



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

SHOAIB KHAN
Acting Director

September 17, 2021

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Acting Director

SUBJECT: **Global Diversified Credit Investment - CVC Credit Partners
European direct lending strategy**

The Division of Investment (the “Division”) is proposing an investment of up to €300 million in CVC Credit Partners European direct lending strategy managed by CVC Credit Partners Investment Management Limited (the “Firm”) to be allocated between (i) CVC Credit Partners European Direct Lending Fund III (the “Fund”), and (ii) a co-invest vehicle investing alongside 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:

Continues the process of diversifying the existing direct lending portfolio into Europe: The Fund will invest in European direct lending. Currently, the private credit portfolio’s only dedicated European direct lending exposure is through the €100 million commitment to CVC Credit Partners EU DL II Co-invest Fund (“EU DL II”) made earlier this year. The Fund, along with EU DL II, will diversify direct lending exposure into Europe.

The Firm is an institutional quality credit manager: CVC Capital Partners (“CVC”) is one of the largest private market asset managers in Europe, with \$125.2 billion in AUM, including \$28.7 billion in credit (as of June 30, 2021). Investment Committee members average 26 years of private credit experience. CVC has invested over €2.6 billion in European direct lending since inception across 76 investments with a 0.3% default rate and zero realized losses. CVC has two commingled funds in the European direct lending strategy; European Mid-Market Solutions Fund, a 2015 vintage fund, has a net IRR of 6.0% and a 1.2x TVPI; and European Direct Lending Fund II, a 2019 vintage fund, has a net IRR of 8.8% and a 1.1x TVPI (both unlevered and in EUR as of June 30, 2021).

Wide origination platform: The Fund’s loan origination platform consists of both the Fund’s investment team and the broader CVC platform. The Fund has a 23-person dedicated investment

team with over 300 years of combined experience hailing from nine different countries and speaking nine different languages. Origination activities further benefit from the broader CVC network, which has 13 offices across Europe and another 130+ investment professionals in Europe. CVC's private equity business has done over 300 investments in Europe. Since inception, the Firm has monitored over 4,000 credits and year-to-date through June 30, 2021, over 200 opportunities were reviewed by the investment committee, of which 17 were approved for investment. To date, the Firm has originated loans with over 40 different sponsors across Europe.

Upside from co-invest vehicle: Up to €1 of co-invest is available for each €1 of commitment to the Fund. The co-invest vehicle is offered at no management fee and no profit allocation. This structure effectively results in a 50% discount in both management fees and profit allocation (assuming both the Fund and co-invest vehicle are fully deployed), the benefit of which would accrue to the Pension Fund and improve expected net returns.

A report of the Investment Policy Committee (the "IPC") summarizing the details of the proposed investment is attached.

Division Staff and its private credit 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 no placement agent was engaged or paid in connection with the Pension Fund's potential investment.

The Firm has a formal environmental, social, and governance ("ESG") policy outlining its approach to integrating material ESG risks and opportunities into its investment process. Chloe Sanders serves as the Director, Head of ESG for CVC, while it is the responsibility of the Firm's Executive Committee and Private Credit Investment Committee, in conjunction with its ESG Working Group and Compliance Team, to provide oversight of its ESG policy and to ensure that its ESG policy is properly applied. The Firm relies on its investment team to apply and implement the ESG policy to ensure that material ESG risks and opportunities are appropriately assessed and mitigated when applicable. During 2021, the Firm became a signatory to the United Nations Principles for Responsible Investment. The Division's Corporate Governance team has reviewed the Firm's ESG policy and related documents.

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 23 and 69 of the Council's regulations. The Fund is considered a global diversified credit investment, as defined under N.J.A.C. 17:16-23.1.

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 September 15, 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 September 29, 2021 meeting.

Attachment

Fund Name: CVC Credit Partners European direct lending strategy **September 17, 2021**

Contact Info: Robert Squire, 712 Fifth Avenue, 45th Floor, New York, NY 10019

Fund Details:

Total Firm Assets:	\$125.2 billion (CVC Capital Partners and CVC Credit Partners total AUM as of 6/30/2021)	<p>Key Investment Professionals:</p> <p>Andrew Davies: Partner, Co-Head of Private Credit. Andrew joined CVC Credit in July 2010. Andrew has 19 years of debt capital markets, corporate finance advisory and investment management experience. Most recently, Andrew was at GSC Group (formally Greenwich Street Capital Partners) in London where he was responsible for trading, sourcing, analysis and portfolio management across investment strategies. Prior to this, Andrew provided corporate finance advice to technology and media start-ups at Cobalt Corporate Finance and also spent five years at Bear Stearns where he focused on European merger and acquisition finance and fixed income trading.</p> <p>John Empson: Partner, Co-Head of Private Credit. John joined CVC in 2021. John is Co-Head of the Private Credit team and is based in London. Prior to joining CVC, John spent nearly 11 years at KKR where he was a Partner and Head of International Capital Markets, and over 21 years at JPMorgan where he led European leveraged debt capital markets. John was also a Managing Director at BlackRock where he led the European Capital Markets team.</p> <p>Caroline Benton: Partner, Portfolio Manager. Caroline joined CVC in 2013. Carrie is a member of the Private Credit team and based in New York. Prior to joining CVC, Carrie spent 15 years at Goldman Sachs in proprietary investing and risk management functions in the Fixed Income division.</p> <p>Neale Broadhead: Partner, Portfolio Manager. Neale joined CVC in February 2014. Neale is a member of the Direct Lending team and is based in London. He has been responsible for leading 150+ management buyouts in his career, having worked in both London and New York. Before joining CVC, he worked at Lloyds Banking Group as Managing Director and Head of Mid-Market Acquisition Finance, which he founded in 2004, and also was a member of the Board Investment Committee as well as the IC for Acquisition Finance. Neale holds a BSc (Hons) in Economic History.</p> <p>Miguel Toney: Partner, Portfolio Manager. Miguel joined CVC in March 2021. Miguel is a member of the Private Credit team and is based in London. Prior to joining CVC, Miguel was a Partner at Park Square Capital. Miguel also spent 11 years at MezzVest (now MV Credit), and two years at Credit Suisse.</p> <p>Chris Fowler: Managing Director. Chris joined CVC in 2015. Chris is a member of the Private Credit team and based in London. Prior to joining CVC, he was a Managing Director at GE Capital in the mid-market leveraged finance origination team. During his 10 years at GE, Chris arranged over 50 financings across Europe and the US, including senior, mezzanine, unitranche and high-yield facilities.</p>
Strategy:	Direct Lending	
Year Founded:	2006 (CVC Credit Partners)	
Headquarters:	London, UK	
GP Commitment (Fund):	lessor of (i) 2% of aggregate commitments from investors, and (ii) €50 million	
GP Commitment (Co-Invest):	1%	

Investment Summary	Existing and Prior Funds									
<p>CVC Credit Partners LP (the "GP") is seeking €2 billion in commitments for CVC Credit Partners European Direct Lending Fund III (the "Fund"), which will continue CVC Credit Investment Management Limited's (the "Firm") direct lending fund strategy of providing primarily senior debt financing to sponsor-backed lower and middle market companies across Europe. Investments are expected to be based primarily in the UK and Northwestern Europe, with a focus on the technology, healthcare, business services, and financial services sectors. The Fund is expected to comprise of 30 - 40 positions, with potential for some higher individual position concentration tolerance of ~3 - 4%. Target positions will consist primarily of sponsor-backed corporates, but can include non-sponsored exposures, in companies with EBITDA in the range of €10 - €50 million+. The Fund will invest in senior and unitranche loans, albeit with some tolerance for subordination through first out and super senior structures. The Fund will target a 7%+ net unlevered return in EURs.</p>	<table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 30%;">Funds</th> <th style="width: 30%;">Strategy</th> <th style="width: 40%;">Returns</th> </tr> </thead> <tbody> <tr> <td>European Mid-Market Solutions Fund (Fund I)</td> <td>Direct lending</td> <td>6.0% Net IRR; 1.2x Net TVPI</td> </tr> <tr> <td>European Direct Lending Fund II (Fund II)</td> <td>Direct lending</td> <td>8.8% Net IRR; 1.1x Net TVPI</td> </tr> </tbody> </table> <p>Note: Returns are unlevered returns in EUR as of 6/30/2021 Source: CVC Credit Partners</p> <p>IRR = Internal Rate of Return; TVPI = Total Value to Paid-In Capital</p>	Funds	Strategy	Returns	European Mid-Market Solutions Fund (Fund I)	Direct lending	6.0% Net IRR; 1.2x Net TVPI	European Direct Lending Fund II (Fund II)	Direct lending	8.8% Net IRR; 1.1x Net TVPI
Funds	Strategy	Returns								
European Mid-Market Solutions Fund (Fund I)	Direct lending	6.0% Net IRR; 1.2x Net TVPI								
European Direct Lending Fund II (Fund II)	Direct lending	8.8% Net IRR; 1.1x Net TVPI								

Vehicle Information:

Inception:	2021	Auditor:	Ernst & Young S.A.												
Fund Size:	€2 billion (target)	Legal Counsel:	Fried, Frank, Harris, Shriver & Jacobson (London) LLP (and Arendt & Medernach SA as Legal Counsel to Luxembourg Law)												
Management Fee:	<table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 50%;">Fund</th> <th style="width: 50%;">Co-Invest</th> </tr> </thead> <tbody> <tr> <td>Management fees charged on invested:</td> <td>0%</td> </tr> <tr> <td>- Commitments < €50 million = 1.0%</td> <td></td> </tr> <tr> <td>- €50 million to <€100 million = 0.95%</td> <td></td> </tr> <tr> <td>- €100 million to <€200 million = 0.90%</td> <td></td> </tr> <tr> <td>- Commitments €200 million or more = 0.80%</td> <td></td> </tr> </tbody> </table> Additional 0.05% fee reduction for closing prior to December 31, 2021	Fund	Co-Invest	Management fees charged on invested:	0%	- Commitments < €50 million = 1.0%		- €50 million to <€100 million = 0.95%		- €100 million to <€200 million = 0.90%		- Commitments €200 million or more = 0.80%			
Fund	Co-Invest														
Management fees charged on invested:	0%														
- Commitments < €50 million = 1.0%															
- €50 million to <€100 million = 0.95%															
- €100 million to <€200 million = 0.90%															
- Commitments €200 million or more = 0.80%															
Carry:	12.5%		0%												
Preferred Return:	7%		n/a												

NJ AIP Program			
Recommended Allocation:	up to €300 million	LP Advisory Board Membership:	YES
% of Fund:	up to 15%	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.