Minutes of the Regular Meeting:
Held January 26, 2012 following the Annual Meeting, which began at 10:00 AM at the Trenton War Memorial, George Washington Ballroom, 1 Memorial Drive, Trenton NJ.

Council Members in Attendance:
Robert Grady, Chair
Marty Barrett
Brendan T. Byrne, Jr.
James Hanson
Guy Haselmann
James Joyner
James Marketti
Peter Maurer
Timothy McGuckin
Jeffrey Oram

Roll Call and Meeting Notice
Ms. Christine Eckel performed roll call and reported that notice of the Regular Meeting scheduled for January 26, 2012, was posted to the Division’s website on January 20, 2012 and sent via fax to the Times of Trenton, the Star-Ledger, the Bergen Record, the Courier Post and the Secretary of State on January 5, 2012. A copy of the notice was posted at the Division and is on file.

Approval of Minutes for Regular Meeting held December 8, 2011
Chair Grady asked the Council Members if they had any comments on the minutes for the December meeting. Mr. Marketti stated that the minutes should reflect that he had asked Mr. Megariotis to prepare an analysis of the effect of the elimination of COLAs on Pension Beneficiaries. Also Ms. Eckel pointed out she had missed the seconding of the motion on the Proposed Amendments to N.J.A.C 17:16-71. That motion was seconded by Mr. Haselmann. A motion was made by Chair Grady to approve the minutes for the December 8, 2011 meeting, as so corrected, with Mr. Maurer seconding the motion. All Council Members voted in favor with Mr. Hanson abstaining because he was not in attendance at the December 8 meeting.

Approval of Annual Report draft
Chair Grady asked that a sentence be added to the last paragraph on page 5. Additional changes to be made to the draft were the insertion of a benchmark, when available, the addition of the Chair’s letter, when available, and the correction of a missing page number. In discussing the report, the Chair noted that total Investment returns for the Pension Fund, excluding Police and Fire Mortgages, was 18.03%—the highest in thirteen years for the pension fund. A motion was made by Chair Grady to approve the Annual Report as drafted with the amendments described above. Mr. Haselmann seconded the motion. All Council Members voted in favor.

Directors Report/Update
Director Walsh advised the Council that November was a fairly muted month and December was down by 1%. 
**Secondary Sale**

Director Walsh provided the Council with an update on the secondary sales of Private Equity Partnership Interests, stating that Division staff had done a very impressive job, selling them at 96% of cost, in the aggregate, and 94% Net Asset Value (“NAV”). Director Walsh reported that, in the fourth quarter of 2011, the Division had also completed a secondary purchase of an interest in a Blackstone Real Estate Partners VI, L.P. at a discount to NAV of approximately 25%.

Director Walsh stated that all secondary sales of Private Equity had been substantially completed.

**Hedge Fund Investments**

**Bay Pond Partners**

Director Walsh presented a proposed investment of $150 million in Bay Pond Partners, L.P., which is run by Wellington Asset Management out of Boston, with an office also in Radnor, Pennsylvania. Director Walsh stated the Pension Fund has done well with its underexposure to the financial sector in previous years by former Director Clark, which was substantially under benchmark pre-Lehman. This fund has the ability to go long or short, but it has a flexible mandate to invest across capital structure, CDS, commodities, currencies and sovereigns. Mr. Walsh reported that the Pension Fund was currently over $1.2 billion under its target allocation in the equity-oriented hedge fund category, and that this investment would help address that underweighting. Mr. Walsh reported that Wellington Asset Management was a top-performing asset manager, and that the Bay Pond fund had demonstrated top quartile performance on both a 3-year and 5-year basis. The fund has had exceptional returns for the last 15 years in the financial space, not only in the U.S. but around the world, with a 22.5% annualized return.

Jake Walthour of Cliffwater also mentioned the fund is managed by Nick Adams who has spent 28 years with Wellington. Mr. Adams is one of the most experienced and highly respected financial sector portfolio managers in the industry.

Chair Grady reported that the Investment Policy Committee has determined that appropriate and adequate due diligence was performed. Council Member Marketti went on record as being opposed to this investment as well as the other hedge fund investment and two private equity fund investments on the agenda.

**Cevian Capital II, LP**

Director Walsh presented a proposed investment of $150 million in Cevian Capital II, LP, a strategic investor in Europe, primarily focusing on Germany and Nordic countries. The fund is primarily long
investment with a good track record, and will allow the Division to benefit from investments in areas for which the Division lacks sufficient internal staffing. According to Director Walsh, Cevian has an interesting structure, similar to a Private Equity structure, and very attractive fees – with a management fee and carried interest percentage that were below market standard.

Jake Walthour of Cliffwater also mentioned the organization was founded in 2002 by Christer Gardell and Lars Forberg. The size of the organization, which is small, reflects their strategy, as well as their portfolio. The 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.

Chair Grady reported that the Investment Policy Committee has determined that appropriate and adequate due diligence was performed.

**Private Equity Investments**

The Council then reviewed the Nueberger Berman/New Jersey Custom Investment Fund II and a proposed investment in Edison Ventures VII, L.P. Chair Grady stated that, according to analysis presented to the Investment Policy Committee, both funds were top performing funds (top quartile), that have helped to create jobs in New Jersey and the surrounding region. The Neuberger Berman fund is a co-investment fund that has a mandate to invest in companies which have a presence in New Jersey. The second fund is Edison Venture Capital, which is the only top-tier venture capital firm in New Jersey. Edison is located in Lawrenceville NJ, is now raising its seventh fund, and has a twenty-plus year investment history with very good returns.

The Chair noted that both of these funds are consistent with Council’s fiduciary mission, which is to maximize return, but also have the benefit of funding job-creating, growth companies within New Jersey.

**NB/NJ Custom Fund II**

Christine Pastore presented a proposed investment of $200 million in Neuberger Berman/New Jersey Custom Investment Fund II (“NB/NJ Custom Fund II”). The Division started in 2007 with NB/NJ Custom Fund, as part of NJDOI’s separate account mandate to achieve attractive risk-adjusted returns while promoting economic benefits within the State of New Jersey and Northeast region. NB/NJ Custom Fund II will be considered a “buy-out” investment.

Chair Grady reported that the Investment Policy Committee has determined that appropriate and adequate due diligence was performed.

**Edison Ventures Fund VII, LP**

Christine Pastore along with Pete Keliuotis of SIS proposed an investment of $35 million in Edison Ventures Fund VII, LP. They reported that Edison Venture Fund’s strategy of investing in late-stage growth businesses diversifies and complements the Division’s existing portfolio of early-stage venture capital funds. As part of NJDOI’s mandate to invest in top quality venture capital firms on a direct basis,
the late-stage strategy has generated cash-on-cash returns that are in the top quartile relative to the Venture Economics universe of venture capital funds.

Chair Grady reported that the Investment Policy Committee has determined that appropriate and adequate due diligence was performed.

**Report on Northern Ireland**

Susan Sarnowski, Director of Operations and Compliance Officer of the Division, stated that pursuant to a 1987 statute with no sunset provision, the Division must report on its investments in Northern Ireland. The Division engaged a research provider, ISS, to furnish the report, which outlines United States corporations doing business in Northern Ireland and summarizes the extent to which they adhere to non-discrimination principles in the workplace. Ms. Sarnowski stated the report was furnished to the Governor and Legislature as required by the statute.

**Director’s Report on Treasury Supplemental Code of Ethics**

Susan Sarnowski stated there is a Treasury Supplemental Code to the Uniform Ethics Law, which governs employees’ personal investing. It also requires the Division to give an update to the Council every year.

To avoid any conflicts of interest, any personal trading by employees, other than in mutual funds, must be pre-approved. There are blackout periods prescribed, 7 days back, 7 days forward. There is also a 60-day period during which an employee cannot profit from a buy/sell or a sell/buy on a particular security.

Employees must certify annually that they are in compliance with the Uniform Ethics Law and the Supplemental Code of Ethics. Ms. Sarnowski commented that she has received all certifications, except for one employee who is out on medical leave. In addition, every employee is required to provide statements to the Compliance Officer of all accounts in which they have a beneficial interest, which reports are reviewed every month by Ms. Sarnowski. During calendar year 2011, the Division had two violations of the Code. One employee sold fixed income securities without requesting the required pre-approval and another employee failed to report a spouse’s account and provide statements. The two violations were reported to Labor Relations and the Department’s Office of Ethics compliance for appropriate action. Ms. Sarnowski also stated, as new employees come on board, they are briefed on both these ethics requirements and the Division’s Insider Trading Policy.

**Report from the Treasurer**

Assistant Treasurer Chris Jeter stated that the Treasurer’s office is in the midst of preparing the budget for next fiscal year, which is expected to include a second payment to the Pension Plan under the terms of the pension reform statute signed into law in 2011.

**Opportunity for Public Comment**

Rae Roeder, President of CWA Local 1033, asked when the first payment to the Pension Plan was made. Mr. Jeter responded, stating that it had not yet been made, but will be made by the end of Fiscal Year
2012. Ms. Roeder also commented on the Division’s relatively small annual budget in comparison to the amount of management fees paid in connection with alternative investments.

Chair Grady motioned to adjourn the meeting, with Council Member Maurer seconding the motion. All voted in favor. The meeting was adjourned at 2:15 pm.