Minutes of Annual Meeting

Held on January 17, 2013, following the Regular Meeting 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.
James Joyner
Guy Haselmann
Peter Maurer
Timothy McGuckin
Jeffrey Oram
Michael Greaney
Michael Cleary
Charles Dolan
Mitchell Shivers

Roll Call and Meeting Notice
Chair Grady called the meeting to order at 1:10 pm. Ms. Christine Eckel performed roll call and reported that notice of the meeting was posted on the website of the Division of Investment (the Division) on January 8, 2013, and sent via fax to the Times of Trenton, the Star-Ledger, the Bergen Record, and the Courier Post and emailed to the Secretary of State on January 2, 2013.

Approval of Minutes of Regular Meeting held November 8, 2012
A motion was made by Chair Grady to approve the minutes for the November 8, 2011 meeting, with Council Member Haselmann seconding the motion. All Council Members in attendance voted in favor, with the exception of Michael Greaney who abstained because he was not in attendance for the November 8, 2012 meeting.

Approval of Annual Report Draft
A motion was made by Chair Grady to approve the Annual Report as drafted, including the Chair’s letter presented to the Council. Council Member Joyner seconded the motion with all Council Members in attendance voting in favor.
Directors Report/Update

Director Walsh reported that the markets continued to be strong, with the fund up .99% in November, up 1.25% in December and up 6.69% fiscal year to date, unaudited and likely somewhat understated, which is slightly below the fiscal 2013 benchmark of 7.44%. The Director reported that the underperformance was due to a lag in reporting and largely to the fund being overweight in Investment Grade Credit and underweight in High Yield relative to the fiscal 2013 benchmark. Chair Grady asked the Director to confirm the reported 10 year performance numbers for the fund as reported in the Director’s report. Vice Chair Byrne asked for more distinction among commodities. Council Member Haselmann noted that future actions by foreign banks could result in less value for financial assets and more value for real assets. Director Walsh described the fund’s asset allocation, and Deputy Director McDonough provided an overview of fund performance.

Hedge Fund

Omega Overseas Partners Ltd.
Maneck Kotwal along with Jake Walthour of Cliffwater informed Council that the Division originally invested in Omega Overseas Partners in January 2007, investing $75 million in the fund. The fund has generated an annualized return of 7.5% through December 2012 versus 2.1% return for the S&P 500 Index, valuing the fund at approximately $112 million. The Division negotiated reduced fees in January 2007, with management fees of 1.0% and 15% performance fee, which will also apply to the additional investment. The Division is proposing an additional investment of $150 million. This is one of the Division’s best performing Hedge Funds. The fund invests primarily long, and primarily in the United States, with approximately 200 positions to diversify the portfolio.

Chair Grady asked Mr. Walthour to confirm that the fund is in the top quartile of investments, and reported that the Investment Policy Committee has determined that appropriate and adequate due diligence was performed. Council Member Barrett asked whether the fund was invested in casinos. Mr. Walthour stated that he had no knowledge of any such investments. Chair Grady added that no one in the State has any ability to direct the fund’s investments. Council Member Cleary asked whether the fund’s shorting strategy negatively impacted the Division’s investments. Chair Grady responded that the fund’s ability to short is important as a risk mitigation strategy. Council Member Haselmann pointed out that this fund is primarily long.

Private Equity

Silver Lake Partners IV, LP
Jason MacDonald along with Pete Keliuotis of SIS presented a proposed investment of up to $200 million in Silver Lake Partners IV, L.P. In 2007, the Division committed $100 million to Silver Lake Partners III
which had a net internal rate of return of 16.8% as of 9/30/12, top quartile among its peers. The firm is a global growth capital and private equity fund which focuses on the technology sector. Fund IV has generated a net of IRR of about 18% IRR since inception of the fund. Improving the operational performance of its portfolio companies established a strong reputation among venture capitalist and industry leaders; they are considered a top quartile investor. Director Walsh noted that the fund outperformed most technology stocks in the public markets.

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

**Adoption of Amendments to Various Council Regulations**

Susan Sarnowski, Director of Operations and Compliance Officer of the Division, reported that, at its August 2012 meeting, the Council approved the proposed amendments to several Council Regulations. They were published in the *New Jersey Register*, with the comment period ending November 30, 2012. There were no comments received on the proposed amendments. Once adopted they will be published in the *New Jersey Register*, with an anticipation of becoming effective mid-February, based on the publication schedule.

Chair Grady motioned to adopt the attached resolution before the Council adopting the amendments, with Council Member Haselmann seconding the motion. A roll call vote was taken with Messrs. Barrett, Byrne, Cleary, Dolan, Grady, Greaney, Haselmann, Joyner, Maurer, McGuckin, Oram, and Shivers, constituting all Council members present at the meeting, voting in favor of the adoption of the attached resolution adopting the amendments.

**Report on Northern Ireland**

Susan Sarnowski 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, IW Financial, 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 prior to January 15, 2013. Chair Grady requested that Director Walsh pursue legislation to eliminate this requirement in the future.

**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 in individual securities 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 two employees, who are currently 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 2012, the Division had three violations of the code, all of which were self reported. The three 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. Chair Grady noted that members of the Council also had a mandatory ethics training session in October.

**Update on Secondary Sale of Alternative Investments**

Director Walsh reported to the Council that the Division is entertaining the sale of certain real estate investments.

**Report from the State Treasurer**

There was no report from the State Treasurer’s office.

**Preliminary Asset Allocation Discussion**

Chair Grady introduced Brady O’Connell, Managing Director of Hewitt Ennis Knupp, the Division’s recently hired general consultant, and thanked SIS for its prior work for the Division. Mr. O’Connell described the firm’s investment team, and discussed the firm’s asset class return, volatility and correlation assumptions. Chair Grady and Vice Chair Byrne questioned Mr. O’Connell on the volatility assumptions. Chair Grady and Council Member Haselmann asked for more information with respect to correlation assumptions. Mr. O’Connell outlined various options for asset allocation and the process for generating an asset allocation plan. Chair Grady noted that the expected return differed from the return projected by SIS. Mr. O’Connell responded that these estimates vary over time. Council Member Haselmann questioned the value of modeling based on historical data given constantly changing global conditions, while Chair Grady and Vice Chair Byrne expressed concern over the extent to which models apply modifications to historical data.

**Public Comments**

An unregistered speaker inquired regarding the potential direct purchase of physical commodities.
Adjournment

Chair Grady made a motion to adjourn; Council Member Oram seconded the motion. The motion was unanimously approved and the meeting was adjourned at 2:50 p.m.