



State of New Jersey

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March 22, 2012

MEMORANDUM TO: State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Cadian Fund LP**

The New Jersey Division of Investment (the “Division”) is proposing an investment of up to \$100 million in **Cadian Fund LP**. 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 for a number of reasons:

Experienced Portfolio Manager: Founded by Eric Bannasch who was a highly successful portfolio manager at Perry Capital for the Technology, Media and Telecommunications (TMT) sectors, where he was responsible for building out the TMT equity team.

Differentiated Investment Strategy: Employs intensive research oriented value approach in small and mid-cap names as opposed to growth focus by other TMT sectors fund managers, which leads to a portfolio of differentiated names that has low overlap with other hedge funds. In addition, the fund has a longer-term investment horizon relative to other equity long/short funds, particularly momentum driven Technology funds that focus on data point investing.

Attractive return profile: 11.95% annualized return with 17.75% standard deviation from inception in October 2007 to January 2012 placing the fund in the top quartile of all equity long/short funds. The HFRI Equity Hedge Index generated an annualized return of -.78% and a standard deviation of 13.56% over the same time period.

Attractive Risk-adjusted returns: The fund is in the top quartile of equity hedge funds on a risk adjusted basis despite being focused on a more volatile segment of the equity market.

Capital Preservation: Protected capital in difficult 2008 market environment; fund returned -9.20% while S&P 500 returned -37.0% and S&P 500 Technology sector returned -43.9%.

The fund has generated absolute positive returns on the both the long and short sides of the portfolio since inception.

Access to a closed manager: Fund will be hard closing in April 2012. This represents an opportunity to invest with manager who may not have future capacity.

Increase technology sector hedge fund exposure: Pension Fund currently has minimal exposure to the technology sector through other hedge funds, particularly in the small and mid-

cap segment of the market. This proposed allocation will further diversify the equity hedge portfolio.

Provides Equity Oriented Hedge Fund Exposure: Excellent fund to increase the equity oriented hedge fund exposure, an area we are underweight by over \$1.3 billion.

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

Division Staff and its hedge fund consultant, Cliffwater 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 (a "placement agent") in connection with New Jersey’s potential investment.

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. In addition, the proposed investment must comply with the Council’s regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that the investment is authorized pursuant to Articles 69 and 100 of the Council’s regulations. The Cadian Fund LP will be considered an equity oriented hedge fund investment, as defined under N.J.A.C. 17:16-100.1.

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 March 14, 2012. 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 22, 2012 meeting.

Attachments

Fund Name : Cadian Fund LP

March 22, 2012

Contact Info: Lisa Koscielny, 535 Madison Ave, 36th Fl, New York NY 10022 (212) 792-8801 lkoscielny@cadiancap.com

Fund Details:

Total Assets (\$mil.):	\$2,046	Key Investment Professionals: Eric Bannasch: founding partner of the firm and the portfolio manager for the fund with 16 years experience. Graham Quigley: CFO with 16 years experience. Amy Reiff: Director of Operations with 7 years experience. Bobby Gorynski: Controller with 7 years experience. Justin Griffith: General Counsel with 12 years experience. Lisa Koscielny: Director of Investor Relations with 18 years experience.
Strategy:	Long/Short Equity Hedge Fund	
Assets in Strategy(\$mil.):	\$2,046	
Year Founded:	Oct-07	
SEC Registration:	Yes	
GP Commitment:	2%	

Investment Summary

The fund is a global long/short equity fund focused on TMT and related sectors such as retail, healthcare technology, industrials and financials. Cadian is a contrarian investor and employs intensive research to establish value on both the long and short side. Holding period for longs is 18 to 36 months while for shorts it is 9 to 18 months. Shorts are primarily individual alpha shorts as opposed to hedges, and are expected to generate positive returns. The portfolio is constructed on a bottom-up basis, with long and short ideas driving overall gross and net exposures.

Track Record

As of 1/31/12	Cadian Fund, LP	HFRI Strategy Index	S&P 500 IT Sector
1 Year	3.94%	-5.23%	-4.50%
3 Year	18.10%	9.72%	21.46%
2011	0.53%	-8.30%	-7.49%
2010	25.78%	10.45%	9.12%
2009	25.65%	24.57%	59.93%
2008	-9.20%	-26.65%	-43.69%

Vehicle Information:

Fund Inception:	Oct-07	Subscriptions:	Monthly
Fund Size (\$mil.):	\$2,046	Redemptions (notice):	Semi annual (60 days notice)
Management Fee:	1.75% for the first \$50 million and 1.5% in excess of \$50 million	Lock-up:	none but cannot redeem more than 25% in a semi annual period
Profit Allocation:	20%	Prime Broker:	Goldman Sachs, Morgan Stanley and Credit Suisse
Highwater Mark:	Yes	Administrator:	Morgan Stanley Fund Services
Hurdle Rate:	No	Auditor:	Deloitte & Touche
Additional Expenses:	30 basis points	Legal Counsel	For US: Seward & Kissel and for Cayman Island: Ogier

NJ AIP Program

Recommended Allocation:	\$100 million	LP Advisory Board Membership:	N/A
% of Fund:	4.89%	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.