



## State of New Jersey

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July 21, 2017

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough  
Director

SUBJECT: **Proposed Investment in Glendon Opportunities Fund II, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$100 million in Glendon Opportunities Fund II, L.P. (the “Fund”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

The Fund will be managed by Glendon Capital Management (“Glendon”) and will continue their opportunistic investment approach of primarily investing in credit markets experiencing distress and dislocation. Glendon is experienced with restructurings of companies and securities, and will leverage that expertise when it is appropriate to maximize value by taking an active role in insolvency or restructuring processes, resulting in influence and control-oriented positions. The portfolio composition will reflect their flexible mandate, which seeks investments across geographies, industries, sectors, and instruments.

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

**Favorable Market Opportunity Outlook:** The Fund is sized at \$2 billion to take full advantage of an on-cycle distressed market investment opportunity that Glendon believes will develop over the medium term, despite today’s market lacking distress. Glendon’s nomadic approach ensures they will be able to actively migrate their efforts and resources to cyclical dislocations.

**Experienced Team:** The Founding Partners were formerly the Managing Directors of Barclays Asset Management Group, where they developed the investment strategy, recruited the investment team, and directed its operations from 2006 to 2013. Including their past experience, the senior members of the team have worked together for approximately 12 years on average.

**Proven Track Record:** Glendon’s investment team managed up to \$2.5 billion of capital on behalf of Barclays from 2007 to September 30, 2014, generating a money-weighted net Internal Rate of Return (“IRR”) of 14.3% and a 3.1x net multiple of money, outperforming the S&P 500 Index’s net IRR over the same period by approximately 800 basis points.

**Strong Alignment of Interests:** Glendon has a delayed draw period which offers the Fund and its investors the ability to be patient and well-positioned to deploy capital at optimal points in the next credit cycle. Investors will only pay management fees based on invested capital, not committed capital. Additionally, the Fund has a “European Waterfall”, which allows limited partners to receive their full return of capital and 8% return before Glendon receives carried interest.

**Complementary Exposure in the Debt-related Private Equity Portfolio:** Glendon’s flexible mandate will allow it to focus on both control and non-control opportunities, which is differentiated versus the current portfolio weighting towards strictly control strategies. Additionally, Glendon will primarily invest in credit instruments, and selectively invest in equities, distinguishing it from existing investments, where many take equity risk regardless of where we are in the cycle.

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

Division Staff and its private equity consultant, TorreyCove Capital Partners, undertook extensive due diligence on the proposed investment in accordance with the Division’s Alternative Investment Due Diligence Procedures.

The Fund utilized Park Hill Group LLC (the “placement agent”) as third-party solicitor in connection with the potential investment. Staff has determined that the placement agent and its representatives met the registration, licensing and experience requirements set forth in the Division’s Placement Agent Policy (the “Policy”). Pursuant to the Policy, the Fund has disclosed the contract between the Fund and the placement agent, specifying the scope of services to be performed by the placement agent and the fee arrangement between the placement agent, the general partner and any other third party.

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. Glendon Opportunities Fund II, L.P. will be considered a debt-related private equity 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 18, 2017. 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 July 27, 2017 meeting.

Attachments

Fund Name: Glendon Opportunities Fund II, L.P.

July 21, 2017

Contact Info:

Fund Details:

Firm AUM:	\$1.8 billion as of 12/31/2016	<b>Key Investment Professionals:</b> <u>Matthew Barrett</u> , Founding Partner, Mr. Barrett is a founder and partner at Glendon and is a member of its Investment Committee. He previously founded and led Barclays Asset Management Group ("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. <u>Brian Berman</u> , Founding Partner, Mr. Berman is a founder and partner at Glendon and is a member of its Investment Committee. Previously, he was a Managing Director of BAMG from 2006 until 2013, sharing responsibility for leading its activities. Prior to BAMG, Mr. Berman was a Managing Director at Oaktree Capital Management where he was employed from 1996 to 2006. <u>Holly Kim</u> , Founding Partner, Ms. 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, Ms. Kim was a Managing Director at Oaktree Capital Management where she was employed from 2000 to 2006 with the OCM Opportunities Funds. <u>Eitan Melamed</u> , Founding Partner, Mr. Melamed is a founder and partner at Glendon and is a member of its Investment Committee. Previously, he worked at BAMG from 2007 until 2013, where he was most recently a Managing Director sharing responsibility for leading BAMG's activities. Prior to BAMG, Mr. Melamed was a Vice President with the Goldman Sachs Distressed Investing Group where he was employed from 2002 to 2007.
Strategy:	Distressed Debt	
Year Founded:	2013	
Headquarters:	Santa Monica, CA	
GP Commitment:	Minimum of 2.5% of total capital commitments, up to \$50 million	

Investment Summary	Existing and Prior Funds			
The Fund will be managed by Glendon Capital Management ("Glendon") and will continue their opportunistic investment approach of primarily investing in credit markets experiencing distress and dislocation. Consistent with the team's history, the Firm will seek the best risk-adjusted return opportunities across geographies, industries, sectors, instruments, and capital structures. As a result, Glendon is able to remain flexible and adapt its investment strategy to the market environment. When a theme develops or opportunity presents itself, Glendon dives deep into the macroeconomics of the opportunity, and will often enter early into dislocations to identify mispriced securities. When it is appropriate to maximize value by taking an active role in insolvency or restructuring processes, Glendon will leverage their experience with restructurings of companies and securities, which may result in influence and control-oriented positions. By focusing on both control and non-control situations, Glendon can focus on where opportunities are most attractive.	<i>Funds</i>	<i>Vintage Year</i>	<i>Strategy</i>	<i>Returns as of March 31, 2017</i>
	Fund I	2014	Distressed Debt	8.1% Net IRR, 1.18x TVPI, 0.0x DPI
IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI= Distributions to Paid-In				

Vehicle Information:

Inception:	2017	Auditor:	Ernst & Young Ltd
Fund Size (\$mil.):	\$2.0 billion	Legal Counsel:	Debevoise & Plimpton
Management Fee:	2.0% of invested capital until the end of the commitment period; 1.5% of investment capital (less write-offs) thereafter		
Carry:	20% (European waterfall)		
Hurdle Rate:	8%		

NJ AIP Program

Recommended Allocation:	Up to \$100 million	LP Advisory Board Membership:	TBD
% of Fund:	5.00%	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.