



State of New Jersey

CHRIS CHRISTIE
Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290
Telephone (609) 292-5106
Facsimile (609) 984-4425

FORD M. SCUDDER
State Treasurer

KIM GUADAGNO
Lt. Governor

CHRIS MCDONOUGH
Director

November 25, 2016

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in EQT Infrastructure III (No. 2) SCSp**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$100 million in EQT Infrastructure III (No. 2) SCSp, (the “Fund”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

EQT Infrastructure III Fund or the Fund will pursue the same strategy as predecessor funds, focusing on control opportunities in mid-sized operating infrastructure companies and/or assets with limited development and construction risk across North America, Continental Europe, and the Nordic region. Typical equity investments will range from €50-300 million with 12-14 companies in the portfolio. The Fund will focus on sectors that have favorable market trends and adhere to the following infrastructure characteristics: providing an essential service to society, recession resilient, stable cash flows, regulation or high entry barriers, and those that provide protection against inflation. Areas of focus currently include Energy (mid-stream, power, and utilities), Transportation and Logistics (ports, rails, airports, and parking), Environmental (waste, water, and industrial), Telecom (towers, fiber, and datacenters), and Social (public services and facilities).

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

Strong track record: Since its inception in 2008, EQT infrastructure has distributed approx. €3 billion, primarily as a result of 8 exits (out of a total 18 portfolio companies). The realized investments have generated a gross Internal Rate of Return (“IRR”) of 35% and a gross Multiple on Invested Capital (“MOIC”) of 3.4x. Performance of both funds I and II has exceeded the pooled returns for the universe.

Proven operational expertise: Under EQT’s ownership, the realized companies grew average sales and Earnings before Interest, Taxes, Depreciation and Amortization (“EBITDA”) by 42% and 61%, respectively.

Experienced Team: The EQT Infrastructure team has been stable and is led by 7 partners with an average of 18 years of infrastructure investment experience from various geographies

Attractive market opportunity: Significant investment needs, along with often strained financing capacity amongst both private and public players, are expected to generate investment opportunities for the Fund.

Portfolio Fit: The Division currently has limited direct exposure to infrastructure and this investment will help diversify the real asset portfolio.

Large external Industrial Advisor network: EQT's network of more than 250 highly regarded business leaders, entrepreneurs and former public sector leaders support value creation through all part of the investment process.

Investor alignment: The industrial advisors and the management teams typically make a significant cash equity investment in the portfolio companies in which they're involved. In addition, the Fund will distribute proceeds according to a European waterfall structure, which means that GP will not start to collect carry until the LP has received all of its invested capital and preferred return.

A report of the Investment Policy Committee ("IPC") summarizing the details of the proposed investment is attached.

Division Staff and its real asset 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 not engaged a third-party solicitor (a "placement agent") 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. EQT Infrastructure III (No. 2) SCSp 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 15, 2016. 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 30, 2016 meeting.

Attachments

Fund Name: EQT Infrastructure III (No. 2) SCSp

November 30, 2016

Contact Info: Adil Haque, 1114 Avenue of the Americas, 45th floor, New York, NY 10036

Fund Details:

Total Firm Assets:	€30 billion	Key Investment Professionals: Lennart Blecher , Deputy Managing Partner, Head of EQT Real Assets, Zurich. Mr. Blecher joined EQT Partners and the EQT Infrastructure Team in 2007. Prior to joining EQT Partners, Mr. Blecher was a Managing Director and Senior Banker at UniCredit / HypoVereinsbank. Andreas Huber , Partner, Head of Continental Europe, Munich. Mr. Huber is one of the founding Partners of EQT Infrastructure and joined EQT Partners in 2007. Prior to joining EQT Partners, Mr. Huber held various senior positions with UniCredit Markets and Investment Banking and HVB, most recently as Managing Director in the Structured Transactions and Investments Unit. Stefan Glevén , Partner, Head of North America, Stockholm. Mr. Glevén joined EQT Partners in 2004 as an Associate in the EQT Equity Team and as a Director in the EQT Infrastructure Team in 2007. Mr. Glevén was appointed Partner in January 2011. From 2003 to 2004 Mr. Glevén worked at ABB Mergers & Acquisitions in Zurich, Switzerland. Alex Darden , Partner, New York. Mr. Darden joined EQT Partners in 2008. Mr. Darden was appointed Partner in January 2013. Prior to joining EQT Partners, Mr. Darden worked at GE Energy Financial Services where he made structured debt and equity investments in energy industry assets and companies.
Strategy:	Real Assets	
Year Founded:	1994	
Headquarters:	Stockholm, Sweden	
GP Commitment:	1.0% of Total Commitments. Investor AB will commit 10% of total commitments	

Investment Summary

EQT was established in 1994 by Investor AB, the listed industrial holding company of the Wallenberg Group, to act as its Scandinavian private equity arm. EQT Infrastructure Fund III will pursue the same strategy as its predecessor funds focusing on control opportunities in mid-sized operating infrastructure companies and/or assets with limited development and construction risk across North America, Continental Europe, and the Nordic region. Typical equity investments will range from €50-300 million with 12-14 companies in the portfolio. EQT focuses on sectors that have favorable market trends and adhere to the following infrastructure characteristics: providing an essential service to society, recession resilient, stable cash flows, regulation or high entry barriers, and those that provide protection against inflation.

Existing and Prior Funds

<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of 06/30/2016</i>
Fund I	2009	Real Assets	17.6% Net IRR, 2.39x MOIC, 1.59x DPI
Fund II	2012	Real Assets	26.9% Net IRR, 1.82x MOIC, 0.93x DPI

IRR = Internal Rate of Return; MOIC = Multiple on Invested Capital; DPI= Distributions to Paid-In

Vehicle Information:

Inception:	2016	Auditor:	KPMG Luxembourg, Société Coopérative
Fund Size:	€2.9 Bil	Legal Counsel:	Simpson Thacher & Bartlett LLP
Management Fee:	1.6% (1.5% for first close)		
Carry:	20%		
Hurdle Rate:	6%		
Offset:	100% of all transaction fees		

NJ AIP Program

Recommended Allocation:	up to \$100 million	LP Advisory Board Membership:	TBD
% of Fund:	3.45%	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.