



State of New Jersey

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October 7, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Elliott Associates, LP**

The New Jersey Division of Investment is proposing an investment of \$200 million in Elliott Associates, LP, which will be allocated to the credit hedge fund asset allocation category. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9.

Elliott Management Corporation ("Elliott" or the "firm") was founded in 1977 by Paul Singer, who practiced corporate and securities law prior to founding the firm. Elliott is one of the oldest hedge funds in existence. The firm manages more than \$17 billion in its hedge fund strategy. Elliott is headquartered in New York City and maintains offices in London, Hong Kong, and Tokyo. The firm has 270 employees, of which 125 are investment professionals. The firm is majority owned by Mr. Singer and three additional principals became equity partners in 2011. Firm principals and other insiders have a substantial portion of their net worth invested in the funds and comprise the largest investor group.

Elliott has consistently maintained a "contrarian" view of the risks facing investors in financial assets, and this has historically led Elliott to find areas of investment opportunity that are relatively less crowded. Elliott currently employs a global investment strategy designed to produce high risk adjusted returns while minimizing correlations to equity and bond markets, principally by focusing on process driven situations involving arbitrage and distressed situations, and by managing a substantially hedged book.

The capital allocation process among strategies is entirely opportunistic, based on bottom-up fundamental research, rather than adhering to pre-determined ranges, and with the exception of commodities and structured products, the investment analysts are generalists and are able to invest across the capital structure and types of industries.

Elliott has produced very strong returns on a risk adjusted basis. Since inception in February 1977 through November 2010, Elliott Associates, L.P. has generated an annualized net return of 14.40% and a standard deviation of 4.13%, resulting in a Sharpe ratio of 1.78. Since January

1990 through July 2011, Elliott has generated a return of 13.10%. In comparison, the HFRI Fund Weighted Composite Index and the HFRI Event Driven (Total) Index have returns of 11.80% and 12.23% respectively. The returns place them in the top quartile among peers on a risk adjusted basis. Year-to-date as of July, Elliott has produced a return of 4.79%, while the aforementioned indices have produced returns of 1.23% and 2.78% respectively. Elliott continued their strong performance in August with a return of 0.8%, bringing the YTD return to 5.7%. It should also be noted that in 2008, Elliott was down only 3.08%. In comparison, the S&P 500 was down 37% during the same year.

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. The Elliott Associates, LP investment will be considered a multi-strategy hedge fund, 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 30, 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-Revised

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

Fund Facts

Fund Name:	Elliott Associates, L.P.
Fund Type:	Credit Oriented - Distressed HF
Current Master Fund Size:	\$17.8 billion
Inception:	February-1977
Fund Address:	712 Fifth Avenue New York, NY 10019

GP Contact Info

Name:	Jaime Hobbeheydar
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Summary of Terms and Investment Strategy

Investment Strategy:	The fund employs a global investment strategy principally focused on process driven situations involving arbitrage and distressed situations. They seek to minimize correlations to equity and bond markets by managing a substantially hedged book. Additionally, the fund will invest in equity and portfolio volatility investments. The fund's capital allocation among strategies is contrarian, opportunistic and based on bottom-up fundamental research. A significant portion of the firm's positions include activist or control activities which involve complex situations.
Fee Terms:	
Management and Performance Fees:	Management fee: 1.50% Performance fee: 20% with modified high water mark (10% when recouping 150% of prior losses)
Other Fees:	Fund expenses: 18 bps Capital surcharge of 1.75% on all contributions and distributions
Hurdle Rate:	None
Service Providers:	
Prime Broker(s):	Barclays, Credit Suisse, Deutsche Bank, BNP, Citigroup, Goldman Sachs, JP Morgan, Morgan Stanley, UBS, Pershing
Administrator(s):	Self-administer, BoNY and JP Morgan Chase external administration
Auditor(s):	Grant Thornton
Legal Counsel:	Kleinberg, Kaplan, Wolff & Cohen
Liquidity/Redemption Terms:	
Lock-up:	2 years on each contribution; fund has a 2 year commitment period after which investors are released from making further capital contributions, investors cannot redeem until the earlier of July 1, 2014 and 6 months after the commitment is fully drawn or terminated
Redemption:	Semi-annual subject to 20% fund level gate and 25% investor level gate
Side Pocket:	Up to 15%

NJ AIP Program:

Recommended Allocation:	\$200 million
% of Master Fund:	1.12%
% of New Jersey State Pension Plan (\$66b):	0.30%
% of AIP Hedge Fund Allocation (\$4.0b):	5.00%

Consultant Recommendation:	Yes
*see due diligence memo	
Placement Agent:	No
Compliance with Division Placement Agent Policy:	N/A
Compliance with SIC Political Contribution Reg:	Yes