



## State of New Jersey

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October 19, 2018

MEMORANDUM TO: State Investment Council

FROM: Corey Amon  
Acting Director

SUBJECT: **Proposed Investment in JLL Partners Fund VIII, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$200 million in JLL Partners Fund VIII, L.P. (the “Fund”). This memorandum is presented to the State Investment Council (“Council”) pursuant to N.J.A.C. 17:16-69.9.

Committing to JLL Partners Fund VIII, L.P. is consistent with the Division's focus on core, high conviction managers and the Division's objective to increase its exposure to small/middle market buyout strategies that are expected to realize higher risk-adjusted returns. JLL's strategy favors companies with lower average purchase multiples and debt levels, as well as businesses with the ability to grow revenues and earnings through both organic growth and acquisitions. This strategy to build a larger and more efficient company is expected to result in higher valuations and exit multiples.

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

**Strong investment performance:** JLL's most recent funds, Funds V, VI and VII, have generated strong returns. Since 2005, JLL has no realized losses in the funds' portfolios and maintains a modest 5.8% unrealized loss ratio. The Division has also co-invested alongside JLL in other investments generating attractive returns.

**Experienced and stable team:** The team's long tenure of operating together, deep sector focus, and consistency of strategy enables it to find attractive opportunities that fit its value-oriented, transformational-growth investment philosophy, regardless of economic cycles. The current management group has been working together since 2006 and is responsible for deployment of capital in Funds V, VI and VII. The investment team is aligned with its Fund VIII LPs and will invest 5% of the aggregate commitments to the Fund.

**Multifaceted approach to value creation:** JLL focuses on talent and organizational design throughout its businesses and establishes thoughtful incentive structures using performance-based

metrics. JLL has a detailed vision for transformation at the time of investment and seeks add-on acquisitions that broaden portfolio companies' capabilities, diversify product offerings, expand the customer base, and create industry leaders in their respective sectors. JLL has developed a proprietary "playbook" that it employs across the portfolio for acquisitions in order to realize internal synergies. JLL's operating partners maintain a close, partnership-based approach with portfolio company management teams. JLL has bolstered its deal execution capabilities, through the build-out of its in-house debt capital markets team.

**Investing across cycles:** JLL has been able to execute on its strategy and deploy capital across cycles by investing in businesses at attractive valuations and capitalizing the businesses with reasonable levels of leverage. JLL focuses on prospective investments that are less correlated with broader macroeconomic fluctuations and also focuses on identifying opportunities in sectors with long-term growth trends in order to build in more resilience during periods of market dislocation.

**Environmental, Social, and Governance ("ESG"):** JLL has employed a third party ESG consultant that assists in ESG diligence for all new platform investments. The consultant focuses on a number of key risk areas, including, but not limited to: data privacy and security, anti-bribery and corruption, general ethics and compliance, healthcare ethics, labor conditions, diversity, and environmental, health and safety matters. The ESG process has proven to be accretive from an investment perspective thus far.

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

Division Staff and its private equity consultant, TorreyCove Capital Partners, 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 utilized Lazard Frères & Co. LLC and Lazard & Co., Limited, as third-party solicitors ("placement agents") in fundraising, but no placement agents were engaged in connection with New Jersey's potential investment. Staff has determined that the placement agents and their representatives met the registration, licensing and experience requirements set forth in the Division's Placement Agent Policy ("Policy"). Pursuant to the Policy, the Fund has disclosed the contract between the Fund and the placement agents, specifying the scope of services to be performed by the placement agents and the fee arrangement between the placement agents, the general partner, and any other third party.

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

The investment is authorized pursuant to Articles 69 and 90 of the Council's regulations. JLL Partners Fund VIII, L.P. is 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 IPC was held on October 17, 2018. In addition to the formal written due diligence report, all other information obtained by the Division regarding the investment was made available to the IPC.

We look forward to discussing the proposed investment at the Council's October 25, 2018 meeting.

Attachment

Fund Name: JLL Partners Fund VIII, L.P.

October 25, 2018

Contact Info: Johanna Doherty, 245 Park Avenue, 16th Floor, New York, NY 10167

Fund Details:

Firm AUM (\$bil):	\$5.3 billion	<b>Key Investment Professionals:</b> <b>Paul S. Levy</b> , Managing Director, co-founded JLL in 1988 and serves on the Investment Committee. Prior to founding the Firm, Mr. Levy was a Managing Director at Drexel Burnham Lambert, responsible for the firm's restructuring and exchange offer business in New York. <b>Frank J. Rodriguez</b> , Managing Director, joined JLL in 1995 and serves on the Investment Committee. Prior to joining JLL, Mr. Rodriguez was in the Merchant Banking Group at Donaldson, Lufkin & Jenrette Securities Corporation, where he focused on executing leveraged buyout transactions. <b>Kevin T. Hammond</b> , Managing Director, Mr. Hammond joined JLL in 2004 and serves on the Investment Committee. Prior to joining JLL, Mr. Hammond worked in Merchant Banking at Greenhill & Co., LLC. <b>Daniel Agroskin</b> , Managing Director, Mr. Agroskin joined JLL in 2005 and serves on the Investment Committee. Prior to joining JLL, Mr. Agroskin worked at J.P. Morgan Partners and was in the Mergers & Acquisitions Group at Merrill Lynch & Co. <b>Eugene Hahn</b> , Managing Director, Mr. Hahn joined JLL in 2006 and serves on the Investment Committee. Prior to joining JLL, Mr. Hahn worked at Warburg Pincus LLC and in the Mergers & Acquisitions Group at Lazard Freres & Co.
Strategy:	Private Equity - Buyout	
Year Founded:	1988	
Headquarters:	New York, NY	
GP Commitment:	at least 5% of the Fund's commitments	

Investment Summary

JLL Partners ("JLL" or the "Firm"), is a middle market firm focused on making private equity and distressed investments with experience doing so across various economic and market cycles. Consistent with prior funds, JLL will target businesses facing meaningful challenges, to the extent that discounts derived from such issues translate into compelling investment opportunities. The portfolio is expected to consist of a diverse range of deal types, including platform build-ups, carve-outs, and/or distressed investments across North America, where the General Partner will deploy \$75 million to \$200 million per company. Control and joint control investments are pursued in almost every case, as required to effect meaningful transformations of the Fund's portfolio companies via a combination of strategic mergers/add-on transactions, management changes, market repositioning, and capital structure improvements.

Existing and Prior Funds

Funds	Vintage Year	Strategy	Returns as of 6/30/2018
Fund V	2005	Buyout	10.1% Net IRR, 1.68x Net TVPI, 1.57x DPI
Fund VI	2008	Buyout	23.2% Net IRR, 2.15x Net TVPI, 1.74x DPI
Fund VII	2014*	Buyout	20.4% Net IRR, 1.27x Net TVPI, 0.0x DPI

\* As reported by TorreyCove Capital Partners

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

Vehicle Information:

Inception:	2018	Auditor:	Ernst & Young L.L.P.
Fund Size (\$mil.):	\$1.25 billion, Hard Cap TBD	Legal Counsel:	Weil, Gotshal & Manger LLP
Management Fee:	2.0% of capital commitments during the investment period; thereafter, 1.25% of actively invested capital		
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	100% fee offset		

NJ AIP Program

Recommended Allocation (\$mil)	up to \$200 million	LP Advisory Board Membership:	Yes
% of Fund:	16%	Consultant Recommendation:	Yes
		Placement Agent:	Yes
		Compliance w/ Division Placement Agent Policy:	Yes
		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.