



## State of New Jersey

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**SHOAIB KHAN**  
Director

April 19, 2024

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan  
Director

SUBJECT: **Private Credit Investment – CVC Credit Partners European Direct Lending Fund IV**

The Division of Investment (the “Division”) is proposing a commitment of up to €150 million into CVC Credit Partners European Direct Lending Feeder Fund IV SCSp (the “Fund”), and up to a €150 million commitment to co-invest vehicle CVC Credit Partners European Direct Lending Fund IV (Coinvest-DL) SCSp (the “Co-Invest Fund”) managed by CVC Credit Partners Investment Management Limited (“CVC Credit Partners” or the “Firm”). 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:

**Continues the process of diversifying the existing direct lending portfolio into Europe:** The Fund will invest in European direct lending. Currently, the private credit portfolio’s only dedicated European direct lending exposure is through the commitments to prior vintages of CVC Credit Partners funds and co-investment vehicles. The commitment to the Fund maintains and diversifies European exposure.

**The Firm is an institutional quality credit manager:** CVC Capital Partners is one of the largest private market asset managers in Europe, with €186 billion in AUM, including €40 billion in credit (as of April 2024).

**Wide origination platform:** The Fund’s loan origination platform consists of both the Fund’s investment team and the broader CVC platform. CVC credit has a 69-person investment team with a local presence in London, New York, Paris, Brussels, Frankfurt, and Milan.

**Upside from co-invest vehicle:** Up to €1 of co-invest is available for each €1 of commitment to the Fund. The co-invest vehicle is offered at no management fee and no profit allocation. This structure effectively results in a 50% discount in both management fees and profit allocation (assuming both the Fund and co-invest vehicle are fully deployed), the benefit of which would accrue to the Division and improve expected net returns.

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 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.

In accordance with the State Investment Council’s ESG Policy, the Division of Investment’s Corporate Governance Team completed its review of CVC European Direct Lending IV Fund’s Environmental, Social and Governance efforts. CVC has developed an ESG due diligence guidance and information tool based on Sustainable Accounting Standards Boards (SASB) standards as well as an early-stage red flag checklist.

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 April 10, 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 April 24, 2024 meeting.

## CVC Credit Partners European Direct Lending Fund IV

- **DOI Commitment:** A commitment of up to €150 million to CVC Credit Partners European Direct Lending Fund IV and €150 million to a co-investment sidecar vehicle alongside the Fund
- **Strategy:** Private Credit – Direct Lending
- **Investment Focus:** Primary focus on senior secured direct lending. The direct lending strategy will target sponsored, core and upper middle market companies primarily in Northern and Western Europe.
- **Target Returns:** 12% net IRR
- **Investment Thesis:**
  - Over the past year, private credit market conditions have moved in favor of lenders, and LPs are benefiting. Base rates (SOFR/LIBOR) have risen significantly as the Federal Reserve raised interest rates. Lack of bank capital has driven companies to the private market, and lenders are able to charge wider spreads (+100-150 bps more) and loan structures favor the lender.
  - Strong team and established track record of executing the strategy since 2015.
  - Provides geographic diversification across European markets and is complementary to our U.S. focused portfolio.
  - NJDOI negotiated very attractive terms.

Fund Name: CVC Credit Partners European Direct Lending Feeder Fund IV SCSp, L.P. & CVC Credit Partners European Direct Lending Feeder Fund IV (Coinvest-DL) SCSp April 19, 2024

Contact Info: Robert Squire, 712 Fifth Avenue, 45th Floor, New York, NY 10019

Fund Details:

Total Firm Assets:	€188 billion	<p><b>Key Investment Professionals:</b></p> <p><b>Andrew Davies:</b> (Managing Partner) Andrew joined CVC Credit in July 2010. Andrew is Co-Head of Private Credit and has over two decades of debt capital markets, corporate finance advisory, and investment management experience. Most recently, Andrew was at GSC Group in London.</p> <p><b>John Empson:</b> (Managing Partner) John joined CVC Credit in March 2021. John is Co-Head of Private Credit and is based in London. Prior to joining CVC Credit, John spent nearly 11 years at KKR where he was a Partner and Head of International Capital Markets, and over 21 years at JPMorgan where he led European leveraged debt capital markets. John was also a Managing Director at BlackRock where he led the European Capital Markets team.</p> <p><b>Ken Young:</b> (Managing Partner &amp; COO) Ken joined CVC Credit in September 2008. Prior to joining CVC Ken was an executive director at JP Morgan, focusing on underwriting European leveraged sponsors transactions. Prior to that, Ken was an executive director at CIBC and an associate at Allen &amp; Overy before that. Ken started his career as a trainee lawyer at Dickson Minto.</p> <p><b>Caroline Benton:</b> (Partner) Caroline joined CVC Credit in July 2013. Previously, Caroline spent 15 years at Goldman Sachs in proprietary investing and risk management functions in the Special Assets, Global Bank Loan Distressed Investing, and Special Situations Investing groups within the Fixed Income division.</p> <p><b>Neale Broadhead:</b> (Partner) Neale joined CVC Credit in February 2014. Neale joined from Lloyds Banking Group, where he was a Managing Director &amp; Head of the Mid-Market Origination Group which he founded in 2004 and developed into a leading middle-market leveraged finance provider. Prior to joining Lloyds, Neale worked as an Executive Director and Originator at BNP Paribas. He has also been a Group Head of the Acquisition Finance Team for The Industrial Bank of Japan in London.</p> <p><b>Chris Fowler:</b> (Partner) Chris joined CVC Credit in July 2015 and is responsible for sourcing, investment appraisal and portfolio management for CVC Credit's European Direct Lending funds. Chris joined from GE Capital, where he was a Managing Director in the European Leveraged Finance team based in London and New York. Chris started his career in 2000 with Morgan Stanley in the Investment Banking Division and Morgan Stanley Strategic Ventures.</p> <p><b>Toney:</b> (Partner) Miguel joined CVC Credit in March 2021. Miguel is a member of the Private Credit team and is based in London. Prior to joining CVC Credit, Miguel was a Partner at Park Square Capital. Miguel also spent 11 years at MezzVest (now MV Credit), and two years at Credit Suisse.</p> <p><b>Simone Zacchi:</b> (Partner) Simone joined CVC Credit in 2011. Prior to joining CVC, he was at Ares Management where he worked as an Associate since 2008 within the private debt group, evaluating investments and executing a wide range of leveraged finance transactions in the UK, France and Nordic Regions.</p> <p><b>Edward Michel:</b> (Managing Director) Edward serves as Managing Director at CVC Capital Partners. Edward serves as Director at CVC Credit Partners. He worked as an Associate in the Leveraged Finance team at GE Capital. At GE, he worked on a variety of financings across Europe and the Middle East, including senior and unitranche facilities.</p>
Strategy:	Direct Lending	
Year Founded:	2005	
Headquarters:	London, UK	
GP Commitment:	€50 million	

Investment Summary

CVC Credit Partners was established in 2005 to invest in European sub-investment credit before and after the financial crisis. Similar to prior funds, Fund IV will focus on providing unitranche and senior secured loans to sponsor-backed companies across Northern and Western Europe. The fund will focus on loans to the European core middle-market with some expected focus on commercial and professional services, healthcare, technology, and financial services.

Existing and Prior Funds

Funds	Vintage Year	Strategy	Returns: Net IRR, Net TVPI, Net DPI
CVC Credit Partners European Mid-Market Solutions (DL) Fund, L.P.	2015	Private Lending	9.1% Net IRR; 1.4x Net TVPI; 0.8x Net DPI
CVC Credit Partners European Direct Lending Fund (DL) II SCSp	2019	Private Lending	12.7% Net IRR; 1.2x Net TVPI; 0.4x Net DPI
CVC Credit Partners European Direct Lending Fund III (DL) SCSp	2021	Private Lending	23.8% Net IRR; 1.1x Net TVPI; 0.1x Net DPI
Source of Returns - Aksia			*Returns are levered returns in USD as of 7/31/2023

IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI = Distributions to Paid-In

Vehicle Information:

CVC Credit Partners European Direct Lending Fund IV, L.P.

Inception:	2023
Fund Size :	€4 billion (€4.5 billion hard cap)
Management Fee:	0.825% on invested capital
Performance Fee:	12.5%
Hurdle:	7%
Additional Expenses:	100% Management Fee Offset

Auditor: Ernst & Young  
 Legal Counsel: Fried, Frank, Harris, Shiver & Jacobson LLP

CVC Credit Partners European Direct Lending Feeder Fund IV (Coinvest-DL)

Inception:	2023
Fund Size :	€500 million
Management Fee:	0%
Performance Fee:	0%
Hurdle:	N/A
Additional Expenses:	N/A

NJ AIP Program

Recommended Allocation (\$mil):	up to €150 million to CVC Credit Partners European Direct Lending Feeder Fund IV SCSp, L.P. up to €150 million to CVC Credit Partners European Direct Lending Feeder Fund IV (Coinvest-DL) SCSp	LP Advisory Board Membership:	YES
% of CVC Credit Partners European Direct Lending Feeder Fund IV SCSp, L.P.:	3.33%	Consultant Recommendation:	YES
CVC Credit Partners European Direct Lending Feeder Fund IV (Coinvest-DL) SCSp:	30.00%	Placement Agent:	YES
		Compliance w/ Division Placement Agent Policy:	YES
		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.