



State of New Jersey

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

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

November 15, 2013

MEMORANDUM TO: State Investment Council

FROM: Christopher McDonough
Acting Director

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

The New Jersey Division of Investment ("Division") is proposing an investment of up to \$150 million in Iguazu Partners, L.P. Fund (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:

Attractive risk/return profile: Iguazu has generated a 9.16% annualized return from inception in February 2006 through August 2013, with 3.98% standard deviation resulting in Sharpe Ratio of 1.90, placing the Fund's risk-adjusted returns in the top quartile against the HFRI universe across all time periods. During a difficult 2008 investment environment, the Fund performed much better than the market, and has produced positive performance in every calendar year since inception.

Flexible mandate: Iguazu is a Long/Short debt fund focused on the emerging markets but has a flexible mandate to invest in a broad range of instruments, including external debt, local debt, rates and currencies. The unconstrained absolute return approach utilized by the Fund provides them the flexibility to pursue and exploit dislocations in an inefficient asset class.

Opportunity to expand investment with successful, experienced asset management firm: Wellington Management is a recognized industry leader in emerging markets debt investing, with \$31.0 billion in dedicated assets. Iguazu leverages Wellington's proprietary Emerging Market Debt research for their bottom-up, deep fundamental approach.

Experienced portfolio manager with successful career in Emerging Markets: James W. Valone is the Portfolio Manager of Iguazu and serves as the chair of Wellington Management's Emerging Markets Debt Strategy Group. Having joined Wellington in 1999, Mr. Valone is currently a Partner with the firm and has over twenty years of experience investing in the emerging markets.

Favorable terms: The Division's proposed investment has a management fee of 1%, half the standard 2% charged by a majority of hedge funds.

Diversification benefit: Iguazu provides direct emerging markets exposure in the Division's Hedge Fund portfolio, which currently has approximately \$350 million in emerging markets

exposure, primarily through fund of funds. In addition, an investment in Iguazu helps to address the Division's current underweight in the Absolute Return bucket.

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 Iguazu Partners, L.P. Fund will be considered an opportunistic 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: Iguazu Partners, L.P. Fund

November 21, 2013

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

Fund Details:

Total Firm Assets (\$bil.):	\$818 billion	Key Investment Professionals: James Valone , Partner and Lead Portfolio Manager. Mr. Valone serves as chair of Wellington Management's Emerging Markets Debt Strategy Group and has ultimate responsibility for all portfolios with this strategy. Having joined Wellington in 1999 he is currently Partner with the firm and has over twenty years of experience investing in emerging markets. Julian Dwek , Portfolio Manager. Mr. Dwek focused primarily on the local currency-denominated bonds markets of emerging markets. He has worked in the firm for 9 years. Prior to joining Wellington he worked at Citigroup and JP Morgan. Eric Lambe , Portfolio Manager. Mr. Lambe focuses on relative value arbitrage within the EMD team. He has worked in the firm for 6 years. Prior to joining Wellington he worked at LMS International and has a total of 11 years of industry experience.
Strategy:	Opportunistic	
Assets in Strategy(\$bil.):	\$643 million	
Year Founded:	1928	
SEC Registration	Yes	
GP/ Employee Commitment:	25.4%	

Investment Summary

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. Iguazu is an Absolute Return fund focused on the Emerging Markets that utilizes both fundamental and systematic strategies to provide an opportunistic allocation across the full range of emerging market debt instruments and geographies. The fund's historical average positive risk exposure is based on positive long-term structural trends in emerging markets.

Track Record

As of 08/31/2013	Fund	HFRI Relative Value	JPM EMBI Global
1 yr	6.05%	7.42%	-5.46%
3yr	6.19%	6.32%	4.98%
5yr	9.95%	6.17%	7.83%
Fund Inception	9.16%	6.20%	7.34%
2013 thru Aug	1.85%	3.54%	-9.84%
2012	11.42%	10.59%	18.54%
2011	1.78%	0.15%	8.47%
2010	11.90%	11.43%	12.04%
2009	24.71%	25.81%	28.18%
2008	5.82%	-18.04%	-10.91%

Vehicle Information:

Fund Inception:	2006	Subscriptions:	Monthly
Fund Size (\$mil.):	\$793 million	Redemptions (notice):	Quarterly with 45 day notice
Management Fee:	1%	Lock-up:	1 Year hard lock-up
Profit Allocation:	20%	Prime Broker:	Credit Suisse
Highwater Mark:	Yes	Administrator:	International Fund Services (N.A.) LLC
Hurdle Rate:	None	Auditor:	PricewaterhouseCoopers LLP
Additional Expenses:	27 bps	Legal Counsel:	Seward & Kissel LLP

NJ AIP Program

Recommended Allocation (\$mil):	up to \$150 million	LP Advisory Board Membership:	N/A
% of Fund:	18.9%	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.