



## State of New Jersey

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**SHOAIB KHAN**  
*Acting Director*

July 9, 2021

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan  
Acting Director

SUBJECT: **Global Diversified Credit Investment - PGIM Fixed Income Separate Account**

The Division of Investment (the "Division") is proposing an investment of up to \$1 billion in a separately managed investment vehicle (the "Fund") to be managed by PGIM Fixed Income, the public fixed income business unit of PGIM, Inc. ("PGIM" 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:

**Provides a tactical tool for the Division to more efficiently manage the Pension Fund's asset allocation.** The Fund's investment strategy is projected to yield approximately 450 basis points more than the Pension Fund's current Treasury allocation and approximately 540 basis points more than the Pension Fund's current Cash Equivalents allocation. Further, the Treasury allocation and Cash Equivalents allocations are both currently overweight vs. their respective targets, creating capacity to rotate out of lower-yielding Treasuries and Cash Equivalents, and into the Fund. In the current interest rate environment, the Pension Fund would be expected to experience an estimated annualized yield improvement of over \$47 million (assuming the \$1 billion is fully deployed) by rotating out of Treasuries and Cash Equivalents and into the Fund.

**Accelerates capital deployment into Private Credit.** The Pension Fund is currently underweight Private Credit vs. the target allocation. Because the Fund will be invested in liquid, broadly syndicated loans ("BSLs"), the Fund can be fully deployed in less than two months, as opposed to investing in a traditional private credit drawdown vehicle that may take 18 to 36 months (or longer) to deploy as well as several years to winddown. As such, the Fund allows the Division to quickly reduce the underweight allocation to Private Credit. Further, given the liquidity in the BSL market, the Fund can also be partially or fully liquidated to quickly reduce the allocation to Private Credit should the need arise in the future.

**Partners with a large, institutional asset manager with institutional credit underwriting and trading capabilities.** PGIM Fixed Income is the public fixed income business unit of PGIM, Inc. (“PGIM”), a Prudential Financial, Inc. (“PFI”) company. PGIM is one of the largest asset managers in the world, with approximately \$1.5 trillion in assets under management. PGIM Fixed Income employs over 1,000 individuals, including 331 investment professionals, and manages \$919 billion, of which approximately 43% is third-party institutional capital (as of March 31, 2021). PGIM has been managing third-party capital for over 90 years.

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

Division Staff and its private credit consultant, Aksia 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 PGIM has not engaged a third-party solicitor (“placement agent”) in connection with the Fund.

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. The Firm’s ESG Committee was established in 2014, is co-chaired by the Head of ESG Research and the Head of Investment Grade Corporate Research and is composed of senior investment professionals and executives across the organization. The Firm integrates ESG factors into its investment analysis and decision-making process across strategies. The Firm is a signatory to the UN Principles of Responsible Investment (the “PRI”) and publicly supports the Task Force on Climate-Related Financial Disclosures (“TCFD”) recommendations.

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. The 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 July 8, 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 July 21, 2021 meeting.

Attachment

**Fund Name: PGIM Fixed Income Separate Account** **July 9, 2021**

**Contact Info:** Kate Strangfeld, 655 Broad Street, 10th Floor, Newark, NJ 07102

**Fund Details:**

Total Firm Assets:	\$919 billion
Strategy:	Private Credit
Year Founded:	1984
Headquarters:	Newark, NJ
GP Commitment:	1%

**Key Investment Professionals:**

**Brian Juliano** is a Managing Director and Head of the U.S. Bank Loan Team for PGIM Fixed Income. He is also the Co-Head of PGIM Fixed Income's U.S. CLO business and is a portfolio manager for the Firm's investments in CLO tranches. Before joining the Bank Loan Team in 2003, Mr. Juliano was a CDO analyst and member of the CDO Business Team for the Firm and a manager in financial analysis in the Finance Group, where he was responsible for the finance function of various investment subsidiaries. Mr. Juliano joined the Firm in 2000. Previously, he was a consultant at Deloitte & Touche, where he worked on investment strategy and tax compliance of high-net-worth individuals.

**Ian F. Johnston** is a Principal and portfolio manager for PGIM Fixed Income's U.S. Bank Loan Team. Previously, Mr. Johnston was a credit analyst in the U.S. Bank Loan Credit Research Team where he covered the cable, telecom, financial services, media, and education sectors. Mr. Johnston joined the Firm in 2010 from Seven Bridges Management, an affiliate of Ulysses Management, where he was head trader and principal for the Special Situations hedge fund. Earlier, Mr. Johnston worked as senior analyst for Murray Capital Management's Distressed Debt hedge fund. Mr. Johnston began his career in 1991, first as an analyst and then a Senior Associate in the Firm's Financial Restructuring Team. Later he was Vice President and portfolio manager on the Emerging Markets Debt Team.

**Parag Pandya, CFA**, is a Principal and portfolio manager for PGIM Fixed Income's U.S. Bank Loan Team. Prior to joining the Bank Loan team in October 2015, he was a high-yield credit analyst for 17 years covering home builders/building materials, gaming, and lodging industries for the high-yield and bank loan portfolios. Previously, Mr. Pandya was an internal auditor at Prudential Securities. He joined the Firm in 1992 in the Financial Accounting Department.

**Edwin Wilches, CFA**, is a Principal and portfolio manager for PGIM Fixed Income's U.S. Bank Loan and Structured Products Teams. Mr. Wilches is responsible for managing and trading the Firm's investments in CLO tranches, supporting the Dryden CLO platform's business development and investor relations efforts, and analyzing off-the-run alternative fixed income opportunities. Prior to assuming his current responsibilities, Mr. Wilches was a member of PGIM Fixed Income's CDO analyst team. Earlier, he was a member of the Firm's Business and Product Support Team, where he led the launch process for new institutional client accounts and the creation of investment products, including fund of funds. Mr. Wilches joined the Firm in 2003.

**Robert W. Meyer, CFA**, is a Vice President for the PGIM Fixed Income's U.S. Bank Loan Team. Previously, Mr. Meyer was a member of the Quantitative Research Rotational Program, spending time on the CLO Analyst team, Structured Products Research Team, and Liquidity team. He joined the Firm in 2012.

**Connor Byrnes** is a Vice President in the CLO Tranche Investing Team for PGIM Fixed Income's Leveraged Finance and Structured Finance Teams. Prior to assuming his current responsibilities Mr. Byrnes was responsible for supporting PGIM's Dryden CLO Issuance Team in structuring, business development, client management, and analysis functions. Mr. Byrnes joined the Firm in 2012.

**Joe Kinsella, CFA**, is a Senior Investment Analyst and trader for PGIM Fixed Income's U.S. Bank Loan Team. Prior to joining the Bank Loan Team in February 2021, he was a CLO structuring analyst for two years. Mr. Kinsella joined the Firm in 2016 as an investment analyst in PGIM Fixed Income's Business Support Rotation Program.

**Investment Summary** **Existing and Prior Funds**

PGIM Fixed Income (the "Firm") will manage a separately managed investment vehicle employing a diversified, levered, long-only, U.S. senior secured loan strategy. The portfolio will predominantly consist of below-investment-grade, liquid, performing floating rate loans to U.S. corporate borrowers across industries, creditworthiness, and size. Once fully invested, the portfolio is expected to have over 200 underlying positions.

Year	Strategy Net Returns	Credit Suisse Leveraged Loan Index
2021 (YTD thru March)	2.80%	2.01%
2020	4.69%	2.78%
2019	8.06%	8.17%
2018	0.19%	1.14%
2017	4.75%	4.25%
2016	9.03%	9.88%
2015	0.96%	-0.38%
2014	1.68%	2.06%
2013	5.68%	6.15%
2012	9.36%	9.43%
2011 (May inception)	0.17%	-1.41%

**Vehicle Information:**

<b>Inception:</b>	2021	<b>Auditor:</b>	PwC
<b>Fund Size:</b>	up to \$1.01 billion	<b>Legal Counsel:</b>	Schulte Roth and Zabel LLP
	Charged on assets: 0.32% on first \$250 million 0.28% on next \$250 million 0.24% on next \$250 million 0.20% thereafter		
<b>Management Fee:</b>			
<b>Profit allocation:</b>	0%		
<b>Preferred Return:</b>	n/a		

**NJ AIP Program**

<b>Recommended Allocation:</b>	up to \$1.0 billion	<b>LP Advisory Board Membership:</b>	N/A
<b>% of Fund:</b>	99%	<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.