



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

December 8, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in American Industrial Partners Capital Fund V**

The New Jersey Division of Investment ("Division") is proposing an investment of up to **\$100 million** in **American Industrial Partners Capital Fund V** ("AIP"). 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 for a number of reasons. The AIP team consists of experienced investment and operating professionals with a majority of the partners working together for 10 or more years. This strong team allows AIP to focus on complex transactions and companies with operational challenges. Fifty percent of their transactions have been sourced on a proprietary basis. The team has been able to add value to their portfolio companies by implementing cost reductions through meaningful operational improvements, rather than relying on financial engineering to generate returns. EBITDA has doubled, on average, during AIP's ownership of portfolio companies. All this has resulted in top quartile performance in their recent funds. 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 this proposed investment in accordance with the Division's Alternative Investment Due Diligence Procedures.

The fund utilized MVision Private Equity Advisers (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. 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 American Industrial Partners Capital Fund V will be considered a "buy-out" private equity 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 November 22, 2011. 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 December 8, 2011 meeting.

Attachments

American Industrial Partners Capital Fund V

December 8, 2011

Contact Info: Kim Marvin, 535 Fifth Avenue, 32nd Floor, New York, NY 10017 Email:kim@aip4.com Phone:(212) 627-2360

Fund Details:

AUM (in millions)	586.6	Key Investment Professionals: Kim Marvin, Managing Partner- Prior to joining AIP in 1997 served in the Mergers and Acquisitions and Financial Institutions Group of Goldman, Sachs & Co from 1994 to 1997, and served as COO of the American Original Corporation from 1985 to 1991. Mr. Marvin graduated from the Massachusetts Institute of Technology in 1985 and graduated Harvard Graduate School of Business Administration in 1994 earning his MBA and named Baker scholar. John Becker, Managing Partner- Prior to joining AIP in 2001 founded Newport Shrimp Company from 1976 to exit in 1989 to Clearwater Fine Foods, served as COO at Clearwater Fine Foods till 1992, and purchased and served as chairman of Newport Pacific Corporation till 1998. Mr Becker graduated Oregon State University in 1974. Dino Cusumano- Managing Partner- Prior to joining AIP in 2000 served in the Investment Banking Department of J.P.Morgan & Co. in Mergers and Acquisitions following the industrial sector from 1998 to 2000, and served in the Investment Banking Department of Wedbush Morgan Securities. Mr. Cusumano graduated from the University of Notre Dame and is a CFA charterholder.
Strategy:	Mid Market Buy-Out	
Year Founded:	1989	
Headquarters:	New York, NY	
GP Commitment:	0.025	

Investment Summary

AIPCF V will invest in North American headquartered industrial companies with sales ranging from \$100 million to \$500 million that have attractive and defensible business models with engineering – centric businesses. AIP was founded in 1989 and has raised four prior funds. In 2006, concurrent with the fundraising for Fund IV, the firm went through a management transition whereby Kim A. Marvin, Dino Cusumano and John Becker took control of the firm as the new General Partner. As part of the transition, the structure of the firm was shifted from one where the carry was held by only a few top professionals to one where all partners and professionals share in the carry. Based upon our research AIP has demonstrated top quartile performance in their recent funds and has a deep, cohesive team of experienced investment and operating professionals that have been working together for 10 or more years. AIP will continue their process and strategy in adding value to their portfolio companies by implementing cost reductions and improving asset velocity through meaningful operational improvements, rather than relying on financial engineering to generate returns. EBITDA has doubled, on average, during AIP's ownership of portfolio companies. AIP's focus on complex transactions and companies with operational challenges has resulted in approximately 50% of their transactions sourced on a proprietary basis. The current AIP team has invested \$787 million in 15 portfolio companies since 1997 through the end of June of this year, generating 2.37x invested capital.

Existing and Prior Funds

Funds	Strategy	Returns	VE Quartile
Fund IV	Mid Market Buy Out	Net: 28.7%IRR/ 2.36x	First
Fund III	Mid Market Buy Out	Net: 43.9%IRR/ 3.39x	First
Fund II	Mid Market Buy Out	Net: 9.3%IRR/ 2.0x	First

Vehicle Information:

Inception:	2011	Auditor:	McGladrey
Fund Size (\$mil.):	Up to \$700 Million	Legal Counsel:	Simpson Thacher Bartlett
Management Fee:	2%	Accounting Firm:	Internal
Carry:	20%		
Hurdle Rate:	8%		

NJ AIP Program

Recommended Allocation:	Up to \$100 million	LP Advisory Board Membership:	Yes
% of Fund:	7-14%	Consultant Recommendation:	Yes
		Placement Agent:	MVision
		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.