



State of New Jersey

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ELIZABETH MAHER MUOIO
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SHOAIB KHAN
Acting Director

November 8, 2021

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Acting Director

SUBJECT: **Private Credit Investment - Sixth Street Growth Partners II
and Sixth Street Mid-Stage Growth Partners**

The Division of Investment (the “Division”) is proposing a commitment of up to \$150 million to be split between Sixth Street Growth Partners II (“Growth II”) and Sixth Street Mid-Stage Growth Partners (“Mid-Stage,” and together with Growth II, the “Funds”), both to be managed by Sixth Street Partners, LLC (“Sixth Street” or the “Firm”). 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:

The Firm is an institutional-quality private capital investment manager: Sixth Street is a leading private capital investment manager founded in 2009 with greater than \$52 billion in assets under management (“AUM”) across nine diversified investment platforms with 350 total employees, of which 170 are investment professionals dedicated to private capital investing. The Pension Fund has been successfully invested with Sixth Street since 2012, committing over \$1 billion to the Firm's investment platform across five different fund vehicles.

The Firm has an experienced investment team working together investing in growth debt: Since the late 1990's, multiple members of the Funds' investment team have been investing in the growth debt strategy that ultimately led to the creation of Growth II and its predecessor fund. Alan Waxman (Co-founder, CEO, and CIO of Sixth Street), Mike McGinn (co-head of Sixth Street Growth) and twelve of the twenty investment partners at the Firm worked together at a prior firm investing in growth debt, and the investment team as a whole has worked together an average of eleven years. Overall, the Firm's investment team has one of the longest track records investing in the growth debt investment strategy.

The Firm has a strong track record investing in growth debt: The Firm has been investing in the growth debt investment strategy across the Sixth Street platform since 2013 and has committed \$5.9 billion across 55 investments generating a gross IRR of 27.3% with no realized losses. In

2018, the Firm launched its first dedicated fund focused on growth debt, which has generated a 28.2% net IRR with a 1.47x net MOIC in the offshore Growth I fund as of June 30, 2021.

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

Division Staff and its consultant, Aksia LLC, 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 Firm has not engaged a third-party solicitor (“placement agent”) in the fundraising of the Funds.

The Firm’s environmental, social, and governance (“ESG”) policy and related diligence disclosures were reviewed by the Division’s Corporate Governance team in accordance with the Council’s ESG Policy. Sixth Street implemented a new Responsible Investment Policy following its separation from TPG and issued an updated policy in July 2020. The Responsible Investment Policy calls for the Firm to assess both ESG matters and financial criteria when making investments. Further, where possible, and when appropriate, the Firm seeks to use its influence to promote sustainable business practices in the companies in which it invests. Sixth Street’s Responsible Investment Policy sets different expectations based on the level of ownership, control, and influence that the Firm exerts over the companies in which it invests (note that the Funds are not expected to have control positions). The Firm’s Investment Committee assesses ESG issues and how to manage them during the deal underwriting process, while deal teams monitor and report relevant ESG findings to the ESG Oversight Committee on an annual basis or as material issues arise. Sixth Street is a signatory to the UN PRI.

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. A preliminary Disclosure Report of Political Contributions has been obtained in accordance with the Council’s regulation governing political contributions (N.J.A.C. 17:16-4), 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 23 and 69 of the Council’s regulations. The Funds are considered private credit investments, as defined under N.J.A.C. 17:16-23.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC, and the IPC discussed the investment at its meeting held on November 8, 2021. 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 17, 2021 meeting.

Attachment

Fund Name: Sixth Street Growth Partners II ("Growth II") and Sixth Street Mid-Stage Growth Partners ("Mid-Stage")

November 8, 2021

Contact Info: Kate Thomas, 888 7th Ave., New York, NY 10106

Fund Details:

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| Total Firm Assets: | \$52 billion | Key Investment Professionals: Alan Waxman (Co-Founder, Chief Executive Officer and Chief Investment Officer): Mr. Waxman is a Co-Founder, Chief Executive Officer and Chief Investment Officer of Sixth Street, based in San Francisco. Prior to founding Sixth Street, Mr. Waxman was a Partner at Goldman Sachs and Chief Investment Officer of its largest proprietary investing business. Sixth Street continues an investment philosophy Mr. Waxman and Sixth Street's founding partner group began developing over 20 years ago while building complementary businesses to invest Goldman's capital in public and private markets across the capital structure in companies, assets, and idiosyncratic opportunities. At Goldman, Mr. Waxman founded and led private capital investing franchises in direct lending, growth capital solutions, and alternative energy infrastructure, among others, as well as in public markets multi-strategy investing. He began his career at Goldman Sachs in 1998. Mr. Waxman is a Founding LP of and Strategic Advisor to Concrete Rose, an early-stage investment platform deploying financial and social capital to underrepresented founders of color. Mr. Waxman and other Sixth Street team members began advising Concrete Rose leadership on the firm's formation in 2018 and Sixth Street is a Founding Strategic Partner. Robert ("Bo") Stanley (Partner based in Austin and Co-Head of Sixth Street Growth): Mr. Stanley is a Partner of Sixth Street based in Austin and Co-Head of Sixth Street Growth, which is the firm's platform for providing customized, non-control private capital for growth-oriented companies. Mr. Stanley focuses on originating transactions in the software, payment systems, data infrastructure, and business services sectors. Representative portfolio companies include AvidXchange, Kaseya, Lucidworks, PayScale, and SmartDrive. Prior to joining Sixth Street in 2011, Mr. Stanley was with Wells Fargo Capital Finance, where he served in multiple roles providing specialized financing to companies throughout the U.S. and Canada. Michael McGinn (Partner based in New York and Co-Head of Sixth Street Growth): Mr. McGinn is a Partner of Sixth Street based in New York and Co-Head of Sixth Street Growth, which is the firm's platform for providing customized, non-control private capital for growth-oriented companies. Prior to joining Sixth Street, Mr. McGinn was a Managing Director in AmSSG at Goldman Sachs, which he joined in 2006. From 2013 through 2018, Mr. McGinn was co-head of PCI, AmSSG's growth capital business. Prior to co-heading PCI, Mr. McGinn worked in AmSSG's Multi-Strategy Investing Group and Specialty Lending Group. Before joining AmSSG, Mr. McGinn worked in Goldman Sachs Global Investment Research Division. Mr. McGinn received a B.B.A. in Finance and Business Economics, magna cum laude, from the University of Notre Dame. |
| Strategy: | Private Credit | |
| Year Founded: | 2009 | |
| Headquarters: | San Francisco, CA | |
| GP Commitment: | 1.5% to Growth II 1.5% to Mid-Stage | |

| Investment Summary | Existing and Prior Funds | | | | | | | | | | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------------------------|----------|-------------------------|--------------|------|-------------|-------------------------------|--------------|------|-------------|-------------------------------|
| Sixth Street Growth Partners II will focus on the purchase or origination of investments in performing, late-stage growth companies in the software/technology sectors. Target companies will generally have at least \$50 million in revenues, with a focus on recurring revenue businesses. Investments will generally consist of equity-oriented transactions, hybrid debt and equity investments, or debt-focused investments. Returns are expected to be back-ended given the growth-orientation of the strategy. While some investments are expected to offer cash pay interest, returns will generally skew towards paid-in-kind ("PIK") and equity-type exposures. Sixth Street Mid-Stage Growth Partners will generally be pursuing the same investment strategy as Growth II, with largely the same investment team, investment process, and investment committee. However, compared to Growth II, the vehicle will focus on companies that are smaller and earlier in their life cycle, thus requiring less capital and having a longer runway to expected investment realization. | <table border="1"> <thead> <tr> <th>Funds</th> <th>Vintage Year</th> <th>Strategy</th> <th>Returns as of 6/30/2021</th> </tr> </thead> <tbody> <tr> <td>Growth I (A)</td> <td>2018</td> <td>Growth Debt</td> <td>27.1% Net IRR; 1.53x Net MOIC</td> </tr> <tr> <td>Growth I (B)</td> <td>2018</td> <td>Growth Debt</td> <td>28.2% Net IRR; 1.47x Net MOIC</td> </tr> </tbody> </table> <p>Source of Returns = Sixth Street IRR= Internal Rate of Return; MOIC= Multiple of Invested Capital</p> | Funds | Vintage Year | Strategy | Returns as of 6/30/2021 | Growth I (A) | 2018 | Growth Debt | 27.1% Net IRR; 1.53x Net MOIC | Growth I (B) | 2018 | Growth Debt | 28.2% Net IRR; 1.47x Net MOIC |
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Vehicle Information:

| | | |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Inception: | 2021 | |
| | Sixth Street Growth Partners II | Sixth Street Mid-Stage Growth Partners |
| Target Fund Size: | \$3.4 billion | \$750 million |
| Management Fee: | During Investment Period: 1.25% on unused commitments / 1.50% on invested capital After Investment Period: 1.50% on the lower of invested capital or NAV | During Investment Period: 0% on unused commitments / 1.25% on invested capital After Investment Period: 1.25% on the lower of invested capital or NAV |
| Carry: | 20% | 20% |
| Hurdle Rate: | 8% | 8% |

Auditor: KPMG LLP
Legal Counsel: Cleary, Gottlieb, Steen & Hamilton LLP

| NJ AIP Program | | | |
|--------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Recommended Allocation: | up to \$100 million to Growth II up to \$50 million to Mid-Stage | LP Advisory Board Membership: Consultant Recommendation: Placement Agent: Compliance w/ Division Placement Agent Policy: Compliance w/ SIC Political Contribution Reg: | YES |
| % of Targeted Fund Size: | 2.94% of Growth II 6.67% of Mid-Stage | | YES |
| | | | NO |
| | | | N/A |
| | | | 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.