



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
Director

January 20, 2023

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Global Diversified Credit Investment – Glendon Opportunities Fund III**

The Division of Investment (the “Division”) is proposing an investment of up to \$300 million in Glendon Opportunities Fund III and a co-invest vehicle investing alongside 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 team investing through cycles. Glendon Capital Management L.P. (“GCM”) was founded in 2013 as an independent entity through Barclays Asset Management’s (“Barclays”) spinoff of its distressed debt team to form the new firm. GCM invested through the COVID crisis as the volatility allowed them to start deploying capital from Glendon Opportunities Fund II (“G2”). G2 included over 60 investments in a variety of industries since Q4 of 2019. As of September 30, 2022, G2 is marked at a 18.5% net IRR and a 1.4x net TVPI. GCM Founders Matthew Barrett, Holly Kim and Brian Berman, along with all six members of the Senior Investment Team, have worked together for an average of 18 years and all have extensive backgrounds in distressed investing prior to their joining GCM.

Flexible approach investing across the distressed landscape. Glendon's team is one of the earliest entrants into the distressed trading field having led the distressed strategy at Oaktree 25 years ago before joining Barclays and then spinning out to create GCM. The team’s prior track record at Barclays is strong (14.3% net IRR and 3.1x MOIC) which solidifies our thesis that they can generate strong returns across different market cycles. Track record by issuer is strong and consistent across all levels of the capital structure. Glendon focuses primarily on North America and exposure to Europe and other parts of the world when the opportunity presents itself. Fund II has invested 76% in North America.

GCM focuses on bank debt and bonds. They invest across a large swath of the debt landscape and focus on a plethora of debt instruments to generate returns; these may include high yield bonds, sovereign bonds, broadly syndicated loans and illiquid loans or notes. They also will invest in equity (both post reorg and common).

Attractive distressed opportunity set in wake of pandemic. Several sectors are severely challenged and still not investable today. It is expected that the distressed cycle will affect a broad range of the economy providing ample opportunity for Glendon to deploy capital. The Fund includes a three-year delayed draw structure (i.e., the GP's ability to activate the Fund's investment period within three years from the Fund's final close) allows the Fund to be highly opportunistic and broad based. A few examples of instruments that may look attractive over the course of the next few of years are: Stressed and Distressed Company Securities, Post-Reorganization Securities and Downgrade Securities. In addition, there will be opportunities to take large positions of good businesses with bad capital structures as the cycle carries on. Compared to the global financial crisis in 2008, the opportunity set is significantly larger for distressed investors in this dislocation as credit markets are double the size they were in 2008.

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 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.

Glendon has a Responsible Investment Policy ("RI Policy"), a policy that was originally adapted and last updated in November 2021 and is subject to change as GCM considers necessary or advisable. The RI Policy is intended to reflect GCM's general framework for integrating RI considerations through the lifecycle of an investment across GCM's investment management business. The Division's Corporate Governance team has reviewed GSM's ESG/RI policy and related documents.

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 October 12, 2022. 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 January 25, 2023 meeting.

Attachment

Glendon Oppt Fund III

- **DOI Commitment:** up to \$300 million (including \$100 million in Co-invest)
- **Strategy:** Private Credit – Distressed Opportunities
- **Investment Focus:** Credit and equity investments in markets experiencing distress or dislocation primarily in North America. The strategy will be thematic and opportunistic across all asset classes through a distressed cycle (prior investments have included telecom, building products, real estate, material, industrials, and transportation).
- **Target Returns:** 15-20% net IRR
- **Investment Thesis:**
 - Experienced and cohesive team in credit opportunities
 - Flexible mandate to invest across geographies, industries and capital structures
 - Helps the Pension Fund gain additional exposure to the increasing distressed market

Fund Name: Glendon Opportunities Fund III, L.P. January 25, 2023

Contact Info: Alyssa Ellard 2425 Olympic Blvd, Suite 500E, Santa Monica, CA 90404

Fund Details:		
Total Firm Assets:	\$5.2 billion	<p>Key Investment Professionals:</p> <p>Matthew Barrett (Founder & Partner) – Mr. Barrett established Glendon in 2013. He previously founded and led BAMG from 2006 until 2013. His career in advising and investing in distressed debt spans over 30 years. Mr. Barrett was a managing director with Oaktree Capital Management from 1995 to 2005 and served as a leader of the OCM Opportunities Funds, one of the largest global distressed debt and special situations investment platforms.</p> <p>Holly Kim (Founder & Partner) – Mrs. Kim is a founder and partner at Glendon and is a member of its Investment Committee. Previously, she was a Managing Director of BAMG from 2006 until 2013, sharing responsibility for leading its activities. Prior to BAMG, Holly was a Managing Director at Oaktree Capital Management where she was employed from 2000 to 2006 with the OCM Opportunities Funds working with Matthew Barrett and Brian Berman. Prior to joining Oaktree, Holly was a consultant for Bain & Company where she developed business strategies for clients in the technology and consumer products industries.</p> <p>Brian Berman (Founder and Partner) – Mr. Berman is a founder and partner at Glendon. Previously, he was a Managing Director of BAMG from 2006 until 2013, sharing responsibility for leading its activities. Prior to BAMG, Brian was a Managing Director at Oaktree Capital Management where he was employed from 1996 to 2006. At Oaktree, he was a senior member of the OCM Opportunities Funds analytical team, with responsibility for idea generation, complex restructurings, general distressed debt investing, as well as foreign distressed and distressed-for control transactions.</p> <p>Chris Sayer (Partner) – Mr. Sayer is a partner and a member of the Investment Committee. Previously he worked at BAMG from 2008 -2013 where he as most recently a Vice President with responsibility for sourcing, analyzing and realizing distressed opportunities. Prior to Barclays, Chris was an Associate Consultant with Bain & Company where he was employed from 2006 to 2008. At Bain, Chris provided strategic and financial advice to corporate clients in the United States and South Africa. Alexander Thain (Partner) – Mr. Thain is a partner at Glendon and is a member of its Investment Committee. Previously, he worked at BAMG from 2009- 2013 where he was most recently a Vice President with responsibility for sourcing, analysis and realization of credit opportunities and special situations investments. Prior to joining BAMG in 2009, he was an Associate in the High Yield and Distressed investing Group at Goldman Sachs & Co. At Goldman Sachs, he sourced, analyzed, and realized investments in stressed and distressed corporate debt and equities. Chris Delaney (Partner) – Mr. Delaney is currently a partner at Glendon. Previously, he worked at BAMG from 2007-2013 where he was most recently a Vice President with responsibility for sourcing and analyzing distressed and special situations investments. Prior to joining BAMG in 2007, he was a Consultant for the Boston Consulting Group. At Boston Consulting Group, Chris provided strategic, operational, and financial advice to clients in the retail, industrial goods, and travel sectors.</p>
Strategy:	Private Credit/Special Situations	
Year Founded:	2013	
Headquarters:	Santa Monica, CA	
GP Commitment:	2%	

Investment Summary

Glendon Opportunities Fund III L.P. will seek to invest in opportunities across the distressed marketplace including stressed and distressed company securities, post-reorganization securities, special situations, including event-driven credit opportunities and investments in companies or platforms where Glendon can take advantage of the absence of traditional financing. It aims to leverage the team’s expertise during past economic cycles and market disruptions to migrate across assets and geographies to exploit distressed opportunities. Downside protection is a key component of the Firm’s strategy. One important factor taken into account when deciding to invest is whether a sector has a microeconomic floor that limits how far it can fall

Existing and Prior Funds

<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Net Returns as of 9/30/2022</i>
Glendon Opportunities Fund	2014	Distressed	8.3% IRR; 1.6x TVPI; 1.1x DPI (estimated)
Glendon Opportunities Fund II	2019	Distressed	18.5% IRR; 1.4x TVPI; 0.0x DPI

Source of Returns - Aksia

IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI = Distributions to Paid-In

Vehicle Information:

Inception:	2023	Auditor:	Deloitte & Touche LLP
Target Fund Size :	\$2.5 billion	Legal Counsel:	Kirkland and Ellis
Investment:	Glendon Opportunities Fund III	Co-Investment Vehicle	
Management Fee:	2% on invested capital during the Investment Period; 1.5% on invested capital during the harvest period	None	
Incentive Fee:	20% with a 8% hurdle	None	
Additional Expenses:	100% Management Fee Offset	Pro rata Partnership Expenses	

NJ AIP Program			
Recommended Allocation (\$mil.):	up to \$300 million	LP Advisory Board Membership:	TBD
% of Fund:	6-8%	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.