



State of New Jersey

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DEPARTMENT OF THE TREASURY
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February 3, 2014

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Acting Director

SUBJECT: **Proposed Investment in a Separate Account with Solus
Alternative Asset Management, LP**

The New Jersey Division of Investment ("Division") is proposing an investment of \$300 million in a separate account with Solus Alternative Asset Management, LP. ("Solus"). 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: Sola I ("Sola"), Solus' flagship fund focusing on opportunistic credit investments, returned an annualized 22.29% return since inception in January 2002 through November 2013, which significantly outperformed the HFRI Fund Weighted Composite Index return of 6.15% and the Barclays Aggregate Bond Index return of 5.07% over the same time periods. Both Sola's return and risk adjusted performance as measured by the Sharpe ratio places it in the top decile among peers on both a 1-year and since inception basis. In addition, its 3-year performance is top quartile. Solus Recovery Fund I has returned an annualized 14.91% return since inception in March 2012 through November 2013, considerably outperforming the Barclays Aggregate Bond Index return of 1.05% over the same time period; while Solus Recovery Fund II has generated a 7.54% annualized return from inception in December 2012 through November 2013, substantially outperforming the Barclays Aggregate Bond Index return of -1.59% over the same time period.

Flexible mandate to pursue opportunistic investments: Through this separate account mandate, the Division will be investing in two strategies: up to two thirds of the mandate can be invested in Sola I, which executes the main fund's opportunistic credit strategy of pursuing event driven distressed and special situations opportunities; and up to two thirds in Recovery-like opportunities, which includes lower-yielding, less risky opportunities such as late stage bankruptcies, liquidations or bank loans, or high-conviction co-investment opportunities from across the Solus platform.

Complementary exposure to existing portfolio: Solus' differentiated investment approach provides a complement to the Division's current Hedge Fund portfolio, exhibiting low

correlation coefficients to existing credit-oriented managers. In addition, Sola exhibits low correlation and Beta with the S&P 500, with coefficients of 0.10 and 0.11, respectively.

Attractive Terms: The Division has negotiated market-leading terms. They are as follows:

- Management Fee: 0.75% for opportunistic assets, on NAV for Sola shares
- Preferred Return: 4%, with a 50/50 catch-up
- Carry: 17.5%, calculated over a three year period
- Optional Redemption: The Division will have an optional redemption if (i) NAV declines 20% from prior year peak NAV, OR (ii) 50% or more of LP assets submits notice of redemption

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 separate account with Solus Alternative Asset Management, LP will be considered a credit oriented 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 January 14, 2014. 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 February 3, 2014 meeting.

Attachments

Fund Name: Solus Alternative Asset Management Separate Account

February 3, 2014

Contact Info: Wight Martindate, Solus Alternative Asset Management LP, 410 Park Avenue, New York, NY 10022

Fund Details:

Total Firm Assets:	\$3.5 billion	Key Investment Professionals: Christopher A. Pucillo , Founder, CIO: Prior to founding Sola, Mr. Pucillo managed Sola at Stanfield Capital Partners, which he joined in 2000 as head of trading. Prior to joining Stanfield, Mr. Pucillo was with Morgan Stanley where he acted as Head of High Yield Loan Trading and was instrumental in launching their leveraged loan effort. Scott Martin , Portfolio Manager: Prior to joining Solus in 2012, Mr. Martin spent 17 years at Deutsche Bank in the high yield and credit markets, most recently as the co-head of the Distressed Products Group in the Americas. Charles J. ("CJ") Lanktree , Portfolio Manager: Prior to joining Solus in 2012, Mr. Lanktree was previously co-headed Deutsche Bank's Distressed Products Group in the Americas, managing a \$2bn+ portfolio and 27-member team.
Strategy:	Long/Short Credit	
Assets in Strategy:	\$3.5 billion	
Year Founded:	2007	
SEC Registration	Yes	
GP Commitment:	1%	

Investment Summary	Track Record (Sola I)			
<p>The Division is proposing to invest \$300 million in a separate account managed by Solus Alternative Asset Management, LLC, which is a New-York based top-quartile credit manager with \$3.5 billion under management. The Division's separate account will have the ability to invest up to two thirds of the mandate in Solus' flagship fund, Sola I, which focuses on opportunistic credit investments, including event-driven, distressed and special situation credit opportunities; and up to two thirds in lower-yielding, less risky assets such as liquidations, which Solus invests in through their Sola & Recovery vehicles, while also having the ability to size up certain opportunities from throughout Solus' platform which can range from liquidations to more illiquid, long-term situations in which the flagship fund has a sizeable position.</p>	As of 11/30/2013	Fund	HFRI Fund Weighted Composite Index	S&P 500 (TR)
	1 yr	30.64%	9.84%	30.30%
	3 yr	13.74%	3.95%	17.73%
	5 yr	12.14%	7.65%	17.60%
	Fund Inception (Jan 2002)	22.29%	6.15%	5.98%
	2013 (thru Nov)	29.63%	8.28%	29.12%
	2012	9.10%	6.36%	16.00%
	2011	-1.73%	-5.25%	2.11%
	2010	24.19%	10.25%	15.06%
	2009	7.85%	19.98%	26.46%
2008	-19.03%	-19.03%	-37.00%	

Fund Inception:	2014	Subscriptions:	Monthly
Fund Size:	\$300 million	Redemptions (notice):	Quarterly (60 days' notice after 2nd year)
Management Fee:	0.75% on invested capital for opportunistic shares, on NAV for Sola shares	Lock-up:	3 years
Profit Allocation:	17.5%	Prime Broker:	Goldman, Sachs & Co., J.P. Morgan, Credit Suisse
Highwater Mark:	Yes	Administrator:	SS&C Technologies, Inc.
Hurdle Rate:	4.00%	Auditor:	PricewaterhouseCoopers LLP
Additional Expenses:	Sola Ltd: 25bps; Fund of one: TBD	Legal Counsel:	Schulte Roth & Zabel LLP

NJ AIP Program			
Recommended Allocation:	\$300 million	LP Advisory Board Membership:	N/A
% of Fund:	99%	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.