

June 13, 2008

MEMORANDUM TO: State Investment Council

FROM: William G Clark
Director

SUBJECT: **Proposed Hedge Fund Investment in
Ironbound Partners, LP.**

This due memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9(a) to report on a proposed \$75 million direct absolute return fund commitment to Ironbound Partners, LP to be managed by Ironbound Capital Management, L.P. in Princeton, New Jersey.

Please note that this investment will be authorized pursuant to Articles 69 and 100 of the Council's regulations. The Ironbound investment will be considered an Equity Long/Short Fund investment as defined under N.J.A.C. 17:16-100.1.

The Alternative Investments Procedures adopted by the Council on February 21, 2008 require any potential alternative investment opportunities to be identified and initially evaluated by the applicable staff of the Division of Investment ("DOI") and the applicable Asset Class Consultant (Cliffwater LLC for direct hedge funds, or "Cliffwater"), in coordination with the DOI Investment Committee (Director, Deputy Director and senior hedge fund staff member).

The DOI Investment Committee identified this proposed investment as a result of internal and external sourcing. Cliffwater and DOI staff proceeded to undertake 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.

Based on this due diligence, the Division has determined that the proposed investment meets the criteria for investments set forth in the Alternative Investment Procedures.

Ironbound Capital Management, L.P. is an SEC-registered investment firm founded by Stephen Silverman in 2004 and currently has \$1.0 billion in assets under management. The firm is based in Princeton where its 21 employees are located. Mr. Silverman founded Ironbound after spending 19 years at Merrill Lynch Investment Managers where he managed up to \$11 billion in global equity mandates including a hedge fund. Ironbound Partners is a global value oriented long/short equity hedge fund. The portfolio typically has a net long exposure which ranges from 50% to 80%, and has half the portfolio invested outside of the US. The investment team employs a fundamental bottom-up process to identify potential investments and construct the portfolio. The manager may hedge unwanted market risks using indices or equity derivatives. The fund is diversified across over 50 individual positions, however the top ten names account for more than half the fund's assets. Since inception of August 2004 through May 2008, the fund has generated an annualized return of 18.77% with volatility of 10.96%, resulting in a Sharpe ratio of 1.26.

A formal written due diligence report for the proposed investment was sent to each member of the Investment Policy Committee of the Council on June 4, 2008, and a meeting of the Committee was held on June 10 2008. In addition to the formal written due diligence reports, all other information obtained by the Division on this investment was made available to the Investment Policy Committee.

After a review of the due diligence conducted on the fund, the Investment Policy Committee of the Council decided to report on the proposed investment to the full Council pursuant to Step 4 of the Alternative Investments Procedures. Under these procedures, the Council may adopt or otherwise act on this report.

Attached to this memorandum is the SIC Investment Committee Fund Review Memorandum for the proposed 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 this investment. In addition, the proposed investment must comply with the Council's "pay to play" regulation (N.J.A.C. 17:16-4). While we are confident that we will work through these issues, the potential exists that a successful resolution will not be reached with this manager.

We look forward to discussing this proposed hedge fund investment at the Council's June 19, 2008 meeting.

WGC/MK:lt
Attachment