



State of New Jersey

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July 22, 2015

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in GoldenTree Distressed Separate Account**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$300 million to a separate account managed by GoldenTree Asset Management (“GoldenTree” or the “Firm”), with up to \$200 million investing pro-rata alongside the GoldenTree Distressed Fund 2014 (“GoldenTree Distressed” or the “Fund”), a successor to the top-quartile GoldenTree Distressed Fund 2010, and an additional \$100 million reserved for overage and additional distressed opportunities. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

The GoldenTree Distressed Separate Account will focus on investing in distressed and stressed assets within corporate and structured product markets, targeting mid-to-high-teen net returns. GoldenTree will seek to maximize returns by drawing on the firm's distressed investment experience across regions, industries and products over multiple investment cycles, investing principally in issuers domiciled in the United States, Western Europe, the United Kingdom and Canada.

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

Distressed Opportunity and Complementary Exposure: The environment for stressed and distressed investing could be viewed as increasingly favorable, highlighted by more risky and aggressive debt issuance, including: increased leverage levels, growth in CCC issuers, and an increase in the amount of debt raised for acquisitions and dividends. In addition, the current environment is laying an attractive foundation for future distressed and stressed opportunities, driven by the vulnerability of security prices to increases in interest rates as well as deteriorating credit quality. GoldenTree’s strategy of focusing on distressed and stressed situations across large cap and middle market opportunities is a good addition to the Division’s existing investments in debt-related Private Equity, as many of the Funds are seasoned and largely in run-off mode.

Distressed and Restructuring Expertise: GoldenTree currently manages over \$3.7 billion of distressed assets across the Firm. Their experienced investment team and dedicated restructuring

specialists are able to invest in a broad range of opportunities, including control, non-control and stressed situations across industries and geographies. GoldenTree is able to effectively unlock value through the restructuring process, leveraging their deep relationships with bankruptcy lawyers and restructuring professionals.

Scale and Breadth of GoldenTree Team: With over 40 investment professionals, averaging 17 years of investing experience, the Firm's investment process allows it to identify the most attractive risk-adjusted returns across a broad range of asset classes, industry sectors and geographies. This scale enables GoldenTree to analyze a significantly larger opportunity set than many of its peers, which gives the Firm a significant advantage when constructing portfolios. GoldenTree Distressed will be able to leverage the broader GoldenTree platform, but the Fund's smaller size allows it to be nimble and opportunistic in pursuing mid-market opportunities.

Strong European Presence: GoldenTree established its London office in 2005, and currently employs 11 experienced multi-national investment professionals across research, trading and legal. In addition, GoldenTree manages a sizeable \$6.2 billion portfolio of European assets. The performance of European assets within the 2010 Distressed Fund has been particularly strong, with a gross Internal Rate of Return ("IRR") of 27.52% on realized investments and a gross 33.40% IRR on unrealized investments.

Attractive Terms: The Division has negotiated attractive market terms, including a management fee of 75 bps on invested (drawn) capital and 17% carried interest subject to an annualized preferred return of 8%. As part of the negotiation with GoldenTree, the Division has also agreed to a 3-year lock-up in its existing investment with GoldenTree Credit Opportunities which previously had no lock-up.

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

Division Staff and its private equity consultant, Strategic Investment Solutions, 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 (a "placement agent") in connection with New Jersey's potential investment.

We 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. We have obtained a preliminary Disclosure Report of Political Contributions in accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. We will obtain an updated Disclosure Report at the time of closing.

Please note that the investment is authorized pursuant to Articles 69 and 90 of the Council's regulations. GoldenTree Distressed Separate Account will be considered a private equity debt related investment, as defined under N.J.A.C. 17:16-90.1.

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 9, 2015. In addition to the formal

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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, 2015 meeting.

Attachments

Fund Name: Golden Tree Distressed Separate Account

July 22, 2015

Contact Info: Laurie Katz, 300 Park Ave, 20th Floor, New York, NY

Fund Details:

Firm AUM (\$bil):	\$23 billion	Key Investment Professionals: <u>Steven A. Tananbaum</u> , Managing Partner & Chief Investment Officer, Founding Partner, Executive Committee Member & Risk Committee Member. Beginning in early 2000, Steve Tananbaum founded and was instrumental in the building of GoldenTree Asset Management into an organization which is known for its bottom up value investment process, focused on the credit markets. <u>Steven Shapiro</u> , Senior Portfolio Manager, Founding Partner & Executive Committee Member. Mr. Shapiro sits on GoldenTree's Executive Committee and is responsible for overseeing GoldenTree's distressed investments and the firm's investments in media and communications.
Strategy:	Distressed Debt	
Year Founded:	2000	
Headquarters:	New York	
GP Commitment:	\$3 million	

Investment Summary	Existing Fund								
<p>GoldenTree Asset Management ("Gloden Tree" or the "firm") was founded in March 2000 by Steven Tananbaum as a partnership that is 100% employee owned. Today the firm has assets under management of over \$23 billion and is one of the largest independent asset managers focused on corporate credit, managing a variety of alternative and long only strategies. Currently, GoldenTree has approximately 202 employees, 26 of whom are Partners. The primary focus of GoldenTree's approach is superior bottom-up, fundamental value-based research.</p> <p>The GoldenTree Distressed Separate Account will focus on distressed and stressed investments, targeting mid-to-high-teen net returns. Golden Tree will seek to maximize returns by drawing on the firm's distressed investment experience across regions, industries and products over multiple investment cycles, investing principally in issuers domiciled in the United States, Western Europe, the United Kingdom and Canada.</p>	<table border="1"> <thead> <tr> <th><u>Funds</u></th> <th><u>Vintage Year</u></th> <th><u>Strategy</u></th> <th><u>Returns as of 12/31/2014</u></th> </tr> </thead> <tbody> <tr> <td>GoldenTree Distressed Fund</td> <td>2010</td> <td>Debt</td> <td>18.26% Net IRR, 1.70x Net TVPI, 0.29x Net DPI</td> </tr> </tbody> </table> <p>IRR = Internal Rate of Return; TVPI = Total Value to Paid-In DPI= Distributions to Paid-In</p>	<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 12/31/2014</u>	GoldenTree Distressed Fund	2010	Debt	18.26% Net IRR, 1.70x Net TVPI, 0.29x Net DPI
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Vehicle Information:

Inception:	2014	Auditor:	PricewaterhouseCoopers
Fund Size:	\$303 million	Legal Counsel:	Wilkie Farr & Gallagher LLP
Management Fee:	75 bps on Invested Capital		
Carry:	17%		
Hurdle Rate:	8%		
Offsets:	100% fee offset on monitoring fees		

NJ AIP Program

Recommended Allocation:	up to \$300 million	LP Advisory Board Membership:	TBD
% 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.