



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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Governor

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Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

March 24, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director 

SUBJECT: **Proposed Investments in Centerbridge Capital Partners II and Newstone Capital Partners II**

The New Jersey Division of Investment is proposing investments of \$100 million in buyout/distressed fund Centerbridge Capital Partners II and \$100 million in mezzanine fund Newstone Capital Partners II. 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 private equity consultant, Strategic Investment Solutions, undertook extensive due diligence on these proposed additional investments. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

- Centerbridge Capital Partners II, LP – Centerbridge is an opportunistic private equity manager that merges buyout and distressed investing across control and non-control situations.

NJDOI is currently invested in the firm's first fund, CCP I (2006 vintage), and its performance is in the top quartile relative to its vintage year peer group, but more importantly, CCP I is one of the top performing partnerships in the NJDOI private equity portfolio (17.49% Net IRR, 1.38x money multiple as of 9/30/10).

As stated above, CCP utilizes a flexible approach with a general focus on leveraged buyouts, corporate partnerships, corporate buildups & growth opportunities, special situations and distressed opportunities while adhering to a disciplined, value investing model. By capitalizing on the convergence of private equity and distressed investing, it allows CCP to invest in the most attractive opportunities across all market cycles and a range of industries and asset classes.

CCP is led by Jeff Aronson, former partner and head of distressed securities efforts at Angelo Gordon, and Mark Gallogly, former Head of Blackstone's Private Equity Group and President and CEO of Blackstone Communication Advisors. CCP II will be a \$4 billion fund as compared to Fund I which was a \$3.2 billion fund, and the firm currently has ~\$8 billion in AUM.

- Newstone Capital Partners II, LP – Newstone is a middle market focused provider of mezzanine capital to private equity sponsors: the firm will structure investments to provide substantial current

income, adequate principal protection and upside in the form of warrants, common stock or other equity-type investments.

NJDOI is currently invested in the firm's first mezzanine fund (2006 vintage), which is currently performing in the top quartile per venture economics (7.0% Net IRR, 1.21x money multiple as of 9/30/10).

The firm is led by its founding members, Tim Costello and John Rocchio, who maintain a track record dating back to 1996 when they were responsible for managing the day to day activities of the TCW Mezzanine Funds including originating, structuring and monitoring investments. Newstone II will be a \$750 million fund, which is consistent with the size of Fund I at \$850 million.

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 these investments are authorized pursuant to Articles 69 and 90 of the State Investment Council's regulations. These investments are considered "debt-related" as defined under N.J.A.C. 17:16-90.1.

Formal written due diligence reports for the proposed investments were sent to each member of the Investment Policy Committee and a meeting of the Committee was held on March 17, 2011. In addition to the formal written due diligence reports, all other information obtained by the Division on the investments was made available to the Investment Policy Committee.

We look forward to discussing the proposed investments at the Council's March 24, 2011 meeting.

Attachments

SIC Investment Committee Fund Review Memo

To: State Investment Council
 From: SIC Investment Committee
 Date: March 24, 2011
 Subject: Centerbridge Capital Partner II Recommendation

Fund Name: Centerbridge Capital Partners II
 Fund Type: Buyout / Distressed Fund Private Equity
 Current Fund Size: \$3.75 billion, \$4.25 billion hard cap
 Previous Fund Size/Vintage: \$3.2 billion 2006
 Fund Close: mid-May 2011
 Fund Address: 375 Park Avenue 12th Floor
 New York, NY 10152

GP Contact Info

Name: Nancy Franco Varick
 Telephone: 212-672-4672
 Email: nvarick@centerbridge.com

Summary of Terms and Investment Strategy

Investment Strategy: Fund will invest in (i) leveraged buyouts, corporate restructurings, recapitalizations and corporate buybacks during times of economic expansion; and (ii) distressed securities investing during economic slowdowns and periods of specific corporate and general market instability.

Geographic focus: Primarily U.S. and Western Europe

GP Co-Investment Amount: A minimum of 2.9% of Capital Commitments, up to \$75 million

Terms: 3 year term following end of Commitment Period, subject to two consecutive one-year extensions with LP's approval

Investment period: 5½ year Commitment Period, four-year recycling period, 18 month recycling period on exit basis following the four-year recycling period

Management Fee: 1.50% of committed capital during Commitment Period; 1.25% of capital under management thereafter

Other Fees: 100% management fee offset

Carry/Performance Fee: 20% with General Partner clawback; interim clawback

Liquidity Rate: 8% Preferred Return

Allyship: Simpson Thacher & Bartlett LLP

Advisor: Prosvetachewskoye Corp LP

Accounting Firm: Internal function & Prosvetachewskoye Corp LP

Additional Details

The total investment by the Partnership in Portfolio Companies outside North America and Europe (defined below) may not exceed 25% of the aggregate Commitments, at any time (unless the prior approval of the LP Advisory Committee is obtained). In addition, no more than 10% of the aggregate Commitments may at any time be invested in Portfolio Companies in countries that are not members of the OECD (unless the prior approval of the LP Advisory Committee is obtained). Therefore, the total Capital Commitments for Portfolio Investments in Portfolio Companies having made (i) their principal executive offices in Europe and (ii) a majority of their assets and revenues derived from sources in Europe shall not exceed 30% of the aggregate Commitments, subject to increase to 35% with the approval of the LP Advisory Committee (such percentages excluding Portfolio Investments that have been the subject of a disposition to the extent Investment Process (defined below) has been added to the LP Advisory (defined below). "Europe" means all countries and states within the continent of Europe (which includes the United Kingdom, Ireland and Ireland and Ireland and Ireland, Austria, Azerbaijan, Belarus, Bulgaria, Cambodia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Luxembourg, Macedonia, Malta, Mexico, Monaco, Myanmar, New Zealand, Norway, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, Portugal, Romania, Russia, Saudi Arabia, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey and Ukraine).

The Partnership will terminate five years from the end of the Commitment Period, but may be extended at the discretion of the General Partner for up to two consecutive six-year periods, subject to the LP Advisory Committee, and may be subject to earlier termination in certain circumstances. The Partnership may, also be terminated following a "change of control" as defined in Article 3.1 of the LP Agreement.

(i) until the fourth anniversary of the Fund Closing Date, the Partnership may return or add to Unfunded Commitments an amount up to the exit basis of any Portfolio Investment that is designated in Partners with respect to such Portfolio Investment, including upon the disposition of such Portfolio Investment during such 18-month period. Any amounts added to Unfunded Commitments as described above shall be subject to recall for future drawdowns

Organizational costs not to exceed the lesser of \$2.5 million or 0.1% of aggregate commitments. Please refer to PPM Supplement Exhibit 9, pages 11.1.3

Distributions:

- First, 100% to Limited Partners until they receive a return of their Realized Capital and Carry and an 8% annual rate of return on their Realized Capital and Carry.
- Then, 80% to the General Partner and 20% to the Limited Partners until the General Partner "catches up" to an overall 20% Carried Interest.
- Followed by 80% to Limited Partners and 20% to the General Partner.

N/A IP Program

Recommended Allocation: \$100 million
 % of Fund: 2.67%

LP Advisory Board Membership: TBD
 Confidential Recommendation: Yes
 Compliance with SIC "Buy to Play" Reg: Yes

The review memorandum is prepared in accordance with the State Investment Council rules governing the Alternatives Investment Program and the policies and procedures related thereto.

Confidential and Not for Distribution

On 3/24/2011, the information contained herein is confidential and not for distribution outside the State Investment Council. Any use of this information by anyone other than the State Investment Council is prohibited. This document is prepared as of March 24, 2011. Changes to this document may be made without notice. The information contained herein is confidential and not for distribution outside the State Investment Council. Any use of this information by anyone other than the State Investment Council is prohibited. This document is prepared as of March 24, 2011. Changes to this document may be made without notice. The information contained herein is confidential and not for distribution outside the State Investment Council. Any use of this information by anyone other than the State Investment Council is prohibited. This document is prepared as of March 24, 2011. Changes to this document may be made without notice.

Signed: 
 Matthew S. O'Neil, Director
 Centerbridge Partners II, LP

***SIC Investment Committee Fund Review Memo**

To: State Investment Council
From: SIC Investment Committee
Date: March 24, 2011
Subject: Newstone Capital Partners II Recommendation

Fund Facts

Fund Name: Newstone Capital Partners II
Fund Type: Mezzanine Debt Fund / Private Equity
Current Fund Size: \$775 million
Previous Fund Size/Vintage: \$865 million
Final Close: April 5, 2011
Fund Address: 11111 Santa Monica Boulevard, Suite 1100
 Los Angeles, CA 90025

GP Contact Info

Name: John C. Rocchio
Telephone: (310) 689-1747
Email: jcr@newstonecapital.com

Summary of Terms and Investment Strategy

Investment Strategy: Invest with private equity sponsors pursuing leveraged buyouts, recapitalizations and later stage growth financings. This fund will target larger middle-market companies with well-established products or services, defensible market niches and proven management teams.
Geographic Focus: North America
GP Co-Investment Amount: \$10 million
Terms:
Investment period: 10 years, subject to three (3) one-year extensions.
Terms: 5 years from the final closing.
Management Fee: During the Investment Period, 1.5% per annum of capital commitments (1.0% on any amounts over \$75 million). Thereafter, 1.0% per annum of the aggregate invested capital.
Other Fees: Management fees payable by Limited Partners will be reduced by 100% of all fees received by the General Partner from portfolio companies.
Carry/Performance Fee: The GP will receive 20% of all profits after the hurdle rate is achieved.
Hurdle Rate: 8%
Attorney: Proskauer Rose
Auditor: KPMG
Accounting Firm: NA - Internal function

NI AIP Program:

Recommended Allocation: \$100 million
% of Fund: 12.50%

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

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