



State of New Jersey

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Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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Lt. Governor

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State Treasurer

May 9, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in NJAI II - Asia Alternatives Separate Account**

The New Jersey Division of Investment is proposing an investment of \$200 million in NJAI II Asia Alternatives Separate Account. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

The Division of Investment ("Division") Staff and its private equity consultant, Strategic Investment Solutions, undertook extensive due diligence on these proposed additional investments. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

Asia Alternatives is an Asian private equity fund of funds. NJ committed \$100 million to NJ Asia Investors (separate account) in the fall of 2007, which is currently invested in 11 funds and 1 co-investment. As of 3/31/10, NJ's portfolio has outperformed the top quartile Cambridge fund of funds index by over 1300 bps.

Asia Alternative's strategy is to invest in 15-20 funds across all sub-asset classes in Asia, with approximately 30-40% of committed capital focusing on growth and expansion funds, 30-40% invested in small & middle market buyouts, 10-20% in special situations and 10-20% in venture capital. NJAI II will also continue its strategy of making investments in the Asia-Pacific region, with approximately 40-50% of the fund managers from Greater China, 30-35% in Japan and Korea, 15-25% in India and 5-15% in Southeast Asia and Australia. NJAI II will also invest opportunistically in secondaries and direct co-investments with Asia based sponsor firms.

Given NJAI's strong performance, confidence in the Asia Alternatives team and relative underweight in Asia, staff recommends investing \$200 million in NJAI II which would be deployed from two \$100 million pools (tranches) of capital over two 2 year periods (2011-2013 and 2013-2015).

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 each investment. In addition, each

proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that these investments are authorized pursuant to Articles 69 and 90 of the Council's regulations. The NJAI II Asia Alternatives Separate Account will be considered buy-out investments, as defined under N.J.A.C. 17:16-90.1.

Formal written due diligence reports for the proposed investments were sent to each member of the Investment Policy Committee and a meeting of the Committee was held on May 5, 2011. In addition to the formal written due diligence reports, all other information obtained by the Division on the investment was made available to the Investment Policy Committee.

We look forward to discussing the proposed investments at the Council's May 19, 2011 meeting.

Attachments

*SIC Investment Committee Fund Review Memo

To: State Investment Council
From: SIC Investment Committee
Date: May 19, 2011
Subject: NJAI II - Asia Alternatives Separate Account Recommendation

Fund Facts

Fund Name:	NJAI II - Asia Alternatives Separate Account
Fund Type:	Asian Private Equity Investments
Current Fund Size:	\$200 million
Previous Fund Size/Vintage:	\$100 million/2007
Final Close:	May 27, 2011
Fund Address:	One Maritime Plaza, Suite 1000 San Francisco, CA 94111

GP Contact Info

Name:	Melissa Ma
Telephone:	415 -723- 8101
Email:	mma@asiaalt.com

Summary of Terms and Investment Strategy

Investment Strategy:	To invest in 15-20 funds across all sub-classes in the Asia-Pacific region. Approximately 30-40% of committed capital will focus on growth and expansion funds, 30-40% to small & middle market buyouts, 10-20% in special situations and 10-20% in venture capital
Geographic Focus:	Asia-Pacific
GP Co-Investment Amount:	1% of total commitment
Terms:	
Term:	For each \$100 million tranche, 10 years, subject to two consecutive one-year extensions with NJ's approval
Investment period:	Up to 2 years for each \$100 million tranche from the date of the final closing.
Management Fee:	0.8% during the commitment period, 0.5% thereafter. Once an investment has returned 85% of initial capital or 5 year anniversary, 0% fee
Other Fees:	100% fee offset against management fees
Carry/Performance Fee:	7.5% GP – 92.5% LP.
Attorney:	Pillsbury Winthrop Shaw Pittman LLP
Auditor:	Ernst & Young LLP
Accounting Firm:	Ernst & Young LLP

NJ AIP Program:

Recommended Allocation:	\$200 million
% of Fund:	99.00%

LP Advisory Board Membership:	Yes
Consultant Recommendation:	Yes
Compliance with 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.