



**State of New Jersey**

DEPARTMENT OF THE TREASURY  
DIVISION OF INVESTMENT  
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Lt. Governor

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Acting State Treasurer

September 23, 2015

MEMORANDUM TO: State Investment Council

FROM: Christopher McDonough  
Director

SUBJECT: **Proposed Additional Investment in Lynx (Bermuda) Ltd.**

The New Jersey Division of Investment (“Division”) is proposing an additional investment of up to \$100 million to Lynx (Bermuda) Ltd. (the “Fund”). During 2011, the Division committed \$100 million to the Fund. As of July 31, 2015, and taking into account a \$25 million prior distribution, the Division’s investment in the Fund was valued at approximately \$103 million. The Division intends to combine this \$103 million with the additional \$100 million investment and then to potentially transfer the Division’s interest in the Fund into a separate account managed by Lynx Asset Management (“Lynx” or the “Firm”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

Lynx is a \$6.3 billion investment manager that was founded in 2000 by three founders, Jonas Bengtsson, Svante Bergström and Martin Sandquist. The Fund uses quantitative methods to systematically invest across fixed income, FX, stocks and commodities futures in 70 different markets.

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

**Successful Track Record:** Performance since inception for the Fund has been strong, with an annualized return of 12.42% and standard deviation of 14.42% from May 2000 through July 2015. The resulting Sharpe Ratio of the strategy is 0.89. The Fund’s return against the HFRI Macro: Systematic Index is top quartile on a 1-year, 3-year, 5-year, and since inception basis. In addition, the Fund’s risk-adjusted returns places them in the 4<sup>th</sup> percentile against the HFRI Macro: Systematic universe on a since inception basis as well as top quartile on a 5-year basis.

**Strong Downside Protection and Low Beta to Equity Markets:** The Fund protected capital in the difficult 2008 market environment, returning +38.27% while the S&P 500 TR returned -37% and the HFRI Fund Weighted Index returned -19.03%. In addition, the Fund has historically exhibited low to negative beta to equity and high yield markets, providing a unique and complementary return stream to the Division’s current portfolio.

**Stable and Differentiated Organization:** Lynx is located in Stockholm and is geographically isolated from other Commodity Trading Advisors (“CTA”) in the UK and US. This provides the Firm some stability in employees as it does not face material competition from other asset

managers in regards to hiring and/or poaching. The Firm has had very low turnover in its research team. As a result of their unique location and stable team, the Firm has developed a differentiated approach as demonstrated through their low correlation to many of their UK-based peers who spun out of 'AHL'.

**Diversified and Complementary Exposure:** Lynx trades a highly liquid and diversified portfolio of securities across the foreign exchange, fixed income, equities and commodities futures markets, and is only one of two CTA managers currently in the Division's direct portfolio. In addition, the Fund utilizes a diverse set of models other than momentum based models, which makes them unique to their peers. Finally, the Fund uses a dynamic asset allocation approach which enables Lynx to participate when trends arise while limiting drawdowns in periods with few trend opportunities. As a result, the Fund exhibits low correlation across the existing absolute return managers within the Division's portfolio and complementary exposure across the Pension Fund.

**Diversifying Approach:** Whereas the majority of investments in the Division's risk mitigating bucket are discretionary in nature, Lynx employs a 100% systematic approach. The strategy takes top down directional positions in the global markets similar to discretionary macro managers but the trades are based on empirical evidence and are agnostic to economic theory. The strategy analyzes historical data to make statistical forecast on the future direction of markets. This approach offers a good value proposition to the Division's current manager line-up as a diversifier.

**Favorable Terms:** Upon transfer to a separately managed account, the Division's total investment will have a reduced management fee of 0.80% and 20% performance allocation. In addition, the proposed additional investment will be subject to a one-time 'hurdle' of 3%.

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. 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 the investment is authorized pursuant to Articles 69 and 100 of the Council's regulations. Lynx (Bermuda) Ltd. will be considered an opportunistic (global macro) 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 September 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 September 23, 2015 meeting.

Attachments

Fund Name: Lynx (Bermuda) Ltd.

September 23, 2015

Contact Info: FILIP BORGESTRÖM, BOX 7060, SE-103 86 STOCKHOLM

## Fund Details:

Total Firm Assets:	\$6.3 billion	<b>Key Investment Professionals:</b> <b>Jonas Bengtsson</b> , Founding Partner and Portfolio Manager. Mr. Bengtsson focuses on programming, portfolio construction and risk management. Prior to founding Lynx, he was employed as a quantitative analyst and risk analyst with Gota Bank and Nordbanken between 1993-1998. <b>Svante Bergström</b> , CEO, Founding Partner, Portfolio Manager. Mr. Bergstrom serves as CEO, overseeing business and client related functions. Prior to founding Lynx, he worked in quantitative analysis and portfolio management at Nordbanken from 1993-1998 and founded its proprietary trading unit. <b>Henrik Johansson</b> , Head of Research, Partner. Prior to joining the firm in 2011, Mr. Johansson was the global head of risk management for SEB Merchant Banking. <b>Magnus Johnson</b> , Head of Trading, Partner. Prior to joining Lynx in 2003, he worked as a discretionary trader at Handelsbanken, Nordea and Carnegie.
Strategy:	Global Macro	
Assets in Strategy:	\$6.3 billion	
Year Founded:	2000	
SEC Registration	No	
GP Commitment:	70 m USD in the Lynx program	

## Investment Summary

The Division currently has a \$103 million investment in Lynx. It intends to combine this with the additional \$100 million investment and potentially transfer the Division's interest in the Fund into a separate account managed by the Firm. Lynx Asset Management AB is a Sweden based firm that was founded in 2000 and is run by two of its three founders, Jonas Bengtsson and Svante Bergström (Martin Sandquist, the third founder, has since retired). The Firm currently manages \$6.3 billion in assets, including \$2.5 billion in Lynx (Bermuda) Ltd., the vehicle for U.S. investors, in which the Division has been an investor since 2011. Brummer & Partners, a Swedish asset management company with \$16.0 billion under management, owns 40% of Lynx and provides back-office support. Lynx (Bermuda) Ltd. is a systematic commodities trading advisor (CTA) that trades 70 liquid global futures markets across equities, fixed income, currencies, and commodities. The founders' investment philosophy is that trend following strategies should continue to offer attractive returns over time and that diversification by model type reduces overall portfolio risk.

## Existing Fund

	Fund	HFRI Macro-Systematic	DJCS Global Macro
<b>1 Year</b>	24.96%	11.16%	18.98%
<b>3 Year</b>	7.04%	1.58%	2.81%
<b>5 year</b>	7.82%	2.92%	4.05%
<b>Fund Inception</b>	12.42%	6.22%	6.06%
<b>YTD to July 2015</b>	-1.37%	0.08%	0.08%
<b>2014</b>	27.03%	10.73%	18.37%
<b>2013</b>	11.10%	-0.87%	-2.53%
<b>2012</b>	-6.73%	-2.51%	-2.93%

## Vehicle Information:

Fund Inception:	2004	Subscriptions:	Monthly
Fund Size:	\$2.5 billion	Redemptions (notice):	Monthly with 2 business day notice
Management Fee:	1.00%	Lock-up:	No; Upon transfer to a separate account there will be a 1 year lock-up
Profit Allocation:	20%	Prime Broker:	Goldman Sachs, Societe Generale, Morgan Stanley
Highwater Mark:	Yes	Administrator:	HSBC
Hurdle Rate:	3 month T-bill	Auditor:	KPMG LLP
		Legal Counsel:	Akin Gump

## NJ AIP Program

Recommended Allocation (\$mil):	up to \$100 million	LP Advisory Board Membership:	N/A
Current % of Fund:	4.12%	Consultant Recommendation:	Yes
Total % after new investment:	7.81%	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.