Minutes of the Regular Meeting
Held May 28, 2014 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
- Michael Cleary
- Charles Dolan
- Michael Greaney
- James Hanson (via telephone @ 10:20AM)
- Guy Haselmann
- James Joyner
- Adam Liebtag
- Peter Mauer
- Timothy McGuckin
- Jeffrey Oram
- Mitchell Shivers

Roll Call and Meeting Notice
The Regular Meeting was called to order by Robert Grady, Council Chair, at 10:14 AM. Ernestine Jones-Booker, Council Secretary, performed roll call and reported that a quorum of the SIC was present. Ms. Jones-Booker reported that notice of the Regular Meeting, scheduled for May 28, 2014, was posted on the Division’s website, 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 April 22, 2014. A copy of the notice was posted at the Division and is on file.

Minutes for Annual and Regular Meetings held March 19, 2014 and Special Meetings held February 3 and February 28, 2014.
Mr. Grady presented for adoption the minutes for the special meeting held February 3, 2014. Mr. Grady made a motion to approve with Mr. Haselmann seconding the motion. All Council Members present voted in favor, with the exception of Mr. Cleary, Mr. Shivers, and Mr. Maurer, who abstained.

A motion was made by Mr. Grady to approve the minutes for the special meeting on February 28, 2014. Mr. Maurer seconded, and all Council Members present voted in favor, with the exception of Mr. Barrett, who abstained.

Mr. Grady presented for adoption the minutes for the annual meeting held March 19, 2014. A motion was made by Mr. Grady to approve the minutes, with Mr. Joyner seconding the motion. All Council Members present voted in favor, with the exception of Mr. McGuckin, Mr. Shivers, and Mr. Maurer, who abstained.

A motion was made by Mr. Grady to approve the minutes for the regular meeting held March 19, 2014, with Mr. Haselmann seconding the motion. All Council Members present voted in favor, with the exception of Mr. Shivers, Mr. McGuckin, and Mr. Maurer, who abstained.
Each of the abstentions reported above was due to the abstaining Council Member’s absence from the relevant meeting.

**Directors Report/Update**

Mr. Grady noted that FYTD through April 30th the portfolio was up 12.56%, and noted that the portfolio had gained approximately $35 billion over the past four fiscal years. Mr. Haselmann commented that the fund’s 5 year average return of nearly 13% was outstanding, but should not be expected going forward. Mr. Grady mentioned the Governor’s proposal to reduce the pension payment amount in the FY14 and FY15 budget, and encouraged discussion during the Treasurer’s report later in the meeting. At this point, Mr. Hanson joined the meeting via conference call.

Director Chris McDonough reviewed the Director’s Report, discussing economic conditions, including employment and GDP, and capital markets, including 1st quarter earnings. He also provided an update on the performance of the portfolio as a whole and specific asset classes year to date, noting that the Fund’s performance of 12.56% for the fiscal year to date was ahead of the benchmark by 12 basis points. Mr. Grady and Dr. Steindel discussed the labor participation rate in New Jersey. Acting Deputy Director Michael Wsrolek provided an update on bond yields in the US and Europe, and reported on specific purchases and sales. Mr. Haselmann discussed the historic low yield levels for global debt.

Mr. McDonough discussed the strong performance of the US Equity portfolio, in particular the actively managed portfolio, which has outperformed the benchmark by 300 basis points fiscal year to date. He also reported on the consolidation of common pension funds and also discussed the Pension Fund’s asset allocation changes in public equity, liquidity and risk mitigation in order to lower risk in the portfolio. Pursuant to the Council’s Alternative Investment Modification Procedures, Mr. McDonough notified the SIC that TIAA-CREF is acquiring control of Gresham Investment Management. Mr. McDonough also notified the SIC of structural change of the proposed investment in Och-Ziff Real Estate Fund III as a separate account instead of a commingled fund investment.

**Asset Allocation Discussion**

Director McDonough discussed the FY15 asset allocation plan that will be presented to the SIC in June. He indicated that this plan will set target allocations and ranges for FY15, and will contain structural changes to further segment both the high yield allocation and real asset/commodities allocation. He discussed the equity and fixed income markets, noting the low yields in the fixed income markets and the fact that equity markets appear to be fairly valued by most metrics. He discussed the risk-return relationship of various asset classes over 20 years in order to stress the importance of a diversified portfolio. Mr. Haselmann commented on the importance of alternative investments when considering the high price of stocks and the low yield of bonds, and discussed the effect on risk of certain hedge fund strategies. Director McDonough discussed benefits the Fund has achieved through diversification, citing the returns of the Income portfolio, where a diversified portfolio has over $2.5 billion in value of the past two years. He discussed the fact that the Fund’s alternative investment portfolio has generated approximately $1.3 billion in positive cash flows over the last 18 months. Mr. Haselmann asked what would happen to the levels of cash in the fund if asset prices remained where they are today and no additional cash was raised. Director McDonough replied that cash levels are reduced approximately $600-700M each month through payments to the beneficiaries. Mr. Byrne and Mr. Dolan both stated that the asset
allocation plan is a framework, and that actual investment decisions should be made by staff given market conditions in consultation with the IPC where required.

**Private Equity Investments**

*MHR Institutional Partners IV, L.P.*

Jason MacDonald of the Division along with Pete Keliuotis of SIS presented a $100 million investment in MHR Institutional Partners IV, L.P., a fund focused on investing in distressed and undervalued companies in the mid-market space. The Division has previously committed $75 million to MHR III in 2007, and is seeking additional exposure in distressed debt. Mr. Grady highlighted the favorable terms, including the 100% fee offset.

Mr. Grady and Mr. Liebtag inquired as to the process involved in reviewing pay to play disclosures. Mr. MacDonald and Director McDonough explained that compliance is reviewed twice, once before due diligence is undertaken, and once more before the investment is finalized. Disclosures are reviewed by Division staff, the Attorney General’s office and outside counsel. Director McDonough and Susan Sarnowski of the Division described the requirements for periodic updates in the event that information changes over the course of an investment. Further, Ms. Sarnowski explained that the Division periodically notifies every fund of compliance and reporting responsibilities, most recently in March after the readoption of the Council’s regulations. Director McDonough and Mr. MacDonald also explained the Division’s process in sourcing and selecting investments. Mr. Barrett requested that the alternative investment due diligence procedures be recirculated to Council members.

Chair Grady reported that the Investment Policy Committee discussed the investment and was satisfied that the due diligence that was performed was adequate and appropriate.

**Real Assets Investments**

*Warburg Pincus Energy, L.P.*

Meghna Desai of the Division and Pete Keliuotis of SIS presented a $100 million investment in Warburg Pincus Energy, L.P., a fund investing in oil and gas exploration and production and opportunistically elsewhere in the energy sector. Mr. Grady noted that the State has successfully invested in four prior Warburg Pincus private equity funds, and noted the favorable deal terms. He reported that the IPC had discussed the investment and was satisfied that appropriate due diligence had been performed.

**Real Estate Investments**

*Meyer Bergman European Retail Partners II*

Mr. MacDonald along with Dan Krivinskas of RV Kuhns presented a €50 million investment in Meyer Bergman European Retail Partners II-TE, L.P., a fund focusing on European retail real estate investments. Mr. MacDonald reported that the prior fund was top quartile, noted the favorable economic terms, and stated that the Division will be buying into the fund’s existing portfolio at cost. Chair Grady reported that the IPC had discussed this investment and was satisfied that the due diligence performed by staff was appropriate.
New Jersey State Investment Council  
May 28, 2014 Regular Meeting  

Procedures and Regulations

Brokerage Firm Eligibility Policy
Susan Sarnowski of the Division presented the Council with updates to be made to the Division’s existing broker/dealer eligibility policy as a result of changes made to the State Investment Council regulations with respect to counterparties. Mr. Grady clarified that this policy has nothing to do with investment managers. Mr. Liebtag inquired why foreign exchange transactions were deleted from the policy. Ms. Sarnowski responded that the relevant restrictions were already covered in the regulation. Mr. Grady made a motion to accept with Mr. Shivers seconding the motion. All Council Members present voted in favor.

Report of Soft Dollar Expenditures
Michael Wszolek of the Division reported on soft dollar expenditures, which are payments made to acquire certain services and systems critical to trading and research functions. These types of arrangements are governed by the Securities and Exchange Act of 1934. Mr. Byrne asked if the Division was getting what it needs in terms of research and technology in the office. Mr. Wszolek responded that some systems are modern and some are less so.

Policy Regarding Campaign Contributions
Mr. Grady referred to a memorandum he had sent to the Division calling for a review of allegations in the press that General Catalyst Partners VI, L.P. had violated the Council’s regulations by failing to disclose Charles Baker as an investment professional and by failing to disclose a political contribution made by Mr. Baker. Mr. McDonough reported that the State Treasurer had assigned Treasury’s Internal Auditor to conduct a review of the matter and the Division will report the results to the Council once the review is concluded. Mr. Grady asked that the Division report to the Council on potential remedies in the event the review found a violation of the regulations. Mr. Liebtag inquired as to why the investigation was being handled by a Treasury auditor instead of the Attorney General’s Office or the New Jersey Election Law Enforcement Commission. Mr. McDonough responded that the issue involves a violation of the State Investment Council regulations, and therefore the Council will be making the final determination on the matter. The Treasury auditor is reviewing the issue in order to provide the Council with the necessary information for it to make the decision.

Treasurer’s Report
Dr. Steindel of the Treasurer’s office provided an update on current US and NJ economic conditions. Dr. Steindel went on to explain the reasons behind the projected budget shortfall for Fiscal Year 2014, including an explanation for the overestimation of income tax revenue. Mr. Cleary asked how Connecticut is dealing with its shortfall. Dr. Steindel stated Connecticut had enough reserves to get through 2014. Mr. Barrett inquired as to how much the governor intends to withhold. Dr. Steindel stated the governor intended to make the “normal pension contribution” but was unsure as to the exact dollar amount. Mr. Barrett stated his view that the Chapter 78 law should be followed, and asked how the reduced contribution will affect the work of the Council. Mr. Grady stated that the Council’s investment strategy should remain unchanged, regardless of the amount of contribution. Mr. Haselmann referred the Council to a white paper he had previously written on the State’s actuarial assumptions that is posted on the Division’s website. Mr. Dolan commented that the Council cannot control what is being put into the fund, but can only control how the fund is being invested. Mr. Liebtag acknowledged this, but stated his view that given the role of the Council with respect to the investment of pension funds the Council should not be agnostic on the question of funding but should “take the extra
half step” to advise that if less money is put aside today, the returns on investment of those funds may be insufficient when needed. He also stated that it would be helpful to receive information comparing returns if contributions were made in full, or on a quarterly basis. Mr. Grady asked if the funding status takes into consideration investment gains for the current year. Mr. McDonough responded that he would have to research this issue. Mr. Byrne recommended that Mr. Megariotis ask the State’s actuaries to provide a variance analysis with respect to the pension funds.

Public Comment
Anthony Miskowski, Secretary of CWA Local 1033, commented on what he described as the State’s poor economic reputation. He asked that the Governor honor his obligation to contribute to the pension fund as required by law, and asked the Council to invest with accuracy and urgency.

Adjournment
Chair Grady motioned to adjourn the meeting, with Mr. Dolan seconding the motion. All Council Members present voted in favor. The meeting was adjourned at 1:05 pm.