



State of New Jersey

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290
Telephone (609) 292-5106
Facsimile (609) 984-4425

FORD M. SCUDDER
State Treasurer

CHRIS MCDONOUGH
Director

January 20, 2017

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in Crayhill Capital Management LP
separate account**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$150 million in a separate account with Crayhill Capital Management LP (“Crayhill”), with up to \$100 million committed to and invested in Crayhill Principal Strategies Fund (“Fund I”) or in a parallel vehicle; up to \$50 million would be reserved for other investments identified by Crayhill, including investments in Crayhill successor funds and co-investments. Pursuant to the State Investment Council (the “Council”) regulations, the investment cannot exceed 20% of the total assets managed by Crayhill. Given the current level of Crayhill assets under management, the Division will require a contractual provision that protects against this limitation being exceeded. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

Crayhill will target private structured credit investments secured by real and financial assets. Crayhill provides tailored financing solutions to specialty finance and other asset-heavy companies focused on the origination and servicing of loans, leases, receivables, royalties and other stable cash flows. Crayhill segregates these assets in special purpose investment vehicles where it structures downside protection, tight asset and counterparty eligibility criteria and other structural enhancements.

The Division is recommending this investment based on the following factors:

Stable, attractive risk adjusted returns: Crayhill’s targeted mid-teens net Internal Rate of Return is expected to be generated from highly structured investments, backed by diversified asset pools that provide strong downside protection, current cash yield, are less correlated to the economic cycle and public markets, and are generally self-liquidating.

Experienced team with extensive structuring expertise: Crayhill's Principals have had long tenures in the structured credit sector, sourcing, underwriting, structuring and monetizing a broad array of structured finance investment opportunities across asset classes and economic cycles. All of the Principals have also previously started and scaled successful financial services businesses. The Principals have a track record of consistently identifying and creating custom structured financing solutions around out-of-favor and difficult to finance opportunities, which include: businesses or assets being spun out of banks, scaling origination platforms in order to access senior bank financing or securitization, or complex or emerging asset classes where valuation metrics or management structures are not well developed.

Favorable terms: The Division will pay a 1% management fee and 12.5% carry over a 6% preferred return compared to the standard terms of a 1.5% management fee and 20% carry over a 6% preferred return.

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

Division Staff and its consultant, TorreyCove Capital Partners, undertook extensive due diligence on the proposed investment in accordance with the Division's Alternative Investment Due Diligence Procedures.

Crayhill utilized Brooklands Capital Strategies, L.P. (the "placement agent") as third-party solicitor in connection with the potential investment. Staff has determined that the placement agent and its representatives met the registration, licensing and experience requirements set forth in the Division's Placement Agent Policy (the "Policy"). Pursuant to the Policy, the fund has disclosed the contract between the fund and the placement agent, specifying the scope of services to be performed by the placement agent and the fee arrangement between the placement agent, the general partner and any other third party.

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 23 and 69 of the Council's regulations. The investment will be considered a global diversified credit investment, as defined under N.J.A.C. 17:16-23.1.

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 January 12, 2017. 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 25, 2017 meeting.

Attachments

Fund Name: Crayhill Capital Management LP separate account **January 25, 2016**

Contact Info: Carlos Mendez, 350 Park Avenue, 13th Floor, New York, NY

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|-----------------------------|-------------------|--|
| Fund Details: | | Key Investment Professionals: Carlos Mendez, Co-Founder and a Managing Partner of Crayhill Capital Management LP. Prior to founding Crayhill in July 2015, Mr. Mendez was a portfolio manager in the Fixed Income Group of Magnetar Capital, where he focused on illiquid, structured credit and asset -based investment opportunities. Joshua P. Eaton, Co-Founder and a Managing Partner of Crayhill Capital Management LP. Prior to founding Crayhill in July 2015, Mr. Eaton was a portfolio manager in the Fixed Income Group of Magnetar Capital, where he focused on illiquid, structured credit and asset -based investment opportunities. Frederick H. Horton, Co-Founder and a Managing Partner of Crayhill Capital Management LP. Mr. Horton has held a range of senior roles in the investment management industry over the span of his 30+ year career. From 2013 until the founding of Crayhill, Mr. Horton taught in the business school at Boston University. Thomas Wickwire, Managing Director at Crayhill Capital Management LP. Prior to joining Crayhill in January 2016, Mr. Wickwire was a Senior Advisor to Perella Weinberg’s \$2.2 billion Asset Based Value Funds. |
| Total Firm Assets (\$bil.): | \$350 million | |
| Strategy: | Structured Credit | |
| Year Founded: | 2015 | |
| Headquarters: | New York | |
| GP Commitment: | 1% | |

| Investment Summary | Recent Crayhill investments | | | | | | | | | |
|---|---|------------------------|--------------------------|------------------------|---------------------|-------------------------|--------|----------|-------------------------|--------|
| Crayhill was officially established in August 2015 by Carlos Mendez, Joshua Eaton and Frederick Horton (the “Founders”). The Principals have an average of more than 20 years of structured finance and securitization market experience and have experience working together as colleagues, co-investors and counterparts. The Partnership will target private structured credit investments across a broad range of industries and asset types. The assets will usually be segregated in SPVs and may include loans, leases, royalties, receivables, energy offtake agreements, subsidies, fee streams, SBA-backed companies, and bridge lending. | <table border="1"> <thead> <tr> <th><u>Transaction</u></th> <th><u>Brief Description</u></th> <th><u>Investment Date</u></th> </tr> </thead> <tbody> <tr> <td>Stenn International</td> <td>Trade Receivable Financ</td> <td>Aug-16</td> </tr> <tr> <td>Vx Media</td> <td>Film Production Finance</td> <td>May-16</td> </tr> </tbody> </table> | <u>Transaction</u> | <u>Brief Description</u> | <u>Investment Date</u> | Stenn International | Trade Receivable Financ | Aug-16 | Vx Media | Film Production Finance | May-16 |
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| Vx Media | Film Production Finance | May-16 | | | | | | | | |

Vehicle Information:

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|-----------------------------|--|-----------------------|------------------------------------|
| Inception: | 2016 | Auditor: | PricewaterhouseCoopers |
| Fund Size (\$mil.): | \$151.5 million | Legal Counsel: | Akin Gump Strauss Hauer & Feld LLP |
| Management Fee: | 1% (Fund I investment: calculated on committed capital until the expiration of the investment period and on invested capital thereafter. For other investments: calculated on invested capital for all other investments of the NJ Fund, including Crayhill successor funds) | | |
| Carry: | 12.5% | | |
| Hurdle Rate: | 6% | | |
| Additional Expenses: | 100% fee offset | | |

| NJ AIP Program | | | |
|---|---------------------|--|-----|
| Recommended Allocation to Crayhill Capital Management LP separate account (\$mil.): | up to \$150 million | LP Advisory Board Membership: | Yes |
| % of Fund: | 99% | Consultant Recommendation: | Yes |
| | | Placement Agent: | Yes |
| | | 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.