



**State of New Jersey**  
DEPARTMENT OF THE TREASURY  
DIVISION OF INVESTMENT  
P.O. BOX 290  
TRENTON, NJ 08625-0290

**JON S. CORZINE**  
Governor

**R. DAVID ROUSSEAU**  
State Treasurer

January 14, 2010

MEMORANDUM TO: State Investment Council

FROM: William G Clark  
Director

SUBJECT: **Proposed Structured Credit Investment  
in Och-Ziff Structured Credit Separate Account**

This due diligence memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-23 and 63, to report on a proposed \$300 million structured products fund (defined below) commitment to Och-Ziff Structured Credit Fund to be managed by Och-Ziff Capital Management Group based in New York.

The investment will be considered a bank loan fund as defined under N.J.A.C. 17:16-23. Please note that this investment will be authorized pursuant to Articles 23 and 63 of the Council's regulations.

Cliffwater and DOI staff have performed extensive due diligence on the proposed investment. We completed the same due diligence process as with all the other investment opportunities presented to the Council.

*Och-Ziff Capital Management Group* ("OZ" or the "Firm") is a top tier hedge fund management firm founded in 1994 by Daniel Och and the Ziff family. The firm is an SEC registered investment firm since 1998, and currently has 381 employees globally. OZ manages \$22.8 billion in multi-strategy, capital structure arbitrage, and special situations funds. In the summer of 2007, Och-Ziff began to build an investment team to focus on structured credit. The structured credit team consists of seven full-time dedicated employees and currently manages \$1.6 billion in assets. The objective of the OZ Structured Credit Separate Account is to achieve low to mid-teens unlevered returns by investing opportunistically across a variety of structured credit securities, including residential and commercial mortgage-backed securities ("CMBS" and "RMBS"), cash and synthetic Collateralized Default Obligations ("CDOs"), and certain non-mortgage asset-backed securities ("ABS"). OZ pursues a long-biased approach with very limited use of tactical index shorting. OZ seeks to purchase securities which have asymmetric expected return distributions, and selectively apply leverage to certain securities to enhance yields when

the downside risk is perceived to be limited. The structured credit portfolio within the OZ Master Fund has produced annualized returns of 16.29% since inception in March 2008 through October 2009, with a standard deviation of 23.08%.

We are proposing this investment at the present time to capitalize on perceived dislocations in the market for these types of securities. Commercial banks and other holders of these securities continue to be forced sellers, and there are a limited number of “qualified buyers” given the intense amount of quantitative analysis needed to evaluate these securities. This has resulted in many structured product investments trading at levels that offer attractive returns in all but the most adverse economic scenarios. As more capital gets deployed in this area, we believe this opportunity will gradually disappear.

A formal written due diligence report for the proposed investment was sent to each member of the Investment Policy Committee of the Council on January 8, 2010, and a meeting of the Committee was held on January 13, 2010. In addition to the formal written due diligence report, all other information obtained by the Division on this investment was made available to the Investment Policy Committee.

Attached to this memorandum is the SIC Investment Committee Fund Review Memorandum for the proposed 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 this investment. In addition, the 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 this manager.

We look forward to discussing this proposed structured credit investment at the Council’s January 21, 2010 meeting.

# SIC Investment Committee Fund Review Memo

**To:** State Investment Council  
**From:** SIC Investment Committee  
**Date:** January 14, 2010  
**Subject:** Och-Ziff Structured Credit Separate Account, LP Recommendation

## Fund Facts

Fund Name:	OZSC, LP
Fund Type:	Structured finance securities/whole loans
Current Fund Size:	\$315 million
Inception:	TBD
Fund Address:	9 West 57th Street New York, New York 10019

## GP Contact Info

Name:	Marc J. Gonyea
Telephone:	(212)790-0191
Email:	marc.gonyea@ozcap.com

## Summary of Terms and Investment Strategy

Investment Strategy:	The objective of the OZ Structured Credit separate account will be to achieve low to mid-teens returns by investing opportunistically across a variety of structured credit securities, including residential and commercial mortgage-backed securities ("CMBS" and "RMBS"), cash and synthetic Collateralized Default Obligations ("CDOs"), certain asset-backed securities ("ABS"), certain whole loans and other structured products. OZ pursues a long-biased approach with very limited use of tactical index shorting. The fund will opportunistically make modest use of leverage.
High lights:	
Fee Terms:	
Management and Performance Fees:	0.75% management fee on the capital account balance. 20% performance fee payable at the end of the three year terms and any subsequent extension periods, on the net capital appreciation in excess of an 8% preferred return.
Other Fees:	Typical fund expenses
Hurdle Rate:	8% preferred return
Liquidity/Redemption Terms:	
Lock-up:	Three years with two one-year extension options.
Redemption:	At the end of the term and any subsequent extension periods or earlier with the mutual consent of NJ and OZ.
Side Pocket:	None

## NJ AC Program:

Recommended Allocation Current:	\$300 million
% of Fund:	95.24%
% of New Jersey State Pension Plan:	0.43%

Consultant Recommendation:	Yes
*see due diligence memo	
Compliance with SIC "Pay to Play" Reg:	Side letter required

\*This review memorandum was prepared in accordance with the State Investment Council rules governing Bank Loan Funds and will be included in the High Yield allocation.