



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

July 27, 2012

MEMORANDUM TO: State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed investments in RC Woodley Park, LP and Arden investment fund**

The New Jersey Division of Investment ("Division") is proposing an additional investment of up to \$250 million in RC Woodley Park, LP, a fund managed by the Rock Creek Group, and an investment of \$500 million in a fund managed by Arden Capital Management (approximately \$253 million from the existing investment with Arden Institutional Advisors, L.P. and up to \$250 million in additional investment). 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 these investments based on the following factors:

Flexibility to Take Advantage of Attractive One-Off Opportunities: The add-on investments will allow the Division to take advantage of unique investment opportunities. For example, the Division had a first look at a portfolio of investments that Arden and Rock Creek are liquidating for a large state plan. The additional capital would allow the Division to "cherry pick" the highest quality managers from the group as well as to take advantage of future opportunities of a similar nature that develop.

Addresses underweight in the hedge fund category: The Pension Fund is \$3.1 billion underweight across the three hedge fund sub-categories relative to the FY13 targets. These add-on investments will move the allocations closer to target. While the funds will likely allocate to hedge fund managers in each of the three categories, there will be a particular focus on macro strategies.

Access to closed managers/preferential terms: Some of the add-on capital will be used to assume allocations to closed top tier managers, and in some cases, will benefit from fee breaks negotiated by the Fund-of-Funds, high water-marks, and/or seasoned liquidity.

Attractive Fee: The Division has negotiated attractive fee arrangements with Arden and Rock Creek.

Customized Funds: The Division has the ability to review all proposed additions and redemptions within the portfolio. This will ensure that the portfolio is structured in a manner that will complement the Division's direct investment portfolio.

Reports of the Investment Policy Committee ("IPC") summarizing the details of the proposed investments are attached.

Division Staff and its hedge fund consultant, Cliffwater LLC, undertook extensive due diligence on the proposed investments in accordance with the Division's Alternative Investment Due Diligence Procedures. As part of its due diligence process, staff determined that both Rock Creek and Arden have not engaged a third-party solicitors ("placement agents") 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 investments. In addition, the proposed investments must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that these investments are authorized pursuant to Articles 69 and 100 of the Council's regulations. The investments are considered multi-strategy hedge funds, as defined under N.J.A.C. 17:16-100.1.

Formal written due diligence report for the proposed investments were sent to each member of the IPC and a meeting of the Committee was held on July 18, 2012. In addition to the formal written due diligence report, all other information obtained by the Division on the investments was made available to the IPC.

We look forward to discussing the proposed investment at the Council's Aug 2, 2012 meeting.

Attachments

Hedge Funds

Fund Name: Arden Institutional Investment Fund

August 2, 2012

Contact Info: Coby McDonald, Arden Asset Management LLC, 375 Park Avenue, 32nd Fl, New York, NY 10152

Fund Details:

Total Firm Assets (\$bil.):	\$7 billion	Key Investment Professionals: AVERELL H. MORTIMER: Mr. Mortimer is the Founder, President and Chief Executive Officer of Arden. Mr. Mortimer is also chairman of Arden's Investment Committee and is responsible for the firm's overall investment process. With over twenty years experience on Wall Street, Mr. Mortimer has worked in a variety of investment fields, including investment banking, venture capital and investment management. Mr. Mortimer received a B.A. from the University of Colorado in 1980 and an M.B.A. from Columbia University's School of Business in 1984. SHAKIL RIAZ : Mr. Riaz is a Managing Director at Arden and is a member of the Arden's Investment Committee with respect to the Arden PropPartners and Focused Global Macro portfolios. Mr. Riaz is responsible for leading the investment process for the Arden PropPartners funds. Previously, he was the Chief Investment Officer of J.P. Morgan PropPartners Management Corp ("JPM PP"). Prior to JPM PP, he was Chief Investment Officer for the Capital Markets Investment Program and General Manager of the predecessor Chemical Bank's offices in Cairo, Bahrain and Singapore from 1983 1991. He joined Chemical Bank in 1976 in the International Operations Group. Mr. Riaz holds a B.S. in Aerospace and Mechanical Engineering from Princeton University, a graduate diploma from the University of Stockholm and a M.B.A. from the Fuqua School of Business at Duke University.
Strategy:	Fund of Funds (Multi-strategy)	
Assets in Strategy(\$bil.):	\$3 bil	
Year Founded:	1993	
SEC Registration	Yes	
GP Commitment (\$mil.):	\$1 mil	

Investment Summary	Existing and Prior Funds				
The Division currently has approximately \$253 million invested with Arden Asset Management in a diversified absolute return mandate with specific focus on macro oriented strategies. The Division recently learned that a large State fund was unwinding their hedge fund-of-funds program and that Arden, who manages a sizable portfolio for this investor, had been selected as their exclusive transition manager. The Division then approached Arden to determine if there was an opportunity to effectively cherry pick some of the more attractive underlying positions. These positions will not immediately consume the new proceeds in their entirety. The balance of proceeds can also be utilized by Division staff to opportunistically direct Arden to create certain exposures and positions in the portfolio going forward that result from fund of hedge fund redemptions or positions that complement the overall hedge fund exposures but where their sizing may make less sense on a direct basis.	<u>As of May 31, 2012</u>	<u>A/A H*</u>	<u>AAA**</u>	<u>HFRI FoF</u>	<u>S&P 500 TR</u>
	YTD	2.49%	1.31%	1.31%	5.16%
	1 Year	-0.52%	-2.10%	-3.49%	-0.41%
	3 Year	5.17%	5.44%	2.72%	14.92%
	5 Year	-1.89%	-0.08%	-1.74%	-0.92%
	Since Inception	-0.05%	3.55%	0.24%	2.70%
	* New Jersey Division of Investment Share Class				
	** Arden Alternative Advisers SPC USD				

Vehicle Information:

Fund Inception:	2012	Subscriptions:	Monthly
Fund Size (\$bil.):	\$500 mil	Redemptions (notice):	Quarterly with 65 days notice (subject to the liquidity of the underlying managers)
Management Fee:	new capital:22.5bps(19bps blended on all capital)	Lock-up:	None
Profit Allocation:	7%	Prime Broker:	N/A
Highwater Mark:	Yes	Administrator:	UBS
Hurdle Rate:	3M T-Bills+3%	Auditor:	Ernst & Young
Additional Expenses:	approximately 25bps	Legal Counsel:	Seward & Kissel LLP

NJ AIP Program

Recommended Allocation:	\$250 mil of additional (\$500 mil total)	LP Advisory Board Membership:	N/A
% of Fund:	8.33%	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.

Fund Name: Rock Creek Group- RC Woodley Park, LP

August 2, 2012

Contact Info: Ronald J.P. van der Wouden, The Rock Creek Group, 1133 Connecticut Ave., NW, Washington, DC 20036

Fund Details:

Total Firm Assets (\$bil.):	\$7 billion	Key Investment Professionals: <i>Afsaneh Beschloss</i> is President and Chief Executive Officer of The Rock Creek Group. Prior to this, Ms. Beschloss was the Treasurer and Chief Investment Officer of the World Bank, responsible for managing funding strategy, as well as derivatives and structured products. She was instrumental in developing a \$3 billion portfolio of alternative investment funds. <i>Sudhir Krishnamurthi, DBA</i> is Senior Managing Director of The Rock Creek Group. Prior to this, Dr. Krishnamurthi was Director of the World Bank's Investment Management Department, responsible for managing investment assets, including pension assets in equities, fixed-income securities, and alternative assets. <i>Ronald J.P. van der Wouden</i> is a Managing Director at The Rock Creek Group. Prior to this, he spent over seven years at the World Bank, most recently as Co-Head of Risk Management in the World Bank Treasury. In that position, he was responsible for risk management across different businesses within the Treasury (the global fixed income portfolios, the alternative investment portfolio, and fixed income relative value). <i>Alberto Fassinotti</i> is a Director at The Rock Creek Group where he works on manager research and emerging market portfolio. Prior to this, he was with Attalus Capital, a fund of hedge funds manager. There, he oversaw investments in global macro, emerging markets, and commodities focused hedge fund strategies.
Strategy:	Hedge Fund of Funds	
Assets in Strategy(\$bil.):	\$5.6 billion	
Year Founded:	2002	
SEC Registration	yes	
GP Commitment (\$mil.):	\$1 million	

Investment Summary	Existing and Prior Funds			
<p>The State of New Jersey Division of Investments (hereinafter, "DOI") is currently invested with the Rock Creek Group in three separate portfolios including absolute return, equity oriented and commodities mandates all within Rock Creek Woodley Park LP. Rock Creek manages \$626 million for the Division. The Division recently learned that a large state fund was unwinding their hedge fund of funds program. Rock Creek manages sizable portfolios for this investor, therefore the Division approached Rock Creek to determine if there was an opportunity to effectively cherry pick some of the more attractive underlying positions. These positions will not immediately consume the new proceeds in their entirety. The balance of proceeds can also be utilized by DOI staff to opportunistically direct Rock Creek to create certain exposures and positions in the portfolio on a going forward basis that result from fund of hedge fund redemptions or positions that compliment the overall hedge fund exposures but their sizing may make less sense on a direct basis.</p>	<u>As of May 31, 2012</u>	<u>RC Woodley Park, LP</u>	<u>HFRI FOF</u>	<u>S&P 500 TR</u>
	YTD	4.6%	1.48%	5.16%
	1 Year	0.0%	-5.29%	-0.41%
	3 Year	6.6%	2.46%	14.92%
	5 Year	1.1%	-1.82%	-0.92%
	Since Inception	2.6%	0.51%	2.25%

Vehicle Information :

Fund Inception:	2006	Subscriptions:	Monthly
Fund Size (\$bil.):	\$5.6 billion	Redemptions (notice):	Quarterly with 91 day notice
Management Fee:	0.20%	Lock-up:	None
Profit Allocation:	0%	Prime Broker:	N/A
Highwater Mark:	no	Administrator:	CITCO Fund Services
Hurdle Rate:	0%	Auditor:	PricewaterhouseCoopers
Additional Expenses:	5 bps	Legal Counsel:	Akin Gump Strauss Hauer & Feld LLP; Schulte Roth & Zabel LLP Wilmer Cutler Pickering Hale & Dorr LLP

NJ AIP Program

Recommended Allocation:	\$250 million	LP Advisory Board Membership:	No
% of Fund:	4.46%	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

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