



## State of New Jersey

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January 25, 2019

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon  
Acting Director

SUBJECT: **Proposed Investment in Brookfield Capital Partners V, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$100 million in Brookfield Capital Partners V, L.P. (the “Fund” or “Fund V”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

The Fund will target real asset and real asset-related businesses with a focus on value-add and contrarian investments with limited competition in which Brookfield Asset Management (the “Firm”) can capitalize on its experience owning and managing real asset investments.

The Division is recommending this investment based on the following factors:

**Strong Track Record:** The Firm has over 20 years of private equity experience starting with executing investments for the Firm’s balance sheet. Since its first commingled fund was formed in 2001, the Firm has generated net returns of 25% IRR and 1.9x MOIC across its fund series.

**Experienced and Stable Investment Team:** The investment team is led by a 20-year veteran of the Firm, and the team is comprised of professionals with an average of 25 years of investment experience and 14 years with the Firm. The members of the investment committee are even longer tenured with an average of 27 years of investment experience and 23 years with the Firm.

**Differentiated Strategy:** Brookfield executes an owner-operator approach to drive operational improvement and growth. It heavily utilizes its operating professionals starting with conducting due diligence through developing and executing business plans. Often the Firm takes a contrarian approach and looks to differentiate itself as a strategic partner rather than a purely financial investor. The investment team’s restructuring expertise provides the Firm with the ability to pursue opportunities during periods of capital market dislocation or when alternative sources of capital are not available to a sector or particular business.

**Ability to Leverage the Broader Brookfield Platform:** A core advantage to transaction sourcing is the Firm's ability to leverage the scale and brand of the Brookfield platform across a range of industries and geographies. The Firm's scope and reputation provide access to transactions with limited competition or that are proprietary in nature. Often, the Firm has a first-mover advantage.

**Environmental, Social and Governance (ESG) Policy:** As one of the largest private sector infrastructure investors, renewable power investors, and owner/developers of real estate, Brookfield has a formal ESG policy which it integrates into each stage of the investment process to build sustainable, long-term value. The Firm applies this policy globally to all of its assets throughout the investment life cycle. Pre-acquisition, Brookfield taps its operating expertise to identify any material ESG risks and opportunities. Deeper due diligence is conducted by internal experts and third-party consultants. Post-acquisition, the identified risks and mitigation plan are converted into an integration plan with implementation time frames. Priorities are not static, but regularly updated. ESG matters are actively managed by the portfolio companies with guidance from Brookfield's in-house teams in order to execute best practices across the Firm.

A report of the Investment Policy Committee ("IPC") summarizing the details of the proposed investment is attached.

Division Staff and its real asset 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 71 of the Council's regulations. Brookfield Capital Partners V, L.P. is considered a real asset investment, as defined under N.J.A.C. 17:16-71.1.

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 January 22, 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 January 30, 2019 meeting.

Attachment

**Fund Name: Brookfield Capital Partners V**

January 25, 2019

**Contact Info:** Robert White, 133 Sevilla Avenue, Coral Gables, Florida, 33134

**Fund Details:**

<b>Total Firm Assets:</b>	\$285 billion	<b>Key Investment Professionals:</b> <b>Cyrus Madon</b> , Senior Managing Partner, Head of Brookfield's Private Equity Group and CEO of Brookfield Business Partners. In this role, he is responsible for the expansion of Brookfield's private equity operating platform. Mr. Madon has held senior roles across Brookfield since joining in 1998 as Chief Financial Officer of one of the platforms. Mr. Madon started his career in public accounting in Canada and the United Kingdom. <b>Joe Freedman</b> , Senior Vice Chairman of Brookfield's Private Equity Group, accountable for strategic initiatives and planning. Since joining Brookfield in 2002, Mr. Freedman has held numerous positions, including General Counsel and the Partner responsible for M&A transaction execution, fund formation and fund operations. Prior to joining Brookfield, he was a lawyer in the corporate finance group at a Toronto law firm, specializing in private equity transactions and public company mergers & acquisitions. <b>Ralf Rank</b> , Managing Partner, Private Equity, CIO-Services, Head of Europe, responsible for investment origination, analysis and execution across Europe. He is also responsible for evaluating investment opportunities, including investment strategy and transaction execution within the services sector. Mr. Rank joined Brookfield in 2007 and played a significant role in establishing and growing Brookfield's renewable power business in Europe. Prior to joining Brookfield, he was an Associate Director, Investment Banking, at a leading Canadian investment bank with an industry specialization in infrastructure, power, and utilities in Europe. <b>Jim Reid</b> , Managing Partner, Private Equity, CIO-Energy, responsible for evaluating investment opportunities, including investment strategy and transaction execution within the energy sector. Mr. Reid established Brookfield's Calgary office in 2003 after spending several years as a Chief Financial Officer for two energy companies in Western Canada. <b>David Aiken</b> , Managing Partner, Sector CIO-Industrials, responsible for evaluating investment opportunities, including investment strategy and transaction execution within the industrial sector. Mr. Aiken joined Brookfield in 2007, and has held several roles across the organization in both Canada and Brazil. He has been involved in a number of significant transactions across a range of industries, including real estate, industrial operations and financial and real estate services. Prior to joining Brookfield, Mr. Aiken spent three years working in investment banking in New York, focused on restructuring and leveraged finance. <b>Peter Gordon</b> , Managing Partner, oversees the group's operations as Chief Operating Officer. Mr. Gordon is accountable for the financial and operating performance of the group's broad portfolio of companies. Mr. Gordon has 35 years of industry experience in operations and finance within Brookfield companies and has led numerous operational turnarounds.
<b>Strategy:</b>	Real Assets	
<b>Year Founded:</b>	1899	
<b>Headquarters:</b>	Toronto, Canada	
<b>GP Commitment:</b>	\$3 billion	

**Investment Summary**

Fund V will focus on value-add investments in real assets-related businesses. Target sectors include forest products, building products, construction & engineering, packaging & specialty paper, industrials, midstream energy, renewables, and metals & mining. The Firm's private equity-style strategy is to leverage the knowledge and expertise across Brookfield's broad real asset and related operating platforms to acquire high-quality businesses on a value basis and enhance that value through operational improvements. Brookfield's operations-oriented approach to investing involves asserting influence or control to execute improvements in its underlying portfolio companies, often placing one of its operating professionals in a portfolio company. The Firm looks to differentiate itself as a strategic partner rather than a purely financial investor. Often the Firm takes a contrarian approach, analyzing sectors and businesses that are out-of-favor or bear some form of financial and/or operational complexity. The Firm's restructuring expertise provides an edge in pursuing distressed investments.

**Existing and Prior Funds**

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 6/30/2018</u>
BCP I	2001	Real Assets	33.2% Net IRR; 1.8x Net TVPI; 1.8x DPI
BCP II	2007	Real Assets	14.1% Net IRR; 1.6x Net TVPI; 1.5x DPI
BCP III	2011	Real Assets	2.3% Net IRR; 1.1x Net TVPI; 0.4x DPI
BCP IV	2015	Real Assets	72.0% Net IRR; 1.9x Net TVPI; 0.7x DPI

\*Data provided by TorreyCove Capital Partners (All Returns in US \$)

IRR= Internal Rate of Return; TVPI= Total Value to Paid-In; DPI= Distributions to Paid-In

**Vehicle Information:**

<b>Inception:</b>	2018	<b>Auditor:</b>	Deloitte & Touche LLP.
<b>Fund Size:</b>	\$8.5-\$9.0 billion expected size	<b>Legal Counsel:</b>	Weil, Gotshal & Manges LLP
<b>Management Fee:</b>	During Commitment Period: 1.675% Post Commitment Period: 1.425%		
<b>Carry:</b>	20%		
<b>Hurdle Rate:</b>	8%		
<b>Additional Expenses:</b>	100% management fee offset		

**NJ AIP Program**

<b>Recommended Allocation (\$mil):</b>	up to \$100 million	<b>LP Advisory Board Membership:</b>	TBD	* Placement agent engaged for non-US, but was not engaged or paid in connection with the Pension Fund.
<b>% of Fund:</b>	1.11% of expected fund size	<b>Consultant Recommendation:</b>	Yes	
		<b>Placement Agent:</b>	No *	
		<b>Compliance w/ Division Placement Agent Policy:</b>	N/A	
		<b>Compliance w/ SIC Political Contribution Reg:</b>	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.