State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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JON S. CORZINE
Governor

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State Treasurer

November 9, 2006

MEMORANDUM TO: State Investment Council

FROM: William G. Clark, William G. Clark
Director

SUBJECT: **Proposed Private Equity Investment in Hamilton Lane Separate Account**

This due diligence 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 private equity investment of $200 million in a separate account that is managed by Hamilton Lane Advisors. This $200 million commitment will supplement our original $200 million commitment to this separate account that was presented to and accepted by the Council at it August 2005 meeting (as discussed below).

Please note that this investment will be authorized pursuant to Articles 69 and 90 of the Council's regulations which became effective on June 20, 2005. The Hamilton Lane investment will be considered a "buyout investment" as defined under N.J.A.C. 17:16-90.2 (a).

The Alternative Investments Procedures adopted by the Council on January 20, 2005 require any potential alternative investment opportunities to be identified and initially evaluated by the Head of Alternative Investments of the Division (myself in an acting capacity) and the applicable Asset Class Consultant (Strategic Investment Solutions for private equity, or "SIS") in coordination with the DOI Investment Committee (Ike Michaels, Deputy Director and myself).

As a result of internal and external sourcing, the DOI Investment Committee identified this proposed investment. As a result, SIS and Division 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.

The investment that we are proposing primarily focuses on large European buyout funds. This separate account was established to explicitly invest in International Corporate Finance/ Buyout funds with significant investment exposure to European-based companies. After negotiating the details of the separate account arrangement, a partnership agreement establishing the separate account was finalized on February 10, 2006. Since that time, Hamilton Lane has demonstrated the ability to identify and access top quartile European buyout funds. Subsequent to finalizing the separate account arrangement, Hamilton Lane has identified, performed due diligence and committed to seven funds totaling $179.0 million in commitments (89.5% of the original $200 million program). Even though the original agreement with Hamilton Lane was not finalized until February 7, 2006, they started to source and perform due diligence on potential investments for the account immediately after the August 2005 council meeting. Overall, the Division of Investment and staff has been extremely pleased with the level of diligence and client service provided by Hamilton Lane. Furthermore, we believe continued exposure to European private equity funds is critical for diversification purposes as well as obtaining an appropriate risk adjusted return on the Division's investment portfolio. In addition, the management fees are reasonable, and all the legal and economic terms associated with the partnership are fair and consistent with market standards.

Please note that we expect it will take somewhat longer for Hamilton Lane to commit this additional $200 million than it took for the initial commitment amount. As in the United States, there were a number of large, successful buyout funds that were raising capital in 2006. Based on the anticipated fundraising pipeline for 2007-2008, we will likely see fewer top-performing funds coming to market in the near future.

A formal written due diligence report for the proposed investment was sent to each member of the Investment Policy Committee of the Council on November 3, 2006, and a meeting of the Committee was held on November 8, 2006. 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 review of the extensive due diligence, the Investment Policy Committee of the Council decided to report on these proposed investments 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.

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, each 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 the general partner.

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We look forward to discussing this proposed private equity investment at the Council's November 16, 2006 meeting.

WGC:cae
Attachments

*SIC Investment Committee Fund Review Memo

To:	**State Investment Council**
From:	**SIC Investment Committee**
Date:	**November 16, 2006**
Subject:	**Hamilton Lane Recommendation**

Fund Facts

Fund Name:	NJHL European Buyout Investment Fund, L.P.
Fund Type:	Primarily Large International Buyout / Private Equity
Current Fund Size:	201,005,025
Previous Fund Size:	201,005,025
Final Close:	Open
Fund Address:	One Belmont Avenue Bala Cynwyd, PA 19004

GP Contact Info

Name:	Mario Giannini
Telephone:	610-617-6001
Email:	mgiannini@hamiltonlane.com

Summary of Terms and Investment Strategy

Investment Strategy:	55 to 75% large international buyouts (defined as funds greater than $1B in total size) focusing on Europe.
Geographic Focus:	International with an emphasis on Europe
GP Co-Investment Amount:	0.50%
Terms:	
Commitment Period:	2 years - the underlying funds within the separate accounts will have a commitment period of 2-6 years. Total term period 10 years.
Management Fee:	60 bps declining by 10% per year after the commitment period
Other Fees:	None
Hurdle Rate:	n/a

NJ AIP Program:

Recommended Allocation:	$200 million - to be invested during a 2 year period
% of New Jersey State Pension Plan*:	0.13%
% of AIP Private Equity Allocation ($3.5b)*:	2.86%
% of Buyout Allocation ($1.75b)*:	5.71%

*Based on a 2-year investment period.

LP Advisory Board Membership:	n/a
Consultant Recommendation:	Yes
Compliance with SIC "Pay to Play" Reg:	Side letter required

*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.