TO: Investment Funds Committee
FROM: Kalib Simpson
SUBJECT: TPG AG Credit Solutions SMA
DATE: February 14th, 2025

Recommendation: $200 MM Commitment ($150mm Fund III & up to $50mm co-investments)
Targeted Returns: 13%-15% Net; 1.5x MOIC
Asset Class: Fixed Income – Private Credit
Asset Class Target: 10% for Long-Term Permanent Funds (2025)
Fund Target: $4.5bn
Fund Term: 3-year investment period; 2-year harvest period and two 1-year extension options (GP's discretion)
Management Fee: 0.95% on invested capital
Performance Fee: 15.0% with an 8% preferred return; 80% GP/20% LP catch-up; European waterfall

Summary:

I recommend an investment of up to $200 million in a TPG AG SMA ($150mm invested in TPG AG's Credit Solutions Fund III and up to $50mm invested in co-investments). Structuring this investment as an SMA provides additional benefits and structural flexibility such as very attractive fees relative to similar fund types. The SMA and Fund III will not employ fund level leverage. The co-investment portfolio will target 5-7 deals and all approvals are controlled by staff. Finally, the State will receive a LPAC seat for Fund III. TPG AG's credit solutions funds were founded in 2019 by Ryan Mollett and the fund is the third of the firm's capital solution fund series. TPG AG has $88bn in credit AUM & 27 credit investment professionals. The fund intends to capitalize on the firm's deep knowledge and success in the idiosyncratic credits, publicly traded securities and non-corporate opportunities (i.e. real estate). The team is not reliant on bankruptcies, processes or defaults to generate alpha. This fund series represents a best ideas portfolio that offers the broadest landscape to investors while leveraging 100% of resources at the firm. The team is targeting a 75/25 US/Europe (hedged) split and the fund will be ~2/3 in senior secured securities. In a saturated private credit landscape, TPG AG actively seeks to identify and capitalize on less competitive situations with a bias towards the middle market where there is a substantial imbalance between supply and demand and opacity. Additionally, the fund will have a higher exposure to fixed rate securities which will provide additional diversification to the private credit portfolio. Given the potential for future market volatility, their ability to augment portfolio construction and pivot the portfolio into mispriced public securities, offer highly bespoke capital solutions and execute control will position the fund to generate exceptional returns. The team has a demonstrated track record of being opportunistic during periods of volatility while also adding significant value pursuing an active, hands-on approach to corporate reorganization, if necessary. In summary, TPG AG provides the State's portfolio opportunistic credit exposure that is complimentary to the existing core mandates while maintaining the focus on maximizing risk adjusted returns and minimizing downside risks.

Distinguishing Characteristics:

1. **Exceptional Track Record –** TPG AG has been investing in Capital Solutions strategies since 2019 with the current team and have achieved over a 14% net IRR on an unlevered basis. Fund I and Fund II are 2nd quartile for IRR and 1st quartile for DPI. Dislocation Funds I and II are 1st quartile for both IRR and DPI.

2. **Value Identification and Creation** – The manager has proven that it can source and structure attractive credit deals in various interest rate and spread environments and still achieve the stated fund objectives. The team has been adept at recognizing market trends and tactically shifting allocations across their core vertical competencies. TPG AG's approach represents a higher level of involvement than most peers to unlock value from misunderstood or mismanaged companies. TPG AG has dedicated significant resources to building best-in-class internal resources to aid in their homebuilder finance deals. Additionally, the team can take advantage of public market dislocations by investing in an actively monitored list of public companies adding an additional opportunistic lever.

3. **Strong Downside Protection –** TPG AG has an annualized loss ratio of 39bps on over $14.5bn of capital invested in the series and SMA's. Due to the higher risk nature of opportunistic credits, loss ratios will exceed that of direct lending managers. However, TPG AG is in line with best-in-class peers. Furthermore, the manager has not only been able to identify winning deals but has avoided significant losses when their underwritten thesis does not manifest. Exclusion of the top 10 best and worst performing deals does not materially impact returns highlighting the team's consistency.

4. **Diversification –** Currently, over 90% of the private credit portfolio is invested in floating rate securities. Fund III and the respective co-investments will be more highly invested in fixed rate securities. The team has been consistently sourcing more fixed rate deals and anticipates ~30% of the fund to be fixed rate. This should help to dampen the portfolio's sensitivity to future movements in interest rates.

Risks:

1. **Investment Committee –** Ryan Mollett has full control and final authority to approve or kill deals recommended by the investment team. This one vote structure is atypical for funds. TPG AG structured the fund in this manner to promote swift action and decision making. I spent a significant amount of time meeting with other senior leaders on the strategy and observed that Ryan defers a substantial amount of responsibility to other team members. The IC process was extremely collaborative with junior members freely expressing any thoughts.

2. **Key Man Risk –** Given the importance of Ryan Mollett to the success of the fund, Fund III's Key Man provision lacks the protections to LP's that is to be expected. If Mr. Mollett leaves the firm after 1/1/2026, the key man will not be triggered due to the "Formation Period Required Effort" clause in the LPA. This is early in the fund's

investment period and should trigger a key man. TPG AG has been receptive to including stronger key man language in our side letter for the SMA. This will ensure we have the right to stop investing in the fund if Ryan departs.

3. **TPG Acquisition** – Angelo Gordon was acquired by the private equity firm Texas Pacific Group (TPG) in the fourth quarter of 2024. Through February 2025, the merger has occurred seamlessly. There have been no major departures from the direct deal team. TPG was very thoughtful in structuring Mr. Mollett's and other senior team members' retentions packages. These retention packages are designed to ensure continuity for at least the first five years and include key elements such as restricted stock and restrictive non-competition agreements.

Track Record & Fund Statistics:

<u>Exhibit A: Solution's Fund Verticals</u>

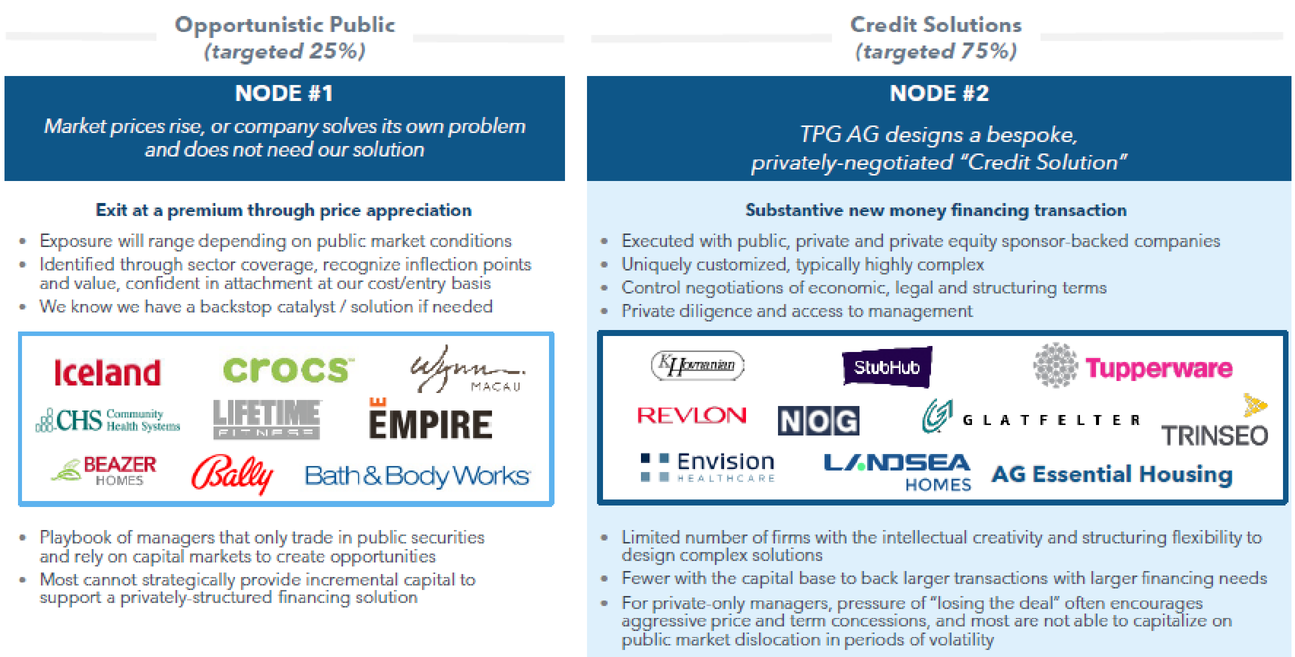

Exhibit B: Illustrative Returns

TPG Angelo Gordon Fund[1]	Vintage Year	Stage	Opportunistic Private Credit[3] Quartile Rankings: Since-Inception Net IRR	Opportunistic Private Credit[3] Quartile Rankings: Distributed to Paid-in Capital (DPI)
AG Credit Solutions (CSF1)	2019	Harvesting	2nd	1st
AG CSF1 (Annex) Dislocation (ADF1)[2]	2020	Fully-Realized	1st	1st
AG Credit Solutions II (CSF2)	2021	Investing	2nd	1st
AG CSF2 (Annex) Dislocation (ADF2)	2022	Harvesting	1st	1st

Exhibit C: Portfolio Composition

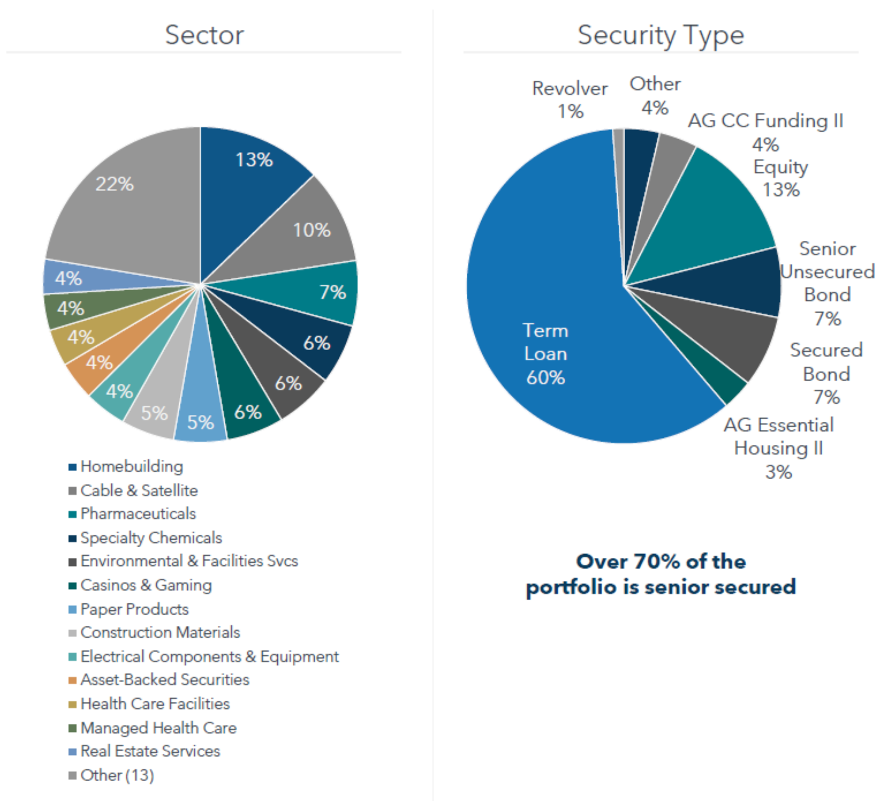

Exhibit D: Market Opportunity: Event Driven

Envision Healthcare / AmSurg LLC

NODE #2 - Private Solution → NODE #3

Company Profile

Envision Healthcare is a leading national medical group serving hospitals and healthcare systems. It also operates more than 250 ambulatory surgery centers across 34 states through its AMSURG business

Challenges

Envision's medical group business was facing challenges as margins compressed below historical levels due to various factors, including new legislation, a challenging labor market and volatile inpatient volumes as a result of COVID-19, among other factors

These factors resulted in a highly levered capital structure and a likely liquidity need in 2022

TPG AG Credit Solution

Partnering with another investment firm, TPG Angelo Gordon structured, priced and backstopped a new money debt financing in April 2022 at a portion of Envision's AMSURG business, which was designated as an unrestricted subsidiary in conjunction with the new money financing

TPG AG funded a portion of a $1.1 billion new money term loan at the AMSURG unrestricted subsidiary, while also providing the Company with:

a) $200 million of delayed draw capacity
b) super priority debt capacity to help the Company achieve its financing objectives
c) basket capacity whereby TPG Angelo Gordon could help the Company capture discount through exchanges of its pre-existing Holdco debt into the new first-lien security

Outcome

The 2022 new money financing extended Envision's liquidity runway and provided the Company with additional time to attempt to bridge the business to a more favorable operating environment and execute its operational turnaround

However, given ongoing challenges, Envision filed for Chapter 11 bankruptcy in May 2023

We were taken out of our position in June 2023 through a contractual make-whole payment as part of the Company's reorganization process

Envision HEALTHCARE AMSURG

COMPANY INFORMATION	
Industry	Healthcare
Country	United States
Revenues[1]	$1,443mm
EBITDA[1]	$268mm
Total Equity	Private
Total Debt	Private

TPG AG INVESTMENT	
Initial Investment Date	April 2022
Securities	New Term Loan
Final Exit Date	May 2023

Terms and Fees:

Fund Size: $4.5 billion

GP Investment: Lesser of 1.5% of Combined Commitments or $75 million.

Targeted Investments: The Fund will invest principally 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 owner(s) experiencing complex financial or similar challenges. The Fund may also invest in securities that may be acquired at what TPG Angelo Gordon believes are discounted prices relative to their intrinsic value and offer the potential for appreciation. The Fund will focus on opportunities primarily in the United States and Europe.

Term: 3-year investment period; 2-year harvest period and two 1-year extension options (GP discretion)

Management Fee: 0.95% on invested capital

Carry: 15%

Preferred Return: 8%; 80% GP/20% LP catch-up; European Waterfall

Key Person Trigger: Three of Ryan Mollett, Jack Weingart and Jon Winkelried cease to devote the applicable Required Effort (as defined in the Limited Partnership Agreement) at any time during the Fund's Commitment Period; Both (i) Ryan Mollett and (ii) any one of Jacob Gladstone, Joseph Lenz and Brendan McCaffrey cease to devote the applicable Required Effort (as defined in the Limited Partnership Agreement) at any time during the Fund's Commitment Period; or Ryan Mollett ceases to devote his applicable Required Effort (as defined in the Limited Partnership Agreement) at any time before (but not including) January 1, 2026.

Due Diligence:

Meetings: Due diligence calls on 04/01/2024, 04/08/2024, 07/03/2024, 01/17/2025 and 01/21/2025. Meeting in New York City on 12/09/2024.

Service Providers:

The Firm's service providers are listed below:

Auditor:	Deloitte
Administrator:	SEI Global Services, INC.
Legal Counsel:	Paul, Weiss, Rifkind, Wharton & Garrison LLP
Custodian:	BNY Mellon

Reference List:

I spoke with two institutions. Both funds are currently invested or are in the final stages of due diligence.

All conversations were conducted via phone. They were highly constructive of SVP's strategy and expressed high conviction in the manager's personnel and thesis. No one contacted expressed any concern of note regarding compliance, process or personnel. They stated that client communication was promptly handled and that the staff was easily accessible.

LPs contacted:

Joe Lubelski
Alternative Investments
STRS Ohio

Bryan White
Manager
Raytheon Technologies

Biographies:

Ryan Mollett - Joined TPG Angelo Gordon in 2019 as the Global Head of Credit Solutions. He is the Portfolio Manager of the AG Credit Solutions series of funds, CSF Annex Dislocation Funds, AG Corporate Credit Opportunities Fund, the Essential Housing Funds, and related accounts, and oversees the TPG Angelo Gordon teams in the U.S. and Europe focused on credit solutions. Prior to joining TPG Angelo Gordon, Ryan was a Senior Managing Director at Blackstone and a senior investment professional and investment committee member of GSO Capital Partners' Global Distressed Investment Team, including as a Joint Portfolio Manager of GSO's Capital Solutions Funds, Credit Alpha Funds and the Special Situations Funds, as well as GSO Community Development Capital Group LP. Prior to joining Blackstone in 2011, Ryan was a Director at BlackRock where he was a Portfolio Manager and Senior Research Analyst. He received his MBA in Finance and Investment Management from Yale University and currently sits on the Board of the Yale School of Management International Center for Finance.

Jake Gladstone - Joined TPG Angelo Gordon in 2020 and is a Managing Director and Co-Head of Research in the TPG AG Credit Solutions Group. Prior to joining TPG Angelo Gordon, Jake spent over seven years as a member of the distressed and special situations team at GSO Capital Partners. Previously, he was a member of the credit strategy team at The Royal Bank of Scotland. Jake received a B.A. degree in Business & Public Policy from Franklin & Marshall College.

Joseph Lenz – He joined TPG Angelo Gordon in 2012 and is a Managing Director and Co-Head of Research in the TPG AG Credit Solutions Group. Prior to joining TPG Angelo Gordon, Joe worked in the Financial Sponsors Group at Morgan Stanley. Joe holds a B.A. degree from the University of Pennsylvania.

Brendan McCaffrey – Brendan joined TPG Angelo Gordon in 2018 and is a Managing Director and Head of Capital Markets & Trading in the TPG AG Credit Solutions Group. Before joining TPG Angelo Gordon, Brendan traded Investment Grade, High Yield, and Distressed bonds and loans in addition to his responsibilities managing the High Yield credit default swaps business at Barclays Capital. Prior to that, Brendan held a variety of positions within the credit markets business at Citi. Brendan received a B.A. degree in economics from Wake Forest University.