



State of New Jersey

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July 17, 2020

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Proposed Investment in Owl Rock Diversified Lending 2020 Fund**

The Division of Investment (the "Division") is proposing an investment of up to \$150 million in the Owl Rock Diversified Lending 2020 Fund (the "Fund"). 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:

Experienced and large investment team: Owl Rock has assembled (and retained) one of the top talent pools in the direct lending space. Each of Owl Rock's co-founders has over 25+ years of industry experience, and the total team has over 55 dedicated investment professionals.

Strength of origination platform: All of Owl Rock's investment professionals, based in offices in New York and California, contribute to the Fund's origination funnel. Since inception in 2016, Owl Rock has sourced potential investments from upwards of 470 different private equity sponsors. By focusing on loans to sponsor-backed companies, Owl Rock aims to build a portfolio backed by quality sponsors that have a track record of success and the resources, capabilities and expertise to support their portfolio companies during times of financial distress.

Attractive, asymmetric risk/return profile: The investment in the Fund will be accompanied by a share in the economics of Owl Rock Capital Diversified Holdings LLC ("ORDH"). This stream of potential incremental cash flow is additive to the Pension Fund's investment in the Fund and introduces a differentiated equity upside component that does not exist in most peer direct lending platforms. The net effect of these economics in ORDH is to create a risk/return profile that combines the downside protection inherent in senior-secured lending in the Fund with equity upside in ORDH.

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

Division Staff and its consultant, Aksia TorreyCove, 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 engaged a third-party solicitor ("placement agent") in the fundraising of the Fund, but no placement agent was engaged or paid in connection with the Pension Fund's potential investment.

Owl Rock incorporates ESG considerations, including environmental impact, labor relations, community impact, and cybersecurity, into the overall risk management process and underwriting of companies and credits. All deal teams are required to report on ESG findings, and transactions may be declined if key ESG considerations are not satisfactorily addressed or present material downside risk. Owl Rock deal teams currently leverage materials provided by the Sustainability Accounting Standards Board ("SASB") to identify and evaluate ESG-related risks. In addition to these efforts, Owl Rock is in the process of developing a comprehensive ESG framework.

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. Owl Rock Diversified Lending 2020 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 Committee was held on July 17, 2020. 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 22, 2020 meeting.

Attachment

Fund Name: Owl Rock Diversified Lending 2020 Fund (ORDL) **July 17, 2020**

Contact Info: *Melanie Dolan and Tim Walsh, 399 Park Avenue, 38th Floor, New York, NY 10022*

Fund Details:

Total Firm Assets (\$bil):	\$17.3 billion	Key Investment Professionals: Douglas I. Ostrover (Founder) - Prior to the formation of Owl Rock, Mr. Ostrover was one of the founders of GSO Capital Partners which was later sold to the Blackstone Group. Prior to that, he was Chairman of the Leveraged Finance Group of CSFB. Mr. Ostrover serves as CEO and Co-CIO at Owl Rock, and as the face of the firm and focusing on interacting with institutional LPs. Marc S. Lipschultz (Founder) – Prior to the formation of Owl Rock, Mr. Lipschultz spent more than two decades at KKR where he served on the management committee and was the Global Head of Energy and Infrastructure. Prior to KKR, he was at Goldman Sachs. Mr. Lipschultz is President and Co-CIO of Owl Rock and is focused on day-to-day management of the firm. Craig W. Packer (Founder) – Prior to the formation of Owl Rock, Mr. Packer was co-head of Leveraged Finance in the Americas at Goldman Sachs, where he served on the firm-wide capital committee and several investment banking divisional committees related to operations, client and business standards, and risk management. Mr. Packer serves as Co-CIO at Owl Rock and is focused on loan origination and investments. Alexis Maged – Prior to joining Owl Rock in 2016, Mr. Maged was Chief Financial Officer of Barkbox, Inc. Mr. Maged is a Managing Director of Owl Rock Capital Partners, serves as the Head of Credit for Owl Rock Capital Advisors, and is a member of the Advisors’ Investment Committee.
Strategy:	Direct Lending	
Year Founded:	2016	
Headquarters:	New York	
GP Commitment:	\$100 million commitment across the strategy, ORCC III and ORDL	

Investment Summary	Existing and Prior Funds									
<p>The Fund will primarily invest in directly originated, senior secured loans to upper middle market companies owned by private equity sponsors. Borrowers will largely be U.S. based businesses generating between \$50 million and \$2.5 billion in annual revenue and \$10 million and \$250 million of annual EBITDA. Financing is expected to be used to fund leveraged buyouts, add-on acquisitions, liquidity, refinancings, and restructurings. Owl Rock anticipates that the Fund’s portfolio will mainly be comprised of first lien senior secured loans. To a lesser extent, the portfolio may also potentially include second lien senior secured loans, unsecured debt, and equity. Targeted loans will have floating interest rates and the Fund may also receive upfront fees, such as an original issue discount, and other fee income including prepayment fees. Investments will generally range in size between \$20 million and \$250 million and have position sizes of 1% to 2% once fully ramped. Many of Owl Rock’s loans are expected to be structured with five to seven-year terms, but be refinanced prior to maturity, typically within three years. As part of the investment in the Fund, the Pension Fund will also receive a stream of potential economics through a partial equity ownership in Owl Rock Capital Diversified Holdings LLC (“ORDH”).</p>	<table border="1"> <thead> <tr> <th><i>Funds</i></th> <th><i>Strategy</i></th> <th><i>Returns</i></th> </tr> </thead> <tbody> <tr> <td>ORCC/ORCG (2016)</td> <td>Direct Lending + GP Equity</td> <td>19.3% net IRR; 1.3x net MOIC</td> </tr> <tr> <td>ORTF/ORTH (2018)</td> <td>Direct Lending + GP Equity</td> <td>42.1% net IRR; 1.4x net MOIC</td> </tr> </tbody> </table> <p>Source: Owl Rock as of 12/31/2019. ORTF/ORTH returns reflect that of a representative investor.</p> <p>IRR = Internal Rate of Return; MOIC = Multiple on Invested Capital</p>	<i>Funds</i>	<i>Strategy</i>	<i>Returns</i>	ORCC/ORCG (2016)	Direct Lending + GP Equity	19.3% net IRR; 1.3x net MOIC	ORTF/ORTH (2018)	Direct Lending + GP Equity	42.1% net IRR; 1.4x net MOIC
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Vehicle Information:

Inception:	2020	Auditor:	KPMG LLP
Fund Size:	Target \$5 billion across ORCC III and ORDL	Legal Counsel:	Kirkland & Ellis LLP

	ORDL	ORDH	Total
Management Fee:	1% of gross assets. No management fee on undrawn capital.	None	1% of gross assets. No management fee on undrawn capital.
Carry:	0% thru 6/30/2025; 10% thereafter	10% thru 6/30/2025; none thereafter	10%
Preferred return	6%	6%	6%
Additional Expenses:	As detailed in the PPM	None	As detailed in the PPM

NJ AIP Program			
Recommended Allocation (\$mil.):	up to \$150 million	LP Advisory Board Membership:	TBD
% of Fund:	3% across ORCCIII and ORDL	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.