



## State of New Jersey

**PHILIP D. MURPHY**  
*Governor*

**SHEILA Y. OLIVER**  
*Lt. Governor*

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

**ELIZABETH MAHER MUOIO**  
*State Treasurer*

**COREY AMON**  
*Director*

May 22, 2020

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon  
Director

SUBJECT: **Proposed Investment in Stellex Capital Partners II LP**

The Division of Investment (the “Division”) is proposing an investment of up to \$125 million in Stellex Capital Partners II LP (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:

**Attractive middle-market (revenues \$100 million to \$500 million) turnaround exposure:** Stellex Capital Management (“Stellex” or the “Firm”) employs a turnaround strategy in which it targets distressed and mismanaged middle-market businesses in the manufacturing and industrial sectors to deliver operational improvements. Turnaround strategies are geared for downside protection, providing the opportunity to outperform in down market cycles and to generate buyout-like returns in strong markets. The Fund provides differentiated middle-market exposure, consistent with the pacing plan and identified needs in the portfolio.

**Consistent and attractive performance and track record:** Stellex Fund I is a top quartile performer for its vintage on a net IRR (32.1%) and net TVPI (1.59x) basis. The founding partners of Stellex, Ray Whiteman and Mike Stewart, have been investing in similar businesses together since 2004. They have a strong track record from their time at Carlyle Strategic Partners, where they built a team from scratch and operated a series of three funds over the course of ten years.

**Founders’ expertise and strong operating network:** Both Mr. Whiteman and Mr. Stewart have invested in private equity for over 20 years. Over that time, they have built a strong pool of operating executives and industry insiders that the Firm refers to as its operating network. Stellex draws upon these relationships for sourcing deals, and deploys members of its operating network to portfolio companies in management roles to help execute its strategy.

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

Division Staff and its private equity consultant, Aksia TorreyCove 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 policy concerning 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. Stellex Capital Partners II LP 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 May 21, 2020, the aggregate market value of private equity investments is 11.67% 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 prior to its May 13, 2020 meeting. In addition to this 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 27, 2020 meeting.

Attachment

**Fund Name: Stellex Capital Partners II LP** **May 22, 2020**

**Contact Info:** Raymond Whiteman, 900 Third Avenue, 14th Floor, New York, NY 10022

<b>Fund Details:</b>		
<b>Firm AUM:</b>	\$870 million	<b>Key Investment Professionals:</b> <b>Ray Whiteman</b> (Founding Partner) Prior to establishing Stellex in 2014, Mr. Whiteman was a Partner at The Carlyle Group and a Managing Director and Co-Head of Carlyle Strategic Partners. Mr. Whiteman was also a Vice President and Group Head in the Leveraged Finance Department of Credit Lyonnais and held several positions at both Citicorp and The Chase Manhattan Bank, N.A. <b>Mike Stewart</b> (Founding Partner) Prior to establishing Stellex in 2014, Mr. Stewart was a Partner at The Carlyle Group and a Managing Director and Co-Head of Carlyle Strategic Partners. Mr. Stewart was also one of the original principals of Sunrise Capital Partners, L.P. and worked at Houlihan Lokey in the Financial Restructuring Group.
<b>Strategy:</b>	Private Equity Buyout	
<b>Year Founded:</b>	2014	
<b>Headquarters:</b>	New York City, NY	
<b>GP Commitment:</b>	Lesser of 2% or \$25 million	

<b>Investment Summary</b>	<b>Existing and Prior Funds</b>			
Stellex Capital Partners II, L.P. will pursue middle-market turnaround investments in the manufacturing and industrial sectors. The Fund will target 15-20 investments in companies with enterprise values of less than \$500 million. Approximately 85% of the portfolio will be focused on North America with the remainder allocated to Western Europe. The Fund will identify underperforming or mismanaged lower and middle-market businesses, targeting opportunities for restructurings, corporate carve-outs, debt-for-control, and buyout transactions.	<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 9/30/2019</u>
	Fund I	2015	Buyout	32.1% Net IRR; 1.59x TVPI; 0.15x DPI
	*Source of returns- Aksia TorreyCove			
	IRR = Internal Rate of Return; TVPI= Total Value to Paid-In; DPI= Distributions to Paid-In			

**Vehicle Information:**

<b>Inception:</b>	2020	<b>Auditor:</b>	PwC LLP
<b>Fund Size:</b>	\$1.25 billion; \$1.75 billion (hard cap)	<b>Legal Counsel:</b>	Kirkland & Ellis LLP
<b>Management Fee:</b>	1.75% on committed capital during the investment period 1.75% on invested capital thereafter		
<b>Carry:</b>	20%		
<b>Hurdle Rate:</b>	8%		
<b>Additional Expenses:</b>	100% Management Fee Offset		

**NJ AIP Program**

<b>Recommended Allocation (\$mil):</b>	up to \$125 million	<b>LP Advisory Board Membership:</b>	TBD
<b>% of Fund:</b>	10%; 7.14% (hard cap)	<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.