



## State of New Jersey

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DEPARTMENT OF THE TREASURY  
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November 2, 2012

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh  
Director

SUBJECT: Proposed Investment in GoldenTree Credit Opportunities Fund LP

The New Jersey Division of Investment (“Division”) is proposing an add-on investment of \$100 million to the GoldenTree Credit Opportunities Fund LP (the “Fund”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-63.9.

The Division is recommending the investment based on the following factors:

**Opportunity to diversify and improve yield of Division’s fixed income portfolio:** The Division’s investment in the Fund is considered a Bank Loan Fund and is classified as a High Yield investment within Common Fund B. Increasing the allocation to the Fund further diversifies the fixed income portfolio by allowing the Division to move assets from lower yielding investment grade credit to more attractive bank loan instruments. Bank loan spreads remain at fairly wide levels while capital structures have improved.

**Attractive financing vehicles:** A major advantage of GoldenTree’s Credit Opportunities Fund is the attractive financing they have secured. The Fund has a total financing capacity of \$1.8 billion with a very low weighted average cost of capital of Libor + 115 bps. The most recent financing also has several uniquely beneficial terms: no mark-to-market provisions, a 40% maximum investment in junior claims (10% is standard) and a high level of autonomy in portfolio construction.

**Preferential terms:** The Division’s existing investment is in Class D, which has management fees of 1%, incentive fees of 10% and no lock up. GoldenTree has not offered this share class to investors since 2007. Due to another investor’s desire to withdraw its allocation from the Fund to set up a separate account focused on less liquid instruments, GoldenTree has offered the Division \$100 million of capacity in the class D share class. These discounted fees have a meaningful impact on performance. For example, YTD for 2012 through September, Class D shares have returned 15.70% vs. 14.41% for the standard share class.

**Exceptional returns:** The Division’s \$150 million investment in the Fund is valued at \$265 million as of September 30, 2012 for a multiple on investment of 1.8x and an annualized return of 16.61%.

A report of the Investment Policy Committee ("IPC") summarizing the details of the proposed investment is attached.

Division Staff and its consultant, Cliffwater, undertook extensive due diligence on the proposed investment in accordance with the Division's Alternative Investment Due Diligence Procedures.

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

Please note that the investment is authorized pursuant to Articles 23 and 63 of the Council's regulations. The GoldenTree Credit Opportunities Fund LP will be considered a bank loan investment, as defined under N.J.A.C. 17:16-23.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the Committee was held on November 2, 2012. In addition to the formal written due diligence report, all other information obtained by the Division on the investment was made available to the IPC.

We look forward to discussing the proposed investment at the Council's November 8, 2012 meeting.

Attachments

**Fund Name: GoldenTree Credit Opportunities Fund**

**November 8, 2012**

**Contact Info: Laurie Katz, 300 Park Avenue, 21st Floor, New York, NY 10022**

**Fund Details:**

<b>Total Firm Assets (\$bil.):</b>	\$16.3 billion	<b>Key Investment Professionals:</b> Steve Tananbaum, Founding Partner and CIO- Prior to founding GoldenTree, spent more than 10 years at MacKay Shields where his roles included head of the high yield group. Also worked in corporate finance department of Kidder, Peabody & Co. Steve Shapiro, Founding Partner, Head of Distressed- Prior to founding GoldenTree, was a Managing Director in the High Yield Group at CIBC World Markets. Previously was a research analyst with The Argosy Group L.P. Before joining Argosy, Mr. Shapiro was a bankruptcy attorney. Fred Haddad, Partner and Head of Bank Loans- Prior to joining GoldenTree, was a Managing Director at the Royal Bank of Canada. From 1990 to 1997, Mr. Haddad was a Senior Vice President with Credit Lyonnais. Joseph Naggar, Partner and Head of the Structured Products Team- Joined from Morgan Stanley where he spent 12 years in various capacities related to the CDO and correlation markets.
<b>Strategy:</b>	Bank Loans	
<b>Assets in Strategy(\$bil.):</b>	\$1.5 billion	
<b>Year Founded:</b>	2000	
<b>SEC Registration</b>	Yes	
<b>GP Commitment:</b>	approx. 6% as of 6/30/12	

	<b>Track Record</b>			
	<u>As of Aug 31, 2012</u>	<u>Fund - Net</u>	<u>HFRI Event Driven</u>	<u>ML HY Master II</u>
GoldenTree Credit Opportunities Fund is a long biased fund that opportunistically invests in liquid instruments; primarily senior secured bonds and bank loans. The average position size will be approximately between 1.0%-1.5% of total assets with a minimum asset coverage criteria of 1.5x-2x based on Goldentree's analysis. The largest holdings are in the media and services industries and the fund employs macro hedging. The majority of exposure is to North American credit (69%), with the remainder in Europe (31%). Over 50% of the portfolio is currently invested in first lien loans.	1-Year	7.47	1.36	13.05
	3- Year	22.36	6.70	14.28
	5- Year	5.64	2.09	9.29
	Inception	8.61	5.88	8.5
	2011	0.70	-3.30	4.38
	2010	34.85	11.86	15.19
	2009	118.10	25.04	57.51
	2008	-61.47	-21.82	-26.39

**Vehicle Information:**

<b>Fund Inception:</b>	May-04	<b>Subscriptions:</b>	Monthly
<b>Fund Size (\$mil.):</b>	\$1.5 billion	<b>Redemptions:</b>	Semi- Annual with 90 day notice
<b>Management Fee:</b>	1%	<b>Lock-up:</b>	None
<b>Profit Allocation:</b>	10%	<b>Prime Broker:</b>	JP Morgan, Goldman Sachs, and Barclays
<b>Highwater Mark:</b>	Yes, modified	<b>Administrator:</b>	International Fund Services and CIBC
<b>Hurdle Rate:</b>	N/A	<b>Auditor:</b>	PricewaterhouseCoopers and Ernst and Young
<b>Additional Expenses:</b>	approx. 38 bps	<b>Legal Counsel:</b>	Schulte Roth & Zabel LLP and Walkers

**NJ AIP Program**

<b>Recommended Allocation:</b>	\$364 million*	<b>LP Advisory Board Membership:</b>	N/A
<b>% of Combined Onshore/Offshore Funds:</b>	24%	<b>Consultant Recommendation:</b>	Yes
		<b>Placement Agent:</b>	No
		<b>Compliance w/ Division Placement Agent Policy:</b>	N/A
		<b>Compliance w/ SIC Political Contribution Reg:</b>	Yes

\* includes existing investment and proposed additional investment

\*This review memorandum was prepared in accordance with the State Investment Council rules governing the Alternatives Investment Program and the policies and procedures related thereto.