Minutes of the Special Meeting

Held February 03, 2014 at 11:00 AM at the Trenton War Memorial, George Washington Ballroom, 1 Memorial Drive, Trenton, New Jersey. The Trenton War Memorial was open for the meeting on Monday, February 03, 2014, notwithstanding that the Governor declared a state of emergency, due to adverse weather and travel conditions, closing offices and dismissing nonessential employees at noon. All attending council members participated by telephone. This special meeting was arranged as a result of the cancellation of the regular meeting scheduled for January 22, 2014 by reason of another weather-related State of New Jersey closure.

Council Members in Attendance:
Robert Grady, Chair (via telephone)
Brendan T. Byrne, Jr., Vice Chair (via telephone)
Marty Barrett (via telephone)
Charles Dolan (via telephone)
Michael Greaney (via telephone)
James Hanson, II (via telephone until 12:49pm)
Guy Haselmann (via telephone until 12:49pm)
James Joyner (via telephone)
Adam Liebtag (via telephone at 11:09AM)
Jeffrey Oram (via telephone)
Mitchell Shivers (via telephone)

Roll Call and Meeting Notice
The Special Meeting was called to order by Robert Grady, Council Chair, at 11:04 AM. Mrs. Ernestine Jones-Booker performed roll call and reported that notice of the Special Meeting, scheduled for February 03, 2014, was posted on the Division’s website on January 28, 2014 and faxed to the Times of Trenton, the Star-Ledger, the Bergen Record, and the Courier Post, and e-mailed to the Secretary of State, on January 29, 2014. A copy of the notice was posted at the Division and is on file.

Appointment of Council Secretary
Mr. Grady made a motion to appoint Mrs. Ernestine Jones-Booker of the Division as Secretary to the State Investment Council, with Mr. Barrett seconding the motion. All members present voted in favor.

Mr. Liebtag joined the meeting at this point.

Approval of Minutes for Regular Meeting held November 21, 2013
Mr. Grady presented for adoption the minutes for the regular meeting held November 21, 2013 with correction of Mr. Shivers’ first name. Mr. Haselmann asked that a change of term be made to “ensued” rather than “ensured” on page 3 within the first paragraph. Mr. Oram asked to amend the minutes to include names of members of the Nominating
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Committee. Mr. Oram further requested that his recusal from the Chatham discussion be included in the minutes. A motion was made by Mr. Grady to approve the minutes as so amended, with Mr. Oram seconding the motion. All Council Members present voted in favor, with the exception of Mr. Barrett who abstained.

Approval of Readoption of State Investment Council Regulations

Susan Sarnowski of the Division presented for adoption the State Investment Council Regulation Re-adoption. The Council approved the proposal for re-adoption, which included a number of amendments, repeals and new rules, during its May 2013 meeting. This proposal with amendments was published in the New Jersey Register and received no comments during the 60-day comment period. Mr. Grady made a motion to approve a Resolution Adopting Re-adoption of N.J.A.C.17:16 with Amendments, Repeals, and New Rules (attached as Exhibit A to these minutes), with Mr. Shivers seconding the motion. The motion was approved by a vote of 10 to 1, with Messrs. Byrne, Dolan, Grady, Greaney, Hanson, Haselmann, Joyner, Liebtag, Oram, and Shivers in favor, and Mr. Barrett against.

Approval of Common Pension Fund Asset Classes

Ms. Sarnowski next presented a proposal to consolidate the assets of four common pension funds into two common pension funds, an idea that originated during Division Director Tim Walsh’s tenure and discussed by the Council at a previous regular meeting. This proposal would also allow the Director, with the approval of Council, to designate permissible investments for each common pension fund. In response to a question raised by Mr. Barrett, Mr. Grady noted that this will not affect the regulatory caps limiting the percentage of pension fund assets that may be invested in alternative investments. Mr. Grady made a motion to approve a resolution (attached as Exhibit B to these minutes) to consolidate the assets in the common pension funds into two common pension funds, with Mr. Hanson seconding the motion. All Council members present voted in favor, with the exception of Mr. Barrett who abstained.

Approval of SIC Annual Report Draft

Mr. Grady discussed the annual report for 2013. He stated that he would prepare an appropriate transmittal letter for the report, and asked that the Annual Report include annualized return data for 20, in addition to one-, three-, five- and 10, years. Mr. Grady confirmed for Mr. Barrett that the annual report covers both fiscal and calendar year 2013. Mr. Barrett also asked that the Annual Report include the amount of money given to each pension system during 2013. Mr. Bryne and Mr. Haselmann pointed out further minor technical corrections. Mr. Grady motioned for approval of the SIC Annual Report as amended, with Mr. Bryne seconding the motion. All Council members present voted in favor.

Mr. Grady inquired as to how New Jersey’s management costs compare to those of other states, and whether such costs are decreasing over time. Mr. Grady noted that the full cost of managing the state’s portfolio was 0.495% of assets under management, which has been reported to be lower than many other states. Brady O’Connell of Hewitt Ennis Knupp and Mr. McDonough agreed to gather further information. Mr. McDonough explained that New Jersey’s expenses included both management fees and incentive compensation, and noted the latter had increased due to the strong performance of the alternative investment portfolio. Mr. Grady requested that the line regarding annual fees be revised to clarify that the amount includes both fees and carried interest. Mr. Bryne requested that Susan Sarnowski double check the calculation of annual fees paid to alternative investments and global diversified credit fund managers.
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Directors Report/Update
Acting Director McDonough reviewed the Director’s Report, providing an update on economic conditions, including the US GDP, employment and payroll numbers, and changes in the leveraged loan market. Mr. Haselmann commented that US durable goods are weak, as well as the Institute for Supply Managers Index, and noted that much of the GDP growth was based on non-sustainable factors, such as inventories and net exports.

Mr. McDonough discussed capital market returns for 2013 and calendar to date 2014, including performance of US Markets vs. Emerging Markets.

Mr. McDonough also discussed the Pension Fund’s calendar year and FYTD returns as of December 31, 2013 and the performance of each asset class. The Pension Fund outperformed the benchmark by 37 bps FYTD and 217 bps CYTD with the Pension Fund’s overweight exposure to the US equity market relative to its planned asset allocation as the primary driver. Mr. McDonough noted that the pension fund, ex-Police and Fire Mortgages, had returned a 14.6% gain for the calendar year 2013. Mr. Grady noted that this strong performance was despite the fact that New Jersey was more defensively positioned than many other state pension funds, and less long the U.S. equity markets. He emphasized the importance of diversification, given that public stock markets in the U.S. had experienced substantial gains in 2013 and were near their all-time highs.

Mr. McDonough reviewed changes in asset allocation with respect to the Pension Fund’s targets, and responded to Mr. Dolan’s inquiry regarding increased hedges on the Equity Portfolio by stating that it was part of a risk reduction strategy.

Finally, pursuant to the Council’s Alternative Investment Modification Procedures, Mr. McDonough notified the SIC that the previously proposed investment of $75 million in GLP China Logistics Fund I would not be made and the Division will not be investing in GLP. Mr. McDonough noted that there were significant legal hurdles on both sides that could not be resolved in time; therefore the Division will not be investing in this fund.

Approval of Revised Asset Allocation Plan
Mr. Grady noted that the Investment Policy Committee met with DOI Staff offsite on November 22, 2013 to revise the Pension Fund’s asset allocation targets for FY 2014 given the significant movements in the markets since the beginning of the fiscal year. It was recommended during the IPC meeting to reduce the overall risk in the portfolio by reducing the allocations for public equities and investment grade fixed income, and by increasing the allocations for risk mitigation hedge funds and cash. Mr. McDonough presented a new target asset allocation plan incorporating these recommendations. Mr. Grady motioned to adopt the new target asset allocation plan. The motion was seconded by Mr. Haselmann. All members present voted in favor.

Private Equity Investments
AnaCap Financial Partners III, LP
Jason MacDonald of the Division, along with Pete Keliuotis of Strategic Investment Solutions, Inc., presented a €125 million investment in AnaCap Financial Partners III, LP, a specialist private equity firm focused on the European financial services sector. Mr. MacDonald noted the Division’s long standing relationship with AnaCap, and the fact that the
Division has a 5% ownership stake in AnaCap, which entitles it to a share of excess management fees in Funds I & II and all future private equity funds. He noted that therefore the Division’s actual management fee is less than the advertised amount. Mr. Keliuotis added that Fund II has delivered top-quartile returns for its vintage year. Mr. Grady noted pending opportunities given dislocations in the European financial sector, and pointed to the Fund’s favorable “European waterfall” distribution scheme, in which the state must receive all invested capital back before the General Partner receives any carried interest. Mr. Grady reported that the IPC met and discussed the investment and was satisfied that appropriate and adequate due diligence had been conducted.

**TCV VIII, L.P Fund**

Robin Clifford of the Division, along with Pete Keliuotis of Strategic Investment Solutions, Inc., presented a $100 million investment in TCV VIII, L.P. a private equity venture capital investment firm within the technology sector. Mr. Keliuotis noted that TCV has consistent top quartile performance in its previous seven funds, and noted the LP friendly terms and strong general partner commitment to TCV VIII. Mr. Grady reported that the IPC had reviewed the due diligence materials and determined that appropriate and adequate due diligence had been performed. Noting that the Division had a very small allocation to the technology sector and to venture capital in its private equity portfolio, he encouraged the Division to seek exposure to a handful of the highest quality technology funds.

**Global Diversified Credit**

**TPG Opportunities Partners III, L.P.**

Meghna Desai of the Division, along with Pete Keliuotis of Strategic Investment Solutions, Inc., presented a $100 million investment in TPG Opportunities Partners III, L.P. and an additional investment of up to $200 million into a separate account that will combine two existing Division mandates, Knight/TPG NPL-Residential, L.P. and Knight/TPG NPL-Commercial, L.P., into one entity and broaden the strategy. Ms. Desai noted that Fund II is a top-quartile fund, and described the favorable distribution waterfall. She and Mr. Keliuotis explained how the separate accounts provided exposure to certain types of investments that were outside the mandate of the commingled fund. Mr. Grady reported that the IPC had met and determined that appropriate and adequate due diligence was performed on the investment.

**Hedge Fund Investments**

**Solus Alternative Asset Management, LP.**

Mr. Grady thanked Jacob Walthour of Cliffwater LLC for his service and welcomed Mark Johnson as Mr. Walthour’s replacement as Cliffwater’s liaison with the State of New Jersey. Jason MacDonald of the Division, along with Mr. Walthour, presented a $300 million investment in a separate account managed by Solus Alternative Asset Management. The fund will invest in Solus’ flagship hedge fund, as well as other co-investment and credit opportunities. Mr. Walthour noted that the manager was a top decile manager, and he described the discounted fees, preferred return and adjusted carry as favorable. Mr. Grady reported that the IPC had discussed and reviewed the investment and had determined that appropriate and adequate due diligence had been conducted.
Risk Mitigation Hedge Funds Add on Investments
Acting Director Christopher McDonough along with Jacob Walthour of Cliffwater LLC proposed a $100 million add on investment to each of 5 risk mitigation hedge funds (*MKP Opportunity Fund; Blue Crest International; Brevan Howard Master Funds; Claren Road Credit Master Fund; and Scopia PX LLC*) to reduce overall risk of the investment portfolio. Each fund selected exhibited low correlation and beta to equity markets, low volatility, and good downside protection. Mr. Walthour reported that, on a risk-adjusted basis, each of the five managers was a top quartile manager. Mr. Grady noted that the investments were consistent with the revised asset allocation policy and reported that the IPC had met and discussed the investments, determining that appropriate and adequate due diligence had been conducted on each of the five investments.

Real Estate Investments
*Wheelock Street Real Estate Fund II, L.P.*
Jason MacDonald of the Division, along with Dan Krivinskas (via telephone) of R V Kuhns & Associates Inc., presented $140 million investment in Wheelock Street Real Estate Fund II, L.P., a U.S.-based opportunistic real estate fund. Mr. MacDonald described the fund as a top quartile fund, with favorable terms in terms of fees, preferred return, carry and distribution waterfall. Mr. Krivinskas noted the fund’s discipline in fundraising discipline, and the fund’s low leverage ratio. Mr. Grady reported that the IPC had met on the investment and concluded that adequate and appropriate due diligence was performed.

Treasurer’s Report
Dr. Steindel of the Treasurer's office provided an update on current US and NJ economic conditions.

Public Comment
Members of UNITE HERE had registered for public comment, but were unable to attend due to the weather. The organization faxed a letter addressed to the Council Chair, just before the start of the SIC Meeting, which the Council did not have the opportunity to read or review. Mr. McDonough informed the Council that the letter expressed concerns regarding the Division’s potential investment in funds (Chatham and Solus) with interests in Revel Casino. Mr. Grady acknowledged receipt of the letter, and noted his understanding from Division staff that the Division would not be inheriting any existing investments in Revel Casino by Chatham or Solus, and it does not expect to own a position in Revel Casino through its investment in Chatham or Solus in the future.

Report on Process to Select a New Director
Mr. Barrett inquired about the process to select a new director and asked when the final recommendation would be made by the search committee. Mr. Grady responded that the search committee has collected over 100 resumes and interviewed several potential candidates. Mr. Grady stated that providing adequate compensation is a key issue, and that the committee had discussed the possibility of raising the statutory cap on the Director’s annual salary. Mr. Grady and Deputy Attorney General Pamela Morone explained that the appointment of the Division Director is ultimately made by the State Treasurer, based on a submission from the Council.

Adjournment
Mr. Grady motioned to adjourn the meeting, with Mr. Dolan seconding the motion. All members present voted in favor. The meeting was adjourned at 1:20 pm.