



State of New Jersey

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ELIZABETH MAHER MUOIO
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COREY AMON
Director

January 22, 2021

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Private Equity Investment - Separate Account with Fairview Capital Partners**

The Division of Investment (the “Division”) is considering an investment of up to \$200 million in a separately managed investment vehicle (the “Fund”) to be managed by Fairview Capital Partners (“Fairview” 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:

Complement to the Pension Fund’s existing venture exposure. The Pension Fund’s existing investments with BlackRock Private Equity Partners and Asia Alternatives provides the Pension Fund with exposure to established, brand name venture funds and the Asian venture landscape, respectively. Conversely, the proposed Fund investment will provide exposure to the next generation of talented venture managers in the U.S.

Pipeline to future potential best-in-class venture funds. It is challenging for large institutional investors to both invest in venture at scale and secure allocations with venture managers that are in high demand. By investing in the next generation of talented venture managers, the Fund will create a pipeline for the Division to secure allocations to those managers in the future.

Demonstrated ability to identify successful next generation venture managers. The Firm has a 20+ year track record of investing in next generation venture funds and has invested in several next generation venture managers that have become successful. The Firm has a wide funnel of opportunities because of its reputation. In a typical year, the Firm evaluates over 300 next generation venture managers and commits capital to less than 2% of them. Of the next generation venture managers in which the Firm has invested, 31% were first quartile by net IRR and less than 12% were fourth quartile (as of June 30, 2020).

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'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. The Firm has a formal ESG policy and incorporates ESG considerations into its investment process to better manage risk and generate sustainable, long-term returns. As a fund of funds investor, the Firm does not directly impact portfolio companies. However, fund due diligence is supported by the Firm's ESG policy. During the operational due diligence process, the Firm looks to ensure managers have given thought to ESG issues and whether they have established ESG policies. Following the initial investment, the Firm's investment team continues to monitor and ensure continued adherence to the Firm's ESG policy.

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 venture capital 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 January 13, 2021. 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, 2021 meeting.

Attachment

Fund Name: Separate Account with Fairview Capital Partners

January 22, 2021

Contact Info: Michele Chow-Tai, 75 Isham Road, Suite 200, West Hartford, CT 06107

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Firm AUM:	\$1.86 billion	<p>Key Investment Professionals: Laurence C. Morse, PhD - (Co-Founder, Managing Partner) Prior to founding Fairview, Dr. Morse held positions with TSG Ventures, Equico Capital Corporation and UNC Ventures. He is a former member of the board of directors of the Princeton University Investment Company. Kolawole (Kola) Olofinboba, MD - (Managing Partners) Dr. Olofinboba is involved in investment, business development, and governance activities at the Firm. Prior to joining Fairview in 2007, Dr. Olofinboba was an engagement manager at McKinsey & Company, serving US and global clients in healthcare and private equity. He also practiced medicine as a board-certified internist/hospitalist assistant professor at the University of Connecticut Health Center. JoAnn H. Price - (Co-Founder, Managing Partner) Ms. Price is a member of Fairview's investment committee and manager of all Fairview-sponsored funds. Prior to founding Fairview, she served as president of the National Association of Investment Companies. Ms. Price serves on several national advisory committees. Alan Mattamana - (Partner) Mr. Mattamana is involved in investment selection and monitoring activities of fund investments and direct co-investment portfolios. Prior to joining Fairview in 2009, Mr. Mattamana was a Principal at Polaris Venture Partners. Previously, Mr. Mattamana was a strategy consultant at McKinsey & Co. Cynthia Tseng - (Partner) Ms. Tseng is involved in research, due diligence, investment monitoring and business development of fund investments and direct co-investment portfolios. Prior to joining Fairview in 2008, Ms. Tseng was an investment banking associate at JP Morgan. Aakar Vachhani - (Partner) Mr. Vachhani is involved in research, due diligence, investment monitoring and business development of fund investments and direct co-investment portfolios. Prior to joining Fairview in 2008, Mr. Vachhani led quantitative research projects at Cambridge Associates. Previously, Mr. Vachhani was with MK Capital.</p>
Strategy:	Venture Capital Private Equity	
Year Founded:	1994	
Headquarters:	West Hartford, CT	
GP Commitment:	0.5%	

Investment Summary	Existing and Prior Funds												
<p>The separately managed investment vehicle (the "Fund") with Fairview Capital Partners (the "Firm") seeks to invest in US next generation venture capital funds. The Firm defines next generation funds as first, second, or third institutional funds targeting limited partner commitments of \$500 million or less. The capital in the Fund is expected to be deployed over three to four years into 15 to 20 venture capital funds diversified by strategy, sector, and vintage year. The Firm anticipates the portfolio to be composed of early-stage venture, late-stage venture, and growth equity. The Fund is expected to have exposure to the information technology, healthcare, media, telecommunications, and consumer sectors.</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Funds</th> <th style="text-align: center;">Vintage Year</th> <th style="text-align: center;">Strategy</th> <th style="text-align: center;">Returns as of 9/30/2020</th> </tr> </thead> <tbody> <tr> <td>Fairview Capstone I</td> <td style="text-align: center;">2007</td> <td style="text-align: center;">Venture</td> <td>18.3% Net IRR; 3.15x Net TVPI; 2.65x DPI</td> </tr> <tr> <td>Fairview Capstone II</td> <td style="text-align: center;">2008</td> <td style="text-align: center;">Venture</td> <td>13.4% Net IRR; 2.08x Net TVPI; 1.40x DPI</td> </tr> </tbody> </table> <p>Source of Returns = Fairview Capital Partners</p> <p>IRR = Internal Rate of Return; TVPI= Total Value to Paid-In; DPI= Distributions to Paid-In</p>	Funds	Vintage Year	Strategy	Returns as of 9/30/2020	Fairview Capstone I	2007	Venture	18.3% Net IRR; 3.15x Net TVPI; 2.65x DPI	Fairview Capstone II	2008	Venture	13.4% Net IRR; 2.08x Net TVPI; 1.40x DPI
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Vehicle Information:

Inception:	2021	Auditor:	Mitchell & Titus, LLP
Fund Size:	up to \$200 million	Legal Counsel:	Kirkland & Ellis, LLP
Management Fee:	Year 1-5: 0.39% on invested capital Year 6-9: 0.39% on lower of NAV or invested capital Thereafter: 0.25% on lower of NAV or invested capital		
Carry:	1% subject to a 1.75x Net MOIC 3% subject to a 2.5x Net MOIC		
Hurdle Rate:	see above under Carry		

NJ AIP Program

Recommended Allocation:	up to \$200 million	LP Advisory Board Membership:	N/A
% of Fund:	99.50%	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.