November 14, 2008

MEMORANDUM TO: State Investment Council

FROM: William G. Clark
Director

SUBJECT: Proposed Private Equity Investments in Onex Partners III, LP and Charterhouse Capital Partners IX.

This due diligence memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9 (a) to report on two proposed private equity investments: a $100 million commitment to Onex Partners III, LP and a $50 million commitment to Charterhouse Capital Partners IX.

Please note that these investments will be authorized pursuant to Articles 69 and 90 of the Council's regulations. The investments in Onex Partners III, LP and Charterhouse Capital Partners IX are considered "Buyout Funds" as defined under N.J.A.C. 17:16-90.1.

The Alternative Investments Procedures adopted by the Council on February 21, 2008 require any potential alternative investment opportunities to be identified and initially evaluated by the applicable staff of the Division of Investment ("DOI") and the applicable asset class consultant (Strategic Investment Solutions for Private Equity or "SIS") in coordination with the DOI Investment Committee (Director, Deputy Director, and the Senior Staff member for the applicable alternative asset class).

As a result of internal and external sourcing, the DOI Investment Committee identified the proposed investments. SIS and Division staff proceeded to undertake extensive due diligence on the proposed investments. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council. Based on this due diligence, the Division has determined that the proposed investments meet the criteria for investments set forth in the Alternative Investments Policy.

Onex Partners III will focus on acquiring and building high quality businesses through active ownership by: (1) targeting attractive industries, often ones that are undergoing secular change or are in a state of flux; (2) partnering with quality management teams; (3) seeking diverse value creation opportunities, capitalizing on secular trends or participating in complex transactions not typically pursued by other private equity firms and; (4) applying reasonable capital structures, emphasizing conservative debt levels to allow the operating companies to withstand cyclical downturns or unforeseen events. Generally, Onex will focus on investments in well-managed cash-flow positive companies for both platform and add-on acquisitions. Over its history Onex has invested approximately $8.1 billion in more than 40 operating companies comprising over 140 acquisitions since 1984, of which 36 have been fully realized, substantially realized or generated publicly traded value.

Charterhouse Capital Partners IX will invest in management buyouts, corporate restructurings and similar transactions, with target companies typically substantial, established middle market private enterprises that have significant revenues in Western Europe. Many of these firms will be headquartered in the United Kingdom or France (where the Firm has had a presence for over 30 years). Most firms will be high quality businesses whose management, market position, historical record and growth potential are attractive. Probable equity investments are in the range of €200 million to €600 million. The vast majority of Charterhouse's investments are control transactions where Charterhouse retains management – this is in contrast to many buyout firms that are more inclined to change management and/or sell assets once an acquisition is made. A commitment to CCP IX on a direct basis further diversifies the NJDOI private equity allocation on a geographic basis and establishes a relationship with one of the leading private equity firms in Europe. The firm's strategy of building long-term value is consistent with NJDOI's strategy of investing in firms that have relied less on financial engineering and more on long term value creation to generate excess returns.

Formal written due diligence reports for the proposed investments were sent to each member of the Investment Policy Committee of the Council on November 7, 2008, and a meeting of the Committee was held on November 12, 2008. 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 will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern these investments. In addition, the proposed investments must comply with the Council's "pay to play" regulation (N.J.A.C. 17:16-4). While we are confident that we will work through these issues, the potential exists that a successful resolution may not be reached with one or both general partners.

We look forward to discussing these proposed private equity investments at the Council's November 20, 2008 meeting.

WGC: tbr
Attachment