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May 19, 2021

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Private Equity Investment - ICG Europe Fund VIII SCSp and related co-invest fund**

The Division of Investment (the "Division") is proposing an investment of up to €200 million in ICG Europe Fund VIII SCSp (the "Fund"), a fund managed by Intermediate Capital Group Plc ("ICG"), along with an additional €100 million in a related co-invest fund. 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 team and strong track record. ICG regional heads each have over 25 years of experience and have invested across multiple credit cycles. ICG has been a top quartile performer in the mezzanine debt space since the inception of the current strategy. ICG Europe Fund VII and Fund VI also outperformed the median European PE Buyout fund. ICG has an annualized loss rate of 0.5% of invested capital (Fund V-VII) which is significantly below the annualized loss rate for the European subordinated debt market and the global private equity buyout market.

Ability to invest across market cycle and across the capital structure. ICG can invest across the capital structure. Historically, ICG had a mix of 70% debt and 30% equity (Fund V-VII) but the debt and equity holdings are structured in a way where ICG provides flexible capital for a wide range of strategic options from M&A to shareholder recapitalization. ICG can invest in corporate situations, sponsored leveraged buyouts, and opportunistic transactions. ICG can provide minority equity and debt financing to management led buyouts and leveraged buyouts during times of market growth. ICG can also acquire positions from forced sellers and provide liquidity support for stakeholders during times of market volatility.

Downside protection. ICG has been able to extract above market covenants and board seats for their investments. ICG typically couples their debt and equity investment together which protects their debt investment from prepayments. ICG documentation typically has an agreed-on contractual return on their equity investment which allows ICG to exit their equity investment at an attractive return if their debt investment is exited. ICG generally has approval rights for key management changes, new capital raises, distributions, and material acquisitions. In the event of underperformance by the company, ICG is given additional rights such as equity raises and accelerated exits.

Alignment of interest and attractive fees. ICG has committed €500m from their firm balance sheet. ICG has previously committed €500m to Fund VII and senior investment team members will invest personal capital as well. There is no fee and no carry on the co-invest fund. After the Pension Fund's size discount, there is a 1.38% management fee and a 20% carry on the comingled fund. The expected blended management fee for the comingled and co-invest fund is 0.92% with a 13.33% carry. This compares favorably to mezzanine funds, which generally have management fee ranging from 1.5% - 2.0% and carry ranging from 15% - 20% (according to Preqin).

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 Policy. The Firm's current ESG Policy and related diligence disclosures were reviewed by the Corporate Governance team in accordance with the Council's ESG Policy. ICG incorporates ESG consideration into its investment process and will continue to monitor ESG factors post investment.

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. ICG Europe Fund VIII SCSp is considered a debt-related 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 May 12, 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 May 26, 2021 meeting.

Attachment

Fund Name: ICG Europe Fund VIII SCSp — May 19, 2021

Contact Info: Christopher Austin, Procession House, 55 Ludgate Hill, London, United Kingdom EC4M 7JW

Fund Details:

Firm AUM:	€46.1 billion
Strategy:	Debt-Related Private Equity
Year Founded:	1989
Headquarters:	London, UK
GP Commitment:	€500 million

Key Investment Professionals:

Benoit Durteste (CEO & CIO) – Mr. Durteste is the CIO and CEO of ICG and has been with ICG since 2002. He is also a member of the Board of ICG plc and the Chairman of the BVCA Alternative Lending Working Group. Prior to 2002, Mr. Durteste was a Managing Director in Swiss RE's Structured Finance division in London. Prior to Swiss Re, Mr. Durteste worked in the Leveraged Finance division of BNP Paribas and in GE Capital's Telecom and Media Private Equity team in London.

Hadj Djemai (Managing Director) – Mr. Djemai is the Head of Southern Europe and has been with ICG since 2000 and is a member of the IC. Prior to ICG, Mr. Djemai worked in the Acquisition Finance group of BNP Paribas.

James Roddis (Managing Director) – Mr. Roddis is the Head of UK and joined ICG in 2000. Prior to 2000, Mr. Roddis worked at Montagu Private Equity as an Investment Executive and later as a Partner for 9 years. Prior to Montagu Private Equity, Mr. Roddis worked for PricewaterhouseCoopers in their London and Manchester office.

Jens Tonn (Managing Director) – Mr. Tonn is the Head of DACH and has been with ICG since 2013. Prior to 2013, Mr. Tonn worked at Vestar Capital Partners as a Partner in charge of the German-speaking region. Prior to Vestar Capital, Mr. Tonn spent 9 years with Candover Partners where he led the company's German operations. Prior to Candover Partners, Mr. Tonn was the head of M&A for Germany and Austria at Citicorp.

Rosine Vitman (Managing Director) – Ms. Vitman is the Head of European Portfolio Monitoring and has been with ICG since 2000. Previously Ms. Vitman was a member of ICG's French deal team. Prior to 2000, Ms. Vitman worked in the Credit Risk division for Corporates, Project Finance, and Leverage Buyout for 5 years at Calyon.

Investment Summary

ICG Europe Fund VIII will invest in subordinated debt, senior debt, structured debt, and equity in French, Italian, Spanish, UK, DACH, Scandinavian, and Pan-European upper middle market companies across a variety of sectors. ICG will target opportunities where they can take a minority equity position and couple the equity position with debt in order to gain better control over the total investment.

Existing and Prior Funds

Funds	Vintage Year	Strategy	Returns as of 12/31/2020
Fund V	2011	Debt-related PE	12.6% Net IRR; 1.6x Net MOIC
Fund VI	2015	Debt-related PE	19.7% Net IRR; 1.7x Net MOIC
Fund VII	2018	Debt-related PE	24.4% Net IRR; 1.3x Net MOIC

Source of Returns = ICG Europe Fund VIII PPM

IRR = Internal Rate of Return; MOIC = Multiple on Invested Capital

Vehicle Information:

Inception:	2021	**Auditor:**	**Ernst & Young Luxembourg**
Fund Size:	€7 billion	**Legal Counsel:**	**Goodwin Procter LLP**
Management Fee:	Fund: During Investment Period On Committed Capital Below €150 million : 1.50% €150 million : 1.40% €150 - €200 million: 1.30% Post Investment Period: 1.25% on Invested Capital Co-Invest: 0%		
Carry:	Fund: 20% Co-Invest: 0%		
Hurdle Rate:	8%		
Additional Expenses:	100% Management Fee Offset		

NJ AIP Program

Recommended Allocation:	up to €200 million (plus another €100 million in a co-invest fund)	**LP Advisory Board Membership:**	**YES**
% of Fund:	2.86%	**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.