



State of New Jersey

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March 18, 2021

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Global Diversified Credit Investment - Eagle Point Defensive Income Fund LP and Separate Account**

The Division of Investment (the "Division") is proposing an investment of up to \$60 million in the Eagle Point Defensive Income Fund LP (the "Fund") and up to \$120 million in a related separate account (the "SMA") managed by Eagle Point Credit Management LLC (the "Firm"). This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

The Fund and SMA will both pursue a Portfolio Debt Securities ("PDS") strategy by predominantly self-originating fixed rate, unsecured loans to smaller, non-institutional funds regulated by the Investment Advisors Act of 1940 (the "40 Act"). The Division is recommending this investment based on the following factors:

Ability to capitalize on market inefficiencies: The Firm will capitalize on a first-mover advantage to disintermediate the PDS market by self-originating loans in an underbanked segment of the credit markets historically dominated by retail players. Moreover, this segment of the market is expected to have limited competition due to its niche size, which is difficult to scale, and thus unattractive to large credit managers.

Attractive risk-adjusted return profile: The Fund and SMA are both targeting investments with an investment grade credit risk profile and unlevered gross returns of 6%+. The investment grade credit quality of the targeted investments stems from 40 Act regulations and corresponding debt covenants that require a minimum asset coverage ratio ("ACR") of 150%. The target investments have typical maturities of five years and thus also have limited duration risk. Other investment grade securities with similar duration and credit risk profiles are yielding less than 2% in today's interest rate environment. Additionally, the Division is negotiating the option to participate in a conditional revenue share agreement that, if exercised, could provide incremental returns to the Pension Fund.

The Firm's relevant investment track record: Although the Fund and SMA will both be pursuing a new investment strategy; the Firm has a relevant track record with a history of investment manager due diligence and lending to asset managers managing a diversified portfolio of loans. The Firm has over seven years of experience investing \$3 billion into the equity tranches of collateralized loan obligations ("CLO Equity"). The Firm's CLO Equity strategy requires a similar skill set and underwriting process to the strategy being pursued by the Fund and SMA and since inception, the Firm's CLO Equity strategy has consistently outperformed the broader market for CLO Equity (as measured by J.P. Morgan, Citigroup, and Morgan Stanley).

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

Division Staff and its consultant, Aksia TorreyCove Partners, 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 is an official signatory for the United Nations Environment Programme Finance Initiative (the "UNEPFI"), which is a global partnership established by the United Nations Environment Program and the global financial sector with the goal of developing a more sustainable global financial system. Signatories of the UNEPFI will incorporate Environmental, Social, and Governance ("ESG") issues into investment analysis, ownership policies, and ownership practices. The Firm does not have a formal ESG policy and is not considering one at this time. In accordance with the Council's ESG Policy, the Division's investment and corporate governance teams reviewed the Firm's relevant ESG policies and practices.

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. Eagle Point Defensive Income Fund is considered a global diversified 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 March 10, 2021. 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 March 24, 2021 meeting.

Attachment

Fund Name: Eagle Point Defensive Income Fund LP (the "Fund") and Separate Account (the "SMA")

March 18, 2021

Contact Info: Kyle McGrady, 600 Steam Boat Road, Suite 202, Greenwich, CT 06830

Fund Details:

Total Firm Assets:	\$4.1 billion	<p>Key Investment Professionals:</p> <p>Thomas Majewski is the Managing Partner and founder of Eagle Point Credit Management. He has been involved in the formation and/or monetization of well over 100 CLO transactions across multiple market cycles. Tom led the creation of some of the earliest refinancing CLOs, pioneering techniques which are now commonplace in the market. He has spent his entire career in the structured finance and credit markets. Prior to founding Eagle Point, Tom was a Managing Director and Head of CLO Banking, where he was responsible for all aspects of RBS's new-issue CLO platform. Prior to joining RBS, Tom was the U.S. country head at AMP Capital/AE Capital, where he was responsible for investing in credit, structured products and other private assets on behalf of several Australian investors. Prior to this, Tom was a Managing Director and head of CLO Banking at Merrill Lynch, where he successfully re-launched the business after several years of limited activity by the firm. Tom also has held leadership positions within CLO and/or securitization groups at JPMorgan, Bear Stearns and Arthur Andersen. Tom is a Director of Eagle Point Credit Company (NYSE: ECC), Eagle Point Income Company (NYSE: EIC) and Marble Point Loan Financing (LSE: MPLF). Tom has a B.S. in accounting from Binghamton University and is a Certified Public Accountant (inactive).</p> <p>Daniel Spinner is a Principal and Portfolio Manager of Eagle Point Credit Management. He is primarily responsible for manager evaluation and due diligence and for monitoring Eagle Point's investments. Dan is an alternative asset management industry specialist with 18 years of experience advising, financing, and investing in alternative asset management firms and funds. Dan's direct experience in the CLO market dates back to the late 1990s. Prior to joining Eagle Point, Dan managed the Private Equity, Special Opportunities Credit and Real Estate allocations for the 1199SEIU Benefit and Pension Funds. With assets of over \$9 billion, the 1199SEIU Funds are collectively among the largest Taft-Hartley plans in the US. Prior to 1199SEIU, Dan was a Managing Director in the Financial Institutions Group at Bear Stearns focused on alternative asset managers. Prior to Bear Stearns, Dan was the co-founder and President of Structured Capital Partners, a financial holding company formed to invest in structured credit managers. Dan began his career as an investment banker in the Financial Institutions Group at JPMorgan, where he had coverage responsibility for many of the managers issuing transactions with the CLO group which Tom jointly led. Dan earned a BA, summa cum laude, from Gettysburg College and an MBA from Columbia University.</p> <p>Rob Fischer is the Head of Origination for Eagle Point Credit Management's defensive income strategy. He is primarily responsible for originating, structuring and executing portfolio debt securities. Rob has 26 years of experience providing financing solutions to funds (including BDCs, private funds and REITs) and financial institutions. Prior to joining Eagle Point, Rob was a Managing Director in the Financial Institutions Group at Oppenheimer & Co. where he was the Head of Specialty Finance investment banking. Prior to Oppenheimer, Rob had similar roles at Incapital, Amherst Pierpont and StormHarbour where he was the Head of Origination and FIG Capital Markets responsible for providing financing solutions to funds and financial institutions. Rob joined Bear Stearns in 1992 and spent 17 years of his career there in numerous roles, most recently as a Managing Director Principal in the Strategic Finance Group covering financial institutions. Rob earned a BA in Economics from Denison University.</p>
Strategy:	Private Credit - Specialty Finance	
Year Founded:	2012	
Headquarters:	Greenwich, CT	
GP Commitment:	the SMA; \$18.4 million in the Fund	

Investment Summary	Existing and Prior Funds						
<p>The Fund and SMA will target investments in U.S. Portfolio Debt Securities in companies governed by the Investment Company Act of 1940; namely Business Development Companies ("BDCs") below \$500 million in market cap, as well as other private funds focused on credit strategies with commitments below \$1 billion. Investments will range in structure but will largely be investment grade rated senior unsecured securities. The Fund expects to be active mostly in primary origination but may also trade in secondary instruments and expects the portfolio to consist of 15 to 20 primary securities, complemented by opportunistically acquired secondaries securities. Primary investments are expected to range in size between \$25 million and \$50 million, with secondary opportunities ranging from \$1 to \$5 million.</p>	<table border="1"> <thead> <tr> <th>Funds</th> <th>Strategy</th> <th>Since Inception Returns as of January 2021 (Dec 2012 inception)</th> </tr> </thead> <tbody> <tr> <td>Eagle Point Credit Partners</td> <td>CLO Equity</td> <td>10.69%</td> </tr> </tbody> </table> <p>Source: Eagle Point Credit Management LLC</p>	Funds	Strategy	Since Inception Returns as of January 2021 (Dec 2012 inception)	Eagle Point Credit Partners	CLO Equity	10.69%
Funds	Strategy	Since Inception Returns as of January 2021 (Dec 2012 inception)					
Eagle Point Credit Partners	CLO Equity	10.69%					

Vehicle Information:

Inception:	2020	Auditor:	KPMG LLP
Fund Size:	\$250 million; \$300 million hard cap	Legal Counsel:	Sidley Austin LLP
SMA Size:	\$121.2 million		

	SMA	Fund
Management Fee:	0.43% on assets	0.94% on invested
Carry:	10%	7.5%
Preferred Return:	5% subject to 0% GP catch-up	8% subject to 100% GP catch-up
Additional Expenses:	100% offset of Transaction Fees	100% offset of Transaction Fees

NJ AIP Program

Recommended Allocation:	up to \$60 million (Fund) up to \$120 million (SMA)	LP Advisory Board Membership:	YES
% of Fund:	24% of target (20% of hard cap)	Consultant Recommendation:	YES
% of SMA:	99%	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.