



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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January 22, 2016

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

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

The New Jersey Division of Investment ("Division") is proposing an investment of up to \$100 million in Tenex Capital Partners II, L.P. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

Tenex Capital Management ("Tenex" or the "Firm") is establishing Tenex Capital Partners II, L.P. to continue their successful strategy of leveraging the Firm's unique combination of experience in operational restructurings, capital markets, and investment management to make control investments of industry laggards and return them to market competitive.

The Division is recommending this investment based on the following factors:

Differentiated Investment Style: Tenex targets companies with operational distress, typically looking to buy "B" and "C" companies from motivated sellers at attractive valuations, often through busted auctions where there are few competing buyers due to the operational distress. Meanwhile, Tenex has shown strong purchase price discipline, with an average entry Enterprise Value/ Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") multiple of 6.5x.

Impressive Long Term Track Record: Prior to five of the Managing Directors forming Tenex in 2010, over a 10-year period, the Tenex team had participated in the investment of over \$900 million in nine companies, which generated cash proceeds of \$2.6 billion to yield a gross Internal Rate of Return ("IRR") of 35.8% and a 2.8x Multiple on Invested Capital ("MOIC"). Since 2011, Tenex Capital Partners ("Fund I") has generated top-quartile returns with a 16.1% Net IRR, a 1.4x MOIC and a 0.74x Distributed to Paid-In ("DPI") multiple as of 9/30/15. EBITDA growth has been the largest value creation driver across the investments, while multiple expansion has also been a contributor given the team's value orientation and operational prowess.

Successful Recent Exits: Fund I has fully realized two of its investments. Medical Solutions (3rd largest travel nurse staffing company) was realized at a gross value of ~4.1x MOIC and 63% IRR. Techniks (leading designer, manufacturer, and servicer of standard and custom industrial cutting tools) returned an estimated 3.0x MOIC and a 39% IRR. In addition, Fund I has also returned approximately two-thirds of the cost basis of JPW Industries via a dividend recapitalization.

Meaningful Operational Expertise: The Managing Directors have developed operational expertise through experience as operators and consultants, most notably at General Electric and

McKinsey. Five of the seven Managing Directors were originally trained as operations professionals. As experienced business operators, Tenex professionals will generally take a hands-on approach by assuming operating roles within the Fund's portfolio companies until operations and finances can be stabilized, and then they remain engaged at the companies through exit.

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

Division Staff and its private equity consultant, TorreyCove Capital Partners, 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 (a "placement agent") in connection with New Jersey's potential investment.

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 the investment. We have obtained a preliminary Disclosure Report of Political Contributions in accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. We will obtain an updated Disclosure Report at the time of closing.

Please note that the investment is authorized pursuant to Articles 69 and 90 of the Council's regulations. Tenex Capital Partners II, L.P. will be considered a private equity buyout 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 Committee was held on January 15, 2016. 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 27, 2016 meeting.

Attachments

Fund Name: Tenex Capital Partners II, L.P. **January 27, 2016**

Contact Info: Stephens Johnson, 60 East 42nd Street, Suite 4510, New York, NY 10165-0015

Fund Details:

Firm AUM:	\$464 million as of 9/30/2015	Key Investment Professionals: Michael Green , CEO & Managing Director, Operations. Mr. Green's specific focus is on leading the Operations team to identify and implement operational initiatives, as well as working on the investment team to evaluate and underwrite investments. Mr. Green is one of the founding Managing Directors of Tenex. Prior to Tenex, he was a Managing Director and a member of the Investment Committee at Cerberus Capital Management. Varun Bedi , Managing Director, Investments. Mr. Bedi is responsible for transaction origination, execution, and structuring activities for Tenex. His focus at Tenex is on identifying and underwriting investments. Mr. Bedi is one of the founding Managing Directors of Tenex. Prior to Tenex, Mr. Bedi served as Senior Vice President at Cerberus Capital Management from 2004 to 2009.. Joe Cottone , Managing Director, Operations. Mr. Cottone has a deep operational and financial background across multiple industries. His focus at Tenex is on identifying and implementing operational initiatives, as well as working on the investment team to evaluate and underwrite investments. Mr. Cottone is one of the founding Managing Directors of Tenex. From 2004 to 2009, Mr. Cottone served as a Senior Operations Leader at Cerberus Capital Management. Chad Spooner , Managing Director, Operations. Mr. Spooner's focus at Tenex is on identifying and implementing operational initiatives, as well as working on the investment team to evaluate and underwrite investments. Mr. Spooner is one of the founding Managing Directors of Tenex. Prior to Tenex, Mr. Spooner served as a Senior Operations Leader at Cerberus Capital Management from 2004 to 2009. JP Bretl , Managing Director, Operations. Mr. Bretl's focus at Tenex is on identifying and implementing operational initiatives as well as working on the investment team to evaluate and underwrite investments. Mr. Bretl is one of the founding Managing Directors of Tenex. Prior to Tenex, Mr. Bretl served as a Senior Operations Leader at Cerberus Capital Management from 2006-2009.
Strategy:	Buyout	
Year Founded:	2009	
Headquarters:	New York, NY	
GP Commitment:	3% of capital commitments	

Investment Summary **Existing and Prior Funds**

Tenex Capital Management (the "Firm" or "Tenex") will seek to make control investments in companies that are underperforming relative to their peers, indicated by key operating metrics such as ROIC, by approximately one standard deviation, while avoiding businesses which fall significantly under this threshold. The Firm will then seek to drive acquired companies to market average performance. Members of the Tenex team will generally take on operating roles within the Fund's portfolio companies until operations and finances can be stabilized, and will remain engaged at such companies through exit.

<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of 9/30/2015</i>
Fund I	2011	Buyout	16.1% Net IRR, 1.41x Net TVM, 0.74x Net DPI

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

Vehicle Information:

Inception:	2015	Auditor:	PriceWaterhouseCoopers, Ltd.
Fund Size:	\$600 million target; \$750 million hard cap	Legal Counsel:	Debevoise & Plimpton, LLP
Management Fee:	2.00%		
Carry:	20%		
Hurdle Rate:	8%		
Fee Offsets:	100% fee offset on net transaction, director's, and break-up fees earned by Tenex or its affiliates		

NJ AIP Program

Recommended Allocation (\$mil):	up to \$100 million	LP Advisory Board Membership:	TBD
% of Fund:	13.33%	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.