



## State of New Jersey

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October 7, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh  
Director

SUBJECT: **Proposed add-on investment in Asian Century Quest Fund (QP),  
LP Fund**

The New Jersey Division of Investment is proposing an addition of \$75 million to our investment in **Asian Century Quest Fund (QP), LP (the "Fund")**. This memorandum is presented to the State Investment Council ("Council") pursuant to N.J.A.C. 17:16-69.9.

Asian Century Quest Capital, LLC ("ACQ") was founded in 2005 by Brian Kelly, who was previously the Japan/Asia sector head at Maverick Capital. The firm manages approximately \$1.8 billion in two Asian equity long/short strategies: the flagship strategy and a Smaller Companies strategy launched in April 2008. ACQ has 37 employees world-wide, including 28 investment professionals of which 20 are located in the New York headquarters, 5 are in Tokyo, and 3 are in Hong Kong. In addition to Mr. Kelly, who is fluent in Japanese, the team includes nine Japanese, three Korean, five Chinese, and two Indian nationals. The firm is 100% owned by Mr. Kelly and has been registered with the SEC since 2006. Mr. Kelly and other insiders have a substantial portion of their net worth invested in ACQ strategies.

ACQ's flagship strategy has produced solid absolute and risk-adjusted performance since inception from March 2005 through July 2011. Over this period, the strategy has generated an annualized net return of 10.01% and a standard deviation of 8.62%, resulting in a Sharpe Ratio of 1.13. The HFRI Equity Hedge (Total) Index has returned 4.99% over the same period. The fund ranks in the top quartile since inception within the Equity Hedge universe on a risk adjusted basis. The State of New Jersey Division of Investment invested \$75 million in two tranches, \$37.5 million each in August and September 2008. Our investment has returned 16.99% cumulative over the period August 2008 to August 2011 (annualized 5.22%) based on estimated August performance. Comparative returns for MSCI EAFE Indices for Japan, Korea and China for the same periods are -14.10%, 15.64% and 1.67%, respectively.

ACQ is a bottom-up fundamentally driven equity long/short fund focused on Asia, with primary emphasis on Japan and China. The fund attempts to identify and forecast key business drivers by

conducting primary research through continuous interaction with management, consultants, and others and producing detailed proprietary financial models. ACQ aims to have significantly lower volatility than the market by maintaining low sector and country net exposures. Total portfolio net exposure is typically around 35% net long. Shorts are primarily alpha driven individual names, and index shorts are uncommon. The fund is diversified across more than 100 positions and limits individual long positions to 7.5% at cost. Additionally, while the fund can be heavily weighted to specific countries from a gross perspective, it does not make country or sector bets as the sector heads are required to have positions on both the long and short side. The fund's country allocations have fluctuated since inception; however, Japan has always been the fund's largest allocation. Recently the fund's allocations have been 45% Japan, 30% Greater China, 10% Korea, and the remainder to other Asian countries. The fund does not make significant use of leverage with the gross exposure ranging from 150% to 250% (longs are typically between 100% and 150%, and shorts are typically between 60% and 100%).

The Division's original investment carries a 2% management fee, 20% performance fee with a soft lock-up of 18 months. The proposed add-on will have same terms as the original investment. The fund has a high water mark and a 50% fund-level gate.

The Division of Investment ("Division") Staff and its hedge fund consultant, Cliffwater LLC, undertook extensive due diligence on this proposed additional investment. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

As part of its due diligence process, staff determined that the fund has not engaged either a third-party solicitor or placement agent in connection with the 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 this investment is authorized pursuant to Articles 69 and 100 of the Council's regulations. The investment in the Fund will be considered an equity oriented investment, as defined under N.J.A.C. 17:16-100.1.

Formal written due diligence reports for the proposed investments were sent to each member of the Investment Policy Committee and a meeting of the Committee was held on September 30, 2011. In addition to the formal written due diligence reports, all other information obtained by the Division on the investments was made available to the Investment Policy Committee.

We look forward to discussing the proposed investment at the Council's October 13, 2011 meeting.

Attachments

# State Investment Council Fund Review Memo

**To:** State Investment Council  
**From:** Division of Investment  
**Date:** October 13, 2011  
**Subject:** Hedge Fund Investment Recommendation

## Fund Facts

Fund Name:	Asian Century Quest Fund (QP), LP
Fund Type:	Equity Oriented - L/S Equity HF
Current Master Fund Size:	\$1.8 billion
Inception:	March-2005
Fund Address:	152 West 57th Street, 6th Floor New York, NY 10019

## GP Contact Info

Name:	Yadey Yawand-Wossen
Telephone:	(212) 328-9304
Email:	ywossen@acqcap.com

## Summary of Terms and Investment Strategy

Investment Strategy:	Fundamentally driven equity long/short fund investing in Asia, with a primary emphasis on Japan and China. The fund seeks to add value on both the long and short side of the portfolio via stock-specific fundamental analysis. The manager forecasts key business drivers and develops detailed proprietary financial models in order to identify differences from consensus earnings expectations. ACQ aims to have significantly lower volatility than the market by maintaining low sector and country net exposures.
Fee Terms:	
Management and Performance Fees:	Management fee: 2.00% Performance fee: 20%
Other Fees:	Fund expenses: 15 bps
Hurdle Rate:	None
Service Providers:	
Prime Broker(s):	Morgan Stanley, Goldman Sachs, UBS, Credit Suisse
Administrator(s):	Morgan Stanley Fund Services
Auditor(s):	Rothstein Kass
Legal Counsel:	Seward & Kissel, Ogier
Liquidity/Redemption Terms:	
Lock-up:	1.5 year "soft" lock-up - redemption charge of 6%/4%/2% for redemptions during the first 6/12/18 months of soft lock period.
Redemption:	Quarterly with 45 day notice
Side Pocket:	None

## NJ AIP Program:

Recommended Allocation:	\$75 million additional capital bringing total cost basis to \$150 million
% of Master Fund:	8.33%
% of New Jersey State Pension Plan (\$72b):	0.21%
% of AIP Hedge Fund Allocation (\$4.2b):	3.57%

Consultant Recommendation:	Yes
Placement Agent:	None
Compliance with Division Placement Agent Policy:	N/A
Compliance with SIC Political Contribution Reg:	Yes