

November 6, 2007

MEMORANDUM TO: State Investment Council

FROM: William G. Clark
Director

SUBJECT: **Proposed Private Equity Investments Wayzata Opportunities Fund II, L.P, NJAI Fund I, L.P. and BlackRock – SONJ Private Opportunities Fund II, L.P. and Side Car Fund I**

This due diligence memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9 (a) to report on three proposed private equity investments: (1) a \$100 million commitment to Wayzata Opportunities Fund II, L.P., (2) a \$100 million commitment to NJAI Fund I, L.P. and (3) a \$400 million overall commitment to BlackRock - SONJ Private Opportunities Fund II, L.P. and SONJ Side Car Fund I, L.P.

Please note that these investments will be authorized pursuant to Articles 69 and 90 of the Council’s regulations. These investments will be considered “Buyout Fund” investments as defined under N.J.A.C. 17:16-90.1.

The Alternative Investments Procedures adopted by the Council on January 20, 2005 require any potential alternative investment opportunities to be identified and initially evaluated by the Head of Alternative Investments of the Division (myself in an acting capacity) and the applicable Asset Class Consultant (Strategic Investment Solutions for private equity, or “SIS”) in coordination with the DOI Investment Committee (Ike Michaels, Deputy Director and myself).

Based on this due diligence, the Division has determined that these proposed investments meet the criteria for investments set forth in the Council’s Alternative Investment Policy.

Wayzata Opportunities Fund II, L.P. (“WOF II”) is a Minneapolis-based, small-mid market “distressed debt for control” fund focusing largely on debt securities and the bank debt of distressed companies, typically those in bankruptcy or undergoing financial restructuring or reorganization. The commitment to WOF II is a “reup” – NJDOI has a \$40 million commitment to WOF I. WOF I appears on plan to meet its investment objective, as several exits have already materialized. Wayzata's strategy complements our portfolio's other distressed commitments and, for the most part, completes our portfolio's allocation to distress-oriented investments for this fiscal year.

NJAI (New Jersey Asia Investors) Fund I, L.P. is a separate account mandate focusing on private equity (buyouts, growth capital, venture & debt-related) investments in Asia, principally Greater China (Hong Kong, Taiwan & China), Japan, Korea, India and Southeast Asia. The GP anticipates allocating 70% of the capital to core managers (have invested at least one or more prior funds), 15% to emerging managers and 15% to co-investment opportunities. The GP, Asia Alternatives Management, is well-respected with the backing of a number of prominent investors. The three women partners have diverse but complementary backgrounds (as LPs, GPs and direct investors) and more importantly, are Asian and are well-respected within the Asian GP community for their knowledge and insightfulness. Two of the three partners reside in Asia while the third divides her time between San Francisco and Hong Kong and is the primary contact for US LPs.

This investment represents an initial exposure to the private equity market in Asia, and this initial commitment can facilitate a greater understanding of the individual markets/dynamics for NJDOI to eventually entertain the prospect of investing directly in the region. The \$100 million separate account will be invested over 2-3 years in 7 to 15 underlying GPs, each with a target commitment size of \$5 to \$20 million.

BlackRock – SONJ Private Opportunities Fund II, L.P. and SONJ Side Car Fund I, L.P. will be successors to the prior \$100 million co-investment separate account that NJDOI entered into with Merrill Lynch Investment Management (“MLIM”). As a result of the acquisition of MLIM by BlackRock, the private equity co-investment team is now part of BlackRock. As NJDOI continues to make investments in various Private Equity funds, it is expected that NJDOI will continue to receive numerous attractive co-investment opportunities. The creation of a separate account mandate specifically targeting co-investment opportunities has allowed NJDOI to capitalize on these opportunities. As was true with the first account, the mandate will include geographical diversification by investing in both North American (at least 50%) and in European (up to 50%) investments. The portfolio will consist of at least 80% buyouts, with the potential for 20% in later stage venture capital. Co-investment opportunities will be sourced in three ways: (1) from general partners associated with the State’s own private equity investments; (2) from general partners of ’s private equity investments managed on

behalf of other clients, and (3) from general partners currently unaffiliated with either the State or . Our proposal is for a \$200 million separate account to continue investing across a diversified portfolio of co-investments, as well as a \$200 million “side car” fund which will have the ability to invest additional capital in larger co-investment opportunities where both BlackRock and NJDOI have particularly strong convictions about the investment opportunity.

As a result of internal and external sourcing, the DOI Investment Committee identified these proposed investments. As a result, SIS and Division staff proceeded to undertake extensive due diligence on these proposed investments. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council. Based on this due diligence, the Division has determined that the proposed investments meet the criteria for investments set forth in the Alternative Investments Policy.

A formal written due diligence report for these proposed investments was sent to each member of the Investment Policy Committee of the Council on November 2, 2007, and a meeting of the Committee was held on November 5, 2007. In addition to the formal written due diligence reports, all other information obtained by the Division on this investment was made available to the Investment Policy Committee.

After review of the extensive due diligence, the Investment Policy Committee of the Council decided to report on the proposed investments to the full Council pursuant to Step 4 of the Alternative Investments Procedures. Under these procedures, the Council may adopt or otherwise act on this report.

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 each investment. In addition, each proposed investment must comply with the Council’s “pay to play” regulation (N.J.A.C. 17:16-4). While we are confident that we will work through these issues, the potential exists that a successful resolution will not be reached with one or more of these general partners.

We look forward to discussing these proposed private equity investments at the Council’s November 15, 2007 meeting.

WGC:cpp
Attachment