



State of New Jersey

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February 03, 2014

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Acting Director

SUBJECT: **Proposed Investment in AnaCap Financial Partners III, LP**

The New Jersey Division of Investment (“Division”) is proposing an investment of €125 million in AnaCap Financial Partners III, 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:

Focused Investment Strategy: AnaCap’s investment philosophy focuses on the growth within the European mid-market financial services sector through the establishment, development and/or transformation of businesses that are capable of disrupting the status quo by delivering a significantly improved and more efficient financial service or product to the market. AnaCap drives the growth and value creation in each investment by engaging, augmenting and restructuring management teams as well as implementing cutting edge infrastructure, systems and processes.

Experienced Team with Specialized Domain Knowledge: The experience and knowledge of the team gives AnaCap a competitive advantage to identify and be involved in the most attractive market opportunities and provide a high degree of confidence to sellers and regulators. Their senior partners have an average of over 20 years’ experience in the sector and are supplemented by a team of 28 investment professionals. AnaCap is typically the first call for trade sellers, advisors and other private equity sponsors due to their reputation and credibility with regulators and industry participants. This has been evidenced by the firm’s joint venture with Blackstone announced in October 2012, which allowed Blackstone to tap AnaCap’s experience and access to deals in the sector. AnaCap was also the first private equity firm to be granted regulatory approval to control a UK deposit-taking institution and the only private equity investor with controlling interests in 3 European Union banks.

Benefit of Ownership Stake: The Pension Fund’s 5% ownership stake in AnaCap entitles it to 3% of excess management fees in Financial Partners Funds II & III, as well as 5% of the carry in all future private equity funds. Although not contractually obligated, AnaCap has displayed positive attributes and provided the Division similar revenue sharing for both Credit Opportunities funds. Due to this ownership stake, the Division’s actual management fees for

Fund II have been about 50 basis points less than the headline 2%, and will continue to improve through the fund's life.

Market Opportunity: The global financial crisis brought about an end to a 30-year run of cheap wholesale liquidity and benign regulation for European banks. Due to this, there is an increased regulatory focus (Basel III implementation) and asset quality reviews by the ECB (lower leverage required) which both cause European financial institutions to need to reposition their business models. This has created a huge opportunity as financial services represent 31% of Eurozone GDP (the largest industry) and the incumbent players need to de-lever and exit non-core sectors and geographies due to the previous mentioned factors. It has also caused existing institutions to create a lending gap as they take care of their legacy issues. This has created opportunities in many areas such as:

- Acquire and restructure "non-core" undermanaged assets
- Acquire and restructure sub-scale businesses, fast becoming "non-core" for incumbents
- Establish faster, better capitalized, digital businesses to challenge the slower incumbents
- Support disruptive technology
- Lend to and create new, healthier platforms to challenge incumbents

Healthy Fund II Portfolio: Fund II has delivered top-quartile returns on a Net Total Value to Paid In ("TVPI"), Distributions to Paid In ("DPI") and Internal Rate of Return ("IRR") basis relative to the Venture Economics European Buyout benchmark, generating a net TVPI of 1.29x and a net DPI of 0.26x as of June 30, 2013. As a result of AnaCap's intense operational focus and significant capital investment at the onset of owning each company, Fund II's companies have shown substantial revenue and earnings growth; with revenue growing from €4 million in 2009 to €469 million in 2013 (resulting in a 227% 3-year Compound Annual Growth Rate "CAGR" over the period 2009 - 2012) and earnings growing from €15 million in 2009 to €108 million in 2013 (equating to a 261% 2-year CAGR over the period 2010-2012). AnaCap has proven that by investing heavily in systems and managing financial services companies' cost of capital more efficiently they can create rapid growth in assets and revenue and boost bottom line earnings quite meaningfully. For example, in 2007 AnaCap bought Apex Credit Management, a consumer debt collection and debt purchase business in the UK with a strong management team, then in 2011 acquired Cabot Financial, the UK's leading debt purchasing firm, and merged the two to create the UK's largest debt management business. Due to these acquisitions and the subsequent integration and efficiencies that were realized, AnaCap sold Cabot in May 2013 to J.C. Flowers for a gross multiple of 2.4x and a 35% IRR.

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 used third-party solicitors ("placement agents") in the fundraising of the fund but no placement agent was engaged or paid 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 AnaCap Financial Partners III, L.P. 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 January 14, 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 February 3, 2014 meeting.

Attachments

Fund Name: AnaCap Financial Partners III, L.P. **February 03, 2014**

Contact Info: Amber Hilken, 25 Bedford Street, London, WC2E

Fund Details:		<p>Key Investment Professionals :</p> <p>Joe Giannamore: Co-Managing Partner, Mr. Giannamore began his career in Europe at Goldman Sachs, where he spent four years as a founding member of the global asset structuring department. Before founding AnaCap, he co-founded auto finance company On:line Finance, which was subsequently acquired by GMAC UK, the UK finance arm of General Motors and where he became CEO until 2003.</p> <p>Peter Cartwright: Co-Managing Partner, Head of Business Services. As Head of the Business Services team, Mr. Cartwright leads the Firm's engagement with all of AnaCap private equity fund portfolio companies. Prior to AnaCap, Mr. Cartwright was Commercial Director at a leading private equity backed insurance services provider.</p> <p>Fabrizio Cesario: Partner, Head of Mergers & Acquisitions. Mr. Cesario heads AnaCap's Mergers & Acquisitions team and has over 20 years' experience in executing various successful acquisitions, strategic add-ons and disposals.</p> <p>Chris Patrick: Partner, Head of Risk & Liability Management, Mr. Patrick heads AnaCap's Risk & Liability Management team and has more than 20 years' experience in the European structured finance and capital markets.</p>
Firm AUM:	€1.7 billion	
Strategy:	Buyout	
Year Founded:	2005	
Headquarters:	London, England	
GP Commitment:	2.25%	

Investment Summary	Existing and Prior Funds			
<p>AnaCap Financial Partners is an independent private equity investor focused on the financial services sector. AnaCap was founded in 2005 by Joe Giannamore, who had previously been CEO of GMAC UK. The Fund will seek to acquire control of medium-sized businesses with strong growth potential or those where significant value can be unlocked via restructuring. AnaCap will, from time to time, consider leveraging its expertise in building start-ups in any financial services subsector where it feels there is sufficient growth potential to meet minimum return thresholds. The exclusive focus of the firm on the financial services industry offers differentiation relative to generalist private equity firms operating in the same region, which the team will leverage to generate proprietary deal flow. AnaCap believes that its differentiated investment platform - which harnesses the shared experience, domain expertise, and extensive industry network of its investment team as well as the team's strong track record of developing and growing leading financial services businesses within their respective subsectors - benefits from numerous competitive advantages that enable it to position itself as a leading investment firm focused on the European financial services sector.</p>	<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of June 30, 2013</u>
	Fund I	2006	Buyout	(2.70)% Net IRR, 0.38x Net DPI
	Fund II	2008	Buyout	10.90% Net IRR, 0.26x Net DPI
	IRR = Internal Rate of Return			
	DPI = Distributions to Paid In			

Vehicle Information:

Inception:	2014	Auditor:	PriceWaterhouseCoopers
Fund Size:	€900 million	Legal Counsel:	Gibson, Dunn & Crutcher LLP
Management Fee:	1.80%		
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	100% Fee Offset		

NJ AIP Program

Recommended Allocation:	€125 million	LP Advisory Board Membership:	Yes
% of Fund:	14%	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.