



**State of New Jersey**

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May 9, 2011

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh  
Director

SUBJECT: **Proposed add-on investment in Ascend Partners Fund II, LP Fund**

The New Jersey Division of Investment is proposing an addition of \$75 million to our investment in Ascend Partners Fund II, LP Fund. This memorandum is presented to the State Investment Council ("Council") pursuant to N.J.A.C. 17:16-69.9.

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

Ascend Capital is an SEC registered investment advisor that manages \$3.2 billion in equity long/short hedge funds. The firm was founded in 1999 by Malcolm Fairbairn, who previously worked at Citadel Investment Group and Strome Susskind. Ascend has 34 employees, including 21 investment professionals, and is located in San Francisco. Mr. Fairbairn owns 100% of the firm. Mr. Fairbairn and Ascend employees have a significant (approximately 10%) investment in Ascend's funds.

The Ascend Partners funds are managed to generate superior risk-adjusted returns over a broad range of market environments. Ascend utilizes an extensive bottom-up, fundamental research process to develop a long/short portfolio of publicly traded, mostly US equities. Ascend's fundamental research analysts are organized by industry and provide the majority of new investment ideas. Mr. Fairbairn is the CIO and is ultimately responsible for security selection and portfolio construction.

Ascend has generated strong absolute performance with less volatility than its peers. Ascend Partners Fund II L.P. has an annualized net return, from inception in February 2004 through February 2011, of 8.22% and an annualized standard deviation of 4.54%, resulting in a Sharpe

Ratio of 1.16. The fund has had only two months with a drawdown of more than -2%, and has never experienced three or more consecutive months of negative performance. The fund has posted positive performance in 80% of the months and 80% of the quarters since its inception. The longer-running unlevered fund (Ascend Partners Fund I LP) has produced similarly strong risk adjusted returns since its inception in January 2000.

All investment professionals and two operations professionals take an active role in Ascend's portfolio risk management process, although Mr. Fairbairn is ultimately responsible for risk management. The Partners funds are well diversified with respect to number and size of positions, and sector and industry exposure. The funds' exposures are in-line with or lower than most equity long/short funds. Ascend outsources the majority of non-investment duties to quality service providers and has adequate staff to handle the remaining operational demands. Ascend provides good reporting and is willing to provide position level transparency if required.

Ascend's 1.5% management fee and 20% incentive fee are in line with market standards. Liquidity is good with monthly liquidity after a one year lock-up (hard lock for onshore, soft lock with a 3% fee for offshore funds) and special withdrawal rights per key man provisions.

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 this investment is authorized pursuant to Articles 69 and 100 of the Council's regulations. Ascend Partners Fund II LP Fund will be considered an Equity Oriented investment, 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 and a meeting of the Committee was held on May 5, 2011. 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 investment at the Council's May 19, 2011 meeting.

Attachments

# State Investment Council

**To:** State Investment Council  
**From:** Division of Investment  
**Date:** May 19, 2011  
**Subject:** Ascend Capital, LLC  
Recommendation

## Fund Facts

Fund Name:	Ascend Partners Fund II L.P.
Fund Type:	Long/Short Equity
Current Fund Size:	\$3.1 billion
Inception:	February-2004
Fund Address:	50 California Street, Suite 2940 San Francisco, CA 94111

## Investment Rationale:

**This is an additional investment to a long/short equity fund which has provided consistent returns to the NJ hedge fund portfolio.** NJ DOI is seeking to invest an additional \$75 million to Ascend Partners Fund II, L.P. The fund follows a low risk approach to investing in US equity markets. The fund has a strong stock selection approach which is implemented via a low net exposure across individual market sectors. Since inception of NJ's investment in July 2007, Ascend Partners II has generated a cumulative return of **18.68%** with **low volatility** and performed particularly well in 2008 by limiting losses -3.58%.

## Summary of Terms and Investment Strategy

Investment Strategy:	Long/short equity fund that utilizes an extensive bottom-up, fundamental research process. The portfolio is diversified across multiple sectors and individual positions. The fund focuses primarily on US equities, but may opportunistically invest in corporate credits. The manger makes limited use of leverage and maintains low net exposure at the individual sector and overall portfolio levels.
Fee Terms:	
Management and Performance Fees:	Management fee - 1.5% Performance fee - 20%
Other Fees:	Fund expenses - 15 bps
Hurdle Rate:	None
Service Providers:	
Prime Broker(s):	Morgan Stanley, BNP/BoA, Citigroup, Deutsche Bank
Administrator(s):	Stone Coast Fund Services
Auditor(s):	Rothstein, Kass & Co.
Legal Counsel:	Finn Dixon & Herling
Liquidity/Redemption Terms:	
Lock-up:	1 year
Redemption:	Quarterly with 45 day notice
Side Pocket:	None

## NJ AIP Program:

Recommended Allocation Current:	\$75 mil in addition to existing investment (March 2011 NAV at \$89 mil)
% of Fund:	5.32%
% of New Jersey State Pension Plan (\$72b):	0.23%
% of AIP Hedge Fund Allocation (\$3.6b):	4.56%

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

## GP Contact Info

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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.