Minutes of the Annual Meeting:
Held March 19, 2014 at 10:00 AM at the Trenton War Memorial, George Washington Ballroom, 1 Memorial Drive, Trenton NJ.

Council Members in Attendance:
- Robert Grady, Chair
- Brendan T. Byrne, Jr., Vice Chair
- Marty Barrett
- Michael Cleary
- Charles Dolan
- Michael Greaney
- James Hanson
- Guy Haselmann
- James Joyner
- Adam Liebtag
- Jeffrey Oram

Mr. McGuckin, Mr. Maurer and Mr. Shivers were unable to attend.

Roll Call and Meeting Notice
The Annual Meeting was called to order by Robert Grady, Council Chair, at 10:15AM. Mrs. Ernestine Jones-Booker performed roll call and reported that notice of the Annual Meeting, scheduled for March 19, 2014, 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 February 18, 2014, and e-mailed to the Secretary of State. A copy of the notice was posted at the Division and is on file.

Chair Grady congratulated Chris McDonough on his unanimous recommendation by the search committee and the State Investment Council to be appointed by the Treasurer as Director of the New Jersey Division of Investment. His appointment was approved and announced by the Treasurer, with the official swearing in to take place on Tuesday, March 25, 2014. Chair Grady referred to Mr. McDonough’s excellent performance as both Deputy Director and Acting Director, and also noted Mr. McDonough’s experience as CIO of the City of Philadelphia’s retirement system. Mr. McDonough thanked Mr. Grady, the committee and the Council for the opportunity to serve as Director.

Chair Grady announced that the Division’s 2013 Annual Report had been posted on the Division’s website. He noted the calendar year return of 14.6%, stating that the fund’s positive returns over time were due in large part to its focus on diversification. Chair Grady noted that it remains the mission of the Council and the Division to maximize returns for the beneficiaries while managing risk appropriately using the highest fiduciary standards.

Chair Grady reported that minutes for the special meetings held on February 3rd and February 28th will be presented at the next regular meeting in May, and stated that there would likely be an additional Council meeting on June 23rd to make up for the meeting that was cancelled due to weather in January.
Presentation by James A. Bianco of Bianco Research, L.L.C
Chair Grady introduced James A. Bianco, President of Bianco Research, L.L.C., who made a presentation on the fixed income market and provided an overview of economic growth in the three largest economies (the United States, China and Japan), warning of worsening economic conditions in China and pointing to the limits of monetary stimulus in Japan. Chair Grady noted the difference in performance between struggling State-owned enterprises and other, privately-held businesses in China. He also asked Mr. Bianco whether the depreciation in China’s currency was due to economic conditions or intervention by the Chinese government. Mr. Bianco responded that the poor performance of State-owned enterprises, which dominate the Chinese economy, were affecting economic conditions generally, and that economic conditions were driving capital flows out of China, which in turn prompted the government to widen trading bands for the RMB. Chair Grady also asked whether slow economic growth in Japan is due to a reliance on monetary stimulus rather than growth initiatives. Mr. Bianco responded that, both in Japan and in the US, firms and individuals are reluctant to spend additional wealth based on stimulus that could be removed at any time. Mr. Barrett inquired about the effect of the Russian-Ukraine crisis on markets, and asked for general guidance for investing in the current market. Mr. Bianco expressed concern that markets had not priced in bad outcomes in the Russia-Ukraine crisis, and concluded that the best policy in general is to maintain a diversified portfolio of stocks, bonds and alternative investments. Mr. Oram asked if the erosion of the Japanese and Chinese economies was beneficial to the US economy. Mr. Bianco responded that any benefit from increased capital flows into the US would be outweighed by the negative effects on US companies dependent on foreign markets. Mr. Haselmann noted various additional risks in the global economy, including a credit bubble in China and an increase in the consumption tax in Japan, and wondered whether actions should be taken to protect against deflation. Mr. Bianco acknowledged the concerns, but responded that economic conditions would need to get much worse in order to trigger deflation.

Presentation by Brady O’Connell and Kristen Doyle of Hewitt Ennis Knupp
Brady O’Connell and Kristen Doyle of Hewitt Ennis Knupp (HEK) made a presentation to the Council comparing the Division’s asset allocation to a peer group of HEK’s 10 largest public pension plan clients, discussing trends in asset allocation among those peer clients, and describing changes in HEK’s capital market assumptions for various asset classes. Mr. O’Connell noted that New Jersey’s asset allocation was “generally in line” with its large public pension plan peers, and that the peer group had generally reduced its allocations to traditional U.S. equity and fixed income in recent years. Chair Grady noted the Division’s relative exposure to alternative investments, noting that New Jersey had a current aggregate allocation of 26% to all alternative investments, where as the other large public pension plans presented in the HEK analysis had an average allocation to alternatives of 31%. Mr. Grady noted that New Jersey was 3% below the peer average in private equity and 4% below the peer average in real assets. Mr. Grady and Mr. Liebtag noted the Division’s relatively low fee structure due to its internal management of assets. Mr. Haselmann pointed out that higher fees were sometimes positive when they are paid not as management fees but instead as performance incentives. Mr. Liebtag questioned whether the other funds in the peer group had similar asset allocations, because they were all receiving similar advice from HEK. Mr. O’Connell responded that although the peers were generally similar, small differences in objectives, strategies, and allocations can result in large discrepancies in returns. Ms. Doyle added that implementation varied among the peer group. Mr. Haselmann noted that the Council, and not HEK, is responsible for setting asset allocation policy. Mr. Cleary asked whether the Division had ever divested from any of its alternative investments. Chair Grady responded that the Division had redeemed its investment in various hedge funds, and in the last few years had sold a large number of private equity
and real estate investments in the secondary market, at a value very close to current Net Asset Value (NAV) in both cases. Mr. Barrett asked to be informed of investments in Revel casino and similar entities.

**Reports from the Division of Investment**
Acting Director Chris McDonough and Mike Wszolek of the Division provided an overview of the Council and the Division, and presented an historical analysis of asset allocations and investment performance. Mr. McDonough reported performance numbers for calendar year 2013, in which the Pension Fund, ex-Police & Fire mortgages, achieved a positive return of 14.6%, summarized accomplishments from 2013, and updated the Council on the status of the strategic relationship initiatives that began in 2012. Chair Grady, Mr. Barrett and Mr. Haselmann discussed the need for increasing Division compensation. A review of asset classes and performance including domestic equity, international equity, fixed income, alternative investments, and hedge funds was provided by Brian Arena, Karen Paardecamp, Tim Patton, Jason MacDonald and Maneck Kotwal of the Division, respectively. Mr. McDonough concluded by describing the Division’s initiatives for 2014.

**Opportunity for Public Comment**
Mr. Grady noted that no members of the public had requested to comment during the Council’s Annual Meeting. He nevertheless noted the presence of members of UNITE Here, who had requested to speak at the conclusion of the Regular Meeting of the Council later in the day, and invited them to make their presentation earlier if they wished. Mr. Ben Begleiter, a research analyst for UNITE Here Local 54, a casino workers union in Atlantic City, accepted Chairman Grady’s invitation to comment. He commented on the Division’s $300 million investment into a fund managed by Chatham Asset Management. Mr. Begleiter asked the Council to use its position as an investor with Chatham to urge the firm to protect the jobs of casino employees’ and their rights to form a union. Robert Meyer and Equality Brown, Revel employees, expressed their fear of losing their jobs and asked the Council to urge Chatham to protect their jobs. Chair Grady stated that the Division selected the Chatham fund because of the manager’s top quartile performance, and not because of its specific investment in Revel Casino. Mr. McDonough noted that the Division is currently in the process of negotiating final documentation, but has not invested any money to date. Chair Grady noted that the Council was generally in favor of an improved economy in New Jersey and additional employment, and asked the Division to pass on the employees’ concerns to Chatham.

Anthony Miskowski, Secretary of Local CWA 1033, congratulated the Division for its outstanding investment performance and stated its sincere commitment to continue to provide the Council with advice and support. Chair Grady thanked Mr. Miskowski and Local 1033 for their support.

Chair Grady motioned to adjourn the annual meeting, with Council Member Haselmann seconding the motion. All members present voted in favor. The meeting was adjourned at 1:38 pm.