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SHOAIB KHAN
Director

October 23, 2025

MEMORANDUM TO: The State Investment Council

FROM: Shoaib Khan
Director

SUBJECT: **Risk Mitigation Strategies Investment – Capula Tail Risk Fund Limited**

The Division of Investment ("Division") is proposing an additional investment of up to $500 million in Capula Tail Risk Fund Limited (the "Fund"), a fund managed by Capula Investment Management (the "Firm"). The Division originally committed $100 million to the Fund in July 2025. The additional investment will be in share class D, with the Division retaining the option to reinvest amounts withdrawn from the share class. The amounts reinvested shall not increase the capital committed to the share class above the initial $500 million. 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 based on the following factors:

Proven Track Record: The Firm has a long history of success in the market, supported by extensive experience. It consistently extracts value using advanced research tools and its strong infrastructure. This is crucial in an investment style known for high barriers to entry and a high failure rate. The Firm's track record shows a solid ability to navigate market challenges effectively.

Risk Management: Dedicated risk management team of 19 people which is led by the chief risk officer, the team is responsible for monitoring all areas of risk, including market, credit, liquidity, counterparty and operational risk. The Fund's investment strategy relies on short-term trading time horizons, so managing a hedge portfolio is a very active process where the risk environment is assessed on a continual basis and adjustments are made to the hedge portfolio in real time.

Idea Generation: The team has developed effective governance, infrastructure, idea generation processes, and risk management, as evidenced by their long track record both as a firm and previously at J.P. Morgan. The team's collective experience has enabled the Fund to consistently identify strategies and capitalize on investment opportunities while managing risk effectively.

A report of the Investment Policy Committee ("IPC") summarizing the details of the proposed investment is attached. Division staff and the Division's 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 Firm has not engaged a third-party solicitor ("placement agent").

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.

We have obtained a preliminary Disclosure Report of Political Contributions in accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. We will obtain an updated Disclosure Report at the time of closing.

Capula has a Responsible Investment Policy (RI Policy) which was formalized in 2023 and applies to all market risk-taking activity within the firm. The Enterprise Risk Committee (ERC) has oversight of the policy while the investment team is responsible for following the policy. The policy is reviewed annually and updated as needed. In accordance with the State Investment Council's ESG Policy, the Division of Investment's Corporate Governance Team completed its review of Capula Investment Management LLP's Environmental, Social and Governance efforts.

Please note that the investment is authorized pursuant to Articles 69 and 100 of the Council's regulations, and the Fund will be considered an Absolute Return Strategy 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 IPC was held on October 20, 2025. We look forward to discussing the proposed investment at the Council's October 29,2025 meeting.

Attachments

Capula Tail Risk Fund

- **DOI Commitment:** In an effort to reduce the overall risk of the pension fund portfolio and increase downside protection in a potentially higher volatility environment ahead, the Division is proposing expanding its Capula Tail Risk Fund in an evergreen structure by up to $500 million. The Division will have the option to reinvest amounts that it withdraws, provided that that the capital committed to share class D does not exceed $500 million.
- **Strategy:** Tail Risk Hedging
- **Investment Focus:** Designed to offer protection during equity market drawdowns, while enhancing portfolio resilience and improving the pension fund's liquidity.
- **Target Returns:** Seeks to produce a large stress gain during a high volatility sell-off while maintaining a flat average annual carry over market cycles.
- **Investment Thesis:**
  - Consistent history of providing downside protection and crisis alpha
  - Experienced senior team
  - Robust risk management
  - Active trading style

Fund Name: Capula Tail Risk Fund Ltd. **October 23, 2025**

Contact Info: *Matthew Jamieson, 510 Madison Avenue, New York, NY 10022*

Fund Details:

Total Firm Assets ($bil.):	$32.93 billion
Strategy:	Tail Risk/Defensive Macro
Year Founded:	2005
Headquarters:	London, England
SEC Registration	Yes (of GP's Affiliate)
GP Commitment:	1%

Key Investment Professionals:

Yan Huo is a Co-Founder and Managing Partner of Capula. Prior to founding Capula, Mr. Huo was the head of fixed income at UFJ. He started his professional career at J.P. Morgan where he worked in the derivatives research and proprietary position business. He previously served as a member of the US Treasury Borrowing Advisory Committee

Masao Asai is a Co-Founder and Partner of Capula. Prior to founding Capula, Mr. Asai was an executive vice president at UFJ International as the head of proprietary trading after his earlier position as a proprietary trader and the head of yen fixed income in Tokyo. Earlier in his career, Mr. Asai was the head of FX spot, swap, and proprierary trading at Tokai Bank

Bing-Le Wu is a Partner and Head of European RV. He leads the firm's enhanced fixed income fund. Prior to joining the firm in 2008, Mr. Wu spent over 13 years at J.P. Morgan as a managing director of that firm's European proprietary trading business and was responsible for the fixed income portfolio. Earlier in his career, Mr. Wu was in derivative research, supporting interest rate and credit derivative trading

Taku Iida is a Partner and Senior Portfolio Manager at Capula. He joined Capula is 2009 and is currently part of the Relative Value team trading the Yen. Prior to joining Capula, Mr. Iida was an Associate at J.P. Morgan from 2006 to 2009. Earlier in his career, he was an analyst at Taylor Investment Advisors.

Gavin Estcourt is a Partner and Chief Risk Officer at Capula since 2022. Prior to joining Capula, he was the head of Market Risk at Citi. Earlier in his career, he was EMEA Chief Risk Officer and Global Head of Market Risk at Nomura, and prior to Citi, he a Managing Director, head of GRC and Commodity Market Risk at Bank of America.

The strategy seeks to provide positive returns in times of liquidity and systemic crises whilst seeking to minimize carry costs during normal market conditions. Such protection during market downturns may reduce the risk of significant wealth erosion and may, in turn, mitigate underfunding risk.

Annualized Returns

	Capula Tail Risk Fund - Class D	Eurekahedge Tail Risk Fund Index
1 Year	4.09%	-1.51%
3 Year	-0.61%	-2.99%
5 Year	0.55%	-2.63%
Since Inception	0.43%	-2.84%

As of 9/30/2025 Source of Returns - Cliffwater

Vehicle Information:

Fund Inception:	2010	**Redemptions (notice):**	Weekly liquidity; 30 days notice
Master Fund Size:	$3.1 billion	**Lock-up:**	None
Management Fee:	DTR Class: 0.90% Class D: 1.25% < 30 mn 1.00% ≥ 30m and < $400 mn .85% > $400 mn	**Prime Brokers:**	Barclays, BNP Paribas, BofA Securities, Merrill Lynch, J.P. Morgan, Morgan Stanley, Societe Generale
Profit Allocation:	20.00%	**Custodians:**	Bank of NY Mellon, HSBC Bank, State Street
Highwater Mark:	No	**Auditor:**	Ernst & Young
Hurdle Rate:	None	**Legal Counsel:**	Seward & Kissel, Simmons & Simmons
Expenses:	Approximately 17 bps		

NJ AIP Program

Recommended Allocation ($mil):	up to $500 million	**LP Advisory Board Membership:**	N/A
% of Master Fund:	16.13%	**Consultant Recommendation:**	YES
		Placement Agent:	None
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ 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.