



State of New Jersey

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January 24, 2020

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Proposed Investment in Altaris Health Partners V, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$100 million in Altaris Health Partners V, L.P. (the “Fund”). 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:

Consistent and disciplined investment strategy since inception: Altaris Capital Partners, LLC (“Altaris” or “Firm”) has pursued majority and influential minority investments in healthcare-related businesses in the form of buyouts, corporate carve-outs, break-ups, corporate partnerships, take privates, and recapitalizations.

Ability to pursue complex situations across healthcare subsectors and generate attractive realized returns: Altaris is able to unlock value by pursuing complex investments across the healthcare subsectors. The Firm has demonstrated its ability to navigate regulatory and reimbursement challenges of the healthcare industry by pursuing a variety of transaction types in differentiated niche businesses. Altaris’ track record is proven by its fully monetized investments in Fund I and Fund II.

Experienced and cohesive partnership, supported by a long-tenured investment team: Altaris’ four senior-most individuals have an average tenure of nearly 14 years with the Firm. Altaris’ flat organizational structure allows flexibility, speed, and quick decision-making.

Environmental, Social and Governance (ESG) Policy: Altaris invests in companies that operate in the healthcare industry, which is subject to a multitude of regulatory and compliance requirements. Altaris’ formal ESG policy guides its consideration of potential opportunities throughout the investment process. As a part of its investment and monitoring activities, Altaris routinely reviews and requires improvements to its portfolio companies’ policies and procedures. Altaris also recognizes that these industry guidelines and best practices in managing ESG issues will continue to evolve over time. As such, it seeks to remain informed about ESG developments

and best practices within relevant investment industries and periodically considers changes and additions to its policy based on developments, as appropriate.

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

Division Staff and its private equity consultant, TorreyCove Capital Partners, 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 (“placement agent”).

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 69 and 90 of the Council’s regulations. Altaris Health Partners V, L.P. is considered a private equity buyout investment, as defined under N.J.A.C. 17:16-90.1. Pursuant to N.J.A.C. 17:16-90.4(a)1, the aggregate market value of private equity investments shall not exceed 12% of the combined assets of all of the Pension and Annuity Funds. As of the close of business on January 23, 2020, the aggregate market value of private equity investments is 10.75% of the combined assets of all the Pension and Annuity Funds excluding the Police and Fire Mortgage assets.

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 15, 2020. 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 29, 2020 meeting.

Attachment

Fund Name: Altaris Health Partners V, L.P. **January 24, 2020**

Contact Info: Chuck Mullens, 10 East 53rd Street, 31st Floor, New York, NY 10022

Fund Details:

Firm AUM (\$bil.):	\$2.5 billion	Key Investment Professionals George E. Aitken-Davies – (Co-Founder) Prior to the formation of Altaris in 2003, Mr. Aitken-Davies held various positions in Merrill Lynch’s private equity and healthcare investment banking groups. Daniel G. Tully – (Co-Founder) Prior to the formation of Altaris in 2003, Mr. Tully held various positions with Merrill Lynch, including serving as the firm’s global head of healthcare equity capital markets, and as a member of Merrill Lynch’s private equity and investment banking groups. David G. Ellison – (Managing Director) Mr. Ellison leads Altaris’ investments in the provider and payor services sectors. Prior to joining Altaris in 2007, Mr. Ellison was a member of the healthcare investment banking group at Lehman Brothers where he assisted clients in the execution of a number of mergers, acquisitions and financing transactions across the healthcare industry. James D. O’Brien – (Managing Director) Mr. O’Brien leads the firm’s investments in the medical device and diagnostics sectors. Prior to joining Altaris in 2008, Mr. O’Brien was a member of the investment banking and equity capital markets groups at Merrill Lynch where he assisted clients in the execution of a number of mergers, acquisitions and corporate finance transactions across various industries.
Strategy:	Buyout	
Year Founded:	2003	
Headquarters:	New York, NY	
GP Commitment:	10%	

Investment Summary	Existing and Prior Funds			
Altaris seeks to make majority and influential minority investments in healthcare-related businesses that deliver value to the healthcare system by improving patient outcomes, reducing costs, increasing efficiency and aligning stakeholder incentives. The majority of Altaris’ investments will take the form of buyouts, corporate carve-outs, break-ups, corporate partnerships, take privates, and recapitalizations.	Funds	Vintage Year	Strategy	Returns as of 9/30/2019
	Fund I	2003	Buyout	13.1% Net IRR; 1.73x Net TVPI; 1.73x DPI
	Fund II	2008	Buyout	27.5% Net IRR; 2.57x Net TVPI; 2.44x DPI
	Fund III	2014	Buyout	30.3% Net IRR; 1.78x Net TVPI; 0.66x DPI
	Fund IV	2018	Buyout	19.9% Net IRR; 1.15x Net TVPI; -x DPI
	Source of Returns= TorreyCove			
	IRR = Internal Rate of Return; TVPI= Total Value to Paid-In; DPI= Distributions to Paid-In			

Vehicle Information:

Inception:	2020	Auditor:	Deloitte & Touche LLP
Fund Size:	\$2.5 billion; \$3 billion (hard cap)	Legal Counsel:	Kirkland & Ellis LLP
Management Fee:	2.0% during commitment period;		
	thereafter, 2.0% of an amount equal to the Limited Partners’ share of the aggregate capital invested in portfolio investments upon expiration of the Investment Period		
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	80% (portfolio company transaction fees) management fee offset; 100% (directors’ fees) management fee offset		

NJ AIP Program

Recommended Allocation (\$mil):	up to \$100 million	LP Advisory Board Membership:	TBD
% of Fund:	4%; 3.33% (hard cap)	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	NA
		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.