State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
PO BOX 290
TRENTON NJ 08625-0290

RICHARD J. CODEY
*Acting Governor*

JOHN E. MCCORMAC, CPA
*State Treasurer*

August 12, 2005

MEMORANDUM TO: The State Investment Council

FROM: William G. Clark, Director

SUBJECT: **Proposed Private Equity Investments**

This due diligence memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.12 (a) to report on three proposed private equity investments:

- A $200 million investment in a discretionary separate account to be managed by Credit Suisse; this separate account will concentrate in U.S. small-middle market buyout funds (defined as funds with less than $1 billion in total commitments) and will be invested over a 2-3 year period;

- A $200 million investment in a discretionary separate account to be managed by Hamilton Lane; this separate account will concentrate on large international buyout funds (defined as funds with greater than $1 billion in total commitments), with a primary emphasis on European funds; this separate account will be invested over a 2 year period;

- A $200 million investment in a discretionary separate account to be managed by Goldman Sachs; this separate account will concentrate on small-middle market international buyout funds (defined as funds with less than $1.5 billion in total commitments); this separate account will be invested over a 3 year period.

Each of these separate accounts will be structured as a partnership where the State will be the sole limited partner.

Please note that these investments will be authorized pursuant to Articles 69 and 90 of the Council's regulations which became effective on June 20, 2005. All three investments are considered to be "buyout investments" as defined under N.J.A.C. 17:16-90.2 (a).

The Alternative Investments Procedures adopted by the Council on January 20, 2005 require any potential alternative investment opportunities to be identified and initially evaluated by the Head of Alternative Investments of the Division (I am currently filling this role since Cesar Baez's departure) and the applicable Asset Class Consultant (Strategic Investment Solutions for private equity, or "SIS") in coordination with the DOI Investment Committee (Gerry Gibbs and myself).

As a result of internal and external sourcing, the DOI Investment Committee identified these proposed investments. SIS and Division staff proceeded to undertake extensive due diligence on these three proposed investments. This due diligence was conducted in accordance with the Alternative Investments Procedures adopted by the Council.

Each of these entities has extensive resources and experience in these respective segments of the private equity market. These firms have many other institutional investment clients, and have developed excellent reputations with both general partners and investors. The management fees for each investment are reasonable (although we intend to have further negotiations with each entity), and other legal and economic terms are fair and consistent with market standards. In addition to having the ability to invest in attractive underlying funds, these entities will share their resources, relationships and expertise with the Division's staff, which will allow us to strengthen our own internal investment capabilities.

We look forward to discussing these proposed private equity investments at the Council's telephonic meeting to be held on August 24, 2005.

WGC/crb
Attachments

# *SIC Investment Committee Fund Review Memo

**To:** State Investment Council
**From:** SIC Investment Committee
**Date:** August 24, 2005
**Subject:** Goldman Sachs Recommendation

**Fund Facts**

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|---|---|
| Fund Name: | Goldman Sachs |
| Fund Type: | Primarily Mid-market International Buyout / Private Equity |
| Current Fund Size: | n/a |
| Previous Fund Size/Vintage: | n/a |
| Final Close: | Open |
| Fund Address: | 32 Old Slip<br>New York, NY 10005 |

**GP Contact Info**

| | |
|---|---|
| Name: | Michael Miele |
| Telephone: | 212-902-5674 |
| Email: | michael.miele@gs.com |

**Summary of Terms and Investment Strategy**

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|---|---|
| Investment Strategy: | 60 - 75% Mid-market international buyouts (defined as funds less than $1.5B in total size) focusing on Europe. |
| Geographic Focus: | International with an emphasis on Europe |
| GP Co-Investment Amount: | 5.00% |
| Terms: | |
| Commitment Period: | 3 years - the underlying funds within the separate accounts will have a commitment period of 2-8 years. Total term period is 10 years. |
| Management Fee: | 37.5 bps in year 1, 65 bps in year 2, 95 bps in years 3-7, then stepping down year 8 and beyond 75% of previous year's fees. Average fee for years 1-7 is 82.5 bps. |
| Other Fees: | 5% carry |
| Hurdle Rate: | 8% |

**NJ AIP Program:**

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|---|---|
| Recommended Allocation: | $200 million - to be committed during a 3 year period |
| % of Fund: | n/a |
| % of New Jersey State Pension Plan*: | 0.10% |
| % of AIP Private Equity Allocation ($3.5b)*: | 1.90% |
| % of Buyout Allocation ($1.75b)*: | 3.81% |

*Based on a 3-year investment period.

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|---|---|
| LP Advisory Board Membership: | n/a |
| Consultant Recommendation: | Yes |
| Compliance with SIC "Pay to Play" Reg: | Side letter required |

*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.

State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
PO BOX 290
TRENTON NJ 08625-0290

JON S. CORZINE
*Governor*

BRADLEY I. ABELOW
*State Treasurer*

March 9, 2007

MEMORANDUM TO: State Investment Council

FROM: William G. Clark
Director

SUBJECT: **Proposed Private Equity Investments in Court Square Capital Partners II, InterMedia Partners VII, Goldman Sachs (Separate Account) and Lehman Brothers (Separate Account)**

This due diligence memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9 (a) to report on four proposed private equity investments: a $100 million commitment to Court Square Capital Partners II; a $25 million commitment to InterMedia Partners VII (note: this $25 million commitment is incremental to the $50 million commitment that was presented to the Council at the November 2005 meeting); a $200 million commitment to a separate account to be managed by Goldman Sachs (note: this $200 million commitment will supplement our original $200 million commitment to this separate account that was presented to the Council at the August 2005 meeting), and a $100 million commitment to a separate account to be managed by Lehman Brothers.

Please note that these investments will be authorized pursuant to Articles 69 and 90 of the Council's regulations which became effective on June 20, 2005. The Court Square, InterMedia and Goldman Sachs investments will be considered "Buyout Fund" investments and the Lehman Brothers investment will be considered a "Venture Capital Investment" as defined under N.J.A.C. 17:16-90.1.

The Alternative Investments Procedures adopted by the Council on January 20, 2005 require any potential alternative investment opportunities to be identified and initially evaluated by the Head of Alternative Investments of the Division (myself in an acting capacity) and the applicable Asset Class Consultant (Strategic Investment Solutions for private equity, or "SIS") in coordination with the DOI Investment Committee (Ike Michaels, Deputy Director and myself).

As a result of internal and external sourcing, the DOI Investment Committee identified the proposed investments. SIS and Division staff proceeded to undertake extensive due diligence on the proposed investments. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

Based on this due diligence, the Division has determined that each of the proposed investments meet the criteria for investments set forth in the Alternative Investment Procedures.

The investments that we are proposing focus on the domestic middle market buyout sector (Court Square Capital Partners II and InterMedia Partners VII), the European middle market buyout sector (Goldman Sachs) and New Jersey based private equity funds and investments (Lehman Brothers).

*Court Square Capital Partners II* will primarily focus on identifying and investing in U.S.-based middle-market companies capable of generating earnings growth in excess of either their underlying industry or their historical performance. The Fund will target companies in which there is an opportunity to capitalize on unrecognized and/or untapped revenue potential, implement sustainable cost reductions and/or execute accretive acquisitions. Court Square will continue to benefit from the Investment Team's independent and broad network built over 20+ years, the majority of which was spent as the private equity arm of Citigroup. The general partner has a proven track record of executing its strategy and generating top-quartile returns. The general partner has substantial capital committed to the Fund thus aligning our interests with those of the general partner. The management fees are reasonable, and all the legal and economic terms associated with the partnership are fair and consistent with market standards.

*InterMedia Partners VII* will seek to apply its unique blend of investing, structuring, and operations expertise, focusing on media sector investments that have not yet become strategically imperative for corporate buyers, and which require more operating and industry expertise than is typically possessed by traditional private equity funds. The two primary principals, Leo Hindery, Jr. and Peter Kern, have extensive operating experience in the media space, including building a cable television franchise that was ultimately sold to TCI, and building the Yankees Entertainment and Sports Network, LLC (i.e., the "YES" network) into a successful enterprise. This $25 million commitment is incremental to the $50 million commitment that was presented to the Council at the November 2005 meeting. Since this time, the firm has successfully executed on its stated strategy and the investments made to the date by the fund are performing well.

*Goldman Sachs Separate Account* primarily focuses on European middle-market buyout funds. This separate account was established to explicitly invest in International Buyout funds with significant investment exposure to European-based companies. After negotiating the details of the separate account arrangement, a partnership agreement establishing the separate account was finalized on February 28, 2006. Since that time, Goldman Sachs has demonstrated the ability to identify and access top quarter European buyout funds. Goldman Sachs has identified, performed due diligence and committed to twelve funds and one co-investment totaling $152.3 million in commitments (76.1% of the original $200 million program). Even though the original agreement with Goldman Sachs was not finalized until February 2006, they started to source and perform due diligence on potential investments for the account immediately after the August 2005 Council meeting. Overall, Division staff has been extremely pleased with the level of diligence and client service provided by Goldman Sachs. Furthermore, we believe continued exposure to European private equity funds is critical for diversification purposes as well as obtaining an appropriate risk adjusted return on the Division's portfolio. The management fees are reasonable, and all the legal and economic terms associated with the partnership are fair and consistent with market standards.

*Lehman Brothers-New Jersey Direct Investment Fund- NJDIF (Separate Account)* is designed to achieve attractive investment returns while providing economic benefit to the State of New Jersey by constructing a diversified portfolio of funds and direct investments that are either headquartered in New Jersey and/or have significant operations in the State. Attractive investment returns will be generated through investing in leading venture capital and private equity firms and making direct investments in well positioned venture and growth oriented companies identified by these funds and other leading private equity funds. We believe that NJDIF will provide direct and indirect economic benefits to the State of New Jersey by providing job and sales growth across numerous industry sectors and supporting growth of "breeder" industries including technology and life sciences. The New Jersey Direct Investment Fund (NJDIF) will principally make investments in (i) private equity funds; (ii) private companies and/or (iii) companies issuing securities outside of a public offering that are based in, have or plan to have substantial operations in, or promote economic development in, the State of New Jersey. The focus of the Fund will include, but not be limited to, venture capital, growth equity or small to mid-cap buyout investments. Furthermore, the fund manager (Lehman Brothers) will contribute a significant amount to the partnership and will be incentivised with an appropriate carried interest structure.

A formal written due diligence report for these proposed investments was sent to each member of the Investment Policy Committee of the Council on March 2, 2007, and a meeting of the Committee was held on March 7, 2007. In addition to the formal written due diligence reports, all other information obtained by the Division on this investment was made available to the Investment Policy Committee.

# *SIC Investment Committee Fund Review Memo

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| **To:** | **State Investment Council** |
| **From:** | **SIC Investment Committee** |
| **Date:** | **March 9, 2007** |
| **Subject:** | **Goldman Sachs Recommendation** |

**Fund Facts**

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|---|---|
| Fund Name: | Goldman Sachs |
| Fund Type: | Primarily Mid-market International Buyout / Private Equity |
| Current Fund Size: | n/a |
| Previous Fund Size/Vintage: | n/a |
| Final Close: | Open |
| Fund Address: | 32 Old Slip<br>New York, NY 10005 |

**GP Contact Info**

| | |
|---|---|
| Name: | Michael Miele |
| Telephone: | 212-902-5674 |
| Email: | michael.miele@gs.com |

**Summary of Terms and Investment Strategy**

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|---|---|
| Investment Strategy: | 60 - 75% Mid-market international buyouts (defined as funds less than $1.5B in total size) focusing on Europe. Upto 15% of commitments into co-investments. |
| Geographic Focus: | International with an emphasis on Europe |
| GP Co-Investment Amount: | 5.00% |
| Terms: | |
| Commitment Period: | 3 years - the underlying funds within the separate accounts will have a commitment period of 2-8 years. Co-investments may be made over a 6 year period. Total term period is 10 years with extensions to permit orderly liquidation. |
| Management Fee: | 37.5 bps in year 1, 65 bps in year 2, 95 bps in years 3-7, then stepping down year 8 and beyond 75% of previous year's fees. Average fee for years 1-7 is 82.5 bps. |
| Other Fees: | 5% (for Partnership Investments); 15% for (Co-investments) |
| Hurdle Rate: | 8% |

**NJ AIP Program:**

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|---|---|
| Recommended Allocation: | $200 million - to be committed during a 3 year period |
| % of Fund: | n/a |
| % of New Jersey State Pension Plan*: | 0.09% |
| % of AIP Private Equity Allocation ($3.5b)*: | 1.90% |
| % of Private Equity Allocation for FY07 ($1.875b)*: | 3.56% |

*Based on a 3-year investment period.

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| LP Advisory Board Membership: | n/a |
| Consultant Recommendation: | Yes |
| Compliance with SIC "Pay to Play" Reg: | Side letter required |

*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.