

June 11, 2008

MEMORANDUM TO: State Investment Council

FROM: William G. Clark  
Director

SUBJECT: Proposed Private Equity Investments in Fairview Capstone II-  
NJDOI Emerging Manager Separate Account

This due diligence memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9 (a) to report on one proposed private equity investment: a \$100 million commitment to Fairview Capstone II- NJDOI Emerging Manager Separate Account.

Please note that this investment will be authorized pursuant to Articles 69 and 90 of the Council’s regulations. The investment in Fairview Capstone II is considered a “Buyout Fund” as defined under N.J.A.C. 17:16-90.1.

The Alternative Investments Procedures adopted by the Council on February 21, 2008 require any potential alternative investment opportunities to be identified and initially evaluated by the applicable staff of the Division of Investment (“DOI”) and the applicable asset class consultant (Strategic Investment Solutions for Private Equity or “SIS”) in coordination with the DOI Investment Committee (Director, Deputy Director, and the Senior Staff member for the applicable alternative asset class).

As a result of internal and external sourcing, the DOI Investment Committee identified the proposed investment. SIS and Division staff proceeded to undertake extensive due diligence on the proposed investment. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council. Based on this due diligence, the Division has determined that the proposed investment meets the criteria for investments set forth in the Alternative Investments Policy.

*Fairview Capstone II* is being organized as a separate account to make commitments in small and/or “emerging” buyout and venture capital funds. The investment is a “re-up” for the division after committing an initial allocation of \$100 million to Fairview Capstone in 2007. Fairview Capstone Fund II intends to invest 50-60% in venture capital funds, 30-40% in buyout funds and 0-15% to special situations. The structure of the mandate is designed to be complimentary measure to the existing Credit Suisse Emerging Manager separate account in order to broaden the exposure to a more varied selection of managers and take full advantage of the strengths of each firm. The terms for Fairview Capstone II were negotiated by The Division and are consistent with those of the commitment to Fairview Capstone I. The Division is proposing a \$100 million commitment to the Fund.

A formal written due diligence report for the proposed investment was sent to each member of the Investment Policy Committee of the Council on June 6, 2008, and a meeting of the Committee was held on June 10, 2008. In addition to the formal written due diligence report, all other information obtained by the Division on the investment was made available to the Investment Policy Committee.

After review of the extensive due diligence, the Investment Policy Committee of the Council decided to report on the proposed investment to the full Council pursuant to Step 3 of the Alternative Investments Procedures. Under these procedures, the Council may adopt or otherwise act on this report.

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 this investment. In addition, this proposed investment must comply with the Council’s “pay to play” regulation (N.J.A.C. 17:16-4). While we are confident that we will work through these issues, the potential exists that a successful resolution may not be reached with the general partner.

We look forward to discussing the proposed private equity investment at the Council’s June 19, 2008 meeting.

WGC: cpp  
Attachment