



State of New Jersey

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March 19, 2014

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Acting Director

SUBJECT: **Proposed Investment in HitecVision VII, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$100 million in HitecVision VII, L.P. 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:

Strong & Consistent Performance: The HitecVision Funds (five in total) are top quartile on an Internal Rate of Return (“IRR”) basis. Hitec’s first four funds are also top quartile on a Total Value to Paid-In Capital (“TVPI”) basis, however; Fund VI is second quartile due to its early life. The Division believes that this Fund will also be a top quartile performer as the portfolio matures. HitecVision has earned a 4.4x Multiple on Invested Capital (“MOIC”) on realized transactions and a 2.3x MOIC in the aggregate since 2002. In addition, the firm generated a 5.6x MOIC on their pre-institutional track record from 1985-2001. In 2013, HitecVision successfully exited their investment in eight companies, with seven of those generating more than a 3x MOIC. Finally, the firm has a 0% loss ratio in their track record.

Experience in the Energy Sector: HitecVision’s exclusive focus has been on the oil & gas sector for over 25 years. The knowledge and industry contacts developed over that period of time represent a significant competitive advantage over its peers. Moreover, 16 of 20 partners have over 20 years of operational and transaction experience, with some team members coming from market leaders such as Shell, Statoil and Schlumberger. HitecVision’s reputation is also important in regards to exiting transactions. The firm views itself as a feeder to the oil and gas industry and a significant number of companies in their portfolio have been purchased by strategic acquirers due to the high-quality management teams and business practices which the firm fosters and grows throughout their ownership.

Disciplined Investment Process: HitecVision’s disciplined internal processes have been refined over years of successful investing and operating. The unique partner-led process adopts a structured, milestone-driven approach, providing a consistent and repeatable value creation approach. HitecVision develops a comprehensive and detailed value creation plan for each investment, updated quarterly during the holding period of each investment. This disciplined

process has resulted in 55% and 36% of value creation being generated through revenue increases and margin increases, respectively, while only 19% of value creation can be attributed to multiple increases.

Attractive Market Opportunity: HitecVision will continue its strategy of acting as a “feeder” to the oil and gas industry by analyzing industry dynamics in order to identify opportunities in the market and establish platforms and companies that the firm can develop and position to be desirable acquisition opportunities for industry players. The Norwegian Continental Shelf (“NCS”) is an example of where the firm has been successful and where it will continue to be active. The NCS is expected to continue to require high capital investment well into the future, with industry players forecasting that the NCS' market size will be \$60 billion in 2015, an increase of approximately 94% compared to 2010. Furthermore, HitecVision believes that the NCS will remain an attractive environment for middle-market oil and gas investments and the fund is well positioned, both geographically and through its expertise and focus on the entire oil and gas value chain, to effectively address this compelling market opportunity.

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 engaged a third-party solicitor (“placement agent”) in the fundraising of the fund, but the placement agent was not used to solicit 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 71 of the Council’s regulations. The HitecVision VII, L.P. Fund 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 March 11, 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 March 19, 2014 meeting.

Attachments

Fund Name: HitecVision VII, L.P. March 19, 2014

Contact Info: Arne Trondsen, Jattavagveien 7 (Building A), 4021 Stavanger, Norway ☐

Fund Details:		<p>Key Investment Professionals: Ole Ertvaag, co-founder of HitecVision. Prior to founding HitecVision in 2000, Mr. Ertvaag was the Chief Financial Officer of the oil service technology company Hitec ASA (HitecVision's predecessor) from 1989 to 2000. Mr. Ertvaag has led all of the IPOs the team has carried out and has been instrumental in a large proportion of the other transactions since the early 1990s. Ole Saetre, Vice President and Founding Partner of HitecVision and its predecessor, Hitec. Mr. Saetre has been a team member since 1985, a member of the Investment Committee and has more than 20 years of experience in the petroleum industry. Pål M. Reed, Senior Partner and Deputy CEO. Mr. Reed has been a team member since 2005 and a member of the Investment Committee. Mr. Reed's prior experience includes several years of leading private investment companies and was previously Chief Investment Officer of Argentum Fondsinvesteringer AS, the Norwegian State's investment company for private equity fund investments. Arne Trondsen, Senior Partners and Business Development. Mr. Trondsen has been a team member since 2008, he was previously Chief Investment Officer in Argentum Fondsinvesteringer AS, the Norwegian State's investment company for private equity fund investments</p>
Total Firm Assets (\$bil.):	\$3.0 bil	
Strategy:	Real Assets	
Year Founded:	2000	
Headquarters:	Stavanger, Norway	
GP Commitment:	\$100 million	

Investment Summary	Existing and Prior Funds																				
<p>The Division is proposing a \$100 million commitment to HitecVision VII, L.P. ("The Fund" or "HV"), a top quartile fund which operates primarily within the European energy industry and its related sectors. Since the firm began investing through fund vehicles in 2002, HitecVision has been a consistent top-quartile performer. HitecVision is a leading private equity investor focused on the oil and gas industry internationally. The Firm is headquartered in Stavanger, Norway, the center of the Norwegian offshore oil and gas industry, and also has offices in Oslo and Houston. The Fund will seek to pursue attractive middle-market opportunities in the international oil and gas industry. HitecVision expects Fund VII to build a diversified portfolio of investments across various segments of the oil and gas value chain, from sub-surface services businesses to E&P companies.</p>	<table border="1"> <thead> <tr> <th><u>Funds</u></th> <th><u>Vintage Year</u></th> <th><u>Strategy</u></th> <th><u>Returns as of 12/31/13</u></th> </tr> </thead> <tbody> <tr> <td>Fund III</td> <td>2002</td> <td>Real Assets</td> <td>71.0% Net IRR, 4.0x TVPI</td> </tr> <tr> <td>Fund IV</td> <td>2006</td> <td>Real Assets</td> <td>14.0% Net IRR, 2.0x TVPI</td> </tr> <tr> <td>Fund V</td> <td>2008</td> <td>Real Assets</td> <td>29.0% Net IRR, 2.0x TVPI</td> </tr> <tr> <td>Fund VI</td> <td>2011</td> <td>Real Assets</td> <td>17.0% Net IRR, 1.1x TVPI</td> </tr> </tbody> </table> <p>IRR = Internal Rate of Return TVPI = Total Value to Paid-In</p>	<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 12/31/13</u>	Fund III	2002	Real Assets	71.0% Net IRR, 4.0x TVPI	Fund IV	2006	Real Assets	14.0% Net IRR, 2.0x TVPI	Fund V	2008	Real Assets	29.0% Net IRR, 2.0x TVPI	Fund VI	2011	Real Assets	17.0% Net IRR, 1.1x TVPI
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Vehicle Information:

Inception:	2013	Auditor:	PricewaterhouseCoopers CI LLP
Fund Size (\$mil.):	\$1.8 billion plus \$100 million from HitecVision	Legal Counsel:	BA - HR DA
Management Fee:	1.85%		
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	100% fee offset		

NJ AIP Program

Recommended Allocation (\$mil.):	\$100,000,000	LP Advisory Board Membership:	Yes
% of Fund:	6.67%	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.