



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

November 18, 2010

MEMORANDUM TO: New Jersey State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Tenex Capital Partners, L.P.**

The New Jersey Division of Investment is proposing an investment of \$50 million in middle market buyout fund, Tenex Capital Partners, LP. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

The Division of Investment ("Division") Staff and its consultant, Strategic Investment Solutions, undertook extensive due diligence on the proposed investment. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

To note, the Division has not made a new investment in private equity since November 2008.

- Tenex Capital Partners, LP – will target middle-market companies with an average investment size between \$25 and \$75 million spanning across different industries and among different stages of development with diverse challenges.

Tenex utilizes the operating expertise of its team to identify underperforming companies it believes have profitable operations, assets, or other sources of value and where the companies have grown beyond their ability to operate profitably or have not adapted to meet market challenges. Their strategy seeks to reestablish liquidity quickly, allowing time to restructure companies by adjusting capacity to meet demand for their products or services. The firm seeks to limit investment risk and create upside opportunities by targeting companies with few, if any, competing bidders and can be acquired at values that reflect operational uncertainty and market illiquidity. Members of the Tenex team will then take on operating roles within the Fund's portfolio companies until operations and finances can be stabilized, and in some cases will remain full-time at such companies through exit.

While this is a first time fund, the team is comprised of individuals who have considerable tenure and experience working together and executing the defined strategy. We believe the fund size is appropriate to execute a resource intensive strategy, given the operational approach they employ to each of their investments. It is important to note that NJDOI has negotiated a discount on terms in this fund.

We will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern each investment. In addition, each proposed investment must comply with the Council's "pay to play" regulation (N.J.A.C. 17:16-4).

Please note that this investment is authorized pursuant to Articles 69 and 90 of the State Investment Council's regulations. This investment is considered "buyout fund" as defined under N.J.A.C. 17:16-90.1.

Attachments

*SIC Investment Committee Fund Review Memo

To: State Investment Council
From: SIC Investment Committee
Date: November 18, 2010
Subject: Tenex Capital Partners, L.P. Recommendation

Fund Facts

Fund Name:	Tenex Capital Partners, L.P.
Fund Type:	Middle Market Buyout Fund focused on turnaround situations
Current Fund Size:	\$425 million
Previous Fund Size/Vintage:	NA
Final Close:	TBD
Fund Address:	60 East 42nd Street, Suite 4510 New York, NY 10165-0015

GP Contact Info

Name:	Mike Green
Telephone:	212 457 1138
Email:	mgreen@tenexcm.com

Summary of Terms and Investment Strategy

Investment Strategy:	The Fund will target middle-market companies with an average investment size of \$25 - \$75 million. Tenex will utilize the operating expertise of its team to identify underperforming companies it believes have profitable operations, assets, or other sources of value and where the companies have grown beyond their ability to operate profitably or have not adapted to meet market challenges.
Geographic Focus:	Primarily North America
GP Co-Investment Amount:	3% of capital commitments
Terms:	
Term:	10 years term with two consecutive 1-year extensions
Investment period:	5 years
Management Fee:	2% of capital commitments during the investment period; 2% of invested capital thereafter.
Other Fees:	*All transaction fees, director's fees, break-up fees - 100% offset *Partnership will pay up to \$1.75 million in organizational expenses - not including placement fees.
Carry/Performance Fee:	The GP will receive 16% of all profits after the hurdle rate is achieved.
Hurdle Rate:	8%
Attorney:	Debevoise & Plimpton LLP
Auditor:	PricewaterhouseCoopers
Back Office:	NA - Internal function utilizing InvestTran

NJ AIP Program:

Recommended Allocation:	\$50 million
% of Fund:	11.76%

LP Advisory Board Membership:	Yes
Consultant Recommendation:	Yes
Compliance with SIC "Pay to Play" 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.