



## State of New Jersey

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*Governor*

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*Lt. Governor*

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**ELIZABETH MAHER MUOIO**  
*State Treasurer*

**COREY AMON**  
*Director*

May 24, 2019

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon  
Director

SUBJECT: **Proposed Investment in Warburg Pincus China-Southeast Asia II, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$100 million in Warburg Pincus China-Southeast Asia II, 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.

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

**Long Established History and Strong Local Recognition in China:**

Warburg Pincus (the “Firm”), which operates under the name Hua Ping (华平) in China, opened its Hong Kong office in 1994 and was one of the earliest private equity firms to invest in the country. Hua Ping is a well-established brand with a broad network of local relationships and investments in over 165 enterprises. Today, Warburg Pincus has 49 locally-based investment professionals across its four offices in China and Southeast Asia.

**Robust Performance, Solid Track Record:**

From 1994 through 2018, the Firm has invested nearly \$11.5 billion in 165 Asia-based companies, generating a 1.9x gross MOIC and a 16.4% gross IRR. Warburg Pincus China Fund I (vintage 2016) is approximately 75% deployed; it has invested \$1.5 billion in 25 China and Southeast Asia investments. The portfolio has generated a gross IRR of 40.0% and a 1.33x gross MOIC, with zero losses observed to date. The loss ratio on China and Southeast Asia investments from Warburg Pincus X Fund (2008) through the more recent Warburg Pincus funds is 3.8%, meaningfully below industry level.

**Experienced and Resourceful Team in China and Southeast Asia:**

The China and Southeast Asia team includes 3 Co-Heads and 11 Managing Directors who have average tenures at the Firm of 16 years and 11 years, respectively. The Firm utilizes predominantly local teams with industry knowledge and experience. These teams generate differentiated opportunities and proprietary deal flow, while building relationships with entrepreneurs in expanding global markets. More than 80% of China and Southeast Asia investments made since Warburg Pincus IX Fund were start-ups or sourced through the Warburg Pincus network.

**Value-Creation Provided by the Investment Support Group and Through the Line-of-Equity (“LOE”) Structure:**

Dedicated local investment teams are supported by more than 25 professionals that provide financial analytics, due diligence, ESG review, research, asset management, and services to the portfolio companies. As a pioneer in the private equity space, Warburg Pincus utilizes a LOE structure as a tool to mitigate potential losses. This allows the Firm to provide early stage companies with capital on an incremental basis and as needed, while monitoring their growth rates.

**Environmental, Social and Governance (ESG) Policy:** The Firm has a formal ESG policy through which it seeks to incorporate ESG-related issues into its investment decisions and asset management. The Firm also adheres to the Guidelines for Responsible Investment which were developed by the American Investment Council. The Firm has dedicated resources that work closely with portfolio company management teams on ESG issues. The China and Southeast Asia Team strives for its portfolio companies to be at the forefront on ESG issues by following stringent internal standards and being in full compliance with legal and regulatory requirements. Through dedicated resources, this team provides public policy and government relations support, particularly in the more regulated industries in which the Firm invests, including financial services and healthcare.

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 engaged a third-party solicitor (“placement agent”) in the fundraising of the Fund but no placement agent was engaged or paid in connection with the Pension Fund’s potential investment.

Staff will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents governing the investment. A preliminary Disclosure Report of Political Contributions has been obtained in accordance with the Council’s regulation governing political contributions (N.J.A.C. 17:16-4), and no political contributions have been disclosed. An updated Disclosure Report will be obtained at the time of closing.

Note that the investment is authorized pursuant to Articles 69 and 90 of the Council’s regulations. Warburg Pincus China-Southeast Asia II, L.P. is considered a private equity buyout investment, as defined under N.J.A.C. 17:16-90.1. Pursuant to N.J.A.C. 17:16-90.4(a)1, the aggregate market value of private equity investments shall not exceed 12% of the combined assets of all of the Pension and Annuity Funds. As of the close of business on May 23, 2019, the aggregate market value of private equity investments is 11.26% of the combined assets of all the Pension and Annuity Funds excluding the Police and Fire Mortgage assets.

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 May 22, 2019. 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 May 29, 2019 meeting.

Attachments

<b>Fund Name:</b> Warburg Pincus China-Southeast Asia II, L.P.		May 24, 2019																					
<b>Contact Info:</b> Natasha Farquharson, 450 Lexington Avenue, New York, NY 10017																							
<b>Fund Details:</b>																							
<b>Firm AUM (\$bil.):</b>	\$75 billion	<b>Key Investment Professionals:</b> <b>Julian Cheng</b> , Executive Managing Director, joined Warburg Pincus in 2000, based in Hong Kong and co-leads the firm’s business in China. Previously, Mr. Cheng was in investment banking with Salomon Smith Barney and Bankers Trust. <b>Frank Z. Wei</b> , Executive Managing Director, joined Warburg Pincus in 2002, based in Shanghai and co-leads the firm’s business in China. Previously, Mr. Wei was with the investment banking division of Morgan Stanley in Hong Kong, and McKinsey & Company in Shanghai. <b>Jeffrey Perlman</b> , Executive Managing Director, joined Warburg Pincus in 2006, based in Singapore and leads the firm’s investments in Southeast Asia. Mr. Perlman focuses on real estate investments across the greater Asia-Pacific region. Previously, he worked in the Real Estate Investment Banking Group at Credit Suisse. <b>Charles R. Kaye</b> , Co-Chief Executive Officer, has been with Warburg Pincus since 1986. He has been jointly responsible for the management of the firm since 2000, including the formulation of strategy, oversight of investment policy and decisions, leadership of the firm’s Executive Management Group and the coordination of limited partner communications. Mr. Kaye lived in Hong Kong from 1994 to 1999, where he was instrumental in the launch and development of Warburg Pincus’ Asia operations <b>Joseph P. Landy</b> , Co-Chief Executive Officer, has been engaged in all aspects of private equity investing since 1985. He has been jointly responsible for the management of the firm since 2000, including the formulation of strategy, oversight of investment policy and decisions, leadership of the firm’s Executive Management Group and the coordination of limited partner communications.																					
<b>Strategy:</b>	Growth																						
<b>Year Founded:</b>	1994																						
<b>Headquarters:</b>	New York, New York																						
<b>GP Commitment:</b>	at least \$100 million of WPC-SEA II																						
<b>Investment Summary</b>		<b>Existing and Prior Funds</b>																					
The Fund is a \$4.25 billion companion fund that is expected to invest 50/50 alongside Warburg Pincus Global in growth equity investments within China and Southeast Asia, 50/25/25 alongside Warburg Pincus Energy in China and Southeast Asia Energy opportunities and 40/40/20 alongside Warburg Pincus Financial in China and Southeast Asia Financial opportunities, employing a thesis-driven investing approach across sectors that Warburg Pincus (the “Firm”) believes have the potential to grow 15-25% annually, particularly in areas that will benefit from economic and structural transformations, such as: (i) healthcare, (ii) logistics, (iii) e-commerce, (iv) technology, (v) consumer and retail (vi) and businesses focused on environmental improvements and protections. Warburg Pincus maintains the flexibility to invest across the spectrum from early-stage and start-up companies to later-stage companies, but in general expects to deploy the remaining balance in later-stage growth/buyout transactions.		<table border="1"> <thead> <tr> <th><i>Funds</i></th> <th><i>Vintage Year</i></th> <th><i>Strategy</i></th> <th><i>Returns as of 12/31/2018</i></th> </tr> </thead> <tbody> <tr> <td>Fund X (China)</td> <td>2008</td> <td>Growth</td> <td>15.5% Net IRR, 2.16x Net TVPI, 1.23x DPI</td> </tr> <tr> <td>Fund XI (China)</td> <td>2012</td> <td>Growth</td> <td>19.0% Net IRR, 1.76 Net TVPI, 0.75x DPI</td> </tr> <tr> <td>Fund XII (China)</td> <td>2016</td> <td>Growth</td> <td>26.1% Net IRR, 1.23x Net TVPI, 0.03x DPI</td> </tr> <tr> <td>WP China (China)</td> <td>2016</td> <td>Growth</td> <td>22.5% Net IRR, 1.22x Net TVPI, -x DPI</td> </tr> </tbody> </table> <p>IRR = Internal Rate of Return; TVPI = Total Value to Paid In Capital; DPI= Distributions to Paid-In</p>		<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of 12/31/2018</i>	Fund X (China)	2008	Growth	15.5% Net IRR, 2.16x Net TVPI, 1.23x DPI	Fund XI (China)	2012	Growth	19.0% Net IRR, 1.76 Net TVPI, 0.75x DPI	Fund XII (China)	2016	Growth	26.1% Net IRR, 1.23x Net TVPI, 0.03x DPI	WP China (China)	2016	Growth	22.5% Net IRR, 1.22x Net TVPI, -x DPI
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<b>Vehicle Information:</b>																							
<b>Inception:</b>	2019	<b>Auditor:</b>	Ernst & Young LLP																				
<b>Fund Size (\$mil.):</b>	\$4.25 billion	<b>Legal Counsel:</b>	Kirkland & Ellis LLP																				
<b>Management Fee:</b>	1.4% on commitments during the investment term (up to year 6) 1.4% on cost of investments from years 6-8 1.25% on cost of investments from years 8-10 1% on cost of investments thereafter																						
<b>Carry:</b>	20%																						
<b>Hurdle Rate:</b>	none																						
<b>Additional Expenses:</b>	100% management fee offset																						
<b>NJ AIP Program</b>																							
<b>Recommended Allocation (\$mil):</b>	up to \$100 million	<b>LP Advisory Board Membership:</b>	TBD																				
<b>% of Fund:</b>	2.35%	<b>Consultant Recommendation:</b>	YES																				
		<b>Placement Agent:</b>	NO																				
		<b>Compliance w/ Division Placement Agent Policy:</b>	N/A																				
		<b>Compliance w/ SIC Political Contribution Reg:</b>	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.