



State of New Jersey

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Director

March 20, 2020

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Proposed Investment in CVC Capital Partners VIII**

The Division of Investment (the “Division”) is proposing an investment of up to €100 million in CVC Capital Partners VIII (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:

Solid track record since inception: CVC Capital Partners (“CVC” or “Firm”) is an existing relationship of the Division and has generated consistent returns for investors across multiple economic, industry and market cycles. For the past 20+ years, every mature CVC flagship fund has individually returned at least 2.0x net TVPI. The proposed commitment to CVC is consistent with the Division’s objective of concentrating in core, high conviction, existing relationships.

Broad, diversified platform enables opportunistic approach to investing: The Firm has boots on the ground with 14 country, sector, and regional teams dedicated to the Fund. This enables the firm to leverage its collective resources in sourcing, financing, operational improvement, and identifying exits, which in turn allows the Fund to identify the best relative value investment opportunities across the target markets in which it invests. CVC will have 109 dedicated investment professionals focused on the Fund to execute this strategy.

Environmental, Social and Governance (ESG) Policy: CVC understands that the careful management of environmental, social and governance (ESG) factors are a critical part of ensuring the long-term success of any business today. Building better businesses through effective ownership and management benefits all stakeholders, from employees to customers, suppliers and shareholders, and the wider community at large by creating jobs and supporting local communities. CVC is committed to operating with the upmost integrity to manage ESG factors throughout due diligence processes, during the management of investments and in the ongoing monitoring and support of companies. CVC’s approach towards ESG is embedded in all aspects of the investment process from the original investment selection, value creation and ultimately the exit from the investment with a focus on ensuring a sustainable long-term ownership structure

into the future. Further, CVC includes ESG information in its periodic reporting to investors and also provides updates at the Limited Partners Advisory Boards and the Annual General Meetings.

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 engaged a third-party solicitor (“placement agent”) in the fundraising of the Fund but no placement agent was engaged or paid in connection with the Pension Fund’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. 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. CVC Capital Partners VIII 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 March 17, 2020. 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 25, 2020 meeting.

Attachment

Fund Name: CVC Capital Partners VIII **March 20, 2020**

Contact Info: Robert Squire, 712 Fifth Avenue, 43rd Floor, New York, NY 10019

Fund Details:		Key Investment Professionals: Victoria Cabot, Alex Dibelius, Geert Duyck, Carl Hansen, Steve Koltas, Javier de Jaime, Rob Lucas, Rolly van Rappard, Jean-Remy Roussel, Peter Rutland, Chris Stadler, Ivan Szoke, Soren Vestergaard-Poulsen .
Firm AUM (\$bil.):	€72.5 billion	
Strategy:	Buyout	
Year Founded:	1981	
Headquarters:	London	
GP Commitment:	≥3% of aggregate commitments	

Investment Summary	Existing and Prior Funds																																
<p>The predecessor to CVC Capital Partners was established in 1981 as part of Citigroup; the original name was Citicorp Venture Capital (Europe). In 1993, Citicorp Venture Capital (Europe) was acquired by management and renamed CVC Capital Partners. The primary focus of Fund VIII will be consistent with that of prior CVC funds, pursuing leveraged buyouts of medium to large sized businesses across Europe and North America. The Fund will generally seek equity investments of €150 million to €1 billion per transaction. CVC and the General Partner are led by a deep bench of professionals who are highly experienced in both investment selection and portfolio management. The CVC investment team for Fund VIII consists of 109 investment professionals in Europe and the Americas.</p>	<table border="1"> <thead> <tr> <th><u>Funds</u></th> <th><u>Vintage Year</u></th> <th><u>Strategy</u></th> <th><u>Returns as of 6/30/2019</u></th> </tr> </thead> <tbody> <tr> <td>Fund II</td> <td>1998</td> <td>Buyout</td> <td>16.7% Net IRR; 1.99x Net TVPI; 1.99x DPI</td> </tr> <tr> <td>Fund III</td> <td>2001</td> <td>Buyout</td> <td>34.1% Net IRR; 2.52x NetTVPI; 2.52x DPI</td> </tr> <tr> <td>Fund IV</td> <td>2005</td> <td>Buyout</td> <td>16.6% Net IRR; 2.07x Net TVPI; 2.00x DPI</td> </tr> <tr> <td>Tandem</td> <td>2007</td> <td>Buyout</td> <td>9.1% Net IRR; 1.52x NetTVPI; 1.48x DPI</td> </tr> <tr> <td>Fund V</td> <td>2008</td> <td>Buyout</td> <td>20.2% Net IRR; 2.34x Net TVPI; 2.09x DPI</td> </tr> <tr> <td>Fund VI</td> <td>2014</td> <td>Buyout</td> <td>16.9% Net IRR; 1.43x Net TVPI; 0.24x DPI</td> </tr> <tr> <td>Fund VII</td> <td>2018</td> <td>Buyout</td> <td>50.8% Net IRR; 1.10x Net TVPI; 0.01x DPI</td> </tr> </tbody> </table> <p>IRR = Internal Rate of Return; TVPI= Total Value to Paid-In; DPI= Distributions to Paid-In</p>	<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 6/30/2019</u>	Fund II	1998	Buyout	16.7% Net IRR; 1.99x Net TVPI; 1.99x DPI	Fund III	2001	Buyout	34.1% Net IRR; 2.52x NetTVPI; 2.52x DPI	Fund IV	2005	Buyout	16.6% Net IRR; 2.07x Net TVPI; 2.00x DPI	Tandem	2007	Buyout	9.1% Net IRR; 1.52x NetTVPI; 1.48x DPI	Fund V	2008	Buyout	20.2% Net IRR; 2.34x Net TVPI; 2.09x DPI	Fund VI	2014	Buyout	16.9% Net IRR; 1.43x Net TVPI; 0.24x DPI	Fund VII	2018	Buyout	50.8% Net IRR; 1.10x Net TVPI; 0.01x DPI
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Vehicle Information:

Inception:	2020	Auditor:	Ernst & Young LLP
Fund Size:	€17.5 billion	Legal Counsel:	Simpson Thacher & Bartlett LLP
Management Fee:	During investment period: 1.425% of Total Commitment After investment period: 1.25% of unreturned cost		
Carry:	20%		
Hurdle Rate:	6%		
Additional Expenses:	100% Management fee offset		

NJ AIP Program

Recommended Allocation:	up to €100 million	LP Advisory Board Membership:	TBD
% of Fund:	0.57%	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.