



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

October 7, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investments in Sterling Capital Partners IV, L.P. Fund**

The New Jersey Division of Investment ("Division") is proposing an investment of \$100 million in **Sterling Capital Partners IV, L.P. Fund** ("SCP IV" or the "Fund"). This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

SCP IV will target 5-6 platform investments per year, in non-cyclical companies with a defensible competitive advantage, strong management & industry fundamentals and a recurring revenue model. Sterling will principally execute a buy and build strategy, investing \$24-\$200 million in equity over time per investment. The principal areas of focus will be Business Services, Healthcare and Education. The Fund is being led by five of Sterling's managing directors who have worked together at Sterling since 1986.

The Fund's objective will be to optimize a company's overall capital structure. In many instances, this approach, which is based upon the prudent use of leverage, will yield a significantly higher return on equity than a company had previously been able to achieve. Sterling conducts proprietary research into attractive market opportunities and proactively targets businesses with compelling value propositions and differentiated product or service offerings. When potential investments are identified, the firm's rigorous investment due diligence and team-based approach provide for a disciplined review, assessment, and investment process.

The Division Staff and its private equity consultant, Strategic Investment Solutions, undertook extensive due diligence on this proposed investment. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

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 each investment. In addition, each

proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that this investment is authorized pursuant to Articles 69 and 90 of the Council's regulations. The Sterling Capital Partners IV, L.P. Fund will be considered a "buy-out" investment, as defined under N.J.A.C. 17:16-90.1.

Formal written due diligence reports for the proposed investment was sent to each member of the Investment Policy Committee and a meeting of the Committee was held on September 8, 2011. In addition to the formal written due diligence reports, all other information obtained by the Division on the investment was made available to the Investment Policy Committee.

We look forward to discussing the proposed investment at the Council's October 13, 2011 meeting.

Attachments

State Investment Council Fund Review Memo

To: State Investment Council
From: Division of Investment
Date: October 13, 2011
Subject: Sterling Capital Partners IV,L.P. Investment Recommendation

Fund Facts

Fund Name:	Sterling Capital Partners IV,L.P.
Fund Type:	Domestic Buy out
Current Fund Size:	1.2 billion
Previous Fund Size/Vintage:	\$1.03 billion/ 2007
Final Close:	On or before September 2, 2012
Fund Address:	1033 Skokie Boulevard, suite 600 Northbrook, IL 60062

GP Contact Info

Name:	Steven Taslitz
Telephone:	(847)480-4000
Email:	staslitz@sterlingpartners.com

Summary of Terms and Investment Strategy

Investment Strategy:	Mid-market Buy out
Geographic Focus:	US/Canada
GP Co-Investment Amount:	3.50%
Terms:	
Term:	10 yrs, 3 (1 yr) extensions
Investment period:	6 years
Management Fee:	2 % / 1.5% for commitments over \$1 b
Other Fees:	
Carry/Performance Fee:	20% / 8%
Attorney:	Proskauer Rose LLP and Richards Layton and Finger, P.A.
Auditor:	Ernst & Young, LLP
Accounting Firm:	

NJ AIP Program:

Recommended Allocation:	100,000,000.00
% of Fund:	8.30%

LP Advisory Board Membership:	TBD
Consultant Recommendation:	Yes
Placement Agent:	No
Compliance with Division Placement Agent Policy:	N/A
Compliance with 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.