



State of New Jersey

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Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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State Treasurer

May 18, 2012

MEMORANDUM TO: State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Lazard Rathmore Fund, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$150 million in **Lazard Rathmore Fund, L.P.** (“Lazard Rathmore”). 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:

Complimentary to Existing Portfolio: The proposed commitment to Lazard Rathmore continues the Division’s focus on balancing the credit-oriented hedge fund portfolio by diversifying into more market neutral strategies to compliment the current over-weight distressed exposure.

Strategy Expertise: Lazard Rathmore’s unique expertise in the convertible arbitrage space gives the Division access to a top manager in a sub-asset class to which the Division currently has no exposure.

Highly Liquid & Diversified Portfolio: The Lazard Rathmore team is extremely focused on maintaining a highly liquid portfolio and currently has no exposure to Level III assets, and the manager has estimated that 82.5% of the fund can be liquidated within four weeks, even under stressed market conditions. The portfolio is also diversified across 135 individual positions and is generally fully hedged for equity and corporate credit risks.

Access to Lazard Asset Management Platform: Lazard Rathmore is supported by approximately 90 research analysts at Lazard Asset Management. Lazard’s team of research analysts is a key differentiating factor for the Lazard Rathmore Fund. Other convertible arbitrage funds of similar size could not afford to support a large team of research analysts with such a wide range of sector and geographic expertise.

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 Lazard Rathmore Fund, L.P. will be considered a credit 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 May 16, 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 May 24, 2012 meeting.

Attachments

Fund Name: Lazard Rathmore Fund, L.P.

May 24, 2012

Contact Info: Thomas E. Franzese, 30 Rockefeller Plaza, 57th Floor, New York, NY, 10112

Fund Details:

Total Firm Assets (\$bil.):	\$141.3 billion	Key Investment Professionals: - Sean Reynolds is a Managing Director at Lazard Asset Management and the lead Portfolio Manager/Analyst for all convertibles-based strategies, including the Rathmore Fund. Prior to joining in 2007 he served as a convertible arbitrage portfolio manager at SAC Capital. - Christopher Sferruzzo is a Director and Portfolio Manager/Analyst for convertibles-based strategies at Lazard Asset Management. Prior to joining in 2008, Mr. Sferruzzo was a senior portfolio manager at Argent Funds Group. - Frank Bianco is a Director and Portfolio Manager/Analyst for convertibles-based strategies at Lazard Asset Management.
Strategy:	Credit Oriented Hedge Fund	
Assets in Strategy(\$bil.):	\$1.2 billion	
Year Founded:	2007	
SEC Registration	Yes	
GP Commitment (\$mil.) ¹ :	\$20 million	

Investment Summary	Existing and Prior Funds			
<p>The Lazard Rathmore Fund (“the Fund”) is managed within the Lazard Alternative Investments platform. The fund is managed by a six-person investment team led by Sean Reynolds. Lazard Rathmore will be our first direct investment in the convertible bond sector. The Division of Investment negotiated a fee reduction in the management fee from 1.5% to 1%. The Fund pursues a “barbell” approach which utilizes top-down macroeconomic analysis and bottom-up fundamental research in order to optimize the portfolio between traditional convertible arbitrage (relative value) and special situations/event-driven trades. The fund has historically focused on higher yielding domestic convertible bonds with relatively short durations and identifiable catalysts.</p>	<u>As of Mar 31, 2012</u>	<u>Lazard Rathmore</u>	<u>HFRI Relative Value(Total) Index</u>	<u>S&P 500</u>
	1-Year	-1.80%	2.09%	8.53%
	3- Year	20.32%	12.24%	23.42%
	Inception	14.60%	4.46%	0.46%
	2011	-1.65%	0.15%	2.11%
	2010	16.96%	11.43%	15.06%
	2009	64.30%	25.81%	26.46%
	2008	-9.63%	-18.04%	-37.00%

Vehicle Information² :

Fund Inception:	2007	Subscriptions:	Monthly
Fund Size (\$bil.):	\$1.193 billion	Redemptions (notice):	Quarterly, with 60 day notice
Management Fee:	1%	Lock-up:	1 yr soft lock
Profit Allocation:	20%	Prime Broker:	Deutsche Bank Securities Inc, UBS Securities, LLC
Highwater Mark:	Yes	Administrator:	International Fund Services (Ireland) Ltd
Hurdle Rate:	No	Auditor:	Deloitte & Touche LLP
Additional Expenses:	28 bps	Legal Counsel:	Onshore:Schulte Roth&Zabel LLP, Offshore:Conyers Dill&Pearman(Cayman)

NJ AIP Program

Recommended Allocation:	\$150 million	LP Advisory Board Membership:	N/A
% of Fund:	12.57%	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

¹Represent investments by Lazard Asset Management LLC and its employees

²Information as of 04-30-12

*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.