



State of New Jersey

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DEPARTMENT OF THE TREASURY
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September 16, 2014

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in Hellman & Friedman Capital Partners VIII, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of \$100 million in Hellman & Friedman Capital Partners VIII, L.P. (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:

Attractive and consistent track record: Since 1995, all Hellman & Friedman (“H&F” or the “Firm”) funds rank top quartile on a Net Distributions to Paid-In (“DPI”) and Net Total Value Paid-In basis, with the exception of the most recent fund, which has an average portfolio company holding period of only 1.3 years as of March 31, 2014. H&F’s 65 realized or publicly-traded investments have generated a gross Internal Rate of Return of 31% and a 2.9x gross multiple of money as of March 31, 2014. Over the past ten years, H&F’s funds have outperformed the S&P 500 by approximately 19% from March 2004 to March 2014 on a public market equivalent basis. Meanwhile, the Firm has maintained a low loss ratio of approximately 2% over the past 15 years.

Disciplined deployment and realization of capital: H&F’s realizations have meaningfully exceeded its investments for more than the last eight years. Since 2006, the Firm has realized \$11 billion more than the \$14.4 billion invested, and all of its funds since 1995 are ranked in the top quartile on a net DPI basis. Across its most recent funds, the Firm has exited investments through a variety of channels, including public markets, strategic buyers, financial sponsors and management buy-outs.

Stable and experienced investment team: With an average tenure of over 10 years, the Firm’s 18 Managing Directors have worked and invested successfully together through several economic and private equity market cycles. Approximately 85% of the profits generated and capital deployed over the past 10 years have been led by current Managing Directors. The Firm’s unique ownership structure, where the carried interest and ownership of H&F have been passed down internally from generation to generation, has enabled three successful leadership transactions at the Firm.

Alignment of interest: Firm professionals have a significant personal investment in H&F funds, with approximately \$1.25 billion invested across Funds VI, VII and VIII. Fund VIII's GP commitment will be a minimum of \$450 million.

Portfolio fit: The Division is currently underweight its FY 2015 target to the private equity asset class and views the Fund as an appropriate addition to the overall private equity portfolio and the large buyout segment due to the Firm's impressive track record and low loss ratio since its inception in the mid-80s.

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. We have obtained a preliminary Disclosure Report of Political Contributions in accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. We will obtain an updated Disclosure Report at the time of closing.

Please note that the investment is authorized pursuant to Articles 69 and 90 of the Council's regulations. The Fund will be considered a private equity buy-out 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 9, 2014. 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 16, 2014 meeting.

Attachments

Fund Name: Hellman & Friedman Capital Partners VIII, L.P.

September 16, 2014

Contact Info: Suzanne Kim, One Maritime Plaza, 12th Floor, San Francisco, CA 94111; (415) 788-5111

Fund Details:

Firm AUM (\$bil):	\$17.6 billion as of 12/31/13	Key Investment Professionals: <i>Philip U. Hammarskjold, Chief Executive Officer. Mr. Hammarskjold serves as Chairman of the Firm's Investment Committee and oversees the Firm's day-to-day activities. Prior to joining the Firm in 1992, Mr. Hammarskjold was employed by the Corporate Advisory Department of Dominguez Barry Samuel Montagu in Sydney, Australia and by the Merchant Banking Department of Morgan Stanley & Co. in New York.</i> <i>Patrick Healy, Deputy CEO of H & F. Mr. Healy is a member of the Investment Committee and leads the Firm's London office and international activities. Prior to joining the Firm in 1994, Mr. Healy was employed by James D. Wolfensohn Incorporated in New York and Consolidated Press Holdings in Australia.</i> <i>David R. Tunnell, Managing Director of H & F and a member of the Investment Committee. Mr. Tunnell leads the Firm's efforts to invest in the software and insurance sectors. Prior to joining the Firm in 1994, Mr. Tunnell was employed by the Banking Group of Lazard Frères & Co. in New York.</i>
Strategy:	Large Buyout	
Year Founded:	1984	
Headquarters:	San Francisco, CA	
GP Commitment:	\$450 million	

Investment Summary

Hellman & Friedman Capital Partners VIII, L.P. will invest in large scale private equity transactions focused in the developed markets. Fund VIII intends to pursue a strategy consistent with that of prior funds, focusing on six identified sectors, including: (1) software; (2) internet, digital, and traditional media; (3) financial services; (4) business, marketing, and information services; (5) energy and industrials; and (6) healthcare. The goal is to create a concentrated portfolio of large, high quality companies that have predictable recurring revenue and earnings growth that generate high levels of free cash flow or attractive returns on invested capital. Typical equity-related investments are in the \$300 million to \$1 billion range, and are largely in North America and Europe.

Existing and Prior Funds

Funds	Strategy	Vintage	Returns as of 3/31/2014
HFCP I	Buyout	1987	12.1% Net IRR; 2.1x Net DPI; 2.1x Net TVPI
HFCP II	Buyout	1991	22.4% Net IRR; 2.7x Net DPI; 2.7x Net TVPI
HFCP III	Buyout	1995	34.3% Net IRR; 2.3x Net DPI; 2.3x Net TVPI
HFCP IV	Buyout	2000	34.4% Net IRR; 2.8x Net DPI; 2.8x Net TVPI
HFCP V	Buyout	2004	28.0% Net IRR; 2.5x Net DPI; 2.7x Net TVPI
HFCP VI	Buyout	2006	12.5% Net IRR; 0.9x Net DPI; 1.7x Net TVPI
HFCP VII	Buyout	2011	8.7% Net IRR; 0.1x Net DPI; 1.1x Net TVPI

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

Vehicle Information:

Inception:	2014	Auditor:	Ernst & Young LLP
Fund Size (\$mil.):	\$10.25 billion ¹	Legal Counsel:	Simpson Thacher & Bartlett LLP
Management Fee:	1.5% on committed capital during the investment period; 0.75% on invested capital afterwards		
Carry:	20%		
Hurdle Rate:	none		
Additional Expenses:	100% fee reduction for break-up, transaction and monitoring, director's or other similar fees		

NJ AIP Program

Recommended Allocation (\$mil):	\$100,000,000	LP Advisory Board Membership:	TBD
% of Fund:	0.98%	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.

¹ Excludes capital commitments of the General Partner, employees, certain executives of strategic value or other "friends and family" of the General Partner or its affiliates