



Agenda Item 8a

## State of New Jersey

CHRIS CHRISTIE  
*Governor*  
KIM GUADAGNO  
*Lt. Governor*

DEPARTMENT OF THE TREASURY  
DIVISION OF INVESTMENT  
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ROBERT A. ROMANO  
*Acting State Treasurer*

September 23, 2015

MEMORANDUM TO: State Investment Council  
  
FROM: Christopher McDonough  
Director  
  
SUBJECT: **Proposed Additional Investment in Winton Futures Fund**

The New Jersey Division of Investment (“Division”) is proposing an additional investment of up to \$150 million in the Winton Futures Fund (the “Fund”), a fund managed by Winton Capital Management (“Winton”). During 2011, the Division committed \$200 million to the Fund. As of July 31, 2015, the Division’s investment in the Fund was valued at approximately \$252 million. The Division intends to combine this \$252 million with the additional \$150 million investment and then to potentially transfer the Division’s interest in the Fund into a new institutional fund or separate account managed by Winton. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

Winton is a \$33 billion global investment manager that was founded by David Harding in 1997. The Fund uses quantitative methods to systematically invest in the global futures, currency, commodity and individual equity markets.

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

**Attractive Returns:** Since inception in October 1997 through July 2015, the Fund has generated an annualized return of 14.08% with an annualized standard deviation of 16.57%. The Fund’s returns against the HFRI Macro: Systematic Index are top quartile on a three year, five year and since inception basis. Further, the resulting Sharpe Ratio of 0.73 places the Fund in the top quartile among its strategy universe over a three year, five year and since inception basis. Since launch in 1997, the strategy has experienced only two negative years and has produced positive returns in most market conditions with demonstrated performance during market crises, such as the tech bubble of 2001 and the Great Recession of 2008.

**Proven Strategy:** Prior to launching the Firm, David Harding, the CEO, was a founding partner of AHL, one of the most successful managed futures programs in the world. Mr. Harding has over 25 years of experience leading research in quantitative investing. He has applied that experience in building a strategy that has had long term success.

**Diversified Strategy:** While Winton’s roots are in the trend following space, the strategy has evolved into a diversified strategy across trend and non-trend strategies. Today, the offering is a mixture of core momentum strategies along with carry, seasonality, weather, supply chain, macroeconomic, fixed income relative value and cash equity strategies. Winton employs 18 “families” of models across futures and individual equity markets which is in contrast to the majority of Commodity

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Trading Advisor (“CTA”) peers who employ a few trend following models across different time frames.

**Diversifying Approach:** Whereas the majority of investments in the Pension Fund’s risk mitigating bucket are discretionary in nature, the Fund 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 complimentary and diversifying approach to the Pension Fund’s current manager line-up.

**Time Frame Specialization:** Within the Division’s risk mitigation portfolio, the Fund’s strategy is the longest term in nature. Positions are held in the range of 3-8 months and offers a complement to the current lineup of macro managers who typically hold positions for a few months on average. The longer term orientations also results in gradually rotating out of positions. The Fund is less likely to get whipsawed by the markets, more likely to buy and sell at different times, and has lower trading costs relative to their peers.

**Favorable Terms:** Upon transfer to a separately managed account, the Division’s investment will have a reduced management fee of 0.85% and 20% performance allocation, less than the current 1% management fee by Winton.

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. Winton Futures Fund 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: Winton Futures Fund

September 23, 2015

Contact Info: Jonathan Anayi, Grove House, 27 Hammersmith Grove, London W6 0NE

## Fund Details:

Total Firm Assets:	\$31.4 billion as of 8/31/15
Strategy:	Global Macro
Assets in Strategy:	\$12.4 billion
Year Founded:	1997
SEC Registration	Yes, in 2012
GP Commitment:	\$70 million

## Key Investment Professionals:

**David Harding**, Founder and CEO of Winton Capital. Since graduating from Cambridge University with a degree in natural sciences, he has started two of the world's leading quantitative investment companies: AHL and Winton along with Martin Hunt and Osman Murgian.

**Matthew Beddall**, Chief Investment Officer of Winton Capital Group. Mr. Beddall is an Executive Director of Winton Capital Group, a member of the Executive Committee and chairs the Investment Management Committee. He joined Winton in 2000.

**Raj Patel**, Chief Operating Officer. Mr. Patel is an Executive Director of Winton Capital Group and a member of the Executive Committee. He joined Winton in 1997 and has since been centrally involved in developing and implementing Winton's operational strategies.

## Investment Summary

Winton Capital Management was founded in 1997 by David Harding along with Martin Hunt and Osman Murgian. Previously, Mr. Harding was one of the three founders of AHL, another well-respected London-based Commodity Trading Advisor ("CTA"). The founding principle and philosophy of Winton is the belief that robust statistical and mathematical research provides the richest and most reliable source of information on market behavior. As such, the Fund aims to isolate and exploit market factors that are scalable, robust and persistent. Winton is a diversified CTA that trades over 100 liquid global futures markets, including equity indices, fixed income, currencies, energies and commodities.

Existing Fund			
	Fund	HFRI Macro-Systematic	DJCS Global Macro
<b>1 Year</b>	18.22%	11.16%	18.98%
<b>3 Year</b>	7.12%	1.58%	2.81%
<b>5 year</b>	7.59%	2.92%	4.05%
<b>Fund Inception</b>	14.08%	8.43%	5.73%
<b>YTD to July 2015</b>	2.38%	0.08%	0.08%
<b>2014</b>	13.88%	10.73%	18.37%
<b>2013</b>	9.43%	-0.87%	-2.53%
<b>2012</b>	-3.56%	-2.51%	-2.93%

## Vehicle Information:

Fund Inception:	1997	Subscriptions:	Monthly
Fund Size:	\$12.7 billion	Redemptions (notice):	Monthly with 2 day notice
Management Fee:	1% ; 0.85% after transfer to separate account	Lock-up:	None
Profit Allocation:	20%	Prime Broker:	Societe Generale
Highwater Mark:	Yes	Administrator:	Citco Fund Services
Hurdle Rate:	None	Auditor:	KPMG LLP
		Legal Counsel:	Willkie Farr & Gallagher LLP

## NJ AIP Program

Recommended Allocation (\$mil):	up to \$150,000,000	LP Advisory Board Membership:	N/A
Current % of Fund:	1.98%	Consultant Recommendation:	Yes
Total % after new investment:	3.12%	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.