



State of New Jersey

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DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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State Treasurer

May 9, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investments in TPG Specialty Lending, Inc.**

The New Jersey Division of Investment is proposing an investment of \$200 million to TPG Specialty Lending, Inc. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

The Division of Investment ("Division") Staff and its private equity consultant, Strategic Investment Solutions, undertook extensive due diligence on these proposed additional investments. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

Staff believes that now is an opportune time to take advantage of the significant supply/demand imbalance of loans being originated to middle-market businesses. Since 2008, traditional lenders to the middle-market such as commercial and investment banks have left or significantly downsized their lending capacity due to balance sheet and regulatory issues, creating opportunity for lenders such as TSL. Moreover, while we believe that current market conditions favor extending credit to middle-market companies in the U.S., the investment strategy is intended to generate favorable returns across credit cycles with an emphasis on preserving capital.

TPG Specialty Lending (TSL), Inc. is being formed to lend to middle-market companies in the United States. TSL will make standalone first lien loans, standalone second lien loans, mezzanine loans/structured equity, "uni-tranche" loans, and selectively will invest in the equity of portfolio companies through warrants and other instruments, in most cases taking such upside participation interest as part of an overall lending relationship. TSL's investment objective is to generate both current income and capital appreciation by targeting investment opportunities with favorable risk-adjusted returns. The characteristics of a middle-market company within TSL's strategy would be one looking to grow organically, make acquisitions, expand in a given market or product, or to recapitalize. These companies would typically have annual EBITDA of \$10 million to \$250 million.

TSL has elected to be treated as a business development company (BDC) under the U.S. Investment Company Act of 1940, and will be managed by a team of investment professionals, led by Co-Chief Investment Officers Alan Waxman and Josh Easterly, CEO Mike Fishman and others who have substantial experience in credit origination, including Goldman Sachs Specialty Lending Group and Wells Fargo Capital Finance. It should also be noted that the private phase fees (management fee - .25% on undrawn commitments and .75% of aggregate capital drawn in any period, carry - 15% with a 6% hurdle rate) are attractive in comparison to similar public and private vehicles.

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 each investment. In addition, each proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that these investments are authorized pursuant to Articles 23 and 63 of the Council's regulations. The TPG Specialty Lending, Inc. will be considered bank loan fund investments, as defined under N.J.A.C. 17:16-23.1.

Formal written due diligence reports for the proposed investments were sent to each member of the Investment Policy Committee and a meeting of the Committee was held on May 5, 2011. In addition to the formal written due diligence reports, all other information obtained by the Division on the investment was made available to the Investment Policy Committee.

We look forward to discussing the proposed investments at the Council's May 19, 2011 meeting.

Attachments

***SIC Investment Committee Fund Review Memo**

To: State Investment Council
From: SIC Investment Committee
Date: May 19, 2011
Subject: TPG Specialty Lending, Inc. ("TSL") Recommendation

Fund Facts

Fund Name:	TPG Specialty Lending, Inc.
Fund Type:	Business Development Company; Middle-Market Lending
Expected Fund Size:	\$750 million - \$1 billion
Previous Fund Size/Vintage:	N/A
Final Close:	TBD
Fund Address:	345 California St., Suite 3300 San Francisco CA 94104

GP Contact Info

Name:	Alan Waxman
Telephone:	415-486-5959
Email:	awaxman@tpg.com

Summary of Terms and Investment Strategy

Investment Strategy:	TSL will lend to middle-market companies in the US. TSL will make "uni-tranche" loans, standalone first and second lien loans, mezzanine loans/structured equity, and selectively will invest in the equity of portfolio companies through warrants and other instruments. TSL's investment objective is to generate both current income and capital appreciation by targeting investment opportunities with favorable risk-adjusted returns.
Geographic Focus:	United States
Adviser's Commitment	\$52.4 million
Terms:	As a BDC, TSL can be defined as permanent capital. If TSL has not consummated an IPO of its common stock within six years following the initial closing, its board of directors (subject to any necessary stockholder approvals and applicable requirements of the 1940 Act) will use its best efforts to wind down and/or liquidate and dissolve the Company.
Term:	
Investment period:	Four years from initial closing date.
Management Fee:	Pre-IPO, 0.25% of undrawn commitments and 0.75% of aggregate capital drawn in any period. If taken public (IPO), 1.5% of gross assets.
Other Fees:	All deal fees and related fee income generated from portfolio company investments, will remain inside TSL and will accrue to the benefit of its shareholders. Therefore, there will not be any fees paid to the Adviser that are eligible to offset management fees.
Carry/Performance Fee:	15% in private phase and 17.5% in public phase of total net investment income, over a 1.5% quarterly (6% annual) non-cumulative hurdle; 100% catch-up. 15% in private phase and 17.5% in public phase of cumulative capital gains from inception with a lifetime high water mark.
Hurdle Rate:	1.5% quarterly (6% annual) non-cumulative on net investment income. Life-time high water mark tied to cumulative capital gains.
Attorney:	Cleary Gottlieb Steen & Hamilton LLP and Sutherland Asbill & Brennan LLP
Auditor:	KPMG
Accounting Firm:	NA - Internal function

NJ AIP Program:

Recommended Allocation:	\$200 million
% of Fund:	N/A

LP Advisory Board Membership:	As a BDC, TSL does not have a traditional Limited Partner advisory board. TSL's investment activities and business are supervised and managed under the direction of its majority independent board of directors.
Consultant Recommendation:	Yes
Compliance with SIC "Pay to Play" 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.