



State of New Jersey

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DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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July 22, 2015

MEMORANDUM TO: State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in Stone Milliner Macro Fund, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$250 million in Stone Milliner Macro Fund, L.P (“SMMF”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

Stone Milliner Asset Management AG is a \$4.1 billion global macro manager that seeks to consistently generate attractive risk-adjusted returns across asset classes in developed and emerging markets. The platform utilizes a multi-portfolio manager model and invests predominantly in currencies and fixed income, and opportunistically in equity index futures, credit and commodities.

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

Conservative, Experienced Portfolio Managers with Successful Track Record: Performance since inception for SMMF has been strong, with an annualized return of 11.54% since inception in January 2012 through April 2015, with 5.92% annualized volatility and a resulting Sharpe Ratio of 1.92. Stone Milliner’s risk-adjusted returns are top decile against the HFRI Macro universe on a 1-year, 3-years and since inception basis, as well as top decile since inception against the HFRI universe. The team’s track-record from Moore Capital goes back to January 2006, including difficult markets such as in 2008 when they produced an impressive return of 14.33%, significantly outperforming the HFRI Fund Weighted index loss of -19.03% and HFRI Macro (Total) index return of 4.83%.

Differentiated Return Profile and Exposure: Stone Milliner’s returns exhibit slightly negative equity market beta. Stone Milliner’s beta to MSCI All Country World Index (ACWI) is -0.14, -0.05, and -0.03 on a 3-year and since inception basis, respectively. The consistent returns combined with negative/low beta to the equity markets and to the existing managers in the Risk Mitigation bucket make Stone Milliner’s unique and complementary to the Pension Fund’s current portfolio.

Solid Backing and Successful Business Growth: Stone Milliner (the “Firm”) was able to launch with \$1 billion of assets from Moore Capital along with Moore’s full back and middle office support. With a solid foundation, the Firm successfully grew the business into a robust

\$4.1 billion institutional platform. In June 2015, SMMF fully separated from Moore Capital's front and back office support.

Attractive Portfolio Manager Structure: Stone Milliner's investment style is a hybrid structure which has the benefit of a multi-trader perspective while the majority of risk is overseen by the Co-CIOs. Similar to other multi-trader firms, Stone Milliner has wider breath for idea generation.

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. 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 100 of the Council's regulations. Stone Milliner Macro Fund, L.P. will be considered a global macro 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 July 9, 2015. 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 22, 2015 meeting.

Attachments

Fund Name: Stone Milliner Macro Fund, L.P

July 22, 2015

Contact Info: Neha Miglani, SMAM LLP, One Curzon Street, London W1J 5HA, United Kingdom

Fund Details:

Total Firm Assets:	\$4.1 billion as of April 2015	Key Investment Professionals: Jens-Peter Stein , Partner and Co-CIO of the investment team . Prior to Stone Milliner, Mr. Stein was a Senior Portfolio Manager for Moore Europe Capital Management (2006-2011), within the Moore Macro Managers Fund. Previously, he held positions at Morgan Stanley as a Managing Director in New York and London. Kornelius Klobucar , Partner and Co-CIO. Prior to Stone Milliner, Mr. Klobucar was a Senior Portfolio Manager for Moore Europe Capital Management (2006-2011). Chris Nicoll , Partner and Senior Portfolio Manager. Prior to Stone Milliner, Mr. Nicoll was Portfolio Manager for Moore Europe Capital Management (2008-2011), within the Moore Macro Managers Fund.
Strategy:	Macro	
Assets in Strategy:	\$4.1 billion	
Year Founded:	2011	
SEC Registration	No	
GP Commitment:	3.80%	

Investment Summary

Stone Milliner Asset Management was founded by Jens-Peter Stein and Kornelius Klobucar in 2011 with \$1 billion of seed capital from Moore Capital. The Stone Milliner Macro Fund is a multi-PM, top-down discretionary global macro trading strategy with an emphasis on currencies and interest rate markets in both developed and emerging markets, as well as opportunistic exposure in equity index futures, credit and commodities. Historically, including trading at Moore Capital, the portfolio has typically had over 50% of its exposures in rates and FX, with FX being the performance driver since inception. Overall, Stone Milliner has generated more consistent returns relative to its global macro peer group.

Existing Fund

	Fund	HFRI Benchmark	DJCS Global Macro
1 Year	19.14%	8.02%	7.56%
3 Year	12.36%	2.29%	4.80%
Inception	11.54%	2.10%	4.72%
YTD to 4/30/15	4.78%	2.04%	3.68%
2014	14.36%	5.58%	3.11%
2013	11.13%	-0.44%	4.32%
2012	8.05%	-0.06%	4.58%

Vehicle Information:

Fund Inception:	2012	Subscriptions:	Monthly
Fund Size (\$mil.):	\$3.150 bil as of July 1, 2015	Redemptions (notice):	Monthly with 60 Days' notice
Management Fee:	1.50% (class I)	Lock-up:	2 yr "Soft" lock, 2% redemption fee
Profit Allocation:	20%	Prime Broker:	Credit Suisse, Citi, Morgan Stanley
Highwater Mark:	Yes	Administrator:	Globe Op Financial Services
Hurdle Rate:	None	Auditor:	Ernst & Young Ltd.
		Legal Counsel:	Dechert LLP

NJ AIP Program

Recommended Allocation (\$mil):	up to \$250 million	LP Advisory Board Membership:	No
% of Fund:	7.94%	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.