



State of New Jersey

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DEPARTMENT OF THE TREASURY
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April 19, 2024

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Private Equity Investment - Tenex Capital Partners IV**

The Division of Investment (the “Division”) is proposing an investment of up to \$100 million in Tenex Capital Partners IV-A, L.P. (the “Fund”) and up to \$25 million in a related co-investment vehicle (the “Co-Invest”). 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 and Cohesive Team with Meaningful Operational Experience: Tenex is led by seven Managing Directors who have a long-standing history of investing together and an average tenure of 12 years at the Firm. The senior team benefits from diverse and complimentary backgrounds across investing and business operations at prior firms. Three of the managing directors were trained as operational professionals, creating meaningful alignment with the Firm’s operationally focused value creation strategy. In addition, Tenex has built a network of 22 Operating Advisors who have decades of industry experience and take active roles in Tenex’s portfolio companies as needed.

Diversified Industrials Focus: Since inception, Tenex has invested ~62.0% of capital into 26 platform investments in the diversified industrials sector. These investments benefit from Tenex’s value creation efforts focused on improvements in profitability and margin growth. As of 9/30/2023, the diversified industrial portfolio had produced a 2.7x gross MOIC and 32.4% gross IRR, making it the leading return driver for the overall portfolio.

Strong Overall Performance: Tenex’s 41 investments since inception have generated a 2.4x gross MOIC and a 30.0% gross IRR, as of 9/30/2023. Aggregate performance on the 16 fully realized and 4 partially realized deals is 3.9x gross / 2.9x net MOIC. Funds II and III have generated first and second quartile net MOICs of 2.2x and 1.8x (unlevered) respectively, as well as net IRRs of 24.7% and 244.2%, respectively.

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").

The Firm has a formal ESG Policy. Tenex Capital Partner's current ESG Policy and related diligence disclosures were reviewed by the Corporate Governance team in accordance with the Council's ESG Policy. Tenex incorporates ESG considerations 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. Tenex Capital Partners IV and the related Co-Invest are 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 10, 2024. 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 24, 2024 meeting.

Attachment

Tenex Capital Partners IV, LP

- **DOI Commitment:** \$100 million to Tenex Capital Partners IV and \$25 million to a co-investment sidecar
- **Strategy:** Buyout
- **Investment Focus:** The primary focus of Tenex Capital Partners IV will be consistent with prior Tenex funds, acquiring controlling interests in North American, middle-market industrials, healthcare, and business services companies with enterprise values between \$50 million and \$400 million. The team's experience across investing and operations helps it to make operational improvements at the company level throughout Tenex's ownership. Fund IV will seek to complete 16-18 investments in the Fund with equity checks ranging from \$50 million to \$100 million.
- **Target Returns:** 2.5x MOIC / 25% IRR (gross)
- **Investments Thesis:**
 - Experienced team
 - Operational expertise
 - Diversified industrials focus
 - Strong performance

Fund Name: *Tenex Capital Partners IV, L.P.*

April 19, 2024

Contact Info: *Helen Wray 60 East 42nd Street, Suite 5230 | New York, NY 10165-0015*

Fund Details:

Total Firm Assets:	\$3 billion (as of Q3-2023)	<p>Key Investment Professionals:</p> <p>Mike Green: (Co-Founder, CEO, Managing Director) Mr. Green co-founded Tenex in 2009 and has previous experience at General Electric and Cerberus Capital Management.</p> <p>Varun Bedi: (Co-Founder, Managing Director) Mr. Bedi has experience working at Cerberus Capital Management and Time Warner.</p> <p>Joe Cottone: (Co-Founder, Managing Director) Mr. Cottone co-founded the firm in 2009 and previously worked at Cerberus Capital Management and General Electric.</p> <p>Ron Lejman: (Managing Director) Mr. Lejman joined the team in 2013 after working with Tenex Team members in prior roles over the last 20 years. Ron has prior experience working at Cerberus Capital Management.</p> <p>Perrin Monroe: (Managing Director) Mr. Monroe joined the firm in 2013 and previously worked at Morgan Stanley.</p> <p>Gabe Wood: (Managing Director) Mr. Wood has prior experience working closely with Perrin Monroe at Morgan Stanley and Clayton Dubilier & Rice.</p> <p>Ryan MacIntyre: (Managing Director) Mr. MacIntyre joined in 2016 and has previous experience at Lindsay Goldberg and Morgan Stanley.</p>
Strategy:	North American Buyouts	
Year Founded:	2009	
Headquarters:	New York, NY	
GP Commitment:	3%	

Investment Summary

Tenex will leverage its combination of experience in operations, capital markets, and investment management to buy commercially sound companies with operational challenges and improve them to market performing businesses. Fund IV will invest in buyout transactions, with meaningful seller equity rollover in a majority of the companies. The Fund acquires controlling interests in North American middle-market industrial, business & tech services, and healthcare companies in desirable end-markets with strong products or service offerings.

Existing and Prior Funds

<i>Funds (as of Q3-2023)</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns: Net IRR, Net TVPI, Net DPI</i>
Tenex Capital Partners I ("Fund I")	2010	Domestic Midmarket Buyout	14.0%, 1.7x, 1.5x
Tenex Capital Partners II ("Fund II")	2016	Domestic Midmarket Buyout	24.7%, 2.2x, 1.4x
Tenex Capital Partners III ("Fund III")	2020	Domestic Midmarket Buyout	244.2%, 1.8x, 0.6x
Source of Returns - Aksia			*Net as of 09/30/2023

IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI = Distributions to Paid-In

Vehicle Information:

Tenex Capital Partners IV-A, L.P.

Inception:	2024
Fund Size :	\$1.6 billion (\$1.8 billion hard cap)
Management Fee:	2% on Committed Capital during Investment Period, 1.75% of invested capital thereafter
Performance Fee:	20%
Hurdle:	8%
Additional Expenses:	100% Management Fee Offset

Auditor:	PriceWaterhouseCoopers
Legal Counsel:	Kirkland & Ellis LLP

Co-Investment SMA

Inception:	2024
Fund Size :	\$25.75 million
Management Fee:	No Fee
Performance Fee:	No Fee
Additional Expenses:	N/A

NJ AIP Program

Recommended Allocation (\$mil.):	up to \$125 million	LP Advisory Board Membership:	TBD
% of Fund:	5.56%	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.