



State of New Jersey

CHRIS CHRISTIE
Governor

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

FORD M. SCUDDER
State Treasurer

KIM GUADAGNO
Lt. Governor

CHRIS MCDONOUGH
Director

May 19, 2017

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in Onex Partners V LP**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$100 million in Onex Partners V LP (“Fund V”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

Onex Partners V LP will continue the Division’s successful relationship with Onex Corporation (“Onex”) or (“the Firm”), which has dated back to 2006. Fund V will continue Onex’ success in creating long-term value for their portfolio companies and investors through building world-class businesses in partnership with exceptional management teams. Fund V will focus on making control investments in businesses organized or primarily domiciled in the U.S., Canada, and Europe.

The Division is recommending this investment based on the following factors:

Strong Performance from an Existing Relationship: Onex has consistently generated strong returns through the Onex Partners Funds, which have generated a gross 2.5x Multiple on Invested Capital (“MOIC”) and 32% gross Internal Rate of Return (“IRR”) on the realized, substantially realized and publicly traded investments as of 12/31/16. Including unrealized investments, the total track record represents a 2.1x gross MOIC and 28% gross IRR as of 12/31/16. In aggregate, Onex is a top performing manager, with a gross IRR of 20% across Funds I-IV as of 12/31/16, which is top quartile against a pooled benchmark of funds across the same vintage years as of 9/30/16.

Focused Investment Strategy: Onex’ strength and differentiation often lies in complex transactions, where the Firm frequently emerges as the preferred buyer given the team’s success in transforming corporate subsidiaries and supply divisions into profitable businesses throughout the Firm’s over 30-year history. The team spends their time on opportunities where history and experience in particular sectors give them an edge, and they can effectively drive value. Their largest areas of investment, specifically Industrials, Financials, and Healthcare, have also generated

the strongest financial returns. The Firm seeks situations with controllable outcomes where they can identify areas of operational improvement in labor, supply chains, and manufacturing in order to effect change and build market leaders.

Significant Alignment of Interests: Onex Corporation (TSE: ONEX), a publicly traded entity, will provide a significant commitment to Fund V of \$2 billion. Onex has been the largest LP in each of its flagship Partners Funds, having committed a total of \$4.7 billion across Funds I-IV. Individual members of the Onex team will also make significant personal commitments, which is expected to constitute at least 2% of the aggregate capital commitments.

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.

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. 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. Onex Partners V LP will be considered a private equity 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 May 12, 2017. 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 May 24, 2017 meeting.

Attachments

Fund Name: Onex Partners V LP

May 19, 2017

Contact Info: Emma Thompson, 161 Bay Street, Suite 4900, Toronto, ON, M5J, 2S1

Fund Details:

Firm AUM:	\$24 billion	Key Investment Professionals: <u>Gerry Schwartz</u> , Chairman, CEO and member of Executive Committee. Mr. Schwartz founded Onex in 1984 and works in the Toronto office. Prior to forming Onex, he was the Co-founder and President of CanWest Global Communications for seven years. <u>Robert Le Blanc</u> , Senior Managing Director and member of Executive Committee. Mr. LeBlanc joined Onex in 1999 and works in the New York office. Prior to joining Onex, he worked for Berkshire Hathaway for seven years. <u>Seth Mersky</u> , Senior Managing Director and member of Executive Committee. Mr. Mersky joined Onex in 1997 and works in the Toronto office. Prior to joining Onex, he was Senior Vice President, Corporate Banking, with The Bank of Nova Scotia, where he worked for 13 years. <u>Anthony Munk</u> , Senior Managing Director and member of Executive Committee. Mr. Munk joined Onex in 1988 and works in the New York office. Prior to joining Onex, he was a Vice President with First Boston Corporation in London, where he worked for 4 years.
Strategy:	Buyout	
Year Founded:	1984	
Headquarters:	Toronto	
GP Commitment:	\$2 billion from Onex Corp.; Individual members will make a commitment of at least 2% of the aggregate capital committed	

Investment Summary	Existing and Prior Funds			
<p>Onex Corporation ("Onex") or ("the Firm") is one of the oldest and most successful private equity firms with a long, established track record and a disciplined, active-ownership approach to private equity investing. With a focus on achieving strong absolute growth with an emphasis on capital preservation, Onex has succeeded at creating long-term value through building industry-leading businesses in partnership with outstanding management teams. Consistent with the strategy of the prior funds, Fund V will target control investments in operating companies headquartered in the United States, Canada and Europe. The Firm expects the average transaction size will typically require between \$200 - \$750 million of equity. However, less equity will be deployed in attractive opportunities that are sourced by the flagship Onex Partners platform. While the Firm is relatively sector agnostic, it does have expertise in the following sectors: consumer products/services, supply chain management, industrials, business services, financial services, and healthcare.</p>	Funds	Vintage Year	Strategy	Returns as of 12/31/2016*
	Fund I	2003	Buyout	38.1% Net IRR, 3.01x Net TVPI, 2.86x DPI
	Fund II	2006	Buyout	13.6% Net IRR, 1.94x Net TVPI, 1.81x DPI
	Fund III	2009	Buyout	13.7% Net IRR, 1.73x Net TVPI, 0.75x DPI
	Fund IV	2014	Buyout	1.3% Net IRR, 1.01x Net TVPI, 0.05x DPI
<p>IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI= Distributions to Paid-In * returns provided by the General Partner</p>				

Vehicle Information:

Inception:	2017	Auditor:	Pricewaterhouse Coopers LLP
Fund Size:	\$6.5 billion	Legal Counsel:	Latham & Watkins, LLP
Management Fee:	During the investment period, the management fee equals 1.75% of commitments up to \$3 billion and 1.5% of commitments greater than \$3 billion. After the investment period, the management fee equals 1% of net invested capital.		
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	100% fee offset		

NJ AIP Program

Recommended Allocation:	Up to \$100 million	LP Advisory Board Membership:	TBD
% of Fund:	1.54%	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.