



## State of New Jersey

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DEPARTMENT OF THE TREASURY  
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*State Treasurer*

December 8, 2011

MEMORANDUM TO: State Investment Council

FROM: Timothy Walsh  
Director

SUBJECT: **Proposed Investments in Regiment Capital Ltd. Fund**

The New Jersey Division of Investment ("Division") is proposing an investment of \$150 million in Regiment Capital Ltd Fund. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

### Investment Rationale:

- **Focus on Risk-Adjusted Returns & Protection of Capital:** Regiment's philosophy is to conduct disciplined, credit-intensive research with a particular focus on risk-adjusted returns and protecting capital.
- **Credit Hedge Fund Portfolio Diversification:** Given the portfolio's current tilt towards stressed and distressed type managers, Regiment's capital protection theme and market neutral strategy lends itself to diversify the credit hedge fund and overall hedge fund portfolio.
- **Experienced & Stable Team:** Regiment has maintained a stable investment team, and the three portfolio managers have all worked together since the inception of the firm.
- **Terms:** The fund has better than average fees compared to other top tier credit funds, charging a 1.25% management fee and a 20% performance fee. In addition, the fund has a preferred return equal to 3-month LIBOR.

A report of the Investment Policy Committee ("IPC") summarizing the details of the proposed investment is attached.

Division of 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 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 these investments are authorized pursuant to Articles 69 and 100 of the Council's regulations. The Regiment Capital Ltd. Fund will be considered a credit investment, as defined under N.J.A.C. 17:16-100.1.

Formal written due diligence reports for the proposed investments were sent to each member of the IPC and a meeting of the Committee was held on November 22, 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 IPC.

We look forward to discussing the proposed investment at the Council's December 8, 2011 meeting.

Attachments

## Fund Name: Regiment Capital Ltd. Fund

December 8, 2011

Contact Info: Thomas P. Sorbo/ 222 Berkeley Street, Boston, MA/ 617-488-1645

## Fund Details:

Total Assets:	\$6.5 billion
Strategy:	Credit-Oriented Hedge Fund
Assets in Strategy:	\$3.8 billion
Year Founded:	1999
SEC Registration	Expected in Early 2012
GP Commitment:	2% of Fund AUM consists of Partner/Employee Capital

## Key Investment Professionals:

Regiment was founded in 1999 by Tim Peterson along with four senior professionals, formerly at Harvard Management Company, where they were in charge of high yield investing, including running hedging and capital structure arbitrage strategies. The team has 14 investment professionals dedicated to the fund based in Boston.

- **Timothy S. Peterson is the Founder, President and Chief Investment Officer.** Mr. Peterson has been involved in the high yield market since 1987. Tim began managing money for Harvard Management Company ("HMC") in 1989. In 1997, he founded Peterson Capital Management, LLC. Prior to joining HMC, Tim was a credit analyst with Keystone Custodian Funds in Boston. He began his career with the Travelers Group in its Asset Management and Pension Services Division. Mr. Peterson received an MBA from the Kellogg School of Management at Northwestern University and a BA in Economics from Gustavus Adolphus College.

- **Mark A. Brostowski is a Partner and Portfolio Manager.** Mr. Brostowski joined Regiment in 1999 and has been involved in the high yield market since 1987. Prior to joining the Investment Advisor, Mr. Brostowski was a managing director and Head of High Yield Trading for BancBoston Robertson Stephens, Inc. Before that, he was a Director and Senior High Yield Trader for four years, and a Senior Research Analyst for six years at Salomon Brothers Inc.

- **William J. Heffron is a Partner and Portfolio Manager.** Mr. Heffron has been with the Investment Advisor since its inception and has been involved in the high yield market since 1989. Prior to joining the Investment Advisor, Mr. Heffron spent eight years as a credit analyst at Harvard Management Company with Mr. Peterson. Mr. Heffron began his career at State Street Bank in its Global Custody Department.

## Investment Summary

Regiment Capital Ltd. Fund ("RCF" or the "fund") is a diversified long/short credit strategy with a fundamental research process and a strategic hedge overlay. The strategy utilizes three core components: the core high yield credit portfolio, the intra-capital arbitrage portfolio and the strategic hedging portfolio. Regiment's philosophy is to conduct disciplined, credit-intensive research with a particular focus on risk-adjusted returns and protecting capital. Regiment's investment strategy focuses on the corporate credit markets, with the flexibility to invest across the issuer's capital structure, depending on the most attractive risk adjusted returns.

**Credit Hedge Fund Portfolio Diversification:** Given the portfolio's current tilt towards stressed and distressed type managers, Regiment's capital protection theme and market neutral strategy lends itself to diversify the credit hedge fund and overall hedge fund portfolio.

## Existing and Prior Funds

YTD	Regiment	HFRI Strategy Benchmark	S&P 500
Since Inception	7.55%	5.33%	0.21%
5-Year	7.23%	2.39%	-1.18%
3-Year	7.78%	6.24%	-5.15%
CYTD	0.07%	-1.08%	-8.68%
2010	7.05%	11.08%	15.06%
2009	32.33%	30.71%	26.46%
2008	-10.86%	-24.18%	-37.00%

## Vehicle Information:

Fund Inception: March-00  
Fund Size: \$2.9 billion  
Management Fee: 1.25%  
Profit Allocation: 20%  
Highwater Mark: Yes

Subscriptions: January 1, 2012. Minimum Investment \$5 million  
Redemptions (notice): Annually on June 30. 90 day notice period.  
Lock-up: Investors may not redeem their shares until June 30, 2014 for the current offering  
Prime Broker: JP Morgan Securities Corp, Goldman Sachs & Co  
Administrator: Citi Hedge Fund Services

**Hurdle Rate:** Investors will receive a preferred return equal to 3-month LIBOR. Once the fund earns the preferred return for the year, the Investment Advisor will be entitled to receive a catch-up amount equal to 100% of the subsequent profits until the Investment Advisor has received 20% of cumulative profits. Subsequent profits are split 80/20 between the Investors/Investment Advisor.

**Auditor:** PricewaterhouseCoopers LLP

**Additional Expenses:** Fund Expenses: 4 basis points

## NJ AIP Program

Recommended Allocation:	\$150 million	LP Advisory Board Membership:	NA
% of Fund:	3.95%	Consultant Recommendation:	YES
		Placement Agent:	NO
		Compliance w/ Division Placement Agent Policy:	NA
		Compliance w/ SIC Political Contribution Reg:	YES

Information on the Fund is presented as of September 30, 2011

\*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.