



## State of New Jersey

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October 7, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh  
Director

SUBJECT: **Proposed Investment in Brevan Howard LP**

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

Brevan Howard (the "Firm") was founded in 2002 by five former members of the Credit Suisse First Boston ("CSFB") Developed Markets Rates trading team. The Firm's flagship fund, the Brevan Howard Master Fund Limited ("BHMF" or the "Fund"), is a global macro strategy with exposure predominantly to global fixed income and foreign exchange markets. As at 31 August 2011, the Firm is estimated to manage over \$34 billion in assets, including \$26.1 billion in BHMF.

The Firm employs 351 employees (approximately 100 investment professionals) and has offices in London, Geneva, Hong Kong, Tel Aviv, Jersey, Washington D.C, and Dublin. There are approximately 55 traders within the Firm. Alan Howard, one of the five founders of the Firm, runs the largest book of the Fund's capital.

BHMF employs global macro and relative value trading strategies. The investment objective of BHMF is to generate consistent long-term appreciation through active leveraged trading and investment on a global basis. BHMF employs an investment process which primarily uses a combination of macro and relative value strategies. New trading strategies will be added as investment opportunities present themselves.

Brevan Howard has established a risk management framework which is intended to identify, measure, monitor, report, and where appropriate, mitigate key risks identified. Amongst other things, the risk management framework addresses portfolio risks (such as market, credit, liquidity, counterparty and funding risks), operational risks and outsourcing risks. Portfolio risks which are monitored by the risk management team include analysis of sensitivity measures, gross and net exposures, value at risk and leverage, as well as stress tests and scenario analyses, with a view to identifying and mitigating the potential impact of extreme market movements.

BHMF has produced excellent risk-adjusted returns. From inception through August 2011, the strategy generated an annualized return of 13.63% with volatility of 7.365%, resulting in a

Sharpe ratio of 1.42. The fund's risk adjusted performance place it in the top quartile among all hedge funds and within the Global Macro universe

Brevan Howard charges a 2% management fee and 25% performance fee. All investors pay an additional operational service charge of 0.50% per annum. The fees, while high in comparison to the general hedge fund universe, are in-line with most other global macro funds. The top funds in the space charge a 2% to 4% management fee and a 20% to 30% performance fee. Liquidity for BHMf provides for a one year "soft" lock up and thereafter 5% redemption fee on redemptions in excess of 25% of the investor's holdings in any consecutive three month period with monthly liquidity upon 90 days redemption notice. Redemptions are subject to investor level and fund level gating mechanisms.

The Division of Investment ("Division") Staff and its hedge fund consultant, Cliffwater LLC, undertook extensive due diligence on the proposed 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 engaged Brevan Howard US LLC (the "placement agent") as third-party solicitor in connection with the potential investment. Staff has determined that the placement agent and its representatives met the registration, licensing and experience requirements set forth in the Division's Placement Agent Policy dated July 09, 2009 (the "Policy"). Pursuant to the Policy, the fund has disclosed the contract between the fund and the placement agent, specifying the scope of services to be performed by the placement agent and the fee arrangement between the placement agent, the general partner and any other third party.

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 each investment. In addition, each 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. Brevan Howard LP will be considered an opportunistic hedge fund investment, as defined under N.J.A.C. 17:16-100.1.

Formal written due diligence reports for the proposed investment were sent to each member of the Investment Policy Committee and a meeting of the Committee was held on September 8, 2011. In addition to the formal written due diligence reports, all other information obtained by the Division on the investment 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:	Brevan Howard LP/Brevan Howard Fund Limited
Fund Type:	Absolute Return - Hedge Fund
Current Master Fund Size:	\$25.1 billion
Inception:	February 2004 (Brevan Howard LP)/ April 2003 (Brevan Howard Fund Limited)
Fund Address:	<b>Brevan Howard principal office</b> 55 Baker Street, London W1U 8EW, United Kingdom

## GP Contact Info

Name:	Bruce Terry
Telephone:	(212) 418-8200
Email:	bruce.terry@brevanhoward.com

## Summary of Terms and Investment Strategy

Investment Strategy:	The feeder funds invest all of their assets (to the extent not retained in cash) in the ordinary shares of Brevan Howard Master Fund Limited (the "Master Fund"). The investment objective of the Master Fund is to generate consistent long-term appreciation through active leveraged trading and investment on a global basis. The Master Fund employs an investment process which primarily uses a combination of macro and relative value strategies. The underlying philosophy is to construct strategies, often contingent in nature, with superior risk/return profiles, whose outcome will often be crystallised by an expected event occurring within a predetermined period of time. New trading strategies will be added as investment opportunities present themselves.
Fee Terms:	
Management and Performance Fees:	Management fee: 2.00% Performance fee: 25%
Other Fees:	Operational Service fee: 0.50% Other fees of approx 10 -15 bps
Hurdle Rate:	None
Service Providers:	
Prime Broker(s):	Credit Suisse Securities (USA) LLC, UBS AG, Deutsche Bank and Credit Suisse
Administrator(s):	International Fund Services (Ireland) Limited
Auditor(s):	KPMG
Legal Counsel:	Simmons & Simmons LLP, Maples & Calder, Sidley Austin LLP
Liquidity/Redemption Terms:	
Lock-up:	None, 5% redemption penalty during first year and thereafter 5% redemption fee on redemptions in excess of 25% of the investors holdings in any 90 day period.
Redemption:	Monthly with 90 days notice, 10% fund level gate
Side Pocket:	None

## NJ AIP Program:

Recommended Allocation:	\$200 million
% of Master Fund:	0.80%
% of New Jersey State Pension Plan (\$72b):	0.28%
% of AIP Hedge Fund Allocation (\$3.6b):	5.56%

Consultant Recommendation:	Yes
Placement Agent:	Yes - Brevan Howard US LLC
Compliance with Division Placement Agent Policy:	Yes
Compliance with SIC Political Contribution Reg:	TBD