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November 8, 2021

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Acting Director

SUBJECT: **Private Credit Investment - Goldman Sachs Asset Management
Broadly Syndicated Loans Separate Account**

The Division of Investment (the “Division”) is proposing a commitment of up to \$1.0 billion in a separately managed investment vehicle (the “Fund”), to be managed by Goldman Sachs Asset Management (“GSAM” or the “Firm”). The Fund will invest in broadly syndicated loans (“BSLs”). 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 better manage the Pension Fund’s asset allocation.

The Fund’s investment strategy is projected to yield more than 400 basis points more than the Pension Fund’s current Treasury allocation and more than 500 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 \$40 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 BSLs, the Fund could 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 wind down. 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.

GSAM has institutional credit underwriting and trading capabilities. GSAM is the asset management arm of Goldman Sachs Group, a publicly-traded entity that trades on the New York Stock Exchange (NYSE: GS). GSAM is one of the largest asset managers in the world, with approximately \$2 trillion in assets under supervision (“AUS”) and over 5,000 employees, of which over 1,600 are investment professionals. GSAM was formed in 1990 and has been managing BSLs since 2007. Today GSAM has \$5.3 billion of AUS in BSLs.

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 Fund 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. Overall oversight for ESG sits at both the Goldman Sachs Group Board (“Board”) level, as well as at the divisional level. At the Board level, the Public Responsibilities Committee has primary oversight of the Firm’s approach to ESG, which includes reviewing key ESG-related policies such as the Environmental Policy Framework and the Firm’s annual Sustainability Report. Within GSAM, Hugh Lawson (Global Head of ESG and Impact Investing Strategy) has oversight over ESG. The Firm has an ESG policy and is a signatory to the UN PRI.

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 private 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 November 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 November 17, 2021 meeting.

Attachment

Fund Name: Goldman Sachs Asset Management ("GSAM") Broadly Syndicated Loans Separate Account

November 8, 2021

Contact Info: Andrea J. Cinkovic, 200 West Street, 37th Floor, New York, NY 10282

Fund Details:

Total Firm Assets:	\$2 trillion	Key Investment Professionals: Ashish Shah: Managing Director, Co-head and Co-CIO of Goldman Sachs Asset Management's (GSAM) Global Fixed Income and Liquidity Solutions business. Ashish is co-head of Goldman Sachs Asset Management's (GSAM) Global Fixed Income and Liquidity Solutions business. He also serves as global head of GSAM's Cross-Sector Strategy and is a member of the Fixed Income Strategy Group. Ashish joined Goldman Sachs as a partner in 2018. Prior to joining the firm, Ashish was chief investment officer for Global Credit and head of Fixed Income for Alliance Bernstein, where he oversaw all credit-related strategies. He joined Alliance Bernstein in 2010 as the firm's head of Global Credit. Prior to that, Ashish was a managing director and head of Global Credit Strategy at Barclays Capital from 2008 to 2010, responsible for the High Grade, High Yield, Structured Credit and Municipal Strategy groups and the Special Situations Research team. From 2003 to 2008, Ashish was head of Credit Strategy at Lehman Brothers. Peter Campo: Managing Director, High Yield & Bank Loans. Peter is a portfolio manager on the High Yield & Bank Loans team within Goldman Sachs Asset Management (GSAM), focusing on Bank Loans. He joined Goldman Sachs as a Managing Director in 2018. Prior to joining the firm, Peter was a portfolio manager for leveraged loan portfolios at Eaton Vance Management. He joined Eaton Vance in 2003 as a credit analyst. Before that he was a bank loan analyst at CypressTree Investment Management for 5 years. Lori Pomerantz: Vice President, High Yield & Bank Loans. Lori is Client Portfolio Manager on the High Yield, Bank Loan and Opportunistic credit teams within Goldman Sachs Asset Management Fixed Income. Prior to joining GSAM Fixed Income in 2020, Lori was a Vice President in GSAM's Alternative Investments and Manager Selection (AIMS) business. In this position, which she held since 2015, she spearheaded long only fixed income manager selection for both institutional and high net worth clients of the Firm. Lori's expertise spans a variety of sub-asset classes, including High Yield, Leveraged Loans, Investment Grade, Multi-Sector Fixed Income, Structured Credit, and Municipals, as well as ESG incorporation into those strategies. Prior to Goldman, she spent 12 years as a High Yield and Leveraged Loan Credit Analyst at BNP Paribas, Macquarie Capital, Citigroup, and Lehman Brothers.
Strategy:	Private Credit	
Year Founded:	1990 (GSAM)	
Headquarters:	New York, NY	
GP Commitment:	1%	

Investment Summary	Existing and Prior Funds	
<p>The Fund will seek to achieve current income and provide flexibility to the Pension Fund's Private Credit portfolio. The Fund will target attractive risk-adjusted returns through disciplined, credit-intensive research and default loss mitigation, complemented by top-down industry overweights and underweights vs. the levered loan index. The Fund will apply leverage to a diversified portfolio of broadly syndicated loans, which are below-investment-grade (predominantly B-rated and BB-rated), floating rate, liquid, senior-secured, and first-lien.</p>	<i>Year</i>	<i>Net Returns</i>
	YTD 2021 (thru August)	4.05%
	2020	3.75%
	2019	9.57%
	2018	-0.94%
	2017	4.60%
	2016	8.63%
	2015	0.05%
	2014	1.34%
	2013	5.25%
	2012	8.83%
	2011	2.27%
	2010	8.63%
	2009	48.96%
	2008	-28.34%
2007 (March inception)	-1.67%	
Represents GSAM's unlevered Floating Rate (Institutional) composite as of August 31, 2021		

Vehicle Information:

Inception:	TBD	Auditor:	PricewaterhouseCoopers LLP
Fund Size:	\$1.01 billion maximum	Legal Counsel:	Fried Frank LLP
	Charged on gross assets:		
	0.22% on first \$500 million		
Management Fee:	0.20% on balance above \$500 million		
Carry:	0%		
Hurdle Rate:	n/a		

NJ AIP Program			
Recommended Allocation:	up to \$1 billion	LP Advisory Board Membership:	N/A
% of Fund:	99%	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.