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November 14, 2019

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Proposed Investment in MBK Partners Fund V, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$100 million in MBK Partners Fund V, 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:

Consistent controlled-oriented investment strategy in core sectors and geographies: MBK Partners (“MBK” or “Firm”) has pursued the same investment strategy since inception. Its investment thesis emphasizes control investments focused on stable, defensive businesses underpinned by domestic consumption.

Stable and experienced partnership; accomplished and long-tenured investment team: Over MBK’s 13+ year history, the team has been largely stable. MBK is led by 12 Partners who have been working together for an average of 11.4 years, while the four Founding Partners have been working together continuously for an average of 20 years.

Strong local presence and competitive edge in the target markets: Each of MBK’s investment teams is composed entirely of locals who are native to their respective markets. The local teams’ understanding of its markets’ culture and political and economic environment provide MBK with a distinct advantage in developing local relationships, which is critical to sourcing quality investment opportunities.

Unique capability to execute complex investment deals in the North-Asia region: MBK has significant experience with large, complex investments that require sophisticated deal structuring and significant capital commitment. MBK has a proven ability to develop relationships with key constituents and to navigate the challenges in executing complex transactions, especially in regulated industries such as financial services and telecom/ media.

Emphasis on cash distributions and top quartile Distributions to Paid-In capital (“DPI”) through recapitalization: MBK is focused on maximizing capital returned to investors. MBK targets to generate a higher Multiple Of Invested Capital (MOIC), balanced with an attractive IRR profile by partially de-risking investments ahead of full exit.

Environmental, Social and Governance (ESG) Policy: MBK integrates its formal ESG policy into the investment and portfolio management process to achieve operational excellence, to create value, and to make businesses better. Prior to making an investment decision, MBK conducts thorough due diligence and assesses all potential investments for a range of ESG risks. MBK documents findings and next steps for internal use; identification of material issues may merit engaging external advisors or portfolio company management. After acquisition, ESG action plans or improvement programs would be integrated into the regular “100 day plan”.

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. MBK Partners Fund V, L.P. is considered a private equity buyout investment, as defined under N.J.A.C. 17:16-90.1. Pursuant to N.J.A.C. 17:16-90.4(a)1, the aggregate market value of private equity investments shall not exceed 12% of the combined assets of all of the Pension and Annuity Funds. As of the close of business on November 12, 2019, the aggregate market value of private equity investments is 11.15% of the combined assets of all the Pension and Annuity Funds excluding the Police and Fire Mortgage assets.

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 13, 2019. 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 20, 2019 meeting.

Attachment

Fund Name: MBK Partners Fund V, L.P.

November 14, 2019

Contact Info: In Kyung Lee, 22nd Floor D Tower D1, 17 Jongno 3-gil, Jongno-gu, Seoul, Korea

Fund Details:

Firm AUM (\$bil.):	\$15.7 billion	Key Investment Professionals Michael ByungJu Kim – (Partner and Co-Founder) Prior to founding MBK in 2005, Mr. Kim was the President of Carlyle Asia Partners and COO of Asia-Pacific Investment Banking for Salomon Smith Barney and an Executive Director at Goldman, Sachs. Tae Hyun Park – (Partner) Prior to joining MBK in 2011, Mr. Park was an M&A Partner at Kim & Chang and worked at Sullivan & Cromwell. Jinha Lee – (Partner) Prior to joining MBK in 2006, Mr. Lee was a Senior Associate Consultant at Bain & Company. Kwang Il Kim – (Partner) Prior to joining MBK in 2005, Mr. Kim was a Partner and Senior M&A Lawyer at Kim & Chang and a CPA at Samil PwC. Jong-Ha James Yoon – (Partner and Head of Korea) Prior to joining MBK in 2005, Dr. Yoon was a Co-head of Korea for Carlyle Asia Partners and a Managing Director at KPMG Financial Advisory Services. Teck Chien Kong – (Partner and Co-Head of China) Prior to MBK in 2005, Mr. Kong worked at Carlyle Asia Partners and Salomon Smith Barney. Ken Kagasa – (Partner and Co-head of Japan) Prior to joining MBK in 2009, Mr. Kagasa worked at Goldman Sachs Japan and Asahi Bank. Daisuke Ikeda – (Partner and Co-head of Japan) Prior to joining MBK in 2008, Mr. Ikeda worked at Gracchus & Associates, Inc. and Mizuho Bank. Hongfei Yu – (Partner) Prior to joining MBK in 2010, Mr. Yu worked for Morgan Stanley’ M& A team in Hong Kong.
Strategy:	Buyout	
Year Founded:	2005	
Headquarters:	Seoul, South Korea	
GP Commitment:	2.75%	

Investment Summary	Existing and Prior Funds			
MBK Partners Fund V, L.P. seeks to capitalize on the market opportunity in the target North Asia region, focusing exclusively on Korea, Japan and Greater China. This is achieved through its local, proprietary deal-sourcing capabilities and global standard investment practices. Fund V intends to acquire companies through management-led buyouts, subsidiary businesses through corporate divestitures, partnering with strategic buyers, public to private transactions, and purchasing and growing companies through industry roll-ups.	Funds	Vintage Year	Strategy	Returns as of 6/30/2019
	Fund I	2005	Buyout	4.5% Net IRR; 1.31x Net TVPI; 1.31x DPI
	Fund II	2008	Buyout	19.4% Net IRR; 2.19x Net TVPI; 2.14x DPI
	Fund III	2013	Buyout	16.9% Net IRR; 1.67x Net TVPI; 0.46x DPI
	Fund IV	2017	Buyout	18.2% Net IRR; 1.20x Net TVPI; 0.09x DPI
	Source of Returns= TorreyCove			
	IRR = Internal Rate of Return; TVPI= Total Value to Paid-In; DPI= Distributions to Paid-In			

Vehicle Information:

Inception:	2019	Auditor:	PricewaterhouseCoopers
Fund Size:	\$6.5 billion hard cap	Legal Counsel:	Cleary Gottlieb Steen & Hamilton LLP
Management Fee:	1.75% on commitments during the commitment period; thereafter, 1.50% on unreturned capital (including any Partnership borrowings)		
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	100% management fee offset		

NJ AIP Program

Recommended Allocation (\$mil):	up to \$100 million	LP Advisory Board Membership:	TBD
% of Fund:	1.54%	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.