



# State of New Jersey

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March 12, 2010

MEMORANDUM TO: State Investment Council

FROM: Ray Joseph  
Acting Director

SUBJECT: **Proposed Fund of Hedge Funds Follow-On Investments in Goldman Sachs Multi-Strategy Portfolio (NJ), LLC and RC Woodley Park LP**

This due diligence memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9 to report on two proposed fund of hedge funds commitments of \$250 million each to Goldman Sachs Multi-Strategy Portfolio (NJ), LLC and RC (Rock Creek) Woodley Park LP.

Please note that these investments are authorized pursuant to Articles 69 and 100 of the State Investment Council's regulations. These investments will be considered Multi-Strategy Fund investments as defined under N.J.A.C. 17:16-100.1.

The Division of Investment ("Division") Staff and its hedge fund consultant, Cliffwater LLC, undertook extensive due diligence on these proposed two added investments. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

Since the initial funding on September 1, 2006, our investments in the Goldman Sachs and Rock Creek hedge fund separate accounts have returned an estimated 18.1% and 5.0% (net of all fees) respectively to January 2010. These amounts compare favorably with the portfolio's benchmark return of 1.17 percent (HFRI Fund of Funds Index). In addition, both funds have assisted the Division in monitoring our entire hedge fund portfolio by making available their risk management platforms.

**Goldman Sachs** Hedge Fund Strategies, LLC ("GSHFS"), is a wholly owned subsidiary of Goldman Sachs & Co with approximately \$20.0 billion in assets under management. GSHFS allocates funds to managers across the entire global hedge fund universe, including relative value, event driven, equity long/short and tactical trading. GSHFS has realized consistent and favorable risk-adjusted returns over time. With access to the vast

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resources and expertise of their parent company, the GSHFS team possesses a highly sophisticated proprietary risk management system and extremely talented professionals. We have gained considerable benefits from GSHFS on a wide range of issues, including assistance in portfolio construction and technological infrastructure development. We invested \$250 million in Goldman Sachs Multi-Strategy Portfolio (NJ), LLC in September 2006. A \$50 million added investment was presented to the Council in July 2007. We are proposing to add \$250 million to the Goldman Sachs Multi-Strategy Portfolio (NJ) LLC, with the understanding that the additional funds are invested in Long/Short and Market Neutral Equity Managers.

The **Rock Creek** Group, L.P. (“Rock Creek”) has approximately \$4.5 billion in assets under management. While the Rock Creek Group itself was formed in 2003, the key members of the team have worked together for many years at the World Bank managing its hedge fund investments. As with the Goldman Sachs fund, the Rock Creek Woodley fund’s risk-adjusted returns have been strong and consistent. In addition, Rock Creek has attracted a number of sophisticated institutional clients (such as Virginia Retirement System, Massachusetts PRIM and the Verizon Pension Fund) by being willing to develop close strategic relationships with investors, with “knowledge transfer” being a core part of their service. We have ready access to the senior management team at Rock Creek and the extensive hedge fund relationships of the firm.

We invested \$150 million in the RC Woodley Park fund in September 2006. At the Council’s July 2007 meeting, we proposed an additional \$100 million investment in the RC Woodley Park fund, with the understanding that Rock Creek was to withdraw funds as necessary from the RC Woodley Park fund to cover capital calls for the Rock Creek Partner’s Fund, up to a maximum of \$50 million, consistent with a proposal to invest in the Rock Creek Partners Fund reviewed by the Council at the October 2006 meeting. The Rock Creek Partners Fund was established by Rock Creek to seed emerging managers in exchange for a share of the revenue stream of the firm during agreed upon future periods.

The Rock Creek Partner’s Fund is in the process of winding down and currently has only one seeded manager remaining. We now propose to add another \$250 million to the RC Woodley Park fund, with the understanding that the additional funds are invested in Long/Short and Market Neutral Equity Managers.

We will work with representatives of the Division of Law and outside counsel to review required additional legal documents (if any) to cover each additional investment. In addition, each proposed investment has complied with the Council’s “pay-to-play” regulation (N.J.A.C. 17:16-4).

Formal written due diligence reports for the proposed investments were sent to each member of the Investment Policy Committee on March 5, 2010, and a meeting of the Committee was held on March 10, 2010. In addition to the formal written due diligence

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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 March 18, 2010 meeting.

Attachments

# SIC Investment Committee Fund Review Memo

**To:** State Investment Council  
**From:** SIC Investment Committee  
**Date:** March 18, 2010  
**Subject:** Goldman Sachs Asset Management Recommendation

## Fund Facts

Fund Name:	Goldman Sachs Multi-Strategy Portfolio (NJ), LLC
Fund Type:	Fund of Funds
Current Fund Size:	\$347 million in segregated NJ portfolio, \$20.0 billion in Fund of Funds strategies
Inception:	September-2006
Fund Address:	1 New York Plaza New York, NY 10004

## GP Contact Info

Name:	Sarah Silverman
Telephone:	(917) 343-2400
Email:	sarah.silverman@gs.com

## Summary of Terms and Investment Strategy

Investment Strategy:	Multi-strategy fund of funds investing in 40 to 45 underlying hedge funds. The portfolio has a strategically higher allocation to global macro and systematic trading strategies. Strategy allocations include Tactical Trading (30%), Event Driven (31%), Equity L/S (31%), Relative Value (3%) and cash (5%). The portfolio has a target return of 3 month USD Libor plus 400 to 900 basis points with 3% to 6% volatility.
Fee Terms:	
Management and Performance Fees:	Management fee - 0.80% on first \$350 million, negotiable on additional \$250 million Incentive fee - 5% with a high water mark
Other Fees:	Fund expenses - less than 20 basis points
Hurdle Rate:	3 month USD Libor
Preferred Return:	None
Liquidity/Redemption Terms:	
Lock-up:	1 year
Redemption:	Quarterly with 91 day notice
Side Pocket:	None

## NJ AIP Program:

Recommended Allocation Current:	\$250 million additional investments (approximately \$600 million total)
% of Fund:	100.00%
% of New Jersey State Pension Plan:	0.88%
% of AIP Hedge Fund Allocation:	17.14%

Consultant Recommendation:	Yes
*see due diligence memo	
Compliance with SIC "Pay to Play" Reg:	

# SIC Investment Committee Fund Review Memo

**To:** State Investment Council  
**From:** SIC Investment Committee  
**Date:** March 18, 2010  
**Subject:** Rock Creek Group Recommendation

## Fund Facts

Fund Name:	RC Woodley Park, LP
Fund Type:	Fund of Funds
Current Fund Size:	\$244 million in segregated NJ portfolio, \$4.5 billion in Fund of Funds strategies
Inception:	September-2006
Fund Address:	1133 Connecticut Avenue, NW, Suite 810 Washington DC, 20036

## GP Contact Info

Name:	Maryam Mashayekhi
Telephone:	(202) 331-3419
Email:	mmashayekhi@rockcreekglobal.com

## Summary of Terms and Investment Strategy

Investment Strategy:	The diversified strategy involves investing in a wide range of global hedge fund strategies and managers. The objective is to achieve consistent returns that are uncorrelated with equity and fixed income indices.
Fee Terms:	
Management and Performance Fees:	Management fee - 0.90% on first \$250 million, negotiable on additional \$250 million
Other Fees:	Fund expenses - 20 basis points
Hurdle Rate:	None
Preferred Return:	None
Liquidity/Redemption Terms:	
Lock-up:	1 year
Redemption:	Quarterly with 90 day notice
Side Pocket:	None

## NJ AIP Program:

Recommended Allocation Current:	\$250 million in additional investments (approximately \$500 million total)
% of Fund:	100.00%
% of New Jersey State Pension Plan:	0.74%
% of AIP Hedge Fund Allocation:	14.29%

Consultant Recommendation:	Yes
*see due diligence memo	
Compliance with SIC "Pay to Play" Reg:	