



State of New Jersey

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Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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State Treasurer

May 10, 2013

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in JANA Strategic Investments Fund**

The New Jersey Division of Investment (“Division”) is proposing an investment of \$100 million in JANA Strategic Investments Fund (“JSI”) and up to \$200 million allocated to co-investment opportunities. JANA is an activist, equity oriented hedge fund manager. The co-investment fund has a full veto right by the Division. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

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

Successful track record of Active Shareholder Engagements: JSI has generated a Net IRR of 43% on fund capital invested and a net IRR of 38% on co-investments since inception through March 31, 2013. JANA Partners LLC (“JANA”) has an impressive track record in active shareholder engagements prior to JSI’s formation in 2010. From inception in 2001 to 2010, JANA generated more than \$1.3 billion in gross profits and a 43% average gross IRR for realized investments in 40+ active shareholder engagements. Additionally, JANA’s two hedge funds, JANA Partners and JANA Nirvana, are both top quartile funds among the full HFRI universe and among Event Driven managers.

Attractive terms/Meaningful alignment of interests: The Division will receive terms of 0% management fee and 10% incentive fee on co-investments and 1% management fee and 15% incentive fee on committed capital for JSI with an 8% preferred return on both fund and co-investments. Assuming 60% of a \$100 million commitment to JSI is invested and \$200 million of co-investment capital, the blended management fee would be 38 bps. For all co-investment opportunities, the Division will maintain a veto right. Collectively, JANA employee investments account for approximately 13% of firm capital, making them among the largest investors.

Attractive environment Shareholder Engagement: A number of factors make the current market attractive for shareholder engagement strategies. These include record corporate cash balances, historical low P/E ratios, record low interest rates for corporate borrowers, and significant unused private equity capital.

Source of Diversification for the Pension Fund's internal portfolio: A review of JANA's prior activist positions compared with the Pension Fund's internal portfolio showed the Pension Fund had positions in less than half of the companies which JANA invested.

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

Division Staff and its hedge fund consultant, Cliffwater LLC, 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 JSI 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 69 and 100 of the Council's regulations. JSI will be considered an equity oriented hedge fund investment, as defined under N.J.A.C. 17:16-100.1.

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 May 6, 2013. 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 May 16, 2013 meeting.

Attachments

Fund Name: JANA Strategic Investments ("JSI"). **May 10, 2013**

Contact Info: Jordan R. Gershuny, JANA Partners LLC, 767 Fifth Avenue, 8th Fl, New York, NY 10153

Fund Details:		Key Investment Professionals:
Total Firm Assets (\$bil.):	\$4.9 b	Barry Rosenstein, Founder, Managing Partner, Co-Portfolio: 31 years of experience. Previously was founder and managing partner of private equity firm Sagaponack Partners David DiDomenico, Partner, Co- Portfolio Manager: 14 years experience. Previously was a Managing Director and Portfolio manager at New Mountain Capital Scott Ostfeld, Partner, JSI Co-Portfolio Manager: 11 years experience. Previously worked in the distressed debt private equity group at GSC Partners and as an investment banker at Credit Suisse First Boston
Strategy:	Event Driven	
Assets in Strategy(\$bil.):	\$1.2 billion	
Year Founded:	Firm founded in 2001	
SEC Registration:	Yes	
GP Commitment:	13% Across all Jana Products	

Investment Summary	Existing Fund																																				
<p>JSI was launched in 2010 to focus exclusively on "active shareholder engagement," making significant investments in undervalued public companies in North America and Western Europe and seeking value-creating change to generate enhanced returns. Jana's strategies will include: optimizing capital structure and capital allocation, operational turnarounds, management change and strategic transactions including divestitures, break-ups and sales. Much of Jana's work with target companies is completed behind the scenes, seeking to be collaborative with managements rather than confrontational.</p> <p>The fund will have up to 4 to 6 holdings at a time in publicly traded companies in the US, Canada and Western Europe generally with market caps of \$1 billion to \$15 billion. No single position will be more than 25% of investor's capital commitment at cost (excluding co-investments).</p>	<table border="1"> <thead> <tr> <th colspan="4">JANA Strategic Investment Fund as of 3-31-13 in Millions</th> </tr> <tr> <th></th> <th>Fund Investments</th> <th>Additional Capital Contributions</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Capital Committed</td> <td>\$575</td> <td>\$1,495</td> <td>\$2,070</td> </tr> <tr> <td>Capital Called</td> <td>\$686</td> <td>\$1,437</td> <td>\$2,123</td> </tr> <tr> <td>Distributions</td> <td>\$508</td> <td>\$1,093</td> <td>\$1,601</td> </tr> <tr> <td>Remaining Value</td> <td>\$258</td> <td>\$636</td> <td>\$894</td> </tr> <tr> <td>Total Value</td> <td>\$766</td> <td>\$1,729</td> <td>\$2,495</td> </tr> <tr> <td>Gross IRR</td> <td>59%</td> <td>43%</td> <td>46%</td> </tr> <tr> <td>Net IRR</td> <td>43%</td> <td>38%</td> <td>39%</td> </tr> </tbody> </table>	JANA Strategic Investment Fund as of 3-31-13 in Millions					Fund Investments	Additional Capital Contributions	Total	Capital Committed	\$575	\$1,495	\$2,070	Capital Called	\$686	\$1,437	\$2,123	Distributions	\$508	\$1,093	\$1,601	Remaining Value	\$258	\$636	\$894	Total Value	\$766	\$1,729	\$2,495	Gross IRR	59%	43%	46%	Net IRR	43%	38%	39%
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Vehicle Information:		
Fund Inception:	2010	Subscriptions: N/A: Drawdown structure
Fund Size (\$mil.)	\$725,500,000 Committed, \$580,000,000 Co-Invest - Total AUM \$1.3B	Redemptions (notice): Annual, two year notice
Management Fee:	1% of capital commitments on JSI/0% on co-investments	Lock-up: 3 years subject to annual extension
Profit Allocation:	15% on JSI/10% on Co-Investments	Prime Broker: UBS Securities, Goldman Sachs
Highwater Mark:	N/A	Administrator: Citco Fund Services
Hurdle Rate:	8%	Auditor: Ernst & Young LLP
		Legal Counsel: Schulte Roth & Zabel

NJ AIP Program			
Recommended Allocation (\$mil.):	\$100 million to JSI and up to \$200 million on co-investments	LP Advisory Board Membership:	N/A
% of Fund:	13.78% (\$100mm committed/total committed capital)	Consultant Recommendation:	Yes
		Placement Agent:	None
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	Yes

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.