State of New Jersey

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DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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November 2, 2012

MEMORANDUM TO: State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Scopia PX, LLC Fund**

The New Jersey Division of Investment ("Division") is proposing an investment of up to $150 million in **Scopia PX, LLC Fund** ("Scopia"). 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:
Attractive return profile: 9.65% annualized return with 7.08% standard deviation from inception in April 2001 to August 2012. Risk adjusted performance, based on Sharpe Ratio, ranks in the top decile among peers on a 1- and 5-year basis as well as since inception.
Strong downside protection: Protected capital in difficult 2008 market environment, returning 1.81% while S&P 500 returned -37.00% and HFRI Fund Weighted Index returned -19.03%. The fund has produced positive performance in every calendar year since inception.
Complementary exposure for hedge fund portfolio: The fund's focus on small and mid cap companies typically leads it to have a portfolio which differs from that of its peers. This is evidenced by the low correlation Scopia exhibits to the Division's other long/short equity managers as well as to the HFRI Equity Hedge Index. Also, the low net exposure of the fund is a good complement to some of the more long biased funds in the portfolio.
Attractive terms: Scopia offers a 25 basis point management fee reduction from its standard 1.50% management fee for investors who have greater than $100 million invested and that have also been invested for 2 years. Scopia is willing to front load that 25bps management rebate for the Division, so that the Division will pay a 1.25% management fee, in return for a 3 -year lock-up (the 1st year is a hard lock, the 2nd and 3rd years are soft locks with redemption penalties: 3% and 2%, respectively) and then 90 days notice to redeem. The fund also offers all investors a hurdle rate (the hurdle being the 1-yr T-Bill rate at the start of the year (with a 4% cap)) before taking the 20% incentive fee. Hurdles of any kind are rare for long/short equity funds. Scopia is willing to offer the Division a hurdle rate over the 3-year investment horizon, which is being negotiated.
Cohesive investment team with complementary skill sets: The co-portfolio managers have worked together for 11 years and have complimentary skill sets, including private equity and short selling. Three of the senior analysts have worked with the founders for over 7 years.

Differentiated investment strategy: Employs intensive research oriented, fundamental based value approach in global names. The fund's focus on small and mid cap names leads to a portfolio that is unique relative to peers.

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 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 69 and 100 of the Council's regulations. The Fund 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 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: Scopia PX LLC — November 8, 2012

Contact Info: *Quinn Fionda, 152 West 57th St, New York, NY 10019*

Fund Details:

Total Firm Assets ($bil.):	$3.0 billion
Strategy:	Equity oriented hedge fund
Assets in Strategy($bil.):	$3.0 billion
Year Founded:	2001
SEC Registration	Yes
GP Commitment:	4%

Key Investment Professionals:

Jeremy Mindich, Managing partner, co-founder and co-portfolio manager for Scopia. Prior to co-founding Scopia, he worked for hedge fund Porter, Fellman as a short-focused analyst and partner specializing in emerging technologies in the communications and healthcare fields. From 1987 to 1995, Mr. Mindich worked as a freelance journalist. In 1995, he received a journalism fellowship to study at Harvard University's JFK School of Government.

Matt Sirovich, Managing partner, co-founder and co-portfolio manager for Scopia. Prior to co-founding Scopia, he served as principal investor at DLJ Merchant Banking Partners III, L.P. ("DLJ"), was promoted to senior vice president/principal in 1998, and in 2001 was promoted to managing director at the youngest age in the history of DLJ Merchant Banking

Investment Summary

Scopia Fund Management, LLC (“Scopia” or the “firm”) was co-founded in 2001 by Jeremy Mindich and Matthew Sirovich, who serve as co-portfolio managers for the fund. Scopia has a high quality investment team that has been steadily built up over time, with analysts that are developed “in-house”. The fund is a market neutral global Long/Short equity fund with a fundamentals based, value driven approach. The fund has a small and mid cap bias, with a focus on the $1 billion to $5 billion market cap range where companies are not widely followed. On the long side, they seek companies with strong product lines, state of the art technologies, and solid balance sheets selling at attractive valuations. Shorts are those companies with weak product line, lagging technology, and a weak balance sheet selling at rich valuations. All long and short ideas are developed on a bottom up basis but, on rare occasions. they are implemented across a sector based on a strong macro view.

Existing and Prior Funds

As of Aug 31, 2012	*Fund*	*HFRI Equity Hedged*	*S&P 500*
1-Year	15.35	-0.95	18.00
3- Year	5.92	3.62	13.62
5- Year	6.29	-0.13	1.28
Inception	9.65	5.61	7.11
2011	11.93	-8.38	2.11
2010	0.80	10.45	15.06
2009	13.84	24.57	26.46
2008	1.81	-26.65	-37.00

Vehicle Information:

Fund Inception:	2001	**Subscriptions:**	Monthly
Fund Size ($mil.):	$3.0 billion	**Redemptions (notice):**	Quarterly (60 day notice);Monthly (125 day notice)
Management Fee:	1.5%* (1.25% for investments over $100 mil/over 2 yrs)	**Lock-up:**	1 yr hard lock up onshore/ 1yr soft lock up offshore
Profit Allocation:	20%	**Prime Broker:**	Goldman Sachs, Barclays
Highwater Mark:	Yes	**Administrator:**	Morgan Stanley Fund Services
Hurdle Rate:	1 yr US Tbill, subject to 4% cap	**Auditor:**	Rothstein Kass
Additional Expenses:	approx. 0.3%	**Legal Counsel:**	Seward & Kissel, LPP/ Appleby

NJ AIP Program

Recommended Allocation ($mil):	$150 million	**LP Advisory Board Membership:**	**N/A**
% of Fund:	5.00%	**Consultant Recommendation:**	**Yes**
		Placement Agent:	**No**
		Compliance w/ Division Placement Agent Policy:	**N/A**
		Compliance w/ SIC Political Contribution Reg:	**TBD**

*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.