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January 23, 2025

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Private Credit Investment – TCW Separately Managed Account and Co-Investment Sleeve/Vehicle**

The Division of Investment (the “Division”) is proposing an investment of up to \$150 million into a Separately Managed Account (“the SMA”) managed by TCW (the “Firm”) and up to an additional \$150 million in a co-investment sleeve or vehicle (the “Co-Invest”). 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:

Core Holding. TCW is a core holding and an existing relationship that goes back to 2015.

Established Middle market Lender. TCW has been actively lending to middle market businesses since 2001 and has invested north of \$10 billion of capital in loans to more than 250 borrowers. This level of experience and lending activity compares favorably to other direct lending firms, many of whom have only begun lending within the past decade. The team has established a strong network of industry contacts and sourcing channels to drive origination as well as relationships with other lenders and banks where they can share deal flow or source financing.

Experienced and Cohesive Leadership Team. Rick Miller has led the direct lending strategy for over two decades and brings substantial experience in direct lending and high yield investing. Investment Committee members have 20+ years of relevant experience. Senior professionals Suzanne Grasso and Jim Bold have worked with Rick Miller for close to 20 years, and the Managing Directors have been at the Firm for an average of more than 10 years.

Restructuring Expertise. Given the focus of the direct lending strategy, the team has gained significant experience driving restructurings and creating value, both during the bankruptcy process and through operational turnarounds. Most TCW senior professionals have experience through the

GFC and multiple credit cycles. This experience will be leveraged as needed to support the portfolio.

Non-Sponsor Premium. Unlike the conventional direct lending market which focuses on relationship lending to new private equity-backed platforms, TCW seeks to earn a “non-sponsor premium” by also lending to non-sponsored middle market companies that may be more challenged borrowing from the conventional direct lending market.

Differentiated Exposure. The SMA will have exposure to non-sponsored borrowers where the team can leverage its direct sourcing capabilities and command a higher spread. In addition, sectors of focus are different from other private lending firms with limited exposure to Healthcare and Technology credits.

Lender Protection. TCW’s loans typically feature more than two financial maintenance covenants on average on the direct lending side. Covenants seem to address specific company risks in certain cases, allowing for recovery of capital in meaningful downside scenarios, and the team targets lower detachment points than typical lenders.

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”).

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. TCW conducts ESG reviews by utilizing a proprietary ESG questionnaire that is sent to the prospective borrower and/or Private Equity sponsor. Oversight of ESG is the responsibility of the TCW ESG Committee (the “Committee”), which is composed of members of the Firm’s senior management. The Committee is tasked with overseeing, in part, TCW’s ESG performance, setting and overseeing ESG Policy and sub-policy, monitoring external ESG developments, overseeing ESG disclosures and communications, monitoring compliance with legal and regulatory requirements, and overseeing signatory status to any ESG-related frameworks.

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.

TCW Direct Lending SMA

- **DOI Commitment:** A commitment of \$300 million to an SMA and to a co-investment sleeve / vehicle managed by TCW Private Credit Group (“TCW”).
 - **\$150 million** to be allocated to the SMA, and
 - **\$150 million** to be allocated to a co-investment sleeve / vehicle.
- **Strategy:** Private Credit – Direct Lending.
- **Investment Focus:** Primary focus on senior secured direct lending. The Direct Lending strategy will target sponsored and non-sponsored, core Middle Market companies primarily in the U.S.
- **Target Returns:** 9-13% asset level unlevered returns.
- **Investment Thesis:**
 - NJDOI has an existing relationship with TCW through a \$300 million commitment which is one of the core Direct Lending holdings in the NJ portfolio.
 - Focus on Senior Secured First Lien loans.
 - 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 capital from core middle market companies.
 - Seasoned investment team with 23 years of verifiable track-record of executing the strategy.
 - With up to 40% of its portfolio invested in Non-Sponsored transactions, TCW seeks to earn a “Non-Sponsor Premium”.
 - Generalist and mostly sector-agnostic approach with some tilt away from Technology and Healthcare.
 - NJDOI negotiated very attractive terms.

Fund Name: TCW SMA		January 23, 2025 Agenda Item 4(c)(ii)	
Contact Info:		James Bold, 515 S Flower Street, Los Angeles, CA 90017	
Fund Details:			
Total Firm Assets:	\$203 billion	Key Investment Professionals: Richard Miller (Group Managing Director & CIO) – Mr. Miller joined TCW in 2013 with the acquisition of the Special Situations Funds Group from Regiment Capital Advisors, LP which he led since the group’s inception in 2001. He has over 30 years of experience in the capital markets and previously was on the Institutional Investor “All American High Yield Research Team” for six consecutive years. Prior to his involvement in HY research, he was at Chase Manhattan Bank in the M&A Group. He then moved on to become MD with the HY Group. Subsequently, he became the Head of HY Research at BankBoston Securities and in 1999 he joined UBS as MD and the Head of the Global HY Research Group. Suzanne Grosso (Managing Director and Deputy CIO) – Ms. Grosso joined TCW in 2013 with the acquisition of the Special Situations Funds Group from Regiment Capital Advisors, LP, which she joined in 2004. She has worked in the public and private financial markets since 1994. Previously, Ms. Grosso worked on private equity transactions in Bear Stearns’ Merchant Banking group and was a HY Research Analyst at Chase Manhattan Bank. Ryan Carroll (Managing Director and Deputy CIO) – Prior to joining TCW in 2016, Mr. Carroll was an MD with the U.S. Private Capital group at BlackRock. He joined BlackRock in 2015 with the acquisition of Kelso Capital Advisors, which he joined in 2005. Prior to that he worked at JPMorgan in the Leveraged Finance Group, where he began his career in 2004. Mark Gertzof (Managing Director and Deputy CIO) – Prior to joining TCW in 2013, Mr. Gertzof was the Managing Partner of a middle market investment banking and credit advisory firm, Monroe Credit Advisors, which he co-founded in 2009. Prior to that, he was an MD and team leader for Merrill Lynch Capital’s Corporate Finance leverage lending group where he spent six years. He started his career at Bank of Boston in 1989 and spent 13 years at BankBoston/Fleet Capital focusing on asset-based lending. David Wang (Group Managing Director and Deputy Head of Private Credit) – Prior to joining TCW in 2013, Mr. Wang served as Director in the Capital Markets Group at Houlihan Lokey, a financing advisory services provider to middle market companies and financial sponsors. Prior to that, he served as a CFO of Xinhua Finance, a publicly-traded international provider of financial indices, news, ratings and communications. Prior to that, Mr. Wang was a VP in the leveraged finance investment banking division of Libra Securities and its predecessor firm, U.S. Bancorp Libra. He also served as CFO of Kentucky Electric Steel, a highly successful distressed acquisition and turnaround firm sponsored by Everest Capital and Libra Securities.	
Strategy:	Direct Lending		
Year Founded:	2001		
Headquarters:	New York, NY		
GP Commitment:	Not less than 1%		
Investment Summary			
The SMA and the Co-Investment Sleeve / Vehicle will focus on senior direct lending in less crowded segments of the US middle market. Non-Sponsored companies will account for up to 40% of TCW’s Direct Lending portfolio with a focus on the core middle market.		Existing and Prior Funds	
		Funds	Vintage Year
		TCW Direct Lending LLC	2015
		NJ TCW DL	2016
		IRR = Internal Rate of Return; MOIC = Multiple on Invested Capital	
Vehicle Information:			
Investment:	TCW SMA	Co-Investment Sleeve/Vehicle	Auditor: Deloitte & Touche LLP
Target Fund Size:	\$150 million	up to \$150 million	Legal Counsel: Clifford Chance LLP
Management Fee:	0.80% on invested capital inclusive of 1.0x leverage	N/A	
Carry:	12.50%	N/A	
Hurdle	8%	N/A	
Additional Expenses:			
NJ AIP Program			
(\$mil.): SMA	up to \$150 million	LP Advisory Board Membership:	N/A
Recommended Allocation (\$mil.): Co-Investment	up to \$150million		
% 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.