strategy:	Buyout	
Year Founded:	1992	
Headquarters:	San Francisco, CA	
GP Commitment:	at least 2 % of LP commitments	

Investment Summary	Existing and Prior Funds			
The Rise Fund, L.P. (the “Fund”) is being launched by TPG to serve as the Firm’s primary investment vehicle for small buyout, venture capital, and growth investments in companies whose core strategies generate positive social and environmental impact. The Fund is being anchored by TPG Growth, TPG’s small- and middle-market growth equity and buyout platform. The Rise Fund will invest in growth, venture capital and small buyout investment opportunities that the team believes have a measurable social or environmental impact inherent in their operations. Geographically, the Fund will invest across developed, emerging, and frontier markets	<i>TPG Growth</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of 6/30/2017</i>
	Fund I	2007	Buyout	10.6% Net IRR, 1.53x Net TVPI, 1.07x DPI
	Fund II	2011	Buyout	25.0% Net IRR, 2.00x Net TVPI, 0.40x DPI
	Fund III	2015	Buyout	13.7% Net IRR, 1.08x Net TVPI, 0.18x DPI
IRR = Internal Rate of Return; DPI= Distributions to Paid-In				

Vehicle Information:

Inception:	2017	Auditor:	KPMG LLP,
Fund Size (\$mil.):	\$2.0 billion	Legal Counsel:	Cleary Gottlieb Steen & Hamilton LLP and Morris, Nichols, Arsht & Tunnel
Management Fee:	1.75% of capital commitments during the commitment period; thereafter, or when management fees begin to accrue for a successor fund, 1.25% of actively invested capital.		
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	100% management fee offset		

NJ AIP Program

Recommended Allocation	up to \$75 million	LP Advisory Board Membership:	Yes
% of Fund:	3.75%	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.