



## State of New Jersey

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*Director*

September 25, 2020

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon  
Director

SUBJECT: **Proposed Investment in Separate Account with Neuberger Berman**

The Division of Investment (the “Division”) is proposing an investment of up to \$350 million in a separately managed investment vehicle (the “Fund”) to be managed by Neuberger Berman (the “Firm”). The proposed investment is to be funded with \$250 million of new commitments plus \$100 million of future distributions to be recycled from other existing fund investments managed by 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:

**Benefits of co-investing:** 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 the Firm. 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.

**Neuberger Berman has a large, diversified platform to source deals:** The Firm is a global investment management firm with approximately \$360 billion in assets under management, over 2,000 employees across 35 offices around the world, and over 245 dedicated professionals focused on private equity. The Firm’s primary fund, secondary fund, and private credit investing activities, along with its Dyal Capital Partners (“Dyal”) platform, all come together to form a differentiated sourcing engine for co-investment deal flow. The Firm’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.

**Strong existing relationship with the Division:** The Division has maintained a 15-year relationship with the Firm primarily across co-investment and the Dyal platform. The Firm grants the Division access to the broader resources and capabilities of the Firm 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 TorreyCove 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 (“placement agent”).

The Firm 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. The Firm utilizes a bottoms-up approach, delegating responsibility to individual portfolio managers to encourage strategy-specific innovation, while at the same time allowing each portfolio management team to learn from best practices across the investment platform. The Firm incorporates an ESG integration framework into their portfolio construction process and also utilizes a custom materiality matrix for measuring ESG risk. For co-invest, 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. The Fund is 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 September 23, 2020. 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 30, 2020 meeting.

Attachment

**Fund Name: Separate Account with Neuberger Berman** **September 25, 2020**

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

<b>Fund Details:</b>		<p><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 and Operating Committees.  <b>Jonathan Shofet:</b> Managing Director, Investment Committee Member, Global Head of Private Investment Portfolios 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 for five years, focusing on direct equity investments. Prior to that, Mr. Shofet worked in investment banking for three years. Mr. Shofet is on the Advisory Board of several private equity funds and is a Board Observer for several private equity backed companies.  <b>David Stonberg:</b> Managing Director, Investment Committee Member and 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.</p>
Firm AUM:	~\$360 billion	
Strategy:	Co-invest	
Year Founded:	1939	
Headquarters:	New York, NY	
GP Commitment:	1%	

<i>Investment Summary</i>	<i>Existing and Prior Funds</i>			
<p>Neuberger Berman manages \$90 billion in private equity, of which over \$19 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, with no no individual underlying investment exceeding \$50 million (at cost).</p>	<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of 3/31/2020</i>
	NB/NJ Fund I	2007	Buyout	11.8% Net IRR, 1.91x MOIC, 1.75x DPI
	NB/NJ Fund II	2012	Buyout	34.5% Net IRR, 2.30x MOIC, 1.65x DPI
	NB/NJ Fund III	2018	Buyout	5.4% Net IRR, 1.05x MOIC, 0.0x DPI
	<p>Source of Returns - Aksia TorreyCove                      Past performance is no guarantee of future results.                      IRR = Internal Rate of Return; MOIC= Multiple on Invested Capital; DPI= Distributions to Paid-In</p>			

**Vehicle Information:**

<b>Inception:</b>	TBD	<b>Auditor:</b>	KPMG
<b>Fund Size:</b>	\$350 million to \$750 million	<b>Legal Counsel:</b>	Haynes and Boone, LLP
<b>Management Fee:</b>	0.30% on invested capital / fair market value		
<b>Profit allocation:</b>	7.5% or 10%, subject to hurdles		
<b>Multiple Test:</b>	Initial hurdle set at 1.5x MOIC		

<b>NJ AIP Program</b>			
<b>Recommended Allocation (\$mil):</b>	up to \$350 million with full recycling	<b>LP Advisory Board Membership:</b>	N/A
<b>% of Fund:</b>	99.0%	<b>Consultant Recommendation:</b>	YES
		<b>Placement Agent:</b>	NO
		<b>Compliance w/ Division Placement Agent Policy:</b>	N/A
		<b>Compliance w/ SIC Political Contribution Reg:</b>	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.