



**State of New Jersey**

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July 15, 2011

MEMORANDUM TO: State Investment Council

FROM: Timothy Walsh  
Director

SUBJECT: **Proposed Investment in Blackstone Resources Select Fund**

The New Jersey Division of Investment is proposing an investment of up to \$250 million in Blackstone Resources Select Fund managed by Blackstone Alternative Asset Management L.P. (BAAM).

Blackstone Alternative Asset Management is a subsidiary of the Blackstone Group (NYSE: BX), which was formed in 1985 by Steve Schwarzman and Peter Peterson and is currently managing \$150 billion firm wide. BAAM was established in 1990 to manage the internal assets of the firm and the organization has expanded to a team of 63 people across three offices. The Blackstone Resources Select fund, supported by the BAAM platform, was launched in May of 2007 as a solution to a pension client seeking long-biased commodities exposure designed to outperform the traditional indices. Since then, the Resources Select fund has successfully grown to \$2.4 billion in assets, made up of institutional investors, primarily large US Public Pension Funds.

The Division is recommending Blackstone Resources Select fund as a means of increasing our commodities exposure through a customized, long-biased portfolio of recognized commodity managers which trade across energy, metals and agriculture.

Resources Select is designed to outperform the traditional commodity indices from two sources; improved construction of the passive index (beta) combined with active management (alpha). The beta component is derived from an internal index ('BXCI') constructed to improve upon the S&P GSCI TR Index and DJ-UBS TR Index by modifying the weights to create a more balanced allocation and mitigating the return drag from negative roll yield typically experienced by the standard passive index by spreading out roll terms where appropriate. The alpha component is derived from investing in five top commodities managers (soon to be six) that focus on a distinct commodities area of their expertise. Blackstone has negotiated custom accounts with these managers for Resources Select.

*Proposed Investment in Blackstone Resources Select Fund*  
*Page 2*

Performance for Resources Select has been impressive since inception in May of 2007, with an annualized return through May 2011 of 10.65%, net, vs. 2.39% for the BXCI, -2.33% for the GSCI, and 0.19% for the DJ-UBS.

The management fee at the fund of funds level on a \$250 million investment is 0.80%, which is a discounted fee given the proposed investment level. There is no performance fee at the fund of funds level. The management fees for the underlying managers average 0.75% with an incentive fee of 20% on returns exceeding each managers' custom benchmark (BXCI). The liquidity term is a one year soft lock with 1.00% early withdrawal penalty which is waived for redemptions up to one third of subscription.

This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9. The Division of Investment ("DOI" or "Division") Staff and its consultant, Strategic Investment Solutions, undertook 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. We have attached the SIC Committee Fund Review Memo.

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.

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 July 12, 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.

Please note that this investment is authorized pursuant to Articles 69 and 71 of the Council's regulations and will be considered Commodity-Linked Investments, as defined under N.J.A.C. 17:16-71.1.

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. In addition, each proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

We look forward to discussing the proposed investments at the Council's July 21, 2011 meeting.

Attachments

# State Investment Council Fund Review Memo

**To:** State Investment Council  
**From:** Division of Investment  
**Date:** July 21, 2011  
**Subject:** Blackstone Resources Select Fund Recommendation

## Fund Facts

Fund Name:	Blackstone Resources Select Offshore Fund
Fund Type:	Commodities- Fund of Funds
Current Fund Size:	\$2.4 Billion
Inception:	May-2007
Fund Address:	345 Park Avenue New York, NY 10154

## Investment Rationale:

**In support of the continued build out of the commodities portfolio, we are recommending an investment of up to \$250 million in the Blackstone Resources Select Fund ("Resources Select").** This investment will be placed in the Real Return-Commodities/Real Assets strategy sector. Resources Select provides investors with exposure to a customized long-biased portfolio of recognized commodity managers. The underlying managers are focused on the sector of the commodity market where they have specialized expertise and are provided rigid guidelines with respect to sector exposure and leverage, with gross exposure ranges of 50% to 150%. Since inception of the fund in May 2007, Blackstone Resources Select Fund has generated an annualized return through May 2011 of 10.65% net vs. 2.39% for the BXCI, -2.33% for the GSCI, and 0.19% for the DJ-UBS.

## Summary of Terms and Investment Strategy

Investment Strategy:	A long-biased commodities fund-of-funds strategy designed to outperform the traditional commodity indices through investing in six top managers trading across energy, metals, and agriculture. The underlying managers of Resources Select have proven successful track records and are difficult to access directly.
Fee Terms:	
Management and Performance Fees:	Management fee - 0.80% Performance fee - None
Other Fees:	Fund expenses - 3 bps
Hurdle Rate:	None
Service Providers:	
Prime Broker(s):	N/A
Administrator(s):	Citco Fund Services (Cayman Islands Limited)
Auditor(s):	Deloitte and Touche LLP
Legal Counsel:	Seward & Kissel LLP (U.S.) and Walkers (Cayman)
Liquidity/Redemption Terms:	
Lock-up:	1 yr Soft Lock w/ 1% early withdrawal penalty (fee waived for aggregate redemptions up to one third of subscription)
Redemption:	Monthly with 35 days notice
Side Pocket:	None

## NJ AIP Program:

Recommended Allocation Current:	\$250 mil
% of Master Fund:	10.42%
% of New Jersey State Pension Plan (\$73b):	0.34%
% of AIP Real Asset Allocation (\$1.2b):	20.83%

Consultant Recommendation:	Yes
*see due diligence memo	
Compliance with SIC "Pay to Play" Reg:	Side letter required
Placement Agent:	None

## GP Contact Info

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