



State of New Jersey

PHILIP D. MURPHY
Governor

SHEILA Y. OLIVER
Lt. Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290
Telephone (609) 292-5106
Facsimile (609) 984-4425

ELIZABETH MAHER MUOIO
State Treasurer

SHOAIB KHAN
Acting Director

November 8, 2021

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Acting Director

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

The Division of Investment (the “Division”) is proposing a commitment of up to \$500 million in a separately managed private credit investment vehicle (the “Fund”) to be managed by Goldman Sachs Asset Management (“GSAM” 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:

Opportunity to accelerate capital deployment into Private Credit: The Fund is expected to be seeded with 30 to 40 existing loans that have been funded from the Firm’s own balance sheet. As a result, the Fund could have up to 50% of its capital invested at closing (depending on timing of close), which would help reduce the Pension Fund’s underweight allocation to Private Credit.

Reduced blind pool risk: The Fund could be up to 50% funded at closing with 100% of the seed portfolio originated after the depths of COVID (approximately June 2020 and forward). The Division and its consultant both reviewed the seed portfolio and are comfortable with the underwriting standards of the Firm and the underlying credit quality of the loans in the seed portfolio.

Attractive fees: The Fund will have management fees of 0.475% on gross assets with a 12% profit allocation over a 7% preferred return. Based on Prequin data, the Fund’s fees compare favorably to private credit funds, which generally have management fees ranging from 0.50% to 2.0% and profit allocations of 10% to 20%.

Firm is an institutional quality credit manager: 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 today is one of the largest private capital investors of performing credit globally, with approximately \$97 billion raised since 1996.

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

Division Staff and its 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 the IPC discussed the investment at its meeting 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") Private Credit 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	<p>Key Investment Professionals:</p> <p>Greg Olafson: Global Co-Head of Credit. Greg is co-head of the global Credit business within the GSAM Private Credit (GSAM PC). He is a member of the GSAM PC Credit and GSAM Growth Equity Investment Committees and serves as co-chair of the Specialty Lending Group Investment Committee. He is also a member of the Sustainable Finance Group Steering Group. Prior to assuming his current role, Greg was head of the European Special Situations Group (ESSG) from 2013 to 2019. Greg joined Goldman Sachs in 2001 as an associate in the Investment Banking Division in London and moved to the Distressed Debt Trading desk in 2003. He was a founding member of the European Special Situations Group. Greg was named managing director in 2007 and partner in 2012.</p> <p>Kirsten Hagen: Head of Americas Senior Debt. Kirsten is a managing director in the Private Credit Group within the Merchant Banking Division (MBD). She oversees the leveraged loan investing strategy in North America, including the GS Loan Partners and the Broad Street Senior Credit Partners family of funds. Kirsten is also closely involved in MBD's mezzanine debt and preferred equity investing businesses. She serves as a member on the Goldman Sachs Bank USA Management Committee. Prior to joining MBD in 2008, Kirsten spent four years in the Leveraged Finance Group. Earlier in her career, she was in the Investment Banking Division in the New York and Chicago offices. Kirsten joined Goldman Sachs in 2002 and was named managing director in 2013.</p> <p>David Miller: Co-head of Private Credit Americas - Head of the Specialty Lending Group (SLG). David is head of the Specialty Lending Group (SLG) in the Merchant Banking Division (MBD). He is a member of the MBD Credit Investment Committee and SLG Investment Committee. Previously, David was head of originations for SLG. He joined Goldman Sachs in 2004 and was named managing director in 2012 and partner in 2014.</p> <p>Tom Connolly: Global Co-head of Credit. Tom is global co-head of the Credit Investment Business within the GSAM Private Credit (GSAM PC). He oversees the leveraged loan, mezzanine and preferred equity investing strategies, which include GS Loan Partners and the GS Mezzanine Partners Family of Funds. Tom serves as co-chair of the Specialty Lending Group Investment Committee and a member of the GSAM PC Corporate and Credit Investment Committees and the Firmwide Risk Committee. Tom joined Goldman Sachs in 1996 and worked in High Yield Capital Markets in New York from 1996 to 1998. He was based in London from 1998 to 2002 as head of European Leveraged Finance. Prior to joining GSAM PC in 2008, Tom was head of Leveraged Finance. He was named managing director in 1999 and partner in 2004.</p> <p>Mike Koester: Global Co-head of the Firmwide Alternatives Capital Markets & Strategy Group. Mike is global co-head of the firmwide Alternatives Capital Markets & Strategy Group (ACMS) and is chief commercial officer for the Merchant Banking Division (MBD). ACMS leads institutional capital markets, capital raising and client strategy across direct investing and open architecture alternatives strategies. Mike serves on the Firmwide Client and Business Standards Committee and the MBD Corporate, Credit and Infrastructure Investment Committees. He joined Goldman Sachs in 1996 and rejoined the firm in the Investment Banking Division in 1999 before transferring to MBD in 2000. Mike was named managing director in 2005 and partner in 2008.</p>
Strategy:	Private Credit	
Year Founded:	1990 (GSAM)	
Headquarters:	New York, NY	
GP Commitment:	1%	

Investment Summary	Existing and Prior Funds
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The Fund will have an approximate 50% targeted allocation to the Specialty Lending Group ("SLG") investment strategy, which primarily lends to middle-market sponsored companies (\$10 - \$50 million of EBITDA), with a focus on first lien investing, though last-out, second lien, and equity co-investments can also be utilized in the mandate. Approximately half of the SLG allocation will be funded into an existing pool of 30 to 40 SLG loans made since June 2020, and once mature, the SLG portfolio is expected to have approximately 60 investments. The Fund will also have an approximate 30% targeted allocation to an opportunistic strategy managed by GSAM's Hybrid Capital division, currently investing through the West Street Strategic Solutions I fund, with the Fund investing on a pari passu basis. The remainder of the Fund can be invested across any of the following four GSAM Private Credit strategies: Senior Credit, Mezzanine, Opportunistic, or SLG.

<u>Funds</u>	<u>Inception date</u>	<u>Returns (as of June 30, 2021, unless otherwise noted)</u>
Mezzanine Partners I	1996	9% net IRR / 1.5x net MOIC / 1.5x DPI
Mezzanine Partners II	2000	8% net IRR / 1.3x net MOIC / 1.3x DPI
Mezzanine Partners III	2003	8% net IRR / 1.2x net MOIC / 1.2x DPI
Mezzanine Partners 2006	2006	3% net IRR / 1.2x net MOIC / 1.2x DPI
Mezzanine Partners V	2008	10% net IRR / 1.3x net MOIC / 1.3x DPI
Mezzanine Partners VI	2014	12% net IRR / 1.3x net MOIC / 1.1x DPI
Mezzanine Partners VII	2018	12% net IRR / 1.2x net MOIC / 0.2x DPI
West Street Strategic Solutions I*	2020	n/m net IRR / 1.2x net MOIC / 0.1x DPI
Specialty Lending Group**	2004	12.0% gross IRR
Strategic Solutions***	2009	16% net IRR / 1.4x net MOIC

Notes:

* West Street Strategic Solutions's net IRR is not meaningful ("n/m") given the young age of the fund

**SLG does not have a net IRR or MOIC calculation as it has historically been proprietary to GSAM.

*** Strategic Solutions is as of 4/30/2020. Thereafter West Street Strategic Solutions I was launched.

Source: GSAM

IRR = Internal Rate of Return; MOIC = Multiple of Invested Capital; DPI = Distributed to Paid-in Capital

Vehicle Information:

Inception:	TBD	Auditor:	PricewaterhouseCoopers LLP
Fund Size:	\$505 million	Legal Counsel:	Fried Frank LLP
Management Fee:	0.475% on gross assets		
Profit Allocation:	12%		
Preferred Return:	7%		

NJ AIP Program

Recommended Allocation:	up to \$500 million	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.