



State of New Jersey

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May 27, 2015

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Och-Ziff Strategic Relationship – Separate Accounts and Fund Investments**

The New Jersey Division of Investment (“Division”) is proposing a combination of new and additional commitments of up to \$900 million to existing Och-Ziff separate accounts (collectively, “the Platform”) and two new commingled funds. The proposal includes additional commitments of: (1) \$300 million to **OZSC II, L.P.**; (2) \$200 million to **OZNJ Private Opportunities, L.P.**; (3) \$100 million to **OZNJ Real Estate Opportunities, L.P.**; and (4) \$100 million to **OZNJ Real Asset Opportunities, L.P.** In addition, the Division is proposing commitments to the following new commingled investment funds: (1) \$100 million to **OZ Energy Partners**; and (2) \$100 million to **Och-Ziff Real Estate Credit Fund**. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

From 2010 through 2012, the Division proposed various commitments to separate accounts managed by Och-Ziff Capital Management Group across the Platform, not to exceed \$1.1 billion in the aggregate, as follows: up to \$700 million in OZSC, L.P.; up to \$500 million in OZSC II, L.P.; up to \$400 million in OZNJ Private Opportunities, L.P.; up to \$200 million in OZNJ Real Estate Opportunities, L.P.; and up to \$150 million in OZNJ Real Asset Opportunities, L.P. The Platform invests in US and European structured and corporate public debt securities, as well as private debt, real estate and real asset opportunities.

The Division is recommending this investment based on the following factors:

Strong returns: Investments in structured and corporate public credit securities have materially outperformed their benchmarks with the inception to date returns ranking in the top quartile of their strategy universe. The US structured credit strategy has outperformed the Barclays’ High Yield Index and the HFRI Event Driven Distressed/Restructuring strategy by approximately 10% annually since inception. The account focused on US & European corporate credit and European structured credit has outperformed the same benchmarks by 5% annually since inception. The private transactions, while early in their life cycle, are performing on track with expectations.

Opportunity set and ability to be nimble: The multi-disciplinary approach of the Platform enables it to opportunistically shift focus to the most compelling risk-adjusted return opportunities to capitalize on market dislocations. Exposures in the public strategy have shifted away from value-driven opportunities early in the life of the portfolio to event-driven situations today. The account has also taken advantage of private transactions that provide idiosyncratic sources of return or an excess illiquidity premium. Opportunities will continue to arise from traditional corporate distressed cycles in the US and Europe, distressed high yield energy companies, structural regulatory changes within the banking sector, and the ability to provide long-dated capital.

Favorable fee structure and better governance: Discounted fees and the structure's unique netting feature, in which the performance of all strategies within the Platform are netted against each other before calculating Och-Ziff's incentive compensation, create a strong alignment of interest. Netting the performance of different strategies is a favorable term and difficult to replicate. The Division pays a management fee of 75 bps on Net Asset Value and 20% performance compensation over a 6% hurdle rate, which is markedly below the typical market fee structure. Furthermore, given the additional proposed commitments, the Division has negotiated a management fee waiver for one year on the Platform. The Division also retains veto rights over all private transactions in the Platform and has access to detailed investment memoranda and the deal teams. Frequent and candid interactions with Och-Ziff have been valuable in the management of the Division's broader portfolio.

Reports of the Investment Policy Committee ("IPC") summarizing the details of the proposed investments are attached.

Division Staff and its private equity consultant, Strategic Investment Solutions, its hedge fund consultant, Cliffwater LLC, and its real estate consultant, RVK, undertook extensive due diligence on the proposed investments in accordance with the Division's Alternative Investment Due Diligence Procedures.

As part of its due diligence process, staff determined that the Platform has not engaged a third-party solicitor (a "placement agent") in connection with New Jersey's potential investments.

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 investments. We have obtained a preliminary Disclosure Report of Political Contributions in accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. We will obtain an updated Disclosure Report at the time of closing.

Please note that these investments are authorized pursuant to Subchapters 23, 69, and 71 of the Council's regulations. OZSC II, L.P. is classified as a global diversified credit investment as defined under N.J.A.C. 17:16-23.1. The OZNJ Private Opportunities, L.P. investment, currently classified as a credit-oriented hedge fund, will be reclassified as a global diversified credit investment as defined under N.J.A.C. 17:16-23.1. The real assets accounts, OZNJ Real Asset Opportunities, L.P. and OZ Energy Partners, will be classified as a real asset investments as defined under N.J.A.C. 17:16-71.1. The real estate accounts, OZNJ Real Estate Opportunities, L.P. and Och-Ziff Real Estate Credit Fund, will be classified as a non-core real estate investment as defined under N.J.A.C. 17:16-71.1.

Proposed Investment in Och-Ziff Strategic Relationship

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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 15, 2015. 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 27, 2015 meeting.

Attachments

Och-Ziff/NJ Strategic Relationship Proposed Commitments:

- **Total proposed new capital commitment: \$900 million (\$700 million to the Platform plus \$200 million to two commingled funds)**

Product/Strategy	March 31, 2015 NAV (\$, mm)	Proposed addition (\$, mm)	Asset Allocation Category
Platform		700	
OZSC	823		GDC
• Public US structured credit			
OZSC II	374	300	GDC
• Public European structured credit, US & European Corporate credit			
NJPO	189	200	GDC*
• Private credit investments			
NJRE	44	100	Real Estate Equity
• Private real estate investments			
NJRA	76	100	Private Real Assets
• Private real asset investments			
Commingled funds		200	
Och-Ziff Real Estate Credit	n/a	100	Real Estate Debt
OZ Energy Partners	n/a	100	Private Real Assets
Total		900	
Other OZ Investments			
OZ Domestic Partners II, L.P.	202	n/a	Hedge Fund
Och-Ziff Real Estate Parallel Fund III E, L.P.	5	n/a	Real Estate Equity

*Currently in the process of being reclassified from “credit oriented HFs” to “GDC”

Fund Name: Och-Ziff New Jersey Investment Platform **May 27, 2015**

Contact Info: Suraj Panjwani, 9 West 57th Street, New York, NY

Fund Details:

Total Firm Assets:	\$47.2 billion (as of May 1, 2015)
Strategy:	Opportunistic
Year Founded:	1994
Headquarters:	New York, NY
Total Platform GP Commitment:	5% (\$90 Million)

Key Investment Professionals:

David Windreich, Head of U.S. and European Investing for Och-Ziff and a member of Och-Ziff’s Board of Directors and Partner Management Committee. Mr. Windreich is also an Executive Managing Director. Prior to joining Och-Ziff at its inception in 1994, Mr. Windreich was a Vice President in the Equity Derivatives Department of Goldman, Sachs & Co.
James Levin, Executive Managing Director and Head of Global Credit for Och-Ziff, including corporate and structured credit, and a member of Och-Ziff’s Partner Management Committee. Prior to joining Och-Ziff in 2006, Mr. Levin was an Associate at Dune Capital Management LP
Rick Lyon, Executive Managing Director, Head of OZ Energy for Och-Ziff and Co-Chair of OZ Energy Partners Investment Committee. Prior to joining Och-Ziff in 2003, Mr. Lyon was a Managing Director at Goldman, Sachs & Co. in the Equities Division’s Principal Strategies Group (previously the Risk Arbitrage Department).
Steven Orbuch, Executive Managing Director of Och-Ziff and a Founder, President and Senior Principal of Och-Ziff Real Estate (“OZRE”). Prior to forming OZRE in 2003, Mr. Orbuch was a Managing Director with Blackstone Real Estate Advisors

Structure Outline

Separate Accounts	Strategy
OZSC	Global Diversified Credit
OZSC II	Global Diversified Credit (additional \$300 million)
NJPO	Global Diversified Credit ¹ (additional \$200 million)
NJRE	Real Estate (additional \$100 million)
NJRA	Real Assets (additional \$100 million)

Investment Summary

Och-Ziff Capital Management Group (ticker symbol “OZM”) is an NYSE-listed company with an approximate \$5.9 billion market cap (as of May 20, 2015) that was founded in 1994 by Daniel S. Och. The Firm has grown to be one of the largest institutional alternative asset managers in the world, with \$47.2 billion in assets under management. OZ has built an experienced investment management team consisting of 165 investment professional working from its headquarters in New York City and in offices in London, Hong Kong, Mumbai, Beijing, Dubai and Shanghai. The Platform invests in US and European structured and corporate public debt securities as well as private debt, real estate and real asset opportunities. The multi-disciplinary approach of the Platform enables it to opportunistically shift focus to the most compelling risk-adjusted return opportunities to capitalize on market dislocations. The proposed addition of up to \$700 million in the Platform is intended to allow OZ to continue to make attractive investments in these same areas.

Existing Platform Investments

Separate Accounts	Vintage Year	Strategy	Returns as of 3/31/15
OZSC	2010	Global Diversified Credit	18.25% Net IRR, 2.06x Net MOIC
OZSC II	2013	Global Diversified Credit	8.62% Net IRR, 1.11x Net MOIC
NJPO	2013	Global Diversified Credit ¹	8.79% Net IRR, 1.07x Net MOIC
NJRE	2013	Real Estate	7.48% Net IRR, 1.04x Net MOIC
NJRA	2013	Real Assets	7.94% Net IRR, 1.04x Net MOIC

IRR = Internal Rate of Return; MOIC= Multiple on Invested Capital

Vehicle Information:

Inception:	2013
Fund Size (\$mil.):	\$1.89 billion aggregate capital commitments across the 5 separate accounts, including Och-Ziff commitment
Management Fee:	0.75% per year of the Platform’s net asset value
Carry:	20% (aggregated across platform)
Hurdle Rate:	6% preferred return (aggregated across platform), subject to GP catch-up
Management Fee Offsets:	100% management fee offset for directors’, break-up, standby or commitment fees
Term:	An initial term of five (5) years, which shall automatically be extended on five (5) year terms thereafter.
Note:	Given the additional proposed commitments, the Division has negotiated a management fee waiver for one year on the Platform

Auditor:	Ernst & Young
Legal Counsel:	Schulte Roth & Zabel LLP

NJ AIP Program

Recommended Allocation (\$mil.):	\$700,000,000	LP Advisory Board Membership:	Yes
% of New Commitments:	98.50%	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

1. NJPO is currently classified as a credit-oriented hedge fund, but will be reclassified as a global diversified credit investment

*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.

Fund Name: OZ Energy Partners, L.P.

May 27, 2015

Contact Info: Suraj Panjwani, 9 West 57th Street, New York, NY

Fund Details:

Total Firm Assets (\$bil):	47.2 billion (as of May 1, 2015)	<p>Key Investment Professionals: Rick Lyon, Executive Managing Director, Head of OZ Energy for Och-Ziff and Co-Chair of OZ Energy Partners Investment Committee. Prior to joining Och-Ziff in 2003, Mr. Lyon was a Managing Director at Goldman, Sachs & Co. in the Equities Division's Principal Strategies Group (previously the Risk Arbitrage Department). Mark Bisso, Managing Director and Co-Chair of OZ Energy Partners Investment Committee. In addition, Mr. Bisso will be responsible for managing Och-Ziff's Houston office. Prior to joining Och-Ziff in March 2015, Mr. Bisso was most recently a Principal with ArcLight Capital Partners, LLC, where he spent 11 years. Tony Gordon, Managing Director focusing on Energy for Och-Ziff. Prior to joining Och-Ziff in 2005, Mr. Gordon was the Founder and Managing Member of Gordon Energy Partners. Prior to that, he spent over 8 years at Goldman, Sachs & Co., first as a Vice President then as a Managing Director focusing on principal and commodity investments in the energy sector. David Windreich, Head of U.S. and European Investing for Och-Ziff and a member of Och-Ziff's Board of Directors and Partner Management Committee. Mr. Windreich is also an Executive Managing Director. Prior to joining Och-Ziff at its inception in 1994, Mr. Windreich was a Vice President in the Equity Derivatives Department of Goldman, Sachs & Co. James Levin, Executive Managing Director and Head of Global Credit for Och-Ziff, including corporate and structured credit, and a member of Och-Ziff's Partner Management Committee. Prior to joining Och-Ziff in 2006, Mr. Levin was an Associate at Dune Capital Management LP.</p>
Strategy:	Real Assets	
Year Founded:	1994	
Headquarters:	New York, NY	
GP Commitment:	at least 8%, up to \$60 million	

Investment Summary

OZ Energy Partners is being formed by Och-Ziff to build on its successful energy private equity strategy. The Fund is targeting \$750 million in capital commitments to focus on opportunistic middle-market energy investments in North America across the oil and natural gas upstream, midstream and energy services sectors. The Fund will primarily target equity commitments ranging from \$50 million to \$150 million and can be structured as debt, equity or equity like securities. Particular investment themes include: asset acquisitions from stressed sellers, equity joint ventures with public and private E&P operators, structured equity and working interest financings and distressed debt investment for ownership and/or control. OZ Energy's investment strategy is anchored by an underwriting approach that focuses on the intrinsic, fundamental earnings power and value of the underlying assets of each energy investment. OZ Energy draws upon its energy expertise, along with the broad capabilities of the global Och-Ziff investment platform to partner with quality management teams in an effort to increase the value of each investment.

Existing and Prior Funds

Funds	Vintage Year	Strategy	Returns as of 12/31/2014
OZ North American Energy Composite	2006	Real Asset	17.90% Net IRR, 1.40x Net TVPI, 1.06x Net DPI

IRR = Internal Rate of Return; TVPI = Total Value to Paid-In; DPI = Distributions to Paid-In

Vehicle Information:

Inception:	2015 (expected)	Auditor:	Ernst & Young
Fund Size (\$mil):	\$750 million (targeted)	Legal Counsel:	Debevoise & Plimpton LLP
Management Fee:	0.75% of NAV		
Carry:	20% (aggregate across OZNJ platform)		
Hurdle Rate:	6% (aggregate across OZNJ platform)		
Management Fee Offset:	100% fee offset for directors; transaction, monitoring, break-up and similar advisory fees		

NJ AIP Program

Recommended Allocation (\$mil.):	\$100,000,000	LP Advisory Board Membership:	TBD
% of Fund:	13.33%	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

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Fund Name: Och-Ziff Real Estate Credit Fund, L.P.

May 27, 2015

Contact Info: Suraj Panjwani, 9 West 57th Street, New York, NY

Fund Details:

Total Firm Assets (\$bil.):	\$47.2 billion (as of May 1, 2015)
Strategy:	Real Estate- Debt
Year Founded:	1994
Headquarters:	New York, NY
GP Commitment:	at least \$80 million

Key Investment Professionals:

Steven Orbuch, Executive Managing Director of Och-Ziff and a Founder, President and Senior Principal of Och-Ziff Real Estate ("OZRE"). Prior to forming OZRE in 2003, Mr. Orbuch was a Managing Director with Blackstone Real Estate Advisors.

James Levin, Executive Managing Director and Head of Global Credit for Och-Ziff, including corporate and structured credit, and a member of Och-Ziff's Partner Management Committee. Prior to joining Och-Ziff in 2006, Mr. Levin was an Associate at Dune Capital Management LP.

David Windreich, Head of U.S. and European Investing for Och-Ziff and a member of Och-Ziff's Board of Directors and Partner Management Committee. Mr. Windreich is also an Executive Managing Director. Prior to joining Och-Ziff at its inception in 1994, Mr. Windreich was a Vice President in the Equity Derivatives Department of Goldman, Sachs & Co.

Joshua Kirkham, Senior Principal, Real Estate. Mr. Kirkham is involved in transactions across various asset classes, including development, parking, housing, and related development investments with primary responsibility for OZRE's residential related investment activities as well as day-to-day oversight and management of OZRE's debt-related investments. Prior to joining OZRE, Mr. Kirkham worked in the Real Estate Principal Investment Area of Goldman, Sachs & Co. where he was involved in structuring joint venture equity relationships with developers across a variety of asset classes.

Daniel Wurwarg, Managing Director, Real Estate. Mr. Wurwarg is involved in transactions across various asset classes, with a primary responsibility for day-to-day oversight and management of OZRE's debt-related investments. Prior to joining Och-Ziff, he was an Associate at AREA Property Partners where he was focused on acquisitions.

Investment Summary

The Fund will focus on real estate credit investments in North America, primarily in the United States, across multiple types of real estate and various securities. Investments will derive value from various real estate assets including traditional cash flowing assets (e.g., multifamily, office, retail), non-traditional niche assets (e.g., gaming, housing, senior housing, golf courses), transitional assets, ground leases, corporate real estate and real estate management companies. The transactions can be structured as first-lien loans, mezzanine loans, subordinate notes, B notes, loan portfolios, preferred equity, ground leases, sale leasebacks and other credit instruments. The Fund will target low double digit returns (net of expenses) with a significant current income component. OZRE Credit is the intersection of Och Ziff's experience in credit and real estate investing, both of which have generated attractive returns across market cycles. The team is led by James Levin, Head of Global Credit, and Steve Orbuch, Founder, President and Senior Principal of OZRE.

Existing and Prior Funds

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 12/31/2014</u>
Och-Ziff North American RE Credit Composite	2007-2014	Non-core real estate	17.1% Net IRR, 1.3x Net MOIC, 130% DPI

IRR = Internal Rate of Return; MOIC= Multiple on Invested Capital; DPI = Distributions to Paid-In

Vehicle Information:

Inception:	2015 (expected)
Fund Size (\$mil.):	\$800 million (targeted)
Management Fee:	0.75% of NAV
Carry:	20% (aggregate across OZNJ platform)
Hurdle Rate:	6% (aggregate across OZNJ platform)
Management Fee Offset:	100% fee offset for directors; transaction, monitoring, break-up and similar advisory fees

Auditor:	Ernst & Young
Legal Counsel:	Debevoise & Plimpton LLP

NJ AIP Program

Recommended Allocation (\$mil.):	\$100,000,000	LP Advisory Board Membership:	TBD
% of Fund:	12.50%	Consultant Recommendation:	Yes
		Placement Agent:	No
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

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