



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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January 22, 2016

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in New Jersey Asia Investors III**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$300 million to New Jersey Asia Investors III (“NJAI III” or the “Fund”), a separate account managed by Asia Alternatives Management LLC (“Asia Alternatives” or the “Firm”). NJAI III will be comprised of a \$150 million commitment to a Balanced Pool, which will invest pro-rata with other Asia Alternatives’ vehicles, and a \$150 million commitment to a Co-Investment Pool. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

NJAI III will invest in Asia-based private equity funds across a variety of strategies. The Fund will target mostly buyout and growth funds, but will also invest in venture capital and special situations funds selectively. The Firm will seek to fill their investment targets in either primary fund commitments or select secondary and co-investment offerings.

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

Strong and Consistent Performance: New Jersey Asia Investors (“NJAI I”) and New Jersey Asia Investors II (“NJAI II”) have generated attractive relative returns. As of September 30, 2015, NJAI I (2008) has generated a 34.3% Net Internal Rate of Return (“IRR”), a 3.06x Net Total Value Multiple (“TVM”), and a 0.81x Distributed to Paid-In (“DPI”) multiple; NJAI II (tranche one) has generated a 21.5% Net IRR, a 1.47x TVM and a 0.46x DPI; and NJAI II (tranche two) has generated an 8.4% Net IRR, a 1.1x Net TVM and a 0.13x DPI. As of 9/30/15, both NJAI I and II are ranked in the top quartile amongst Global Fund-of-Funds and have significantly outperformed the top quartile Asia Private Equity index according to Cambridge Associates. In addition, during the same time period, both accounts have significantly outperformed the MSCI Asia Index on a Public Market Equivalent (PME) basis by over 20%.

Extension of Staff: Given Asia Alternatives’ location, experience and network within the region, maintaining the relationship will allow the Division to continue to leverage the Firm’s capabilities in a number of ways. Due to the Division’s lack of resources and physical presence in the region, Asia Alternatives provides the Division with education, intelligence and market commentary that would be difficult to replicate. The relationship also allows for introductions and access to General Partners which may be suitable for direct investment.

Attractive Fee Structure: The proposed \$300 million separate account would enjoy the benefit of lower fees on average with its allocation to the Co-Investment Pool, materially lowering the effective management fee and carry. Assuming the \$150 million Co-Investment Pool is invested, the expected blended fees would be as follows:

Management Fee: Blended 0.2% for the life of the fund (Based on cash flow assumptions)
Preferred Return: 8.0%
Carry: Blended 3.04%

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. New Jersey Asia Investors III 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 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 January 27, 2016 meeting.

Attachments

Fund Name: New Jersey Asia Investors III, L.P.

January 27, 2016

Contact Info: William LaFayette, One Maritime Plaza, Suite 1000, San Francisco, CA 94111

Fund Details:

Firm AUM:	\$1.8 billion	Key Investment Professionals: Melissa J. Ma , Co-Founder and Managing Director. Ms. Ma splits her time between Asia Alternatives' Hong Kong and San Francisco offices. Ms. Ma is on the Firm's Investment Committee and co-leads Asia Alternatives' investments in buyout, direct co-investments and special situations. In addition, she oversees investor relations, asset allocation, and investment strategy and process. Prior to launching Asia Alternatives, Ms. Ma was a Director at Hellman & Friedman LLC, a private equity firm. Rebecca Xu , Co-Founder and Managing Director. Ms. Xu leads Asia Alternatives' Beijing office and is also a part of the Hong Kong office. She is on the Firm's Investment Committee and co-leads Asia Alternatives' investments in expansion and growth capital funds, focusing most of her time on Asia Alternatives' Chinese investments. Prior to starting Asia Alternatives, Ms. Xu was a Senior Investment Officer at the Funds Group of the International Finance Corporation, the private sector investment arm of the World Bank Group. William D. LaFayette , Managing Director. Mr. Lafayette leads Asia Alternatives' San Francisco office, which serves as the Firm's base for investor services, marketing, and corporate financial management. Mr. LaFayette is on the Firm's Investment Committee and leads the operational, accounting and tax due diligence for all investments. Prior to joining Asia Alternatives, Mr. LaFayette founded a private equity and venture capital consulting firm in 2002 which provided financial and tax advice to private equity and venture capital firms. Akihiko Yasuda , Managing Director. Mr. Yasuda leads and is based in Asia Alternatives' Hong Kong office. He is on the Firm's Investment Committee. Mr. Yasuda leads the Firm's investments in Japan and South Korea and co-leads Asia Alternatives' investments in buyouts and special situations. Prior to joining Asia Alternatives, Mr. Yasuda was most recently an Executive Director and Head of Private Equity at the Sumitomo Trust Finance (H.K.) Limited. Laure L. Wang , Co-Founder and Senior Advisor. Prior to joining Asia Alternatives, Ms. Wang was a General Partner of Pacific Venture Partners. She co-headed the China and US operations and was one of five members on its investment committee.
Strategy:	Buyout	
Year Founded:	2006	
Headquarters:	Hong Kong	
GP Commitment:	1%	

Investment Summary

Asia Alternatives (the "Firm") is an Asia-focused fund-of-funds founded in 2006 by Melissa Ma, Laure Wang, and Rebecca Xu. New Jersey Asia Investors III (the "Fund") will invest in Asia-based private equity funds across a variety of strategies. The Fund will target mostly buyout and growth funds, but will also invest in venture capital and special situations funds selectively. The Firm will seek to fill their investment targets in either primary fund commitments or select secondary and co-investment offerings. Asia Alternatives targets a balanced portfolio construction approach with traditional private equity being the core portfolio supplemented by venture capital funds, which are further out on the risk spectrum but generate higher returns, and by secondaries and direct investments that return cash sooner to mitigate the J-curve. The Fund will seek to make investments in fund managers located in and/or investing in Asia.

Existing and Prior Funds

Funds	Vintage Year	Strategy	Returns as of 6/30/2015
NJAI I	2008	Buyout	34.3% Net IRR, 3.06x Net TVM, 0.81x Net DPI
NJAI II (Tranche 1)	2011	Buyout	21.5% Net IRR, 1.47x Net TVM, 0.46x Net DPI
NJAI II (Tranche 2)	2013	Buyout	8.4% Net IRR, 1.10x Net TVM, 0.13x Net DPI

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

Vehicle Information:

Inception:	2016	Auditor:	Ernst & Young LLP
Fund Size:	\$300 million	Legal Counsel:	Pillsbury Winthrop Shaw Pittman LLP
Management Fee:	Balanced Pool: 0.8% of Capital Commitments; reduced to 0.5% of Invested Amount upon the earlier of the creation of a subsequent fund or upon the termination of the investment period. Co-Investment Pool: No Fee Blended Fee: Averaged Per Year: 0.2%		
Carry:	Balanced Pool: 6.075% Co-Investment Pool: No Carry Blended Carry: 3.0375%		
Hurdle Rate:	Balanced Pool: 8.0% Co-Investment Pool: N/A		
Additional Expenses:	100% fee offset		

NJ AIP Program

Recommended Allocation (\$mil):	Balanced Pool: \$150 million Co-investment Pool: \$150 million	LP Advisory Board Membership:	Yes
% of Fund:	99.00%	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.