



State of New Jersey

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DEPARTMENT OF THE TREASURY
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Acting Director

April 21, 2022

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Acting Director

SUBJECT: **Private Equity Investment - Separate Account with Barings LLC**

The Division of Investment (the “Division”) is proposing an investment of up to \$250 million in a separately managed investment vehicle (the “Fund”) to be managed by Barings Funds & Co-Investments (“Barings FCI” or, 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:

Broadens Pension Fund’s diversification and captures potential attractive returns in small-mid size growth and buyout funds. According to Cambridge Associates’ benchmark data as of Q3 2021, since 1986, small (sub-\$1 billion) buyout funds have generated a 1.87x net MOIC and 16.34% net IRR, outperforming large buyout funds (greater than \$1 billion), which generated a 1.82x net MOIC and 12.98% net IRR during the same time period. Generally, small buyouts transact at lower purchase price multiples and use less leverage than large buyouts.

A solution provider that helps the Division access smaller managers. Given the Pension Fund’s large size, it is helpful to partner with an experienced team to deploy capital at scale in smaller managers. Barings FCI seeks to engage and cultivate relationships on behalf of the Pension Fund at the early end of the spectrum of evolution for emerging managers that positions the Pension Fund to potentially be a direct investor in future funds. The Pension Fund may also benefit from potential enhanced returns through negotiated economics and securing preferred allocations. Barings FCI will serve as an extension of staff to the Division and work with the Division to target and monitor emerging managers whose strategy is complementary to the Pension Fund’s private equity program, with the goal of potentially transitioning qualifying future investment opportunities directly to the Pension Fund.

Experienced team with a robust multi-channel sourcing engine and a reputation in the industry for successfully backing emerging managers. The Barings FCI senior leadership team has deep institutional knowledge averaging 23 years of industry experience. Barings FCI has a

reputation as a “go-to” advisor and strategic partner. The Firm employs an open-door policy and a proactive origination program that includes a network of relationships to originate opportunities prior to a fund’s launch. Members of the Barings FCI team take leadership roles in many organizations focused on increasing women/diverse representation in the asset management industry, including the Toigo Foundation, ILPA, SEO, Hispanic Heritage Foundation, NAIC, and PEWIN, which further widen their deep network of industry contacts.

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

Division Staff and its private equity consultant, Aksia TorreyCove Partners LLC, 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").

The Firm’s environmental, social, and governance (“ESG”) policy and related diligence disclosures were reviewed by the Division’s Corporate Governance team in accordance with the Council’s ESG Policy. Barings has a formal ESG policy and a long-standing consideration of environmental, health and safety practices in due diligence, investment decisions and operations.

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. The Fund is considered a private equity fund of funds investment, 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 IPC was held on April 14, 2022. 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 April 27, 2022, meeting.

Attachment

Fund Name: Separate Account with Barings LLC

April 21, 2022

Contact Info: Mina Nazemi, 300 S Tryon St UNIT 2500, Charlotte, NC 28202

Fund Details

Firm AUM:	\$391 billion	Key Investment Professionals: Mina Pacheco Nazemi - (Co-Head) Mr. Nazemi has worked in the industry since 1998 with experience as a General Partner and Limited Partner investor in private markets and focused on underwriting direct/co-investment opportunities. Prior to joining the firm in 2017, Ms. Nazemi held several leadership and investment positions including Co-Founder and Partner at Aldea Capital Partners and Partner and Investment Committee Member at GCM Grosvenor Rick Spencer - (Co-Head) Mr. Spencer serves on both the investment committee and valuation committee. He has worked in the industry since 1986 and has a number of positions at the firm including Head of the Fixed Income Restructuring Practice, Co-Head of Private Placements and Co-Head of Mezzanine and Private Equity. Naoki Ohta - (Managing Director) Mr. Ohta is responsible for originating and underwriting secondaries globally and funds and coinvestments in EMEA. He as worked in the industry since 1998. Prior to joining the firm in 2017, he was with GP Advisors, Greenpark Capital and KPMG. Allen Ruiz - (Managing Director) Mr. Ruiz is responsible for originating, underwriting and monitoring funds and co-investments. Prior to joining the firm, he was a Director and founding team member at Aldea Capital Partners. Previously, he worked at Meruelo Investment Partners and Credit Suisse. Elizabeth Weindrunch - (Managing Director) - Ms. Weindrunch is responsible for originating and underwriting funds and coinvestments in North America and Latin America. Prior to joining the firm in 2015, she was with the Wells Fargo Investment Institute. Previously, she held various private equity roles at Citi Private Bank, Brooke Private Equity Associates and Investor Group Services.
Strategy:	Private Equity	
Year Barings FCI Founded:	1991	
Headquarters:	Charlotte, NC	
GP Commitment:	1.0%	

Investment Summary	Existing and Prior Funds			
The separately managed investment vehicle (the "Fund") with Barings LLC (the "Firm") seeks to invest in emerging small buyout and growth equity funds. The capital in the Fund is expected to be deployed over approximately three years into primarily North America-based and select Western European based small buyout and/or growth equity managers that have raised fewer than three institutional funds and have a fund size less than \$1 billion and a firm wide AUM of up to \$3 billion.	<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of 9/30/2021</i>
	Barings Emerging Generation Fund	2020	Small Buyout	46.9% net IRR; 1.29x net TVPI
	Source of Returns = Barings LLC IRR = Internal Rate of Return; TVPI= Total Value to Paid-In			

Vehicle Information:

Inception:	2022	Auditor:	KPMG LLP
Fund Size:	up to \$250 million	Legal Counsel:	TBD
Management Fee:	Year 1-3: 0.40% on invested capital Year 4-10: 0.40% on lower of NAV or invested capital Thereafter: 0.00%		
Carry:	1% subject to a 1.75x Net MOIC 3% subject to a 2.20x Net MOIC		

NJ AIP Program

Recommended Allocation:	up to \$250 million	LP Advisory Board Membership:	N/A
% of Fund:	99.00%	Consultant Recommendation:	YES
		Placement Agent:	NO
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	YES