



## State of New Jersey

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July 24, 2024

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan  
Director

SUBJECT: **Private Credit Investment – GCM Grosvenor Emerging Manager PC Separately Managed Account**

The Division of Investment (the “Division”) is proposing an investment of up to \$300 million into a GCM Grosvenor Emerging Manager PC Separately Managed Account (the “SMA”). 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:

**Diversify the Division’s Private Credit portfolio with exposure to Small and Emerging Managers.**

- NJDOI’s current Private Credit portfolio is focused on large, mature managers.
- NJDOI will benefit from the SMA’s diversification into smaller companies, niche strategies and uncorrelated returns.

**Provide the Division with a customized solution to overcome institutional challenges in accessing emerging managers.**

- Research indicates that smaller funds of smaller managers can outperform larger funds.
- Due to NJDOI’s size and resource constraints, it is difficult to deploy capital at scale in smaller managers.
- GCM Grosvenor will source, underwrite and manage emerging managers, while NJDOI will have veto rights over investments proposed by GCM Grosvenor.

**Partner with an experienced Private Credit team focused on Emerging Managers**

- GCM Grosvenor will execute an exclusive SMA that will invest in emerging managers with niche credit strategies that are expected to complement existing direct lending exposure within the NJDOI Private Credit portfolio.
- Since 2020, the Firm has structured two SMAs for institutional investors that have committed ~\$600 million in capital.

- Since 2002, the Firm has made 111 Small and Emerging Manager Private Credit Fund investments.
- GCM Grosvenor has an established network of investment managers through which it will implement private credit strategies predominantly through primary fund investments. The Firm has capabilities to invest through secondary fund investments and direct co-investments, subject to NJDOI's veto right.

**Obtain early access to the next generation of Private Credit managers with pre-negotiated economics**

- GCM Grosvenor is known for identifying and mentoring emerging managers and having a direct fund relationship with the Firm's capital partners and other investors.
- GCM Grosvenor pre-negotiated economics/rights with its investment managers that are passed through to the Firm's investors.

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 the Fund has not engaged a third-party solicitor ("placement agent").

In accordance with the State Investment Council's ESG Policy, the Division of Investment's Corporate Governance Team completed its review of GCM Grosvenor's Environmental, Social and Governance efforts. The following summarizes the findings in regard to Policy, Governance, Communications and Reporting, and Investment process.

Policy: GCM Grosvenor has a strong Sustainable Investing and Impact Policy, and the policy was last updated in spring 2024. The firm is a signatory of the Principles for Responsible Investing (PRI).

Governance: GCM Grosvenor has a Sustainability Committee led by its Head of Sustainability, Managing Director Jonathan Hirschtritt. The firm is also committed to the training, development, retention, and promotion of minorities, women, LGBTQ employees, veterans, and individuals with disabilities currently employed at the firm.

Communications and Reporting: GCM Grosvenor publishes an annual Impact Report on its website. GCM Grosvenor is a member of the ESG Data Convergence Initiative. The firm has begun the process of collecting KPIs in greenhouse gas emissions, board diversity, and work-related injuries.

Investment Process: The firm conducts both investment and operational due diligence to focus on an investment's ESG related factors. During the investment monitoring and exit stages of the investment process, the firm seeks to address the following issues: ensure adherence to strategy,

promote team cohesion, address conflicts of interest, and monitor turnover and potential operational/legal issues

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 SMA 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 July 12, 2024. 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 24, 2024 meeting.

Attachment

## **GCM Grosvenor Emerging Managers Private Credit SMA**

- **DOI Commitment:** A commitment of \$300 million to the Private Credit sleeve of the Emerging Managers program managed by GCM Grosvenor. Investment will be structured as a Separately Managed Account (SMA).
- **Strategy:** Emerging Managers Private Credit.
- **Investment Focus:** Program approach to investing in Small and Emerging Private Credit Managers with wide spectrum of strategies: Senior Secured Lending, Asset based Credit, Special Situations, Specialty Lending and Private Corporate Credit. Those managers will target sponsored and non-sponsored, core and lower middle market companies primarily (over 80%) in North America and Western Europe.
- **Target Returns:** 8-10% net IRR (unlevered)
- **Investment Thesis:**
  - Diversify the Division's Private Credit portfolio with exposure to niche strategies with uncorrelated returns by investing in Small and Emerging Private Credit Managers.
  - Research suggests that smaller funds of smaller managers can outperform larger funds.
  - Program approach is a solution to overcome NJDOI's resource constraints in accessing Emerging Managers with smaller size investments.
  - NJDOI will partner with an experienced Private Credit team focused on Emerging Managers. The team has an established track record of executing the strategy since 2002.
  - Obtain early access to the next generation of Private Credit managers with pre-negotiated economics.
  - The Division will benefit from Grosvenor's insights in relation to NJ's larger Private Credit portfolio.

# Private Credit

**Fund Name:** Emerging Manager PC Separately Managed Account July 24, 2024

**Contact Info:** Sean Conroy, 900 North Michigan Avenue, Chicago, IL 60611

**Fund Details:**

<b>Total Firm Assets:</b>	\$77 billion	<b>Key Investment Professionals:</b>  <b>Stephen McMillan</b> – Mr. McMillan is the Managing Director and Head of Credit Research and is based in the London office. Prior to joining GCM Grosvenor, he worked at a credit fund, Blue Mountain Capital, where he was Head of Fund Management and CEO of Blue Mountain's European business. Earlier in his career, Mr. McMillan was Head of Fixed Income at Lloyds Bank Pensions, managing all the pension schemes credit and fixed income assets.  <b>Marc Iyer</b> – Mr. Iyer is a Managing Director and leads the firm's illiquid credit and special situations practice and focuses on fund investments. His experience spans corporate distressed securities, NPL portfolios, structured finance, direct lending and asset backed opportunities. He is responsible for sourcing, structuring and underwriting investments. Prior to joining GCM Grosvenor, Mr. Iyer was an Investment Banking Associate in the Financial Institutions Group at Merrill Lynch.  <b>Bradley Meyers</b> – Mr. Myers is a member of the Absolute Return Strategies Investment Committee and is Head of Absolute Return Strategies Portfolio Management. Mr. Meyers oversees the portfolio management process and approves portfolio allocations prior to implementation. Prior to his role as Head of Absolute Return Strategies Portfolio Management, Mr. Meyers was a Vice President on the Absolute Return Strategies Research Team, with a focus on credit and arbitrage strategies. Prior to joining the firm, Mr. Meyers was a financial analyst with Merrill Lynch in its Mergers and Acquisitions Group.
<b>Strategy:</b>	Private Credit/Emerging Manager	
<b>Year Founded:</b>	1971	
<b>Headquarters:</b>	Chicago, IL	
<b>GP Commitment:</b>	1%	

Investment Summary	Existing and Prior Funds		
The Separately Managed Account (SMA) seeks to generate strong, risk adjusted returns by investing with emerging private credit managers and assisting them to develop in the institutional market. GCM Grosvenor is committed to supporting emerging managers and executes its emerging manager program exclusively through customized SMAs. GCM Grosvenor customizes each SMA based on discrete investment guidelines, objectives and constraints. The Firm will focus on niche strategies with uncorrelated returns.	Funds	Vintage Year	Strategy
	Private Credit - Series 1	2020	Emerging Managers
	Private Credit - Series 2	2022	Emerging Managers
	Private Credit Small and Emerging Managers Fund Investments	2002	Emerging Managers
	Private Credit Diverse Manager Fund Investments	2008	Emerging Managers
	Source of Returns - GCM Grosvenor		
	IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI = Distributions to Paid-In		
	Net Returns as of 12/31/2023:		
			22.0% IRR; 1.43x TVPI; 0.35x DPI
			25.9% IRR; 1.17x TVPI; 0.03x DPI
			13.2% IRR; 1.39x TVPI; 1.13x DPI
			14.2% IRR; 1.33x TVPI; 0.54x DPI

**Vehicle Information:**

<b>Inception:</b>	N/A	<b>Auditor:</b>	TBD
<b>Target Fund Size:</b>	\$303 million	<b>Legal Counsel:</b>	TBD
<b>Investment:</b>	GCM Grosvenor Emerging Manager PC SMA		
<b>Management Fee:</b>	0.40% on Invested Capital		
<b>Incentive Fee:</b>	3%		
<b>Preferred Return:</b>	8%		
<b>Additional Expenses:</b>			

NJ AIP Program			
<b>Recommended Allocation (Smil.):</b>	up to \$300 million	<b>LP Advisory Board Membership:</b>	N/A
<b>% of SMA:</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.