



State of New Jersey

PHILIP D. MURPHY
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

TAHESHA L. WAY
Lt. Governor

SHOAIB KHAN
Director

April 24, 2025

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan Director New Jersey Division of Investment

SUBJECT: **Private Equity Investment in Stellex Capital Partners III, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$125 million in Stellex Capital Partners III, L.P. (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:

Strong Overall Performance & Portfolio Fit: Investing capital in Stellex Capital Partners III allows the Division to make a commitment with an existing, high-conviction, middle-market, buyout manager with exposure to both the United States and Europe. The firm has a strong performance track record and is benchmarking well against peers.

Experienced Team & Thematic Approach: The Stellex team has grown to 49 professionals with offices in New York, London, Detroit and Pittsburgh. The 31-person investment team, led by the two founding partners prosecute investable themes focused on underperforming, undervalued or special situations in middle market businesses. The investment team will invest in specific sectors, primarily, aerospace and defense, food processing, manufacturing, transportation and logistics, business services, and tech-enabled services.

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 engaged a third-party solicitor (“placement agent”) in the fundraising of the Fund, but the placement agent was not used to solicit New Jersey’s potential investment and was not compensated in connection with facilitating New Jersey’s potential investment.

The Firm has a formal ESG Policy. Stellex's current ESG Policy and related diligence disclosures were reviewed by the Corporate Governance team in accordance with the Council's ESG Policy. Stellex incorporates ESG consideration into its investment process and will continue to monitor ESG factors post investment.

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. Stellex Capital Partners III, L.P is considered a 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 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.

Stellex Capital Partners III, LP

- **DOI Commitment:** Up to \$125 million
- **Strategy:** Middle-Market Buyout
- **Investment Focus:** Stellex Capital Partners III will seek to make control-oriented investments in underperforming or undermanaged middle market companies in North America and Europe. Sector focus includes aerospace and defense, food processing, manufacturing, transportation and logistics, business services and tech-enabled services. The sector specialized teams and large operating network have deep expertise to develop differentiated investment insights in each vertical. Equity checks will be in the range of \$75 million to \$150 million in 17 - 23 companies.
- **Target Returns:** 2.0x+ MOIC (net) / 20%+ IRR (net)
- **Investments Thesis:**
 - Strong overall performance across multiple economic cycles
 - Experienced team with differentiated sector expertise
 - Partner with a best-in-class, middle-market, private equity buyout fund manager

Fund Name: Stellex Capital Partners III LP

April 24, 2025

Contact Info: Courtney Mehrotra, 900 Third Avenue, 25th Floor, New York, NY 10022

| | | |
|--------------------|-------------------------------|--|
| Fund Details: | | |
| Total Firm Assets: | \$5.0 Billion | Key Investment Professionals: Ray Whiteman: (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. Mike Stewart: (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. |
| Strategy: | Buyouts | |
| Year Founded: | 2014 | |
| Headquarters: | New York City, NY | |
| GP Commitment: | Lesser of 2% or \$50 million; | |

| Investment Summary | Existing and Prior Funds | | | |
|--|--|---------------------|-----------------|--|
| Stellex Capital Partners III, L.P. will pursue middle-market value oriented investments in various verticals within the broader industrials sectors. The Fund will target 17-23 investments in companies with revenue streams ranging from \$100 million to \$500 million- Approximately, 80% of the portfolio will be focused on North America and 20% focused on Europe. The Fund will identify underperforming or undermanaged 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: Net IRR, Net TVPI, Net DPI</u> |
| | Fund I | 2015 | Buyout | 21.2% Net IRR; 1.90x TVPI; 1.30x DPI |
| | Fund II | 2021 | Buyout | 13.6% Net IRR; 1.27x TVPI; 0.07x DPI |
| | Source of Returns - NJDOI | | | *Net as of 09/30/2024 |
| | IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI = Distributions to Paid-In | | | |
| | | | | |

Vehicle Information:

| | | | |
|---------------------------------|---|----------------|--|
| Stellex Capital Partners III LP | | | |
| Inception: | 2024 | Auditor: | PricewaterhouseCoopers |
| Fund Size : | \$2.5 bn (\$3.0 billion hard cap) | Legal Counsel: | Paul, Weiss, Rifkind, Wharton & Garrison LLP |
| Management Fee: | 2% on committed capital during the Investment Period; 2% on actively invested during the Harvest Period; 15 bps size discount on commitments \$100 million+. | | |
| Incentive Fee: | 20% | | |
| Hurdle | 8% | | |
| Additional Expenses: | 100 % Management Fee Offset | | |

| NJ AIP Program | | | |
|----------------------------------|---------------|--|-----|
| Recommended Allocation (\$mil.): | \$125 Million | LP Advisory Board Membership: | Yes |
| % of Fund | 4.17% | 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.