



## State of New Jersey

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*Director*

May 19, 2021

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon  
Director

SUBJECT: **Global Diversified Credit Investment - CVC Credit Partners  
EU DL II Co-Invest Fund**

The Division of Investment (the “Division”) is proposing an investment of up to €150 million in CVC Credit Partners EU DL II Co-Invest Fund (the “Fund”) managed by CVC Credit Partners Investment Management Limited (the “Firm”). 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:

**Opportunity to accelerate capital deployment.** The Pension Fund’s allocation to Private Credit is currently below target. The Fund is expected to be seeded with seven to eight loans that will be reallocated from the Firm’s existing CVC Credit Partners European Direct Lending Fund II (“EUDL II”) and, as such, approximately 30% to 40% of the capital commitment will be immediately invested. As a result, unlike a typical private credit fund, the Fund provides a unique opportunity to deploy capital into a significantly invested portfolio and instantly increase the allocation to Private Credit. Additionally, the investment period of the Fund is expected to be less than 12 months and the Fund has a robust pipeline to deploy the remaining 60% to 70% of capital commitments alongside EUDL II within the investment period, thus further reducing the underweight allocation within Private Credit.

**Fund provides geographic diversification.** The Fund’s investment strategy is focused on European direct lending. Currently, the Pension Fund is not invested in a dedicated European direct lending fund, and so the Fund provides geographic diversification to the direct lending portfolio within the Pension Fund’s allocation to Private Credit.

**Reduced blind pool risk.** Because the Fund will be seeded with approximately seven to eight existing loans at the outset representing 30 to 40% of total fund commitments, the Fund has reduced blind pool risk relative to a typical private credit fund. Importantly, the majority of the loans to be transferred to the Fund were committed after the depths of COVID-19. The Division reviewed the seed portfolio and is comfortable with the credit quality and performance of the underlying loans.

The Division also reviewed the active pipeline of potential future investments, further reducing blind pool risk.

**Attractive fees.** The Fund will have management fees of 0.35% and no profit allocation. This compares favorably to direct lending funds, which generally have management fees ranging from 0.50% to 2.0% and profit allocations of 10% to 20% (according to Preqin).

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

Division Staff and its consultant, Aksia, 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 engaged a third-party solicitor (“placement agent”) in the fundraising of the Fund but no placement agent was engaged or paid in connection with the Pension Fund’s potential investment.

The Firm has a formal environmental, social, and governance (“ESG”) policy outlining its approach to integrating material ESG risks and opportunities into its investment process. Chloe Sanders serves as the Director, Head of ESG for the Firm, while it is the responsibility of the Firm’s Executive Committee, in conjunction with its ESG Working Group and Compliance Team, to provide oversight of its ESG policy and to ensure that its ESG policy is properly applied. The Firm relies on its investment team to apply and implement the ESG policy to ensure that material ESG risks and opportunities are appropriately assessed and mitigated when applicable. During 2021, the Firm became a signatory to the United Nations Principles for Responsible Investment. The Division’s Corporate Governance team has reviewed the Firm’s ESG policy and related documents.

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 23 and 69 of the Council’s regulations. CVC Credit Partners EU DL II Co-Invest Fund is 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 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: CVC Credit Partners EU DL II Co-Invest Fund**

May 19, 2021

**Contact Info:** Robert Squire, 712 Fifth Avenue, 43rd Floor, New York, NY 10019

**Fund Details:**

<b>Total Firm Assets:</b>	\$117.8 billion (CVC Capital Partners and CVC Credit Partners total AUM as at 12/31/2020)	<p><b>Key Investment Professionals:</b>  <b>Andrew Davies:</b> Partner, Co-Head of Private Credit. Andrew joined CVC Credit in July 2010. Andrew has 19 years of debt capital markets, corporate finance advisory and investment management experience. Most recently, Andrew was at GSC Group (formally Greenwich Street Capital Partners) in London where he was responsible for trading, sourcing, analysis and portfolio management across investment strategies. Prior to this, Andrew provided corporate finance advice to technology and media start-ups at Cobalt Corporate Finance and also spent five years at Bear Stearns where he focused on European merger and acquisition finance and fixed income trading.  <b>John Empson:</b> Partner, Co-Head of Private Credit. John joined CVC in 2021. John is Co-Head of the Private Credit team and is based in London. Prior to joining CVC, John spent nearly 11 years at KKR where he was a Partner and Head of International Capital Markets, and over 21 years at JPMorgan where he led European leveraged debt capital markets. John was also a Managing Director at BlackRock where he led the European Capital Markets team.  <b>Caroline Benton:</b> Partner, Portfolio Manager. Caroline joined CVC in 2013. Carrie is a member of the Private Credit team and based in New York. Prior to joining CVC, Carrie spent 15 years at Goldman Sachs in proprietary investing and risk management functions in the Fixed Income division.  <b>Neale Broadhead:</b> Partner, Portfolio Manager. Neale joined CVC in February 2014. Neale is a member of the Direct Lending team and is based in London. He has been responsible for leading 150+ management buyouts in his career, having worked in both London and New York. Before joining CVC, he worked at Lloyds Banking Group as Managing Director and Head of Mid-Market Acquisition Finance, which he founded in 2004, and also was a member of the Board Investment Committee as well as the IC for Acquisition Finance. Neale holds a BSc (Hons) in Economic History.  <b>Miguel Toney:</b> Partner, Portfolio Manager. Miguel joined CVC in March 2021. Miguel is a member of the Private Credit team and is based in London. Prior to joining CVC, Miguel was a Partner at Park Square Capital. Miguel also spent 11 years at MezzVest (now MV Credit), and two years at Credit Suisse.  <b>Chris Fowler:</b> Managing Director. Chris joined CVC in 2015. Chris is a member of the Private Credit team and based in London. Prior to joining CVC, he was a Managing Director at GE Capital in the mid-market leveraged finance origination team. During his 10 years at GE, Chris arranged over 50 financings across Europe and the US, including senior, mezzanine, unitranche and high-yield facilities.</p>
<b>Strategy:</b>	Direct Lending	
<b>Year Founded:</b>	2006 (CVC Credit)	
<b>Headquarters:</b>	London, UK	
<b>GP Commitment:</b>	1%	

Investment Summary	Existing and Prior Funds		
<p>CVC Credit Partners EU DL II Co-Invest Fund (the “Fund”) will hold the reallocation of investments from, and invest alongside, CVC Credit Partners European Direct Lending Fund II (“EUDL II”). It is expected that the Fund will initially comprise approximately seven to eight pre-allocated investments from EUDL II, expected to account for 30% to 40% of the Fund, with the remaining 60% to 70% to be invested alongside EUDL II over approximately the next 12 months. As the Fund’s portfolio is approximately 30% to 40% pre-allocated, investors benefit from a high degree of transparency into a relatively mature portfolio with the immediate ability to put capital to work. The remaining 60% to 70% of the Fund is expected to mirror the strategy of EUDL II, and will be focused on high conviction investments in privately-negotiated senior secured loans to European middle-market companies with EBITDA of between ~EUR 10 million and EUR 50 million.</p>	<u>Funds</u>	<u>Strategy</u>	<u>Returns</u>
	European Mid-Market Solutions Fund (Fund I)	Direct lending	6.0% Net IRR; 1.2x Net TVPI
	European Direct Lending Fund II (Fund II)	Direct lending	8.6% Net IRR; 1.1x Net TVPI
	<p>Note: Returns are unlevered returns in EUR as of 12/31/2020                      Source: CVC Credit Partners</p> <p>IRR = Internal Rate of Return; TVPI = Total Value to Paid-In Capital</p>		

**Vehicle Information:**

<b>Inception:</b>	2021	<b>Auditor:</b>	Ernst & Young S.A.
<b>Fund Size:</b>	~€250 million	<b>Legal Counsel:</b>	Kirkland & Ellis International LLP and Kirkland & Ellis LLP (and Arendt & Medernach SA as Legal Counsel to Luxembourg Law)
<b>Management Fee:</b>	0.35% on net invested		
<b>Carry:</b>	0%		
<b>Preferred Return:</b>	n/a		

**NJ AIP Program**

<b>Recommended Allocation:</b>	up to €150 million	<b>LP Advisory Board Membership:</b>	YES
<b>% of Fund:</b>	60%	<b>Consultant Recommendation:</b>	YES
		<b>Placement Agent:</b>	NO
		<b>Compliance w/ Division Placement Agent Policy:</b>	N/A
		<b>Compliance w/ SIC Political Contribution Reg:</b>	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.