



State of New Jersey

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July 22, 2015

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in American Industrial Partners Capital Fund VI, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment up to \$200 million in American Industrial Partners Capital Fund VI, 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.

American Industrial Partners (“AIP” or the “Firm”) is a leading middle market private equity firm that is distinctively focused on buying and improving industrial businesses headquartered in North America. AIP seeks to combine the judgement and the value creation capabilities of a strategic buyer with the execution capabilities of an experienced financial buyer. The Firm has deep roots in the North American industrial economy and has been active in private equity investing for over 26 years. The AIP Team has led the investment and active management of 29 initial platform investments and 26 add-on acquisitions since 1997.

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

Strong Performance: American Industrial Partners (“AIP” or the “Firm”) has invested in and actively managed 29 platform companies since 1997, approximately over \$1.5 billion of capital (over \$2.0 billion including co-investments). As of 3/31/15, AIP’s net investment performance according to the Thomson Reuters C/A Benchmark for U.S. Buyout Funds has been top-quartile since Fund III, a 2000 vintage, as shown below:

AIP III: 2.50x Total Value to Paid-In (“TVPI”), 41.79% Internal Rate of Return (“IRR”)

AIP IV: 2.65x TVPI, 26.87% IRR

AIP V: 1.39x TVPI, 23.31% IRR

Deep, Cohesive Investment Team: The Team comprises 23 investment and operating professionals led by Kim Marvin, Dino Cusumano, and John Becker who have worked together for over 15 years. The members of the Team have diverse backgrounds with deep and complementary operating, technical, and financial expertise. Each partner has generally focused on the industrial sector throughout his career and together they have knowledge in operating and

technical areas including: Lean manufacturing, operations planning, quality systems, product development and management, engineering effectiveness, global manufacturing and procurement, aftermarket sales growth, equipment effectiveness, plant consolidation, ERP implementations, and project management. Operating and technical capabilities are complemented by transaction experience such as replacing shared services at newly independent divisions, divesting non-core assets, integrating add-on acquisitions, structuring recapitalizations and effecting public and private debt and equity financings. The professionals of AIP are fully dedicated to the opportunities of the Firm and have worked collaboratively and successfully together for many years.

Proprietary Deal Flow: AIP investment professionals develop their deal flow from proprietary or thinly-marketed processes; approximately 43% of relevant transactions were sourced on a fully proprietary basis, 22% through broken auctions, 20% through auctions and the remaining 15% via tender offers or bankruptcies. In January 2011, AIP hired Ben DeRosa to formalize and institutionalize a dedicated business development effort, and AIP has continued to supplement the business development team since then. AIP accesses a broad network of boutique intermediaries and has significantly broadened the Firm's name recognition and deal flow among deal sources. Finally, the recent hiring of two professionals focusing on liquid credit opportunities will allow AIP to further broaden its sourcing capabilities.

Value-Add Approach: AIP is an experienced team of operationally focused value investors, who will take control positions and drive value through operational improvements. Specifically, they target companies with significant market share in attractive industries with high barriers to entry who have lower profitability or growth than their peers at the time of purchase. One of the key attributes to the Firm's value-add strategy is their ability to grow EBITDA through the implementation of operating initiatives, which they term as the "Operating Agenda". The Operating Agenda is identified by industry teams in collaboration with key management prior to purchasing the company with the purpose of meaningfully improving the value of the enterprise during the AIP investment horizon. This often includes developing aftermarket opportunities, executing add-on acquisitions and divestitures, pursuing lean manufacturing initiatives, pricing optimization, and business process redesign and equipment modernization.

Market Opportunity: After decades of tepid growth, North America is currently experiencing a manufacturing revitalization. This has been brought about by a number of factors, which include increasing wages in low cost countries, lower energy and raw material costs in North America relative to the rest of the world, and shortening product development cycles which requires closer proximity to end consumers. North American revitalization will continue as manufacturing becomes increasingly high-tech, innovation continues and closer proximity to knowledgeable workers outweighs the importance of having lower cost labor.

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.

The fund utilized Acalyx Advisors Inc. (the "placement agent") as third-party solicitor in connection with the potential investment. Staff has determined that the placement agent and its representatives met the registration, licensing and experience requirements set forth in the Division's Placement Agent Policy (the "Policy"). Pursuant to the Policy, the fund has disclosed

the contract between the fund and the placement agent, specifying the scope of services to be performed by the placement agent and the fee arrangement between the placement agent, the general partner and any other third party.

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. American Industrial Partners Capital Fund VI, 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 July 9, 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 July 22, 2015 meeting.

Attachments

Fund Name: American Industrial Partners Capital Fund VI, L.P.

July 22, 2015

Contact Info: Stan Edme, 330 Madison Avenue, 28th Floor, New York, NY, 10017

Fund Details:

Firm AUM (\$bil.):	\$1.6 billion	Key Investment Professionals: Kim Marvin , Partner – Joined American Industrial Partners in 1997. Served in the Mergers and Acquisitions and Financial Institutions Groups of Goldman, Sachs & Co. from 1994 through 1997. Served as Chief Operating Officer of The American Original Corporation where he was employed from 1985 through 1991. Mr. Marvin graduated Tau Beta Pi from Massachusetts Institute of Technology with a Bachelor of Science in Ocean Engineering in 1985. Graduated from the Harvard Graduate School of Business Administration with High Distinction in 1994, where he earned his Master of Business Administration and was named a Baker Scholar. John Becker , Partner – Joined American Industrial Partners in 2001. Founded Newport Shrimp Company, an international seafood processing business, in 1976 and exited in 1989 with a sale to Clearwater Fine Foods. Served as Chief Operating Officer of Clearwater Fine Foods, USA from 1989 through 1992. Purchased and became Chairman of Newport Pacific Corporation in 1998. Mr. Becker graduated from Oregon State University with a Bachelor of Science in Business in 1974. Dino Cusumano , Partner – Joined American Industrial Partners in 2000. Served in the Investment Banking Department of J.P. Morgan & Co. Inc. from 1998 through 2000, where he worked on merger and acquisition and capital raising transactions primarily in the industrial sector. Served in the Investment Banking Department at Wedbush Morgan Securities. Mr. Cusumano graduated from the University of Notre Dame, where he received a Bachelor of Business Administration in Finance with honors. He is a CFA charterholder.
Strategy:	Mid-Market Buyout	
Year Founded:	1989	
Headquarters:	New York, NY	
GP Commitment:	2.5% of aggregate LP commitments	

Investment Summary	Existing and Prior Funds			
American Industrial Partners Capital Fund VI, L.P. (“Fund VI”) seeks to acquire control positions in North American (U.S. and Canada) headquartered industrial companies with sales greater than \$75 million that are underperforming their profit potential (sometimes generating negative EBITDA) and then improve these companies through the implementation of an Operating Agenda developed in collaboration with the company management teams. The four main principles guide the Firm’s investment philosophy include: i) Purchase attractive but underperforming industrial businesses with significant market positions that have a global revenue opportunity or protected local economics; ii) Develop comprehensive understanding of the business prior to acquisition; iii) Generate attractive returns primarily through controllable factors; and iv.) Preserve capital in the event of a downturn.	<i>Funds</i>	<i>Vintage*</i>	<i>Strategy</i>	<i>Returns as of 3/31/2015</i>
	AIPCF II	1997	buyout	9.27% Net IRR, 1.71x Net TVPI, 1.71x Net DPI
	AIPCF III	2001	buyout	41.79% Net IRR, 2.50x Net TVPI, 2.26x Net DPI
	AIPCF IV	2007	buyout	26.87% Net IRR, 2.65x Net TVPI, 1.50x Net DPI
	AIPCF V	2011	buyout	23.31% Net IRR, 1.39x Net TVPI, 0.00x Net DPI
IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI= Distributions to Paid-In				
*Vintage - year of first capital call				

Vehicle Information:

Inception:	2015	Auditor:	McGladrey
Fund Size (\$mil.):	\$1.75 billion	Legal Counsel:	Simpson Thacher Bartlett
Management Fee:	2%, 1.5% post investment period		
Carry:	20%		
Hurdle Rate:	8%		
Fee Offsets:	100% fee offset		

NJ AIP Program			
Recommended Allocation (\$mil):	Up to \$200 million	LP Advisory Board Membership:	TBD
% of Fund:	11.43%	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.