



State of New Jersey

PHILIP D. MURPHY
Governor

TAHESHA L. WAY
Lt. Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
P.O. BOX 290
TRENTON, NJ 08625-0290
Telephone (609) 292-5106
Facsimile (609) 984-4425

ELIZABETH MAHER MUOIO
State Treasurer

SHOAIB KHAN
Director

January 26, 2024

MEMORANDUM TO: State Investment Council
FROM: Shoaib Khan, Director
SUBJECT: Proposed Investment in Graham Diversifying Alpha – NJ RMS Solution

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$300 million in Graham Diversifying Alpha – NJ RMS Solution (the “Fund”) managed by Graham Capital Management (“Graham”, “GCM” or the “Firm”). 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:

Experience and strong track record. Graham has 30 years of experience in partnering with investors to implement customized investment solutions that meet specific portfolio requirements. Graham’s Investment Committee members have an average of more than 20 years of industry experience and an average tenure at GCM 15 years. The firm has a total of \$17.8 billion in assets under management as of January 17, 2024 and has been trading quantitative alpha signals for over two decades. Graham Diversifying Alpha fund has produced strong historical performance during large equity crisis periods including January 2020 through September 2022 when MSCI ACWI was down -25.6% and the fund returned 18.3%. Since inception in January 2007, Graham Diversifying Alpha has produced 8.08% net annualized return compared to HFRI RV: Multi-Strategy Index of 3.71% returning consistent, attractive returns.

Global Macro expertise and unique hybrid approach. GCM is well regarded in the global macro industry with a heightened focus on liquid global markets with a range of strategies that are both quantitative and discretionary. GCM began as a systematic trend-following investment firm and expanded into sizable discretionary and systematic global macro trading strategies successfully. The firm’s unique infrastructure of managing both model-driven trading strategies as well as discretionary-based trading allows the team to identify and execute opportunities that its peers may not be able to implement.

Alignment of interest and favorable terms. Graham charges a 0.75% management fee with no performance fee, which is below the typical 1% to 1.5% fee charged by peers. The attractive fees and terms negotiated provide the Division with the potential to extract a higher absolute and risk-adjusted net return. The Fund’s liquidity terms are favorable, providing weekly liquidity with three days’ notice. In addition, approximately 5% of the firm’s total AUM is proprietary capital further aligning interest with the total pension fund.

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

The Division staff and the Division’s 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 the Fund has not engaged a third-party solicitor (a "placement agent") in connection with New Jersey’s potential investment.

Staff 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. We have obtained a preliminary Disclosure Report of Political Contributions in accordance with the Council’s regulation governing political contributions (N.J.A.C. 17:16-4) and no political contributions have been disclosed. We will obtain an updated Disclosure Report at the time of closing.

The Firm has a Corporate Social Responsibility Statement. The Firm’s Statement was reviewed by the Corporate Governance team in accordance with the Council’s ESG Policy.

Please note that the investment is authorized pursuant to Articles 69 and 100 of the Council’s regulations, and Graham Diversifying Alpha – NJ RMS Solution will be considered an Absolute Return Strategy 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 IPC was held on July 17, 2023. An update was sent to each member of the IPC and a meeting was held on January 23, 2024. 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 January 31, 2024, meeting.

Attachments

Sincerely,

Shoaib Khan
Director, New Jersey Division of Investment

Graham Diversifying Alpha – NJ RMS Solution

- **DOI Commitment:** up to \$300 million in a fund-of-one customized portfolio
- **Strategy:** Risk Mitigation Strategies – Core Portfolios
- **Investment Focus:** Diversified portfolio investing in five uncorrelated strategies seeking to mitigate equity market drawdowns while providing a positive long-term return. Portfolio allocated to active diversifiers (quantitative macro and trend following), long-only defensive exposure, and tail hedges (put-buy and VIX hedge strategies)
- **Target Returns:** 3 Month T-Bill + 5.2% with 8% volatility, balancing zero to negative beta with positive convexity in challenging equity market scenarios
- **Investment Thesis:**
 - Extensive experience managing a range of macro discretionary and quantitative strategies
 - Proven capability in strategic management of multi-asset and quantitative portfolios
 - Resilient performance track record, particularly through economic downturns
 - Significant alignment of interest with favorable liquidity

Risk Mitigating Strategies

Fund Name: *Graham Diversifying Alpha - NJ RMS Solution* January 26, 2024

Contact Info: *Jennifer Ancker Whelen, 40 Highland Avenue, Rowayton, CT 06853*

Fund Details:		
Total Firm Assets (\$bil.):	\$17.8 billion	Key Investment Professionals: Pablo E. Calderini - Mr. Calderini serves as the President and Chief Investment Officer of Graham Capital Management ("Graham"), overseeing the discretionary and systematic trading divisions at the company. He joined Graham in August 2010. Prior to joining the firm he held various positions at Deutsche Bank from 1997 through 2010, including senior management of Equity Proprietary Trading, Emerging Markets and Credit Derivatives. Thomas Feng, Ph.D. - Dr. Feng is the Chief Investment Officer of Quantitative Strategies at Graham. He is a member of the firm's Investment and Risk committees. Dr. Feng joined Graham in April 2009 as a portfolio manager/quantitative research analyst and later became an Associated Person and Principal. Prior to joining the firm, he held positions at Fortress and RBS Greenwich Capital.
Strategy:	Risk Mitigation	
Year Founded:	1994	
Headquarters	Rowayton, CT	
SEC Registration	Yes	
GP Commitment¹:	1.0%	

<i>Investment Summary</i>	<i>Annualized Returns</i>			
The Graham Diversified Alpha - NJ RMS Solution is designed to generate positive long term returns and equity crisis protection. The portfolio is comprised of a collection of strategies that have historically exhibited low or negative correlation to equities. Strategies employed include active diversifying trading strategies, tail hedging strategies, and passive long-only "safe haven" exposures. Allocations to each strategy are dynamically rebalanced using a quantitative construction process. The portfolio trades globally in liquid markets across listed futures, ETFs, options, and currency forwards. The firm's current investor base is 56% Institutional/sovereign wealth funds, 35% high net worth and family offices, and 9% fund of funds as of January 1, 2024.	Diversifying Alpha**	HFRI RV: Multi-Strategy Index	HFRI FOF: Market Defensive Index	
	YTD	4.35%	3.17%	0.31%
	3 Year	5.69%	4.46%	4.64%
	5 Year	9.22%	4.00%	3.16%
	Since Inception*	8.08%	3.71%	2.32%
* Jan 2007 **Modeled As of October 2023 Source of Returns - Cliffwater				

Vehicle Information:

Fund Inception:	2024	Subscriptions:	Weekly
Fund Size:	\$303 million	Redemptions (notice)	Weekly with 3 business days' notice
Management Fee:	0.75%	Lock-up:	None
Profit Allocation:	none	Prime Brokers:	Bank of America, Barclays, Morgan Stanley, Société Générale, W
Highwater Mark:	none	Administrator:	SEI Global Services
Hurdle Rate:	none	Auditor:	Ernst & Young
Admin Expenses*:	0.25%	Legal Counsel:	Proskauer Rose LLP

*Estimated.

NJ AIP Program

Recommended Allocation (\$mil):	\$300 million	LP Advisory Board Membership:	N/A
% of Fund:	99.0%	Consultant Recommendation:	YES
		Placement Agent:	NO
		Compliance w/ Division Placement Agent Policy	N/A
		Compliance w/ SIC Political Contribution Reg:	YES

¹\$3mm of Fund Size at launch

*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.