



# Board of Retirement Regular Meeting

## Sacramento County Employees' Retirement System

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### Agenda Item 12

**MEETING DATE:** May 23, 2018

**SUBJECT:** Board Member Education - Private Credit

**SUBMITTED FOR:** \_\_\_ Consent      \_\_\_ **Deliberation and Action**       X  **Receive and File**

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#### **RECOMMENDATION**

Staff recommends the Board receive and file the educational presentation by Tennenbaum Capital Partners and the TCP Direct Lending SMA.

#### **PURPOSE**

Provide information on Tennenbaum Capital Partners' (TCP) direct lending investment strategy, which SCERS committed \$100 million in November 2017, through a separate account vehicle.

#### **DISCUSSION**

 TCP, an alternative investment management firm with \$9 billion in assets under management, provides debt financing to middle-market companies for growth, corporate acquisitions, and refinancing/recapitalizations as well as expansion stage venture lending. Most of TCP's transactions are directly originated, and the firm selectively acquires performing debt in the secondary market. The firm primarily provides secured 1st lien and 2nd lien floating-rate debt.

SCERS established a separately managed account (SMA) with TCP to invest alongside its TCP Direct Lending Fund VIII. The SMA (fund of one structure) provides SCERS greater ability to customize the investment guidelines and portfolio construction parameters (leverage targets, individual loan sizes, etc.). Further, the SMA is structured as a perpetuity vehicle (evergreen fund), which provides for an initial principal commitment that stays with TCP and is re-invested over time, while income and realized gains are distributed to SCERS. TCP's presentation will provide an opportunity for the Board to interact directly with the investment manager.

Lee Landrum from TCP will be presenting to the Board at the May meeting:

Mr. Landrum is a Managing Partner of Tennenbaum Capital Partners and heads up the firm's investor relations and business development. Prior to joining TCP in 2010, Mr. Landrum served as a Principal in The Carlyle Group's Global Market Strategies team and was formerly a Managing Director in Babson Capital Management's buyout and special situations group. Mr. Landrum earned a BA degree from the University of Georgia and an MBA from Vanderbilt University.



## **BACKGROUND**

Private Credit is a new asset class within SCERS' Growth asset category and has a 4% target allocation. Of the 4% target allocation, 70% will be in direct lending and 30% will be in opportunistic credit strategies. TCP fits within the Private Credit direct lending sub-asset class. As of 4Q 2017, SCERS' actual Private Credit allocation stands at 0.6%.

Per SCERS' Private Credit implementation protocol, Staff and consultants have kept the Board informed of the due diligence and investment considerations, before and after making an investment. In order to enhance the Board's knowledge on SCERS' investments, periodically investment managers are invited to provide an educational presentation on their firm and an update on their investment strategy.

SCERS committed \$100 million in a SMA with TCP to co-invest alongside its TCP Direct Lending Fund VIII (TCP VIII). TCP VIII follows the direct lending approach the firm has utilized since 2000 and invests in privately originated, senior secured loans to middle-market companies, which the company defines as having EBITDAs in the range of \$15 million to \$75 million and enterprise value between \$150 million and \$750 million. TCP seeks to primarily invest in non-sponsored transactions but will also invest in less competitive sponsor-backed loans with some form of complexity that offers an attractive risk-reward opportunity. Historically, the firm has invested approximately 70% in non-sponsored deals and 30% in sponsored transactions.

Tennenbaum Capital Partners ([www.tennenbaumcapital.com](http://www.tennenbaumcapital.com)) was founded in 1999 by Michael Tennenbaum to invest in special situations credit investing. Mr. Tennenbaum has since retired and the firm is now led by co-founder Howard Levkowitz, who is one of five managing partners at the firm. TCP has a staff of over 80 people, including 30 investment professionals and focuses on lending in North America, with offices in Los Angeles (HQ), New York, and San Francisco. In April 2018, TCP announced BlackRock, Inc. would be purchasing the firm, with an expected close in 3Q 2018. TCP would join BlackRock's Global Credit platform as a wholly-owned subsidiary. Mr. Landrum will speak to the BlackRock acquisition during his presentation.

## **ATTACHMENTS**

Presentation by Tennenbaum Capital Partners.

Prepared by:

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JR Pearce  
Investment Officer

Reviewed by:

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Steve Davis  
Chief Investment Officer

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Eric Stern  
Chief Executive Officer



# **Sacramento County Employees' Retirement System Board Presentation**

**May 23, 2018**

# Disclosure

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# Overview

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# TCP – A Leader in Private Credit Investing

## Who we are

**80+** team members, plus an Advisory Board of senior operating executives

**More than 20 years<sup>(1)</sup>** of experience investing through multiple market cycles

Broad coverage of **19 industry-focused** verticals

**North America-focused**, regional coverage with offices in Los Angeles (HQ), New York, San Francisco and Atlanta

## What we do

**Value-oriented** investing focused on two core strategies in the **middle-market**

### Direct Lending

- 1<sup>st</sup> lien
- 2<sup>nd</sup> lien
- Unitranche

### Special Situations

- Distressed-for-control
- Deep value
- Rescue loans
- Structured equity

**“One team, one firm”** approach across both core TCP strategies since inception

**Complementary** skill sets across **direct lending and special situations** enhance principal-protection in periods of market dislocation

## How we do it

**\$21+ billion** invested across **560+** companies from **21** institutional credit fund vehicles<sup>(2)</sup>

Transactions sourced on a **multi-channel basis**, across numerous market cycles

Industry Network

Liquidators

Advisory Board

Financial Sponsors

Restructuring Firms

Credit Firms

Seeks to generate **superior risk-adjusted returns** by structuring complex transactions, irrespective of market conditions

# Firm Professionals

## Investment Professionals

Los Angeles			New York	
<b>Lee Landrum</b> Managing Partner	<b>Howard Levkowitz</b> Co-Founder and Managing Partner	<b>Philip Tseng</b> Managing Partner	<b>Michael Leitner</b> Managing Partner	<b>Mark Kronfeld</b> Managing Director
<b>Rajneesh Vig</b> Managing Partner	<b>Rob DiPaolo</b> Managing Director	<b>Christian Donohue</b> Managing Director	<b>Gary Lembo</b> Director	<b>Jon Hugo</b> Principal
<b>Gabe Goldstein</b> Managing Director	<b>Geoffrey Jones</b> Managing Director	<b>Dan Worrell</b> Managing Director	<b>Daniel Levan</b> Principal	<b>Alberto Tani</b> Senior Associate
<b>Eric Yuan</b> Managing Director	<b>Sean Berry</b> Director	<b>Carolyn Glick</b> Director	<b>San Francisco</b>	
<b>Oliver Hammond</b> Director	<b>Aseem Khatri</b> Director	<b>Hovik Adamyan</b> Principal	<b>Brad Pritchard</b> Managing Director	<b>John Doyle</b> Director
<b>Shivam Ashoka</b> Principal	<b>Jeffrey Gordon</b> Principal	<b>Nicholas Kim</b> Principal	<b>Connor Lockhart</b> Senior Associate	<b>Keon Reed</b> Senior Associate
<b>Chris Lyon</b> Associate	<b>Eric Phung</b> Associate	<b>Enoch Tieu</b> Associate	<b>Atlanta</b>	
<b>Robert Goldschein</b> Senior Transactions Counsel	<b>Patrick Wolfe</b> Director of Structured Credit	<b>Benjamin Robey</b> Structured Credit Analyst	<b>Kenneth Saffold</b> Director	

## Other Firm Professionals

Finance and Operations		
<b>Erik Cuellar</b> Investment Company Controller	<b>Paul Davis</b> Chief Financial Officer	<b>Tim Morris</b> Controller
<b>Matt Phair</b> Treasurer	<b>Andrew Chan</b> VP – Investor and Performance Reporting	
Legal and Compliance		
<b>Elizabeth Greenwood</b> CCO and General Counsel	<b>Rosario Sindel</b> Assistant General Counsel	<b>Melinda Toh</b> Vice President - Compliance
Global Investor Relations		
<b>John Mendell</b> Managing Director	<b>Anders Engdahl</b> Vice President	<b>Katie McGlynn</b> Vice President
<b>Vivian Lin</b> Vice President		



## The TCP Difference

### Value-Oriented

- **Identify value where others cannot or do not**
  - Complex deals
  - Unique, multi-channel sourcing networks

### Deeply Experienced

- **Leverage expertise and resources to quickly respond to market opportunities and cycles**
  - Nearly 20 years of experience in direct lending and special situations
  - Depth and breadth of industry experience to cover the market

### Credit Specialists

- **Analytical approach to structuring attractive deals**
  - Superior relative value in pricing
  - Creative and flexible structuring with a focus on downside protections
  - Extensive in-house monitoring and restructuring capabilities

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# BlackRock Transaction

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# BlackRock Transaction

## Highlights

- In April, a definitive agreement was announced under which BlackRock is planning to acquire TCP
- The transaction is expected to close in the third quarter of 2018
- Combined platform will merge TCP's significant experience in private credit with BlackRock's scale, industry expertise and risk management capabilities

## People

- All of TCP's Partners have signed employment agreements and will join BlackRock
- It is anticipated that all of TCP's employees will join BlackRock and incentive/retention packages will be offered to the TCP team

## Investment Approach

- TCP will continue to operate its two primary strategies on behalf of existing investors and the investment approach, process and voting members will not change for our existing vehicles
- We strongly believe our investors will ultimately benefit from BlackRock's extensive relationships, reach and industry-leading portfolio, technology and risk management tools



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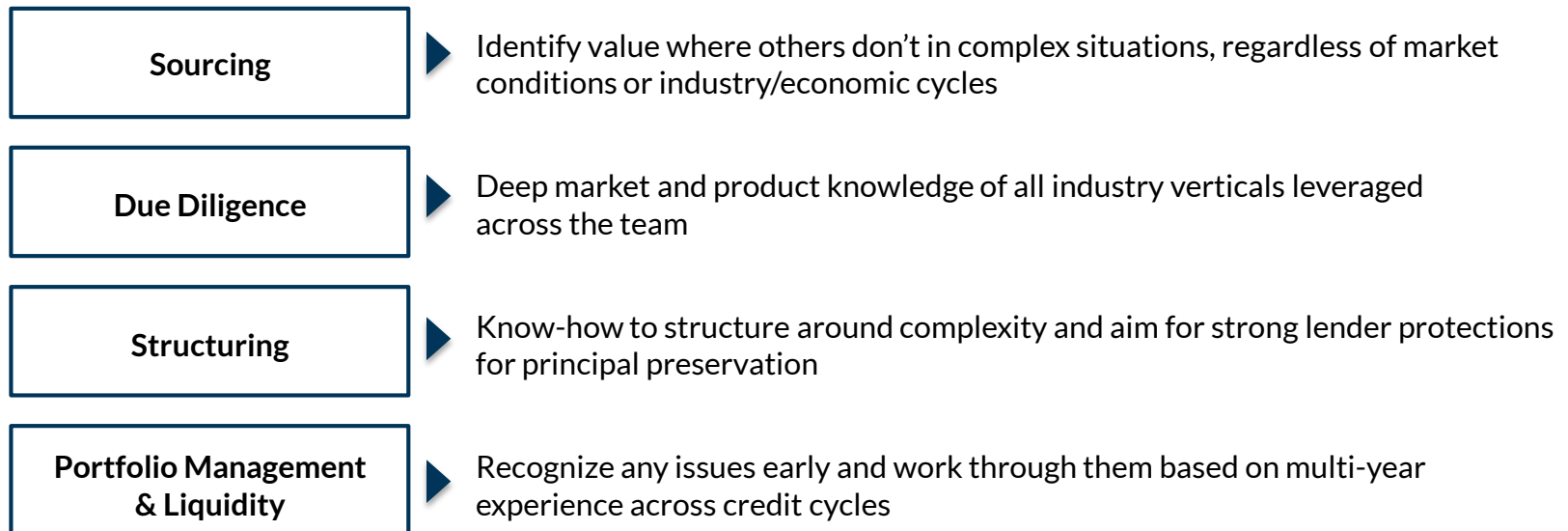
# Direct Lending Strategy

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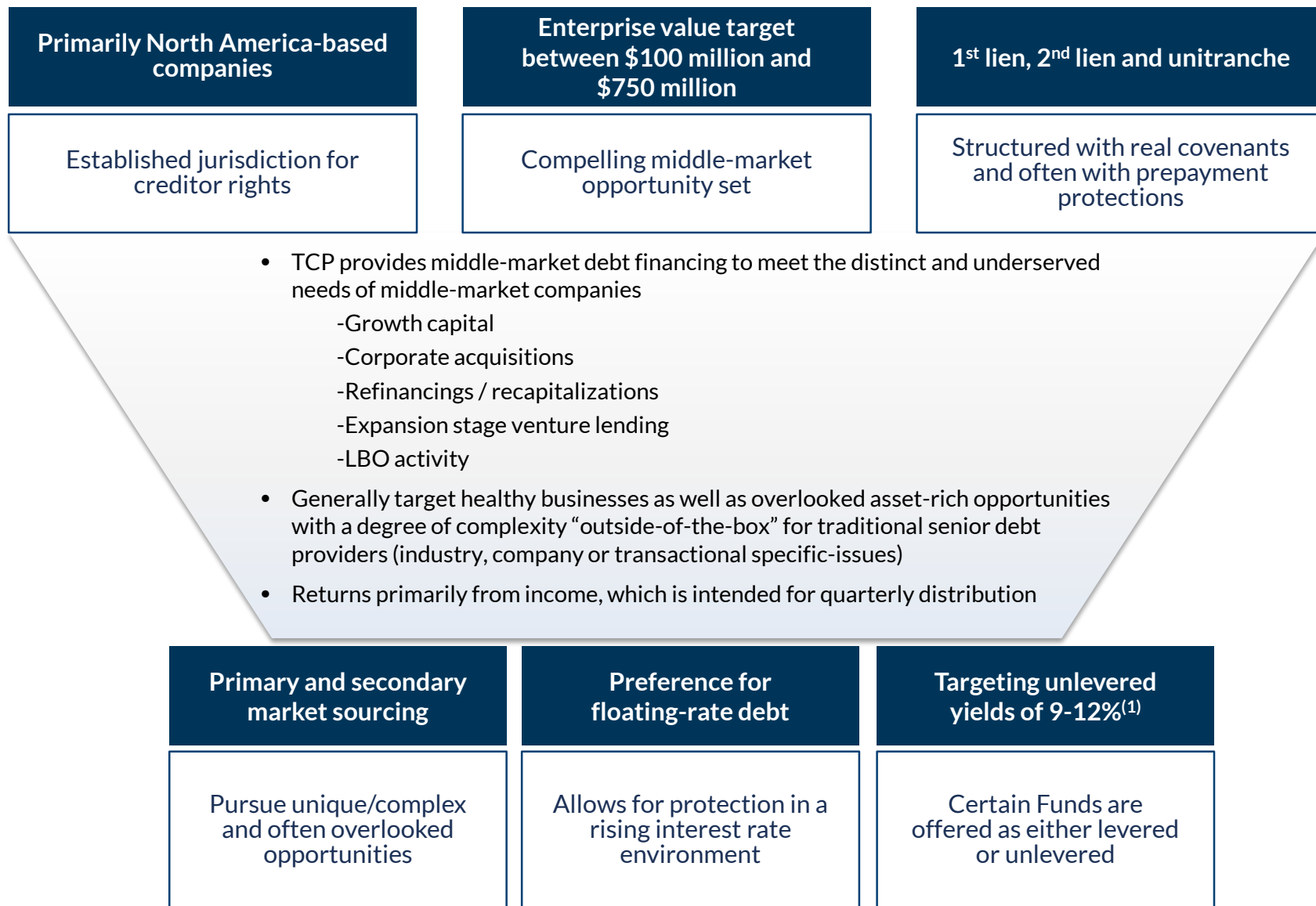
# TCP - Expertise in Two Complementary Strategies



TCP leverages its longstanding experience in special situations and direct lending to benefit both from a deal sourcing and underwriting perspective

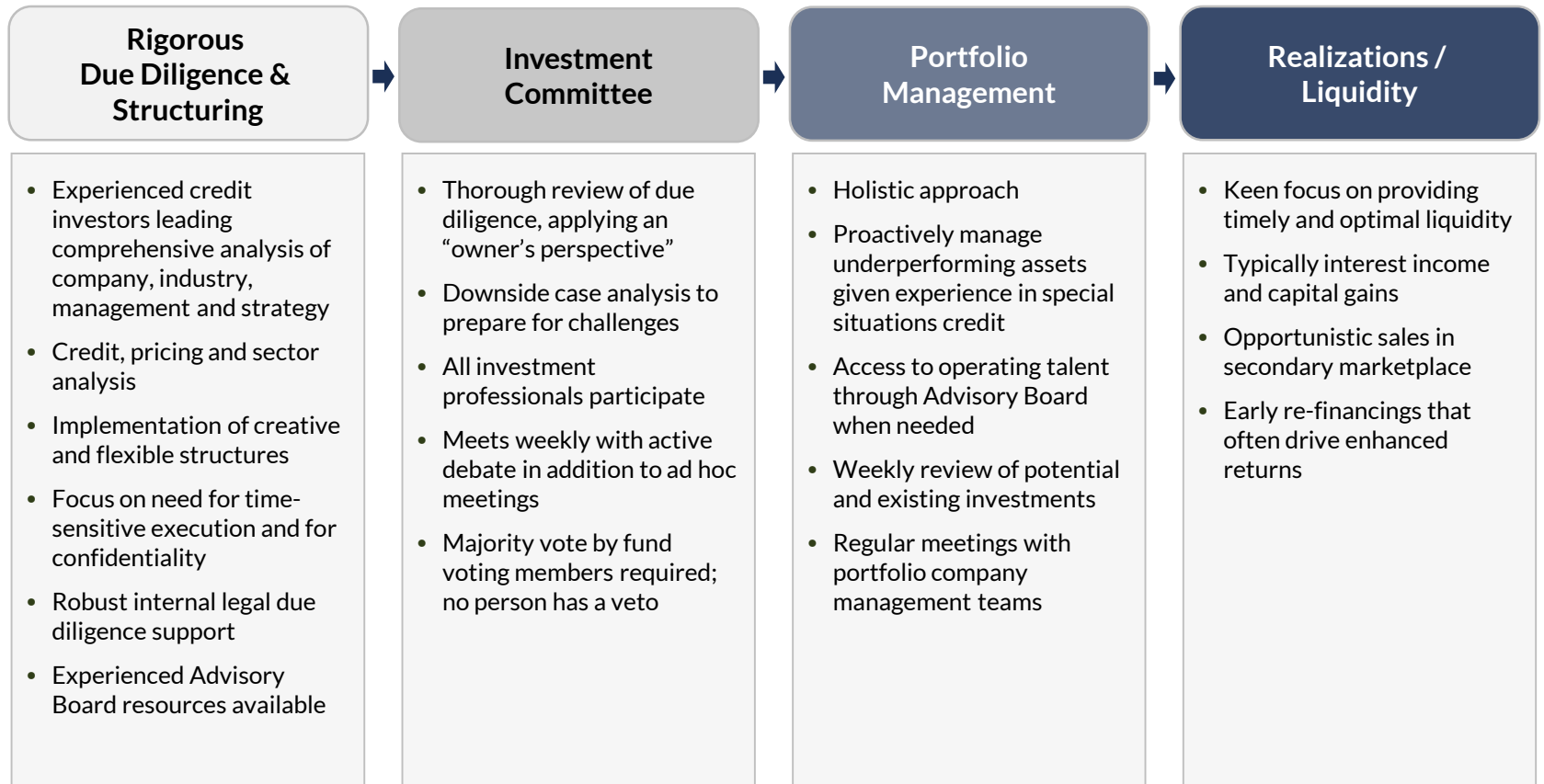


# TCP Direct Lending Strategy



# TCP Investment Process

- Over its 20 year history<sup>(1)</sup>, TCP has developed and implemented a proven, repeatable investment process



**TCP’s industry deal teams are involved in every phase of a transaction from sourcing to eventual liquidity**

# Footnotes

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## Slide 4

- 1) TCP's predecessor entity was founded in 1996. The firm was organized in its current structure in 1999.
- 2) TCP investment vehicles have included private funds, separate accounts, registered funds and a publicly-traded business development company, TCP Capital Corp.

## Slide 11

- 1) Target yields are based on current terms for qualifying investments and based upon current market conditions, taking into account the volatility of expected yields. Actual yields for any given investment and overall returns of accounts or funds following the Direct Lending strategy described in this presentation will depend on a variety of factors and may vary significantly from the target yields.

## Slide 12

- 1) TCP's predecessor entity was founded in 1996. The firm was organized in its current structure in 1999.



**TENNENBAUM CAPITAL PARTNERS, LLC**

2951 28th St., Suite 1000  
Santa Monica, CA 90405  
310-899-4949

[www.tennenbaumcapital.com](http://www.tennenbaumcapital.com)