



State of New Jersey

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September 23, 2016

MEMORANDUM TO: State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in Aspect Core Diversified Program**

The New Jersey Division of Investment ("Division") is proposing an investment up to \$200 million in Aspect Core Diversified Program. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

The Division proposes to reallocate a portion of invested capital from higher fee trend following investments to Aspect Core Diversified Program ("Core Program"), a flat fee trend offering managed by Aspect Capital Ltd. ("Aspect"), in order to diversify the Division's trend following exposure and to reduce costs. The Core Program was launched in November 2014. The Core Program is the complete suite of trend following models and portfolio construction and risk management techniques of the firm's flagship program, the Aspect Diversified Program, which has a successful track record going back to 1998.

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

Risk Mitigating and Attractive Absolute Returns: Aspect's trend following strategies have successfully traded a broad array of markets, over a number of different time frames and over the span of multiple decades. Historically, these strategies have produced additive performance during time of market stress as represented by the Aspect Diversified Program's ability to produce positive returns in 9 of the 10 worst down months for the S&P 500 over the last 10 years. Further, since inception, the Aspect Diversified Program has produced an annualized return of 8.55% and annualized standard deviation of 15.95% through July 2016. Since inception, the Core Program has a high realized correlation to the Aspect Diversified Program, and is designed to provide a similarly attractive, risk mitigating return profile.

Robust Product: The Division found the Core Program to be one of the most robust and complete offerings in the market place. Whereas peers offer subsets or diluted versions of their flagship trend following models, the Core Program is a complete carve out of all the trend following models along with the same risk management and portfolio construction techniques of the flagship product.

Reputable Quantitative Trading Experience: Mr. Lueck, who previously was a one of the founders of AHL, one of the most successful managed futures programs in the world, has over 30 years of

quantitative investing experience. He has compiled an experienced research and development staff of 76 people to support him in the firm's research efforts. Over the firm's 20 year lifespan, the team has built an impressive research platform. This platform, along with the firm's long standing experience developing quantitative strategies, has resulted in Aspect's ability to produce more sophisticated research in comparison to many of its peers.

Trend Following Dedication and Continuous Enhancements: A growing development in the trend following hedge fund space is that firms are allocating time and resources away from trend following research to focus on developing other types of quantitative strategies. In contrast, Aspect continues to focus the vast majority of their time and resources to enhancing their trend offerings. The Core Program will get the same level of attention and research commitment as their full fee strategy. All of the new developments in research, risk and portfolio construction implemented in the flagship program, the Aspect Diversified Program, will be employed in an identical way in the Core Program.

Cost Savings: The Division currently has approximately \$625 million allocated to trend following strategies. By reallocating a portion of this allocation to a lower cost, flat fee product, the Division expects to realize a significant cost savings.

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. Aspect Core Diversified Program will be considered an opportunistic (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 September 14, 2016. 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 September 28, 2016 meeting.

Attachments

Fund Name: Aspect Core Diversified Program **September 28, 2016**

Contact Info: Eddie Deschappelles, One Station Place, Stamford, CT 06902

Fund Details:

Total Firm Assets (\$bil):	\$6.4 billion	Key Investment Professionals: Anthony Todd , Founding Partner and the Chief Executive Officer. He is responsible for both the oversight of market, model, and operational risk as well as business development. Martin Lueck , Founding Partner and Research Director, overseeing the research team responsible for generating research hypotheses for the development of all of the firm's investment programs. Barney Dalton , Chief Technology Officer, overseeing the technology teams and is responsible for the development and operation of Aspect's execution infrastructure. Prior to Aspect, Dr. Dalton was a Senior Quantitative Developer at Brevan Howard. Simon Brown , Dr Brown joined Aspect Capital in May 2004 and is a Director of Research. Dr Brown is responsible for the management of the Research team subject to the oversight of Martin Lueck and is a member of the Risk Management Committee. Anna Hull , Ms Hull joined Aspect Capital in June 2008, is Aspect's Director of Risk. Ms. Hull is in charge of Aspect's Risk team, which is responsible for the oversight of all market, model and operational risks across Aspect and is a member of the Risk Management Committee.
Strategy:	Global Macro	
Assets in Strategy(\$bil):	\$140 million	
Year Founded:	1997	
SEC Registration	Yes	
GP Commitment:	\$166 million across products	

Investment Summary *Existing Fund*

Aspect Capital Limited has a successful track record dating back to 1998 and focuses on medium to long term momentum in the global currency, equity indices, fixed income and commodity markets. In November 2014, the firm launched a flat fee trend following offering, the Aspect Core Diversified Program. The Aspect Core Diversified Program is a complete carve-out of the trend following strategies along with the portfolio construction and risk management techniques of firm's flagship program, the Aspect Diversified Program, which has a track record dating back to 1998. The Aspect Core Diversified Program is a medium to long term trend following program that trades 89 liquid global futures markets, including equity indices, fixed income, currencies, and commodities and targets a 10% volatility.	As of 7/31/2016	Aspect Core Diversified	Aspect Diversified	HFRI Macro Systematic Diversified Index	SG Trend Index
	1 Yr	-0.02%	4.84%	2.76%	2.23%
	3 Yr	n/a	11.25%	4.68%	8.42%
	5 Yr	n/a	3.91%	1.20%	3.07%
	Since Inception	4.10%	8.55%	9.85%	6.46%

Fund Inception:	2014	Subscriptions:	Daily
Program Size (\$mil.):	\$140 million	Redemptions (notice):	Daily
Management Fee:	(\$100-199.99M) 65bps	Lock-up:	None
	(\$200M+) 60bps	Prime Broker:	Morgan Stanley, JP Morgan and Deutsche Bank*
Profit Allocation:	0%	Administrator:	Quintillion Limited (subsidiary of U.S. Bancorp)*
Highwater Mark:	n/a	Auditor:	KPMG*
Hurdle Rate:	no	Legal Counsel:	Maples & Calder*
Additional Expenses:	N/A		

* These are counterparties for the recently launched Aspect Core Trend Fund

NJ AIP Program			
Recommended Allocation (\$mil):	Up to \$200 million	LP Advisory Board Membership:	N/A
% of Program Size	58.8	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.