



## State of New Jersey

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*Director*

September 25, 2020

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon  
Director

SUBJECT: **Proposed Investment in Separate Account with Asia Alternatives**

The Division of Investment (the “Division”) is proposing an investment of up to \$100 million in a separately managed investment vehicle (the “Fund”) to be managed by Asia Alternatives Management LLC (the “Firm”), plus recycling of future distributions from the Fund and other existing fund investments managed by Asia Alternatives not to exceed a total of \$600 million over the subsequent 10 years. At least half of the commitment will be available to be allocated to an overage pool, upon which the Fund does not charge management fees or profit allocation, with the remainder allocated to a pro-rata pool. 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:

**Flexible customized portfolio construction allows diversified asset allocation in Asia:** The Fund will help the Division construct a well-balanced portfolio, tailored to the Pension Fund’s strategic asset allocation, tactical regional portfolio construction, and capital deployment pacing budget. The portfolio will be diversified in terms of vintage year, geography, sub-strategy and deal type. The Division will have certain governance mechanisms in the Fund that enable the Division to limit capital deployment pacing and adjust risk exposures over time by allocating portions of the capital to primary funds, co-investments and secondary transactions.

**Experienced local investment team with established local network and favorable reputation across Asia:** The Firm has one of the largest teams on the ground in Asia with 19 full-time investment professionals dedicated only to Asian private equity fund and direct co-investment investing. As one of the first fund-of-funds to have an office in mainland China, the Firm’s strong networks, solid market reputation and execution expertise allow it to build a robust sourcing engine and gain access to oversubscribed funds. Since inception, the Firm has collectively screened over 2,000 funds that span the key Asian geographies of greater China, Japan, South Korea, India, Southeast Asia and Australia.

**“Boots on the ground” investment team provides valuable resources and market intelligence:** The Firm’s investment platform effectively sources and underwrites investments in

Asia. The Firm also provides the Division with valuable resources, market intelligence and commentary.

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

Division Staff and its private equity consultant, Aksia TorreyCove 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 not engaged a third-party solicitor (“placement agent”).

The Firm has a formal ESG policy and formed an ESG Committee to conduct periodic reviews of ESG developments. During due diligence, investment teams will engage with potential managers on their approach to ESG and responsible investing. Feedback from the ESG review will be incorporated into the legal negotiation process. In May of 2019, the Firm became a signatory to the UNPRI, which holds asset managers accountable through transparency and reporting on their ESG integration efforts.

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. The Fund is 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 September 23, 2020. 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 30, 2020 meeting.

Attachment

Fund Name: Separate Account with Asia Alternatives

September 25, 2020

Contact Info: Melissa J. Ma, One Embarcadero Center, 16th Floor, San Francisco, CA 94111

Fund Details:

Firm AUM:	over \$11 billion	<b>Key Investment Professionals:</b> <b>Melissa J. Ma</b> – (Co-Founder and Managing Partner) Ms. Ma oversees Asia Alternatives' asset allocation and portfolio construction and co-leads investments in buyout and direct co-investments. Prior to the formation of Asia Alternatives, Ms. Ma was a Director at Hellman & Friedman. Her previous experience includes working at McKinsey and Goldman Sachs. <b>Rebecca Xu</b> – (Co-Founder) Ms. Xu co-leads Asia Alternatives' investments in growth and venture capital funds, focusing most of her time on Asia Alternatives' China investments. Prior to the formation of Asia Alternatives, Ms. Xu was a Senior Investment Officer at IFC. Previously, Ms. Xu also worked at McKinsey and HSBC. <b>William D. LaFayette</b> – (Managing Director, CFO) Prior to joining Asia Alternatives, Mr. LaFayette founded a private equity and venture capital consulting firm in 2002. Previously, Mr. LaFayette worked at Deloitte, and was Director of Finance for Hellman & Friedman. <b>Akihiko Yasuda</b> – (Managing Director) Mr. Yasuda co-leads the Firm's investments in Japan, Korea and Australia and co-leads Asia Alternatives' investments in buyouts, secondaries and special situations. Prior to joining Asia Alternatives, Mr. Yasuda was most recently an Executive Director and Head of Private Equity at the Sumitomo Trust Finance. Previously, Mr. Yasuda was Director at CITIC Capital Partners. <b>Pranet Garg</b> – (Managing Director) co-leads Asia Alternatives' investments in India and Southeast Asia, and is primarily responsible for deal sourcing, due diligence, deal execution and portfolio management in these regions. Prior to joining Asia Alternatives, Mr. Garg was a consultant at McKinsey's Private Equity research team.
Strategy:	Asia Private Equity Fund-of-Funds	
Year Founded:	2006	
Headquarters:	San Francisco, CA	
GP Commitment:	pool	

Investment Summary	Existing and Prior Funds			
The separate account with Asia Alternatives (the "Fund") will target mostly buyout and growth funds, and selectively invest in venture capital and special situations funds across greater China, India, Japan, Korea, Southeast Asia, and Australia. The Fund will seek to fill investment targets in either primary fund commitments or select secondary and direct co-investment offerings. Asia Alternatives has an experienced local investment team with an established local network and reputation across Asia. Their flexible customized portfolio construction allows for diversified asset allocation in Asia. With a rigorous systematic investment approach, Asia Alternatives uses a consistent and disciplined investment process to identify and screen potential fund investments.	Funds	Vintage Year	Strategy	Returns as of 03/31/2020
	AACP I	2006	Diversified	11.0% Net IRR; 1.76x Net TVPI; 1.66x DPI
	AACP II	2008	Diversified	17.9% Net IRR; 2.44x Net TVPI; 1.53x DPI
	AACP III	2011	Diversified	12.0% Net IRR; 1.55x Net TVPI; 0.80x DPI
	AACP IV	2014	Diversified	10.5% Net IRR; 1.28x Net TVPI; 0.22x DPI
	AACP V	2017	Diversified	-16.7% Net IRR; 0.87x Net TVPI; 0.02x DP
	NJAI I	2008	Diversified	22.4% Net IRR; 4.07x Net TVPI; 3.08x DPI
	NJAI II	2011	Diversified	12.3% Net IRR; 1.77x Net TVPI; 0.93x DPI
	NJAI III	2016	Diversified	11.3% Net IRR; 1.20x Net TVPI; 0.02x DPI
	Source of Returns - Aksia TorreyCove IRR = Internal Rate of Return; TVPI= Total Value to Paid-In; DPI= Distributions to Paid-In			

Vehicle Information:

Inception:	2020	Auditor:	Ernst & Young LLP
Fund Size:	up to \$600 million	Legal Counsel:	Ropes & Gray LLP
Management Fee:	Pro-rata pool: 0.80% stepping down to 0.50%		
	Overage pool: none		
	Blended rate: 0.40% stepping down to 0.25%		
Profit allocation:	Pro-rata pool: 5.85%		
	Overage pool: none		
	Blended rate: 2.925% (assuming 50/50 Pro-rata to Overage pool)		
Hurdle Rate:	8%		

NJ AIP Program

Recommended Allocation (\$mil):	up to \$600 million	LP Advisory Board Membership:	YES
% of Fund:	98.75% of the Pro-rata pool and 100% of Overage pool	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.