



State of New Jersey

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March 24, 2017

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in CVC Capital Partners VII, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to €100 million in CVC Capital Partners VII, 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 Fund will execute a diversified investment strategy across geographies and sectors within the U.S. and Europe, focusing on control-oriented opportunities with a target return in excess of 20% gross Internal Rate of Return (“IRR”) and a gross multiple of at least 2x.

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

Opportunistic approach: The Fund’s investment mandate allows it to selectively invest in the best opportunities across Europe (and up to 25% in the U.S.) regardless of country or sector. Europe is the world’s 2nd largest buyout market, but private equity is underpenetrated in most European Union countries relative to the U.S. based on percentage of companies owned.

Deep team and resources: The opportunistic approach is directly enabled by boots on the ground in the countries in which they invest, with 11 core investment offices across Europe and 2 in the U.S. There are 106 investment professionals dedicated to the Fund, including 11 Managing Partners primarily focused on investing, an additional 20 other investment Partners, a 6-person operations team and a 5-person capital markets team. The investment team is organized into 11 geographical and 3 sector teams across North America and Europe.

Strong track record across multiple economic cycles: CVC has been investing in the strategy since inception of Fund I in 1996. The CVC flagship funds have completed 154 investments across Western Europe and North America over 20 years, investing €28.6 billion and generating more than €32 billion of value creation. They have fully exited 120 out of the 154 investments, generating a gross multiple of 2.2x and a gross Internal Rate of Return (“IRR”) of 26.3% on the 120 fully exited investments.

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.

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. We have obtained a preliminary Disclosure Report of Political Contributions in accordance with the Council’s regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. We will obtain an updated Disclosure Report at the time of closing.

Please note that the investment is authorized pursuant to Articles 69 and 90 of the Council’s regulations. CVC Capital Partners VII, L.P. will be considered a private equity buy-out 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 15, 2017. 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 29, 2017 meeting.

Attachments

Fund Name: CVC Capital Partners VII

March 24, 2017

Contact Info: 1 Waverley Place, Union Street, St Helier, Jersey, JE1 1SG, Channel Islands

Fund Details:

Firm AUM:	€44 billion	Key Investment Professionals: Alex Dibelius, Geert Duyck, Carl Hansen, Steve Koltes, Javier de Jaime, Rob Lucas, Donald Mackenzie, Bertrand Meunier, Rolly van Rappard, Jean-Remy Roussel, Brian Scholfield, Chris Stadler, Soren Vestergaard-Poulsen and Fred Watt.
Strategy:	Buyout	
Year Founded:	1981	
Headquarters:	Luxembourg	
GP Commitment:	3% of total Commitments	

Investment Summary

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 VII 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 €750 million 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 VII consists of 106 investment professionals in Europe and the Americas across fifteen offices, organized in eleven geographical teams, three sector teams and two specialist teams.

Existing and Prior Funds

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 9/30/2016</u>
Fund I	1996	Buyout	25.9% Net IRR, 2.52x TVPI, 2.52x DPI
Fund II	1998	Buyout	16.7% Net IRR, 1.98x TVPI, 1.97x DPI
Fund III	2001	Buyout	34.1% Net IRR, 2.57x TVPI, 2.54x DPI
Fund IV	2005	Buyout	16.3% Net IRR, 1.94x TVPI, 1.70x DPI
Tandem Fund	2007	Buyout	9.0% Net IRR, 1.47x TVPI, 1.38x DPI
Fund V	2008	Buyout	17.5% Net IRR, 1.86x TVPI, 1.10x DPI
Fund VI	2014	Buyout	1.8% Net IRR, 1.02x TVPI, 0.04x DPI

IRR = Internal Rate of Return; TVPI= Total Value to Paid-In; DPI= Distributions to Paid-In

Vehicle Information:

Inception:	2016	Auditor:	KPMG Channel Islands Ltd.
Fund Size:	€12.5 billion	Legal Counsel:	Simpson Thacher & Bartlett LLP
Management Fee:	During commitment: 1.50% below €100 million, 1.425% between €100 million and €250 million; During investment period: steps down to 1.25% at earlier of (i) end of Commitment period or (ii) date CVC earns management fees on successor funds		
Carry:	20%		
Hurdle Rate:	6%		
Additional Expenses:	100% fee offset		

NJ AIP Program

Recommended Allocation:	Up to €100 million	LP Advisory Board Membership:	TBD
% of Fund:	0.80%	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.