



State of New Jersey

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DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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ANDREW P. SIDAMON-ERISTOFF
State Treasurer

March 19, 2014

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Acting Director

SUBJECT: **Proposed Investment in Onex Partners IV, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of \$200 million in Onex Partners IV, L.P. 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:

Strong performance from an existing relationship: Onex is decidedly a top quartile manager, as its three previous funds all rank in or near the top quartile on a Distributed to Paid-In (“DPI”) basis, while Funds I and II have additionally been in the top quartile on both an Internal Rate of Return (“IRR”) and Total Value Paid-In (“TVPI”) basis. As of September 30, 2013, in aggregate, the realized, substantially realized and publicly traded investments across the three Funds have generated a 2.5x gross multiple of invested capital and a gross IRR of 38.1%. Including unrealized investments, the aggregate gross multiple of invested capital and gross IRR across the three Funds are 2.1x and 29.8%, respectively.

Focused Investment Strategy: Onex has consistently outperformed its peers by targeting global businesses with strong free cash flow attributes and world-class management capabilities. The firm seeks situations with controllable outcomes where they can identify areas of operational improvement in labor, supply chains and manufacturing in order to effect change and build market leaders. Onex’ strength often lies in complex transactions, where the firm frequently emerges as the preferred buyer given the team’s success in transforming corporate subsidiaries and supply divisions into profitable businesses throughout the Firm’s nearly 30-year history.

Significant alignment of interests: Onex Corporation (TSX: OCX), a publicly traded entity, will provide a significant commitment of \$1.2 billion to Fund IV. Members of the team own approximately 24% of OCX on a fully-diluted basis as of 12/31/13. Individual members of the Onex team will also make significant personal commitments, which will constitute at least 2%, and up to a maximum of 8%, of the aggregate capital committed. In prior funds, the team has funded approximately 4% of all investments. OCX has been the largest LP in every Fund, having committed a total of \$3 billion across Funds I-III, with the Onex team directly committing or investing more than \$350 million.

Proposed Investment in Onex Partners IV, L.P.

Page 2 of 2

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.

As part of its due diligence process, staff determined that the fund has not engaged a third-party solicitor (a "placement agent") in connection with New Jersey's potential investment.

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 Onex Partners IV, L.P. will be considered a private equity buy-out investment fund, 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 March 11, 2014. 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 March 19, 2014 meeting.

Attachments

Fund Name: Onex Partners IV, L.P.

March 19, 2014

Contact Info: Emma Thompson, 161 Bay Street, 49th Floor, Toronto, Ontario M5J 2S1

Fund Details:

Firm AUM (\$bil.):	\$19 bil
Strategy:	Middle Market Buyout
Year Founded:	1984
Headquarters:	Ontario, Canada
GP Commitment:	2 to 8 %

Key Investment Professionals:

Gerry Schwartz, Chairman, CEO and member of Executive Committee. Mr. Schwartz founded Onex in 1984 and works in the Toronto office. Prior to forming Onex, he was the Co-founder and President of CanWest Global Communications for seven years.

Robert Le Blanc, Senior Managing Director and member of Executive Committee. Mr. LeBlanc joined Onex in 1999 and works in the New York office. Prior to joining Onex, he worked for Berkshire Hathaway for seven years.

Seth Mersky, Senior Managing Director and member of Executive Committee. Mr. Mersky joined Onex in 1997 and works in the Toronto office. Prior to joining Onex, he was Senior Vice President, Corporate Banking, with The Bank of Nova Scotia, where he worked for 13 years.

Anthony Munk, Senior Managing Director and member of Executive Committee. Mr. Munk joined Onex in 1988 and works in the New York office. Prior to joining Onex, he was a Vice President with First Boston Corporation in London, where he worked for 4 years.

Investment Summary

The Division is proposing an investment of \$200 million in Onex Partners IV, LP (the “Fund”), a top-quartile buyout fund targeting \$4.5 billion in aggregate commitments that will be primarily focused on the North American market. Onex Corporation is one of the oldest and most successful private equity firms with a long, established track record and a disciplined, active-ownership approach to private equity investing. With a focus on achieving strong absolute growth with an emphasis on capital preservation, Onex has succeeded at creating long-term value through building industry-leading businesses in partnership with outstanding management teams. The Fund will continue the Firm’s proven investment approach of making control investments in businesses primarily located in the United States and Canada, while investing in Europe on an opportunistic basis.

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 9/30/13</u>
Fund I	2003	Buyout	38.45% Net IRR, 2.87x Net TVPI
Fund II	2006	Buyout	13.98% Net IRR, 1.88x Net TVPI
Fund III	2009	Buyout	7.60% Net IRR, 1.13x Net TVPI

Vehicle Information:

Inception:	2013	Auditor:	PricewaterhouseCoopers LLP
Fund Size (\$mil.):	\$4.5 bil target; \$5.0 bil hard cap	Legal Counsel:	Latham & Watkins LLP
Management Fee:	1.75% on commitments up to \$3 billion ; 1.50% on commitments in excess of \$3 billion		
Carry:	20%		
Hurdle Rate:	8%		
Additional Expenses:	100% fee offset		

NJ AIP Program

Recommended Allocation (\$mil.):	\$200,000,000	LP Advisory Board Membership:	Yes
% of Fund:	4%	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	N/A
		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.