



State of New Jersey

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Governor

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DIVISION OF INVESTMENT
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State Treasurer

March 22, 2012

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Warburg Pincus Private Equity XI, LP.**

The New Jersey Division of Investment (“Division”) is proposing an investment of \$300 million in Warburg Pincus Private Equity XI, LP. 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 due to the following fund/manager characteristics:

Top Performer and Core Relationship: NJDOI views Warburg Pincus as a core relationship to its private equity portfolio and is currently invested in Warburg Pincus Fund VIII (\$25.75 million), IX (\$200 million) and X (\$400 million). The family of funds has generated consistent returns across various investment stages, sectors and cycles, and is ranked as a top quartile performer among its peers.

Experienced, Deeply Staffed, Global Organization: Founded in 1967, Warburg Pincus is one of the pioneering firms in private equity and one of the few remaining firms that has effectively dealt with management transition from one generation of leaders to the next. With a total staff of approximately 419, including 66 partners and 180 investment professionals across nine offices globally, the firm is led by a 17-member Executive Management Group. Warburg Pincus was also one of the first firms to emphasize global investing early in its history, and was one of the first U.S. firms to begin investing in Europe (1983) and then in India and China (via the Hong Kong office that opened in 1994).

Classic Growth-Oriented Investment Strategy: Consistent with prior Warburg Pincus funds, WP XI’s strategy is to largely invest in growing companies. Across the range of investments, the aim is to build lasting businesses with increasing operating earnings in growing industries – and to generate returns without significant reliance on financial engineering. In the current market cycle, which has largely relied on leverage to scale not only investment capacity but also significantly to fund realizations via debt recapitalizations, Warburg Pincus’ analysis illustrates

that less than 5% of the firm's distributions over the last ten years were funded via leveraged recapitalizations.

Differentiated Portfolio Strategy: Also consistent with prior funds, WP XI will seek to execute its growth oriented strategy across investment stage (venture capital startups, later stage growth capital, and leveraged buyouts), sectors (Technology Media Telecommunications, Consumer and Industrial, Financial Services, Life Sciences, Natural Resources, Real Estate and Other), and regions (U.S., Europe, and Asia). This unique portfolio diversification provides NJDOI broad, scalable exposure to investments globally.

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. The Warburg Pincus Private Equity XI, LP. Fund 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 March 14, 2012. 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 March 22, 2012 meeting.

Fund Name: Warburg Pincus Private Equity XI ,L.P. March 22, 2012

Contact Info: *Rosanne Zimmerman, 450 Lexington Avenue, New York, NY 212-878-9358 , rosanne.zimmerman@warburgpincus.com*

Fund Details:

AUM :	\$31.75 billion	Key Investment Professionals: <i>Charles R. Kaye, Co-President, is based in New York, has been with Warburg Pincus since 1986 and was instrumental in the launch and development of Warburg Pincus' Asian operations.</i> <i>Joseph P. Landy, Co-President, is based in New York and has been with the firm since 1985. His principal areas of investment focus have been information technology, Internet applications and infrastructure and communications applications.</i>
Strategy:	Buyout	
Year Founded:	1967	
Headquarters:	450 Lexington Ave, New York, NY.	
GP Commitment:	Excess of \$300 million	

Investment Summary	Existing and Prior Funds
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Since its founding, Warburg Pincus has followed a growth oriented investment strategy that the firm continues to pursue today. The firm's early stage and growth investing is often thesis driven, pursuing extensively researched themes and ideas. The firm also prefers to invest with accomplished management teams who are investing in the transactions alongside the firm. Warburg's flexible investing style, industry knowledge, global platform and one-firm culture, provide the firm with an unique ability to adapt its investing pace and focus on market conditions, sector trends, industry cycles and valuation/pricing cycles.

<u>Funds</u>	<u>Strategy</u>	<u>Returns</u>
WPEP (1998)	Buyout	1.61x, 10.1
WPIP (2000)	Buyout	2.04x, 13.1
WP VII (2001)	Buyout	2.1x, 15.8%
WP IX (2005)	Buyout	1.4x, 8.3%
WP X (2007)	Buyout	1.01x, .6%

Vehicle Information:

Inception:	2012	Auditor:	Ernst & Young LLP
Fund Size (\$mil.):	\$12 Billion	Legal Counsel:	Willkie Farr & Gallagher LLP
Management Fee:	1.3% commitment period, 1.25% post investment period, 1% thereafter	Accounting Firm:	Internal Function
Carry:	20%		
Hurdle Rate:	None		
Additional Expenses:	NA		

NJ AIP Program

Recommended Allocation:	\$300,000,000.00	LP Advisory Board Membership:	Yes
% of Fund:	2.50%	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 theret