



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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March 18, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh 
Director

SUBJECT: **Proposed Consolidation & Amendment of Blackrock Mandates (SONJ II & Sidecar)**

The New Jersey Division of Investment is proposing a consolidation and amendment of SONJ Private Opportunities II and SONJ Private Opportunities Sidecar into one vehicle (SONJ 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 investments. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

Consolidation & Amendment of NJ's Separate Account Mandates (SONJ II & Sidecar)

BlackRock Private Equity Partners currently manages three co-investment separate account mandates for the NJDOI. They are SONJ Private Opportunities (\$100mm), SONJ Private Opportunities II (\$200mm) and SONJ Sidecar (\$200mm). These separate accounts, beginning with SONJ I which was formed in the fall of 2005, were created to take advantage of private equity co-investment opportunities sourced by NJDOI and BlackRock Private Equity Partners. In late 2007 and early 2008, SONJ Sidecar was formed in conjunction with SONJ II to take advantage of deals where there may be an opportunity to invest additional amounts. However, as the deal environment accelerated and eventually came to a halt, the opportunity to invest in attractive risk-adjusted deals went away completely. Consequently, SONJ II and SONJ Sidecar contain ~\$310 million of unfunded capital out of \$400 million in commitments. Therefore, NJDOI is proposing that SONJ Sidecar be merged into SONJ II. The proposed consolidation is also beneficial because it has allowed NJDOI to negotiate more favorable terms. Please see the pre and post merger overview below.

Pre-Merger

SONJ II (\$200 million):

- Makes direct or indirect investments in operating companies and other business organizations.
- New Jersey has a right to veto all investments made.
- New Jersey is entitled to an 8% preferred return after which the BlackRock is entitled to a 10% carried interest.

SONJ Sidecar (\$200 million):

- Makes direct or indirect investments in operating companies and other business organizations as well as in Secondary Funds (defined as a pooled investment vehicle with at least 40% of its capital committed to investments).
- New Jersey has a right to approve all investments.
- New Jersey is entitled to an 8% preferred return after which the GP is entitled to a 10% carried interest.

Post-Merger

As stated previously, NJDOI has determined that it will be more efficient to consolidate SONJ II and Sidecar into a single separate account. Under the proposed restructuring, the investments in Sidecar will directly or indirectly be transferred to SONJ II, and the aggregate commitment to the restructured SONJ II will be \$400 million.

SONJ II (\$400 million):

- Allowable transactions now include - direct or indirect investments in operating companies and other business organizations, buying secondary LP interests (defined as a pooled investment vehicle with at least 30% of its capital committed to investments) and primary commitments to venture capital funds.
- New Jersey has a right to veto all investments made.
- New Jersey is entitled to an 8% preferred return after which the GP is entitled to a 10% carried interest on direct investments and Secondary Funds. No carried interest is payable on Primary Funds.

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. The consolidation and amendment of SONJ Private Opportunities Fund II and SONJ Private Opportunities Sidecar (existing vehicles) is considered "buyout" 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.

Please see the following page diagramming the Blackrock amendment.

SIC Investment Committee Fund Review Memo

To: State Investment Council
From: SIC Investment Committee
Date: March 24, 2011

Subject: Consolidation & Amendment of SONJ Private Opportunities Sidecar,
LP into SONJ Private Opportunities II, LP Recommendation

Fund Facts

Fund Name:	SONJ Private Opportunities Fund II, L.P.
Fund Type:	Private Equity Separate Account
Current Fund Size:	\$400 million - SONJ II (\$200mm) + SONJ Sidecar (\$200mm)
Previous Fund Size/Vintage:	\$200 million/2007
Final Close:	NA
Fund Address:	800 Scudders Mill Road Section 2F-1 Plainsboro, NJ 08536

GP Contact Info

Name:	Russell W. Steenberg
Telephone:	609-282-3657
Email:	Russell.Steenberg@blackrock.com

Summary of Terms and Investment Strategy

Investment Strategy:	Direct or indirect investments in operating companies and other business organizations as well as in Secondary Funds defined as a pooled investment vehicle with at least 30% of its capital committed or reserved to investments, and Primary Funds.
Geographic Focus:	Global, with a focus in North America and Europe
GP Co-Investment Amount:	1%
Term:	The later of (a) 1/16/17 and (b) the 365th day after the later day on which (i) all investee funds have been terminated or (ii) all direct investments have been realized
Investment period:	Expires April 2014
Management Fee:	Variable, not to exceed 85 basis points (.85%)
Carry/Performance Fee:	The GP will receive 10% of all profits after the hurdle rate is achieved. No carried interest is payable on Primary Funds.
Hurdle Rate:	8%
Attorney:	Ropes & Gray LLP and Richards, Layton & Finger, P.A.,
Auditor:	Deloitte & Touche LLP
Accounting Firm:	NA - Internal function

NJ AIP Program:

Recommended Allocation:	\$400 million
% of Fund:	99%

LP Advisory Board Membership:	NJDOI retains a veto right on all investments
Consultant Recommendation:	Yes
Compliance with SIC "Pay to Play" 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. This memo does not constitute a legally binding and enforceable agreement between the State Investment Council and BlackRock with respect to the proposed investment. A legally binding and enforceable agreement will only be entered into upon the execution and delivery of definitive documentation by the parties thereto.


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