



State of New Jersey

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April 25, 2025

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Private Equity Investment - Lexington NJ Strategic Opportunities Fund**

The Division of Investment (the “Division”) is proposing an investment of up to \$600 million in Lexington NJ Strategic Opportunities Fund (the “Fund”), a separately managed account managed by Lexington Partners (“Lexington”) focused on private equity secondaries investments. The Fund is expected to invest up to \$150 million directly in each of two Lexington strategies, Lexington Middle Market Investors V, L.P. (“LMMI V”) and Lexington Continuation Vehicle Investors, L.P. (“LCVI”). In addition, up to \$300 million is expected to be invested in opportunistic co-investments. 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 Team and Market Expertise

Lexington’s 18 secondary investment partners are among the most experienced and highly regarded in the secondary market today, averaging 20 years of private equity experience and 17 years together at Lexington. Lexington has been a leading participant in the global secondary market since 1990, and through more than 700 secondary transactions, has acquired over 5,000 private investment interests with a total value of \$82 billion on a gross basis.

Performance and Consistent Track Record

LMMI I, II, and III rank in the first and second quartiles for both Net TVPI and DPI compared to Cambridge Secondary benchmarks. LMMI I through IV have delivered strong performance in partnership deals, achieving a gross TVPI of 1.8x on approximately \$3.1 billion invested since inception.

Significant Market Opportunity in the Secondary Space

Since 2017, capital committed to middle-market funds has been ~\$1.5 trillion. With a turnover rate between 11%-13%, this should continue to drive opportunities in the middle market segment (~\$160-180 billion). In addition, from 2018-2023, the single-asset continuation vehicle market has

grown at ~55% annually, with 80% volume growth from 2023-2024 as GPs seek to generate liquidity and hold onto prized assets.

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 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").

Lexington’s current ESG Policy and related diligence disclosures were reviewed by the Corporate Governance team in accordance with the Council’s ESG Policy. Lexington Partners' ESG and Stewardship Policy evolved from its Responsible Investment Policy in 2011. The firm uses a third-party consultant to advise on ways to improve this policy. It was last updated in March 2025 and is reviewed regularly. Lexington has been a signatory to the UNPRI since 2014 and ILPA’s Diversity in Action initiative since 2021. The firm’s ESG Steering Committee is responsible for oversight and implementation of its ESG Policy and relevant initiatives. The ESG Steering Committee is comprised of members from each team within the firm and reports directly to the Operating Committee. An Operational Sub-Committee was created to monitor ESG considerations across the firm and its investments. Annual training on ESG risks and opportunities is provided by their third-party consultant and is made available to current and new employees.

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 69 and 90 of the Council’s regulations. Lexington NJ Strategic Opportunities Fund is considered private equity investments, 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 IPC was held on April 14, 2025. 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 30, 2025 meeting.

Lexington NJ Strategic Opportunities Fund

- **DOI Commitment:** Up to \$600 million
- **Strategy:** Secondaries
- **Investment Focus:** Lexington pursues LP-led & GP-led secondary and fund continuation vehicle investments, which are expected to be primarily in middle market transactions based in North America and Europe. The SMA is expected to invest in Lexington Middle Market Investors V, L.P. (“LMMI V”); Lexington Continuation Vehicles Investors, L.P. (“LCVI”); and opportunistic co-investments and continuation vehicles (CV).
- **Target Returns:** 1.6-1.9x / 15%+ Net (LMMI V), 2.0x+ MOIC / 20% IRR Net (LCVI)
- **Investments Thesis:**
 - Significant investment opportunity set in the middle market secondary universe
 - Partner with a best-in-class private equity secondary fund manager
 - Provide customized solution for NJDOI private equity fund continuation vehicle opportunities
 - Mitigate the portfolio j-curve and fill in vintage year gaps

Fund Name: Lexington NJ Strategic Opportunities Fund

April/24/2025

Contact Info: Erica Castle, 399 Park Avenue, 20th Floor, New York, NY 10022

Fund Details		
Total Firm Assets:	\$73.4 Billion	Key Investment Professionals: Wilson Warren: Mr. Warren is the President of Lexington Partners and Co-Chair of the Secondary Investment Committee. He is also a member of Lexington’s Operating Committee. He is primarily engaged in the management of Lexington's investment operations and oversight for the secondary, continuation vehicle, and co-investment funds. Mr. Warren joined Lexington as an associate in 1994, when Lexington spun out from Landmark Partners. Prior to that, he was an analyst in investment management at LaSalle Partners. Victor Wu: Mr. Wu is a Partner on the Secondary team and Co-Chair of the Secondary Investment Committee. He is primarily focused on the origination, evaluation, and execution of secondary opportunities including partnership and GP-led transactions. He is also a member of Lexington’s DEI Committee. He joined Lexington as an associate in 2001 from Goldman Sachs, where he was an analyst in investment banking. Mark Andrew: Mr. Andrew is a Partner on the Secondary team primarily focused on the origination, evaluation, and execution of secondary opportunities including partnership and GP-led transactions. He joined Lexington as a principal in 2007 from Banc of America Securities, where he was a principal in the syndicated loan capital markets group. Jeffrey Bloom: Mr. Bloom is a Partner on the Secondary team primarily focused on the origination, evaluation, and execution of continuation vehicle transactions. Prior to transitioning to Lexington’s dedicated continuation vehicle team in 2024, he spent 14 years on the secondary team focused on partnership and GP-led transactions. He is also a member of Lexington’s ESG Steering Committee. He joined Lexington as an associate in 2010 from Credit Suisse, where he was an analyst in investment banking. Christophe Browne: Mr. Browne is a Partner on the Secondary team primarily focused on the origination, evaluation, and execution of continuation vehicle transactions. He joined Lexington in 2024 from ICG, where was a founding member of the strategic equity business serving as Managing Director and Head of North America. Prior to that, he was a founding partner at NewGlobe Capital Partners. John Rudge: Mr. Rudge is a Partner on the Secondary team primarily focused on the origination, evaluation, and execution of secondary opportunities including partnership and GP-led transactions. He is also a member of Lexington’s ESG Steering Committee. He joined Lexington as a vice president in 2001 from Morgan Stanley, where he was an associate in investment banking.
Year Founded:	1994	
Headquarters:	New York City, NY	
Fund Strategy:	PE- Secondaries Fund	
GP Commitment	1%	

Investment Summary	Existing and Prior Funds			
The Fund will invest in three sub-funds. Lexington Middle Market Investors V will construct a diversified portfolio of secondary interests in established middle market buyout funds at discounts to market value. Lexington Continuation Vehicle Investors will construct a portfolio of ~20 single-asset continuation vehicles (CVs) alongside bluechip sponsors in non-marketed, proven assets with GP alignment and seeks to deliver buyout-level returns with de-risked assets. The Co-invest vehicle will provide the flexibility to opportunistically access attractive co-investment opportunities across Lexington's secondary platform and enable CV roll opportunities.	<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns: Net IRR, Net TVPI, Net DPI</i>
	LMMI I	2005	Secondary	11.30% IRR; 1.64x TVPI; 1.63x DPI
	LMMI II	2009	Secondary	15.00% IRR; 1.89x TVPI; 1.77x DPI
	LMMI III	2013	Secondary	17.10% IRR; 1.81x TVPI; 1.36x DPI
	LMMI IV	2017	Secondary	15.90% IRR; 1.52x TVPI; 0.46x DPI
	LCP VIII	2014	Secondary	14.88% IRR; 1.66x TVPI; 1.11x DPI
	LCP IX	2018	Secondary	17.92% IRR; 1.49x TVPI; 0.36x DPI
	LCP X	2022	Secondary	29.64% IRR; 1.24x TVPI; 0.05x DPI
	Source of Returns - NJDOI for LMMI funds; Lexington Partners for LCP funds			*Net as of 09/30/2024
	IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI = Distributions to Paid-In			

Vehicle Information:

Lexington NJ Strategic Opportunities Fund			
Inception:	2025	Auditor:	Ernst & Young
Commitment Size:	Up to \$600 Million	Legal Counsel:	Simpson Thacher & Bartlett LLP and Proskauer Rose LLP
Fee Information:			
Lexington Middle Market Investors V, L.P.			
Management Fee:	1.0% during investment period 0.85% post-investment period		
Carry:	12.50%		
Hurdle:	8%		
Lexington Continuation Vehicle Investors, L.P.			
Management Fee:	1.5% on committed capital		
Carry:	15%		
Hurdle:	8%		
Opportunistic Co-Invest and CV Vehicle			
Management Fee:	0%		
Carry:	0%		
Hurdle:	N/A		

NJ AIP Program			
Recommended Allocation (\$mil.):	\$600 Million	LP Advisory Board Membership:	N/A
% of Fund	Approx. 99%	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	N/A
		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.