



State of New Jersey

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November 22, 2017

MEMORANDUM TO: The State Investment Council

FROM: Christopher McDonough
Director

SUBJECT: **Proposed Investment in Aether Real Assets SONJ Fund, L.P.**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$135 million in Aether Real Assets SONJ Fund, L.P. (“Aether”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

Aether will execute a globally diversified opportunistic strategy across the real asset subsectors of agriculture, timber, metals/mining, and oil and gas. Over a full market cycle, the fund targets to outperform the Bloomberg Commodity Index by 12% to 15% net, a portion of which will come from annual yield. Aether will prosecute its strategy by investing in primary funds, secondary market opportunities, and co-investments.

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

Diversifying exposure: The Aether mandate will balance the risk/return characteristics of the Division’s real asset portfolio. Specifically, Aether will diversify away from the Division’s existing energy commodity price risk and balance the current PE-like risk/return profile with a lower risk/return profile that generates ongoing annual income and exhibits inflation protection characteristics.

Opportunistic investment approach: Aether’s approach allows them to invest in those commodity subsectors and geographies with the best opportunity set at any given point in time. Aether focuses on the Agriculture/Timber, Metals/Mining, and Oil & Gas subsectors globally, as well as an Opportunistic allocation.

Differentiated deal flow: Aether invests in smaller fund sizes that the Division would be challenged to access directly given its large size. As a result, the Aether investment will provide

differentiated deal flow at the lower end of the market that complements the Division's existing sourcing efforts.

A report of the Investment Policy Committee ("IPC") summarizing the details of the proposed investment is attached.

Division Staff and its real asset consultant, TorreyCove Capital Partners, 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 71 of the Council's regulations. Aether Real Assets SONJ Fund, L.P. will be considered a real asset investment, as defined under N.J.A.C. 17:16-71.1.

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 November 17, 2017. 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 November 29, 2017 meeting.

Attachments

Fund Name: Aether Real Assets SONJ Fund, L.P.

November 22, 2017

Contact Info: David Rhoades, 1900 Sixteenth Street, Suite 825, Denver, CO 80202

Fund Details:

Total Firm Assets:	\$1.2 billion	Key Investment Professionals: Sean Goodrich , Co-founder and Portfolio Manager. Immediately prior to forming Aether Investment Partners, Mr. Goodrich served as the Director of Alternative Investments at Jeffrey Slocum & Associates. During his tenure at Jeffrey Slocum & Associates, Mr. Goodrich led the firm's private capital and real assets research activities. Troy Schell , Co-founder and Portfolio Manager. Immediately prior to forming Aether Investment Partners, Mr. Schell served as a Director and portfolio manager for BlackRock Alternative Advisors ("BAA") following the acquisition of Quellos Group's fund of funds business by BlackRock in October, 2007. David Rhoades , Chief Operating Officer. In this capacity, Mr. Rhoades is responsible for general business management, marketing and client relations. Immediately prior to joining Aether Investment Partners, Mr. Rhoades served as a Vice President at Blue River Asset Management, a manager of municipal bond arbitrage hedge funds.
Strategy:	Real Assets	
Year Founded:	2008	
Headquarters:	Denver, CO	
GP Commitment:	0.50%	

Investment Summary

The Fund is being established to make investments in real asset funds, both primary fund commitments and secondary opportunities, as well as select co-investments. The Fund is expected to concentrate primarily on the upstream segments of natural resource sectors that have a positive correlation to commodities such as oil and natural gas, metals and minerals, agriculture, and timber. The Fund will have some flexibility to pursue opportunistic strategies such as traditional and alternative energy assets, water, and other real asset sectors, excluding real estate. It will focus on the smaller end of the market by investing in GPs with smaller fund sizes. Specifically, the mandate caps underlying fund size assets under management at \$1 billion.

Existing and Prior Funds

<u>Funds</u>	<u>Vintage Year</u>	<u>Strategy</u>	<u>Returns as of 06/30/2017*</u>
Fund I	2009	Real Asset	0.3% Net IRR; 1.01x Net TVPI; 0.55x Net DPI
Fund II	2012	Real Asset	5.4% Net IRR; 1.15x Net TVPI; 0.24x Net DPI
Fund III	2013	Real Asset	14.2% Net IRR; 1.25x Net TVPI; 0.03x Net DPI
Fund III-S	2013	Real Asset	16.7% Net IRR; 1.33x Net TVPI; 0.01x Net DPI
Fund IV	2016	Real Asset	(19.0)% Net IRR; 0.87x Net TVPI; 0.04x Net DPI
Co-Invest I	2016	Real Asset	48.4% Net IRR; 1.23x Net TVPI; 0.27x Net DPI

*Data provided by TorreyCove Capital Partners

IRR = Internal Rate of Return; Total Value to Paid-In = TVPI; DPI= Distributions to Paid-In

Vehicle Information:

Inception:	2018	Auditor:	Ernst & Young LLP
Fund Size:	up to \$135 million	Legal Counsel:	Purrrington Moody Weil LLP
Management Fee:	Up to \$150 million: Years 1 - 5 = 0.60% on committed Years 6 - 12 = 85% of prior year's fee Years 13 - 15 = 0.10% on committed Thereafter = 0.00%		
Carry:	4.475%		
Hurdle Rate:	7%		
Management Fee Offset	100%		

NJ AIP Program

Recommended Allocation:	up to \$135 million	LP Advisory Board Membership:	N/A
% of Fund:	99.5%	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.