Oregon Investment Council
March 29, 2016
Special Meeting
10:00 AM

Oregon State Treasury
16290 SW Upper Boones Ferry Road
Tigard, OR 97224

Katy Durant
Chair

John Skjervem
Chief Investment Officer

Ted Wheeler
State Treasurer
# Oregon Investment Council

## Agenda

March 29, 2016  
Special Meeting  
10:00 AM

Oregon State Treasury  
Investment Division  
Crater Lake Conference Room  
16290 SW Upper Boones Ferry Road  
Tigard, OR  97224

<table>
<thead>
<tr>
<th>Time</th>
<th>Action Items</th>
<th>Presenter</th>
<th>Tab</th>
</tr>
</thead>
</table>
| 10:00 AM | 1. Cinven Sixth Fund, L.P. – OPERF Private Equity                     | Michael Langdon  
Senior Investment Officer          | 1   |

**Public Comment Invited**
Purpose
Subject to satisfactory negotiation of terms and conditions with Staff working in concert with legal counsel, Staff recommends approval of a $250 million commitment to Cinven Fund VI, L.P. (the “Fund” or “Fund VI”) for the OPERF Private Equity Portfolio. This proposed commitment represents the planned continuation of an existing general partner relationship.

Background
The Fund is being formed and sponsored by Cinven Limited (“Cinven” or the “Firm”), and will continue the successful sector-focused, large European buyout strategy employed in the Firm’s first five funds. Cinven was founded in 1995 when the investment management division of British Coal went independent via a management buyout. With the various British Coal pension funds as anchor investors, Cinven launched its first institutional fund in 1996, raising €1.6 billion. Over time, Cinven has raised successively larger funds, and grown from the original eleven investment professionals operating from a single office in London to 65 investment professionals operating from offices in London, Paris, Frankfurt, Milan, Madrid, and with support offices in New York and Hong Kong.

Strategy
While the Firm’s core strategy of large European buyouts has remained constant, as Cinven and its resources have grown, the strategy has been refined into a fully pan-European focus, targeting six core sectors: consumer; healthcare; industrials; business services; financial services; and technology-media-telecom (TMT). In Fund VI, Cinven will seek to build a portfolio of 15-20 investments, in companies with enterprise values above €300 million, via equity investments ranging in size from €150 million to €500 million. The Firm only seeks control investments, in which it can influence and drive strategic initiatives. Cinven has a bias toward high quality businesses, typically market leaders (or the potential to become a market leader), with strong management teams. Other well defined characteristics which Cinven looks for in a potential investment include multiple ways to accelerate growth and build value, strong free cash flow generation, resilience to economic and market cycles, and at least two viable exit alternatives (strategic sale, IPO, or financial sale).

The Firm’s deep sector expertise assists in developing specific pre-acquisition value creation strategies, and its in-house Portfolio team helps management execute these strategies. Examples could include accelerating growth in sales or profitability through geographic expansion, internationalization, improved salesforce effectiveness, pricing optimization, lower cost sourcing, and digital/disruptive technology efficiencies. Cinven’s Capital Markets team also adds value by lowering the cost of initial leverage or company recapitalizations, and Hong Kong staff assist with internationalization of European companies in Asia, as well as lower cost sourcing initiatives.

Team
Cinven began as a true partnership among the founders, and has remained so through today. The Firm’s 21 partners jointly decide who will serve as Managing Partner, and decision making is consensual. The Firm’s economic incentives are widely shared down through the Associate level. Cinven’s investment professionals are organized primarily by sector teams, and secondarily by geographic region/office. The Firm believes this approach is key to ensuring the continuity and even application of the Cinven culture, by continually mixing staff from various offices. For example, an Italian consumer deal may be initially sourced by a TMT partner in Milan, who will be joined by a deal team of consumer sector members from the London, Paris, and Frankfurt offices. Turnover at senior levels, other than normal retirement of long-tenured founding partners, has been moderate, and appears to be investment performance driven. Staff
has watched the Cinven team develop and evolve since 2000, and is particularly impressed with the quality of Cinven’s current team as well as the Firm’s ability to recruit top talent.

**Issues to Consider**

**Attributes:**

- **Solid investment performance.** Since 1996, five previous Cinven funds have invested €16.8 billion. As of September 30, 2015, these investments had generated an aggregate net IRR of 14.8% and a net total value multiple of 1.7x. According to Cambridge Associates data as of September 30, 2015, all five funds’ performance metrics, except Fund II (discussed below), rank in the first or second quartile.

- **Strong regional franchise.** Cinven’s long tenure in the European private equity ecosystem, and its pan-European approach with multi-offices and “boots on the ground” in major markets, has created a strong franchise, and helps generate ample deal flow.

- **Exclusive focus on private equity.** The Firm has resisted temptations to expand its geographic focus or branch out into other investment products or strategies. Cinven’s mission of investing in large European buyouts, one fund at a time, reduces concerns about the potential for dilution of the team’s time and attention.

- **Portfolio Fit.** One of the objectives arising from the 2016 Private Equity planning session was to increase OPERF’s exposure to European buyouts. This commitment presents an opportunity to meaningfully increase dedicated exposure to Europe.

- **Existing relationship.** OPERF has an existing relationship with Cinven, having committed to the Firm’s previous Fund V. Staff have sixteen years of experience investing with the Firm, and previously served on Cinven’s Advisory Board. The Firm has been a good partner in terms of reporting, communications and responsiveness.

**Concerns:**

- **Leadership transition.** During 2015, leadership of the Firm passed from Hugh Langmuir to Stuart McAlpine. Such leadership transitions have the potential to spur changes in a Firm’s direction or result in partner-level turnover if other partners aspired to the role or have philosophical differences with the new leader. [Mitigant: This is Cinven’s second leadership transition as Hugh Langmuir replaced Robin Hall as Managing Partner in 2009. That leadership transition was also based on team consensus, and was smoothly executed, with no significant variation in Firm direction or senior staff turnover. Staff have talked to most Cinven partners about Mr. McAlpine’s selection as Managing Partner. We noted consistent agreement that Mr. McAlpine was the group consensus choice, and that no one else put themselves forward for consideration. Mr. McAlpine appears to be respected and well-liked by the group.]

- **Fund II Underperformance.** Cinven Fund II (a 1998 vintage fund) underperformed on both an absolute and relative basis. This underperformance was driven by a combination of exogenous events (e.g., British pension reform legislation, 9/11 terror attacks and related travel and economic disruptions) and over-concentrations in one sector and one country. [Mitigant: Cinven initiated a “post mortem” on Fund II to understand what went wrong, and learned valuable lessons from this experience. The Firm instituted changes to both strengthen and prioritize attention to portfolio construction, and to strengthen its investment approval process.]

- **Europe specific risks.** Starting in the 1980s, Europe evolved to become an attractive and proven market for private equity. Advancement of the EU project, including free trade, open borders, and a common currency accelerated the development and acceptance of private equity ownership. However, during and after the global financial crisis of 2009, a number of issues emerged which caused doubt about the strength and stability of this union, including weakness of the Euro currency, sovereign debt crises, a refugee crisis, and potential withdrawals of some countries from the union.
Mitigant: While the risks in Europe have increased in recent years, purchase price multiples have come down, and on average are lower than in North America to compensate for the added uncertainty. The OPERF private equity portfolio is well diversified, which would help mitigate the negative impacts of an adverse event in Europe.

Terms
The Fund is offering economic incentives for large commitments and first close participants. Terms include a lower than market management fee, a standard carry, a European distribution waterfall, an 8% preferred return, and a 100% management fee offset. Finally, no placement agent had contact with Staff in connection with this offering.

Conclusion
Cinven Fund VI, L.P. represents an attractive opportunity to continue investing with an existing, high-quality European partner, and represents a core large corporate finance relationship within the OPERF private equity portfolio.