



State of New Jersey

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September 13, 2013

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Acting Director

SUBJECT: **Proposed Investment in Siguler Guff/NJ Developing Markets,
L.P.**

The New Jersey Division of Investment ("Division") is proposing an investment of \$300 million in Siguler Guff/NJ Developing Markets, L.P. ("SG/NJDM"). 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 Set: The Division believes the developing market opportunity set is attractive based on the following themes:

- An expanding middle class to fuel domestic consumption
- Rapidly scaling businesses
- Expansion of the financial services industry and the development of capital markets
- Transition and professionalization of family-owned enterprises
- Stronger long-term outlooks
- Under penetration of private equity market

Increased Exposure to Developing Markets: The Division's current exposure to the developing markets private equity is currently only \$300 million and focused only on Asia. In January the Division communicated to the Council that developing markets would be a major focus in 2013. As a part of this initiative, the Division has determined that a partnership with Siguler Guff would be the best first step in building out its exposure to developing markets outside of Asia such as Latin America, Africa, Central and Eastern Europe, and Russia.

Experienced Manager/Local Expertise: Siguler Guff has invested over \$2.1 billion across nearly 100 Emerging Market funds and co-investments. The investment team is comprised of 35 investment professionals dedicated to the developing markets with an average of 15 years of experience. The Division's account will have a group of 15 people dedicated to the proposed mandate. Siguler Guff's team is located throughout the world and has offices in Shanghai,

Beijing, Mumbai, São Paulo and Moscow. The local presence provides a competitive advantage for deal sourcing, due diligence and monitoring; and also bridges the language and cultural gaps faced by firms without local offices and professionals on the ground.

Resources & Education: The Division's relationship with Siguler Guff will provide for sharing of diligence materials, prospective and existing investment information, market reports and facilitate the transfer of knowledge to the Division.

Attractive Terms: The Division has negotiated a management fee of 50 basis points (.50%) and a 10% carry over an 8% preferred return. The terms provide adequate risk controls in the form of veto rights on investment opportunities, a specified process to continually maintain adequate exposure to opportunities over time, and a No Fault Termination provision.

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.

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. 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. SG/NJDM 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 September 5, 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 September 19, 2013 meeting.

Attachments

Fund Name: Siguler Guff/New Jersey Developing Markets Fund

September 19, 2013

Contact Info: Drew Guff, 825 Third Avenue, 10th Floor, New York, NY 10022

Fund Details:

Firm AUM (\$bil):	\$10.40	Key Investment Professionals: George Siguler , CIO & Managing Director. Mr. Siguler co-founded Siguler Guff in 1995. George sits on the Investment Committees for all of the Firm's funds. Currently, George is a Director of the Emerging Market Private Equity Association, a member of the advisory board of the Center for Asian Pacific Policy at Rand Corporation, serves on the Pension Advisory Committee of the International Monetary Fund and Board of Directors of MSCI Barra. Drew Guff , Managing Director and Founding Partner since 1995. Drew is responsible for Emerging Markets, direct investment and merchant bank activities and sits on the Investment Committees for all of the Firm's funds. Currently, Drew sits on the board of directors of a number of Russia Partners' portfolio companies, is a board member of the US-Russia Business Council and is a member of the Council on Foreign Relations. Jay Koh , Managing Director and Partner since 2012. Jay serves as a member of the Firm's senior management team. Prior to Siguler Guff, Jay was the Head of Investment Funds and Chief Investment Strategist at the Overseas Private Investment Corporation (OPIC). Jay has prior experience at R3, Carlyle, and as a US Supreme Court clerk. Ralph Jaeger , Managing Director since 2012. Ralph is co-portfolio manager and member of the BRIC Opportunities Funds. Prior to Siguler Guff, Ralph focused on Emerging Markets at Cambridge Associates, analyzed investment opportunities while at PAI, JP Morgan Partners, and Industri Kapital.
Strategy:	Buyout	
Year Founded:	1991	
Headquarters:	New York, New York	
GP Commitment:	1%	

Investment Summary	Existing and Prior Funds				
<p>The New Jersey Developing Markets Private Equity Program ("NJDM") is a customized separate account up to \$300 million in size focused on the developing markets. Through an extensive search conducted by The Division and its private equity consultant Strategic Investment Solutions, Inc., Siguler Guff was chosen to implement the program. Siguler Guff is an independent, privately-held partnership which manages several direct PE funds and multi-manager funds. The account will invest in high-conviction primary funds, secondary and co-investment opportunities in the developing markets across the private equity disciplines. NJDM will invest up to 100% in primary funds (target funds less than \$1 billion) and/or secondaries and up to 50% may be committed to co-investments. The Division has veto rights on all investment opportunities. The Division will utilize the platform as a potential source for new investments as well as a means for vetting prospective investments.</p>	<i>Fund of Fund</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of 12/31/2012</i>	
	BRIC Opportunities Fund I	2005	Fund of Funds	6.3% Net IRR, 0.3x Net DPI	
	BRIC Opportunities Fund II	2008	Fund of Funds	4.2% Net IRR, 0.0x Net DPI	
	BRIC Opportunities Fund III	2011	Fund of Funds	N/M Net IRR, 0.0x Net DPI	
	<u>Separate Account</u>				
	Foreign Sovereign Wealth Fund	2010		4.1% Net IRR, 0.0x Net DPI	
	Australian Superannuation Fund	2012		N/M Net IRR, 0.0x Net DPI	
IRR = Internal Rate of Return DPI = Distributions to Paid-In					

Vehicle Information:

Inception:	2013	Auditor:	PricewaterhouseCoopers
Fund Size (\$mil):	\$300 million	Legal Counsel:	Ropes & Gray LLP
Management Fee:	0.50%		
Carry:	10%		
Hurdle Rate:	8%		
Additional Expenses:	100% fee offset		

NJ AIP Program			
Recommended Allocation (\$mil):	\$300,000,000	LP Advisory Board Membership:	N/A
% of Fund:	99%	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.