



## State of New Jersey

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DEPARTMENT OF THE TREASURY  
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**ELIZABETH MAHER MUOIO**  
*State Treasurer*

**SHOAIB KHAN**  
*Director*

January 26, 2024

MEMORANDUM TO: State Investment Council  
FROM: Shoaib Khan, Director  
SUBJECT: Proposed Investment in PIMCO Arculus Fund

The New Jersey Division of Investment (“Division”) is proposing an investment up to \$300 million in the PIMCO Arculus Fund (the “Fund” or “PIMCO Arculus”) managed by PIMCO Investment Management (“PIMCO” or the “Firm”). 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:

**Firm’s long-term stability and performance.** PIMCO is a top 20 absolute return manager by AUM with \$26 billion in systematic and discretionary absolute return strategies. Further, it manages \$35 billion in customized tail risk hedging strategies for a variety institutional client. With a long-standing history since 1971, PIMCO has continuously demonstrated stability and attractive performance through investment cycles, not only for the fixed income asset class, but also other strategies including quantitative investments. In addition, the firm also has a history of managing customized bespoke solutions for institutional investors for more than 20 years. PIMCO Arculus diversifies across a range of existing strategies with different underlying return drivers that focus on seeking an optimal balance of maximizing risk adjusted returns with the Division’s objectives. Each strategy deployed calls upon PIMCO’s experience across a wide variety of asset classes and approaches including trend following, systematic rates and FX, and tail risk hedging. Analysis of the blend of strategies in the planned PIMCO Arculus Fund indicate strong performance of 9.06% net annualized returns compared to the HFRI RV: Multi-Strategy Index returning 3.71% since January 2007.

**Unique Collateral Management.** PIMCO’s ability to leverage its size and scale in short duration fixed income add additional returns over cash or T-Bills in collateral management while increasing diversification. Since inception, the collateral team has added 100bps over cash, net of fees. PIMCO’s short-term desk is comprised of industry experts while many competitors may use the short-term desks reserved for junior team members for portfolio management training. The Firm’s 13 dedicated portfolio managers with 80 global credit sector analysts provides comprehensive support.

**Attractive terms and favorable liquidity.** PIMCO Arculus Fund charges a flat fee of 0.76%, with no performance fee, which is highly competitive and below the typical 1% to 1.5% fee charged by peers. The attractive fees and terms negotiated provide the Division with the potential to extract a higher absolute and

risk-adjusted net return. The Fund's liquidity terms are favorable, which is weekly liquidity with five days' notice.

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.

Staff 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. 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.

The Firm has a formal ESG Investment Policy Statement. The Firm's current policy was reviewed by the Corporate Governance team in accordance with the Council's ESG Policy.

Please note that the investment is authorized pursuant to Articles 69 and 100 of the Council's regulations. The PIMCO Arculus Fund will be considered an Absolute Return Strategy 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 July 17, 2023. An update was sent to each member of the IPC and a meeting was held on January 23, 2024. 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 January 31, 2024 meeting.

Attachments

Sincerely,

Shoaib Khan  
Director, New Jersey Division of Investment

## PIMCO - Arculus

- **DOI Commitment:** up to \$300 million in a fund-of-one customized portfolio
- **Strategy:** Risk Mitigation Strategies – Core Portfolios
- **Investment Focus:** Diversified portfolio investing in six uncorrelated strategies seeking to mitigate equity market drawdowns while providing a positive long-term return. Portfolio allocated to uncorrelated diversifiers (systematic macro and EM debt strategies), equity risk mitigants (trend following, long rate volatility and tail risk hedging), and complemented by PIMCO's short term cash strategies
- **Target Returns:** 3 Month T-Bill + 3.2% with 6% volatility, demonstrating zero to negative equity market beta while maintaining positive convexity during equity market risk-off events
- **Investment Thesis:**
  - Diversified investments in strategies which have demonstrated downside protection and have low correlation to each other
  - Capitalized on PIMCO's breadth of investment strategies and expertise in portfolio design, research, and implementation
  - Implements PIMCO's unique collateral management
  - Attractive terms and favorable liquidity

## Risk Mitigating Strategies

**Fund Name:** Pacific Investment Management Company ("PIMCO") Arculus

January 26, 2024

**Contact Info:** Ignacio Galaz, 1633 Broadway, 46th Floor, New York, NY

**Fund Details:**

Total Firm Assets (\$bil):	\$1,860 billion	<b>Key Investment Professionals:</b> <b>Nick Granger:</b> Prior to joining PIMCO in 2020, Mr. Granger, Head of Quantitative Strategies, was based in London as chief investment officer and head of research at AHL, the systematic division of Man Group. In this role he was also portfolio manager of the firm's quantitative multi-strategy fund, and a specialist in systematic volatility strategies. Prior to Man Group, he was an equity derivatives strategist at J.P. Morgan. He has 18 years of investment experience and holds a bachelor's degree in mathematics from Oxford University, a master's degree in philosophy from Kings College London, and a Ph.D. in mathematical logic from the University of Manchester. <b>Matt Dorsten:</b> Mr. Dorsten is an executive vice president in the Newport Beach office and a portfolio manager in the quantitative strategies group. He is the lead portfolio manager for managed futures in addition to having portfolio management responsibilities in multi-asset alternative risk premia and beta replication strategies. He was previously a member of the financial engineering group working on mortgage-backed securities and event-linked bonds. Prior to joining PIMCO in 2006, he received his Ph.D. in theoretical particle physics from the California Institute of Technology. He has 17 years of investment experience and holds undergraduate degrees in mathematics and physics from Ohio State University.
Strategy:	Multi-Strategy	
Year Founded:	1971	
Headquarters:	Newport Beach, CA	
SEC Registration:	YES	
GP Commitment:	1.00%	

**Investment Summary**

Custom portfolio combining uncorrelated diversifiers (44%), equity risk mitigants (44%) and collateral strategies (12%). Components include systematic macro (rates), systematic macro (FX), EM local rates, trend following, long rate volatility and tail risk hedging. Aims to provide positive long-term return and outperform during market dislocations. Target cash+3% annualized returns with 6% volatility and no beta/correlation to equity and credit markets.

**Annualized Returns**

	PIMCO Arculus**	HFRI RV: Multi-Strategy Index	HFRI FOF: Market Defensive Index
<b>YTD</b>	4.38%	3.17%	0.31%
<b>3 Year</b>	3.11%	4.46%	4.64%
<b>5 Year</b>	5.32%	4.00%	3.16%
<b>Since Inception*</b>	9.06%	3.71%	2.32%
*Jan 2007			
**Modeled	As of October 2023	Source of Returns - Cliffwater	

**Vehicle Information:**

<b>Fund Inception:</b>	2024	<b>Subscriptions:</b>	Monthly
<b>Fund Size:</b>	\$303 million	<b>Redemptions (notice):</b>	Weekly with 5 business days' notice
<b>Management Fee:</b>	0.76%	<b>Lock-up:</b>	None
<b>Profit Allocation:</b>	none	<b>Prime Broker:</b>	None
<b>Highwater Mark:</b>	none	<b>Administrator:</b>	SEI Global Services
<b>Hurdle Rate:</b>	none	<b>Auditor:</b>	Pricewaterhouse Coopers
<b>Admin Expenses:</b>	0.20%	<b>Legal Counsel:</b>	Ropes & Gray

**NJ AIP Program**

<b>Recommended Allocation (\$mil):</b>	\$300 million	<b>LP Advisory Board Membership:</b>	N/A
<b>% of Fund:</b>	99.00%	<b>Consultant Recommendation:</b>	YES
		<b>Placement Agent:</b>	NO
		<b>Compliance w/ Division Placement Agent Policy:</b>	N/A
		<b>Compliance w/ SIC Political Contribution Reg:</b>	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.