State of New Jersey

CHRIS CHRISTIE
Governor
KIM GUADAGNO
Lt. Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290

ROBERT A. ROMANO
Acting State Treasurer

September 23, 2015

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in Catalyst Fund Limited Partnership V**

The New Jersey Division of Investment ("Division") is proposing an investment of up to $100 million to Catalyst Fund Limited Partnership V (the "Fund"). This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

The Catalyst Capital Group Inc. ("Catalyst") is forming the Fund in order to continue to take advantage of their investment, restructuring and operational expertise as well as the ongoing economic, structural and regulatory environment in Canada. Catalyst will continue to target returns of at least 20-25% gross IRR with significant exposure to senior secured debt in the Fund, investing in debt and other securities of distressed and/or under-performing (including under-capitalized) Canadian-related publicly traded and privately held entities.

The Division is recommending this investment based on the following factors:
Canadian Distressed Opportunity Set: Catalyst believes that a "perfect storm" is currently forming for Canadian distressed debt, as they see a decreased economic relationship and potential "de-coupling" from the U.S., yet they see no ability to follow independent interest rate policy. Global uncertainty has continued to put pressure on Canadian markets, with the Canadian dollar falling to its lowest level in over a decade against the US dollar and decreased economic activity sparking fears of an impending recession. Meanwhile, Catalyst has witnessed an unsustainable market in which technical issues have continued to trump fundamentals, resulting in default rates that have remained artificially low. As a result, Catalyst has perceived a mispricing of credit risk, which they believe cannot continue indefinitely.
Limited competition and high barriers to entry: Companies in certain industries in Canada, specifically telecommunications, broadcasting, publishing, cable television, airlines, portions of the financial services sector, railways and certain natural resource sectors, are subject to statutory foreign ownership restrictions. Meanwhile, the Investment Canada Act provides for the review by the Government of Canada of significant investments in Canada by non-Canadians in order to ensure beneficial contribution to Canada. As a result, it is more difficult and costly for foreign distressed investors to acquire positions of control or influence in financially troubled companies in key industries or businesses. Catalyst is the only significant Canadian-based, owned and managed distressed firm. Thus, they are able to exploit unique and evolving Canadian structural,

regulatory and restructuring environments, where capital markets tend to be isolated and oligopolistic.

Focused investment strategy with emphasis on preservation of capital: Catalyst is committed to their mission of manufacturing the highest possible risk-adjusted returns. Through active distressed investing, Catalyst has been able to identify the inherent risk in different tranches of a company's capital structure, identifying senior secured debt as the fulcrum security through which control can be attained and the best risk-adjusted returns can be generated. Through their "Manufacturing Model," the Firm has invested 92% of its assets in senior secured debt, with no principal loss in the last 10 years.

Proven track record with repeatable asymmetric risk and return approach: Catalyst Funds 8.35% annualized returns have significantly outperformed the public high yield market in a Public Market Equivalent Analysis, with total outperformance of 1.24x versus the Credit Suisse High Yield Index. In addition, Catalyst Funds have outperformed the median North American Distressed private equity benchmark, placing in either the first or second quartile on a Net Internal Rate of Return basis. This performance is more impressive in light of Catalyst's concentration in over-collateralized senior secured debt.

Proper alignment of interests with Limited Partners: The Fund has employed "European-style" carried interest since inception of the Firm. In addition, there is a 100% credit to LPs of any income earned by the Firm or on behalf of the Fund, as well as, an absolute prohibition of "transaction fees". Furthermore, Catalyst's commitments are in after tax dollars, with no offset, while all professionals must participate in each capital call simultaneous with all limited partners.

Complementary Portfolio Exposure: Catalyst's niche strategy of focusing on distressed and undervalued Canadian situations provides a strong complement to the Division's existing investments in debt-related Private Equity, many of which are seasoned and largely in run-off mode.

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.

The fund utilized Atlantic-Pacific Capital, Inc. (the "placement agent") as third-party solicitor in connection with the potential investment. Staff has determined that the placement agent and its representatives met the registration, licensing and experience requirements set forth in the Division's Placement Agent Policy (the "Policy"). Pursuant to the Policy, the fund has disclosed the contract between the fund and the placement agent, specifying the scope of services to be performed by the placement agent and the fee arrangement between the placement agent, the general partner and any other third party.

We 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. We have obtained a preliminary Disclosure Report of Political Contributions in accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. We will obtain an updated Disclosure Report at the time of closing.

Please note that the investment is authorized pursuant to Articles 69 and 90 of the Council's regulations. Catalyst Fund Limited Partnership V will be considered a debt related private equity investment, as defined under N.J.A.C. 17:16-90.1.

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 September 15, 2015. 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 September 23, 2015 meeting.

Attachments

Fund Name: Catalyst Fund Limited Partnership V — September 23, 2015

Contact Info: *Jim Riley, 181 Bay Street, Suite 4700, P.O. Box 792, Toronto, Canada*

Fund Details:

Firm AUM:	$4.7 billion
Strategy:	Distressed
Year Founded:	2002
Headquarters:	Toronto, Canada
GP Commitment:	Minimum of the lesser of $25 million or 2% of commitments

Key Investment Professionals:

Newton Glassman, Managing Partner. Prior to founding Catalyst in 2002, Mr. Glassman was a Managing Director at Cerberus Capital Management LP where he was responsible for, among other things, that firm's involvement in Canadian-based situations.

Gabriel de Alba, Managing Director and Partner. Prior to joining Catalyst in 2002, Mr. de Alba worked as a Director at AT&T Corporation reporting directly to the Chief Executive Officer, where he led the team in charge of the viability evaluation and thereafter the execution of the turnaround of AT&T Latin America Corp.

Jim Riley, Managing Director and Chief Operating Officer. Prior to joining Catalyst in 2011, Mr. Riley was a Partner and Co-Chair of the Banking and Finance Law Group at Goodmans LLP where his practice focused on corporate finance and restructuring, including such areas of expertise as project finance, banking and insolvency and financial intermediary regulation**.**

Investment Summary

Catalyst Fund Limited Partnership V is a private equity fund targeting total capital commitments of 1.25 billion USD. Fund V will continue with the same distessed for control strategy the Firm has pursued through four previous funds. More specifically, the Fund will invest in the debt securities of distressed and/or under-valued Canadian companies. The General Partner will then seek to convert its debt holdings to controlling equity positions through a restructuring process, ultimately achieving lower entry valuations than would typically be available. Catalyst favors complex situations where the team's expertise and familiarity with the Canadian restructuring process can be a competitive advantage. Catalyst employs a highly disciplined investment process and focuses on established companies with strong market positions that are under-managed, under-valued and/or poorly capitalized. The Fund offers the Division an opportunity to participate in a differentiated portfolio of private equity investments with relatively attractive overall terms.

Existing and Prior Funds

Funds	Vintage Year	Strategy	Returns as of 3/31/2015
Fund I	2002	Distressed	32.26% Net IRR, 2.03x Net TVPI, 2.03x DPI
Fund II	2006	Distressed	15.96% Net IRR, 2.19x Net TVPI, 0.57x DPI
Fund III	2009	Distressed	16.94% Net IRR, 1.49x Net TVPI, 0.19x DPI
Fund IV	2012	Distressed	19.58% Net IRR, 1.22x Net TVPI, 0.15x DPI

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

Vehicle Information:

Inception:	2015
Fund Size:	$1.25 billion
Management Fee:	1.75% during commitment period; thereafter, 1.75% on invested capital
Carry:	20%
Hurdle Rate:	8%
Offsets:	100% fee offset
Auditor:	KPMG LLP
Legal Counsel:	Fasken Martineau DuMoulin LLP

NJ AIP Program

Recommended Allocation:	$100 million
% of Fund:	6.7% based on $1.5 billion cap
LP Advisory Board Membership:	TBD
Consultant Recommendation:	Yes
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.