



State of New Jersey

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Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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State Treasurer

June 30, 2011

MEMORANDUM TO: State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Astenbeck Commodities Fund II, LP.**

The New Jersey Division of Investment is proposing an investment of up to \$100 million in Astenbeck Commodities Fund II (the "fund") managed by Astenbeck Capital Management LLC.

The fund provides a unique exposure to diversified commodities with concentration in energy, commodity related securities and currencies. The staff recommends that now, particularly with recent commodities market sell-off, is the opportune time to invest in this asset class long term. Astenbeck has a superior management team who has worked together for over 25 years and has differentiated insight into regional and global supply and demand flow with a proven track record. The fund re-opened to institutional capital in January of this year after being soft closed since August 2010.

Astenbeck Capital Management is an asset management company founded in 2009 by Andrew Hall. Mr. Hall owns 80% of Astenbeck Capital, while Occidental Petroleum Corporation ("Occidental") (NYSE: OXY) owns the remaining 20%. Mr. Hall also heads and manages capital for Phibro Trading LLC, a proprietary commodities trading firm. Occidental owns 90% of Phibro, and through EM Partners Andrew Hall owns approximately 5% and rest is owned by 12 other Phibro executives. The Astenbeck Master Commodities Fund II Ltd (Master feeder) was launched in January 2008 and was previously known as the Phibro Master Commodities Fund II Ltd. The fund has approximately \$3.7 billion in assets under management and has generated very strong annualized returns of 19.0% with volatility of 18.0% since inception in January 2008 to April 2011. This compares to the GSCI's annualized return of -7.5% with volatility of 30.6% during the same time period.

The fees charged by the fund for Class-C shares are 1.75% management fee and 20% performance fee, in line with top-tier commodities managers. Class - C liquidity is a two year soft lock with declining penalty every six months.

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 ("DOI" or "Division") Staff and its hedge fund consultant, Cliffwater LLC, undertook 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. We have attached the SIC Committee Fund Review Memo.

As part of its due diligence process, staff determined that the fund engaged Park Hill Group, LLC (the "placement agent"), wholly owned subsidiary of Blackstone Group LP (NYSE:BX), as third-party solicitor in connection with the potential investment. Staff has determined that the placement agent and its representatives met the registration, licensing and experience requirements set forth in the Division's Placement Agent Policy dated July 09, 2009 (the "Policy"). Pursuant to the Policy, the fund has disclosed the contract between the fund and the placement agent, specifying the scope of services to be performed by the placement agent and the fee arrangement between the placement agent, the general partner and any other third party.

Formal written due diligence reports for the proposed investment were sent to each member of the Investment Policy Committee and a meeting of the Committee was held on June 21, 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.

Please note that this investment is authorized pursuant to Articles 69 and 71 of the Council's regulations and will be considered Commodity-Linked Investments, as defined under N.J.A.C. 17:16-71.1.

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 regulation governing political contributions (N.J.A.C. 17:16-4).

We look forward to discussing the proposed investments at the Council's June 30, 2011 meeting.

Attachments

State Investment Council Fund Review Memo

To: State Investment Council
From: Division of Investment
Date: June 30, 2011
Subject: Astenbeck Capital Management LLC
Recommendation

Fund Facts

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| Fund Name: | Astenbeck Commodities Fund II LP |
| Fund Type: | Commodities |
| Current Master Fund Size: | \$3.7 billion |
| Inception: | January-2008 |
| Fund Address: | 500 Nyala Farms Road Westport, CT 06880 |

Investment Rationale:

This is a new investment to a commodities hedge fund that will be included in the Real Return Strategy within the NJ Asset Allocation. NJ DOI is seeking to invest \$100 million in Astenbeck Commodities Fund II. This investment will be placed in the Real Return - Commodities/Real Assets strategy sector. Andrew Hall is the CEO of Astenbeck Capital Management and Phibro Trading LLC, that was spun out of Citigroup to Occidental Petroleum in 2009. Mr. Hall is considered to be one of the most experienced and successful investors in global commodities markets. The fund makes long investments in commodities and will reduce exposure or go to cash if they perceive the risk to be high. Since inception of the fund in January 2008, Astenbeck Commodities Fund II has generated an annualized return of 18.98% with 18.0% standard deviation resulting in a Shape Ratio of 0.98.

Summary of Terms and Investment Strategy

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| Investment Strategy: | A long-biased commodities strategy which trades across oil, natural gas, resource-related equity, metal, agricultural, and currency markets, with a primary focus on oil markets. The vast majority of the fund's exposure is directionally long, with limited use of shorting or spread trades. There are three portfolio managers, each with a different trading style and specialty. Mr. Hall is responsible for managing approximately about 90% of the fund's risk. |
| Fee Terms: | |
| Management and Performance Fees: | Management fee - 1.75% Class C Performance fee - 20% |
| Other Fees: | Fund expenses - 20 bps |
| Hurdle Rate: | None |
| Service Providers: | |
| Prime Broker(s): | Citigroup, UBS, Newedge (futures clearer) |
| Administrator(s): | Citco |
| Auditor(s): | KPMG |
| Legal Counsel: | Debevoise & Plimpton |
| Liquidity/Redemption Terms: | |
| Lock-up: | Class C - 2 year soft lock with redemption fees of 4% in first 6 months, 3% in second 6 months, 2% in third 6 months and 1% in fourth 6 months |
| Redemption: | Monthly with 60 days notice |
| Side Pocket: | None |

NJ AIP Program:

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| Recommended Allocation Current: | \$100 mil |
| % of Master Fund: | 2.70% |
| % of New Jersey State Pension Plan (\$72b): | 0.14% |
| % of AIP Hedge Fund Allocation (\$3.6b): | 2.78% |

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| Consultant Recommendation: | Yes |
| *see due diligence memo | |
| Compliance with SIC "Pay to Play" Reg: | Side letter required |
| Placement Agent: | Yes - Park Hill Group LLC |

GP Contact Info

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