



State of New Jersey

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Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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State Treasurer

October 7, 2011

MEMORANDUM TO: State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Add-On investment in Centerbridge Credit Partners Fund, L.P.**

The New Jersey Division of Investment is proposing an additional investment of \$60 million in Centerbridge Credit Partners Fund, L.P. (the "Fund"). This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

NJDOI previously invested \$140 million in the Fund in two separate commitments (November 2007 - \$100 million & January 2011 - \$40 million). The investment has a market value as of 6/30/11 of \$201.6 million (1.44x). It should also be noted that in addition to its hedge fund commitments, NJDOI has made commitments to the firm's private equity funds, Centerbridge Capital Partners I (\$80 million) and Centerbridge Capital Partners II (\$100 million). Centerbridge Capital Partners I is one of the private equity portfolio's top performers

Centerbridge Partners is a New York based investment management firm founded in early 2006 by Jeffrey Aronson and Mark Gallogly. Previously, Mr. Aronson managed distressed investments at Angelo, Gordon & Co. and Mr. Gallogly headed the Private Equity Group at The Blackstone Group. Centerbridge manages \$17.2 billion in investments within both hedge funds and private equity funds, as of August 31, 2011. The firm has 119 employees including 44 investment professionals, as of October 3, 2011. Senior staff has made a significant investment in the fund. The fund is currently only taking in new capital as replacement for redemptions, which have been limited in size.

Centerbridge Credit Partners is a distressed securities hedge fund that seeks to capitalize on undervalued credit oriented investment opportunities. The fund's focus is on two primary areas: non-control distressed securities and undervalued credit investments such as leveraged loans, high yield bonds, specialty financings, structured products and credit related equities. The fund expects to make only modest use of leverage. Investments are mainly in the US with moderate exposure in Europe.

Since inception in November of 2007, Centerbridge Credit Partners has generated a return of 12.67%. In comparison, the HFRI Fund Weighted Composite Index and the HFRI Event Driven (Total) Index have returns of 1.72% and 2.39% respectively. The returns place them in the top

quartile among peers. Year-to-date as of July, Centerbridge Credit has produced a return of 5.6%, while the aforementioned indices have produced returns of 1.23% and 2.78% respectively.

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

As part of its due diligence process, staff determined that the fund has not engaged a third-party solicitor (a "placement agent") in connection with New Jersey’s potential investment.

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 this investment is authorized pursuant to Articles 69 and 100 of the Council’s regulations. The Centerbridge Credit Partners Fund, L.P. will be considered a credit oriented hedge fund, as defined under N.J.A.C. 17:16-100.1.

Formal written due diligence reports for the proposed investment was sent to each member of the Investment Policy Committee and a meeting of the Committee was held on September 8, 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 investment at the Council’s October 13, 2011 meeting.

Attachments

State Investment Council Fund Review Memo

To: State Investment Council
From: Division of Investment
Date: October 13, 2011
Subject: Hedge Fund Investment Recommendation

Fund Facts

Fund Name:	Centerbridge Credit Partners Fund, L.P.
Fund Type:	Credit Oriented - Hedge Fund
Current Master Fund Size:	\$7.0 billion as of August 31,2011
Inception:	November-2007
Fund Address:	345 Park Avenue, 15th Floor New York, NY 10154

GP Contact Info

Name:	Samuel Riter
Telephone:	(212) 672-4477
Email:	sriter@centerbridge.com

Summary of Terms and Investment Strategy

Investment Strategy:	Credit-Distressed fund that seeks to capitalize on undervalued credit oriented investment opportunities. The fund pursues a long-biased distressed credit strategy focused primarily on two areas: non-control distressed securities and undervalued credit investments such as leveraged loans, high yield bonds, specialty financings, real estate debt, structured products and credit related equities. The fund has not used (and currently does not anticipate using) leverage (except for certain nonrecourse asset level financings), Minimal use of short investments and has the majority of its investments in the US with smaller exposures to Europe and Asia.
Fee Terms:	
Management and Performance Fees:	Management fee: 1.75% Performance fee: 20%
Other Fees:	Fund expenses: 20 bps
Hurdle Rate:	None
Service Providers:	
Prime Broker(s):	JP Morgan Clearing , Goldman Sachs, Morgan Stanley
Administrator(s):	Citi Hedge Fund Administration
Auditor(s):	PricewaterhouseCoopers
Legal Counsel:	Schulte Roth & Zabel, Ogier (Caymans)(Centerbridge Credit Partners Offshore, Ltd)
Liquidity/Redemption Terms:	
Lock-up:	2 year initial lock up with respect to half of the capital account with a 2 year rolling lock-up thereafter; 3 year lock-up with respect to the other half of capital account with a 2 year rolling lock-up thereafter
Redemption:	At anniversary with 90 day notice
Side Pocket:	Up to 25%

NJ AIP Program:

Recommended Allocation:	\$60 million additional capital bringing total cost basis to \$200 million
% of Master Fund:	2.86%
% of New Jersey State Pension Plan (\$66b):	0.30%
% of AIP Hedge Fund Allocation (\$4.0b):	5.00%

Consultant Recommendation:	Yes
Placement Agent:	No
Compliance with Division Placement Agent Policy:	N/A
Compliance with SIC Political Contribution Reg:	Yes