



State of New Jersey

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DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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January 20, 2012

MEMORANDUM TO: State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Cevian Capital II, LP**

The New Jersey Division of Investment (the "Division") is proposing up to **\$150 million** investment in **Cevian Capital II, LP Fund**. 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 for a number of reasons:

Experienced Investment Team: Cevian is the largest and most experienced activist manager in Europe with a 15 year track record.

Investment Style: Hands-on and constructive. Conducts intensive research and creates action plan to enhance the value of the company before making investment or engaging in a dialogue with the management. Improves governance, operations and frequently joins the board of directors to affect change.

Attractive return profile: Fund's annualized return of 11.46% since inception places it in the top quartile among Event Driven hedge fund managers. Additionally, the fund has significantly outperformed the MSCI Europe Index over all periods since inception.

Addresses Underweight: Pension Fund is currently over \$1.2 billion underweight the equity oriented hedge fund category. The proposed allocation will further diversify the equity hedge fund portfolio and the overall Global Growth asset class.

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 Cevian Capital II, LP 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 January 18, 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 January 26, 2012 meeting.

Attachments

Fund Name : Cevian Capital II, L.P.

January 20, 2012

Contact Info: David Her David Henderson, 17 Cavendish Square, London W1G 0PH (44) 20-3178-4957 david.henderson@ceviacapital.com

Fund Details:*

Total Assets (\$mil.):	\$4,927	Key Investment Professionals: Lars Forberg: Co-Founder and Managing Partner. Started investing in the activist strategy as CIO of Custos (publicly listed company) in 1996. Co-founded Cevian in 2002 and followed same investment strategy under draw-down capital structure (Cevian Capital I, LP). Formed Cevian Capital II, LP, an evergreen structure, in July 2006. Christer Gardell: Co-founded Cevian in 2002 and has 15 years of activist investment experience. Started investing in the strategy as CEO of Custos with Mr. Forberg In addition to the two Founding Partners, Harlan Zimmerman (Senior Partner based in London) as well as 5 Partners (Marcus Alexanderson, Ilias Läber, Martin Oliw, Jonas Synnergren and Jens Tischendorf) are senior members of the Investment Team
Strategy:	Event Driven	
Assets in Strategy(\$mil.):	\$5,911	
Year Founded:	Jul-06	
SEC Registration:	Yes	
GP Commitment:	Approximately EUR 55m	

*AUM is as of 11-30-11

Investment Summary	Existing and Prior Funds			
<p><i>The fund focuses on activist investments in Northern European and UK listed companies. Fund managers conduct 3 to 6 months of extensive, in-depth fundamental research and create an operational blue print prior to investing and management contact. Post investment they work with management and the board of directors to improve governance and company profitability. They frequently join the board and/or the nominating committee to work hands-on to improve the company and implement their recommendations. Cevian generally takes a meaningful position in companies and has an average three year holding period with the expectation to double their investment over this period. Cevian benefits from support of other large preexisting shareholders due to their success in increasing value for all shareholders.</i></p>	As of Oct 31, 2011	Cevian Capital II, LP	HFRI Event Driven	MSCI Europe
	5 Year	8.62%	3.43%	-2.74%
	3 Year	21.39%	9.18%	9.38%
	YTD	-12.56%	-1.96%	-5.39%
	2010	42.41%	11.86%	3.88%
	2009	35.70%	25.04%	35.83%
	2008	-32.75%	-21.82%	-46.42%
	2007	19.34%	6.61%	13.86%
2006 (2nd Half)	32.19%	15.33%	33.72%	

Vehicle Information:

Fund Inception:	Jul-06	Subscriptions:	Quarterly
Fund Size (\$mil.):	\$4,927	Redemptions (notice):	90 Days
Management Fee:	1.50%	Lock-up:	Class-A: 3 yr share class - Liquidity of 5% per yr with balance at 36 mos
Profit Allocation:	18% (at end of lock-up)	Prime Broker:	UBS
Highwater Mark:	Yes	Administrator:	BNY Mellon Alternative Investment Services
Hurdle Rate:	No	Auditor:	PricewaterhouseCoopers LLP
Additional Expenses:	10 Basis Points (approximately)	Legal Counsel:	Schulte Roth & Zabel

NJ AIP Program

Recommended Allocation:	\$150 million	LP Advisory Board Membership:	N/A
% of Fund:	3.00%	Consultant Recommendation:	Yes
		Placement Agent:	No
		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.