



State of New Jersey

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January 23, 2025

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Private Credit Investment – Blue Torch Separately
Managed Account**

The Division of Investment (the “Division”) is proposing an investment of up to \$400 million into a Separately Managed Account (the “SMA”) and \$200 million in a Co-Investment Vehicle (the “Co-Invest”) managed by Blue Torch Capital (the “Firm”). 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:

Niche target market. Blue Torch is targeting a niche segment of the market where structuring and workout experience can be advantageous. Target companies are generally considered to be facing potentially cyclical headwinds, undergoing some period of stress, facing regulatory or legal complications, or operating in lower growth or troubled sectors. One or more of these compounding factors can create a “company in transition” where Blue Torch can find opportunities requiring a solutions-oriented lender with experience underwriting complex situations.

Sourcing Capability. Mr. Genda has continued to demonstrate this ability to deploy capital regardless of market conditions. Since launching Blue Torch, the team has deployed more than \$9 billion since inception and has grown a network of more than 14,000 contacts including restructuring firms, law firms, management teams, PE sponsors, banks, and other lenders. Additionally, the funds have acted as lead agent on more than 70% of deals to date.

Strong Senior Team. Alongside Mr. Genda, fellow partners Vuk Djunic and Lee Haspel have a strong distressed credit and leveraged loan background. Prior to Blue Torch, Mr. Djunic, worked in high yield and distressed credit at Sounion Capital and Caxton Associates. Mr. Haspel was a portfolio manager at Fifth Street Asset Management, where he focused on middle market direct lending, tradable credit, and portfolio financing. The Firm’s Partners bring a combined 79 years of experience.

Lender Protections. Blue Torch's credit agreements generally have over 2 maintenance covenants per loan on average. The covenants address specific company risks in certain cases, allowing for pursuit of recovery of capital in meaningful downside scenarios. Reporting on key performance indicators and other data for underlying metrics is often provided by borrowers on a weekly basis. The team also generally underwrites to conservative downside cases and spends time determining appropriate liquidation value to understand how well protected their facilities are in the case of bankruptcy or restructuring.

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") for this SMA.

The Firm's environmental, social, and governance ("ESG") policy and related diligence disclosures were reviewed by the Division's Corporate Governance team in accordance with the Council's ESG Policy. The firm adopted its ESG policy in September 2021. This policy is reviewed annually to ensure alignment with Blue Torch's evolving ESG responsibilities and industry standards. Blue Torch has established an ESG Committee to oversee the implementation and updates of its ESG policy. The committee convenes quarterly to address ESG issues, evaluate policy updates, and assess emerging industry trends. The firm emphasizes maintaining regular communication with portfolio companies to monitor performance indicators. Blue Torch provides ongoing training to its investment professionals to enhance ESG awareness and compliance. These sessions include training on the Office of Foreign Assets Control (OFAC) and the Foreign Corrupt Practices Act (FCPA). RepRisk is used during due diligence, with analysis depth tailored to perceived risk levels. The firm places particular emphasis on monitoring cybersecurity and AI risks as part of its ESG risk management.

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 investments are 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.

Blue Torch Credit Opportunities NJDOI Fund LP

- **DOI Commitment:** up to \$600 million (including up to \$200 million in co-investment opportunities)
- **Strategy:** Private Credit – Opportunistic Direct Lending
- **Investment Focus:** Primary focus on Opportunistic Direct Lending. The strategy will focus on Middle Market “companies in transition” which require accelerated funding due to operational, financial, legal, or other transformational hurdles. The loans will focus on North America, primarily the United States, across multiple industry groups.
- **Target Returns:** 12-16% net IRR
- **Investment Thesis:**
 - Macro environment provides favorable tailwinds for private credit including continued elevated base rates (SOFR), strong demand for private market transactions, positive trends in M&A, and increasing demand for opportunistic capital for corporations in transition.
 - Blue Torch is targeting a niche segment of the market where traditional Middle Market lenders generally do not participate, adding an opportunistic lending allocation to the DOI Private Credit portfolio.
 - Blue Torch’s sourcing network of over 14,000 contacts provides for consistent deal flow.
 - Strong senior team who has worked together since the founding of Blue Torch in 2017, with an established track record of executing the strategy.

Contact Info: Meaghan Foley (150 East 58th Street, 39th Floor, New York, NY 10155)

Fund Details:

Total Firm Assets:	\$7.2 billion	Key Investment Professionals: Kevin Genda (Founder & CEO) – Mr. Genda is the founder and CEO of Blue Torch. Mr. Genda leads all investment, operational, and strategic decisions of Blue Torch. Prior to forming Blue Torch in 2017, Mr. Genda worked with Cerberus Capital Management for 21 years, most recently as a Senior Managing Director and Chairman of Cerberus Business Finance. During his time with Cerberus, Mr. Genda served as a member of the Investment Committee, a member of the Credit Committee, and Chairman of Ableco Finance. Prior to Cerberus, Mr. Genda worked with Wells Fargo Foothill Capital, Huntington Holdings, and Fidelcor/CIT. Vuk Djunic (Partner) – Mr. Djunic is a Partner of Blue Torch and is responsible for all aspects of a credit investment process. Prior to joining Blue Torch, Mr. Djunic was a Senior Credit Analyst at Sounion Capital, where he focused on high yield and distressed credit. Prior to that, Mr. Djunic worked at Caxton Associates in the High Yield Group. Earlier in his career, Mr. Djunic worked at Moore Capital and J.P. Morgan Lee Haspel (Partner) – Mr. Haspel is a Partner of Blue Torch where he is responsible for all aspects of a credit investment process. Prior to joining Blue Torch, Mr. Haspel worked as a Portfolio Manager at Fifth Street Asset Management, where he focused on middle market lending, tradable credit, and portfolio financings. Prior to that, Mr. Haspel worked as a leveraged loan trader and portfolio analyst at Halcyon Asset Management. Gary Manowitz (Partner & COO) – Mr. Manowitz is a Partner and COO of Blue Torch. Mr. Manowitz is responsible for all of Blue Torch’s operations, including finance, investor relations, and administration functions. Prior to joining Blue Torch, Mr. Manowitz was the Chief Accounting Officer for the Credit Platform at H.I.G. Capital. Prior to that, Mr. Manowitz worked at Cerberus Capital Management as Controller of the Credit Platform of Cerberus Business Finance and Ableco Finance. Earlier in his career, Mr. Manowitz worked at Merrill Lynch and PricewaterhouseCoopers. Luke Gosselin (Senior Managing Director) – Mr. Gosselin is a Senior Managing Director of Blue Torch and is responsible for all aspects of a credit investment process. Prior to joining Blue Torch, Mr. Gosselin was a Portfolio Manager at Sector Financial. Prior to that he was a Managing Director/Portfolio Manager at Centre Lane Partners, and prior to that founded Fort Hill Investment Partners. Earlier in his career Mr. Gosselin worked at Goldman Sachs.
Strategy:	Direct Lending	
Year Founded:	2017	
Headquarters:	New York, NY	
GP Commitment:	1% on SMA/1% on Co-Investment Vehicle	

Investment Summary	Existing and Prior Funds			
The SMA and the Co-Investment Vehicle will be a continuation of the commingled funds' strategy and will focus on originating loans to “companies in transition” – companies undergoing operational, financial, legal or regulatory transformations or hurdles, or requiring financing solutions within an accelerated period.	<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Net Returns as of 06/30/2024</u>
	Blue Torch Credit Opportunities I	2018	Direct Lending	10.8% IRR; 1.50x Net MOIC
	Blue Torch Credit Opportunities II	2020	Direct Lending	11.2% IRR; 1.35x Net MOIC
	Blue Torch Credit Opportunities III	2022	Direct Lending	17.4% IRR; 1.20x Net MOIC
	Source of Returns - Blue Torch			
IRR = Internal Rate of Return; MOIC = Multiple on Invested Capital				

Vehicle Information:				
Investment:	Blue Torch SMA	Co-Investment Vehicle	Auditor: PricewaterhouseCoopers	
Target Fund Size:	\$400 million	up to \$200 million	Legal Counsel: Cravath, Swaine & Moore LLP	
Management Fee:	0.70% on total assets	None		
Carry:	12.50%	None		
Hurdle	8%	N/A		
(Smil.): SMA	up to \$400 million	LP Advisory Board Membership:		Observer
(Smil.): Co-Investment	up to \$200 million			
% of SMA and Co-Investment:	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.