



## State of New Jersey

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November 15, 2013

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough  
Acting Director

SUBJECT: **Proposed Investment in Carlyle Partners VI, L.P. Fund**

The New Jersey Division of Investment (“Division”) is proposing an investment of \$300 million in Carlyle Partners VI, L.P. Fund (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 Top Quartile Performance:** Over the last 23 years Carlyle’s U.S. buyout funds have performed in the top or second quartile of their respective vintage years on an Internal Rate of Return (“IRR”) and Total Value to Paid In (“TVPI”) basis, and all are considered top quartile within their respective vintage years on a Distributions to Paid In (“DPI”) basis, with the exception of Carlyle Partners V. As of September 30, 2013, the five funds, in the aggregate, have earned an IRR of 18.0% and a TVPI of 1.7x on a net basis.

**Experienced Team:** The Co-Heads of Carlyle’s U.S. Buyout group, Allan Holt and Peter Clare, have been at Carlyle for 21 years and have an average of 24 years of Private Equity experience. Mr. Holt and Mr. Clare are supplemented by a team of 69 investment professionals, including 24 Managing Directors and Principals who span industry verticals. The broader senior leadership team has an average tenure at Carlyle of 16 years and 20 years of private equity experience. In addition, the firm is led by its three founders, David Rubenstein, Daniel D’Aniello and William Conway, who all sit on the Fund’s investment committee and are still very active in the firm’s day-to-day operations.

**Focused Investment Strategy:** Carlyle targets investments in its core industries where their industry teams provide an advantage to effectively acquire, create value and successfully exit portfolio companies. The focus is on long term value creation where the investment teams can work with Carlyle’s 24 person network of Operating Executives to improve operational and management strategies, help portfolio companies recruit and mentor management and assist with customer introductions.

**Global Network:** The U.S. Buyout group leverages the expertise and network of the *One Carlyle* platform, a term meant to describe the interconnected nature of the multiple and global lines of business which fall under the Carlyle Group umbrella, in their sourcing and portfolio

management efforts. This global network affords advantages in deal sourcing, growth initiatives and exits as well as providing global industry insights, views on debt structuring and operational expertise. Carlyle has more than 650 investment professionals in 34 offices in 21 countries in Africa, Asia, Australia, Europe, Latin America, the Middle East and North America.

**GP Commitment:** The GP will commit at least \$905 million in or alongside the Fund. This commitment will include investment by Carlyle's professionals.

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

Division Staff and its private equity 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 not engaged a third-party solicitor (a "placement agent") 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 Carlyle 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 November 8, 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 November 21, 2013 meeting.

Attachments

**Fund Name: Carlyle Partners VI, L.P.** **November 21, 2013**

**Contact Info:** Jessica Brennan, 1001 Pennsylvania Ave, N.W. Suite 220 South, Washington, D.C. 20004

<b>Fund Details:</b>		<b>Key Investment Professionals:</b> <b>William Conway, Jr.</b> Co-founder and Managing Director. Mr. Conway serves as Chairman of the investment Committee. Prior to forming Carlyle, Mr. Conway spent three years as the Senior Vice President and CFO of MCI Communications. <b>Daniel D'Aniello,</b> Co-founder and Managing Director. Prior to forming Carlyle, Mr. D'Aniello was Vice President for Finance and Development at Marriott Corporation <b>David Rubenstein,</b> Co-founder and Managing Director. Prior to forming the firm, Mr. Rubenstein practiced law with Shaw, Pittman, Potts & Trowbridge (now Pillsbury, Winthrop, Shaw Pittman). <b>Allan Holt,</b> Managing Director and Co-head of the U.S. Buyout Group. He previously was head of Carlyle's Global Aerospace Group. Prior to joining Carlyle in 1992, Mr. Holt spent three and a half years with Avenir Group, Inc. <b>Peter Clare,</b> Managing Director and Co-head of the U.S. Buyout Group. Prior to joining Carlyle, Mr. Clare was with First City Capital Corporation.
Firm AUM (\$bil.):	\$180 billion	
Strategy:	Private Equity Buyout	
Year Founded:	1987	
Headquarters:	Washington, D.C.	
GP Commitment:	\$905 million	

<i>Investment Summary</i>	<i>Existing and Prior Funds</i>
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The Carlyle Group, since inception in 1987, has grown into a global firm with extensive reach and alternative asset management expertise. The U.S. Buyout strategy remains the flagship of Carlyle. Carlyle Partners VI intends to acquire market-leading businesses primarily in its six core sectors where it has an edge over its competition. The team will target control, private equity transactions across six core industries with which Carlyle has significant expertise: (1) Aerospace, Defense, and Government Services; (2) Consumer and Retail; (3) Healthcare; (4) Industrial and Transportation; (5) Technology; and (6) Telecom and Media. The firm may execute deals at varying sizes by using its deep staff of 69 dedicated investment professionals and will target equity investments ranging from \$200 million to \$1 billion.

<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of September 30, 2013</i>
Carlyle Partners I	1990	Buyout	26.09% Net IRR, 3.2x Net TVPI
Carlyle Partners II	1994	Buyout	24.86% Net IRR, 2.5x Net TVPI
Carlyle Partners III	2000	Buyout	20.56% Net IRR, 2.1x Net TVPI
Carlyle Partners IV	2005	Buyout	12.97% Net IRR, 1.9x Net TVPI
Carlyle Partners V	2007	Buyout	12.86% Net IRR, 1.4x Net TVPI

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

**Vehicle Information:**

<b>Inception:</b>	2013	<b>Auditor:</b>	Ernst & Young
<b>Fund Size (\$mil.):</b>	\$12.9 billion	<b>Legal Counsel:</b>	Simpson Thacher & Bartlett LLP
<b>Management Fee:</b>	1.20%		
<b>Carry:</b>	20%		
<b>Hurdle Rate:</b>	8%		
<b>Additional Expenses:</b>	80% fee offset on transaction and monitoring fees		

<b>NJ AIP Program</b>			
<b>Recommended Allocation (\$mil):</b>	\$300,000,000	<b>LP Advisory Board Membership:</b>	Yes
<b>% of Fund:</b>	2.3%	<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.