



## State of New Jersey

DEPARTMENT OF THE TREASURY  
DIVISION OF INVESTMENT  
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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 Starboard Value and Opportunity Fund LP and Starboard Leaders Fund LP**

The New Jersey Division of Investment (“Division”) is proposing an investment of \$75 million in Starboard Value and Opportunity Fund LP (“the Value Fund”) and up to \$125 million allocated to co-investments through the Starboard Leaders Fund LP (the “Leaders 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:

**Successful track record of active shareholder engagements:** From March 2004 through August 2013, Starboard has generated a Net Annualized Return since inception of 11.28% in the Value Fund. This places Starboard in the top quartile on a 3-year and since inception basis not only in the HFRI Event Driven Index, but also within the HFRI Universe. Unlike many of their peers in the activist space, Starboard typically utilizes portfolio hedges, leading to a less volatile return profile. Since 2004, the Value Fund has had 65 13D Filings, nominated corporate directors in 38 portfolio companies, negotiated settlements in 28 portfolio companies, and has had successful proxy contests ending in a shareholder vote in 13 of their portfolio companies. These actions resulted in 111 Directors being either added or replaced on 38 Boards.

**Attractive terms:** The Division negotiated a discounted management fee of 1.50% for the Value Fund, from the standard fee of 2%. The Leaders Fund has a management fee of 1% on invested capital and a 15% incentive fee.

**Source of Diversification:** Of Starboard’s current 15 “lead” investments, the Division only has exposure to 4 of the names through its domestic equities portfolio, with less than \$9 million in exposure to each. In addition, the Pension Fund has less than 3% of its domestic equity portfolio invested in companies with market caps less than \$1 billion. An investment in Starboard also provides diversification to the hedge fund portfolio, as Starboard will focus exclusively on the activist U.S. small cap space.

**Attractive environment for Shareholder Engagement:** A number of factors make the current market attractive for shareholder engagement strategies. These include record corporate cash

balances, reasonably attractive valuations and historically low interest rates for corporate borrowers, and significant unused private equity capital.

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 Starboard Value and Opportunity Fund LP and the Starboard Leaders Fund LP will be considered an equity oriented hedge fund investments, 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: Starboard Value and Opportunity Fund LP; Starboard Leaders Fund LP** **November 21, 2013**

**Contact Info:** Douglas Snyder, Starboard Value LP, 830 3rd Avenue, 3rd Fl, New York, NY 10022

<b>Fund Details:</b>		<p><b>Key Investment Professionals :</b>  <b>Jeffrey C. Smith</b>, Managing Member, CEO, CIO: 19 years of experience. Previously was Partner and Managing Director at Ramius LLC and co-founder and CIO of the funds that comprised the small cap value and opportunity investment platform.  <b>Mark R. Mitchell</b>, Managing Member, Portfolio Manager, Head of Risk Mgmt. &amp; Trading: 28 years of experience. Previously was a Partner and Managing Director a Ramius LLC and the co-founder and Head of Risk Mgmt. and Trading for the Ramius Value and Opportunity Fund.  <b>Peter A. Feld</b>, Managing Member, Portfolio Manager, Head of Research: 12 years of experience. Formerly Managing Director at Ramius LLC and Head of Research for Ramius LLC's funds that comprised the small cap value and opportunity investment platform.</p>
Total Firm Assets (\$bil.):	\$1.6	
Strategy:	Equity Oriented Hedge Fund	
Assets in Strategy(\$bil.):	\$1.6	
Year Founded:	2004	
SEC Registration	Yes	
GP Commitment:	3%	

**Investment Summary**  
 Starboard Value and Opportunity Fund ("Value Fund") is an Equity-Oriented Hedge Fund which is actively involved in investing in publicly traded U.S. small cap companies. They target healthy core businesses with failed growth initiatives, the rationale being that small cap companies tend to focus heavily on revenue growth, potentially at the expense of optimizing earnings and cash flow generation. Starboard Leaders Fund is a drawdown vehicle that was launched in 2013 with a \$100 million anchor commitment from one of Starboard's largest investors to focus exclusively on Starboard's larger, most active situations. The fund allows Starboard to utilize additional investment capacity in their most compelling opportunities, at a rate of 3 to 6 potential investments per year. Larger investment sizes will allow Starboard to exert more influence with their portfolio companies, granting them more votes in the case of a proxy contest.

<b>Track Record</b>			
As of 08/31/2013	Fund	HFRI Equity Hedge	Russell 2000 Index
1 yr	12.42%	11.87%	24.48%
3 yr	15.89%	6.51%	18.86%
5 yr	9.57%	5.18%	6.45%
Fund Inception	11.28%	6.34%	5.92%
2013 thru Aug	5.81%	6.84%	19.02%
2012	14.71%	8.89%	14.64%
2011	7.66%	-3.30%	-5.45%
2010	31.88%	11.86%	25.31%
2009	16.76%	25.04%	25.21%
2008	-20.87%	-21.82%	-34.80%

**Vehicle Information:**

Fund Inception:	2004 (Value Fund) / 2013 (Leaders Fund)	Subscriptions:	Value Fund: Monthly / Leaders Fund: N/A: Drawdown Structure
Fund Size (\$mil.):	\$1.6bn (Value Fund) / Up to \$500mm (Leaders Fund)	Redemptions (notice):	Value Fund: Quarterly with 90 days' notice
Management Fee:	1.5% (Value Fund)/ 1.0% (Leaders Fund)	Lock-up:	3 years on both funds
Profit Allocation:	20% (Value Fund) / 15% (Leaders Fund)	Prime Broker:	Goldman Sachs & Co. / J.P. Morgan
Highwater Mark:	Yes	Administrator:	Citco Fund Services
Hurdle Rate:	N/A	Auditor:	PricewaterhouseCoopers, LLP
Additional Expenses:	50 bps on both Funds	Legal Counsel:	Schulte Roth & Zabel LLP/ Ropes & Gray, LLP

<b>NJ AIP Program</b>			
Recommended Allocation (\$mil):	\$75 million to Value Fund and up to \$125 million to Leaders Fund	LP Advisory Board Membership:	N/A
% of Fund:	4.69% (\$75mm committed/total committed capital)	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.