



## State of New Jersey

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May 27, 2015

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough  
Director

SUBJECT: **Proposed Investment in RRJ Capital Master Fund III, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of \$150 million in RRJ Capital Master Fund III, L.P. (“RRJ III”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

RRJ Capital was founded in March 2011 by Richard Ong, previously co-founder and CEO of Hopu, a China-based private equity firm, and co-head of Asia ex-Japan at Goldman Sachs. RRJ III will provide the Division direct access to the Pan-Asia region with a manager that has a history of preserving capital and generating top-quartile returns in the process. The Fund will invest globally, with an emphasis in China and Southeast Asia, and will seek to build a diversified portfolio with investments in buyouts, growth equity and special situations.

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

**Strong Performance:** The RRJ team has demonstrated its success in preserving and returning capital to investors through multiple market cycles while maintaining top-quartile performance. HOPU (vintage year 2008), of which Richard Ong was the founder, has realized over \$2.6 billion in cash, generating a 63% gross Internal Rate of Return (“IRR”) and 1.4x. As of 12/31/14, RRJ I (vintage 2011) has achieved an investment multiple of 1.27x, and 15.72% net IRR and returned over \$1.4 billion in cash to LPs. Similarly, RRJ II (vintage 2013), has generated a 1.16x multiple, a 25.56% net IRR and has returned 23% of total commitments.

**Experienced Team:** RRJ’s investment professionals have extensive private equity, investment banking, and operating experience in the targeted sectors and geographies. In particular, Richard and Charles Ong are highly regarded and well-connected in the Asian financial community. Richard spent 15 years with Goldman Sachs in Beijing as co-head of Asia investment banking excluding Japan and was also co-president of Goldman’s Singapore office. Charles held a number of positions during his 10 years at Temasek including CIO, Chief Strategy Officer, and CEO of their hedge fund subsidiary. The team is comprised of 30 professionals based out of offices in Hong Kong and Singapore. RRJ has more than doubled the number of its investment professionals since its inception and the GP plans to further increase the team size to approximately 35 people. The two CEO’s, six Managing Directors, eight mid-level investment professionals, and 14 back office staff all have Asian nationalities with an understanding of the

business environment and culture in Asia. At the same time, many of the team members were educated and/or have worked overseas and have therefore gained exposure to international cultures and standards of corporate governance. This enables the team to operate across different business environments (including privately owned enterprise and state-owned enterprise) and different investment strategies (such as leveraged buyout, growth capital and special situations).

**Exit Discipline:** Mindful of exits, RRJ will seek to recover the cost of invested capital quickly when appropriate. If an investment has exceeded the targeted return expectations, the team will quickly look to partially or fully exit the investment. As of December 31, 2014, Fund I (2011 vintage) has returned \$1,438 million to its limited partners, accounting for 81% of capital drawn. Fund II (2013 vintage) has returned \$609 million to its limited partners, representing 23% of capital drawn.

**Proven Sourcing Capabilities:** The Firm's proven ability to partner and source from State Owned Enterprises (SOEs), multinationals, Sovereign Wealth Funds (SWF), and their extensive network of contacts in Asia provides the Fund a differentiated edge over their competitors in sourcing, evaluating, and managing investment opportunities. Out of the 35 deals closed, 31 were sourced on a proprietary basis.

**Significant GP Commit:** Demonstrating a strong alignment of interest with its LPs, Co-CEO's Richard and Charles Ong, are committing a minimum of \$150 million to RRJ III, on top of their \$201 million to RRJ II and the \$114 million GP commitment to RRJ I.

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. RRJ Capital Master Fund III, L.P. 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 May 15, 2015. 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 May 27, 2015 meeting.

Attachments

Fund Name: RRJ Capital Master Fund III, L.P.

May 27, 2015

Contact Info: Phoebe Kwan, 298, Tiong Bahru Road, #1301, Central Plaza, Singapore

Fund Details:

<b>Total Firm Assets:</b>	\$9.7 billion	<b>Key Investment Professionals:</b> <b>Richard Ong</b> , Chairman, CEO. Prior to founding the RRJ Group, Richard was a co-founder and chief executive officer of HOPU. Prior to 2008, Richard had a 15-year career with Goldman Sachs. Based in Beijing, he was a partner and co-head of the Asian Ex-Japan Investment Banking Division. <b>Charles Ong</b> , Co-Chairman, Co-CEO. Prior to joining the RRJ Group in 2012, Charles had a 10-year career with Temasek Holdings (“Temasek”), where he held various positions including Chief Investment Officer and Chief Strategy Officer. From 2009 to 2011, Charles was the Chief Executive Officer of Seatown Holdings International, a global investment firm and a wholly-owned subsidiary of Temasek.
<b>Strategy:</b>	Buyout	
<b>Year Founded:</b>	2011	
<b>Headquarters:</b>	Hong Kong, China	
<b>GP Commitment:</b>	up to \$150 million	

Investment Summary	Existing and Prior Funds			
RRJ Capital was founded in March 2011 by Mr. Richard Ong, previously a co-founder and CEO of HOPU and co-head of Asia ex-Japan at Goldman Sachs. After the formation of RRJ I, Mr. Ong was joined by his brother, Mr. Charles Ong, previously CIO and Chief Strategy Officer at Temasek, the government of Singapore’s investment company. RRJ III will continue its strategy of industry specialization and “bottom’s up sourcing” primarily in financial institutions, energy/natural resources and environmental services, consumer, food and agriculture, information technology and outsourcing sectors. The Fund’s objective is to generate superior long-term capital appreciation through equity and equity-related investments primarily in companies that are principally based in, have substantial operations, derive substantial amounts of revenue, or expect to establish substantial operations in Asia.	Funds	Vintage Year	Strategy	Returns as of 12/31/2014
	RRJ I	2011	Buyout	15.72% Net IRR, 1.27x Net TVPI, 0.81x Net DPI
	RRJ II	2013	Buyout	25.56% Net IRR, 1.16x Net TVPI, 0.23x Net DPI
IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI = Distributions to Paid-In				

Vehicle Information:

<b>Inception:</b>	2015	<b>Auditor:</b>	<b>KPMG LLP</b>
<b>Fund Size (\$mil.):</b>	\$4.5 billion	<b>Legal Counsel:</b>	<b>Ropes &amp; Grey</b>
<b>Management Fee:</b>	2.0% on initial \$1.75 billion of commitments; 1.75% between \$1.75 billion to \$2.5 billion; 1.5% greater than \$2.5 billion to \$4.5 billion (hard cap). Management fee equates to 1.74% at hard cap.		
	After the Commitment Period, fee reduced to 0.50% on contributed capital		
<b>Carry:</b>	20%		
<b>Hurdle Rate:</b>	8%		
<b>Fee Offset:</b>	100% fee offset		

NJ AIP Program			
<b>Recommended Allocation</b>	up to \$150 million	<b>LP Advisory Board Membership:</b>	<b>Yes</b>
<b>% of Fund:</b>	3.33%	<b>Consultant Recommendation:</b>	<b>Yes</b>
		<b>Placement Agent:</b>	<b>No</b>
		<b>Compliance w/ Division Placement Agent Policy:</b>	<b>N/A</b>
		<b>Compliance w/ SIC Political Contribution Reg:</b>	<b>Yes</b>

\*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.