

New Jersey State Investment Council

May 24, 2017 Regular Meeting

Minutes of the Regular Meeting

Held May 24, 2017 at the Trenton War Memorial, George Washington Ballroom, 1 Memorial Drive, Trenton, New Jersey.

Council Members in Attendance:

Brendan T. Byrne, Jr., Chair
Adam Liebttag, Vice Chair
Marty Barrett
Michael Greaney
James Hanson
Guy Haselmann
James Joyner
Timothy McGuckin (via telephone)
Jeffrey Oram
Eric Richard
Mitchell Shivers

Thomas Bruno Jr., Michael Cleary, and Charles Dolan were not in attendance.

Roll Call and Meeting Notice

The Regular Meeting was called to order by Brendan T. Byrne, Jr., Council Chair, at 10:09 a.m. Ernestine Jones-Booker, Council Secretary, performed roll call and reported that a quorum of the State Investment Council (Council) was present. Ms. Jones-Booker reported that notice of the Regular Meeting scheduled for May 24, 2017 was posted on the website of the Division of Investment (Division); faxed to the Times of Trenton, the Bergen Record, and the Courier Post; and e-mailed to the Secretary of State on April 21, 2017. A copy of the notice was posted at the Division and is on file.

Minutes of the Regular Meeting held March 29, 2017

Mr. Byrne proposed two amendments to the draft minutes that were presented to the Council for approval. First, he proposed amending the second sentence of the paragraph entitled "Private Equity Overview" to read as follows: "At the request of Mr. Byrne, Mr. Coyne and Mr. McDonough described the importance of calculating both the investment multiple and the net internal rate of return (IRR)." Second, he proposed amending the first sentence of the paragraph preceding the discussion of "Neuberger Berman New Jersey Custom Fund, III, L.P." to read as follows: "Mr. Byrne recused himself from the discussion of Neuberger Berman New Jersey Custom Fund III, L.P. to avoid any possible conflict and left the meeting." Guy Haselmann made a motion to approve the minutes as amended, with James Joyner seconding the motion. All Council Members present voted in favor, except for Michael Greaney, who abstained because he was absent from the March 29th meeting.

Opening Remarks by Chair

Mr. Byrne made some brief opening remarks discussing the current market environment, fiscal-year-to-date returns and overall pension fund performance, as well as the State's potential contribution of the New Jersey State Lottery to certain of the pension systems. Mr. Byrne invited Council members to submit topics or questions for the speaker scheduled for the July meeting, Ms. Sharmin Mossavar-Rahmani, chief investment officer of the private wealth management group at

New Jersey State Investment Council May 24, 2017 Regular Meeting

Goldman Sachs. Finally, Mr. Byrne noted the sudden passing of the State's Chief Economist, Dr. James Wooster, and offered his condolences and sympathy to Dr. Wooster's family and colleagues.

Appointment of Audit Committee Member

Mr. Byrne announced his appointment of Charles Dolan to the Audit Committee.

Director's Report/Updates

Director Christopher McDonough presented the Director's Report, reviewing capital markets, pension fund performance and current asset allocation. Mr. Haselmann asked the Division to provide an analysis comparing market returns in the current Quantitative Easing environment to historical market returns during periods of similar GDP growth in a non-QE environment.

Mr. McDonough reported to the Council that Senate Bill 3040, transferring investment authority over PFRS assets, had been conditionally vetoed by the governor on May 8, 2017. Mr. Byrne acknowledged the work of Division staff in preparing for various scenarios with respect to the transfer of PFRS assets. Mr. McDonough also informed the Council of the retirement of International Equity Portfolio Manager Karen Paardecamp, effective June 1, 2017. Mr. Byrne thanked Ms. Paardecamp for her years of service and wished her well in retirement. Marty Barrett and Mr. Haselmann inquired regarding the status of discussions regarding raises for Division staff, to which Mr. Byrne responded that the Council's concerns had been expressed clearly but there had been no concrete progress to date.

Pursuant to the Council's Alternative Investment Modification Procedures, Mr. McDonough notified the Council of a change in the general partner of NJDOI/GMAM Core Plus Real Estate Investment Program, L.P. (now NJDOI Core Plus Real Estate Investment Program, L.P.) and NJDOI/GMAM Opportunistic Real Estate Investment Program, L.P. (now NJDOI Opportunistic Real Estate Investment Program, L.P.) in April 2017.

Fiscal Year 2018 Annual Investment Plan and Policy Benchmark

Mr. McDonough summarized the IPC's discussion of the Fiscal Year 2018 Annual Investment Plan at its April meeting. Mr. McDonough also provided an update on the Division's progress toward meeting the 6% hedge fund target that was part of the Fiscal Year 2017 Annual Investment Plan. Mr. McDonough stated that the Division was recommending modest adjustments to the policy benchmark for Fiscal Year 2018, with adjusted weightings based on the ongoing reduction of the hedge fund portfolio. Deputy Director Corey Amon analyzed the outlook for various asset classes.

In response to a question from Mr. Haselmann regarding Mr. McDonough's forward-looking investment themes, Mr. McDonough noted that these themes would result in relatively modest overweights and underweights to the existing Fiscal Year 2017 target allocations, and did not require adjustments for Fiscal Year 2018 allocations, as the approved ranges provide ample flexibility. Mr. Haselmann emphasized the importance of carefully assessing risks, and suggested that funding levels and depletion dates may eventually necessitate a change in mission from maximizing returns to preserving capital. Eric Richard echoed Mr. Haselmann's concerns regarding the health of the pension system and noted in particular the inadequate funding level for the Judicial Retirement System. Mr. Byrne responded that it was difficult to factor in depletion dates given the unknown status of various funding proposals, and therefore thought it appropriate to continue the current allocation until more information became available. Mr. Barrett inquired whether assets of the Police and Firemen's Retirement System were being invested using the same allocation as that of less funded systems. Mr.

New Jersey State Investment Council May 24, 2017 Regular Meeting

McDonough responded that was generally the case, except for a portion of the PFRS assets that were used to fund the PFRS mortgage program.

Vice Chair Adam Liebttag expressed dissatisfaction with the Council's failure to advocate for more employer contributions, arguing that no asset allocation strategy will be successful without more funding from the employers. Mr. Haselmann cited his 2012 paper on the actuarial assumption as an example of the Council commenting on non-investment issues relating to the pension fund, and further noted that there may be a certain crisis funding level below which taking any risk may be imprudent and the most prudent strategy is to take no risk in order to delay the depletion date as long as possible. Mr. Barrett asked whether the Division had calculated how much extra money would be in the pension fund if the full contributions required by the actuary had been made from the beginning. Mr. Byrne responded that such a calculation would not be particularly helpful, given the number of assumptions that would need to be made, but agreed that the continued lack of contributions would impair the Council's flexibility to optimize its investment strategy.

Mitchell Shivers made a motion to approve the annual investment plan for FY18, with Mr. Oram seconding the motion. All Council members present voted in favor, with the exception of Mr. Richard and Mr. Haselmann who both opposed the motion. Mr. Oram made a motion to adopt the proposed policy benchmarks for FY18, which motion was seconded by Mr. Joyner. All Council members present voted in favor of the motion, with the exception of Mr. Haselmann who abstained.

Investment Objective Survey

Kristen Doyle of Aon Hewitt Investment Consulting presented a preview of the investment objective survey that will be distributed to Council members and the senior investment team at the Division. Ms. Doyle discussed the purpose of the survey, how it would be conducted, and how data gathered from responses would be utilized. Mr. Byrne commented that the responses would depend on the wording of questions and asked that wording be carefully selected. Mr. Shivers concurred with Mr. Byrne's recommendation. Ms. Doyle stated that the survey would provide for qualitative responses and also invited participants to utilize the option to respond via telephone interview. To Mr. Byrne's question about timing, Mr. McDonough stated that the Division's goal was to present the survey results at the next SIC Meeting.

Mr. Barrett recommended that the Council's bylaws be reviewed to ensure that they permit attendance via telephone. Mr. Byrne responded that the Division will review the bylaws to determine if any changes were necessary.

Real Estate Investment

Hammes Partners III, L.P.

Kevin Higgins of the Division presented an investment of up to \$50 million in Hammes Partners III, L.P., a fund focused on the acquisition and development of medical office buildings and ambulatory care centers across the United States. Mr. Higgins discussed the Division's investment thesis and the terms of the investment. Mr. Byrne reported that the IPC had reviewed the investment and was satisfied that appropriate and adequate due diligence had been performed.

Private Equity Investment

Onex Partners V L.P.

Michael Pascucci of the Division and Michelle Davidson of TorreyCove Capital Partners presented an investment of up to \$100 million in Onex Partners V, L.P., a private equity fund focusing on control investments in businesses in the United

New Jersey State Investment Council May 24, 2017 Regular Meeting

States, Canada, and Europe. Mr. Pascucci and Ms. Davidson described the rationale for the investment and the terms of the investment. James Hanson expressed concern regarding the variance in returns from Fund I to Fund IV. Mr. Byrne reported that the IPC had reviewed the investment and was satisfied that appropriate and adequate due diligence had been performed.

Report from the State Treasurer

None

Public Comment

None

Adjournment

Mr. Haselmann made a motion to adjourn the meeting, with Mr. Shivers seconding the motion. All Council members present voted in favor. The meeting was adjourned at 12:03 p.m.