



State of New Jersey

CHRIS CHRISTIE
Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290

KIM GUADAGNO
Lt. Governor

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

October 7, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Add-On investment in Winton Futures Fund**

The New Jersey Division of Investment is proposing an add-on investment of up to \$100 million in Winton Futures Fund. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

Winton Capital Management ("Winton") was founded in 1997 by David Harding, previously of AHL, one of the top CTA managers in London. Winton has \$23.9 billion under management, of which the Winton Futures Fund ("WFF") accounts for \$8.8 billion. The firm employs 218 people, 94 of which are dedicated to research. WFF is a systematic CTA trading 120 futures markets across equities, fixed income, currencies and commodities.

There are few key differentiators for Winton relative to peers. Winton's volatility target of 7-10% is much lower than many peers which typically target 15-19%. This allows the WFF to take less risk and limits large draw downs. Also, most CTAs rely almost entirely on price trends, while Winton also incorporates non-price driven factors to diversify returns. In the firm's ongoing commitment to develop new areas of research and furthering its investment universe, Winton started trading single name cash equity this year which added a non-correlated return stream for WFF, (previously all equity investments were through indices). Finally, the holding periods of the trades are typically longer than its peers as its trading system takes into account not only correlation and liquidity, but also transaction costs. In volatile markets when there are sharp reversals, Winton will typically hold positions longer (3-4 months on average). Examples of trades in which this approach has been beneficial are long Gold and the short European bank stock index.

WFF has a long performance history extending almost 14 years. The fund's annualized return of 11.43% over the last 5 years significantly exceeds the 4.79% return of the HFRI Fund Weighted Composite Index and the 5.95% annualized return of the HFRI Macro (Total) Index. This performance places WFF in the top quartile of all hedge funds and of global macro hedge funds.

Winton charges a 1% management fee, which is below the typical 2% fee charged by most hedge funds, and a 20% performance fee. The firm allows for monthly liquidity with no lock up and no gate.

The Division of Investment (“Division”) Staff and its hedge fund consultant, Cliffwater LLC, undertook extensive due diligence on these proposed 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. Winton Futures Fund will be considered opportunistic hedge fund investment, as defined under N.J.A.C. 17:16-100.1.

Formal written due diligence reports for the proposed investment were 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:	Winton Futures Fund
Fund Type:	Absolute Return - Hedge Fund
Current Master Fund Size:	\$8.8 billion
Inception:	October-1997
Primary Business Address:	1-5 St. Mary Abbott's Place London, UK

Contact Info

Name:	Andrew Fraser
Telephone:	44 20 7751 7816
Email:	a.fraser@wintoncapital.com

Summary of Terms and Investment Strategy

Investment Strategy:	Systematic commodities trading advisor (CTA) trading over 100 global futures markets across equities, fixed income, currencies, energies and commodities. The manager's approach is predominantly directional seeking to profit from momentum opportunities across a broad range of markets with trend following programs, in addition they are continually focusing on research into non-price factors to diversify returns. The fund is currently allocated approximately 70% to trend following and 30% to non-price driven, fundamental factors. The fund's strategy is fully systematic, dictated by algorithms that are continuously executed throughout each trading day.
Fee Terms:	
Management and Performance Fees:	Management fee: 1.00% Performance fee: 20%
Other Fees:	Fund expenses: approx 14 bps
Hurdle Rate:	None
Service Providers:	
Broker(s):	Newedge Group, Barclays Bank, Goldman Sachs, BoA;
Custodian(s):	Bank of New York, Northern Trust
Administrator(s):	Custom House Fund Services (Ireland)
Auditor(s):	KPMG
Legal Counsel:	Willkie Farr & Gallagher, Simmons & Simmons, Maples & Calder
Liquidity/Redemption Terms:	
Lock-up:	None
Redemption:	Monthly with 2 days notice
Side Pocket:	None

NJ AIP Program:

Recommended Allocation:	\$100 million additional capital bringing total cost basis to \$200 million
% of Master Fund:	0.90%
% of New Jersey State Pension Plan (\$66b):	0.30%
% of AIP Hedge Fund Allocation (\$4.0b):	5.00%

Consultant Recommendation:	Yes
Placement Agent:	None
Compliance with Division Placement Agent Policy:	N/A
Compliance with SIC Political Contribution Reg:	Yes