



State of New Jersey

CHRIS CHRISTIE
Governor

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

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

January 17, 2014

MEMORANDUM TO: State Investment Council

FROM: Christopher McDonough
Acting Director

SUBJECT: **Proposed Additional Investment in Risk Mitigation Hedge Funds**

In an effort to reduce the overall risk of the investment portfolio and increase downside protection, the Division is proposing expanding several existing relationships with managers that have demonstrated diversifying qualities during periods of market dislocation. The implementation of these increased allocations should provide benefits of lower volatility, capital preservation and stronger risk-adjusted returns as these managers attempt to exploit a rising rate environment.

As seen below, the proposed managers historically exhibit both lower beta and correlation to the S&P 500, while providing the benefits of lower volatility.

As of October 31, 2013

Fund	Strategy	Correlation to S&P	Beta to S&P	Annual Vol
BlueCrest Capital International Ltd.	Macro	0.02	0.01	5.52%
Brevan Howard Fund LP	Macro	(0.25)	(0.11)	7.03%
Claren Road Credit Fund, Ltd.	Credit L/S	(0.14)	(0.04)	4.10%
MKP Opportunity Partners, LP	Macro	(0.20)	(0.07)	5.32%
Scopia PX LLC	Equity	0.11	0.04	6.95%

Data since January 2000 or since inception of the fund if the track record does not go back to 2000

In addition, during the challenging markets of 2008/2009, these funds outperformed the S&P 500 by a large margin.

Fund	Strategy	Total Return			Correlation to S&P	Beta to S&P	Annual Vol
		2008	2009	Period			
BlueCrest Capital International Ltd.	Macro	6.26%	45.41%	54.51%	0.41	0.12	7.20%
Brevan Howard Fund LP	Macro	19.14%	17.10%	39.51%	(0.35)	(0.14)	9.55%
Claren Road Credit Fund, Ltd.	Credit L/S	8.51%	24.75%	35.36%	0.02	0.00	4.24%
MKP Opportunity Partners, LP	Macro	9.67%	12.72%	23.61%	(0.15)	(0.03)	5.09%
Scopia PX LLC	Equity	1.81%	13.84%	15.90%	0.15	0.06	8.56%
S&P 500		-38.49%	23.45%	-24.06%			



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February 3, 2014

MEMORANDUM TO: State Investment Council

FROM: Christopher McDonough
Acting Director

SUBJECT: **Proposed Additional Investment in MKP Opportunity Partners, LP Fund**

The New Jersey Division of Investment (“Division”) is proposing an additional investment of up to \$100 million in MKP Opportunity Partners, LP (“MKP” or “Fund”) managed by MKP Capital Management, L.L.C. (“MKP Capital”). The Division originally committed \$150 million with the Fund in 2012. 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 Returns: The Fund has generated strong absolute and risk-adjusted performance with a since inception annualized return of 9.43% and a Sharpe ratio of 1.36, placing the Fund in the top decile of all global macro hedge funds for the 3-year, 5-year and since inception periods on a risk adjusted basis and top quartile for the 1-year, 3-year and 5-year periods on an absolute return performance basis. Additionally, in difficult markets such as in 2008, the Fund generated a strong 9.80% return compared to the HFRI Fund Weighted index loss of -19.03%

Differentiated return profile/Negative equity market beta: The Fund returns exhibit slightly negative equity market beta. Beta to MSCI ACWI is -0.19, -0.08 and -0.05 for the 3-year, 5-year and since inception periods, respectively. The consistent return combined with negative/ low beta to the various markets such as US equity (Russell 3000 -0.14), High Yield (Barclays High Yield 0.20) and commodity (DJ UBS -0.04) makes the Fund unique and complementary to the Pension Fund’s current portfolio.

Deeply Experienced, Cohesive Team: The Fund is run by a highly experienced five person Investment Committee (“IC”) consisting of two co-CIOs, Patrick McMahon and Anthony Lembke, Portfolio Manager Richard Lightburn, Chief Risk Officer Henry Lee, Portfolio Manager Joseph Train and Chief Strategist Jason Bonanca. With the exception of Mr. Lightburn, Mr. Train and Mr. Bonanca, the members of the IC worked together at Salomon Brothers in various roles within fixed income before the firm was founded in 1995 and consequently the senior team has worked together for over 15 years.

Integrated Risk Management Process: The Chief Risk Officer is a member of the IC and he reports directly to the co-CIOs. He interacts with the PMs directly to discuss trade ideas, profit targets, stop loss levels, investment horizon and conviction level. This layer of interaction, along with MKP Capital's proprietary portfolio and risk management system, allows the IC to monitor the Fund at the portfolio construction level, which continues until the trade is terminated, ensures real time tracking of individual trades and also allows the IC to monitor the Sharpe ratio of each manager, providing a transparent and fair performance monitoring framework.

Diversified Portfolio: The Fund is highly diversified and global in nature with specific expertise across global macro, US and global rates markets, currencies, credit, equities and commodities.

Attractive Terms: Since the Division will be contributing an additional capital, the management fee is reduced to 1.375% from 1.50%, which is attractive relative to the standard of 2-3% fee for most top tier global macro managers. The Fund also has monthly liquidity with 60 day notice which is also better than average for this strategy.

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. MKP Opportunity Partners, LP 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 December 17, 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 February 3, 2014 meeting.

Attachments

Fund Name: MKP Opportunity Partners, LP

February 3, 2014

Contact Info: David A. Burke, MKP Capital Management, L.L.C. 600 Lexington Ave, New York, NY 10022

Fund Details:

Total Firm Assets (\$bil.):	\$8.2 billion	Key Investment Professionals: Patrick McMahon : Founding Member of MKP Capital Management, L.L.C., serves as Chief Executive Officer and Co-Chief Investment Officer. Along with Messrs. Anthony Lembke, Henry Lee and Richard Lightburn, Mr. McMahon is a member of the firm's Investment Committee. Prior to founding MKP in 1995, Mr. McMahon worked at Salomon Brothers Inc. (1985-1994) where he was a Partner and a Managing Director in the Fixed Income Capital Markets Division. Anthony C. Lembke : Principal of MKP, serves as Co-Chief Investment Officer. Mr. Lembke is a member of the Investment Committee and serves on the firm's Management Advisory Committee. Prior to joining MKP in 1998, Mr. Lembke worked for eight years at Salomon Brothers Inc., serving as a Director in the Mortgage Securities Research Department. Henry I. Lee : Chief Risk Officer for MKP, a Principal of the firm and a member of the Management Advisory Committee. Mr. Lee is also a member of the Investment Committee. Before taking on the role of Chief Risk Officer in late 2006, Mr. Lee served as a Portfolio Manager. Prior to joining MKP in 1997, Mr. Lee worked at Salomon Brothers Inc. in the Mortgage Securities Department. Richard Lightburn : Portfolio Manager, a Principal of the firm and a member of the Management Advisory Committee and Investment Committee. Prior to joining MKP in 2008, Mr. Lightburn spent 3 years as a Managing Director at HSBC and 15 years before that at Goldman Sachs.
Strategy:	Discretionary Global Macro Fund	
Assets in Strategy(\$bil.):	\$5.6 billion	
Year Founded:	1995	
SEC Registration	Yes	
GP Commitment:	approx. 3%	

Investment Summary	Fund Returns**			
<p>MKP Opportunity (the "Fund") is a discretionary global macro fund that uses a top-down fundamental approach to identify and exploit imbalances in global economies and asset classes to produce high risk-adjusted returns over the long term. The Fund seeks to achieve its investment objective by assessing investment and trading opportunities across global asset classes and allocating capital to strategies that offer the most attractive risk-adjusted returns. The Fund generally invests in a diversified portfolio of fixed-income instruments, credit instruments, currencies, commodities, equities and their associated derivatives. Investments may be made on exchanges, over-the-counter and in private transactions.</p>	As of Oct. 31, 2013	MKP Opportunity	HFRI Fund Weighted Composite Index	HFRI Macro (Total) Index
	1- Year	8.04%	9.12%	-0.19%
	3- Year	7.39%	3.65%	-1.02%
	5- Year	7.79%	6.84%	1.69%
	Inception	9.43%	6.10%	6.12%
	2013 (through Oct.)	4.44%	7.14%	-1.14%
	2012	6.90%	6.36%	-0.06%
	2011	11.44%	-5.25%	-4.16%
	2010	-0.34%	10.25%	8.06%
	2009	12.71%	19.98%	4.34%
2008	9.80%	-19.03%	4.83%	

Vehicle Information*:

Fund Inception:	2001	Subscriptions:	Monthly
Fund Size (\$bil.):	\$5.6 billion	Redemptions (notice):	Monthly (60 days)
Management Fee:	1.375%	Lock-up:	None
Profit Allocation:	20%	Prime Brokers:	JP Morgan, Credit Suisse
Highwater Mark:	Yes	Administrator:	SEI Global Services
Additional Expenses:	approx. 15 bps	Auditor:	Ernst & Young
		Legal Counsel:	Schulte Roth & Zabel, Ogier (Cayman)

NJ AIP Program

Recommended Allocation:	\$100 million additional investment	LP Advisory Board Membership:	N/A
% of Fund:	4.53%	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.

**Returns are those of MKP Opportunity Offshore, Ltd. Performance is net of all fees and expenses and reflects the reinvestment of dividends and other earnings. Past performance is no guarantee of future results.



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February 3, 2014

MEMORANDUM TO: State Investment Council

FROM: Christopher McDonough
Acting Director

SUBJECT: **Proposed Investment in BlueCrest Capital International Fund**

The New Jersey Division of Investment (“Division”) is proposing an additional investment of \$100 million in BlueCrest Capital International (the “Fund” or “BCI”). The Division originally committed \$200 million with the Fund in 2012. 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 Returns: BCI has generated excellent absolute and risk-adjusted performance with a since inception annualized return of 12.09% and a Sharpe ratio of 1.79. This performance places BCI in the top quartile of all hedge funds and global macro hedge funds on an absolute performance basis and the top percentile on a risk adjusted performance basis.

Demonstrated Downside Protection and Low Beta to Equity Markets: BCI has displayed low beta to equity markets historically and has protected capital well in down markets, as evidenced by the Fund’s return of 6.26% in 2008.

Complementary Exposure: BCI exhibits low correlation to all other absolute return managers within the Division’s portfolio.

Diversified Portfolio: The Fund trades a highly diversified portfolio of securities across the foreign exchange, global fixed income, and global equities markets.

Experienced Head Portfolio Manager: Michael Platt is widely considered one of the best Macro managers in the industry. Prior to establishing BlueCrest in April 2000, he was a managing director at JP Morgan in London where he was responsible for relative value proprietary trading. Mr. Platt joined JP Morgan in September 1991 and he assumed responsibility for developing its swaps business and subsequently its options trading business. In April 1996, he became head of trading for all swaps products relating to the eleven founder nations of the European single currency.

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. BCI 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 December 17, 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 February 3, 2014 meeting.

Attachments

Fund Name : BlueCrest Capital International Limited

February 3, 2014

Contact Info: Garrett Berg, 9 West 57th Street, 12th Floor, New York, NY 10019 (212) 451-2529 gberg@nyc.bluecrestcapital.com

Fund Details:

Total Assets (\$mil.):	\$34,500	Key Investment Professionals: Michael Platt: Co-Founder and CIO. Prior to co-founding BlueCrest Capital Management LLP in 2000, Mr. Platt was a managing director at JP Morgan in London where he was responsible for relative value proprietary trading. Dr. Leda Braga: President and Head of Systematic Trading. Prior to joining BlueCrest in October 2001, Ms. Braga was part of the management team and head of valuation services at Cygnifi Derivatives Services, a JP Morgan spin-off. Prior to Cygnifi, Ms. Braga worked with Mr. Platt at JP Morgan as a quantitative analyst in the derivatives research team. Andrew Dodd: CFO. Joined BlueCrest in 2006, having previously spent 13 years at Goldman Sachs International. Paul Dehadray: General Counsel with 18 years experience. Peter Cox: COO with 26 years experience. Cathy Kerridge and Robert Heaselgrave: Principals Those listed above comprise the executive committee, the primary governing body of BlueCrest Capital Management LLP, which meets quarterly to review material business strategy, results and risk.
Strategy:	Discretionary Global Macro Fund	
Assets in Strategy(\$mil.):	\$13,900	
Year Founded:	Dec-00	
SEC Registration:	Yes	
GP Commitment:	Approximately 3.1%	

Investment Summary

BlueCrest Capital International (“BCI”) is a discretionary global macro fund, focused predominantly on highly liquid, developed global fixed income markets, which operates within a disciplined and strictly enforced risk management framework. The fund’s investment team is functionally led by BlueCrest’s Co-Founder and Chief Investment Officer, Michael Platt and is comprised of a number of specialist traders located in offices in North America, Europe and Asia. Capital allocations are made to each specialist trader and sub-strategy, which are managed independently yet within the parameters of BlueCrest’s risk management framework.

Fund Returns

As of 10/31/13	BCI	HFRI Fund Weighted Composite Index	HFRI Macro (Total) Index
1 Year	-0.10%*	9.12%	-0.19%
3 Year	4.20%*	3.65%	-1.02%
5 Year	12.46%*	6.84%	1.69%
Since Fund Inception	12.09%**	6.11%	6.26%
2013 (through Oct.)	-1.02%	7.14%	-1.14%
2012	5.83%	6.36%	-0.06%
2011	6.11%	-5.25%	-4.16%
2010	12.80%	10.25%	8.06%
2009	45.41%	19.98%	4.34%
2008	6.26%	-19.03%	4.83%

*Returns for Class F

**Since inception returns are for Class A which is the original share class launched 2000

Vehicle Information:

Fund Inception:	Dec-00	Subscriptions:	Monthly
Fund Size (\$mil.):	13,900	Redemptions (notice):	Quarterly with 90 days notice
Management Fee:	2.0%	Lock-up:	1 yr soft lock-up
Profit Allocation:	20.0%	Prime Broker:	JP Morgan, UBS, Morgan Stanley, RBS. Credit Suisse
Highwater Mark:	Yes	Administrator:	GlobeOp
Additional Expenses:	Onshore: 0.30%, Offshore: 0.29%	Auditor:	Ernst & Young
		Legal Counsel:	Simmons & Simmons, Maples and Calder

NJ AIP Program

Recommended Allocation:	\$100 million additional investment	LP Advisory Board Membership:	N/A
% of Fund:	2.17%	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.



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February 3, 2014

MEMORANDUM TO: State Investment Council

FROM: Christopher McDonough
Acting Director

SUBJECT: **Proposed Additional Investment in Brevan Howard Master Fund**

The New Jersey Division of Investment (“Division”) is proposing an additional investment of up to \$100 million in Brevan Howard Master Fund (the “Fund” or “BHMF”). The Division originally committed \$200 million with Brevan Howard in 2011. 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:

Successful track record: BHMF has generated a 10.43% annualized return from inception in September 2005 through October 2013, with 6.99% standard deviation resulting in Sharpe Ratio of 1.2, placing BHMF’s risk-adjusted returns in the top decile against the HFRI Macro universe on a 5-year and since inception basis as well as top decile since inception against the HFRI universe. In 2008, BHMF navigated a very difficult market and produced an impressive return of 19.14% return compared to the HFRI Fund Weighted index loss of -19.03%.

Differentiated return profile/Negative equity market beta: BHMF’s returns exhibit slightly negative equity market beta. BHMF’s beta to MSCI ACWI is -0.04, -0.07 and -0.06 for the 3-year, 5-year and since inception periods, respectively. The consistent return combined with negative/low beta to the various markets such as US equity (Russell 3000 -0.25) High Yield (Barclays High Yield -0.04) and commodity (DJ UBS 0.08) makes BHMF unique and complementary to the Division’s current portfolio.

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.

The fund utilized 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 (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 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. Brevan Howard Master 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 December 17, 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 February 3, 2014 meeting.

Attachments

Fund Name : Brevan Howard LP/Brevan Howard Fund Limited

February 3, 2014

Contact Info: Isela Rosales, 590 Madison Avenue, 9th Floor, New York, N 10022 (212)418-8246 isela.rosales@brevanhowardus.com

Fund Details:

Total Assets (\$mil.):	\$40,000	Key Investment Professionals: Alan Howard: <i>Founding Partner, CIO and co-CEO. Prior to co-founding Brevan Howard in 2003, Mr. Howard was Global Head of Proprietary Trading in the Developed Markets Rates Division at CSFB.</i> Trifon Natsis: <i>Founding Partner and Senior Trader: Prior to co-founding Brevan Howard in 2003, Mr. Natsis was a Proprietary Trader within the Developed Markets Rates Division at CSFB.</i> Kaspar Ernst: <i>CIO of BHHK: Prior to joining Brevan Howard, he worked with the Founding Principals at CSFB. Mr. Ernst has 20 years of investment experience.</i> Nagi Kawkabani: <i>Co-Founder: Prior to joining Brevan Howard, Mr. Kawkabani was a Managing Director and Co-Head of the Fund Development Group at CSFB.</i> Aron Landy: <i>Partner, CRO: Prior to joining Brevan Howard in 2003, Dr. Landy managed a market-neutral equity fund at Millenium Global Investments.</i>
Strategy:	Discretionary Global Macro Fund	
Assets in Strategy(\$mil.):	\$27,000	
Year Founded:	Sep-05	
SEC Registration:	Yes	
GP Commitment:	Approximately 5%	

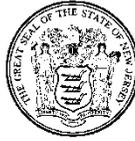
Investment Summary	Fund Returns*			
<p><i>Brevan Howard Capital Management ("BHMF") was founded in 2002 by five former members of the Credit Suisse First Boston Developed Markets Rates trading team. The firm's flagship fund, Brevan Howard Master Fund (the "Fund"), pursues a global macro strategy with exposure predominantly to global fixed income and foreign exchange markets. The investment objective of the fund 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. The underlying philosophy is to construct strategies, often contingent in nature, with superior risk/return profiles, whose outcomes will often be crystallized by an expected event occurring within a predetermined period of time. New trading strategies will be added as investment opportunities present themselves.</i></p>	As of 10/31/13	Brevan Howard Fund Limited Class B USD	HFRI Fund Weighted Composite Index	HFRI Macro (Total) Index
	1 Year	2.37%	9.12%	-0.19%
	3 Year	4.59%	3.65%	-1.02%
	5 Year	6.98%	6.84%	1.69%
	Since Fund Inception	10.43%	5.03%	4.23%
	2013 (through Oct.)	-0.08%	7.14%	-1.14%
	2012	3.60%	6.36%	-0.06%
	2011	11.33%	-5.25%	-4.16%
	2010	0.92%	10.25%	8.06%
	2009	17.10%	19.98%	4.34%
2008	19.14%	-19.03%	4.83%	
*Returns as provided by Cliffwater LLC				

Vehicle Information:

Fund Inception:	Apr-03	Subscriptions:	Monthly
Fund Size (\$mil.):	\$27,000	Redemptions (notice):	90 Days
Management Fee:	2.00%	Lock-up:	1 yr soft lock-up
Profit Allocation:	25%	Prime Brokers:	Credit Suisse, Morgan Stanley, Deutsche Bank, UBS
Highwater Mark:	Yes	Administrator:	International Fund Services (Ireland) Limited
Additional Expenses:	Onshore: 0.65%, Offshore: 0.59%	Auditor:	KPMG
		Legal Counsel:	Simmons & Simmons, Maples and Calder, Sidley Austin

NJ AIP Program			
Recommended Allocation:	\$100 million additional investment	LP Advisory Board Membership:	N/A
% of Fund:	1.13%	Consultant Recommendation:	Yes
		Placement Agent:	Yes
		Compliance w/ Division Placement Agent Policy:	Yes
		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.



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February 3, 2014

MEMORANDUM TO: State Investment Council

FROM: Christopher McDonough
Acting Director

SUBJECT: **Proposed Additional Investment in Claren Road Credit Master Fund**

The New Jersey Division of Investment (“Division”) is proposing an additional \$100 million investment in the Claren Road Credit Master Fund (“Claren Road” or “Fund”). The Division originally committed \$150 million to the Fund in 2012. 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 return profile: The Fund has produced strong risk-adjusted returns with an annualized net return of 9.16% with 4.08% standard deviation, resulting in a Sharpe Ratio of 1.86 from inception in January 2006 through October 2013. These returns far exceed the HFRI Relative Value Index and the Barclays Aggregate Bond Index, which posted returns of 6.57% and 5.08%, respectively, over the same period. Risk-adjusted performance, based on Sharpe Ratio, ranks Claren Road in the top quartile among the HFRI Universe on a 5-year basis and in the top decile since inception.

Differentiated Investment Strategy: Claren Road’s differentiated strategy has enabled them to avoid many of the pitfalls other credit managers experienced in 2008. For example, many other credit managers invested in illiquid securities and levered securities with narrow spreads (i.e., bank loans) to generate returns based on the concept of positive carry. In contrast, Claren Road focused on generating returns through capital appreciation, maintained a liquid portfolio and reduced the fund’s long exposure prior to the credit crisis.

Strong Downside Protection: Claren Road’s unique investment strategy enabled them to navigate a difficult credit environment in 2008 and generate a positive return of 8.51% while raising cash to pay redemptions. In 2009, Claren Road generated a 24.75% return through security selection as the Fund was positioned net short throughout the year. Claren Road has historically exhibited low to negative beta to equity and high yield markets.

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. Claren Road Credit Master Fund 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 December 17, 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 February 3, 2014 meeting.

Attachments

Fund Name : Claren Road Credit Master Fund, Ltd. (Master Fund) February 3, 2014

Contact Info: Janelle Plaza, 900 Third Avenue, 29th Floor, New York, NY 10022 (212)310-5845/plaza@clarenroad.com; Farima Kermani (212)310-5890/kermani@clarenroad.com

Fund Details:		
Total Assets:	\$7.9 billion	Key Investment Professionals: Brian Riano : Co-Founder, CEO: Prior to co-founding Claren Road in 2005, Mr. Riano was a Managing Director and Head of Global Credit Trading at Citigroup, where he was responsible for Citigroup's Global High Yield and Distressed, Investment Grade and Emerging Markets Credit trading desks. John Eckerson : Co-Founder, Co-CIO: Mr. Eckerson is responsible for high yield investments. Prior to Claren Road, Mr. Eckerson served as Managing Director and Head of U.S. High Yield and Distressed Trading at Citigroup. Sean Fahey : Co-Founder, Co-CIO: Responsible for crossover dent, investment grade and non-U.S. investments. Proper to Claren Road, Mr. Fahey was a Managing Director and Head of Global Emerging Markets External Debt Trading at Citigroup. Albert Marino : Co-Founder, COO: Previously, Mr. Marino was a VP and credit desk trading analyst at Citigroup.
Strategy:	Long/short credit	
Assets in Strategy:	\$5.8 billion	
Year Founded:	Jul-05	
SEC Registration:	Yes	
GP Commitment:	3%	

Investment Summary	Fund Returns			
<p><i>Claren Road Advisors, LLC is a global long/short credit manager founded in 2005 by Brian Riano, John Eckerson, Sean Fahey and Albert Marino, all of whom worked together at Citigroup and Salomon Brothers. Claren Road Credit Master Fund (the "Fund") applies a global long/short credit strategy that has historically displayed a short bias. The fund employs a fundamental, research-driven value strategy, with trading flexibility to tactically shift exposures, while aiming to produce consistent risk-adjusted returns uncorrelated with the market. The Fund is structured to generate modest gains with quantifiable downside risk while preserving enough convexity for periodic months of upside performance, particularly in volatile markets. The average holding period for fund investments generally ranges from one to three months. The portfolio turns over 10x to 12x per year on average. The Fund primarily invests in corporate debt securities and credit derivatives (single name and index).</i></p>	As of 10/31/13	Claren Road Credit Master Fund	HFRI Fund Weighted Composite Index	HFRI RV- Fixed Income-Corporate Index
	1 year	6.01%	9.12%	6.51%
	3 year	4.74%	3.65%	5.78%
	5 Year	8.31%	6.84%	9.68%
	Fund Inception	9.16%	4.72%	4.63%
	2013 (through Oct)	4.36%	7.14%	4.55%
	2012	1.49%	6.36%	10.99%
	2011	6.88%	-5.25%	0.82%
	2010	4.64%	10.25%	11.80%
	2009	24.75%	19.98%	30.71%
2008	8.51%	-19.03%	-24.18%	

Vehicle Information:

Fund Inception:	Jan-06	Subscriptions:	Annually
Fund Size:	\$5.8 billion	Redemptions (notice):	Semi-annually after 2 yr lock-up (Notification: 60 days)
Management Fee:	1.50%	Lock-up:	Two year hard lock
Profit Allocation:	20% (at end of 2 year lock-up)	Prime Brokers:	Goldman Sachs, JPMorgan and BNP Paribas
Highwater Mark:	Yes	Administrator:	SS&C GlobeOp
Additional Expenses:	28 Basis Points	Auditor:	Ernst & Young
		Legal Counsel	Seward & Kissel LLP, Maples & Calder, Simmons & Simmons

NJ AIP Program

Recommended Allocation:	\$100 million additional investment	LP Advisory Board Membership:	N/A
% of Fund:	4.41%	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

X

*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.



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

February 3, 2014

MEMORANDUM TO: State Investment Council

FROM: Christopher McDonough
Acting Director

SUBJECT: **Proposed Additional Investment in Scopia PX LLC Fund**

The New Jersey Division of Investment ("Division") is proposing an additional investment of up to \$100 million in Scopia PX LLC (the "Fund"). The Division committed \$150 to Scopia PX LLC in 2013. 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:

Opportunity to expand investment with closed, successful fund manager: The Division originally committed \$150 million to Scopia in January 2013. Since the Division's initial investment, the Fund has generated an annualized return of 9.12% through October 2013. Given that the Fund is run market-neutral, the Fund's returns were not as a result of beta-capture but rather alpha generation in both the long and short portfolios. Scopia is currently closed to additional investments, but is replacing redemptions. In addition to the \$150 million we already have in capacity, we have requested additional capacity of \$100 million over the next twelve months which will either be used to replace redemptions or allocated should Scopia re-open.

Attractive return profile: The Fund achieved a 9.12% annualized return with 6.94% standard deviation from inception in April 2001 through October 2013. The risk-adjusted performance based on Sharpe Ratio ranks in the top quartile among peers on a 5-year basis as well as since inception. Scopia has exhibited low to negative beta to equity indices over its history.

Strong Downside Protection: Protected capital in difficult 2008 market environment, returning 1.81% while S&P 500 was down 38.5% and HFRI Fund Weighted Index was down 19.03%. The Fund has produced positive performance in every calendar year since inception.

Complementary exposure for Hedge Fund Portfolio: The Fund's focus on small and mid-cap companies typically leads it to have a portfolio which differs from that of its peers. This is evidenced by the low correlation Scopia exhibits to the Division's other long/short equity managers. In addition, Scopia has a 0.04 correlation to the HFRI Equity Hedge Index since inception of the Fund.

Attractive Terms: The Division will invest at its previously discounted terms of a management fee of 1.25% and 20% performance fee for investments greater than or equal to \$100 million held at least 2 years.

Cohesive Investment Team with complementary skill sets: The co-portfolio managers have worked together for 12 years and have complementary skill sets, including private equity and short selling. Three of the senior analysts have worked with the founders for over 8 years.

Differentiated Investment Strategy: Employs intensive research oriented, fundamental based value approach in global names. The Fund's focus on small and mid-cap names leads to a portfolio that frequently differs from peers.

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 Scopia PX LLC Fund will be considered an equity 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 December 17, 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 February 3, 2014 meeting.

Attachments

Fund Name: Scopia PX LLC

February 3, 2014

Contact Info: Quinn Fionda, 152 West 57th St, New York, NY 10019

Fund Details:

Total Firm Assets (\$bil.):	\$4.0 billion	Key Investment Professionals: Jeremy Mindich , Managing partner, co-founder and co-portfolio manager for Scopia. Prior to co-founding Scopia, he worked for hedge fund Porter, Fellman as a short-focused analyst and partner specializing in emerging technologies in the communications and healthcare fields. From 1987 to 1995, Mr. Mindich worked as a freelance journalist. In 1995, he received a journalism fellowship to study at Harvard University's JFK School of Government. Matt Sirovich , Managing partner, co-founder and co-portfolio manager for Scopia. Prior to co-founding Scopia, he served as principal investor at DLJ Merchant Banking Partners III, L.P. ("DLJ"), was promoted to senior vice president/principal in 1998, and in 2001 was promoted to managing director at the youngest age in the history of DLJ Merchant Banking
Strategy:	Equity oriented hedge fund	
Assets in Strategy(\$bil.):	\$4.0 billion	
Year Founded:	2001	
SEC Registration:	Yes	
GP Commitment:	4.0%	

Investment Summary

Scopia Capital Fund Management LLC ("Scopia" or the "firm") was co-founded in 2001 by Jeremy Mindich and Matt Sirovich, who serve as co-portfolio managers for the fund. Scopia has a high quality investment team that has been steadily built up over time, with analysts that are developed "in-house". The fund is a market neutral global Long/Short equity fund with a fundamentals based, value driven approach. The fund has a small and mid-cap bias, with a focus on the \$1 billion to \$5 billion market cap range where companies are not widely followed. On the long side, they seek companies with strong product lines, state of the art technologies, and solid balance sheets selling at attractive valuations. Shorts are those companies with weak product line, lagging technology, and a weak balance sheet selling at rich valuations. All long and short ideas are developed on a bottom up basis but, on rare occasions, they are implemented across a sector based on a strong macro view.

Fund Returns

As of Oct. 31, 2013	HFRI Fund		S&P 500
	Scopia PX, LLC	Weighted Composite Index	
1-Year	8.87%	9.12%	27.18%
3- Year	6.94%	3.65%	16.56%
5- Year	8.42%	6.84%	15.17%
Inception	9.12%	6.83%	8.78%
2013 (through Oct.)	7.36%	7.14%	25.30%
2012	2.16%	6.36%	16.00%
2011	11.93%	-5.25%	2.11%
2010	0.80%	10.25%	15.06%
2009	13.84%	19.98%	26.46%
2008	1.81%	-19.03%	-37.00%

Vehicle Information:

Fund Inception:	2001	Subscriptions:	Monthly
Fund Size (\$mil.):	\$1.3 billion	Redemptions (notice):	Quarterly (60 day notice); Monthly (125 day notice)
Management Fee:	1.5%* (1.25% for investments over \$100 mil/over 2 yrs)	Lock-up:	1 yr hard lock up onshore / 1yr soft lock up offshore
Profit Allocation:	20%	Prime Brokers:	Goldman Sachs, Barclays, Credit Suisse, Morgan Stanley
Highwater Mark:	Yes	Custodian:	The Bank of New York Mellon
Additional Expenses:	Onshore: 26bps; Offshore: 25bps	Administrator:	Morgan Stanley Fund Services
		Auditor:	Rothstein Kass
		Legal Counsel:	Seward & Kissel, LLP / Appleby

NJ AIP Program

Recommended Allocation (\$mil):	\$100 million Add-on	LP Advisory Board Membership:	N/A
% of Fund:	16.71%	Consultant Recommendation:	Yes
		Placement Agent:	N/A
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

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