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January 23, 2025

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Private Equity Investment – Hg Saturn 4 Fund, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$150 million in Hg Saturn 4 Fund L.P. (the “Fund”). 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:

Strong Overall Performance & Portfolio Fit: A commitment to the Fund allows the Division to make a commitment to a new high-conviction sector focused European buyout manager that can help produce strong returns for the private equity portfolio. The Firm has a strong track record and a 28-year history of investing in core areas of software and tech-services companies. When benchmarked against middle market European buyout funds of similar vintages, the mature Hg Saturn funds have produced upper quartile rankings across performance metrics.

Experienced and stable team: The team’s long tenure of operating together, deep sector focus, and consistency of strategy enable them to find attractive opportunities regardless of economic cycles that fit its value-oriented, transformational-growth investment strategy. The Firm is led by 28 partners, each bringing an average 22 years of experience, which compares favorably to the Firm’s peers. The investment team is strongly aligned with its Fund LPs and will invest at least 2% of the aggregate commitments to the Fund which is consistent with prior funds and is in line with the market.

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

Division Staff and its private equity 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 Fund has not engaged a third-party solicitor (“placement agent”).

The Firm's ESG Policy and related diligence disclosures were reviewed by the Corporate Governance team in accordance with the Council's ESG Policy. The Firm incorporates ESG considerations into its investment process and will continue to monitor these factors post investment, while the focus will remain on attractive returns for its LPs.

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 69 and 90 of the Council's regulations. Hg Saturn 4 Fund L.P. is considered a private equity investments, as defined under N.J.A.C. 17:16-90.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the IPC was held on January 17, 2025. 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 January 29, 2025 meeting.

Hg Saturn 4, LP

- **DOI Commitment:** \$150 million
- **Strategy:** Buyout
- **Investment Focus:** Hg is one the largest specialist software and tech-services investment team dedicated to European-focused buyouts. The Firm is based in London and has additional investment offices in Munich, Paris, New York, and San Francisco. Saturn 4 is the Firm's upper-middle market strategy and is targeting 8-10 platform investments with equity checks greater than \$1.25 billion. Hg targets platforms that will have enterprise values greater than \$1.5 billion, revenues greater than \$250 million, and EBITDA greater than \$50 million.
- **Target Returns:** 3.0x MOIC (gross) / 20-25% IRR (gross)
- **Investments Thesis:**
 - Strong historical performance across multiple economic cycles
 - Experienced and established control buyout investment team
 - European software focused investment strategy

Fund Name: Hg Saturn 4 **January 23, 2025 Agenda Item 4(a)(iii)**

Contact Info: Mark Christopher

Fund Details:

Total Firm Assets:	\$77 billion
Strategy:	Upper Middle Market Buyout
Year Founded:	2000
Headquarters:	London, United Kingdom
GP Commitment:	At least 2% of aggregate commitments

Key Investment Professional

Nic Humphries: Mr. Humphries is the Senior Partner and Executive Chairman of Hg and Head of the Saturn fund. He has ultimate responsibility for Hg’s strategy, management and governance. He focuses on larger software investments that provide daily-use mission critical applications for accountants, tax/compliance professionals and designers/engineers/scientists. Nic started his investing career in 1990 with 3i and has focused exclusively on software/technology for the last 30 years. He Joined Hg in 2001 as the founder of the firm’s software team and as CEO from 2007-2017 he helped to build Hg into a leading software investor in Europe.

Matthew Brockman: Matthew leads Hg day-to-day with a focus on the Mercury and Genesis funds. Matthew joined Hg in 2010 to lead the creation of the Mercury fund before taking on his current role in 2018. He has acted across many of the investments in the Mercury and Genesis funds. Prior to joining Hg, Matthew was a Partner at Apax Partners.

Justin von Simson: Justin is a Managing Partner, member of the Hg Investment Committee, the Realization Committee and a member of the Hg Board. Justin is Co-Head of the Saturn fund and leads Hg’s Munich office. Since joining the firm in 2002, Justin has led more than 25 investments. Prior to Hg, Justin was a professional at Goldman Sachs and Deloitte.

Steven Batchelor: Mr. Batchelor has been at Hg for over 20 years, after starting his career in corporate finance at Morgan Stanley. He sits on the senior leadership team. Steven is a Partner and a member of Hg’s Board. In addition to his role overseeing all client (LP) facing activities, Steven sits on the Realization Committee and Valuation Committee. He was instrumental in the development of an active approach to PE fund management.

Jean- Baptiste Brian: Mr Brian is a Partner, head of the Genesis Fund, and member of the Genesis Investment Committee, focusing on investments in software businesses, with a particular interest in legal and compliance as well as ERP and payroll. JB currently sits on the boards of Access, Intelrad, Litera, and Septeo. Prior to joining Hg at the beginning of 2013, JB worked at TPG Capital for seven years where he was a member of the tech team. JB began his career at Morgan Stanley.

Hg Saturn 4 will target platforms with enterprise values greater than \$1.5 billion, revenues greater than \$250 million, and EBITDA greater than \$50 million. The fund will focus on European headquartered and transatlantic businesses, many of which will have a global footprint and customer base. Hg has established specific software & services tech industry groupings including tax & accounting, ERP & payroll, legal & regulatory compliance, healthcare IT, and insurance.

Existing and Prior Funds

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns: Net IRR, Net TVPI, Net DPI</u>
Hg Saturn 1	2018	Buyout	21.2%, 2.25x, 1.36x
Hg Saturn 2	2020	Buyout	21.0%, 1.5x, 0.30x
Hg Saturn 3	2022	Buyout	20.1%, 1.14x, 0.0x
Source of Returns - MSCI European Buyout			*Net as of 9/30/2024

IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI = Distributions to Paid-In Agenda Item 4(a)(iii)

Vehicle Information:

Hg Saturn 4		Auditor:	Grant Thornton
Inception:	2024	Legal Counsel:	Proskauer Rose
Fund Size :	\$12 billion		
Management Fee:	1.0% of capital commitments during the investment period, with stepdown thereafter to 0.75%		
Carry:	20%		
Hurdle:	8%		
Additional Expenses:	100% Management Fee Offset		

NJ AIP Program

Recommended Allocation (\$mil):	up to \$150 million	LP Advisory Board Membership:	TBD
% of Fund:	1.25%	Consultant Recommendation:	YES
		Placement Agent:	NO
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	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.