



## State of New Jersey

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May 10, 2013

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh  
Director

SUBJECT: **Proposed Investment in Marlin Equity Partners IV, L.P. Fund**

The New Jersey Division of Investment ("Division") is proposing an investment up to \$100 million in Marlin Equity Partners IV, L.P. Fund. Marlin is an operationally focused mid-market turn around firm. 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:

**Opportunity to expand relationship with top quartile manager:** The Division has exposure to Marlin Equity II and III, the predecessor funds to Marlin Equity IV, L.P., through separate accounts. Fund I, in which the Division did not invest, and Fund II have produced top-quartile performance; Fund I with a 3.0 Net TVM and a 44.4% Net IRR and Fund II with a 2.80x Net TVM and a 38.3% Net IRR. Fund III with a 1.20x Net TVM and a 21.6% Net IRR currently ranks in the second quartile, although it should be noted that it is young portfolio with an average hold period of under 1 year. The portfolio is tracking well, and has one exit at 2.8x cost.

As of December 31, 2012, the combined Funds generated a Net IRR of 36.5% and a Net TVPI of 1.90x. Marlin has generated top quartile performance having completed 30 platform investments, of which 12 are full or substantial realizations that have generated gross returns of 4.4x and 108% gross IRR over an average hold period of 2.85 years.

**Experienced and Disciplined Investment Team:** Marlin was founded by David M. McGovern, the former Head of Mergers & Acquisitions and Managing Director at Gores Technology Group. Prior to forming Marlin in 2005, Mr. McGovern was part of an investment team that initiated and executed investing in operationally and financially challenged businesses. During that time he led many corporate divestiture transactions which included acquiring the Learning Company out of Mattel and the carve-outs of both Micron Electronics PC business and VeriFone from Hewlett-Packard. The Fund will be managed by the same senior team and will employ the same investment strategy as the Firm's prior funds. This investment strategy has been developed and successfully implemented by the Marlin Partners for over seven years. The Team members have

a complementary mix of backgrounds including private equity, investment banking, law, management consulting, operations and investment management. The team includes 47 investment professionals, 24 of which are operations professionals.

***Differentiated & Successful investment strategy:*** Since 2005, Marlin has acquired over 60 businesses across a variety of industries. They focus on complex turnarounds in the middle-market, where there is generally less competitive pressure. Marlin has implemented an approach where transactions are sourced, qualified and executed through a consistent, disciplined and repeatable investment process. A typical Marlin target is experiencing some degree of situational distress, such as complex corporate carve-outs and corporate orphans, operational distress, or financial distress. In addition to financial capital, Marlin provides a network of strategic resources and relationships geared to help management teams weather challenging transitions and recognize long-term value within their businesses. Together, the Investment and Operations Teams conduct rigorous due diligence, develop detailed operating plans, guide transition planning and merger integration, establish financial controls and reporting procedures, mentor senior management personnel, and provide valuable strategic board oversight. Where appropriate, Marlin has the capability to execute rapid turnarounds and/or restructurings at each of its portfolio companies. A Marlin-led turnaround typically includes revenue sizing and cost scaling, supply chain restructuring, channel strengthening and diversification, reinvigorating management, improving culture, and/or strategic acquisitions. As a result of Marlin's transformative operating approach, 11 of its 12 realization events have been sales to strategic buyers.

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 Credit Suisse Securities (USA) 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. In addition, the proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that the investment is authorized pursuant to Articles 69 and 90 of the Council's regulations. The Marlin Equity Partners IV, L.P. Fund 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 April 10, 2013. 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 May 16, 2013 meeting.

Attachments

Fund Name: Marlin Equity Partners IV, L.P.

May 10, 2013

Contact Info: Peter Spasov, 338 Pier Avenue, Hermosa Beach, CA 90254

Fund Details:

Firm AUM (\$bil.):	\$2.5 billion	<p><b>Key Investment Professionals:</b>  <b>David M. McGovern</b> (Managing Partner) Mr. McGovern founded Marlin in 2005 and has been a private equity investor since 1999. He is Managing Partner of the Firm and Chairman of the Firm's Executive Committee and Investment Committee. Prior to forming Marlin in 2005, Mr. McGovern was part of an investment team that initiated and executed an innovative model of investing in operationally and financially challenged businesses.  <b>Nicholas M. Kaiser</b> (Partner) Mr. Kaiser co founded Marlin in 2005 and has worked closely with Mr. McGovern as a private equity investor since 2000. He is a Partner and member of the Firm's Executive Committee and Investment Committee. Mr. Kaiser's primary responsibilities include overseeing Marlin's Investment Team, conducting due diligence, transaction execution and portfolio monitoring.  <b>Peter B. Spasov</b> (Partner) Mr. Spasov is a Partner and member of the Firm's Executive Committee and Investment Committee. His primary responsibilities include deal origination, deal qualification, transaction structuring, pursuing strategic initiatives for the Firm and investor relations. Prior to joining Marlin, Mr. Spasov was at Northrop Grumman Corporation where he was a Senior Investments Specialist of the Investment and Trust Department.  <b>George W. Kase</b> (Partner) Mr. Kase is a Partner and member of the Firm's Investment Committee. His primary responsibilities at Marlin include deal qualification, conducting due diligence, transaction execution and portfolio monitoring.  <b>Stephen B. Johnson</b> (Partner) Mr. Johnson's primary responsibilities at Marlin include deal qualification, conducting due diligence, transaction execution and portfolio monitoring. He has been a private equity investor since 2002 and has served in both M&amp;A and operational roles, including a two year period as the CFO of Avure Technologies.</p>
Strategy:	Private Equity Distressed Buyout	
Year Founded:	2005	
Headquarters:	Hermosa Beach, CA	
GP Commitment:	2.25%	

Investment Summary	Existing and Prior Funds		
<p>The Fund will invest in Special Situations across of variety of industries, specifically targeting businesses with shared attributes such as sustainable operations, predictable revenue streams, scalable cost structures and underutilized assets that can be exploited to unlock hidden value. The Firm will focus on the opportunities where they have industry expertise and can drive operational value creation in technology, healthcare, business services, consumer products and manufacturing. The Fund will be managed by the same senior team and will employ the same investment strategy as the Firm's prior funds, utilizing an approach where transactions are sourced, qualified and executed through a consistent, disciplined and repeatable investment process. Fund IV will target between 15 and 25 platform investments, each requiring capital of approximately \$30 million to \$100 million in order to take control of and subsequently operate the company.</p>	<u>Funds (as of 12/31/2012)</u>	<u>Strategy</u>	<u>Returns</u>
	Fund I (2005)	Distressed Buyout	44.4% Net IRR, 3.0x Net TVM
	Fund II (2008)	Distressed Buyout	38.3% Net IRR, 2.8x Net TVM
	Fund III (2010)	Distressed Buyout	21.6% Net IRR, 1.2x Net TVM

Vehicle Information:

Inception:	2013	Auditor:	PricewaterhouseCoopers LLP
Fund Size (\$mil.):	\$1.6 billion	Legal Counsel:	Kirkland & Ellis LLP
Management Fee:	2.0% of Total Commitments		
Carry:	20%		
Hurdle Rate:	8%		
Fee Offset:	100%		

NJ AIP Program

Recommended Allocation (\$mil):	up to \$100,000,000	LP Advisory Board Membership:	To be negotiated
% of Fund:	6.25%	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.