



State of New Jersey

CHRIS CHRISTIE
Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

January 20, 2012

MEMORANDUM TO: State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Bay Pond Partners, LP**

The New Jersey Division of Investment (the "Division") is proposing up to **\$150 million** investment in **Bay Pond Partners, LP Fund**. 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 the investment for a number of reasons:

Experienced Portfolio Manager: Fund managed by Nick Adams, one of the most experienced and highly respected financial sector portfolio managers in the industry.

Flexible Mandate: While Bay Pond is primarily a long/short equity fund, it has a flexible mandate to invest across capital structure, CDS, commodities, currencies and sovereigns. Mr. Adams has successfully used CDS, commodities and sovereigns to hedge macro risks in the portfolio.

Wellington Asset Management Umbrella: \$619 billion asset management company with a very loyal culture. Portfolio managers with successful long-term long only track records are provided the opportunity to evolve into Long/Short Equity sector portfolio managers.

Favorable terms: Better than average management fee at 1%.

Attractive return profile: 22.5% annualized return from inception in 1994 to November 2011 placing the fund in the top decile of long/short hedge fund managers since inception and in the first quartile for all period three-years and longer.

Addresses Underweight: The Fund is currently over \$1.2 billion underweight the equity oriented hedge fund category. The proposed allocation will further diversify the equity hedge portfolio and the overall Global Growth asset class.

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. 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 the investment is authorized pursuant to Articles 69 and 100 of the Council's regulations. The Bay Pond Partners, LP will be considered an equity oriented 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 January 18, 2012. 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 January 26, 2012 meeting.

Attachments

Fund Name : Bay Pond Partners, L.P.

January 20, 2012

Contact Info: Zander Grant, 280 Congress St, Boston, MA 02210 (617) 951-5867 aggrant@wellington.com

Fund Details:

Total Assets (\$mil.):	\$619,000	Key Investment Professionals: <i>Nicholas Adams: Mr. Adams is a Partner, Sr VP and Equity Portfolio Manager at Wellington. He joined the firm in 1983 and has managed Bay Pond Partners Fund since its inception in 1994.</i> <i>Andrew B Leeming : Mr. Leeming is a Partner, Sr. VP and Equity Portfolio Manager at Wellington since 2003. He has 28 years of industry experience; 10 years on the sell side and 10 years on the buy side prior to joining Wellington.</i> <i>Ashish Chugh: Mr. Chugh is a Vice President and Equity Research Analyst at Wellington since 2006 and covers Non-US Banks.</i> <i>Robert V. Dyer: Mr. Dyer is a Partner, Vice President and Equity Research Analyst at Wellington since 2006. He focuses on financial services Companies.</i>
Strategy:	Long/Short Equity - Financial Sector	
Assets in Strategy(\$mil.):	\$3,800	
Year Founded:	1994	
SEC Registration:	Yes	
GP Commitment:	N/A	

Investment Summary:

Global Long/Short equity fund focused on the financial sector which includes banks, thrifts, mortgage banks, insurance companies, asset managers, software suppliers to financial companies, REITs and home builders. Fund was launched in 1994 with \$8 million under management and currently has \$3.8 billion. Fund invests primarily in equities but has a flexible mandate to invest across capital structure, CDS, commodities, currencies and sovereigns. Non-equity instruments are used as macro level hedges to protect the portfolio.

Track Record

As of 11/30/11	Bay Pond Partners	HFRI Eqty Hedge	S&P 500 Financials
5 Year	14.32%	1.71%	-17.53%
3 Year	23.53%	7.80%	-4.61%
YTD	-9.15%	-5.58%	-15.46%
2010	20.85%	10.45%	10.82%
2009	67.38%	24.57%	14.78%
2008	-20.89%	-26.65%	-56.95%
2007	30.17%	10.48%	-20.74%
2006	13.57%	11.71%	16.18%

Vehicle Information:

Fund Inception:	1994	Subscriptions:	Monthly
Fund Size (\$mil.):	\$3.8 bil	Redemptions (notice):	Semi-annual with 45 days notice
Management Fee:	1%	Lock-up:	One year
Profit Allocation:	20%	Prime Broker:	Morgan Stanley
Highwater Mark:	Yes	Administrator:	International Fund Svcs (Offshore); Morgan Stanley Fund Svcs (Onshore)
Hurdle Rate:	No	Auditor:	PriceWaterhouseCoopers LLP
Additional Expenses:	10 Basis Points	Legal	US: Seward & Kissel LLP , Bermuda: Conyers Dill & Pearman Ltd

NJ AIP Program

Recommended Allocation:	\$150 mil	LP Advisory Board Membership:	N/A
% of Fund:	3.95%	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.