



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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ANDREW P. SIDAMON-ERISTOFF
State Treasurer

January 20, 2012

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Neuberger Berman/New Jersey Custom Investment Fund II ("NB/NJ Custom Fund II")**

The New Jersey Division of Investment ("Division") is proposing an investment of \$200 million in Neuberger Berman/New Jersey Custom Investment Fund II ("NB/NJ Custom Fund II"). This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

As part of NJDOI's separate account mandate to achieve attractive risk adjusted returns while promoting economic benefits within the State of New Jersey and Northeast region, staff and SIS are recommending a commitment to NB/NJ Custom Fund II. A report of the Investment Policy Committee ("IPC") summarizing the details of the proposed investment is attached.

Division Staff and its private equity consultant, Strategic Investment Solutions, 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 (a "placement agent") in connection with New Jersey's potential investment.

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. In addition, the proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that the investment is authorized pursuant to Articles 69 and 90 of the Council's regulations. NB/NJ Custom Fund II will be considered a "buy - out" 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 January 18, 2012. 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 January 26, 2012 meeting.

Fund Name January 26, 2012

Contact Info: Jonathan Shofet, Managing Director (212-476-8166 / jonathan.shofet@nb.com)
Fund Details: Neuberger Berman / New Jersey Custom Investment Fund II LP ("NB/NJ Custom Fund II")

AUM (\$mil.):	\$183 billion (as of 9/30/11)	Key Investment Professionals: Anthony Tutrone: Managing Director, Investment Committee Member and Global Head of NB Alternatives. Prior to Neuberger Berman, from 1994-2001, Mr. Tutrone was a managing director and founding member of the Cypress Group. Prior to the Cypress Group, Mr. Tutrone began his career at Lehman Brothers in 1986, starting in Investment Banking and in 1987 becoming one of the original members of the firm's Merchant Banking Group. Mr. Tutrone is a member of Neuberger Berman's Partnership and Operating Committees. He earned an MBA from Harvard Business School and a BA in Economics from Columbia University. Jonathan Shofet: Managing Director, Investment Committee Member and Program Manager for the NB/NJ Custom Fund investment programs. Prior to joining Neuberger Berman Private Equity in 2005, Mr. Shofet was a member of the Lehman Brothers Venture Capital Group for five years, focused on equity investments in the technology, communications and media sectors. Prior to that, Mr. Shofet worked in investment banking for three years. Mr. Shofet holds a BA from Binghamton University where he graduated summa cum laude, Phi Beta Kappa. John Buser: Managing Director, Investment Committee Member and Global Head of Private Equity Fund of Funds for Neuberger Berman. Before joining Neuberger Berman Private Equity in 1999, Mr. Buser was a partner at the law firm of Akin, Gump, Strauss, Hauer & Feld, L.L.P., where he focused on domestic and international income taxation during his 17 year tenure. Mr. Buser received a JD from Harvard Law School and a BS in accounting from Kansas State University, where he graduated summa cum laude. Brien Smith: Managing Director and Investment Committee Member. Prior to joining Neuberger Berman Private Equity in 2001, Mr. Smith worked in the private equity sector serving in a number of roles for Mason Best Company, LP, and it's affiliates. Mr. Smith began his career at Arthur Andersen & Co. where he focused on the financial services sector in the southwest. Mr. Smith received an MS in professional accounting and a BBA from the University of Texas at Austin.
Strategy:	Asset Management / Private Equity	
Year Founded:	1939	
Headquarters:	New York, NY	
GP Commitment:	1% of NB/NJ Custom Fund II	

Investment Summary	Existing and Prior Funds						
With a heritage dating from 1939, Neuberger Berman is a leading independent asset management firm with \$183 billion in assets under management as of 9/30/2011. The firm manages over \$12 billion in private equity across fund of funds, secondaries, co-investments and select direct strategies. NB/NJ Custom Fund II is a custom private equity fund geared toward generating attractive private equity returns while providing economic benefit to the State of New Jersey. NB/NJ Custom Fund II will focus on making mostly direct co-investments and some fund investments that are headquartered in, have substantial operations in, or promote economic development in the State of New Jersey. Investments may include, but are not limited to, venture capital, growth equity and buyout investments. NB/NJ Custom Fund II is the successor fund to NB/NJ Custom Investment Fund LP, which was raised in 2007.	<table border="1"> <thead> <tr> <th>Funds</th> <th>Strategy</th> <th>Returns</th> </tr> </thead> <tbody> <tr> <td>NB/NJ Custom Investment Fund LP (2007)</td> <td>Custom private equity fund focused on New Jersey investment opportunities</td> <td>8.9% net IRR as of 9/30/11</td> </tr> </tbody> </table>	Funds	Strategy	Returns	NB/NJ Custom Investment Fund LP (2007)	Custom private equity fund focused on New Jersey investment opportunities	8.9% net IRR as of 9/30/11
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NB/NJ Custom Investment Fund LP (2007)	Custom private equity fund focused on New Jersey investment opportunities	8.9% net IRR as of 9/30/11					

Vehicle Information:

Inception:	2012	Auditor:	KPMG
Fund Size (\$mil.):	\$202 million	Legal Counsel:	Willkie Farr & Gallagher
Management Fee:	Approx 0.50% per annum on average over the fund's life	Accounting Firm:	Capital Analytics, a Neuberger Berman affiliate
Carry:	Tiered based on performance hurdles, up to 15%		
Hurdle Rate:	8% and higher		
Additional Expenses:	Reimbursement of fund formation expenses up to \$75,000. In addition, usual and customary operating expenses incurred by the fund (e.g., legal, tax, accounting and audit).		

NJ AIP Program

Recommended Allocation:	\$200 million	LP Advisory Board Membership:	Not Applicable; Customized Fund
% of Fund:	99%	Consultant Recommendation:	Yes
		Placement Agent:	None
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes