



State of New Jersey

PHILIP D. MURPHY
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

SHEILA Y. OLIVER
Lt. Governor

COREY AMON
Acting Director

September 21, 2018

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Acting Director

SUBJECT: **Proposed Investment in Owl Rock Technology Finance Corp**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$100 million in Owl Rock Technology Finance Corp. This memorandum is presented to the State Investment Council (“Council”) pursuant to N.J.A.C. 17:16-69.9.

Owl Rock Technology Finance Corp. (“Company”) is seeking to capitalize on middle-market direct lending opportunities created by bank disintermediation. The Company will originate, structure, and manage debt and equity-related investments in the technology sector. The Company plans to invest in a broad range of established and high-growth technology companies that are capitalizing on the large and growing demand for technology products and services. It would lend to companies that (i) use technology extensively to improve their business processes, applications and opportunities; (ii) seek to grow through technological developments and innovations; or (iii) operate in technology-related industries or sectors such as information technology, application or infrastructure software, financial services, data and analytics, security, cloud computing, communications, life sciences, healthcare, media, consumer electronics, semi-conductor, internet commerce and advertising, environmental, aerospace, and defense. Investments will be focused primarily on debt or income producing securities including senior secured or unsecured loans, subordinated loans and mezzanine debt. Equity-linked securities would include convertible debt, convertible preferred equity, growth equity or warrants.

The Division is recommending this investment based on the following factors:

Performance: Owl Rock’s first fund, Owl Rock Capital Corporation, raised \$5.5 billion of equity and made its first investment in June 2016. While the fund is of recent vintage and still deploying capital, it is generating strong returns and is marked to generate an overall 11.1% IRR and 1.1x MOIC.

Experienced Investment Team and long-standing relationship with Owl Rock principals: Senior management and the talented team they built are positioned to excel at this strategy. Owl

Rock has capitalized on opportunities created by government regulations on traditional lenders and built a best-in-class direct lending platform.

Differentiated Investment Strategy: The Company's anticipated large size and singular focus on the technology-related sector differentiates itself from competitors. The Company would have "first mover" advantage and have scale to pursue the most attractive investments. Given the experience and relationships of Owl Rock's founders, senior management, and technology team it is anticipated that most investments will be directly originated. Owl Rock has a strong culture of risk management and downside protection.

Compelling Market Opportunity: Technology firms are gaining increasingly higher prominence in the overall economy. Digitalization of the US economy is poised to continue, with the potential to increase 40% over the next 5-10 years. Approximately 20% of all private equity investments from the period 2012-2017 were in the technology sector. The technology and software debt opportunity is large and growing. In 2017, debt issuance was \$121 billion compared with \$42 billion in 2010.

Favorable Structure & Seed Economics: Seed economics offer the Division an equity share in Owl Rock's technology lending business. A potential Company IPO offers the possibility of a liquidity option following a regulatory lock-up period.

Multiple Return Streams: Credit investments are anticipated to support attractive, recurring distributions. Equity-linked investments offer potential for capital appreciation. Potential Company IPO offers possibility for additional upside.

Environmental, Social, and Governance ("ESG"): As part of its due diligence process, staff conducted an analysis of Owl Rock's overall ESG process. As a lender, Owl Rock does not typically make investments that have control positions, which would otherwise give it the ability to drive ESG or sustainability practices at the portfolio company-level. However, Owl Rock has been incorporating ESG considerations, including environmental impact, labor relations, community impact, and cybersecurity, into its overall risk management process and underwriting of companies and credits. Owl Rock is currently developing a comprehensive ESG framework and has invited the Division to be involved in formalizing its ESG policy.

Attached is a report summarizing the details of the proposed investment that was provided to the Investment Policy Committee ("IPC").

Division Staff and its consultant, TorreyCove Capital Partners, 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 used an affiliate as a third-party solicitor ("placement agent") in the fundraising of the fund. The placement agent was not paid in connection with the Division's potential investment.

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 was 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 Technology Finance Corp 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 September 17, 2018. 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 September 27, 2018 meeting.

Attachments

Fund Name: Owl Rock Technology Finance Corp **September 27, 2018**

Contact Info: Karen Hager, 399 Park Avenue, 38th floor, New York, NY 10022

Fund Details:		<p>Key Investment Professionals: <u>Douglas I. Ostrover</u>, Co-Founder and the Chief Executive Officer of Owl Rock Capital Partners LP and Co-Chief Investment Officer of Owl Rock Capital Advisors LLC and Owl Rock Technology Advisors LLC. Prior to founding Owl Rock, Mr. Ostrover was one of the founders of GSO Capital Partners. <u>Marc S. Lipschultz</u>, Co-Founder and the President of Owl Rock Capital Partners LP and Co-Chief Investment Officer of Owl Rock Capital Advisors LLC and Owl Rock Technology Advisors LLC. Prior to founding Owl Rock, Mr. Lipschultz spent more than two decades at KKR, where he served on the firm's Management Committee and as the Global Head of Energy and Infrastructure. <u>Craig Packer</u>, Co-Founder of Owl Rock Capital Partners LP, Chief Executive Officer of Owl Rock Capital Corporation, Owl Rock Capital Corporation II and Owl Rock Technology Finance Corp, and Co-CIO of Owl Rock Capital Advisors and Owl Rock Technology Advisors LLC. Prior to founding Owl Rock, Mr. Packer was co-head of Leveraged Finance in the Americas at Goldman Sachs. <u>Alan Kirshenbaum</u>, Managing Director and Chief Operating Officer/Chief Financial Officer of Owl Rock Capital Partners LP, Owl Rock Capital Advisors LLC and Owl Rock Technology Advisors LLC and CFO of Owl Rock Capital Corporation, Owl Rock Capital Corporation II and Owl Rock Technology Finance Corp. Prior to Owl Rock, Mr. Kirshenbaum was Chief Financial Officer of TPG Specialty Lending, Inc. <u>Alexis Maged</u>, Managing Director, Head of Underwriting and Portfolio Management for Owl Rock Capital Advisors LLC and Owl Rock Technology Advisors LLC. . Previously, Mr. Maged held several leadership positions, including Chief Operating Officer of the investment bank's Global Credit Finance businesses, Co-Chair of the Credit Markets Capital Committee and a member of the Firmwide Capital Committee. <u>Derek O'Leary</u>, Managing Director and Head of Investor Relations and Business Development at Owl Rock, is President of Owl Rock Capital Securities LLC, an SEC-registered broker-dealer and member of FINRA and SIPC. Previously he served as President of CION Securities, a non-traded BDC sub-advised by Apollo Investment Management. Prior to CION he worked in the asset management businesses of Merrill Lynch, Salomon Brothers and Goldman Sachs.</p>
Total Firm Assets (\$bil.):	\$7.2 billion	
Strategy:	Global Diversified Credit	
Year Founded:	2016	
Headquarters:	New York	
GP Commitment:	at least 1% of total commitments	

Investment Summary	Existing and Prior Funds									
<p>Owl Rock plans to invest in a broad range of established and high-growth technology companies that are capitalizing on the large and growing demand for technology products and services. Owl Rock will primarily make investments in debt or income producing securities with a small allocation to equity-linked securities. Debt or income producing securities include senior secured or unsecured loans, subordinated loans, and mezzanine debt. Equity-linked securities include convertible debt, convertible preferred equity, growth equity and warrants.</p>	<table border="1"> <thead> <tr> <th>Funds</th> <th>Strategy</th> <th>Returns as of 6/30/2018</th> </tr> </thead> <tbody> <tr> <td>ORCC</td> <td>Global Diversified Credit</td> <td>11.1% IRR, 1.1x MOIC</td> </tr> <tr> <td>ORCC/ORCH</td> <td>Global Diversified Credit</td> <td>32% IRR, 1.5x MOIC</td> </tr> </tbody> </table> <p>IRR = Internal Rate of Return; MOIC= Multiple on Invested Capital</p>	Funds	Strategy	Returns as of 6/30/2018	ORCC	Global Diversified Credit	11.1% IRR, 1.1x MOIC	ORCC/ORCH	Global Diversified Credit	32% IRR, 1.5x MOIC
Funds	Strategy	Returns as of 6/30/2018								
ORCC	Global Diversified Credit	11.1% IRR, 1.1x MOIC								
ORCC/ORCH	Global Diversified Credit	32% IRR, 1.5x MOIC								

Vehicle Information:

Inception:	2018	Auditor:	PricewaterhouseCoopers
Fund Size (\$mil.):	\$1.5 billion seed round target / \$5.0 billion total target raise	Legal Counsel:	Eversheds Sutherland
Management Fee Prior to Exchange Listing:	0.90% of gross assets above 200% asset coverage, plus 1.50% of unfunded capital commitments		
Management Fee After Exchange Listing:	1.50% of gross assets above 200% asset coverage, plus 1.0% of gross assets below 200% asset coverage		
Carry:	17.5% prior to exchange listing; 17.5% after exchange listing		
Hurdle Rate:	6%		
Additional Expenses:	N/A		

NJ AIP Program

Recommended Allocation (\$mil.):	up to \$100 million	LP Advisory Board Membership:	TBD
% of Fund:	2.00%	Consultant Recommendation:	Yes
		Placement Agent:	Yes
		Compliance w/ Division Placement Agent Policy:	Yes
		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.