



State of New Jersey

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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State Treasurer

November 12, 2010

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh 
Director

SUBJECT: **Proposed Investments in Lynx (Bermuda) Ltd. and Winton Futures Fund**

The New Jersey Division of Investment is proposing an investment of \$100 million in Lynx (Bermuda) Ltd. and an investment of \$100 million in Winton Futures Fund. This memorandum is presented to the State Investment Council (the "Council") pursuant to N.J.A.C. 17:16-69.9. We plan to opportunistically invest these allocations over a number of months.

The Division of Investment ("Division") Staff and its hedge fund consultant, Cliffwater LLC, undertook extensive due diligence on these proposed additional investments. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

Lynx Asset Management AB is a Sweden based firm that was founded in 2000 and currently manages \$2 billion in assets, including \$750 million in Lynx (Bermuda) Ltd., the vehicle for U.S. investors. Brummer & Partners, a Swedish asset management company with \$9.2 billion under management, owns 40% of Lynx and provides back-office support. Lynx (Bermuda) Ltd. is a systematic commodities trading advisor (CTA) that trades over 60 global futures markets across equities, fixed income, currencies, and commodities. The strategy uses 24 models in four categories: trend-following, contrarian, intermarket, and short-term. Over time they have sought to diversify the fund's sources of return by adding models that have low correlation to trend following strategies. Approximately 90% of the inputs are price driven, while 10% are based on fundamental factors. The strategy is fully systematic and trades are executed with the sole purpose of tracking the model portfolio. The firm has 29 employees who are all located in Stockholm, including 13 investment professionals. Additionally, they are supported by a 100 person strong operations group at Brummer. The fund has generated strong performance over its six year history. Since inception in April 2004 through October 2010, the fund's annualized return and standard deviation were 12.44% and 13.64%, respectively. Management fees and performance fees are 1% and 20%, respectively. Approximate fund expenses are 11 basis points. Lynx has 3 months Treasury Bills as a hurdle rate.

Winton Capital Management was founded in 1997 and is run by David Harding, one of the pioneers in the systematic managed futures trading space. Winton currently manages \$13.6 billion in assets, including \$13.5 billion in total managed futures program assets, which is comprised of \$4.6 billion in the Winton Futures Fund and almost \$9 billion in managed accounts. Winton is a systematic commodities trading advisor (CTA) that trades over 100 global futures markets across equities, fixed income, currencies, energies and commodities. The fund's strategy is dictated by a highly sophisticated algorithm that is continuously executed throughout each trading day. The strategy is fully systematic and trades are executed with the sole purpose of tracking the model portfolio. Winton's approach is primarily directional, with systems sampling thousands of prices daily to identify and profit from momentum opportunities across a broad range of sectors. Trend following is at the core of Winton programs, but the fund is continually focusing on research into non-price factors to diversify returns. The fund is currently allocated approximately 70% to trend following and 30% to non-price driven, fundamental factors. The firm has 189 employees located in its London headquarters, Oxford and Cambridge research centers, and in Hong Kong. The staff is comprised of 111 investment professionals and 78 individuals in the operations, legal, investor relations and technology groups. Over the past 14 years, the fund has produced strong returns. Since inception in October 1997 through October 2010, the fund's annualized return and standard deviation were 17.09% and 18.62%, respectively. Management fees and performance fees are 1% and 20%, respectively. Approximate fund expenses are 14 basis points. There is no hurdle rate.

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 "pay to play" regulation (N.J.A.C. 17:16-4).

Please note that these investments are authorized pursuant to Articles 69 and 100 of the State Investment Council's (the "Council") regulations. The Lynx (Bermuda) Ltd and Winton Futures Fund will be considered opportunistic investments, as defined under N.J.A.C. 17:16-100.1.

Formal written due diligence reports for the proposed investments were sent to each member of the Investment Policy Committee on November 5, 2010, and a meeting of the Committee was held on November 9, 2010. In addition to the formal written due diligence reports, all other information obtained by the Division on the investments was made available to the Investment Policy Committee.

We look forward to discussing the proposed investments at the Council's November 18, 2010 meeting.

Attachments

SIC Investment Committee Fund Review Memo

To: State Investment Council
From: SIC Investment Committee
Date: November 18, 2010
Subject: Lynx Asset Management AB Recommendation

Fund Facts

Fund Name:	Lynx (Bermuda) Ltd.
Fund Type:	Global Macro
Current Fund Size:	\$2 billion
Inception:	April-04
Fund Address:	Norrmalmstorg 12 Stockholm, Sweden

GP Contact Info

Name:	Filip Borgeström
Telephone:	+46 8 407-13-62
Email:	filip.borgestrom@brummer.se

Summary of Terms and Investment Strategy

Investment Strategy:	Lynx is a systematic commodity trading advisor (CTA) trading over 60 global futures markets across equities, fixed income, currencies, and commodities. The strategy uses four main types of models: trend-following, contrarian, intermarket and short-term. Approximately 90% of the inputs are price driven, while 10% are based on fundamental factors. The bulk of the research effort is focused on portfolio construction issues and on development of new models with low correlation to existing models. The strategy is fully systematic and trades are executed with the sole purpose of tracking the model portfolio.
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Fee Terms:

Management and Performance Fees:	Management fee - 1% Performance fee - 20%
Other Fees:	Fund expenses - approximately 11 basis points
Hurdle Rate:	3 Month Treasury Bills

Service Providers:

Prime Broker(s):	Goldman Sachs, Newedge Group and Skandinaviska Enskilda Banken Futures
Administrator(s):	HSBC Fund Services
Auditor(s):	KPMG
Legal Counsel:	Gernandt & Danielsson, Simpson Thacher & Bartlett, Sidley Austin LLP, and Appleby

Liquidity/Redemption Terms:

Lock-up:	None
Redemption:	Monthly with 2 days notice

Side Pocket:	None
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NJ AIP Program:

Recommended Allocation Current:	\$100 million
% of Fund:	4.76%
% of New Jersey State Pension Plan:	0.14%
% of AIP Hedge Fund Allocation (\$4.7b):	2.86%

Consultant Recommendation:	Yes
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*see due diligence memo

Compliance with SIC "Pay to Play" Reg:	Side letter required
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* 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.

SIC Investment Committee Fund Review Memo

To: State Investment Council
From: SIC Investment Committee
Date: November 18, 2010
Subject: Winton Capital Management Recommendation

Fund Facts

Fund Name:	Winton Futures Fund
Fund Type:	Global Macro
Current Fund Size:	\$13.5 billion
Inception:	October-97
Fund Address:	1-5 St. Mary Abbott's Place London, England

GP Contact Info

Name:	Andrew Fraser
Telephone:	+44 20 7751 7816
Email:	A.Fraser@WintonCapital.com

Summary of Terms and Investment Strategy

Investment Strategy:	Winton is a systematic commodities trading advisor (CTA) trading over 100 global futures markets across equities, fixed income, currencies, energies and commodities. Winton's approach is primarily directional, with systems sampling thousands of prices daily to identify and profit from momentum opportunities across a broad range of sectors. Trend following is at the core of Winton's programs, but the fund is continually focusing on research into non-price factors to diversify returns. The fund is currently allocated approximately 70% to trend following and 30% to non-price driven, fundamental factors. The fund's strategy is dictated by algorithms that are continuously executed throughout each trading day. The strategy is fully systematic and trades are executed with the sole purpose of tracking the model portfolio.
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Fee Terms:

Management and Performance Fees:	Management fee - 1% Performance fee - 20%
Other Fees:	Fund expenses - approximately 14 basis points
Hurdle Rate:	None

Service Providers:

Prime Broker(s):	Newedge Group and Barclays Bank PLC Bank of New York and Northern Trust serve as custodians
Administrator(s):	Custom House Fund Services (Ireland) Limited
Auditor(s):	KPMG
Legal Counsel:	Willkie Farr & Gallagher LLP, Simmons & Simmons, Maples & Calder

Liquidity/Redemption Terms:

Lock-up:	None
Redemption:	Monthly with 2 days notice

Side Pocket:	None
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NJ AIP Program:

Recommended Allocation Current:	\$100 million
% of Fund:	0.74%
% of New Jersey State Pension Plan:	0.14%
% of AIP Hedge Fund Allocation (\$4.7b):	2.86%

Consultant Recommendation:	Yes
*see due diligence memo	
Compliance with SIC "Pay to Play" Reg:	Side letter required

* 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.