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October 25, 2024

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Private Credit Investment – ICG Europe Fund IX SCSp**

The Division of Investment (the “Division”) is proposing an investment of up to €200 million into the ICG Europe Fund IX (the “Fund”), a private credit fund managed by Intermediate Capital Group (“ICG” or the “Firm”) investing throughout the capital structure of European mid-market and upper mid-market companies, largely through debt instruments. In connection with this investment, the Division has negotiated with ICG to amend the existing ICG Global Co-Investment E SCSp to permit co-investments alongside ICG Europe Fund IX SCSp. 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:

Experienced & Strong Record: ICG has been investing in the European mid-market and upper mid-market since 1989 and has established itself as a market leading provider of structured financings in Europe. Over the course of 35 years and ten vintages, ICG has deployed over €31 billion into such transactions across Europe. The firm has a total of \$101 billion in assets under management as of June 30, 2024, with 640 employees across a range of alternative investment strategies. When evaluated alongside its peers, ICG has consistently produced first and second quartile rankings performance across vintages and market cycles.

Investment Strategy & Portfolio Fit: The strategy will invest flexibly across the capital structure through a blend of senior and subordinated debt, preferred stocks and other equity-like instruments. This approach attracts businesses looking for highly tailored whole-capital solutions, with an emphasis on non-dilutive financings for successful founders and management teams. ICG investments will focus on core western European markets, bringing the private credit portfolio closer to its target international exposure and diversify the overall portfolio to be more resilient during market uncertainty.

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

Division Staff and its private credit consultant, Aksia LLC, 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 ("placement agent") in the fundraising of the Fund.

ICG Europe has a formal Responsible Investing Policy and Responsible Investing Committee. ICG Europe's Responsible Investing Policy and related diligence disclosures were reviewed by the Corporate Governance team in accordance with the Council's ESG Policy. ICG Europe incorporates Responsible Investing considerations into its investment process and will continue to monitor these factors post investment.

Staff 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. 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 23 and 69 of the Council's regulations. The Fund is considered a private credit investment, as defined under N.J.A.C. 17:16-23.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the IPC was held on October 21, 2024. 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 October 30, 2024 meeting.

Attachment

ICG Europe Fund IX SCSp

- **DOI Commitment:** An investment of up to €200 million in ICG Europe Fund IX SCSp. In addition, in connection with this investment, the DOI has negotiated with ICG to roll up to €75 million existing unfunded commitment in ICG Europe Fund VIII co-investment vehicle to ICG Fund IX co-invest opportunities.
- **Strategy:** European Mezzanine
- **Investment Focus:** The strategy will invest in off-market privately negotiated tailor made transactions in European mid-market and upper mid-market companies. Fund IX will invest flexibly throughout the capital structure, using a blend of instruments, structured to deliver both a significant contractual return and an attractive overall risk-adjusted return for investors.
- **Target Returns:** 1.6x MOIC / 16% IRR (net)
- **Investment Thesis:**
 - Consistent and strong performance
 - Experienced and established investment team
 - Flexible investment strategy

Fund Name: ICG Europe Fund IX SCSp **October 30, 2024**

Contact Info: Christopher Austin, 277 Park Avenue, 41st Floor, New York, NY 10172

Fund Details:

Firm AUM:	\$101 billion	Key Investment Professionals: Benoit Durteste (CIO & CEO) – Mr. Durteste is the CIO and CEO of ICG and has been with ICG since 2002. He is also a member of the Board of ICG plc and the Chairman of the BVCA Alternative Lending Working Group. Prior to 2002, Mr. Durteste was a Managing Director in Swiss RE’s Structured Finance division in London. Prior to Swiss Re, Mr. Durteste worked in the Leveraged Finance division of BNP Paribas and in GE Capital’s Telecom and Media Private Equity team in London. Hadj Djemai (Managing Director) – Mr. Djemai is the Head of Southern Europe and has been with ICG since 2000 and is a member of the IC. Prior to ICG, Mr. Djemai worked in the Acquisition Finance group of BNP Paribas. Jens Tonn (Managing Director) – Mr. Tonn is the Head of DACH and has been with ICG since 2013. Prior to 2013, Mr. Tonn worked at Vestar Capital Partners as a Partner in charge of the German-speaking region. Prior to Vestar Capital, Mr. Tonn spent 9 years with Candover Partners, where he led the company’s German operations. Prior to Candover Partners, Mr. Tonn was the head of M&A for Germany and Austria at Citicorp. David Lomer (Managing Director) Mr. Lomer joined ICG in September 2022 and is the Head of the UK, Nordics and Benelux regions for the European Corporate strategy. Prior to joining ICG in 2022, David spent 24 years with J.P. Morgan where he helped to build several businesses to leadership positions. He was most recently Co-Head of Investment Banking for the UK and worked at JPMorgan and its predecessor companies from 1997 when he started his career in M&A.
Strategy:	European Corporate (Structured Capital)	
Year Founded:	1989	
Headquarters:	London, UK	
GP Commitment:	€500 million	

Investment Summary	Existing and Prior Funds			
ICG Europe Fund IX ("Fund IX") will target 15-20 investments in core geographical European markets across middle and upper-middle market companies, with deal sizes ranging from €250 million to €1 billion. The investments are generally industry-agnostic and will include a blend of debt and equity-like investments, anchored by contractual return instruments.	Funds	Vintage Year	Strategy	Returns as of 06/30/2024
	Fund V	2011	European Corporate	12.3% Net IRR; 1.6x Net TVPI; 1.5x DPI
	Fund VI	2015	European Corporate	20.5% Net IRR; 2.2x Net TVPI; 1.9x DPI
	Fund VII	2018	European Corporate	17.0% Net IRR; 1.7x Net TVPI; 0.7x DPI
	Fund VIII	2021	European Corporate	18.6% Net IRR; 1.2x Net TVPI; 0.0x DPI
Source: ICG, data as of June 30 2024				
IRR = Internal Rate of Return; TVPI= Total Value to Paid-In; DPI = Distributions to Paid-In				

Vehicle Information:

Inception:	2024	Auditor:	Ernst & Young
Fund Size:	€10 billion	Legal Counsel:	Debevoise & Plimpton
NJ's Blended Fee 1.38%			
Fund: During Investment Period On Committed Capital			
Below €150 million : 1.50%			
€150 - €199 million : 1.40%			
Management Fee:	€200 - €249 million: 10bps discount on first €150m, and 20bps discount on commitment in excess of €150m		
Post Investment Period: 1.25% on Invested Capital			
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	100% Management Fee Offset		

NJ AIP Program

Recommended Allocation:	up to €200 million	LP Advisory Board Membership:	TBD
% of Fund:	2.00%	Consultant Recommendation:	YES
		Placement Agent:	NO
		Compliance w/ Division Placement Age:	N/A
		Compliance w/ SIC Political Contributions:	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.