

May 16, 2008

MEMORANDUM TO: State Investment Council

FROM: William G Clark
Director

SUBJECT: **Proposed Hedge Fund Investment in
Asian Century Quest Fund (QP), LP.**

This due memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9(a) to report on a proposed \$75 million direct absolute return fund commitment to Asian Century Quest Fund (QP), LP to be managed by Asian Century Quest Capital, LLC in New York.

Please note that this investment will be authorized pursuant to Articles 69 and 100 of the Council's regulations. The Asian Century Quest investment will be considered an Equity Long/Short Fund investment as defined under N.J.A.C. 17:16-100.1.

The Alternative Investments Procedures adopted by the Council on February 21, 2008 require any potential alternative investment opportunities to be identified and initially evaluated by the applicable staff of the Division of Investment ("DOI") and the applicable Asset Class Consultant (Cliffwater LLC for direct hedge funds, or "Cliffwater"), in coordination with the DOI Investment Committee (Director, Deputy Director and senior hedge fund staff member).

The DOI Investment Committee identified this proposed investment as a result of internal and external sourcing. Cliffwater and DOI staff proceeded to undertake extensive due diligence on the proposed investment. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

Based on this due diligence, the Division has determined that the proposed investment meets the criteria for investments set forth in the Alternative Investment Procedures.

Asian Century Quest Capital, LLC (“ACQ”) is an SEC-registered investment firm founded by Brian Kelly in 2005 and currently has \$1.2 billion in assets under management. The firm is based in New York (where 22 of the firm’s 25 employees are located) and has a research office in Tokyo. The fund is managed by Mr. Kelly, who was previously the Japan/Asia sector head at Maverick Capital. The firm’s flagship product, Asian Century Quest Fund (QP), LP, is a bottom-up, fundamentally driven equity long/short fund focused on Asia, with a primary emphasis on Japan and Korea. The fund attempts to identify and forecast key business drivers by conducting primary research through continuous interaction with managements, consultants, and others and by producing detailed proprietary financial models. ACQ aims to have significantly lower volatility than the market by maintaining low sector and country net exposures. Shorts are primarily alpha driven individual names, and index shorts are uncommon. The fund is diversified across more than 120 positions, and maintains gross exposure typically between 200-250% and net of 30-50%. Since inception of March 2005 through March 2008, the fund has generated an annualized return of 15.37% with volatility of 8.12%, resulting in a Sharpe ratio of 1.25.

A formal written due diligence report for the proposed investment was sent to each member of the Investment Policy Committee of the Council on May 9, 2008, and a meeting of the Committee was held on May 15 2008. In addition to the formal written due diligence reports, all other information obtained by the Division on this investment was made available to the Investment Policy Committee.

After a review of the due diligence conducted on the fund, the Investment Policy Committee of the Council decided to report on the proposed investment to the full Council pursuant to Step 4 of the Alternative Investments Procedures. Under these procedures, the Council may adopt or otherwise act on this report.

Attached to this memorandum is the SIC Investment Committee Fund Review Memorandum for each proposed 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 this investment. In addition, the proposed investment must comply with the Council’s “pay to play” regulation (N.J.A.C. 17:16-4). While we are confident that we will work through these issues, the potential exists that a successful resolution will not be reached with this manager.

We look forward to discussing this proposed hedge fund investment at the Council’s May 22, 2008 meeting.

WGC/MK:lt
Attachment