



## State of New Jersey

**PHILIP D. MURPHY**  
*Governor*

**SHEILA Y. OLIVER**  
*Lt. Governor*

DEPARTMENT OF THE TREASURY  
DIVISION OF INVESTMENT  
P.O. BOX 290  
TRENTON, NJ 08625-0290  
Telephone (609) 292-5106  
Facsimile (609) 984-4425

**ELIZABETH MAHER MUOIO**  
*State Treasurer*

**SHOAIB KHAN**  
*Director*

April 21, 2023

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan  
Director

SUBJECT: **Private Equity Investment – American Industrial Partners  
Capital Fund VIII**

The Division of Investment (the “Division”) is proposing an investment of up to \$150 million in American Industrial Partners Capital Fund VIII (the “Fund”), managed by American Industrial Partners (“AIP” 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 senior leadership and sector expertise:** AIP’s Senior Managing Partners have an average tenure at the Firm of over 18 years. Additionally, the broader team of partners bring diverse experience across investing, engineering and operations. The depth of this experience and education is the competitive advantage that has led to the success of the strategy, delivering a Net IRR over 25% since Firm inception . The prior investments, domain expertise, and networks of its professionals are valuable in identifying compelling subsectors, sourcing opportunities, conducting diligence, and executing on value creation activities.

**Operating capabilities and value creation:** AIP’s operational capabilities and experience are particularly notable, with half of its team focused on operations and 17 of its 29 partners having prior operating or engineering backgrounds. These operational capabilities drive the returns at the fund level. Unique operating agendas are outlined for each investment with the goal of transforming the profitability of the business, specifically targeting EBITDA growth. At least one AIP partner will monitor a platform’s progress and make necessary adjustments on its path to fulfilling the operating agenda. A significant advantage in value creation comes from the deeply involved and supportive relationships between AIP and its portfolio companies.

**Environmental, Social and Governance (ESG) Policy:** AIP is committed to assessing material ESG risks and opportunities (“ESG Factors”) for the investments they make on behalf of their advisory clients. Material ESG Factors can be important to the value of investments, and ultimately to the value they return to their investors. AIP seeks to incorporate the thoughtful management of ESG Factors throughout the lifecycle of each investment. Specifically, AIP’s

approach to ESG integration is to be applied in a manner consistent with their ESG policy across the Firm's deal screening, diligence, portfolio management and exit processes. AIP believes that integrating ESG considerations across these areas is aligned with their responsible stewardship of industrial assets.

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, 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 engaged a third-party solicitor ("placement agent") in the fundraising of the Fund but no placement agent was engaged or paid in connection with the Pension Fund's potential investment.

The Firm's environmental, social, and governance ("ESG") policy and related diligence disclosures were reviewed by the Division's Corporate Governance team in accordance with the Council's ESG Policy. As discussed in more detail above, the Fund has a formal ESG policy and is committed to assessing the material ESG risks and opportunities in connection with proposed investments.

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 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 April 13, 2023. 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 April 26, 2023 meeting.

Attachment

# American Industrial Partners Capital Fund VIII, L.P.

- **DOI Commitment:** Up to \$150 million
- **Strategy:** Buyout
- **Investment Focus:** Fund VIII will seek control positions in North American headquartered industrial companies with sales greater than \$500 million that AIP believes are underperforming their profit potential (in some instances generating negative EBITDA) and then improve these companies through the implementation of an operating agenda developed in collaboration with company management teams
- **Target Returns:** 30% Gross IRR and 3.0x Gross MOIC
- **Investments Thesis:**
  - Industrial focused investment strategy bolstered by macro tailwinds
  - Established and experienced team with engineering and operating backgrounds
  - Demonstrated capability to provide capital solutions across market cycles via diverse transaction types

**Fund Name: American Industrial Partners Capital Fund VIII**

April 26, 2023

**Contact Info:** American Industrial Partners, 450 Lexington Avenue, 40th Floor, New York, NY 10017

**Fund Details:**

<b>Total Firm Assets:</b>	\$10.5 billion	<b>Key Investment Professionals:</b> <b>Kim Marvin.</b> Kim Marvin is a Senior Managing Partner and joined AIP in 1997. Prior to joining the Firm, Marvin served in the Mergers and Acquisitions and Financial Institutions Group of Goldman, Sachs & Co from 1994 through 1997. He also served as Chief Operating Officer of the American Original Corporation where he was employed from 1985 through 1991. <b>Dino Cusumano.</b> Dino Cusumano is a Senior Managing Partner and joined AIP in 2000. Prior to joining the Firm, he served in the investment banking department of JP Morgan & Co. Inc. from 1998 through 2000 where he worked on mergers and acquisitions and capital raising transactions primarily in the industrial sector. Mr. Cusumano also served in the investment banking department at Wedbush Morgan Securities. <b>John Becker.</b> John Becker is a Senior Managing Partner and joined AIP in 2001. Prior to joining the Firm, he founded Newport Shrimp Company, an international seafood processing business, in 1976 and exited the company in 1989 with a sale to Clearwater Fines Foods. He then served as Chief Operating Officer of Clearwater Fine Foods USA from 1989 through 1992. Mr. Becker later purchased and became Chairman of Newport Pacific Corporation in 1998.
<b>Strategy:</b>	Buyout	
<b>Year Founded:</b>	2005	
<b>Headquarters:</b>	New York, NY	
<b>GP Commitment:</b>	At least 2.5% of LP Commitments	

**Investment Summary**

The Fund will pursue a value-oriented strategy primarily focused on making control-oriented investments in North American industrial businesses. AIP will invest the Fund across a variety of industrial related sub-sectors, including aerospace and defense, automotive, building products, chemicals, capital equipment, distribution, industrial services, industrial technology, packaging and transportation and logistics. The Fund will seek to invest in underperforming, undervalued, and distressed businesses operating with market leading positions, sustainable competitive advantages, defensible business models, high recurring revenues, valuable hard assets, low capital intensity and potential pricing power.

**Existing and Prior Funds**

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns: Net IRR, Net TVPI, Net DPI *</u>
Fund III	2000	Buyout	41.6%,2.4x,2.4x**
Fund IV	2007	Buyout	21.2%,2.9x,2.1x
Fund V	2011	Buyout	9.2%,1.7x,1.2x
Fund VI	2016	Buyout	26.2%,3.0x,1.0x
Fund VII	2019	Buyout	23.2%,1.4x,0.1x

Source of Returns - AIP/Aksia

\*Net as of 12/31/2022  
\*\*Excludes one investment in Fund III not attributed to Key Investment Professionals; remaining Fund III investments are attributed performance

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

**Vehicle Information:**

<i>American Industrial Partners Capital Fund VIII L.P.</i>		<b>Auditor:</b>	RSM US LLP
<b>Inception:</b>	2023	<b>Legal Counsel:</b>	Simpson Thacher & Bartlett LLP
<b>Fund Size :</b>	\$5 billion		
<b>Management Fee:</b>	Investment Period: 2% on Committed Capital; Harvest Period: 1.5% on Contributed Capital		
<b>Incentive Fee:</b>	20%		
<b>Hurdle:</b>	8%		
<b>Additional Expenses:</b>	100% Management Fee Offset		

**NJ AIP Program**

<b>Recommended Allocation (\$mil.):</b>	up to \$150 million	<b>LP Advisory Board Membership:</b>	TBD
<b>% of Fund:</b>	N/A	<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.