Minutes of the Regular Meeting
Held November 21, 2013 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
Brendan T. Byrne, Jr., Vice Chair
Marty Barrett (via telephone)
Michael Cleary
Charles Dolan
Michael Greaney
James Hanson, II (via telephone)
Guy Haselmann
James Joyner
Adam Liebtag
Peter Maurer
Timothy McGuckin
Jeffrey Oram
Mitchell Shivers (via telephone)

Roll Call and Meeting Notice
The Regular Meeting was called to order by Robert Grady, Council Chair, at 10:09 AM. Ms. Christine Eckel performed roll call and reported that notice of the Regular Meeting, scheduled for November 21, 2013, was posted on the Division’s website and faxed to the Times of Trenton, the Star-Ledger, the Bergen Record, and the Courier Post on October 28, 2013, and e-mailed to the Secretary of State. A copy of the notice was posted at the Division and is on file.

Introduction of Proposed New Council Secretary
Mr. Grady introduced Ms. Ernestine Jones-Booker of the Division, who is expected to be presented to the Council for appointment as Secretary to the State Investment Council.

Election of Chair and Vice Chair
Jeffrey Oram, Chair of the Nominating Committee, reported that the Nominating Committee (comprised of Mr. Oram, Mr. Haselmann, and Mr. McGuckin) met on November 5th and agreed to nominate Mr. Grady to continue to serve as Chair and Mr. Byrne to continue serve as Vice Chair of the Council. Hearing no other nominations, all members of the Council voted in favor of Mr. Grady’s election as Chair, with the exception of Mr. Grady, who abstained from voting. All members of the Council voted in favor of Mr. Byrne’s election as Vice Chair, with the exception of Mr. Byrne, who abstained from voting.

Appointment of Members to Council Committees
Mr. Grady made the following appointments to Council Committees:
New Jersey State Investment Council  
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**Executive Committee:** Mr. Grady appointed Mr. Byrne, Mr. Haselmann, Mr. McGuckin, Mr. Oram, Mr. Cleary and Mr. Grady to continue to serve on the Executive Committee of the Council. Mr. Grady noted that this committee is conducting an ongoing search for a new Director. Mr. Grady welcomed participation from any other member of the Council. The search for a new director is still underway, and resumes are being collected.

**Investment Policy Committee:** Mr. Grady reappointed Mr. Byrne, Mr. Haselmann, Mr. McGuckin, Mr. Oram, and Mr. Grady to the Investment Policy Committee.

**Audit Committee:** Mr. Grady asked Mr. McGuckin to continue to serve as Chair of the Audit Committee and also reappointed Mr. Hanson, Mr. Greaney, and Mr. Cleary to the Audit Committee. Mr. Grady also welcomed other members of the Council to volunteer to join the Audit Committee.

**Proposed 2014 Council Meeting Dates**
Mr. Grady discussed the proposed meeting schedule for 2014, noting that regular meetings for 2014 were moved to Wednesdays instead of Thursdays, with the draft schedule for the year being to hold regular meetings on January 22, March 19, May 28, July 23, September 24, and November 6. Mr. Grady also noted that the annual meeting was scheduled for January 22, 2014. Mr. Grady asked that all Council Members notify the Division and/or Council Secretary of any conflicts with the proposed schedule and make known their availability.

Mr. Haselmann recommended that meetings be arranged to permit portfolio managers to be in the office on the days of Federal Open Market Committee meetings.

**Approval of Minutes for Regular Meeting held September 19, 2013**
Mr. Grady presented for adoption the minutes for the regular meeting held September 19, 2013. Mr. Shivers asked to amend the minutes to indicate that he was in attendance at the meeting. A motion was made by Mr. Grady to approve the minutes as so amended, with Mr. Haselmann seconding the motion. All Council Members voted in favor, with the exception of Mr. Dolan who recused himself from the vote since he was not present at the September 19th meeting.

**Report from the Audit Committee on Fiscal Year 2013 Audit**
Mr. McGuckin reported that the Audit Committee met on November 20th with the Division’s new auditor, KPMG, to review the financial statements, which have been combined to include both the Division’s statements and the Division of Pensions and Benefits’ statements. Mr. McGuckin noted that the auditor delivered an unqualified opinion, which is the highest opinion offered by an auditing firm, and that there were no comments to management from the auditors. Susan Sarnowski indicated that the Division should expect final copies of the audit in the next two weeks.

**Directors Report/Update**
Mr. Grady provided a brief update on fund performance, reporting a return of about 6.5% fiscal year to date through October 31, 2013, about 11.6% calendar year to date through October 31, and 14.1% for the last twelve months ending October 31. Mr. Grady noted that the fund’s one-year, three-year, and five-year returns were well above the 7.9% actuarially assumed rate of return, and that the fund’s 20-year return almost exactly at 7.9%. Mr. Grady noted that the fund remains highly diversified, with a relatively conservative position compared to other large public funds, but invested more long in equity markets and less long in alternatives compared to endowments. Mr. Grady concluded by
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praising the performance of Acting Director McDonough in managing the Division and the portfolio since Mr. Walsh’s departure in September.

Acting Director McDonough reviewed the Director’s Report, providing an assessment of the current state of the economy and discussing key economic indicators such as employment statistics, GDP, gas prices and the Federal Reserve’s statements with respect to quantitative easing (QE). He also compared the relative performance of various asset classes, and discussed the Pension Fund’s (and each asset class’) performance relative to the benchmark. It was noted that the fund’s calendar year to date performance was 1.59% above its policy benchmark through October 31. Mr. McDonough discussed the Pension Fund’s asset allocation relative to the adopted targets. Extensive discussion ensued. Mr. Grady suggested that the Investment Policy Committee meet in the coming weeks to review the fund’s asset allocation targets for FY 2014 given the significant movements in various markets since the beginning of the fiscal year.

In response to questions from Mr. Grady, Phil Pagliaro of the Division explained the effect of duration on the performance of the TIPS portfolio relative to the benchmark and Tim Patton of the Division discussed the Division’s practice in purchasing investment grade corporate debt. Mr. Haselmann commented on the effect of Fed policies on corporate debt and the effect of increased productivity on prices and employment.

Finally, pursuant to the Council’s Alternative Investment Modification Procedures, Mr. McDonough notified the SIC that the Division intended to consent to the sale of Credit Suisse’s Customized Fund Investment Group (“CFIG”), the investment adviser to CS/NJDI Investment Fund and CS/NJDI Emerging Opportunities Fund, to Grosvenor Capital Management. Mr. McDonough noted that the same team of professionals would be working under the new management group and that both funds’ investment periods had already expired. Also, Mr. McDonough notified the SIC of a proposed change in the size and structure of Aether Real Assets Surplus, L.P. from a $100 million separate account to a $250 million commingled fund which would permit other investors to invest in the Surplus Fund.

Hedge Fund Investments

Chatham

Mr. McDonough and Jason MacDonald of the Division, along with Jacob Walthour of Cliffwater LLC, presented a $300 million investment in a separate account vehicle with Chatham Asset Management, focusing on long-short credit investments in the high-yield bond and bank loan space. Mr. Oram was recused on the Chatham discussion and the previous discussion of this investment by the Investment Policy Committee. Chatham is a top quartile manager, when taking into account Sharpe ratios, and is a New Jersey-based firm. The Division negotiated favorable terms on the investment, including a lower management fee and a preferred return. Mr. Haselmann noted the effect of the zero interest rate environment in suppressing yields on lower rated debt offerings. In response to questions from Mr. Liebtag, staff explained the structure of the fund and the timing of the investment. In response to concerns by Mr. Liebtag and Mr. Barrett, staff noted that there was an expectation that Chatham would no longer have an investment in Revel Casino by the time the investment closed, and therefore no pension fund assets were expected to be invested in that enterprise. Mr. McDonough noted, however, that the Division could not guarantee what could happen in the future, since it could not override the managers’ fiduciary duty and investment selection. In response to another
question from Mr. Liebtag, Brian Arena of the Division noted that there is no statutory prohibition against investing in industries regulated by the State.

Mr. Grady reported that the IPC had determined that appropriate and extensive due diligence had been conducted on the investment.

**Starboard Value and Opportunity Fund LP and Starboard Leaders Fund LP**

Mr. McDonough and Maneck Kotwal of the Division, along with Mr. Walthour, presented a $75 million investment in Starboard Value and Opportunity Fund LP and an up to $125 million investment in Starboard Leaders Fund LP, a co-investment vehicle. Starboard is an activist hedge fund focused on small cap companies. Mr. Kotwal noted that the management fee was lower than the standard fee, and that the cap on expenses was lower than standard as well. Mr. Grady noted the fund’s top quartile performance and its emphasis on corporate governance. He reported that the IPC had determined that appropriate and adequate due diligence had been conducted.

**Bay Pond Partners, L.P. Fund**

Mr. McDonough and Mr. Kotwal, along with Mr. Walthour, presented an investment of an additional $50 million in Bay Pond Partners, L.P. Bay Pond is a long-short hedge fund under the Wellington umbrella, focused on the financial sector. Since the Division’s initial investment in April 2012, the Fund has significantly outperformed the HFRI Equity Hedge Index. Mr. Walthour reported that Wellington is a clear top quartile manager. In response to a question from Mr. Dolan, Mr. Walthour outlined the types of expenses charged by hedge funds generally. Mr. Grady reported that the IPC concluded that appropriate and extensive due diligence had been conducted.

**Iguazu Partners, L.P. Fund**

Mr. McDonough and Mr. Kotwal, along with Mr. Walthour, presented an investment of $150 million in Iguazu Partners, L.P., a hedge fund focused on debt in emerging market countries. Iguazu is a top quartile (taking into account Sharpe ratios) fund on Wellington’s Hedge Fund platform. Mr. Grady reported that the IPC had determined that appropriate and adequate due diligence had been conducted.

**Real Estate Investments**

Mr. Oram recused himself from the discussion of the real estate investments presented to the IPC and to the Council.

**Northwood Real Estate Partners, L.P. (Series IV)**

Mr. McDonough and Meghna Desai of the Division, along with Roman Nemtsov of R V Kuhns & Associates Inc., presented a $200 million investment in Northwood Real Estate Partners, L.P. The Division previously made a $150 million investment in Northwood in 2012. The fund is structured to invest through multiple market cycles by opportunistically investing in multiple property types and across the capital structure. The fund is a top quartile performer compared to other similar vintage funds. Mr. Grady noted that this investment is part of the Division’s broader effort to sell its interests in its underperforming funds and to commit more capital to its better performing funds, of which this is one. Mr. Grady stated that the IPC had discussed this investment and determined that the due diligence performed by staff was appropriate and acceptable.
Mr. McDonough and Mr. MacDonald, along with Mr. Nemtsov, presented a $100 million investment in Hammes Partners II, L.P. Fund. Hammes’ investment strategy is focused on acquisition and development of medical office buildings and healthcare-related real estate, using the expertise of its health care services company. Hammes funds are top quartile funds, taking into account lack of leverage. Mr. Grady noted the favorable hurdle rate and management fee for the fund, its interesting strategy and its strong past performance. He reported that the IPC had determined that appropriate and extensive due diligence had been conducted.

**Private Equity Investments**

*Carlyle Partners VI, L.P. Fund*

Mr. Grady recused himself during the Carlyle discussion and turned the meeting over to Vice Chairman Byrne. Robin Clifford of the Division, along with Pete Keliuotis of Strategic Investment Solutions, Inc., presented a $300 million investment in Carlye Partners VI, L.P., a large buyout fund primarily focused on the U.S. market. Ms. Clifford noted Carlyle’s consistent top quartile performance and the fund’s favorable management fee. Mr. Byrne reported that the IPC had discussed the investment and was satisfied with the due diligence that was performed. It was noted that Mr. Grady had recused himself from the IPC discussion as well.

**Procurement Procedures**

Mr. McDonough and Rubin Weiner of the Division discussed the Council’s procedures governing the procurement of consultants and investment advisors. Mr. Weiner described a number of revisions proposed by the Office of the Treasurer, the Office of the Comptroller, and the Division of Law. Mr. Grady motioned to approve the Procurement Procedures as amended, and Mr. Maurer seconded. All members of the Council voted in favor to approve and adopt the Procurement Procedures as amended.

**Fiscal 2013 Proxy Voting Summary**

Ms. Sarnowski provided the Council with the annual overview of the proxy season. The proxy voting policy is used as a guideline, with the Division applying its business judgment in voting proxies to determine what is most advantageous to the funds as shareholder. The Division voted 1,096 proxies of U.S. companies, with the Division voting against management on 777 individual proposals at 527 company meetings. There were 934 international proxies voted, with the Division voting against management on 749 proposals at 373 company meetings. The Division opposed management at U.S. companies on proposals related to stock option or stock plans, executive compensation, and in the election of certain directors. With respect to stock option and stock plans, the Division continues to vote against plans with greater than 5% dilution, plans that offer purchase at a discount or plans with accelerated vesting or short retention periods. With respect to the advisory vote on executive compensations predicated by Dodd Frank, the Division supported management at 835 companies, and voted against executive compensation at 93 companies. The Division opposes management in instances of a pay for performance disconnect, inappropriately high compensation, poor pay practices and a failure of the compensation committee to respond to investor concerns. The Division generally supports proposals for an independent chairperson and a separation of chair and CEO. In 2013 the Division supported management at 36 companies that established an independent lead director with clearly delineated and comprehensive duties, elected by and from independent board members. Ms. Sarnowski stated that on the international side the Division voted against management mostly for non-salary compensation, certain capitalization proposals, and routine
business (e.g. amendments of articles of incorporation, bylaw or charters, non-independent auditors, auditors with excessively high fees, and the election of committee members which are not independent). Mr. Grady noted that the Division’s voting record demonstrates that it has not been a rubber stamp for management. Mr. Grady also commented on the lack of shareholder participation on JP Morgan’s decision to approve a $13 billion settlement with the U.S. government. Mr. Haselmann noted the difficulty in avoiding fines, given the ambiguity in the current regulatory scheme. Finally, Mr. Grady and Mr. McDonough discussed the benefits and disadvantages of belonging to the Council of Institutional Investors.

**Treasurer’s Report**
Dr. Steindel of the Treasurer’s office provided an update on current US and NJ economic conditions, and discussed Federal fiscal and monetary policy.

**Public Comment**
No members of the public registered to speak.

**Adjournment**
Mr. Grady motioned to adjourn the meeting, with Mr. Joyner seconding the motion. All voted in favor. The meeting was adjourned at 1:04 pm.