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January 23, 2025

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Private Equity Investment – Strategic Value Special Situations Feeder Fund VI, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$100 million in Strategic Value Special Situations Feeder Fund VI, L.P. (the “Fund”), a private equity fund managed by Strategic Value Partners (“SVP” or the “Firm”). 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 & Strong Record: Since its inception in March 2001, the Firm has invested over \$50 billion across approximately 800 transactions. Throughout this period, SVP has developed a robust and consistent track record with its Special Situations Fund series. When compared to its peers, the predecessor funds have consistently achieved first- and second-quartile performance rankings across various vintages and market cycles. As of September 30, 2024, the Firm manages a total of \$18.6 billion in assets and employs over 200 professionals.

Complementary Investment Strategy: The strategy will invest in core industries with predictable cash flows, primarily in North America and Europe. The firm has extensive expertise in the European markets and is highly seasoned in navigating opportunities across jurisdictions. This helps diversify the Pension Fund’s exposure outside of North America. In addition, the prior vintages invested approximately 60% of capital in corporate situations and 40% in real assets opportunistically: spanning real estate, infrastructure, power generation and aviation. Investments will be typically made through senior debt and in middle-market distressed opportunities, taking advantage of the inefficiencies and uncertainties in distressed situations and establishing an early foothold in a lender group.

Operational Involvement: The investment approach is centered on acquiring, transforming, and positioning businesses for long-term success and eventual exit. The process begins with deep operational assessments, leveraging both internal expertise and external industry partners to co-create a robust investment thesis. In the first few months, the focus is on building strong

foundations by assessing talent, aligning key management incentives, and improving operational and financial reporting. Over time, SVP drives business transformation through targeted leadership changes and process improvements, with a clear focus on creating value and preparing the company for a successful exit.

Sourcing: SVP's key advantage is its ability to source debt investments and special situations at competitive prices, particularly through direct sourcing. This approach has grown significantly, from 7.4% in Fund I to nearly 80.5% in Fund V. SVP's team works closely with banks, asset managers, and other financial institutions to access attractive opportunities. By building strong relationships, SVP is able to quickly identify and act on investment opportunities, giving it a clear advantage in sourcing valuable assets across global markets.

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 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.

SVP has a formal Responsible Investing Policy and Responsible Investing team. SVP's Responsible Investing Policy and related diligence disclosures were reviewed by the Corporate Governance team in accordance with the Council's ESG Policy. SVP incorporates Responsible Investing considerations into its investment process and will continue to monitor these 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. Strategic Value Special Situations Feeder Fund VI, 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 January 17, 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 January 29, 2025 meeting.

Strategic Value Special Situations Feeder Fund VI LP

- **DOI Commitment:** An investment of up to \$100 million in Strategic Value Special Situations Feeder Fund VI LP.
- **Strategy:** Distressed Debt & Special Situations
- **Investment Focus:** The strategy will focus on distressed debt and special situations where the Fund can exercise significant influence and control, targeting the debt of middle-market companies across both corporates and real assets. The Fund aims to build a diversified portfolio through debt instruments, primarily in North America and Europe, with an emphasis on strong risk-adjusted returns and sectors offering predictable cash flow.
- **Target Returns:** 2.0x MOIC / 15% IRR (net)
- **Investment Thesis:**
 - Consistent and strong performance
 - Operational Involvement
 - Strong Sourcing

Fund Name: Strategic Value Partners Special Situations Feeder Fund VI, L.P. **January 23, 2025** Agenda Item 4(a)(iv)

Contact Info: Ryan Flohre, 100 West Putnam Avenue, Greenwich, CT 06830

Fund Details:		Key Investment Professionals: Victor Khosla, Founder and CIO, established SVP in 2001 and has built it into a leading global private credit firm. He has led the Firm's transformation from its roots in distressed investing to one with strengths in private debt, event-driven investing, hard assets (real estate, infrastructure, airplanes, power plants) and special situations private equity. Today, SVP has operating control or influence over 15 businesses with about 100,000 employees. Over his career, Mr. Khosla has built and managed one of the top proprietary trading businesses at Merrill Lynch, served as President of Cerberus Capital and ran MooreSVP, a JV with Moore Capital. David Geenberg is a Managing Director and oversees the North American Investment Team, with leadership responsibility across the Firm's investment, restructuring and portfolio operations functions in the region. Mr. Geenberg leads investment efforts within the Firm's North American corporate sectors, infrastructure and power & renewables. Bouk van Geloven is a Managing Director and member of the European Investment Team with a focus on several sectors, including infrastructure, packaging and industrials. Prior to joining SVP, Mr. van Geloven was an Associate within the Strategic M&A Advisory team at J.P. Morgan Cazenove, where he performed complex valuation analysis, credit analysis and ratings advisory on multiple equity & debt financing transactions. Hermann-Josef Woltery is a Managing Director and Co-Head of the European Investment Team. Prior to joining SVP, Mr. Woltery worked at Deutsche Bank's Distressed Products Group, where he was responsible for covering European credits across a number of industries and jurisdictions.
Firm AUM (\$bil.):	\$18.6 billion (as of September 2024)	
Strategy:	Debt-Related Private Equity	
Year Founded:	2001	
Headquarters:	Greenwich, CT	
GP Commitment:	At least \$130 million	

Investment Summary	Existing and Prior Funds			
Strategic Value Partners Special Situations Feeder Fund VI (the "Fund") will focus on identifying investment opportunities within the distressed market, including restructurings and special situations. The Fund will leverage the expertise of Strategic Value Partners (the "Firm") in sourcing, financial restructuring, and operational turnarounds. The Fund typically targets specific sectors where the Firm has deep industry knowledge, with an emphasis on asset-heavy, legacy industries.	<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of 9/30/2024</i>
	SVSS I	2008	Distressed PE	15.0% Net IRR; 1.9x Net MOIC; 1.8x DPI
	SVSS II	2010	Distressed PE	12.5% Net IRR; 1.9x Net MOIC; 1.6x DPI
	SVSS III	2013	Distressed PE	13.4% Net IRR; 2.3x Net MOIC; 1.5x DPI
	SVSS IV	2017	Distressed PE	14.5% Net IRR; 1.8x Net MOIC; 0.6x DPI
	SVSS V	2021	Distressed PE	17.6% Net IRR; 1.4x Net MOIC; 0.0x DPI
	Source of Returns - Aksia			
IRR = Internal Rate of Return; MOIC = Multiple on Invested Capital; DPI= Distributions to Paid-In				

Vehicle Information:			
Inception:	2024	Auditor:	PwC LLP
Fund Size:	\$6.5 billion	Legal Counsel:	Ropes & Gray LLP
Management Fee:	0.825% on committed capital, increasing to 1.65% when 50% of the capital is called (includes discount for size). The management fee is waived for 3 months for investors who commit before first close.		
Performance Fee	20%		
Preferred Return	8%		

NJ AIP Program			
Recommended Allocation:	up to \$100 million	LP Advisory Board Membership:	YES
% 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.