



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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September 23, 2015

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in TSG7 A, L.P. & TSG7 B, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of \$100 million in TSG7 A, L.P. (“TSG7 A”) and \$25 million in TSG7 B, L.P. (“TSG7 B”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

TSG Consumer Partners (“TSG” or the “Firm”) is one of the largest and oldest private equity firms focused on growth capital investments in middle-market companies in the branded consumer products sector, and has a long track record of significant outperformance that has been consistently top-quartile. The Firm currently manages over \$2 billion of remaining value across TSG4 – TSG6, with a team of 18 investment and operating professionals. In addition to the \$2 billion TSG7 A, the Firm is also raising the \$500mm TSG7 B fund, which is intended to take advantage of opportunities within the same strategy but smaller than deals allocated to TSG7 A.

The Division is recommending these investments based on the following factors:

Strong Track Record/Proven Exit Strategy: TSG has consistently delivered top-quartile returns over its 28 year history. Since inception, TSG has returned a Net Internal Rate of Return (“IRR”) of 31.8% and a 2.02x multiple on all deals; and a Gross IRR of 58.8% and a 3.32x multiple on all realized deals (\$818 million invested). The vast majority of the Firm’s exits to date have come by way of strategic buyers for cash and a few IPOs, most notably Planet Fitness recently. Strategic buyers in the consumer products space are typically very acquisitive and willing to pay a premium for best-in-class brands or products. In doing so, strategic buyers can use their infrastructure to further grow the business, while not taking the initial risk of a brand failing or cost overruns.

Differentiated Strategy/Experience: The Firm has been focused solely on the branded consumer product space since 1988. In that time, the team has built unique sector-specific knowledge, networks and experience. This allows the Firm to be a partner of choice for both buyers and sellers. Sellers, typically entrepreneurs who stay substantially involved in the business and its operations, use TSG as an advisor who helps guide them in growing and institutionalizing the business. Buyers, typically strategic acquirers, know that when they buy a TSG company it can be expected to be a well-run organization that will help improve its platform.

Value Creation/Investment Process: TSG utilizes conservative levels of leverage in order to focus on growth initiatives. In fact, approximately half of TSG's portfolio companies have no debt on them. The Firm is focused on investing back into the business, often taking earnings down to invest in things such as marketing and infrastructure first. The team works very closely with each company's management to implement their objectives. TSG tends to be most helpful in improving sales, marketing, distribution, financial controls and new product development; often leaving the operations within the four walls to their very talented management teams. The Firm also prides themselves on their due diligence process and being expert in their sector. Tying back to their Bain Consulting roots, TSG conducts vast amounts of research before buying or even approaching a company. This gives them an edge when meeting with founders and management teams. Often times they will independently test products for ingredient and safety issues, track quality and characteristics of a company's customers, and conduct market research.

Market Opportunity: The consumer products industry, especially those companies with unique products and brands, is typically less sensitive to economic cycles due to well-established markets and brand loyalty. In addition, strong brands often provide superior margins and defensible competitive positions given entrenched customer bases.

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

Division Staff and its private equity consultant, TorreyCove Capital Partners, undertook extensive due diligence on the proposed investments in accordance with the Division's Alternative Investment Due Diligence Procedures.

As part of its due diligence process, staff determined that neither fund has engaged a third-party solicitor (a "placement agent") in connection with New Jersey's potential investments.

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 investments. 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 investments are authorized pursuant to Articles 69 and 90 of the Council's regulations. Both TSG7, L.P and TSG Growth Fund, L.P. will be considered private equity buyout investments, as defined under N.J.A.C. 17:16-90.1.

A formal written due diligence report for the proposed investments was sent to each member of the IPC and a meeting of the Committee was held on September 15, 2015. In addition to the formal written due diligence report, all other information obtained by the Division on the investments was made available to the IPC.

We look forward to discussing the proposed investment at the Council's September 23, 2015 meeting.

Attachments

Fund Name: TSG7 A, L.P. & TSG7 B, L.P.

September 23, 2015

Contact Info: R. Wallace Wertsch, 600 Montgomery Street, Suite 2900, San Francisco, California 94111

Fund Details:

Firm AUM:	\$2.9 billion	Key investment professionals: Chuck Esserman , CEO & Founder. Mr. Esserman has over 25 years of private equity investment experience and, together with the partners of TSG, built the first and most experienced consumer focused equity fund in the United States. He oversees current and prospective portfolio investments for the firm and is Chair of the Investment Committee. Prior to TSG, he was with Bain & Company, a leading management consulting company. Jamie O'Hara , President. Mr. O'Hara oversees transaction structuring, diligence, financing and investment execution at the firm and is a member of the Investment Committee. His experience also includes business unit strategy, facility rationalization and new business development for consumer and household products companies. Jamie is a former practicing corporate and securities attorney and a former consultant at Bain & Company. Hadley Mullin , Senior Managing Director. Ms. Mullin is responsible for originating new investment opportunities, diligencing new business opportunities, structuring transactions and working with our partner companies, as well as helping to oversee the strategy and management of the firm. She is also a member of the Investment Committee. Prior to joining TSG, Hadley was with Bain & Company where she worked in a variety of practice areas, including consumer products, retail and healthcare
Strategy:	Middle Market Buyout	
Year Founded:	1986	
Headquarters:	San Francisco, CA	
GP Commitment:	at least 2%	

Investment Summary	Existing and Prior Funds			
TSG Consumer Partners is one of the largest and oldest private equity firms focused on growth capital investments in middle-market companies in the branded consumer products sector. The Funds are being formed to make private equity investments in high growth middle market, branded consumer companies located within the United States. TSG expects to acquire both majority and minority equity positions to provide equity for internal growth and acquisitions, full or partial liquidity for owners, management buyouts, and corporate divestitures. TSG was among the first private equity firms to invest exclusively in consumer product companies, and as long-time investors, they have a unique understanding of the challenges that impact high growth companies and seek to invest in established companies that exhibit above average earnings, proven reoccurring revenues, scalable operating profits, and strong management teams. . In addition to the \$2 billion TSG7 A, , the Firm is also raising the \$500mm TSG7 B fund, which is intended to take advantage of deals of the same strategy but smaller than deals allocated to TSG7 A.	Funds	Vintage Year	Strategy	Returns as of 6/30/2015
	Fund I	1998	Buyout	44.4% Net IRR, 2.56x Net TVPI, 2.56x Net DPI
	Fund II	1994	Buyout	20.8% Net IRR, 1.87x Net TVPI, 1.87x Net DPI
	Fund III	1998	Buyout	16.0% Net IRR, 1.61x Net TVPI, 1.61x Net DPI
	Fund IV	2002	Buyout	36.2% Net IRR, 2.78x Net TVPI, 2.74x Net DPI
	Fund V	2007	Buyout	16.2% Net IRR, 1.82x Net TVPI, 1.00x Net DPI
	Fund VI	2012	Buyout	48.7% Net IRR, 1.84x Net TVPI, 0.23x Net DPI
IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI= Distributions to Paid-In				

Vehicle Information:

Inception:	2015	Auditor:	KPMG LLP
TSG7 A, L.P. Fund Size:	\$2.0 billion	Legal Counsel:	Simpson Thacher & Bartlett LLP
TSG 7 B Fund L.P. Size:	\$500 million		
Management Fee:	2% on committed; post-investment period 2% on existing deals cost basis		
Carry:	20%; 25% if fund reaches a 2x MOIC and 15% Net IRR		
Hurdle Rate:	8%		
Offsets:	100% of Advisory Fees- 50% of Investment Banking Fees		

NJ AIP Program			
Recommended Allocation TSG7 A, L.P.:	\$100 million	LP Advisory Board Membership:	TBD
Recommended Allocation TSG7 B, L.P.:	\$25 million	Consultant Recommendation:	Yes
% of TSG7 A, L.P.:	5.0%	Placement Agent:	No
% of TSG7 B, L.P.:	5.0%	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.