



## State of New Jersey

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*Director*

October 25, 2024

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan  
Director

SUBJECT: **Private Equity Investment – NB/NJ Custom Investment Fund IV, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$300 million in NB/NJ Custom Investment Fund IV, L.P. (the “Fund”), a separately managed account managed by Neuberger Berman focused on private equity co-investments. 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:** A commitment to the NB/NJ Custom Investment Fund IV allows the Division to continue its partnership with Neuberger Berman in a new co-investment separately managed account. Existing co-investment separately managed accounts have produced strong returns for the private equity portfolio. Co-investing provides several cost efficiency benefits to the Division, all with heightened governance provided by the extra layer of due diligence and monitoring provided by Neuberger Berman. In particular, co-investing allows the Division to better control pacing and manage risk exposures while also serving as an additional sourcing channel for potential future primary fund investments. When benchmarked against co-investment commingled funds the NB/NJ Custom Funds have consistently produced first and second quartile rankings.

**Experienced Team & Investment Approach:** Neuberger Berman is a global investment management firm with approximately \$481 billion in assets under management and over 320 dedicated professionals focused on private equity. Neuberger Berman’s primary fund, secondary fund, and private credit investing activities, all come together to form a differentiated sourcing engine for co-investment deal flow. Neuberger Berman’s abilities to invest significant capital, co-underwrite deals, and leverage the broader resources of the organization all position Neuberger Berman as a preferred partner. The Division has maintained a 17-year relationship with Neuberger Berman, and Neuberger Berman grants the Division access to its broader resources and capabilities across asset classes, capabilities, and geographies.

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").

Neuberger Berman has a formal ESG committee chaired by the Head of ESG and comprised of senior members of both the investment team and non-investment team, including representation from the private investment teams. Neuberger Berman’s ESG Policy and related diligence disclosures were reviewed by the Corporate Governance team in accordance with the Council’s ESG Policy. Neuberger Berman incorporates an ESG integration framework into their portfolio construction process and also utilizes a custom materiality matrix for measuring ESG risk. For co-investments, ESG risk/integration is applied at both the private equity fund level as well as the underlying portfolio company level. Neuberger Berman was a 2012 signatory of the UNPRI; and its firm-wide strategy for addressing climate change is in line with the voluntary disclosure recommendations made by the Task Force on Climate Related Financial Disclosures.

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. NB/NJ Custom Fund IV. 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 October 21, 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 October 30, 2024 meeting.

Attachment

## **NB / NJ Custom Investment Fund IV**

- **DOI Commitment:** \$300 million to NB / NJ Custom Investment Fund IV, a separately managed account managed by Neuberger Berman
- **Strategy:** Private Equity Co-Investment
- **Investment Focus:** NB / NJ Custom Investment Fund IV ("NB / NJ IV") will follow an investment strategy consistent with prior Neuberger SMAs, completing traditional, co-underwrites, and mid-life co-investments, providing a diversified risk-return profile complementary to other private equity co-investment SMAs. NB / NJ IV will provide diversified exposure across vintage, manager, sector and geography. Fund IV will make 15-25 investments with equity checks ranging from \$10 - \$25 million.
- **Target Returns:** 2.0x Gross MOIC / 20% Gross IRR
- **Investments Thesis:**
  - Co-investment benefits - decrease fees base and increase alpha potential, earlier return of capital
  - Veto right provides greater control over pacing, timing, and exposures
  - Large, diversified platform to source deals
  - Strong existing manager relationship with the Division

Fund Name: Separate Account with Neuberger Berman

10/xx/2024

Contact Info: Jonathan Shofet, 1290 Avenue of the Americas, New York, NY 10104

Fund Details:		<b>Key Investment Professionals:</b> <b>Anthony Tutrone:</b> Managing Director, Investment Committee Member and Global Head of NB Alternatives. Prior to Neuberger Berman, from 1994-2001, Mr. Tutrone was a Managing Director and founding member of the Cypress Group. Prior to the Cypress Group, Mr. Tutrone began his career at Lehman Brothers in 1986, starting in Investment Banking and in 1987 becoming one of the original members of the firm's Merchant Banking Group. Mr. Tutrone is a member of Neuberger Berman's Partnership, Operating, and Asset Allocation Committees. <b>David Stonberg:</b> Managing Director, Investment Committee Member and the Deputy Head of NB Alternatives and the Global Co-Head of Private Equity Co-Investments. Before joining Neuberger Berman in 2002, Mr. Stonberg held several positions within Lehman Brothers' Investment Banking Division including providing traditional corporate and advisory services to clients as well as leading internal strategic and organizational initiatives for Lehman Brothers. Mr. Stonberg began his career in the Mergers and Acquisitions Group at Lazard Frères. <b>Jonathan Shofet:</b> Managing Director, Investment Committee Member, Global Head of the Firm's Private Investment Portfolios and Co-Investments ("PIPCO") group and Program Manager for the NB/NJ Custom Fund investment programs. Prior to joining Neuberger Berman Private Equity in 2005, Mr. Shofet was a member of the Lehman Brothers Private Equity Group, focusing on direct equity investments. Prior to that, Mr. Shofet was a member of the Lehman Brothers Investment Banking division. Mr. Shofet is on the Advisory Board of several private equity funds and has also been a Board Observer for several private equity backed companies. Mr. Shofet is a member of Neuberger Berman's Partnership Committee. <b>Matthew Wiener:</b> Managing Director, senior member of the Private Investment Portfolios & Co-Investments ("PIPCO") group and Program Manager for the NB/NJ Custom Fund investment programs. Prior to joining Neuberger Berman, Mr. Wiener worked at Trilantic Capital Partners (formerly Lehman Brothers Merchant Banking), where he was responsible for evaluating and executing private equity investments across multiple industries. He began his career in Lehman Brothers' Investment Banking Division advising public and private companies in the communications and media industries.
Firm AUM:	~\$481 billion	
Strategy:	Co-invest	
Year Founded:	1939	
Headquarters:	New York, NY	
GP Commitment:	1%	

Investment Summary	Existing and Prior Funds			
Neuberger Berman manages over \$115 billion in private markets, of which over \$37 billion is in equity co-investments. The separate account with Neuberger Berman will pursue minority positions in equity co-investments globally across various deal types, including buyouts, growth equity, special situations, and preferred securities. The Fund will participate in a mix of co-underwritten, mid-life, and syndicated transactions, relying on Neuberger Berman's relationships with private equity firms to source deal opportunities. Targeted co-investments are expected to primarily range in size from \$2 million to \$20 million, across 15-25 co-investment transactions.	Funds	Vintage Year	Strategy	Returns as of 3/31/2024
	NB/NJ Fund II	2012	Buyout	32.3% Net IRR, 2.41x TVPI, 2.10x DPI
	NB/NJ Fund III Tranche A	2018	Buyout	16.3% Net IRR, 1.80x TVPI, 0.52x DPI
	NB/NJ Fund III Tranche B	2021	Buyout	3.6% Net IRR, 1.06x TVPI, 0.01x DPI
	Source of Returns - Aksia LLC			
	IRR = Internal Rate of Return; TVPI= Total Value to Paid-In ; DPI= Distributions to Paid-In			

Vehicle Information:

Inception:	TBD	Auditor:	KPMG
Fund Size:	\$303 million	Legal Counsel:	Haynes and Boone, LLP
	0.30% on invested capital during the investment period;		
	0.30% on aggregate NAV of unrealized co-investments		
Management Fee:	during the post investment period.		
Profit allocation:	Up to 10% subject to MOIC hurdles		

NJ AIP Program			
Recommended Allocation (\$mil):	up to \$300 million	LP Advisory Board Membership:	N/A
% of Fund:	99.0%	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.