



State of New Jersey

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September 19, 2019

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Proposed Investment in Ardian Buyout Fund VII**

The Division of Investment (the “Division”) is proposing an investment of up to €125 million in Ardian Buyout Fund VII (the “Fund”), plus up to another €50 million in a co-investment side car vehicle alongside the Fund. 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:

Consistent track record across cycles: Since its first fund in 1998, Ardian’s family of European Buyout funds has consistently delivered 1st and 2nd quartile performance across metrics and across cycles with below market loss ratios. Ardian has delivered that performance with below market levels of leverage and with a relatively low volatility of outcomes at the underlying portfolio company level. Moreover, returns have been consistent across geographies and sectors. Taken together, the Division views Ardian’s consistent track record as both attractive on a risk-adjusted basis, and representative of a robust, repeatable investment process.

Complementary to Pension Fund’s existing exposures in Europe: The Fund is based out of Paris and is a sector generalist fund operating a middle market pan-European strategy that is more focused on continental Europe than on the U.K. This combination of size, sector, and geographic exposures complements the Pension Fund’s existing European PE exposures, which are concentrated at the upper end of the market and in the financial services sector.

“Boots on the ground”: The Fund has a team of 50 investment professionals operating out of six offices in Europe, and one office in New York. Each of those seven offices is staffed with local investment professionals from the local country who speak the local language. Given the different languages, laws, tax regimes, currencies, and cultures across the different countries in Europe, the Fund’s multi-local presence is key to sourcing, structuring transactions, and creating value.

Environmental, Social, and Governance (ESG): Ardian has a formal ESG policy as well as a four-person Corporate and Investment Responsibility team responsible for developing and

implementing ESG activities across the firm. Ardian integrates ESG across all phases of its investment process, from pre-due diligence through to exit. Ardian has been a signatory of the UNPRI since 2009, and in 2017 was appointed a member of the UNPRI's Private Equity Advisory Committee. Ardian is also (i) a founding member of France Invest's ESG Commission, of which Candice Brenet, Ardian's Head of Corporate and Investment Responsibility, is the President, (ii) one of the five founding members of Initiative Climate 2020 (IC20), and (iii) a signatory to the Decarbonize Europe Manifesto.

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 engaged a third-party solicitor ("placement agent") in the fundraising of the Fund but no placement agent was engaged or paid in connection with the Pension Fund's potential investment.

Staff 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. A preliminary Disclosure Report of Political Contributions has been obtained in accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. An updated Disclosure Report will be obtained at the time of closing.

Note that the investment is authorized pursuant to Articles 69 and 90 of the Council's regulations. Ardian Buyout Fund VII is considered a private equity buyout investment, as defined under N.J.A.C. 17:16-90.1. Pursuant to N.J.A.C. 17:16-90.4(a)1, the aggregate market value of private equity investments shall not exceed 12% of the combined assets of all of the Pension and Annuity Funds. As of the close of business on September 17, 2019, the aggregate market value of private equity investments is 11.27% of the combined assets of all the Pension and Annuity Funds excluding the Police and Fire Mortgage assets.

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 16, 2019. 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 25, 2019 meeting.

Attachment

Fund Name: Ardian Buyout Fund VII

September 19, 2019

Contact Info: John R. Haug, 1370 Avenue of the Americas, 22nd Floor, New York, NY 10019

Fund Details:

Firm AUM (\$bil.):	\$96 billion	Key Investment Professionals: Dominique Senequier , President, joined the AXA Group in 1996 and founded Ardian. She began her career as an insurance commissioner at the French Ministry of Economy before joining GAN Group, where she was in charge of private equity investments. She graduated from Ecole Polytechnique, holds a DEA (post-graduate degree) in Banking and Monetary Economics from the Sorbonne, and is a member of the French Actuarial Institute. Philippe Poletti , Chairman of Ardian France, Head of Buyout, joined Ardian in 1999 where he has led numerous successful deals. In 2014, Philippe was appointed Member of the Executive Committee of Ardian. Philippe's career began at Solving International, a management consultancy firm; in 1994 he joined Desnoyers Group a French copper tube manufacturer as Business Development Manager, later becoming a special consultant to the President. From 1997-1999, he was Head of Mergers, Acquisitions and Divestments at DMC, a textile group. Philippe graduated from ESLSCA specializing in Finance and INSEAD business school (YMP). Nicolò Saidelli , Head of Ardian Italy, Nicolò joined Ardian in 2008 with the responsibility of the Italian Buyout Investments in Milan. Prior to joining Ardian, he worked since 2003 within the L Capital fund as a Partner and Manager of the Italian office. He also worked within GE Equity Italia, Salomon Smith Barney, Lehman Brothers, the Richemont Group, Canal Plus and Olivetti Group. Nicolò graduated from the Genoa University (Management Engineering).
Strategy:	Private Equity Buyout	
Year Founded:	1997	
Headquarters:	Paris	
GP Commitment:	1%	

Investment Summary	Existing and Prior Funds			
The Fund aims to invest mainly in private companies of which at least 90% of the Fund's investments will be in core European countries (i.e. France, Germany, Italy, Benelux, Austria, Spain, Switzerland and the United Kingdom) and a maximum of 10% in North America (Canada and The United States of America). The Fund will generally acquire majority positions (or opportunistically minority positions with strong governance rights) in companies in the upper mid-cap market segment with enterprise values ranging from €300 million to €2 billion, through equity or quasi-equity investments. The investment team seeks to invest in companies combining leading market positions and significant growth potential (fast-growing niche markets, consolidation trend and/or exposure to emerging countries) in 5 long-term growth themes across 8 sectors (healthcare; insurance services; consumer goods & innovative retail; food, ingredient & agribusiness; chemicals; engineering; aeronautics; and testing inspection & compliance) with a mid to long term perspective (average holding period of 4 to 5 years).	Funds	Vintage Year	Strategy	Returns as of 6/30/2019
	Fund I	1998	European Buyout	30.3% Net IRR; 2.12x Net TVPI; 2.12x DPI
	Fund II	2000	European Buyout	32.8% Net IRR; 2.31x Net TVPI; 2.31x DPI
	Fund III	2005	European Buyout	13.8% Net IRR; 1.67x Net TVPI; 1.67x DPI
	Fund IV	2007	European Buyout	13.8% Net IRR; 1.91x Net TVPI; 1.54x DPI
	Fund V	2012	European Buyout	15.0% Net IRR; 1.76x Net TVPI; 1.13x DPI
	Fund VI	2016	European Buyout	8.9% Net IRR; 1.12x Net TVPI; 0.03x DPI
Source of returns = TorreyCove IRR = Internal Rate of Return; TVPI= Total Value to Paid-In Capital; DPI= Distributions to Paid-In				

Vehicle Information:

Inception:	2019	Auditor:	PricewaterhouseCoopers' Paris
Target Fund Size:	€6 billion (€6.5 billion hard cap)	Legal Counsel:	Linklaters LLP
Management Fee:	1.5% of total commitment during investment period		
	1.5% of cost post investment period		
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	100% Management Fee Offset		

NJ AIP Program

Recommended Allocation:	€125 million (plus another €50 million in a co-investment sidecar vehicle)	LP Advisory Board Membership:	Yes
% of Target Fund Size:	2.08%	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.