



State of New Jersey

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ELIZABETH MAHER MUOIO
State Treasurer

COREY AMON
Acting Director

November 23, 2018

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Acting Director

SUBJECT: **Proposed Investment in The Rise Fund II**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$125 million in The Rise Fund II (“Fund” or “Rise”). This memorandum is presented to the State Investment Council (“Council”) pursuant to N.J.A.C. 17:16-69.9.

The Fund is part of the TPG Growth platform of funds. The Fund will continue the predecessor Rise Fund’s strategy of pursuing both controlling and non-controlling stakes in small- and middle-market buyout and growth equity companies that operate in a variety of sectors and geographies, provide strong risk-adjusted returns, and achieve measureable social impact and/or environmental benefits.

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

Strong performance: Since 2007, the five funds across the TPG Growth platform have generated a 15.2% net IRR and a 1.5x net TVPI with a loss ratio of 7.5%. The three mature funds across the Growth platform – STAR, Growth II, and Growth III – all rank in either the first or second quartile on a net IRR, TVPI, and DPI basis.

Experienced and stable team: TPG Growth/Rise group of 79 dedicated investment professionals, including 20 business building professionals, represents one of the largest and most experienced teams among firms competing for small- and middle-market buyout, and growth equity investment opportunities. TPG Growth/Rise professionals’ diverse skill set is critical to supporting the assessment of wide ranging opportunities and adding strategic value to investments. The team creates and adds value by accelerating growth across 83 investments and through 130 board seats. The team maintains board representation on ~75% of the private portfolio companies.

Differentiated Sector Expertise and Collaboration across the TPG Organization: The Rise team has specialized investment expertise in the Healthcare, Education, Financial Services, Energy, Technology and Food and Agriculture sectors. TPG’s vast resources are differentiated and provide

significant competitive advantages in sourcing investments and operating portfolio companies in the small- and middle-markets. TPG's global footprint, expert resources, and collaborative culture create an integrated investment platform that spans geographies, skill sets, and sectors. In addition, the Fund will draw on the resources of the Founders' Board. The Founders' Board is a collection of influential thought leaders, who have demonstrated a personal and professional commitment to driving societal progress. The Founders' Board will help in prioritizing areas of impact for Rise, identifying specific investment opportunities in high-impact businesses, facilitating strategic outcomes for the portfolio companies, and ensuring that the portfolio is driving meaningful results.

Ability to Deliver Returns in a Robust Framework: Rise actively manages financial and impact metrics before, during, and after each investment. The Fund determines in conjunction with each investment the Key Performance Indicators for impact. The Fund, with Rise Labs, is pioneering evidence-based impact investing. Rise Labs is a TPG affiliate whose mission is to increase the amount and effectiveness of capital allocation, utilizing independent research on outcomes to assess the impact of investments.

Environmental, Social, and Governance (ESG) Policy: TPG's Sustainability and ESG Program supports the firm's long-standing consideration of environmental, health and safety, and governance practices in due diligence, investment decisions, and operations. TPG is committed to incorporating sustainability and ESG considerations into its investment diligence and decision-making processes, ensuring that sustainability and ESG practices are implemented and that measurable results are achieved in its companies and operations, and striving for greater transparency from its companies. TPG retains dedicated ESG experts, has a Managing Director lead the sustainability program with a team of three individuals, and deploys external resources as needed for due diligence and portfolio company initiatives. Every portfolio company is asked to establish ESG policies, participate in the TPG Sustainability/ESG Leadership Council, complete an ESG Performance Self-Assessment, and measure and report on the progress of its goals and action plans

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.

Staff 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. In accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4), a preliminary Disclosure Report of Political Contributions was obtained and no political contributions have been disclosed. An updated Disclosure Report will be obtained at the time of closing.

Note that the investment is authorized pursuant to Articles 69 and 90 of the Council's regulations. The Rise Fund II is 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 November 20, 2018. 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 November 29, 2018 meeting.

Attachment

Fund Name: The Rise Fund II **November 23, 2018**

Contact Info: Meghan Reynolds, 888 7th Avenue, 35th Floor, New York, NY, 10106

Fund Details:		<p>Key investment professionals: William McGlashan Jr., Founder and Managing Partner of TPG Growth, Co-Founder and CEO of The Rise Fund 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 Member of FS Investors, a private investment entity with a long term, captive pool of capital. Previously, he was Founder and non-executive Chairman of J.H. Whitney Investment Management, LLC, and retired Managing Partner and President of J.H. Whitney & Co., a diversified manager of alternative investment assets and the country’s first venture capital firm. Prior to that, he was a management consultant with Bain & Company. Maya Chorengel, Senior Partner who serves as the Impact and Financial Services Sector Lead at The Rise Fund. In addition to her investment role, she also serves on the Industry Advisory Council of the US National Advisory Board on Impact Investing. Ms. Chorengel has over 20 years of private equity, venture capital, and impact investing experience in the US and emerging markets. Steve Ellis, Senior Partner TPG Growth and Rise Business Building Group. 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>
Firm AUM (\$bil):	\$95 billion	
Strategy:	Buyout	
Year Founded:	1992	
Headquarters:	San Francisco, CA	
GP Commitment:	At least 2% of the Fund's commitments	

Investment Summary	Existing and Prior Funds																								
<p>The Rise Fund II will continue the initial fund’s strategy of pursuing both controlling and non-controlling stakes in small- and middle-market buyout and growth equity companies that operate in a variety of sectors and geographies.</p> <p>The Fund will serve as the primary TPG investment vehicle for small- and middle-market buyout and growth equity investment opportunities that provide strong risk-adjusted returns and achieve measureable social impact and/or environmental benefits. TPG will deploy a thematic approach to addressing pressing societal challenges and a deep commitment to robust impact assessment. To achieve this effectively the potential impact of every investment will be assessed with the same rigor and objectivity as TPG’s financial analyses. The Fund will focus on four core sectors: Healthcare, Education, Financial Services and Energy and it will also source and explore opportunities in three secondary sectors: Food & Agriculture, Technology, and Growth Infrastructure.</p>	<table border="1"> <thead> <tr> <th><i>Funds</i></th> <th><i>Vintage Year</i></th> <th><i>Strategy</i></th> <th><i>Returns as of 06/30/2018</i></th> </tr> </thead> <tbody> <tr> <td>STAR</td> <td>2007</td> <td>Buyout</td> <td>10.0% Net IRR, 1.53x Net TVPI, 1.22x Net DPI</td> </tr> <tr> <td>GROWTH II</td> <td>2011</td> <td>Buyout</td> <td>19.6% Net IRR, 1.91x Net TVPI, 0.66x Net DPI</td> </tr> <tr> <td>GROWTH III</td> <td>2015</td> <td>Buyout</td> <td>27.7% Net IRR, 1.31x Net TVPI, 0.13x Net DPI</td> </tr> <tr> <td>RISE I</td> <td>2017</td> <td>Buyout</td> <td>N/A Net IRR, N/A Net TVPI, N/A Net DPI</td> </tr> <tr> <td>GROWTH IV</td> <td>2017</td> <td>Buyout</td> <td>N/A Net IRR, N/A Net TVPI, N/A Net DPI</td> </tr> </tbody> </table> <p>IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI= Distributions to Paid-In</p>	<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of 06/30/2018</i>	STAR	2007	Buyout	10.0% Net IRR, 1.53x Net TVPI, 1.22x Net DPI	GROWTH II	2011	Buyout	19.6% Net IRR, 1.91x Net TVPI, 0.66x Net DPI	GROWTH III	2015	Buyout	27.7% Net IRR, 1.31x Net TVPI, 0.13x Net DPI	RISE I	2017	Buyout	N/A Net IRR, N/A Net TVPI, N/A Net DPI	GROWTH IV	2017	Buyout	N/A Net IRR, N/A Net TVPI, N/A Net DPI
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Vehicle Information:

Inception:	2019	Auditor:	KPMG LLP,
Fund Size (\$mil.):	\$3.5 billion Hard Cap	Legal Counsel:	Cleary Gottlieb Steen & Hamilton LLP and Morris, Nichols, Arsht & Tunnel
Management Fee:	During the commitment period: 1.75% on committed capital; Following the commitment period: 1.25% on actively invested capital; During any extensions 0.50% on actively invested capital.		
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	100% fee offset of portfolio fees and operational services expenses		

NJ AIP Program

Recommended Allocation (\$mil):	up to \$125 million	LP Advisory Board Membership:	Yes
% of Fund:	3.57%	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.