



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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November 13, 2015

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in Brookfield Capital Partners IV, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of \$150 million in Brookfield Capital Partners IV, L.P. (“BCP IV”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

Brookfield Asset Management, Inc. (“Brookfield”) is establishing BCP IV to pursue value investments focused on opportunistic buyouts, platform opportunities and underperforming businesses in real assets related sectors where Brookfield can leverage its capabilities as a global alternative asset manager with over \$225 billion in AUM across platforms (Property, Infrastructure, Private Equity, Sustainable Resources, and Advisory Services).

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

Strong Track Record¹: BCP has made 25 investments (\$2.5 billion invested) since December 2001, with a net return of 1.53x and a 20.3% Internal Rate of Return (“IRR”). Of the 25 deals, 12 have been realized (\$716 million of invested capital) with a 44% IRR and a 3.19x Multiple on Invested Capital (“MOIC”). Funds I & II are both top-quartile from an IRR perspective, while from a MOIC perspective they are 2nd and 1st quartile, respectively. The third fund, still early in its life, has a net IRR of 11.2% and MOIC of 1.15x with a Distribution to Paid-in (“DPI”) of 0.48x. In addition, using the Morningstar US Real Asset Index, the Brookfield funds have consistently outperformed their public market benchmark since inception.

Broad Platform and Impressive Operational Capability: The depth and breadth of Brookfield’s platform allows for unrivaled sourcing, and the ability to draw from a huge pool of experienced professionals across many different sectors, most importantly from an operational point of view.

Attractive Real Asset Exposure: Given the Division’s underweight to the asset class and its exposure to primarily oil & gas related assets, staff believes that investing in BCP IV will help it gain needed diversification in its current portfolio. The Fund’s flexible mandate allows it to invest

¹ Brookfield’s first two funds were Canadian dollar denominated while investments were made in both Canadian and U.S. Dollars. For consistency, the Division’s private equity consultant, TorreyCove, has converted all cash flows to U.S. Dollars and calculated the following returns based on the U.S. Dollar equivalent. Daily exchange rates were used to convert the cash flows. Data excludes toehold investments.

in a variety of real asset related sectors such as energy, metals & mining and forest products, as well as building products, construction & engineering, packaging & specialty paper, industrials and manufacturing, and financial and real estate services. Importantly, Brookfield seeks to avoid commodity price risk through a focus on structuring investments with downside protection. As evidence of this, investments in the Energy and Metals and Mining sectors have held up reasonably well during the commodities downturn.

Differentiated and disciplined strategy: Brookfield's flexible mandate, operational capabilities and investing experience, along with its ability to leverage the larger Brookfield platform, allows the Fund an advantage throughout the life of an investment. As owners of operating companies, they can lean on different divisions within the larger Brookfield organization, and use their knowledge to help them rationalize businesses to make them more profitable and cost effective, giving them the ability to be better prepared to weather economic storms. This allows them to buy orphaned businesses within conglomerates or poorly managed businesses and turn them around when others may not have the capability or not feel compelled to invest the time and effort needed to see the business succeed.

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 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. 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 71 of the Council's regulations. Brookfield Capital Partners IV, L.P. will be considered a real asset investment, as defined under N.J.A.C. 17:16-71.1.

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 10, 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 November 18, 2015 meeting.

Attachments

Fund Name: Brookfield Capital Partners IV, L.P.

November 13, 2015

Contact Info: Robert White, 133 Sevilla Avenue, Coral Gables, FL 33134

Fund Details:

Total Firm Assets:	\$ 225 billion	<p>Key Investment Professionals: Cyrus Madon, Senior Managing Partner. Mr. Madon is a Senior Managing Partner and co-head of the Private Equity Group. He joined Brookfield in 1998 as Chief Financial Officer of Brookfield's real estate brokerage business. During his tenure he has held a number of senior roles across the organization, including Brookfield's corporate lending business. Joe Freedman, Senior Managing Partner. Mr. Freedman is a Senior Managing Partner and co-head of the Private Equity Group. Since joining Brookfield in 2002, Joe has held a number of positions including general counsel and Managing Partner responsible for M&A transaction execution and fund formation and operations. Barry Blattman, Senior Managing Partner. Mr. Blattman is a Senior Managing Partner and has contributed broadly to the establishment and growth of numerous activities within the Firm's private funds platform. Jon Haick, Senior Managing Partner. Mr. Haick is a Senior Managing Partner and head of Europe, responsible for transaction sourcing and execution. Jon has significant experience in mergers and acquisitions and corporate finance transactions across a range of industries</p>
Strategy:	Real Assets	
Year Founded:	1899	
Headquarters:	New York	
GP Commitment:	\$1 billion	

Investment Summary

Brookfield Capital Partners ("BCP") is a subsidiary of Brookfield Asset Management (NYSE: BAM, TSX: BAM.A, EURONEXT: BAMA), which is a publicly-traded global alternative asset manager that was formed in 1899 under a joint venture among Brazilians and Canadians known as São Paulo Tramway, Light and Power Company. Since inception, BCP has raised three funds totaling approximately \$2.5 billion of capital commitments. BCP IV will continue to execute its strategy of pursuing value investments focused on opportunistic buyouts, platform opportunities and underperforming businesses within their core industries which include real asset related sectors such as energy, metals & mining and forest products, as well as building products, construction & engineering, packaging & specialty paper, industrials and manufacturing and financial and real estate services, where information flow and expertise within Brookfield's broader platform provide insight. The Fund will benefit from Brookfield's real asset and related operating platforms, leveraging Brookfield's deep operating experience to enhance transaction sourcing, execution, and add value post-acquisition.

Existing and Prior Funds ¹

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 6/30/2015</u>
Fund I	2001	Real Assets	32.6% Net IRR, 1.91x Net DPI
Fund II	2006	Real Assets	14.9% Net IRR, 1.02x Net DPI
Fund III	2011	Real Assets	11.2% Net IRR, 0.48x Net DPI

IRR = Internal Rate of Return; DPI = Distributions to Paid-in Capital

1. Brookfield's first two funds were Canadian dollar denominated while investments were made in both Canadian and U.S. Dollars. For consistency, the Division's private equity consultant, TorreyCove, has converted all cash flows to U.S. Dollars and calculated the following returns based on the U.S. Dollar equivalent. Daily exchange rates were used to convert the cash flows. Data excludes toehold investments.

Vehicle Information:

Inception:	2015
Fund Size:	\$3.5 billion
Management Fee:	1.60% during the investment period; 1.35% thereafter on invested capital
Carry:	20%
Hurdle Rate:	8%
Additional Informaton	100% fee offset

Auditor:	Deloitte & Touche LLP.
Legal Counsel:	Weil, Gotshal & Manges LLP

NJ AIP Program

Recommended Allocation:	\$150 million	LP Advisory Board Membership:	TBD
% of Fund:	4.29%	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.