

Recommendation for TPG AG Credit Solutions Fund III

To: RISIC
Prepared: August 6, 2024
From: George Bumeder, Managing Director

The purpose of this memo is to provide the RISIC with a summary of Cliffwater's recommendation on TPG AG Credit Solutions Fund III (the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Fund as part of ERSRI and OPEB's Private Equity allocations.

Summary of TPG Angelo Gordon

Fund Overview: The Fund will primarily pursue investments in debt securities, namely first- and second-lien bank debt and secured and unsecured bonds and will target investments across three strategies: i) opportunistic public, ii) public solutions, and iii) private solutions, targeting a 14%+ net return with a 7-8% annualized yield.

People and Organization: Angelo, Gordon & Co. ("Angelo Gordon", "AG," or the "Firm") is a global alternative investment management firm with approximately \$80 billion under management across four investment categories – corporate credit, direct lending, structured credit, and real estate. The Firm has over 700 employees with 228 investment professionals spread across 12 offices globally. The firm was founded with three strategies across distressed debt and convertible and merger arbitrage, in which the team had 15 years of prior experience. The Credit Solutions platform was launched in 2019 when Ryan Mollett joined the Firm from GSO/Blackstone. On May 15, 2023, Angelo Gordon announced that it will be acquired by TPG, Inc. ("TPG") in a cash and equity transaction valued at approximately \$2.7b, which closed in Q4 2023. The Angelo estate and Michael Gordon owned about 52% of the firm, with about 100 senior employees owning the remaining 48%. Of the \$2.7 billion transaction value, \$730 million was paid in cash with the remainder paid in 53.0 million common units of the TPG Operating Group and 8.4 million restricted stock units of TPG. TPG Angelo Gordon is now the sixth vertical in the TPG organization. The Angelo Gordon Credit Solutions Team ("the Credit Team") is comprised of 27 investment professionals. Since the launch of Fund I, the team has seen rapid expansion with the addition of 10 investment professionals. While turnover on the team has been low, since the closing of Fund II, there have been three departures at the Managing Director level: one in New York and two in London. These individuals were long-standing professionals at Angelo Gordon and were respected as investment professionals, but their style of investing was different than the Credit Solutions style. As Ryan built out the platform and the team, it made sense to replace them with outside hires. The investment team is organized by sector focus, with analysts assigned specific sectors of coverage and responsibility. Members of the Credit Solutions team benefit from the broader resources of TPG AG across the spectrum of private and public credit. They regularly interact with their counterparts from the performing credit, structured credit, middle-market direct lending and real estate groups. Many of the PMs and investment professionals of other business lines participate in the Credit Solutions' Investment Committee meetings to provide input and insight into existing positions and potential opportunities.

Investment Strategy and Process: The Fund will primarily pursue investments in companies or idiosyncratic situations in which TPG Angelo Gordon may leverage its structuring skill and capital base to develop bespoke, bilaterally negotiated financing solutions to the benefit of companies and/or owners experiencing complex financial or similar challenges. The Fund may also invest in securities that may be acquired at what the team believes are discounted prices relative to their intrinsic value and offer the potential for

This report reflects information only through the date hereof. Our due diligence and reporting rely upon the accuracy and completeness of financial information (which may or may not be audited by the fund manager) and other information publicly available or provided to us by the fund manager, its professional staff, and through other references we have contacted. We have not conducted an independent verification of the information provided other than as described in this report. Our conclusions do not reflect an audit of the investment nor should they be construed as providing legal advice. Past performance does not guarantee future performance. The information contained herein is confidential commercial or financial information, the disclosure of which would cause substantial competitive harm to you, Cliffwater LLC, or the person or entity from whom the information was obtained, and may not be disclosed except as required by applicable law.

appreciation. The Fund will focus on opportunities primarily in the United States and Europe. The Fund is targeting a 14+% net return, with high cash yield generation estimated at 7% to 8% annualized on average, with income distributed quarterly. At the investment level, the Fund will generally target gross returns of 18% to 20% or greater on individual investments. Depending on the holding period for an investment, the estimated targeted return would infer a gross multiple range of 1.1 to 1.5 times invested capital on average for individual positions. Additionally, the Fund is expected to have a low beta and low correlation relative to equity and credit markets. The Fund will target investments across three strategies: i) opportunistic public, ii) public solutions, and iii) private solutions. The Credit Solutions approach is designed with the flexibility to dynamically pivot between public and private markets depending on market conditions in order to capitalize on the most compelling opportunity set. Exposure is expected to be more weighted toward public markets when spreads are wide and loan and bond prices are discounted and more toward bilaterally-negotiated, privately-structured transactions when spreads are tight and public security prices reflect full value.

Performance: The TPG AG Credit Solutions platform investment track record begins in 2019 with TPG AG Credit Solutions Fund I. Since that time, the team has invested \$12.5 billion across the Credit Solutions Funds. Fund I and Fund II have a net IRR of 12.4% and a net multiple of 1.20x. Fund I and Fund II have an annualized total loss ratio of -0.77% and -1.70%, respectively. Compared to the public markets index, Fund I has outperformed by 4.5% and Fund II is currently outperforming by 1.0%. Fund II is still in its investing period.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund will have a 3 year investment period and a 2 year harvest period plus 1 one-year extension at the General Partner's sole discretion and 1 additional one-year extension unless the Advisory Committee objects. The fund will charge a management fee on a sliding scale from 1.00% to 1.75% dependent on commitment amount (15 bps fee reduction for first closers) on invested net assets, with 100% fee offsets. The Fund will also charge a 20% performance fee subject to an 8.0% preferred return compounded annually and an 80/20 general partner/limited partner catch-up. There will also be a general partner claw back. The general partner will commit at least the lesser of (i) 1.5% of commitments and (ii) \$75 million.

Cliffwater Recommendation

Cliffwater recommends an investment of up to \$50 million to TPG AG Credit Solutions Fund III as part of ERSRI's Private Equity allocation and an investment of up to \$2 million to TPG AG Credit Solutions Fund III as part of OPEB's Private Equity allocation.