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Governor

KIM GUADAGNO Lt. Governor DEPARTMENT OF THE TREASURY DIVISION OF INVESTMENT P.O. BOX 290 TRENTON NJ 08625-0290

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

May 9, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh

Director

SUBJECT: Proposed add-on Commodity Investment to Rock Creek Group-

RC Woodley Park, LP

The New Jersey Division of Investment is proposing an additional \$200 million investment in Rock Creek Group- RC Woodley Park, LP. The new capital will be used to fund a portfolio focused specifically on diversified commodities hedge fund managers. The \$200 million allocation will be partially offset by a \$100 million redemption from our existing separate account, RC Woodley Park managed by Rock Creek Group. This redemption will be paid out over approximately 6 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 additional investment. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

The Rock Creek Group, L.P. ("Rock Creek") is an institutional quality fund of funds manager established in 2003 with approximately \$7 billion in assets under management. The key members of the team previously worked together for many years at The World Bank managing its traditional and hedge fund investments. The fund's risk adjusted returns have been strong and consistent, thus attracting other public funds (such as Massachusetts PRIM, CalPERS, and New York State Common Retirement Fund). The firm client base is comprised of 100 percent institutional assets.

The Division initially invested \$150 million in September 2006 with Rock Creek given that fund of funds provided instant diversification to our nascent hedge fund program. The firm also agreed to provide the risk aggregation over the entire DOI direct and fund of funds investments in hedge funds using their proprietary analytics, Rock Creek Solutions, in order to facilitate

# Proposed Investment in Rock Creek Group- RC Woodley Park, LP Fund Page 2

additional resources for staff. Since then, the relation has been expanded to approximately \$520 million in invested capital in three mandates: a diversified hedge fund portfolio, a long/short focused portfolio, and a seeding portfolio (which has since been closed). Our various mandates with the Rock Creek relationship have been successfully implemented. The RC Woodley Park fund has earned a cumulative net return of 13.7% with a NAV of approximately \$533 million while HFRI Fund of Funds Composite Index and the S&P 500 earned 8.5% and 12.1% respectively for the same time period.

The Division is proposing to invest an additional \$200 million to RC Woodley Park dedicated to provide a unique exposure to diversified commodities such as energy, agriculture, metals and other natural resources through hedge fund managers investing in various instruments. Currently, DOI has limited exposure to commodities through structured notes, private equity vehicles and through long only commodities managers. The RC Woodley Park portfolio will have the mandate of investing in top-tier small and large long/short commodities managers and CTA managers which Rock Creek has secured capacity with. DOI has negotiated a 15% reduction in fees and expenses for the \$100 million in net new capital we are providing for the commodities portfolio. The management fee offered to DOI is 50 bps and the administrative fee is 5 basis points. The incentive fee will be 5% over T-bill + 1.5% hurdle rate.

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 additional investment. In addition, each proposed investment must comply with the State Investment Council's regulation governing political contributions (N.J.A.C. 17:16-4).

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.

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 investments 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

То:

State Investment Council SIC Investment Committee

From: Date:

May 19, 2011

Subject:

The Rock Creek Group

Recommendation

## **Fund Facts**

Fund Address:

Fund Name: Fund Type: Current Fund Size: Inception: RC Woodley Park, LP Fund of Funds \$533 million September-2006

1133 Connecticut Avenue, N.W.

Washington DC, 20036

### **Investment Rationale:**

This is an additional investment to a Fund of Funds which is intended to provide exposure to commodities funds for the NJ hedge fund portfolio. NJ DOI is seeking to invest an additional \$200 million to the RC Woodley Park fund. The \$200 million allocation will be partially offset by a \$100 million redirection from our existing separate account, RC Woodley Park. The capital will be invested with hedge funds that invest in managed futures or equity securities in the commodity sector. The manager will create a new share class, RC Woodley Park III. The new assets will be invested under the lower management fee negotiated with Rock Creek. Since inception of the fund in September 2006, RC Woodley Park has generated a cumulative return of 13.7%.

Summary of Terms and Investment Strategy

RC III Woodley Park Portfolio Investment

Strategy:

Implement the investment with ten underlying commodity based hedge funds investing in managed futures and equity oriented securities in the energy, agricultural, metals and other commodities sectors. Risk weighted allocations ranging from 13% to 4%; fund sizes ranging from \$350 million to \$4.4 billion with

an average of \$1.5 billion.

Fee Terms:

Management and Performance Fee:

Management fee - 0.5% Performance fee - 5%

Other Fees:

Fund expenses - 5 bps for additional investment (\$100 million)

Hurdle Rate:

T-bills plus 150 basis points

Service Providers:

Prime Broker(s):

N/A

Administrator(s):
Auditor(s):

CITCO Fund Services PriceWaterhouseCoopers

Legal Counsel:

Akin Gump Strauss Hauer & Field LLP

Liquidity/Redemption Terms:

Lock-up:

1 year

Redemption:

Quarterly with 91 day notice

Side Pocket:

None

Yes

NJ AIP Program:

NJ AIP Program:	
Recommended Allocation Current:	\$200 mil in addition to existing investment (March 2011 NAV at \$533 mil) to be
	offset by \$100 mil redemption over time
% of Fund:	100.00%
% of New Jersey State Pension Plan (\$72b):	0.88%
% of AIP Hedge Fund Allocation (\$3.6b):	17.58%

Consultant Recommendation:

\*see due diligence memo

Compliance with SIC "Pay to Play" Reg:

Side letter in place

### **GP Contact Info**

Of Contact in	
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<sup>\*</sup> 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.