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NJ Pension Strikes \$1.8B Deal with Blackstone

By Matt Gunn December 9, 2011

The **New Jersey Division of Investment** has entered into a \$1.8 billion “strategic relationship” with **Blackstone** that spans investments across four alternative asset classes, while also deepening the pension’s relationship with the private equity giant.

The big commitment between New Jersey, which oversees more than \$66 billion for seven public retirement systems, and Blackstone, the world’s largest private equity group, represents a series of customized accounts with terms and fees that pension officials say are favorable to them.

New Jersey staff says the relationship will give the pension expanded investment opportunities, greater access to Blackstone staff and resources, and a favorable fee structure, while maintaining strong governance for the pension system.

“This is a very unique strategic relationship that we’re putting together today,” says **Tim Walsh**, director of the New Jersey system. “We are going to be able to take advantage of opportunities at a discount over what we would have paid with a single fund.”

The \$1.8 billion relationship includes a \$1.5 billion commitment to tactical opportunistic separate accounts and \$300 million in traditional private equity-, energy- and credit-focused fund vehicles. The opportunistic separate accounts include a \$150 million commitment to Blackstone Energy Partners I, a \$100 million commitment to the GSO Special Situations Fund, and a \$50 million commitment to Blackstone Capital Partners VI. New Jersey’s opportunistic separate accounts include a \$250 million to \$500 million commitment to GSO Energy, a \$250 million commitment to GSO Credit Opportunities, and between \$750 million to \$1 billion in a new tactical account.

The new tactical account account, dubbed the BX-NJ Tactical Opportunities Account, will be led by a dedicated Blackstone team that will source and evaluate investments for the fund. Blackstone will also assign two people from each of its individual business groups to assist with sourcing and due diligence.

The tactical account will improve New Jersey’s ability to make time-sensitive investments or engage in opportunistic investments across several alternative asset classes. The overall partnership is also projected to save the pension \$120 million in fees over the life of the relationship.

During New Jersey’s board meeting in Trenton on Thursday, Walsh emphasized the fund’s confidence in the manager and its staff.

“There are essentially three or four firms that can do this sort of thing right now,” he says. “We’re very comfortable with Blackstone.”

Because the strategic relationship is in private equity, New Jersey doesn’t expect to reach a fully funded status for quite some time. **Robert Grady**, chair of New Jersey’s board of trustees, says it could be a decade before the relationship is fully funded. “And hopefully, by then, you’re beginning to draw returns from the investments.”

Walsh acknowledged the similarities between New Jersey’s new strategic relationship and the strategic partnership system put in place by **Britt Harris**, CIO of the **Texas Teachers Retirement System**. But the Texas system differs in that it is a multi-manager program typically deployed within single traditional asset classes, he says.

“What we’re seeing is more popularity with these types of relationships, but nothing that captures the breadth of what we’re doing here,” he says.

Blackstone recently turned down a multibillion-dollar strategic partnership mandate from Texas Teachers, as [reported](#). Blackstone chairman **Stephen Schwarzman** said at the time that the opportunity to expand into hedge funds didn’t make much sense and that it had plans to work with another pension fund – an apparent reference to the New Jersey deal.

Blackstone already held a \$1.1 billion mandate from the New Jersey pension system, making it the state’s largest alternatives manager. The new strategic relationship deepens that tie.

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