



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

March 25, 2015

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in NJ/HitecVision Co-Investment Vehicle**

The New Jersey Division of Investment ("Division") is proposing an investment of up to \$150 million in a co-investment vehicle managed by HitecVision. The vehicle will invest in potential co-investment opportunities identified by HitecVision, including, as an initial investment, Offshore Merchant Partners Asset Yield, L.P. ("OMP AY") 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: The co-investment vehicle will more fully enable the Division to take advantage of HitecVision's unique skillset within the upstream oil & gas sector, which is illustrated by their consistent top-quartile returns and 4.6x multiple of invested capital on realized deals since 1994. The Division is familiar with HitecVision's team and strategy as it recently invested \$100 million in HitecVision VII, L.P. in April 2014, and was initially introduced to the firm through a legacy separate account which invested in HitecVision V, L.P. Offshore Merchant Partners ("OMP") was established in 2013 as a portfolio company of HitecVision VI, L.P. and has a team of 8 investment professionals with deep credit expertise and both global investment and operational experience in the oil and gas industry.

Off-market terms: The Staff has negotiated attractive terms that are at a significant discount to the typical market terms. The Division will pay management fees of 1% on invested capital and a 12.5% carry over a 5% preferred return with no catch up with respect to the co-investment vehicle's investment in OMP AY. On the capital available for additional co-investment opportunities, excluding OMP AY, the Division will retain a veto right over every opportunity and will pay no management fee or carry.

Portfolio fit: The Staff believes that this strategy, with its strong current, stable income, will complement the private real asset portfolio, which is currently composed of mostly higher risk/return equity-oriented strategies. The private real asset portfolio is currently underweight its fiscal 2015 target by approximately \$400 million.

Opportunity set: OMP AY is a specialty finance company that will provide junior financing to offshore oil and gas assets and target gross returns of 12.5%, with a high annual cash yield of 10.5-11.5%. Due to recent regulation in the financial industry post-2008, traditional bank lending

continues to scale back its exposure to offshore assets, leaving an estimated financing requirement of \$15 – 20 billion annually from new sources of capital. Given the dearth of available capital, privately negotiated, structured, long term financing solutions can provide 300 to 500 bps of excess return versus comparable offshore high yield bonds. In order to mitigate risk, OMP AY will only focus on modern and standardized assets which have good alternative use potential and an active second-hand market and are operated by reliable and experienced offshore operators backed by medium- to long-term charters with Oil Majors.

A report of the Investment Policy Committee (“IPC”) summarizing the details of the proposed investment is attached.

Division Staff and its real asset consultant, Strategic Investment Solutions, 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 (a "placement agent") in connection with New Jersey’s potential investment.

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 the investment. We have obtained a preliminary Disclosure Report of Political Contributions in accordance with the Council’s regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. We will obtain an updated Disclosure Report at the time of closing.

Please note that the investment is authorized pursuant to Articles 69 and 71 of the Council’s regulations. The NJ/HitecVision co-investment vehicle will be considered a real asset investment, as defined under N.J.A.C. 17:16-71.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the Committee was held on March 17, 2015. 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 March 25, 2015 meeting.

Attachments

Fund Name: NJ/HitecVision Co-investment Vehicle **March 25, 2015**

Contact Info: Arne Trondsen, Jattavagveien 7 (Building A), 4021 Stavanger, Norway

Fund Details:

Total Firm Assets:	\$5 billion
Strategy:	Real Assets
Year Founded:	2000
Headquarters:	Stavanger, Norway
GP Commitment for OMP AY:	\$10 million
GP Commitment for Co-Investment Vehicle:	\$3 million

Key Investment Professionals (HitecVision):

Ole Ertvaag, CEO and co-founder of HitecVision. Prior to founding HitecVision in 2000, Mr. Ertvaag was the Chief Financial Officer of the oil service technology company Hitec ASA (HitecVision’s predecessor) from 1989 to 2000. Mr. Ertvaag has led all of the IPOs the team has carried out and has been instrumental in a large proportion of the other transactions since the early 1990s.

Pål M. Reed, Senior Partner and Deputy CEO. Mr. Reed has been a team member since 2005 and a member of the Investment Committee. Mr. Reed’s prior experience includes several years of leading private investment companies and was previously Chief Investment Officer of Argentum Fondsinvesteringer AS, the Norwegian State’s investment company for private equity fund investments.

Arne Trondsen, Senior Partners and Business Development. Mr. Trondsen has been a team member since 2008, he was previously Chief Investment Officer in Argentum Fondsinvesteringer AS, the Norwegian State’s investment company for private equity fund investments

Key Investment Professionals (OMP):

Christian Berg, CEO and Investment Committee Member. Mr. Berg joined HitecVision in 2012 from Hafslund ASA where he served as CEO, and led the company through consolidation and growth within its core activities. Hadslund is a major integrated Nordic utility listed on the Oslo Stock Exchange. Berg joined the company in 1998 as Vice President for business development, and became a member of group management in 2000, as CFO.

Harvard Vikse, COO. Mr. Vikse OMP from SpareBank 1 Markets, where he held the position as COO and General Counsel (from 2008). Prior to that, Mr. Vikse was General Counsel for Kaupthing Bank Norway (2006–2008).

Thomas Pedersen, Managing Director and Investment Committee Member. Mr. Pedersen joined OMP from RS Platou Markets, where he worked in the corporate finance team in Oslo. Prior to that, Mr. Pedersen spent 15 years in various positions at Goldman Sachs in London, most recently in its European Special Situations Group, a principal investing group of the firm.

Torkell Vold, Managing Director and Investment Committee Member. Mr. Vold joined OMP from ABN Amro Bank’s shipping and offshore finance team in Oslo. Prior to that, Mr. Vold spent 15 years in structured finance positions with a focus on maritime sectors, including six years in London, Singapore and Hong Kong working for Tufton Oceanic.

Oyvind Fledsberg, Managing Director and Investment Committee Member. Mr. Fledsberg joined OMP from Bjørgvin/Pactum, investment companies controlled by Eivind Astrup and family, where he has held a number of positions and been involved in numerous shipping and offshore investments.

Investment Summary

The Division is proposing a commitment of up to \$150 million in a co-investment vehicle managed by HitecVision. The vehicle will invest in potential co-investment opportunities identified by HitecVision, including, as an initial investment, Offshore Merchant Partners Asset Yield, L.P. (“OMP AY”). OMP AY’s strategy seeks to provide private financing solutions to the offshore oil and gas shipping and support vessel industry. Target investments will include debt and leverage leasing strategies with a focus on down-side protection through effective finance structuring, asset selection and the team’s industrial focus. Offshore Merchant Partners (“OMP”) was established in 2013 by HitecVision with a \$206 million line of equity from HitecVision VI, L.P., leveraging the Firm’s current business and knowledge to target opportunities to originate, structure and finance offshore asset projects.

Existing and Prior Funds

<u>Hitecvision Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 9/30/2014</u>
Fund IV	2006	Real Assets	14% Net IRR, 1.99x Net TVPI, 1.33x Net DPI
Fund V	2008	Real Assets	26% Net IRR, 1.99x Net TVPI, 1.14x Net DPI
Asset Solutions Fund	2010	Real Assets	19% Net IRR, 1.58x Net TVPI, 0.40x Net DPI
Fund VI	2011	Real Assets	24% Net IRR, 1.28x Net TVPI, 0.00x Net DPI
Fund VII	2014	Real Assets	N/A Net IRR, 0.74x Net TVPI, 0.00x Net DPI

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

Vehicle Information:

Inception:	2015	Auditor:	PricewaterhouseCoopers
Fund Size Co-Investment Vehicle:	\$153 million	Legal Counsel:	BA-HR
OMP AY Terms:		Fund Administrator:	Gentoo Fund Services Limited
Management Fee :	1% on invested capital		
Carry:	12.50%		
Preferred Return:	5% (no GP Catch-up)		
Co-Investment Vehicle (ex. OMP AY)			
Management Fee:	0%		
Carry:	0%		
Preferred Return:	0%		

NJ AIP Program

Recommended Allocation (\$mil.):	up to \$150,000,000	LP Advisory Board Membership:	N/A
% of Vehicle:	98%	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.