



State of New Jersey

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DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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November 15, 2013

MEMORANDUM TO: State Investment Council

FROM: Christopher McDonough
Acting Director

SUBJECT: **Proposed Investment in Bay Pond Partners, L.P. Fund**

The New Jersey Division of Investment (“Division”) is proposing an additional commitment of \$50 million to Bay Pond Partners, L.P. (the “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 this investment based on the following factors:

Opportunity to expand investment with successful, experienced portfolio manager: The Fund is managed by Nick Adams, one of the most experienced and highly respected portfolio managers in the financial sector. Mr. Adams has been with Wellington since 1983, and has run Bay Pond since inception. Since the Division’s initial investment in April of 2012, the Fund has generated an annualized return of 8.82% through August 31, 2013, significantly outperforming the HFRI Equity Hedge Index return of 4.80% return over the same time period, resulting in approximately \$19 million of net profits. On a 1-year basis, the Fund has returned 15.61%.

Attractive return profile: Since inception in 1994, the Fund has generated an annualized return of 21.87% through August 31, 2013, placing the fund in the top decile of long/short managers since inception and in the top quartile for all periods five years and longer. The Fund has materially outperformed the S&P 500 and the S&P 500 Financials Sector over the same time periods.

Wellington Asset Management Umbrella: With over \$818 billion in assets under management, Wellington has a significant presence and long-term track record in nearly all sectors of the liquid, global securities markets. Portfolio managers with successful long-term long only track records are provided the opportunity to also evolve into Long/Short Equity sector portfolio managers. Bay Pond is also able to leverage the deep proprietary fundamental research that is generated by the financials team across the firm

Favorable terms: The Division’s existing and proposed investment are at better than average hedge fund terms with a management fee of 1%, which is half the standard 2% charged by a majority of hedge funds.

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, L.P. Fund 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 November 8, 2013. 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 November 21, 2013 meeting.

Attachments

Fund Name: Bay Pond Partners, L.P. **November 21, 2013**

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

Fund Details:		Key Investment Professionals: Nicholas Adams , Partner, Senior Vice President and Equity Portfolio Manager at Wellington. Mr. Adams has spent his entire career analyzing and investing in financial service companies at Wellington, and has been with the firm for over 30 years. He joined the firm in 1983 and has been managing Bay Pond since inception in 1994. Andrew B. Leeming , Partner, Senior Vice President, and Equity Portfolio Manager at Wellington Management Company LLP. Mr. Leeming has been an equity portfolio manager at Wellington since 2003 and has over 30 years of industry experience, which includes 10 years on the sell side and 10 years on the buy side prior to joining Wellington. Ashish Chugh , Vice President and Equity Research Analyst at Wellington Management Company LLP. Mr. Chugh has been an equity analyst at Wellington since 2006 and covers Non-US Banks. Prior to joining Wellington, he worked as an associate at the Blue Chip Venture Company from 2003 to 2006.
Total Firm Assets (\$bil.):	\$818 billion	
Strategy:	Equity Oriented Hedge Fund	
Assets in Strategy(\$bil.):	\$5.9 billion	
Year Founded:	1928	
SEC Registration	Yes	
GP/ Employee Commitment:	8.1%	

Investment Summary	Track Record			
<p>Wellington Management Company, LLP (“the firm” or “Wellington”) is one of the largest and most well known institutional investment management firms in the world. The firm began managing hedge funds in 1994 and currently manages a total of \$14.1 billion across 20 hedge funds. Bay Pond (the “fund” or “Bay Pond”) was launched in 1994 and has \$5.9 billion in assets. The fund is managed by Nicholas Adams, and is an equity long/short fund that focuses on the global financial sector. Wellington’s financial analysts are primarily sub-sector and regional specialists who utilize the deep proprietary fundamental research that is generated by the financials team across the firm. The specialized research allows the fund to gain an edge over generalist funds that don’t typically have the same level of industry contacts and knowledge base.</p>	As of 08/31/2013	Fund	HFRI Equity Hedge	S&P 500 FS
	1 yr	15.61%	10.42%	31.06%
	3yr	10.41%	5.34%	14.79%
	5yr	15.61%	2.92%	0.15%
	Fund Inception	21.87%	9.99%	6.77%
	2013 thru Aug	9.86%	6.34%	19.62%
	2012	21.15%	7.41%	28.82%
	2011	-13.02%	-8.38%	-17.06%
	2010	20.84%	10.45%	12.13%
	2009	67.39%	24.57%	17.22%
	2008	-20.89%	-26.65%	-55.32%

Vehicle Information:

Fund Inception:	1994	Subscriptions:	Monthly, first business day of the month
Fund Size (\$mil.):	\$5.9 billion	Redemptions (notice):	Semi-Annually with 45 day notice
Management Fee:	1.00%	Lock-up:	One year hard lock from date of admission
Profit Allocation:	20%	Prime Broker:	Morgan Stanley Fund and Credit Suisse
Highwater Mark:	Yes	Administrator:	Morgan Stanley Fund Services USA LLC
Additional Expenses:	up to 50bps	Auditor:	PricewaterhouseCoopers LLP
		Legal Counsel:	Seward & Kissel LLP

NJ AIP Program

Recommended Allocation (\$mil):	\$50 million	LP Advisory Board Membership:	N/A
% of Fund:	0.85%	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.