



State of New Jersey

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January 29, 2015

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in JLL Partners Fund VII, L.P.**

The New Jersey Division of Investment ("Division") is proposing an investment of \$150 million in JLL Partners Fund 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 Division is recommending this investment based on the following factors:

Disciplined Approach: JLL Partners ("JLL") has built its track record by executing an investment strategy that promotes value investing. Over the last three funds (vintage years 2003, 2005 & 2009), JLL's average purchase price multiple has been 6.9x Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA"). As a comparison, according to the S&P Capital IQ data for the same time period (2003-3Q2014), the average purchase price multiple for middle market buyouts was 8.6x EBITDA.

Prudent Use of Leverage: Given JLL's focus on complex transactions, they typically employ leverage prudently to give their managers the best chance of successfully executing the agreed upon business plan. In fact, six of JLL's investments in Funds IV, V and VI had no debt at the time of the initial acquisition and all investments across the three funds averaged a 2.7x leverage multiple at entry. While the firm employs appropriate leverage to enhance equity returns, JLL's portfolio companies have sound capital structures providing financial and operating flexibility which enables them to remain competitive and aggressively pursue growth opportunities in all types of economic conditions.

Performance: JLL's strategy has proven successful over six previous funds and across both expansionary and recessionary economic environments. Since inception, for realized and partially realized investments, JLL has invested approximately \$3.1 billion of total capital, returned approximately \$6.9 billion to partners with \$7.2 billion of Total Value, and has generated a Gross Internal Rate of Return of 24.9% and a 2.3x Gross Multiple on Invested Capital.

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

Division Staff and its private equity consultant, Strategic Investment Solutions, undertook extensive due diligence on the proposed investment in accordance with the Division's Alternative Investment Due Diligence Procedures.

The fund utilized Jefferies LLC (the "placement agent") as third-party solicitor in connection with the potential investment. Staff has determined that the placement agent and its representatives met the registration, licensing and experience requirements set forth in the Division's Placement Agent Policy (the "Policy"). Pursuant to the Policy, the fund has disclosed the contract between the fund and the placement agent, specifying the scope of services to be performed by the placement agent and the fee arrangement between the placement agent, the general partner and any other third party.

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. JLL Partners Fund VII, L.P. will be 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 January 14, 2015. 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, 2015 meeting.

Attachments

Fund Name: JLL Partners Fund VII, L.P.

January 29, 2015

Contact Info: 450 Lexington Avenue, 31st Floor, New York, NY 10017

Fund Details:

Firm AUM (\$bil):	\$4.4 billion invested capital	Key Investment Professionals: Paul S. Levy , Managing Director and CEO, founded JLL in 1988 and serves on the Investment Committee. Prior to founding the Firm, Mr. Levy was a Managing Director at Drexel Burnham Lambert, responsible for the firm's restructuring and exchange offer business in New York. Frank J. Rodriguez , Managing Director and President, joined JLL in 1995 and serves on the Investment Committee. Prior to joining JLL, Mr. Rodriguez was in the Merchant Banking Group at Donaldson, Lufkin & Jenrette Securities Corporation, where he focused on executing leveraged buyout transactions. Daniel Agroskin , Managing Director, joined JLL in 2005. Prior to joining JLL, Mr. Agroskin worked at J.P. Morgan Partners and was in the Mergers & Acquisitions Group at Merrill Lynch & Co. Michel Lagarde , Managing Director, joined JLL in 2008. Prior to joining JLL, Mr. Lagarde held the positions of CEO and CFO of the Domestic Appliances and Personal Care division of Philips Electronics North America. Mr. Lagarde also served as CFO of Philips Electronics Indonesia and Financial Controller of Philips Electronics Hong Kong.
Strategy:	Private Equity - Buyout	
Year Founded:	1988	
Headquarters:	New York	
GP Commitment:	At least 5%, not to exceed \$75 million.	

Investment Summary

JLL Partners ("JLL" or the "Firm"), is a middle market firm focused on making private equity and distressed investments with experience doing so across various economic and market cycles. The Firm currently has one office in New York, employs 23 investment professionals and manages approximately \$4.4 billion. The fund has a target capitalization of \$1.0 billion and will pursue the same successful, middle market control investment strategy that JLL has employed in managing institutional capital over the past 25 years. JLL focuses on partnering with strong managers to grow and improve fundamentally sound companies experiencing temporary setbacks. These companies are sourced at attractive valuations by identifying situations in which JLL's industry-specific expertise and long-standing relationships, assisted by a proven in-house operational team, enable it to profit from opportunities other firms tend to avoid.

Existing and Prior Funds

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 6/30/2014</u>
JLL Fund I	1991	Buyout	33.79% Net IRR, 2.67x Net TPVI, 2.67x Net DPI
JLL Fund II	1994	Buyout	6.96% Net IRR, 1.49x Net TVPI, 1.49x Net DPI
JLL Fund III	1999	Buyout	11.12% Net IRR, 1.56x Net TVPI, 1.56x Net DPI
JLL Fund IV	2003	Buyout	9.18% Net IRR, 1.68x Net TVPI, 1.20x Net DPI
JLL Fund V	2005	Buyout	11.03% Net IRR, 1.62x Net TVPI, 1.16x Net DPI
JLL Fund VI	2009	Buyout	25.13% Net IRR, 1.48x Net TVPI, 0.44x Net DPI

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

Vehicle Information:

Inception:	2014	Auditor:	Ernst & Young L.L.P.
Fund Size (\$mil):	\$1.0 billion	Legal Counsel:	Skadden, Arps, Slate, Meagher & Flom LLP
Management Fee:	1.25%		
Carry:	20%		
Hurdle Rate:	8%		
Fee Offset:	100% fee offset		

NJ AIP Program

Recommended Allocation (\$mil):	\$150,000,000	LP Advisory Board Membership:	Yes
% of Fund:	6.67%	Consultant Recommendation:	Yes
		Placement Agent:	Yes
		Compliance w/ Division Placement Agent Policy:	Yes
		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.