



State of New Jersey

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November 23, 2018

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Acting Director

SUBJECT: **Proposed Investment in TSG 8, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$150 million in TSG 8, L.P. (“Fund”). This memorandum is presented to the State Investment Council (“Council”) pursuant to N.J.A.C. 17:16-69.9.

TSG Consumer Partners (“TSG” or “Firm”) is one of the largest and oldest private equity firms focused on growth capital investments in middle-market companies in the branded consumer products sector, and has a long track record of significant outperformance that has been consistently top-quartile.

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

Proven Track Record: Since inception, TSG has invested over \$3.7 billion into 75 consumer companies, which have generated a net 1.86x Multiple On Invested Capital (“MOIC”) and a net 36.6% Internal Rate of Return (“IRR”) as of June 30, 2018. Of the 75 investments, 56 have been realized. The past five TSG funds (vintage years 2002 to 2017) have generated an aggregate net IRR of 28.5% and net MOIC of 1.86x. TSG invested \$287.3 million into six companies between 2007 and 2009, growing revenue at a 12.2% average growth rate, demonstrating the ability to perform through recessionary environments. TSG 5 (2007 vintage) has generated a 16.9% net IRR and a 1.9x net MOIC.

Experienced Investment Team: The three Managing Directors have an average tenure of 22 years working at TSG. The 21 person investment team is diverse and comprised of veteran consumer industry specialists with offices in San Francisco and New York. The diversity of the investment team is particularly important given the myriad of factors that drive household spending decisions in the U.S. consumer sector. In addition to the investment team, TSG is supported by a deep bench of operating partners and senior advisors who have specific sector expertise.

Value Creation and Repeatable Exit Strategies: TSG adds value in many ways including advising portfolio companies on operational, marketing and financial issues, using relationships and networks to expand distribution across channels, assisting companies to create robust digital strategies, launching new products, identifying add-on acquisitions, and recruiting and incentivizing senior management to drive revenue and profit growth. In addition, TSG creates value by its unique approach to digital strategy that differentiates the firm from its peers in the consumer-focused category of private equity firms. Digital technology has permeated the path to purchase, as today's consumers use websites, social media, and mobile apps to research products, compare prices, make purchases, and provide feedback to peers and directly to consumer companies.

Prior to investing, TSG determines the likely timing and methodology for achieving liquidity in its portfolio companies which generally occurs four to seven years after its initial investment. TSG is not reliant upon the condition of the IPO market. TSG's exit strategies across TSG 4, TSG 5 and TSG 6 led to 65% of their portfolio companies being sold to strategic buyers and 32% to sponsors. Historically, strategic buyers in consumer industries have been highly acquisitive and often willing to pay a premium based, in part, upon their ability to leverage their infrastructure to further develop and expand acquired businesses.

Environmental, Social, and Governance ("ESG"): TSG has a formal ESG policy in place that seeks to identify both investment value creation opportunities and risks. TSG utilizes its industry expertise and time-tested resources to conduct a rigorous evaluation of each potential portfolio company and assesses the broader impact on the environment and society. When analyzing a potential investment and throughout each company's holding period, TSG takes into account environmental, public health, safety, and social issues. The firm engages with relevant stakeholders directly or through company representatives, utilizes governance structures that provide appropriate levels of oversight, complies with applicable national, state, and local labor laws, and supports the payment of competitive wages and benefits to employees while respecting their rights to unionize and engage in collective bargaining.

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

Division staff and its private equity consultant, TorreyCove Capital Partners, 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.

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. In accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4), a preliminary Disclosure Report of Political Contributions was obtained 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. TSG 8, L.P. is considered a private equity buyout investment, 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 Committee was held on November 20, 2018. 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 November 29, 2018 meeting.

Attachment

Fund Name: TSG 8, L.P.

November 23, 2018

Contact Info: Jessica Duran, 600 Montgomery Street, Suite 2900, San Francisco, California 94111

Fund Details:

Firm AUM (\$bil.):	\$5.10	Key Investment Professionals: Chuck Esserman , Senior Managing Director, Mr. Esserman is the CEO and co-founder of TSG Consumer Partners. He has over 30 years of private equity experience. Prior to TSG, Mr. Esserman worked as a management consultant at Bain & Co. Jamie O'Hara , Senior Managing Director, Mr. O'Hara is the President of TSG and oversees transaction structuring, diligence, financing, and investment execution. He has approximately 22 years of private equity investment experience. Prior to TSG, Mr. O'Hara was a management consultant at Bain & Co. as well as a practicing corporate and securities attorney. Hadley Mullin , Senior Managing Director, Ms. Mullin is responsible for originating new investment opportunities, diligencing new business opportunities, structuring transactions, working with partner companies and directing overall firm strategy. She has approximately 16 years of private equity investment experience. Prior to TSG, Ms. Mullin worked as a management consultant at Bain & Co.
Strategy:	Buyout	
Year Founded:	1986	
Headquarters:	San Francisco, CA	
GP Commitment:	2% of total commitments	

Investment Summary	Existing and Prior Funds			
<p>TSG 8 intends to pursue the same investment strategy utilized in the Firm's prior funds, targeting private equity investments in middle market, branded consumer companies. The Fund will utilize TSG's extensive deal-sourcing network of relationships with consumer companies, industry managers, consultants, investment bankers, lawyers, accountants and other intermediaries. Areas of focus in the consumer sector include food and beverage, personal care, household products, retail, franchising, and consumer services. The Firm generally avoids commodity businesses, cyclical businesses, categories with unfavorable competitive characteristics, and distribution sensitive categories. Targeted companies will primarily be businesses with strong brand recognition that operate in well-established markets less sensitive to economic downturns.</p>	<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 6/30/2014</u>
	TSG 4	2002	Buyout	36.2% Net IRR, 2.62x Net TVPI, 2.62x DPI
	TSG 5	2007	Buyout	16.9% Net IRR, 1.90x Net TVPI, 1.89x DPI
	TSG 6	2012	Buyout	31.8% Net IRR, 2.16x Net TVPI, 1.16x DPI
	TSG 7A***	2016	Buyout	9.60 % Net IRR, 1.12x Net TVPI, 0 DPI
	TSG 7 B***	2016	Buyout	(22.4)% Net IRR, 0.72x Net TVPI, 0.02x DPI
<p>* as reported byTorrey Cove IRR = Internal Rate of Return; TVPI = Total Value to Paid In Capital; DPI= Distributions to Paid-In</p>				

Vehicle Information:

Inception:	2018	Auditor:	KPMG LLP
Fund Size (\$mil):	\$3.5 billion,Hard Cap \$4Bn LP Commitment	Legal Counsel:	Ropes & Gray LLP
Management Fee:	thereafter, 2.0% of the cost basis of the remaining		
Carry:	20%/25%		
Hurdle Rate:	8%/15% net IRR and 2.0x TVM		
Additional Expenses:	100% management fee offset		

NJ AIP Program

Recommended Allocation (\$mil):	up to \$150 million	LP Advisory Board Membership:	No
% of Fund:	4.29%	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.