



**State of New Jersey**

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DEPARTMENT OF THE TREASURY  
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March 22, 2012

MEMORANDUM TO: State Investment Council

FROM: Timothy Walsh  
Director

SUBJECT: **Proposed Investment in Claren Road Credit Fund, Ltd. Sub Class Two**

The New Jersey Division of Investment (the “Division”) is proposing an investment of up to \$150 million in **Claren Road Credit Fund, Ltd. Sub Class Two**. 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 for a number of reasons:

**Performance:** Claren Road has generated strong risk adjusted performance since inception. From January 2006 to January 2012, the fund has produced an annualized net return of 10.66% with a 3.94% standard deviation, resulting in a 1.99 Sharpe ratio. This far exceeds the returns of the HFRI Event-Driven Index and the Barclays Aggregate Bond Index which posted returns of 4.85% and 6.21% respectively over the same period. This performance places Claren Road in the top 19% of all funds on a returns basis and also places them in the top 5% of all funds in regards to Sharpe ratio within the strategy universe since inception.

**Complimentary to existing portfolio:** The addition of Claren Road to the portfolio provides a good balance to the portfolio’s meaningful distressed exposure. Division staff views this commitment as the start to a continuing theme of further diversifying the credit portfolio into more market-neutral strategies.

**Strategy:** Claren Road applies a global long/short credit strategy that has historically displayed a short bias. The fund employs a fundamental, research-driven value strategy, with trading flexibility to tactically shift exposures, while aiming to produce consistent risk-adjusted returns uncorrelated with the market. Staff believes that given the fund’s strategy and current economic landscape (continued volatility, economic/credit deterioration) Claren Road is a well-suited addition to NJ’s portfolio.

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 Claren Road Credit Fund, Ltd. Sub Class Two 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 March 14, 2012. 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 March 22, 2012 meeting.

Attachments

**Fund Name : Claren Road Credit Master Fund, Ltd. (Master Fund)**

**March 22, 2012**

**Contact Info:** Janelle Plaza, 900 Third Avenue, 29th Floor, New York, NY 10022 (212) 310 - 5845/plaza@clarenroad.com;Farima Kermani(212) 310-5890/kermani@clarenroad.com

**Fund Details:**

Total Assets:	\$6.1 billion	<b>Key Investment Professionals:</b> - Claren Road was founded by Brian Riano, John Eckerson, Sean Fahey and Albert Marino in July 2005 and began managing capital in January 2006. - Brian Riano is a co-founder and CIO with 25 years experience. - John Eckerson is a co-founder and Senior Portfolio Manager focused on high yield investments with 22 years experience. - Sean Fahey is a co-founder and Senior Portfolio Manager focused on investment grade and non-U.S. investments with 18 years experience. - Albert Marino is a co-founder and Chief Operating Officer with 18 years experience. - Bill Green is the Head of Research with 15 years experience.
Strategy:	Long/short credit	
Assets in Strategy:	\$4.8 billion	
Year Founded:	Jul-05	
SEC Registration:	Yes	
GP Commitment:	3%	

**Investment Summary**

Claren Road Advisors, LLC is a global long/short credit manager founded in 2005 by Brian Riano, John Eckerson, Sean Fahey and Albert Marino, all of whom worked together at Citigroup and Salomon Brothers. Claren Road has 52 employees including 26 investment professionals and is headquartered in New York with offices in Hong Kong, London and Luxembourg. The firm manages \$6.1 billion across two credit strategies, including the flagship fund, the Credit Master Fund. Senior members of the firm have a substantial portion of their net worth invested in the funds, currently representing 3% of the Credit Master Fund.

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**Track Record**

As of 1/31/12	Claren Road Credit	HFRI RV:Fixed Income	Barclays Aggregate
1 year	3.50%	1.27%	7.86%
3 year	10.83%	14.04%	6.78%
5 Year	10.25%	2.31%	6.51%
Fund Inception	10.66%	3.77%	6.14%
2011	6.88%	0.77%	7.86%
2010	4.64%	11.80%	6.56%
2009	24.75%	30.71%	5.93%
2008	8.51%	-24.18%	5.24%
2007	10.78%	-0.74%	6.96%
2006	11.87%	10.78%	4.33%

**Vehicle Information:**

Fund Inception:	<b>Jan-06</b>	Subscriptions:	<b>Annually</b>
Fund Size:	<b>\$4.8 billion</b>	Redemptions (notice):	<b>Semi-annually after 2 yr lock-up (Notification: 60 days)</b>
Management Fee:	<b>1.50%</b>	Lock-up:	<b>Two year hard lock</b>
Profit Allocation:	<b>20% (at end of 2 year lock-up)</b>	Prime Broker:	<b>Goldman Sachs, JPMorgan and BNP Paribas</b>
Highwater Mark:	<b>Yes</b>	Administrator:	<b>GlobeOp Financial Services LLC</b>
Hurdle Rate:	<b>No</b>	Auditor:	<b>Ernst &amp; Young</b>
Additional Expenses:	<b>50 Basis Points</b>	Legal Counsel	<b>Seward &amp; Kissel LLP, Maples &amp; Calder</b>

**NJ AIP Program**

Recommended Allocation:	<b>\$150 million</b>	LP Advisory Board Membership:	<b>N/A</b>
% of Fund:	<b>3.19%</b>	Consultant Recommendation:	<b>Yes</b>
		Placement Agent:	<b>No</b>
		Compliance w/ Division Placement Agent Policy:	<b>N/A</b>
		Compliance w/ SIC Political Contribution Reg:	<b>Yes</b>

\*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.