



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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State Treasurer

October 5, 2012

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in TPG/NJ Partnership, L.P. Fund**

The New Jersey Division of Investment ("Division") is proposing an investment of \$350 million in TPG/NJ Partnership, L.P. Fund. 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:

Strength of the Real Estate Team and Global TPG Platform

TPG Real Estate ("TPG RE") is able to leverage a large network of resources within the broader TPG Holdings organization. TPG is highly focused on growing the TPG RE platform, as evidenced by the TPG RE investment review committee ("IRC") containing members of the Firm's senior leadership (Messrs. Bonderman, Coulter and Coslet). The team also benefits from a 60-member operations team to assist with due diligence. Specific to the TPG RE team, TPG was able to attract high caliber talent from well-regarded real estate organizations such as Colony Capital (Kelvin Davis), Westbrook Partners (Avi Banyasz), Morgan Stanley (Robert Weaver) and General Growth Properties (Adam Metz), among others.

Current Portfolio's Performance/Prior Track Record

To date, TPG RE has invested approximately \$1 billion of equity in five transactions. Additionally, it should be noted that prior to the formation of TPG RE in 2011, the Firm pursued numerous corporate buyout transactions with significant real estate components. The investments have performed as well as (or better than) original underwriting and are currently marked at 1.3x gross multiple of invested equity. It is important to note that had this track record been that of a commingled fund, it would place as a Top-Quartile performer relative to its peers of the same vintage year. The Division also takes comfort in the Top-Quartile track record of each of the senior level team members at their previous firms.

Differentiated Investment Strategy

A major advantage of investment in the Fund would be its primary focus on growing platform investments in real estate-related operating businesses, which differs from the vast majority of the Division's real estate investments made to-date that are focused on investment in single

assets or portfolios of assets. Corporate platform transactions are subject to less competitive bidding than are single assets and offer more flexible financing and exit opportunities.

Favorable Terms

The Division has been able to negotiate an attractive fee schedule for the Fund, including a management fee of 95 basis points on invested capital only and a reduced catch-up rate of 30% to TPG over the preferred return of 8%. The Division also has been offered the opportunity to review all investments made by the Fund prior to allocating capital.

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

Division staff and its real estate consultant, R.V. Kuhns and Associates, Inc., 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. In addition, the proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that the investment is authorized pursuant to Articles 69 and 71 of the Council's regulations. The TPG/NJ Partnership, L.P. Fund will be considered a non-core real estate investment, as defined under N.J.A.C. 17:16-71.1.

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 October 1, 2012. 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 11, 2012 meeting.

Attachments

Fund Name: TPG/NJ Partnership, L.P. **October 11, 2012**

Contact Info: Robert Weaver, 888 7th Avenue, 38th Floor, New York, NY 10106

Fund Details:

Total Firm Assets (\$bil.):	\$51.5 billion	Key Investment Professionals: Kelvin Davis, Partner: Mr. Davis is a Partner and a member of the Firm’s Management Committee. From 2000 to 2009, Mr. Davis led TPG’s North American Buyout Group. Prior to joining TPG in 2000, Mr. Davis was President and Chief Operating Officer of Colony Capital, LLC, which he co-founded in 1991. Avi Banyasz, Partner: Prior to joining TPG, Mr. Banyasz served as a Managing Principal of Westbrook Partners for 13 years. Robert Weaver, Partner: Prior to joining TPG, Mr. Weaver had a 20 year career at Morgan Stanley as a Managing Director of Morgan Stanley’s Private Capital Markets Group	
Strategy:	Non-Core Real Estate		
Year Founded:	1992		
Headquarters:	New York, NY		
GP Commitment:	4%		

Investment Summary	TPG RE Track Record
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The Fund will invest in a range of real estate-related strategies, focused on both real estate debt and real estate equity. These investments may include, but are not limited to, transactions in private platform, corporate control, public company (e.g., PIPEs, public-to-private transactions, corporate carveouts), and (to a lesser extent) individual real estate asset transactions. Investments will be limited geographically to the United States and Western Europe. The Fund’s investment strategy will be primarily focused on the acquisition of real estate assets through transactions in corporate platforms. This investment strategy differs from that of the majority of funds in the the Division’s real estate portfolio, which are focused on investing in single assets or portfolios of assets, either transacted directly or through an operating partner.

To date, TPG Real Estate has invested approximately \$1 billion of equity in five transactions. The investments have performed as well as (or better than) original underwriting and are currently marked at a 1.3x gross multiple. It is important to note that had this track record been that of a commingled fund, it would place as a Top-Quartile performer relative to its peers of the same vintage year. In addition to the performance just noted, the Division takes comfort in the Top-Quartile track record of each of the senior level team members at their previous firms.

Vehicle Information:

Inception: 2012	Auditor: KPMG
Fund Size (\$mil.): \$350,000,000	Legal Counsel: Cleary, Gottlieb, Steen & Hamilton LLP
Management Fee: .95% on invested capital	Accounting Firm: Internal
Carry: 20%	
Hurdle Rate: 8%	

NJ AIP Program

Recommended Allocation (\$m)	\$350,000,000	LP Advisory Board Membership:	N/A
% of Fund:	96%	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent R	N/A
		Compliance w/ SIC Political Contribution R	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.