



## State of New Jersey

**PHILIP D. MURPHY**  
*Governor*

**TAHESHA L. WAY**  
*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 26, 2024

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan  
Director

SUBJECT: **Private Credit Investment – Blackstone Tactical Opportunities (“BTO”) Fund A (Private Credit)**

The Division of Investment (the “Division”) is proposing a commitment of up to \$414 million in the Blackstone Tactical Opportunities Fund - Fund A (Private Credit). This commitment will be reallocated from the Division’s current unfunded commitments to the Blackstone Tactical Opportunities platform. 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:

### **Investment Thesis:**

**Market Opportunity:** Over the past two years, private credit market conditions have moved in favor of lenders, and LPs are benefiting. Base rates (SOFR/LIBOR) have risen as the Federal Reserve raised interest rates. Lack of bank capital has driven companies to the private market, and lenders are able to charge wider spreads (+100-150 bps more) and loan structures favor the lender.

**Unconstrained Investment Strategy:** BTO is a unique, flexible source of capital that benefits from market dislocations. BTO invests across a range of different asset classes, industries and geographies, and offers companies flexible capital solutions.

**Strong Partner and Track Record:** The Division has successfully invested with BTO since 2012, benefitting from BTO’s established and successful strategy across market cycles.

**Strong team & unrivaled experience:** BTO has a dedicated and tenured team of 24 senior (SMD and MD level) investment professionals.

**Portfolio Fit:**

The addition of BTO will benefit the portfolio by:

- 1) Increasing 2024 pacing towards the targeted \$1.8 billion (ex-PFRS), and
- 2) Providing the portfolio with a unique, uncorrelated, high targeted IRR investment return.

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 Blackstone has not engaged a third-party solicitor (“placement agent”) and no placement agent was engaged or paid in connection with the Pension Fund’s potential investment.

In accordance with the State Investment Council’s ESG Policy, the Division of Investment’s Corporate Governance Team completed its review of Blackstone Tactical Opportunities Fund IV Environmental, Social and Governance efforts.

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. Blackstone Tactical Opportunities Fund - Fund A (Private Credit) 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 January 23, 2024. 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 31, 2024 meeting.

Attachment

# Blackstone Tactical Opportunities (BTO) Fund - A

- **Background:**
  - *NJ DOI was one of the early investors in Blackstone's Tactical Opportunities strategy (BTO). In 2011, NJ DOI presented a Strategic Relationship with Blackstone to execute the strategy. The relationship currently consists of three sleeves: **Private Equity, Real Estate and Real Assets.***
- **Investment Proposal:**
  - ***Establish** a separate **Private Credit** sleeve within the Strategic Relationship.*
  - ***Fund** the Private Credit sleeve with \$414 million from NJ's existing commitments.*
  - ***Modify** the recycling terms to provide NJ DOI with an option to expedite recycling.*
- **Strategy:** Private Credit – Special Situations
- **Investment Focus:** Bespoke capital solutions across capital structure.
- **Target Returns:** 12-14% net IRR
- **Investment Thesis:**
  - Over the past year, private credit market conditions have moved in favor of lenders, and LPs are benefiting. Base rates (SOFR/LIBOR) have risen significantly as the Federal Reserve raised interest rates.
  - Lack of bank capital has driven companies to the private market, and lenders are able to charge wider spreads (+100-150 bps more) and loan structures favor the lender.
  - BTO is one of the largest structured capital solutions providers in the world - \$34 billion of AUM.
  - BTO is a unique, flexible source of capital that benefits from market dislocations. BTO invests across a range of different asset classes, industries and geographies, and offers companies solutions to idiosyncratic problems.
  - BTO has a dedicated and tenured team of 32 senior (SMD and MD level) investment professionals.
  - BTO is an established and successful strategy with 164 transactions completed since 2012.

**Fund Name: Blackstone Tactical Opportunities Fund - A (PC) L.P.** **January 26, 2024**

**Contact Info:** Daniel Katz, 346 Park Ave, New York, NY 10154

**Fund Details:**

<b>Total Firm Assets:</b>	\$1 trillion	<b>Key Investment Professionals:</b> <b>David Blitzer:</b> Mr. Blitzer is a Senior Managing Director and the Global Head of Blackstone's Tactical Opportunities group (Tac Opps). He is a member of the Firm's Management Committee and a member of the Tac Opps Investment Committee. Prior to launching Tac Opps, Mr. Blitzer was involved in the execution of Blackstone's investments across a variety of asset classes, including establishing and leading Blackstone's European private equity business. <b>Christopher James:</b> Mr. James is a Senior Managing Director of Blackstone and Chief Operating Officer of Blackstone's Tac Opps group. He is a member of the Investment Committee for Tac Opps and the Blackstone Growth funds. Prior to launching Tac Opps in 2012, Mr. James managed a number of Blackstone's business development efforts and strategic initiatives across asset classes and investment products. Since joining Blackstone, he has led the development of new investment products as well as the execution of the firm's initial public offering, its investments in GSO and Patria Investments, and Strategic Partners. <b>Qasim Abbas:</b> Mr. Abbas is a Senior Managing Director in the Tac Opps group and is based in London. He has led multiple Tac Opps investments. Prior to joining Blackstone in 2012, Mr. Abbas was a Portfolio Manager with Trafalgar Asset Managers where he invested and traded in European Asset-Backed and Mortgage-Backed Securities across a range of asset classes. He previously was responsible for establishing a Europe focused mortgage loan portfolio trading and investment desk at UBS AG in London. He also spent eight years at Citibank in emerging markets, securitization, and asset back special situations. <b>Menes Chee:</b> Mr. Chee is a Senior Managing Director in the Tac Opps group and is based in New York. He has led multiple Tac Opps investments and is responsible for sourcing, evaluating, and executing investments in private opportunities and capital markets. Mr. Chee joined Blackstone in 2009 as a Managing Director of GSO Capital Partners, and transferred to Tac Opps in 2012. Before joining Blackstone, he was a Principal with TPG-Axon Capital, where he invested globally in equity and credit in public markets and private transactions. Prior to that, he was a private equity investment professional with Texas Pacific Group.
<b>Strategy:</b>	Opportunistic Structured Credit	
<b>Year Founded:</b>	1985	
<b>Headquarters:</b>	New York, NY	
<b>GP Commitment:</b>	1%	

<b>Investment Summary</b>	<b>Existing and Prior Funds</b>															
<p>The Fund will invest across a range of different industries and geographies and has a broad mandate to pursue a wide range of opportunities. Blackstone expects there to be significant opportunities to provide capital solutions financing to both sponsored and non-sponsored companies. These financings can have PIK interest or a preferred return and occupy the junior part of the capital structure, often sitting behind first lien debt. The fund can also participate in regulatory capital or strategic risk transfer transactions given increased pressure on banks in the current environment. The strategy invests in a broad range of investment structures, including private and public securities, equity and debt, as well as control and non-control transactions.</p>	<table border="1"> <thead> <tr> <th><i>Funds</i></th> <th><i>Inception date</i></th> <th><i>Returns as of 9/30/2023</i></th> </tr> </thead> <tbody> <tr> <td>BX Tactical Opportunities I</td> <td>2012</td> <td>8% net IRR / 1.3x net MOIC / 1.2x net DPI</td> </tr> <tr> <td>BX Tactical Opportunities II</td> <td>2015</td> <td>13% net IRR / 1.5x net MOIC / 1.4x net DPI</td> </tr> <tr> <td>BX Tactical Opportunities III</td> <td>2018</td> <td>14% net IRR / 1.3x net MOIC / 0.4x net DPI</td> </tr> <tr> <td>BX Tactical Opportunities IV</td> <td>2022</td> <td>0.5x net MOIC</td> </tr> </tbody> </table> <p>Source: Blackstone IRR = Internal Rate of Return; MOIC = Multiple of Invested Capital; DPI = Distributed to Paid-in Capital</p>	<i>Funds</i>	<i>Inception date</i>	<i>Returns as of 9/30/2023</i>	BX Tactical Opportunities I	2012	8% net IRR / 1.3x net MOIC / 1.2x net DPI	BX Tactical Opportunities II	2015	13% net IRR / 1.5x net MOIC / 1.4x net DPI	BX Tactical Opportunities III	2018	14% net IRR / 1.3x net MOIC / 0.4x net DPI	BX Tactical Opportunities IV	2022	0.5x net MOIC
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BX Tactical Opportunities IV	2022	0.5x net MOIC														

**Vehicle Information:**

<b>Inception:</b>	2024	<b>Auditor:</b>	Deloitte & Touche LLP
<b>Fund Size:</b>	\$418 million	<b>Legal Counsel:</b>	Simpson Thatcher & Bartlett
<b>Management Fee:</b>	1.0% on Invested Capital		
<b>Profit Allocation:</b>	15% carried interest on high touch investments. 10% carried interest for low touch investments.		
<b>Preferred Return:</b>	6% hurdle on high touch investments; 0% for low touch investments		

<b>NJ AIP Program</b>			
<b>Recommended Allocation:</b>	up to \$414 million	<b>LP Advisory Board Membership:</b>	N/A
<b>% of Fund:</b>	99%	<b>Consultant Recommendation:</b>	YES
		<b>Placement Agent:</b>	NO
		<b>Compliance w/ Division Placement Agent Policy:</b>	N/A
		<b>Compliance w/ SIC Political Contribution Reg:</b>	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.