Minutes of the Regular Meeting:

Held on May 24, 2012 at 10:00 AM at the Trenton War Memorial, George Washington Ballroom, 1 Memorial Drive, Trenton New Jersey.

Council Members in Attendance:

Robert Grady, Chair
Marty Barrett
Brendan T. Byrne, Jr.
Michael Cleary
Michael Greaney
James Hanson
Guy Haselmann
Adam Liebtag
Peter Maurer (Arrived at 10:16, prior to the Approval of Minutes)
Timothy McGuckin
Jeffrey Oram (Arrived at 10:18, prior to the Approval of Minutes)

James Joyner was not in attendance for this meeting.

Roll Call and Meeting Notice

Mr. Grady called the meeting to order at 10:00am. Ms. Christine Eckel performed roll call and reported that notice of the Regular Meeting scheduled for May 24, 2012, was posted to the website of the Division of Investment (the Division) on May 1, 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 May 1, 2012. A copy of the notice was posted at the Division and is on file.

Chair Grady welcomed Michael Cleary and Michael Greaney to the Council. Mr. Cleary was nominated by the New Jersey State AFL-CIO and nominated by the Governor. Mr. Greaney, who previously served on the Council, is representing the NJ State Troopers Fraternal Association.

Chair Grady also welcomed and introduced the four Interns who will be working with the Division over the summer.

Chair Grady congratulated Timothy Walsh, Director of the Division (the Director), and the Division on the excellent performance of the fund, which outperformed its benchmark by over 200 basis points and was up 383 basis points for the fiscal year to date. Chair Grady also congratulated the Division on being awarded “Large Public Pension Plan of the Year” by Money Management Letter, which is published by Institutional Investor.
Approval of Minutes for Regular Meeting held on March 22, 2012

Chair Grady asked the Council Members if they had any comments on the minutes for the March 22, 2012, Regular Meeting. Board Member Haselmann requested that, in the future, the minutes reflect the question and answer period that follows guest speakers. Chair Grady motioned to approve the Regular Meeting minutes, with a correction to the heading to indicate that the meeting was a regular meeting. The motion was seconded by Vice Chair Byrne. All Council Members present at the meeting voted in favor of the motion, with Council Members Greaney and Cleary abstaining as they were not members of the Council at the time of the March 22, 2012 meeting.

Approval of revised SIC meeting schedule

Chair Grady noted that Council has upcoming meetings scheduled for both July 26, 2012 and August 9, 2012. Chair Grady stated that several Council members would not be able to attend the July 26 meeting due to scheduling conflicts and suggested August 2 as a replacement for the July 26 meeting. The August 9 meeting had been scheduled as a regular but optional meeting, subject to cancellation by the Chair. Chair Grady suggested that the August 9 meeting be cancelled. Chair Grady motioned to approve the rescheduling of the July 26 meeting to August 2, 2012 and the cancellation of the August 9 meeting. The motion was seconded by Vice-Chair Byrne. All Council Members present at the meeting voted in favor of the motion.

Chair Grady also proposed rescheduling the September 27, 2012 regular meeting to October 11, 2012, which was previously scheduled as an optional regular meeting date, due to the fact that Director Walsh would be in Asia on business on September 27. Chair Grady motioned to approve this change, with Council Member Haselmann seconding the motion. All Council Members present at the meeting voted in favor of the motion.

Appointment of additional Audit Committee members

Chair Grady appointed Council Members Michael Greaney and Jim Hanson to the Audit Committee. Chair Grady mentioned that Council Member Greaney is nearing certification as a CPA, making him a good fit for the committee.

Council Member McGuckin, Chair of the Audit Committee, stated the audit was about to begin. The Audit Committee will participate in an audit “kick off” meeting with the auditors, attend to audit matters as they arise and meet with the auditors at the conclusion of the audit process. The Division is preparing, and the Audit Committee will review, a Request for Proposal (RFP) for the selection of an auditor for subsequent years.

Director’s Report/Update

Director Walsh advised the council that the Total Pension Fund had a strong month relative to the benchmark in April, outperforming by 64 basis points. The Fund is now ahead of the benchmark by 214 bps, fiscal year to date. He also stated April was the 5th consecutive month the Fund has produced a positive absolute return. The Fund has also received approximately $1.6 billion in local employer
appropriations, with a bulk of the money received in March and April. Director Walsh also stated that all asset classes have outperformed their benchmarks with the exception of Real Return, FYTD. While the Global Growth portfolio has produced a negative absolute return FYTD, since the start of the calendar year, the portfolio is up over 10%. Liquidity and Income have been the two best performing segments of the portfolio FYTD.

Approval of Fiscal 2013 Asset Allocation Plan

There was a discussion between Director Walsh, Deputy Director McDonough, and Pete Keliuotis of SIS and Council members, regarding the proposed Asset Allocation Plan for FY 2013.

Director Walsh went on record stating that, as a former plan trustee and as someone familiar with many states’ chief investment officers; he was of the opinion that the asset allocation plan was one of the most well vetted and best designed in the country. He acknowledged the contributions of the volunteer members of the Investment Policy Committee, which consisted of Robert Grady, Tom Byrne, Tim McGuckin, Guy Haselmann and Jeff Oram.

Director Walsh went on to note that the Division may not reach all of the targets set forth in the Asset Allocation Plan, because the Division focuses on maximizing risk adjusted returns based on market conditions, and does not “fill buckets” where it does not make sense. Director Walsh will provide explanations to the Council in the event that the Division fails to reach the plan targets.

Pete Keliuotis stated that SIS, along with the IPC and the Division, believes the proposed Asset Allocation Plan provides higher expected returns, improved diversification, and better downside protection as compared to both the current allocation and the FY 2012 Plan.

Council Member Barrett stated his concerns regarding the risk inherent in the plan. Mr. Liebtag asked whether the plan would yield the 8.25% assumed rate of return used in determining pension plan funding. The Chair commented that the Division pursues maximum returns with an appropriate mix of investments and with risk management, but there are no guarantees. Mr. Liebtag asked why the Asset Allocation Plan provides for an increase in the target for Alternatives from 26% for FY12 to 29.7% for FY13, since the actual allocation for at 4/30/12 was below the FY12 target at 21.5%. In response, Director Walsh and Council Member Oram discussed the importance of being able to take advantage of appropriate opportunities as they present themselves, and noted that the increased target allocation allows for that flexibility. Council Member Haselmann also stated that the risk characteristics of the overall portfolio will be improved, allowing for increased returns with a decrease in volatility. He added that many of these funds have attractive non-correlated idiosyncratic exposures that enhance returns and diversify the portfolio.

Chair Grady motioned to approve and adopt the asset allocation targets set forth in the column labeled “Proposed FY13 Target” on page 4 of the New Jersey State Investment Council Annual Investment Plan Summary Fiscal Year 2013 (the “FY13 Investment Plan”) submitted to the Council in advance of the meeting as the Asset Allocation Plan for FY13, with the proviso that the Division shall report back to the SIC when the actual allocations for Absolute Return Hedge Funds and Credit-Oriented Hedge Funds reach 3%. Council Member Haselmann seconded the motion. The motion carried with all Council
Members present at the meeting voting in favor, except for Council Members Barrett and Liebtag who were opposed.

Deputy Director McDonough then made a brief presentation to the Council regarding the performance benchmarks set forth in the FY13 Investment Plan.

Chair Grady motioned to approve and adopt the proposed benchmarks set forth on page 6 of the FY13 Investment Plan. Council Member Haselmann seconded the motion. All Council Members present at the meeting voted in favor of the motion.

**Update on Elliott Associates**

Director Walsh provided a brief update on the Elliott Associates investment, correcting information in the report of the Investment Policy Committee that was previously presented to the Council and posted on the Division’s website. The terms of the investment were in fact more favorable than originally reported.

**Real Estate Investment**

Council Member Oram recused himself from discussion of this proposed investment during the IPC meeting and this presentation to Council.

**Northwood Real Estate Partners, L.P. & Northwood Real Estate Co-Investors, L.P.**

Roman Nemtsov of RV Kuhns presented a proposed investment of $75 million in Northwood Real Estate Partners L.P. and $75 million in Northwood Real Estate Co-Investors L.P. for a total of $150 million. Northwood is led by John Kukral, a former CEO and co-founder of Blackstone Real Estate Advisors with $85 million of his personal monies invested in Northwood. Since the firm’s inception, the management team has demonstrated a very conservative approach regarding the use of leverage to execute the fund’s investment objectives. Specifically, of the fourteen transactions completed between August 2008 and December 2011, seven were funded entirely on equity. The current total portfolio leverage is approximately 42% on a LTV basis. Northwood states that it only utilizes leverage in specific instances where the manager believes that the downside risk is limited. To date, Northwood has committed $85 million to the funds, to be invested on a pro rata basis with the LP commitments.

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

**Private Equity Investment**

**Tenex Capital**

Jason MacDonald presented a proposed additional investment of $20 million in Tenex Capital Partners, L.P, which will add to the existing commitment of $50 million that was presented at the November 18, 2010 Council meeting. The GP commitment is 3% above average relative to other funds in the market. Transaction fees, break-up fees, etc. are offset 100% against the management fee. The fund size has
been limited to approximately $450 million with the Tenex team indicating that it anticipates two transactions per year to deploy the capital.

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

Hedge Fund Investments

Lazard Rathmore Fund, L.P.

Maneck Kotwal along with Jake Walthour of Cliffwater presented a proposed investment of up to $150 million in Lazard Rathmore Fund, L.P. The proposed commitment of Lazard Rathmore continues the Division’s focus on balancing the credit-oriented hedge fund portfolio by diversifying into more market neutral strategies to compliment the current over-weight distressed exposure. Lazard Rathmore’s expertise in the convertible arbitrage space gives the Division access to a top manager in a sub-asset class to which the Division currently has no exposure. The Lazard Rathmore team is extremely focused on maintaining a highly liquid portfolio and currently has no exposure to Level III assets, and the manager has estimated that 82.5% of the fund can be liquidated within four weeks, even under stressed market conditions.

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

Visium Balanced Fund, L.P

Maneck Kotwal along with Jake Walthour of Cliffwater presented a proposed investment of up to $150 million in Visium Balanced Fund, L.P. Visium is specialized in healthcare, which gives them an edge over generalist funds that invest in the healthcare space. The fund is managed with a market neutral exposure (+/-10%), making it a good complement to the long-biased orientation of a number of the managers in the equity-oriented hedge fund portfolio. Visium was founded in November of 2005 by Dr. Jacob Gottlieb along with the healthcare team which spun out of Balyansy Asset Management. The Fund has an attractive return profile with a 10.93% annualized return with 9.74% SD from inception through March 2012.

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

Proposed Amendments to N.J.A.C. 17:16-65 regarding the Deferred Compensation Plan

Director Walsh advised Council that in 2006, in connection with the engagement of an outside plan administrator for the New Jersey State Employees Deferred Compensation Plan (DCP), certain Division-managed Common Funds that had previously been available to DCP participants were closed to further contributions, and DCP participants’ contributions subsequent to January 1, 2006 have been deposited solely in outside funds managed by the outside DCP plan administrator. The Director noted that the DCP Board has recently taken action to permit contributions to Division-managed Common Funds concurrent with the award of a new plan administrator contract through an RFP process that is ongoing as of the
date of this meeting. The Director then asked Susan Sarnowski, Division Director of Operations and Compliance Officer, to provide more detail on the regulatory amendments required in order to reopen certain Common Funds to DCP participants.

Ms. Sarnowski stated that the 2006 closure of Common Funds to further DCP participant contributions necessitated certain amendments to the regulations governing those funds. Similarly, in order to reopen the Common Funds to DCP participants, the regulations will need to be amended. Ms. Sarnowski stated that the proposed amendments will:

- Allow for Common Funds managed by the Division to be opened for contributions from DCP participants if so determined by the DCP Board.

- Provide that the DCP Board, in consultation with the Director, will determine which DCP funds will accept ongoing deposits or transfers from participants as of a specified date. These funds may include the Common Funds (managed by the Division) and shall include a minimum of five outside funds.

- Provide that the DCP Board, in consultation with the Director, will determine whether participants may maintain balances in a DCP fund that is closed to ongoing deposits or transfers, or whether balances must be transferred to other DCP funds.

- Update the valuation language to reflect that investments and net assets will be valued in accordance with applicable accounting standards, using recognized industry pricing sources.

- Eliminate the liquidation section of the subchapter as any liquidation would be governed by the provisions of the DCP and by federal tax law.

Ms. Sarnowski noted that if the proposed amendments are approved, they would then go to the Governor’s office and then to the Office of Administrative Law for publication in the NJ Register, with a sixty day comment period.

Chair Grady motioned to approve the proposed amendments to N.J.A.C. 17:16-65, with Council Member Oram seconding the motion. A roll call vote was taken with Messrs. Grady, Hanson, Barrett, Byrne, Haselmann, Maurer, Liebtag, McGuckin, Oram, Greaney and Cleary, constituting all Council Members present at the meeting, voting in favor of the proposed amendments.

**Proposed Revisions to State Investment Council Engagement of Investment Advisers Policies and Procedures**

Director Walsh stated that in 2009, the Council adopted the State Investment Council Engagement of Investment Advisers Policies and Procedures (the “Adviser Policy), which governs the engagement of external investment advisers. The Division currently has contracts with four emerging market advisers and four high yield advisers, which will expire in fiscal 2013. These advisers provide non-discretionary investment advice.
Ms. Sarnowski reported that the Division is now developing an RFP for up to 10 external emerging market investment adviser contracts. She further reported that the Division has reviewed the current Council policy and is proposing changes to the policy. The proposed changes were reviewed with the Investment Policy Committee and Office of the Attorney General. The proposed Adviser Policy, after incorporating the proposed amendments, will:

- Serve to clarify certain aspects of the procurement process to ensure that the applicable Division of Purchase and Property rules and regulations are properly reflected.

- Provide that the Division will provide a written report to the IPC which summarizes the proposed search objectives and criteria to be included in the RFP.

- Provide that the Division will prepare a written report to the Council, prior to the issuance of an RFP, which identifies the Asset Class(es) for which the Division intends to engage Investment Advisers, the approximate number of Investment Advisers to be engaged for each such Asset Class, and the manner in which the portion of the relevant portfolio to be allocated to each such Investment Adviser will be determined.

- Provide for a Selection Committee consisting of Division staff members recommended by the Director to review the bidder responses and conduct oral interviews. The Committee will prepare a report summarizing the selection process, including the oral interviews and on-site interviews, if any, and the basis for its recommendations and submit such report to the Director.

- Provide that the Director will accept or reject the recommendations of the Selection Committee, consistent with his fiduciary duties pursuant to N.J.S.A. 52:18A-89. A written report summarizing which Investment Advisers were selected and the intended mandates will be presented to the IPC and Council.

- Provide that each agreement engaging an Investment Adviser shall provide that the Investment Adviser is engaged to provide non-discretionary advice and shall outline the procedures by which designated Division staff will approve or reject all trades and corporate actions the Investment Adviser recommends. The agreements also will set forth the terms and conditions under which the agreements may be terminated.

- Provide that the Director shall terminate, subject to the contractual terms of the engagement, any Investment Adviser that does not meet the standards and requirements set forth in the RFP, the Adviser Policy and in any other applicable policies of the Council.

Chair Grady motioned to approve this amendment, with Council Member Haselmann seconding the motion. All Council Members present at the meeting voted in favor of the motion.
**Proposed RFP for Developing Markets Investment Advisers and International Small Capitalization Investment Advisers**

Director Walsh advised that the Division’s contracts with its four emerging market equity advisers will expire in January 2013. These firms provide non-discretionary investment advice on emerging market equity portfolios with a total market value of approximately $2 billion. The FY12 Annual Asset Allocation Plan calls for 5% of Pension Fund assets, or $3.5 billion, to be invested in emerging market equity securities. This allocation is to increase as part of the FY13 Annual Asset Allocation Plan. Because of the higher allocation, the Division expects to retain up to 10 advisers with different investment styles. The Division also intends to retain up to 6 advisers for international small cap equity portfolios. It is expected that these firms will provide non-discretionary investment advice on up to 20% of the Division’s total combined Non-US Developed and Emerging Markets equity exposure.

The Division previously provided a report to the Investment Policy Committee setting forth the proposed search objectives and criteria to be included in the RFP.

**Adoption of Proposed Amendments to N.J.A.C. 17:16-71 (Real Assets)**

Ms. Sarnowski reported that there were no comments on the proposed amendments to N.J.A.C. 17:16-71 that were filed with the Office of Administrative Law and published in the New Jersey Register.

Chair Grady motioned to approve the adoption of the amendments to N.J.A.C. 17:16-71, with Council Member Oram seconding the motion. On a roll call vote, Messrs. Grady, Barrett, Byrne, Haselmann, Maurer, Liebtag, McGuckin, Oram, Greaney and Cleary, constituting all Council Members then present at the meeting (Mr. Hanson having left the meeting prior to the vote), voted in favor of the motion.

**Opportunity for Public Comment**

Mr. Frank Abella, who introduced himself as financial adviser to CWA, asked whether the pension funds have received the funds from the State to invest for FY 2012. Chair Grady said the State’s contribution is expected in June. Mr. Abella stated his views regarding potential returns that could have been realized had the State contribution been received early in FY12. He also asked if Council or the Division has any expectation that the pension plans will not receive any part of or all of the FY 2012 State contribution. Jim Leonard, of the Treasurer’s office, referred Mr. Abella to the Treasurer’s May 23, 2012 testimony to the State Legislature that the payment will be made. Mr. Abella also asked if the Division had participated in the IPO of Facebook. Director Walsh referred Mr. Abella to the Division’s website where trades are posted at the end of each month.

Chair Grady motioned to adjourn the meeting, with Vice Chair Byrne seconding the motion. All voted in favor. The meeting was adjourned at 2:14 pm.