STATE OF RHODE ISLAND
OFFICE OF THE GENERAL TREASURER

STAFF RECOMMENDATION: TPG AG CREDIT SOLUTIONS FUND III, L.P.
AUGUST 2024

RECOMMENDATION:

- Rhode Island Employees Retirement Systems Pooled Trust ("ERSRI"): **Approve a commitment of up to $50 million to TPG AG Credit Solutions Fund III, L.P. ("Fund III" or "the Fund").**
- Rhode Island OPEB System Trust ("OPEB"): **Approve a commitment of up to $2 million to Fund III.**

ASSET CLASS: Private Equity (ERSRI), Private Growth (OPEB)

SUB-STRATEGY: Opportunistic Credit

ALLOCATION:

- ERSRI: The Private Equity allocation as of July 31, 2024, is 16.8%, compared to the target of 12.5%. The current pacing plan for the 2024 vintage is $240 million, committed to 5-10 funds at $20-50 million per fund. ERSRI's 2024 vintage commitments will total $238 million pending approval of this recommendation.
- OPEB: The Private Growth allocation as of July 31, 2024, is 1.1%, compared to the target of 5.0%. The current pacing plan for 2024 is $9 million, committed to 5-10 funds at $1-2 million per fund. OPEB's 2024 vintage commitments will total $9.25 million pending approval of this recommendation.

PORTFOLIO FIT:

- ERSRI: The Private Equity allocation primarily consists of buyout strategies, complemented by growth equity, venture capital, and opportunistic credit investments. ERSRI plans to allocate 20-40% of this allocation to these complementary strategies to enhance diversification. Funds managed under an opportunistic credit mandate would represent 7.2% of ERSRI's Private Equity exposure pending approval of this proposed recommendation (see Appendix B).
- OPEB: The Private Growth portfolio allocates to Private Equity and Non-Core Real Estate strategies and is currently ramping up to its target allocation through commitments made in conjunction with ERSRI. Funds managed with an opportunistic credit mandate would represent 6.8% of OPEB's Private Growth exposure and 8.4% of its Private Equity exposure pending approval of this proposed recommendation (see Appendix B).
- Fund III will employ a solutions-based approach to invest in stressed and special situations, aiming for equity-like returns with downside protections through credit instruments. The Fund is designed to operate in all market environments by proactively identifying and partnering with businesses needing customized financing to avoid a default or bankruptcy, leveraging its structuring expertise and capital flexibility to drive positive outcomes. Unlike traditional distressed investing approaches, Fund III does not rely on timing default cycles, value creation through a reorganization, or the increasingly costly and uncertain bankruptcy process, which can take years to resolve. Instead, it engages management teams and owners constructively before becoming distressed, aiming to address issues such as near-term debt maturities, liquidity constraints, or other balance sheet problems. Moreover, the Fund will maintain a consistent deployment by dynamically pivoting between public and private transactions based on the market environment and opportunity set. In a stable environment with tight credit spreads, it will be weighted towards addressing idiosyncratic issues with customized solutions. During broad-based dislocations and higher volatility, the weighting will shift toward public markets.

MERITS:

- Experienced Team: Led by Ryan Mollett, the Credit Solutions team includes investment professionals and legal experts with extensive structuring experience, many of whom pioneered the credit solutions style of investing. Their sector-focused organization enables them to proactively build deep expertise and relationships, offering a competitive advantage over generalist teams.
- Differentiated Investment Strategy: The Credit Solutions platform is designed to generate alpha across various market conditions by consistently targeting bespoke opportunities and flexing into stressed public markets when advantageous. Additionally, the Fund's structure, with a 3-year investment period and a 2-year harvest period, facilitates efficient deployment and return of capital within a shorter timeframe compared to traditional private equity funds.

CONCERNS:

- Rapid Team Build-out: Since Ryan Mollett started developing the Credit Solutions platform in early 2019, 21 of the 25 investment professionals on the team have joined the firm.
  - *Mitigant*: The team's expansion reflets a natural evolution from legacy Angelo Gordon's investment style to Credit Solutions being the firm's flagship fund series for stressed and special situations investments. We are encouraged by the team's consistent ability to attract top senior talent since the strategy's inception, which is further validated by strong performance.
- Growth in Fund Size: Fund III is targeting $4.5 billion of commitments, up from $3.1 billion for Fund II and $1.8 billion for Fund I.
  - *Mitigant*: The Fund's strategy benefits significantly from scale, as more capital allows it to pursue larger, less competitive opportunities and exert greater influence on investment outcomes. Furthermore, we do not anticipate the increase will constrain returns, as Fund I and Fund II each invested over $5 billion and $4 billion, respectively, over their investment periods.

ESG: TPG Angelo Gordon is classified as an ESG Leader.

- ESG: TPG Angelo Gordon formalized its Global ESG Policy in 2012, codifying the assessment of ESG performance during due diligence and supporting portfolio company enhancements. The firm has a dedicated ESG team for integrating ESG processes and providing training, as well as an analytics team that identifies and monitors ESG risks at both the firm and portfolio company level. Additionally, the firm engages with a range of ESG performance-focused organizations, including the Task Force on Climate-Related Financial Disclosures (TCFD) and the United Nations' Principles for Responsible Investment (PRI).
- DE&I: Diversity, Equity and Inclusion is a core value at TPG Angelo Gordon and was embedded at the highest level of the firm with the establishment of its DE&I Council in 2015. The Council collaborates with HR to develop strategies for recruiting both junior and senior talent, while also establishing supportive policies. The firm ensures that DE&I remains a priority for each portfolio company and their respective leadership teams.

FEES: Fees for Fund III align with industry standards and compare favorably to buyout, growth equity and venture capital fee structures.

- Management Fee: Fund III will charge a management fee of 1.40% on invested net assets, inclusive of a first close fee reduction. The management fee will be 100% offset by transaction and other similar expenses.
- Carried Interest: 20% carried interest on a fund-wide basis after an 8% preferred return, with an 80/20 GP/LP catch-up.

APPENDIX A: ERSRI CURRENT OPPORTUNISTIC CREDIT EXPOSURE

Fund	Vintage	Amount Committed	Current NAV	Amount Unfunded	Total Exposure	Capital Called	Capital Distributed
Centerbridge Capital Partners	2006	$15,000,000	$45,975	$1,003,761	$1,049,736	$25,549,048	$43,972,531
MHR Institutional Partners III	2006	$20,000,000	$3,688,423	$3,478,626	$7,167,049	$21,217,143	$25,728,707
WLR Recovery Fund IV	2007	$8,000,000	-	$275,492	$275,492	$7,277,808	$9,715,889
Centerbridge Special Credit Partners II	2012	$25,000,000	$47,957	$2,500,000	$2,547,957	$22,500,000	$23,687,857
Davidson Kempner Distressed Opportunities Fund IV	2018	$50,000,000	$27,444,023	$3,428,402	$30,872,425	$47,425,008	$60,789,547
Clearlake Opportunities Partners II	2019	$30,000,000	$18,956,452	$11,303,832	$30,260,284	$20,566,453	$6,871,531
Davidson Kempner Distressed Opportunities Fund V	2020	$35,000,000	$40,255,415	$3,597,413	$43,852,828	$32,285,046	$2,012,222
Clearlake Flagship Plus Partners	2021	$10,000,000	$8,055,598	$2,714,929	$10,770,527	$9,762,539	$3,326,370
Clearlake Opportunities Partners III	2022	$30,000,000	$6,833,779	$23,101,893	$29,935,672	$6,898,244	$92,978
Total		**$223,000,000**	**$105,327,622**	**$51,404,348**	**$156,731,970**	**$193,481,288**	**$176,197,632**

Source Data as of July 31, 2024

APPENDIX B: PORTFOLIO FIT