



State of New Jersey

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November 25, 2016

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in MBK IV, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$100 million in MBK IV, 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.

MBK is a leading local, independent North Asian Private Equity (“PE”) Firm. The Fund will continue to pursue the same strategy as predecessor funds, acquiring companies through management-led buyouts, corporate divestitures, and public-to-private transactions. Additionally, MBK will partner with strategic buyers to acquire target companies, as well as purchase platform companies to enact industry roll-ups. The Fund will target value-oriented investing in companies located in North Asia (Korea, Japan, China, and Taiwan) with leading market positions, emphasizing stable, defensive industries underpinned by domestic consumption.

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

Local expertise in target markets: MBK has offices in each of its target markets (Korea, Japan, China), which are staffed by local professionals who speak the local language of the target market.

Diversifies existing Asia PE exposure: Current Asian exposure in the Private Equity portfolio de-emphasizes Japan (only 2% of current PE Asia exposure), whereas MBK is targeting 25% to 30% to Japan in Fund IV.

Market Opportunity across Target Markets:

Korea: MBK is the largest, independent PE firm registered with the Financial Services Commission (FSC) in Korea. As a locally registered PE firm, MBK is perceived legally and publicly as a domestic entity, allowing it to pursue investments in highly regulated industries, many of which have foreign ownership restrictions. Deal volume in Korea has increased by over 160% since 2008 as Private Equity has become culturally acceptable.

Japan: Japan is expected to be a strong market for buyouts over the next several years due to the combination of historical low public market valuations, increasing availability of financing and favorable policy changes.

China: Opportunities will be defined by the macro-economic growth and structural changes in the Chinese economy. Control transactions are emerging for privately-owned companies which, after 20+ years of market liberalization, have finally achieved meaningful scale and size.

Taiwan: Readily available acquisition financing in Taiwan enables more easily completed control LBO transactions in key industries.

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 engaged a third-party solicitor (“placement agent”) in the fundraising of the fund, but the placement agent was not used to solicit 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. MBK IV, 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 November 15, 2016. 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 30, 2016 meeting.

Attachments

Fund Name: MBK IV, L.P.

November 30, 2016

Contact Info: Inkyung Lee, 22nd Fl., D Tower D1, 17 Jongno 3-gil, Jongno-gu, Seoul, Korea 03155

Fund Details:

Firm AUM:	\$10.4 billion	Key Investment Professionals: Michael ByungJu Kim , Partner and one of the founders of MBK Partners. Prior to MBK Partners, Mr. Kim was President of Carlyle Asia Partners, responsible for overseeing Carlyle’s buyout activities in the Asia-Pacific region (outside of Japan). Jay H. Bu , Partner based in Seoul and Tokyo. Prior to MBK Partners, he was a Director and head of the telecom & media practice for Carlyle Asia Partners. Ken Kagasa , Partner based in Tokyo. Prior to joining MBK Partners, Mr. Kagasa was a Vice President at Goldman Sachs PIA Japan. Prior to Goldman Sachs PIA, he worked for Asahi Bank in Tokyo. Kwang Il Kim , Partner based in Seoul. Prior to MBK Partners, Mr. Kim was a Partner and Senior M&A Lawyer at the law offices of Kim & Chang in Seoul. Before Kim & Chang, Mr. Kim was a Certified Public Accountant at Samil PricewaterhouseCoopers in Seoul.
Strategy:	Buyout	
Year Founded:	2005	
Headquarters:	Seoul, South Korea	
GP Commitment:	2.75% (Up to \$87.5 million)	

Investment Summary	Existing and Prior Funds			
MBK was created in 2005 when Michael ByungJu Kim led a spin-out of The Carlyle Group’s (“Carlyle”) Asian investment team, Carlyle Asia Partners (“CAP”). The Fund’s strategy is value-oriented investing in companies with leading market positions; emphasizing stable, defensive industries underpinned by domestic consumption. The Fund will acquire companies in a variety of situations, including management-led buyouts, corporate divestitures, and public to private transactions. Additionally, MBK will partner with strategic buyers to acquire target companies, as well as purchase platform companies to enact industry roll-ups. Importantly, the Fund will continue to pursue the same strategy they have since inception, primarily making control-oriented investments in North Asia.	<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 6/30/2016</u>
	Fund I	2005	Buyout	7.2% Net IRR, 1.52x Net MOIC, 0.98x Net DPI
	Fund II	2008	Buyout	20.8% Net IRR, 2.18x Net MOIC, 1.53x Net DPI
	Fund III	2013	Buyout	6.6% Net IRR, 1.53x Net MOIC, 0.07x Net DPI
IRR = Internal Rate of Return; MOIC = Multiple on Invested Capital; DPI= Distributions to Paid-In				

Vehicle Information:

Inception:	2016	Auditor:	PricewaterhouseCoopers
Fund Size (LP commitments):	\$4.0 billion hard cap	Legal Counsel:	Cleary Gottlieb Steen & Hamilton LLP
Management Fee:	2.0% of commitments up to \$1.5 billion and 1.75% of commitments in excess of \$1.5 billion during the investment period; thereafter, 1.5% of actively invested capital net of write-offs.		
Carry:	20%		
Hurdle Rate:	8%		
Other:	100% fee offset		

NJ AIP Program

Recommended Allocation:	up to \$100 million	LP Advisory Board Membership:	TBD
% of Fund:	2.50%	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	NA
		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.