



## State of New Jersey

DEPARTMENT OF THE TREASURY  
DIVISION OF INVESTMENT  
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*State Treasurer*

March 15, 2013

MEMORANDUM TO: State Investment Council

FROM: Timothy Walsh  
Director

SUBJECT: **Proposed Investment in ValueAct Co-Invest International L.P. Fund**

The New Jersey Division of Investment ("Division") is proposing an investment of up to \$200 million in **ValueAct Co-Invest International, L.P. Fund.** ("ValueAct"). This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

The Division originally invested \$100 million (total commitment of up to \$150 million) in ValueAct Capital Partners II, L.P (ValueAct Capital Partners) in November 2011. ValueAct Capital Partners is a concentrated US equity activist fund with a focus on mid-cap companies. ValueAct will seek superior returns by co-investing in a small number of public companies alongside other investment vehicles sponsored by ValueAct Capital, including ValueAct Capital Partners.

The Division is recommending this investment based on the following factors:

**Attractive terms:** Investors in the fund will pay a 0% management fee on committed or invested capital. When combined with the Division's existing investment in ValueAct Capital Partners, the blended management fee will be 0.6% on invested capital. There will be a 10% performance fee that will only be paid after the return of an investor's capital and an annualized 8% preferred return.

**Opportunity to expand investment with successful, experienced hedge fund manager.** The Division's investment in ValueAct Capital Partners has generated 21.09% November 2011 to February 28, 2013. From ValueAct Capital Partners inception in December 2000 it has generated a 16.45% annualized return with 16.18% Standard Deviation through December 2012. The fund ranks in the top quartile on an absolute as well as on a risk adjusted basis among the HFRI Universe and the HFRI Equity Hedged (Total) universe over most time periods.

**Experienced and Cohesive Investment Team:** ValueAct Capital was formed by Jeffrey Ubben, George Hamel and Peter Kamin (retired) in 2000. Jeff Ubben (CIO) and seven investment partners are integral to successful investments. Six investment partners have worked together for 7 to 11 years. In 2007, all investment partners signed 10 year employment agreements with non-compete and non-solicitation clauses when Affiliated Managers Group bought 23% stake in the firm.

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

Division Staff and its hedge fund consultant, Cliffwater 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 fund has not engaged a third-party solicitor (a "placement agent") in connection with New Jersey's potential investment.

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

Please note that the investment is authorized pursuant to Articles 69 and 100 of the Council's regulations. The Fund will be considered an equity oriented hedge fund investment, as defined under N.J.A.C. 17:16-100.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the Committee was held on March 12, 2013. 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 March 21, 2013 meeting.

Attachments

**Fund Name: ValueAct Co-Invest International L.P. Fund**

**March 21, 2013**

**Contact Info:** Briana J. Zelaya, 415-362-3700, bzelaya@valueact.com

**Fund Details:**

Total Firm Assets (\$bil.):	\$9.2 billion	<p><b>Key Investment Professionals:</b></p> <p><b>Jeffrey Ubben</b> is a founder, CEO, and CIO of ValueAct. He has over 20 years of experience conducting deep due diligence and working with boards and managements in order to improve companies' performance. Prior to founding ValueAct Capital in 2000, Mr. Ubben was a Managing Partner at Blum Capital Partners for more than five years, where at peak he was managing \$1 billion in assets.</p> <p><b>George Hamel</b> is a founder and COO and is on the firm's management committee. Prior to founding ValueAct Capital in 2000, Mr. Hamel was a partner at Blum Capital Partners.</p> <p><b>G. Mason Morfit</b> is a Partner and on the firm's management committee. Prior to joining ValueAct Capital in January 2001, Mr. Morfit worked in equity research for Credit Suisse First Boston. He supported the senior healthcare services analyst, covering fifteen companies in the managed care and physician services industries.</p>
Strategy:	Event Driven - Activist	
Assets in Strategy(\$bil.):	\$9.2 billion	
Year Founded:	2000	
SEC Registration	Yes	
GP Commitment:	approx. 7% of firm assets	

Investment Summary	Fund Returns			
<p>ValueAct Capital was formed by Jeffrey Ubben, George Hamel and Peter Kamin (retired) in 2000. The firm manages \$9.2 billion in a concentrated activist strategy. The co-investment fund is a drawdown vehicle which will facilitate larger holdings in public companies alongside other investment vehicles sponsored by ValueAct, which will make it easier to acquire a board seat and be effective voice for change to unlock value.</p> <p>ValueAct seeks to acquire large position in companies with high cash flow yield and high cash flow growth. Investment partners work with the company management in a non-confrontational manner to improve operations, change strategies, divest of non-core assets, engineer management change, and optimize balance sheet structures to unlock value. The fund will only make approximately 3 to 4 investments throughout its life. Fund size will be capped at \$1.0 billion. The firm is headquartered in San Francisco and has an office in Boston.</p>	As of 12/31/12	Fund	HFRI Event Driven	S&P 500 TR
	1 yr	20.93	8.88	16.00
	3yr	25.36	5.60	10.87
	5yr	12.54	2.86	1.66
	Fund Inception	16.45	7.54	2.64
	NJDOI Inception*	17.02	7.36	14.35
	2012	20.93	8.88	16.00
	2011	14.37	-3.30	2.11
	2010	42.46	11.86	15.06
	2009	28.52	25.04	26.46

**Vehicle Information:**

Fund Inception:	2013	* November 2011
Fund Size (\$bil.):	\$1	Subscriptions: Monthly
Management Fee for Co-invest:	0.00%	Redemptions (notice): n/a
Performance fee:	10%	Commitment Period: 3 years
Highwater Mark:	Yes	Prime Broker: BNP Paribas
Hurdle Rate:	8%	Administrator: International Fund Services
Additional Expenses:	TBD	Auditor: Pricewaterhouse Coopers
		Legal Counsel: Paul, Weiss, Rifkind & Garrison; Dechert

**NJ AIP Program**

Recommended Allocation (\$mil):	\$200 million	LP Advisory Board Membership:	N/A
% of Fund:	20.00%	Consultant Recommendation:	Yes
		Placement Agent:	None
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes