



State of New Jersey

PHILIP D. MURPHY
Governor

SHEILA Y. OLIVER
Lt. 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

COREY AMON
Director

January 22, 2021

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Private Equity Investment - Strategic Value Special Situations Fund V, L.P.**

The Division of Investment (the “Division”) is considering an investment of up to \$125 million in Strategic Value Special Situations Fund V, 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 Track Record

Strategic Value Partners (the “Firm”) has been in business since 2001 and opened its European office in 2004. Since 2008, Special Situations Fund series managed by the Firm has returned a cumulative 15.3% net IRR and a 1.6x net multiple of invested capital (estimated as of December 31, 2020). All funds in the series are in the 1st quartile by net IRR and in the 1st or 2nd quartile by net multiple of invested capital. The funds have invested over \$8.7 billion in aggregate assets over time.

Geographic Breadth

The Special Situations Fund series has been successful in achieving attractive returns in both the North American and European markets. The Firm has historically invested evenly across both North American and European markets and is highly experienced in navigating markets across jurisdictions. This helps diversify exposure and maximize the available opportunity set for the Firm.

Attractive Market Environment for Distressed Investing

The global economy is in the midst of the greatest disruption and dislocation since the Global Financial Crisis in 2008. This type of circumstance presents the most compelling opportunities for distressed investors such as Strategic Value Partners. Asset devaluation, default increases, liquidity issues, and credit problems all create opportunities for the Fund to achieve attractive entry pricing and engage in portfolio company turnarounds and bankruptcy restructurings.

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 TorreyCove 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 engaged a third-party solicitor (“placement agent”) in the fundraising of the Fund, but no placement agent was engaged or paid in connection with the Pension Fund’s potential investment.

The Firm has had a formal ESG Policy since 2012 and has been evolving since. The Firm’s current ESG Policy and related diligence disclosures were reviewed by the Corporate Governance team in accordance with the Council’s ESG Policy.

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. Strategic Value Special Situations Fund V, L.P. is 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 IPC was held on January 13, 2021. 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 27, 2021 meeting.

Attachment

Fund Name: Strategic Value Special Situations Fund V, L.P.

January 22, 2021

Contact Info: Carter Weil, Head of North American Investor Relations, 100 West Putnam Avenue, Greenwich, CT 06830

Fund Details:

Firm AUM (\$bil., as of 12/31/2020):	\$10.7 billion	<p>Key Investment Professionals: Victor Khosla (Founder & CIO) – Mr. Khosla established Strategic Value Partners in 2001, and has built it into one of the major firms in distressed debt and private equity investments with more than \$10 billion in assets under management. He has 31 years of experience in the industry, beginning with Citibank in 1989. Subsequently, he built and managed the distressed proprietary trading business at Merrill Lynch. Following his departure from Merrill Lynch, Mr. Khosla was President of Cerberus Capital and ran MooreSVP (a joint-venture with Moore Capital), which invested in distressed debt in Japan. Kevin Lydon (Managing Director) – Mr. Lydon is the Global Head of Sourcing for the Firm and has been with SVP since 2007. Prior to SVP, Mr. Lydon was a Managing Director and Co-Head of European and Asian Special Situations in London at Credit Suisse from 2005-2007. Prior to 2005, Mr. Lydon spent nine years with Merrill Lynch, most recently as Co-Head of European Leveraged Finance Trading in London, and previously in New York, where he managed a book of distressed loans. HJ Woltery (Managing Director) – Mr. Woltery is Co-Head of the European investment team and joined SVP in 2004. From 1985-2004, Mr. Woltery worked at Deutsche Bank, with his most recent role being the Head of Research in Germany on the London Distressed Products Group, where he was responsible for covering European credits across a variety of industries and jurisdictions. John Brantl (Managing Director) – Mr. Brantl is Co-Head of the European investment team. He joined SVP in 2006 and has been based in London since 2012. Prior to SVP, Mr. Brantl worked in investment banking at Goldman Sachs's Financial Institutions Group. David Geenberg (Managing Director) – Mr. Geenberg oversees the North American investment team. He has been with SVP since 2009, leading the Firm's investment efforts over a range of industries including infrastructure, energy, power generation, and industrials in North America. Previously, he worked at Goldman, Sachs & Co., most recently in its infrastructure private equity business, and, prior to that, in the investment bank's natural resources group</p>
Strategy:	Debt Related Private Equity	
Year Founded:	2001	
Headquarters:	Greenwich, CT	
GP Commitment:	\$80 million	

Investment Summary	Existing and Prior Funds																				
<p>Strategic Value Special Situations Fund V (the "Fund") will seek to invest the majority of its capital in distressed, stressed and deep-value opportunities, targeting the debt of middle-market companies and assets (total enterprise value of less than \$1.5 billion), and will seek to exert meaningful influence in both leading financial restructurings and subsequently driving operational performance. The Fund aims to leverage the expertise of Strategic Value Partners, LLC and its affiliates in sourcing, financial restructuring, and operational turnarounds. The Fund generally targets select sectors where it has significant expertise, with a focus on asset-heavy, old-economy businesses.</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Funds</th> <th style="text-align: center;">Vintage Year</th> <th style="text-align: center;">Strategy</th> <th style="text-align: center;">Returns as of 12/31/2020</th> </tr> </thead> <tbody> <tr> <td>SVSS I</td> <td style="text-align: center;">2008</td> <td>Distressed PE</td> <td>15.9% Net IRR; 2.0x Net TVPI; 1.8x DPI</td> </tr> <tr> <td>SVSS II</td> <td style="text-align: center;">2010</td> <td>Distressed PE</td> <td>14.0% Net IRR; 1.9x Net TVPI; 1.3x DPI</td> </tr> <tr> <td>SVSS III</td> <td style="text-align: center;">2013</td> <td>Distressed PE</td> <td>14.0% Net IRR; 1.9x Net TVPI; 0.6x DPI</td> </tr> <tr> <td>SVSS IV</td> <td style="text-align: center;">2017</td> <td>Distressed PE</td> <td>24.0% Net IRR; 1.3x Net TVPI; 0.0x DPI</td> </tr> </tbody> </table> <p>Source of Returns- Strategic Value Partners, LLC</p> <p>IRR = Internal Rate of Return; TVPI= Total Value to Paid-In; DPI= Distributions to Paid-In</p>	Funds	Vintage Year	Strategy	Returns as of 12/31/2020	SVSS I	2008	Distressed PE	15.9% Net IRR; 2.0x Net TVPI; 1.8x DPI	SVSS II	2010	Distressed PE	14.0% Net IRR; 1.9x Net TVPI; 1.3x DPI	SVSS III	2013	Distressed PE	14.0% Net IRR; 1.9x Net TVPI; 0.6x DPI	SVSS IV	2017	Distressed PE	24.0% Net IRR; 1.3x Net TVPI; 0.0x DPI
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Vehicle Information:

<p>Inception: 2021</p> <p>Fund Size: Target \$4.0 billion</p> <p>Management Fee: During Investment Period: 0.725% of commitments (including discount for size & discount for participating in first close) until 50% of the capital has been called. Thereafter, 1.45% of commitments (fee base varies in the follow-on period).</p> <p>Carry: 20%</p> <p>Hurdle Rate: 8%</p> <p>Management Offset: 100%</p>	<p>Auditor: PwC LLP</p> <p>Legal Counsel: Ropes & Gray LLP</p>
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NJ AIP Program

Recommended Allocation:	up to \$125 million	LP Advisory Board Membership:	YES
% of Fund:	3.13%	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.