



State of New Jersey

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Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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State Treasurer

May 18, 2012

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Tenex Capital Partners, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an additional investment of \$20 million in **Tenex Capital Partners, L.P.** (“Tenex”, the “Fund”), which will add to our existing commitment of \$50 million that was presented to the State Investment Council on November 18, 2010. The additional investment is comprised of a secondary purchase from another investor in the Fund at cost, for approximately \$5.8 million, plus the assumption of \$14.2 million of uncalled commitments. 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:

Team Depth/Breadth: A tenured team with the operating skill-set to execute the strategy. Mike Green, affirmed through the due diligence, was responsible for building out the Cerberus operating platform.

Favorable Market Opportunity: Given the scarcity of financing in the small to mid market, there should be significant opportunity for turnaround investment capital to service operationally distressed companies. Additionally, traditional first lien lenders such as commercial banks and until recently, hedge funds, bridging the second lien gap lack the in-house operational resources to assume ownership of under-performing assets. In the interim the credit markets are favorable for borrowers and the lending capacity has been limited to larger, more stable enterprises. The confluence of these factors should present a favorable market opportunity for Tenex.

Alignment of Interests with LPs: The GP commitment is 3%, above average relative to other funds in the market. Transaction fees, break-up fees, etc. are also offset 100% against the management fee.

Manageable Fund Size: The fund size has been limited to approximately \$450 million with the team anticipating two transactions per year to deploy the capital. It has been our experience that distressed for control/turnaround strategies are resource intensive. The strategy is difficult to scale to a large fund size since it generally equates to more transactions, larger complex transactions and the need for more investment professionals with the right skill set to execute the turnaround.

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

Division Staff and its private equity consultant, Strategic Investment Solutions, undertook extensive due diligence on the proposed investment in accordance with the Division’s Alternative Investment Due Diligence Procedures.

The Fund utilized Atlantic Pacific as the third-party solicitor for the initial fundraise, and compliance with the Division’s Placement Agent Policy was disclosed to the IPC and Council in June 2011. No third party solicitor was utilized in the secondary sale.

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. In addition, the proposed investment must comply with the Council’s regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that the investment is authorized pursuant to Articles 69 and 90 of the Council’s regulations. The Fund will be considered a private equity “buyout” 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 Committee was held on May 10, 2012. 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 24, 2012 meeting.

Attachments

Fund Name: Tenex Capital Partners, L.P. May 24, 2012

Contact Info: Michael Green, 60 East 42nd Street, Suite 4510, New York, NY 10165-0015, mgreen@tenexcm.com

Fund Details:

FIRM AUM (\$mil.):	\$452.7 million	Key Investment Professionals: <i>Michael Green</i> , Founder, CEO and Managing Director: Mr. Green is an experienced investor with a diverse background in private equity, distressed, and turnaround investing and business operations leadership. Prior to Tenex, he was a Founder and President of Cerberus Operations. While at Cerberus he was also a Managing Director, senior member of the Investment Team and a member of the Investment Committee until 2008. Earlier in his career, Mr. Green spent 12 years at General Electric ("GE"), where he worked in several operating departments. <i>Varun Bedi</i> , Managing Director and Principal: From 2004 to 2009, Mr. Bedi served as Senior Vice President at Cerberus Capital Management, where he played a wide ranging role, supervising the restructuring of several portfolio companies. <i>J.P. Bretl</i> , Managing Director and Principal: Senior Operations Leader, Cerberus Capital Management. <i>Joe Cottone</i> , Managing Director and Principal: Senior Operations Leader, Cerberus Capital Management. Mr. Cottone was employed by GE, where he held various positions in Sales, Finance, and Operations posts. <i>Chad Spooner</i> , CFO and Managing Director: Senior Operations Leader, Cerberus Capital Management. Prior to joining Cerberus, Mr. Spooner served Chief Financial Officer for GE Energy's Contractual Service business.
Strategy:	Middle Market Buyout	
Year Founded:	2010	
Headquarters:	60 East 42nd St, Suite 4510, New York, NY	
GP Commitment:	3%	

Investment Summary	Existing and Prior Funds		
<p>NJ will be purchasing an "early" secondary interest in Tenex Capital Partners, L.P.(\$5.8 million) and assuming an additional \$14.2 million commitment, bringing its total commitment to \$70 million. Tenex utilizes the operating expertise of its team to identify underperforming companies it believes have profitable operations, assets, or other sources of value and where the companies have grown beyond their ability to operate profitably or have not adapted to meet market challenges. Tenex will target middle-market companies with an average investment size between \$25 and \$75 million spanning across different industries and stages of development.</p>	<u>Funds</u>	<u>Strategy</u>	<u>Returns</u>
	Pre-Tenex	Buyout	2.7x, 35.8% IRR

Vehicle Information:

Inception:	2010	Auditor:	PricewaterhouseCoopers LLP
Fund Size (\$mil.):	\$452.7 million	Legal Counsel:	Debevoise and Plimpton LLP
Management Fee:	2% on committed, 1% on invested after initial commitment period	Accounting Firm:	Internal
Carry:	16%		
Hurdle Rate:	8%		
Additional Expenses:	100% fee offset		

NJ AIP Program

Recommended Allocation:	Addl \$20 million, \$70 million Total	LP Advisory Board Membership:	Yes	
% of Fund:	15.46%	Consultant Recommendation:	Yes	
		Placement Agent:	Yes-original; No-secondary	
		Compliance w/ Division Placement Agent Policy:	Yes	
		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.