



State of New Jersey

DEPARTMENT OF THE TREASURY
OFFICE OF THE STATE TREASURER
P.O. BOX 002
TRENTON, NJ 08625-0002

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

January 5, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy M. Walsh
Director

A handwritten signature in blue ink, appearing to read "Timothy M. Walsh".

SUBJECT: **Additional investment to existing Hedge Fund Investment in
Centerbridge Credit Partners Fund, L.P.**

The New Jersey Division of Investment invested \$40 million in Centerbridge Credit Partners Fund, L.P. ("Fund") on January 1, 2011. The Investment Division invested \$100 million in the fund in November 2007. Our investment in the fund since inception has a cumulative return of 47.0% and is one of our best performing hedge funds. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

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

Centerbridge Partners is an investment management firm founded in early 2006 by Jeffrey Aronson and Mark Gallogly. Previously Mr. Aronson managed the distressed investments at Angelo, Gordon & Co., while Mr. Gallogly headed up the Private Equity Group at The Blackstone Group. Centerbridge manages \$12 billion in distressed investments within both hedge funds and private equity funds. The firm has 80 employees including 32 investment professionals. Centerbridge has a team of five professionals, supported by 18 person staff, who manage the operations and accounting functions. Senior staff has made a significant investment in the fund. Centerbridge Credit Partners is a distressed securities hedge fund that seeks to capitalize on undervalued credit oriented investment opportunities. The fund's focus is on two primary areas: non-control distressed securities and undervalued credit investments such as leverage loans, high yield bonds, specialty financings, structured products and credit related equities. The fund is expected to make only modest use of leverage and make the majority of its investments in the US with moderate exposure in Europe. Centerbridge perceives risk as the permanent impairment of capital. As such, Centerbridge focuses on downside risk which they will seek to limit through diversification, modest leverage, and a fundamental, bottom-up approach to credit analysis. Each position is sized to limit the loss to the total portfolio to

between 100 and 150 basis points. Since inception in 2007 through November 2010, Centerbridge Credit Partners has achieved an annualized return of 14.26%, with a standard deviation of 14.92%.

We worked with representatives of the Division of Law and outside counsel to review specific terms of the legal documents which govern the added investment. In addition, the added investment complied with the Council's "pay to play" regulation (N.J.A.C. 17:16-4).

Please note that the investment is authorized pursuant to Articles 69 and 100 of the State Investment Council's (the "Council") regulations. The Centerbridge Credit Partners Fund, L.P. will be considered credit oriented investment as defined under N.J.A.C. 17:16-100.1.

We look forward to discussing the added investment at the Council's January 12, 2011 meeting.

Attachments

SIC Investment Policy Committee Fund Review Memo

To: State Investment Council-Investment Policy Committee
From: Division of Investment
Date: December 15, 2010
Subject: Centerbridge Partners, L.P.
Recommendation

Approved
[Signature]

Fund Facts

Fund Name: Centerbridge Credit Partners, L.P.
Fund Type: Distressed
Current Fund Size: \$6.9 billion
Inception: November-2007
Fund Address: 375 Park Avenue, 12th Floor
New York, NY 10152

Investment Rationale:

This is an additional investment to a best in class open-end fund with allocation available on December 31st. NJ invested \$100 mil with Centerbridge Credit Partners in November of 2007 as a distressed credit manager covering mainly North American companies. Since then, Centerbridge has proved to be one of the best risk-adjusted performing managers in the DOI hedge fund portfolio. Since the NJ inception, the fund has a cumulative return of **47.0%** despite the credit market turmoil which has negatively impacted many other hedge fund managers in this space. In 2008, the fund had a negative performance of -23.2% but in 2009, rebounded nicely with 62.5% and 2010 YTD return of 17.4%. Centerbridge continues to see dislocated, undervalued opportunities in the credit market in the US and in Europe across various sectors.

Summary of Terms and Investment Strategy

Investment Strategy: Distressed fund that will seek to capitalize on undervalued credit oriented investment opportunities. The fund's focus will be on two primary areas: non-control distressed securities and undervalued credit investments such as leverage loans, high yield bonds, specialty financings, structured products and credit related equities. The fund has the ability to employ leverage, but has not done so to date. The majority of its investments are in the US.

Fee Terms:

Management and Performance Fees: Management fee - 1.75%
Performance fee - 20%

Other Fees: Fund expenses - 20 bps

Hurdle Rate: None

Service Providers:

Prime Broker(s): J.P. Morgan, Goldman Sachs & Co. and Morgan Stanley & Co.

Administrator(s): Citi Hedge Fund Administration

Auditor(s): PricewaterhouseCoopers LLP

Legal Counsel: Schulte Roth & Zabel LLP

Liquidity/Redemption Terms:

Lock-up: 2 year lock-up with respect to half of the capital account with a 2 year rolling lock-up thereafter; 3 year lock-up with respect to the other half of capital account with a 2 year rolling lock-up thereafter

Redemption: Every two years with 90 day notice

Side Pocket: Up to 25%

NJ AIP Program:

Recommended Allocation Current: \$40 mil in addition to existing \$100 million original investment (Nov 2010 NAV \$146 million)

% of Fund: 2.66%

% of New Jersey State Pension Plan: 0.27%

% of AIP Hedge Fund Allocation (\$3.5b): 5.31%

Consultant Recommendation: Yes

*see due diligence memo

Compliance with SIC "Pay to Play" Reg: Side letter in place

GP Contact Info

Name: Maryfrances Metrick
Telephone: (212) 672-4632
Email: mmetrick@centerbridge.com

* 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.