



State of New Jersey

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Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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July 2, 2013

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in CVC Capital Partners VI, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of €100 million in CVC Capital Partners VI, L.P. (“CVC VI”). 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:

Addition of a Direct Relationship with a Top Quartile European Manager: The Division has exposure to the two predecessor funds to CVC Capital VI through two European fund of funds. CVC’s broad geographic and industry scope, deep team, and consistent track record makes CVC VI an attractive opportunity to gain direct access to a non-US private equity partnership rather than through a fund of funds or separate account vehicle. CVC has generated consistent top-quartile performance over. As of 12/31/12, the CVC portfolio of funds has earned a Net Internal Rate of Return (“IRR”) of 19.6% and a net Total Value to Paid In (“TVPI”) of 1.7x, and of the €20.5 billion invested, the portfolio has returned €26 billion with a net Distributions to Paid In (“DPI”) of 1.1x. Past portfolio companies include Star Bev (a carve out of Anheuser Busch In Bev’s), Samsonite, and Merlin Entertainment (a global leader in entertainment as well as the largest operator of attractions and theme parks in Europe).

Experience & Depth of Organization: CVC has built out an organization that can source and execute on investments opportunities across the globe. CVC is led by 27 Managing Partners and Partners in Europe; these individuals have an average tenure of 12 years. CVC has 5 distinct and experienced teams within the Firm: the Financial Institutions Group, the TMT Group, the Infrastructure Group, the Financing Team and the Operations Team. In total, the investment professionals have completed 128 investments and have sourced, acquired, and divested companies in each of the major European geographies and US. CVC has established 21 offices around the world representing one of the most geographically diverse private equity firms worldwide.

Opportunity Set: CVC is well positioned for the current opportunity set in which financing can be problematic and the numbers of buyers have been reduced significantly. CVC has expanded their Financing and Operations teams as their competitors have either been limited in the amount

of resources they can dedicate to Europe or have scaled back their European operations. Established in 1999, the Financing Team has built and managed relationships worldwide allowing portfolio companies to raise financing across multiple economic cycles. Established in 2008, the Operations Team works with CVC portfolio companies to improve operations, a competitive advantage for CVC when sourcing and managing investments.

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

Division Staff and its private equity fund 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 used third-party solicitors (“placement agents”) in the fundraising of the fund but no placement agent was engaged or paid 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 CVC Capital Partners VI, L.P. 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 June 26, 2013. 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 July 11, 2013 meeting.

Attachments

Fund Name: CVC Capital Partners VI, L.P. **July 2, 2013**

Contact Info: Lisa Lee, 111 Strand London, WC2R 0AG

Fund Details:

Firm AUM (\$bil.):	€ 19.355	Key Investment Professionals: DONALD MACKENZIE , Co-Founder and Co-Chairman. Mr. Mackenzie joined CVC from 3i Plc in 1988. Mr. Mackenzie is Chairman of CVC's Investment Committees and co-head of Global Investments. During his 25 years with CVC Mr. Mackenzie has been responsible for many of CVC's most successful investments. ROLLY VAN RAPPARD , Co-Founder and Managing Partner. Mr. van Rappard joined CVC in 1987, having previously worked for Citicorp Corporate Finance in London and Amsterdam. STEVE KOLTES , Co-Founder and Managing Partner. Mr. Koltes joined CVC in 1987. Previously, Mr. Koltes established the Citibank Mezzanine Finance department in London and worked for Citibank in the Corporate Finance and Corporate Banking departments in London, Zurich and New York.
Strategy:	Buyout	
Year Founded:	1981	
Headquarters:	Luxembourg	
GP Commitment:	3%	

Investment Summary **Existing and Prior Funds (as of 12/31/12)**

CVC Capital Partners was established in 1981 as part of Citigroup; the original name was Citigroup Venture Capital (Europe). The name CVC Capital Partners was established in 1993, when the activities of Citigroup Venture Capital Europe were acquired by Michael Smith, Donald Mackenzie, Rolly van Rappard, Steve Koltes, Hardy McLain, Iain Parham, Roberto Lombardi, and Findlay Black. CVC Capital Partners VI L.P. will make primarily control oriented buyout investments in Western Europe. The Fund will pursue an investment strategy similar to that of prior CVC Europe Private Equity Funds and will seek to maintain the Firm's long track record of delivering consistent market-leading returns to its investors. The Fund will be managed by a highly-experienced and stable senior team. The Firm believes that the continuity and depth of experience across the CVC investment team is fundamental to its capacity to replicate past investment performance and positions the Firm strongly for the future.

<u>Funds</u>	<u>Strategy</u>	<u>Returns</u>
CVC I	Buyout	25.90% Net IRR, 2.4x Net TVPI
CVC II	Buyout	16.57% Net IRR, 1.84x Net TVPI
CVC III	Buyout	34.16% Net IRR, 2.28x Net TVPI
CVC IV	Buyout	16.27% Net IRR, 1.70x Net TVPI
CVC Tandem	Buyout	8.14% Net IRR, 1.29x Net TVPI
CVC V	Buyout	12.49% Net IRR, 1.27x Net TVPI

IRR= Internal Rate of Return
TVPI= Total Value to Paid In

Vehicle Information:

Inception:	2013	Auditor:	PricewaterhouseCoopers CI LLP
Target Fund Size :	€9 billion	Legal Counsel:	Simpson Thacher & Bartlett LLP
Management Fee:	1.35% during investment period for commitments over €100 m/1.25% post investment period		
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	100% fee offset		

NJ AIP Program

Recommended Allocation :	€100 million	LP Advisory Board Membership:	TBD
% of Fund:	1.1	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	Yes
		Compliance w/ SIC Political Contribution Reg:	Yes