Minutes of the Regular Meeting
Held November 19, 2014 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 (via telephone)
Brendan T. Byrne, Jr., Vice Chair
Marty Barrett
Michael Cleary
Charles Dolan (joined at 10:23am)
Michael Greaney
Guy Haselmann
James Joyner
Adam Liebtag
Timothy McGuckin
Jeffrey Oram (joined at 10:18am)
Mitchell Shivers

James Hanson and Benjamin Hurst were not present during this meeting.

Roll Call and Meeting Notice
The Regular Meeting was called to order by Robert Grady, Council Chair, at 10:04 AM. Ernestine Jones-Booker, Council Secretary, reported that notice of the Regular Meeting 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 October 22, 2014. Ms. Jones-Booker further stated that a copy of the notice was posted at the Division and was on file. Ms. Jones-Booker performed roll call and reported that a quorum of the SIC was present.

Introduction of Division Deputy Director
Director McDonough introduced Corey Amon to the State Investment Council as the Division’s new Deputy Director.

Approval of Minutes for Regular Meeting held September 16, 2014
A motion was made by Mr. Grady to approve the minutes for the regular meeting held on September 16, 2014. Tom Byrne, Council Vice Chair, seconded the motion, and all Council Members present voted in favor.

Proposed 2015 Council Meeting Schedule
Mr. Grady presented a proposed meeting schedule for 2015, asking all Council Members to review the proposed schedule before adoption at the next meeting. Marty Barrett suggested that some of the meetings be held on Thursdays rather than Wednesdays and that they begin at a later time. Mr. Grady acknowledged Mr. Barrett’s suggestions and asked that all Council Members notify the Council Secretary of any conflicts and/or proposed changes to the schedule.
Audit Committee Report on Fiscal Year 2014 Audit
Tim McGuckin reported that the audit of the Cash Management Fund was complete and the audit report was available to the public. He reported that the auditor completed its work on the financial statements of the Division of Investment; however, because the auditor had not completed its review of the financial statements of the Division of Pensions and Benefits, the audit report was not ready to be released. Once the report was completed, the Audit Committee would present the results to the Council. Mr. Barrett inquired regarding the process for selecting the auditor; Mr. McGuckin responded that the auditor was selected through an RFP process.

Directors Report/Update
Director McDonough reviewed the Director’s Report, providing a global macroeconomic update, comparing growth prospects for the U.S. economy versus other economies, specifically Japan and the Euro zone, as well as divergent monetary policies in these markets. He noted the Division’s corresponding asset allocation decisions with respect to U.S. equity, non-U.S. equity and global macro hedge funds. Mr. McDonough referenced the conclusion of the Federal Reserve’s stimulus program, and discussed its effects on interest rates and market volatility. Guy Haselmann recapped the discussion pointing out that decreasing oil prices (and resulting geopolitical tensions), divergent monetary policies, and the rapidly increasing strength of the dollar were resulting in volatile markets.

Mr. McDonough provided an update on the Pension Fund’s performance and asset allocation relative to the adopted targets. He noted the fund had returned 9.77% over the last year, 10.25% over the last five years and 8.61% over the past twenty years. He also noted that the fund had outperformed the benchmark over the one, three, five, and ten-year periods. Mr. Grady focused on gains in the previously struggling emerging market sector, and encouraged the Division to continue its diversification efforts. Mr. Haselmann noted the benefits of an increased cash allocation to preserve optionality. Mr. McDonough explained how the decision to increase the allocation to U.S. equites and decrease the exposure to Non-US equities had added approximately $30 million of value to the fund.

Tim Patton, Kevin McGrath, and Phil Pagliaro of the Division provided an overview of the fixed income portfolio. Mr. Patton outlined the Division’s fixed income strategy, noting an emphasis on corporate credit versus treasuries and a shift in certain assets from investment grade to high yield. Mr. Patton described the Division’s preference for low duration, high grade sovereign credit in the investment grade portfolio. Mr. Pagliaro and Mr. McGrath discussed sector allocation within the investment grade and high yield portfolios, respectively. In response to Charles Dolan’s question regarding investment opportunities in the energy sector, Mr. McGrath discussed the debt market for various subsectors and companies within the energy sector. Mitchell Shivers asked staff to explain the disparity in allocation to the financial sector between the investment grade and high yield portfolios. Mr. McGrath responded that high yield offerings were more diversified, and Mr. Pagliaro explained that the investment grade portfolio had a lower risk threshold. In response to a question from Mr. Byrne regarding turnover in the portfolio, Mr. Pagliaro estimated turnover to be approximately 40-50%. Mr. Grady asked Mr. McDonough for an estimate of the total benefit to the Fund’s beneficiaries from the Division’s reallocation of assets away from investment grade fixed income. Mr. McDonough offered to provide this number to the Council. Mr. Shivers asked if there were any trends in the market regarding liquidity and the dealer community, to which Mr. Patton responded that high grade liquidity is becoming scarcer, especially in the corporate bond market during periods of volatility, and that it is increasingly difficult to find dealers willing to put up large sums of capital. Mr. Haselmann attributed this trend to regulatory rules and an increased inventory of treasuries held by the...
Federal Reserve. Finally, Mr. Haselmann noted that TIPS were a relatively inexpensive asset class that serves as a valuable source of inflation protection.

Pursuant to the Council’s Alternative Investment Modification Procedures, Mr. McDonough notified the SIC of two real estate redemptions and one real asset redemption. Mr. McDonough reported that the Division submitted to redeem its interest in AEW Core Property Trust in full and plans to redeem about $400 million, in a partial redemption, from CT High Grade Partners II. Also, Mr. McDonough notified the SIC that the Division initiated a redemption of its interest in the Schroders commodity portfolio.

Real Estate Investment

Real Estate Capital Asia Partners IV

Meghna Desai of the Division presented a $100 million proposed investment in a pan-Asian real estate investment fund, Real Estate Capital Asia Partners (RECAP) IV. Ms. Desai reported that the manager of RECAP IV has demonstrated top quartile performance in each of its three prior RECAP funds. She noted the firm’s disciplined investment approach, conservative use of leverage, and experienced team. Mr. Grady asked about the Division’s current geographic diversification in its real estate portfolio, and Ms. Desai responded that 70 percent of the Fund’s exposure is to the U.S. real estate market with only 10% in Asia. Mr. Grady reported that the IPC had reviewed the due diligence on the investment and concluded that appropriate due diligence had been performed.

Mr. Oram recused himself from the discussion of this investment both upon its presentation to the IPC and upon its presentation to the Council.

Fiscal 2014 Proxy Voting Summary

Susan Sarnowski of the Division provided the Council with an overview of the proxy season for the fiscal year ending June 30, 2014, including proxy voting for both U.S. and non-U.S. corporations. She reported that 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 pension fund as a shareholder. Mr. Dolan commended the Division on the amount of work dedicated to proxy voting. Mr. Byrne asked if there was any effort to coordinate the Division’s proxy voting with other public funds. Ms. Sarnowski responded that Division is aware of the proxy voting policies of other public funds, and that the Division is sometimes contacted by another fund that is sponsoring a particular shareholder proposal, but that communication with other funds is the exception rather than the norm.

Treasurer’s Report

Mr. Cohen of the Treasurer’s office provided an update on New Jersey economic conditions.

Public Comment

No members of the public registered to speak.

Resignation of Chair

Chair Grady announced his resignation as chair of the State Investment Council effective at the end of the meeting. Mr. Grady congratulated Division staff for its professionalism and its track record of performance throughout a range of market conditions, and stated that the pension fund is much healthier and much stronger than it was 4 ½ years ago. Mr. Grady also thanked the members of the Council for their focus on their fiduciary mission in a collegial, non-partisan and
Mr. Byrne made a motion to adopt the attached resolution thanking Mr. Grady for his leadership. Mr. Shivers seconded the motion, and all Council members voted in favor.

**Adjournment**
Mr. Dolan motioned to adjourn the meeting, with Mr. Oram seconding the motion. All Council members present voted in favor. The meeting was adjourned at 11:50 am.
WHEREAS, the members of the State Investment Council wish to thank Bob Grady for over four years of outstanding leadership, during which time and under his leadership:

- We achieved investment returns that were about 50% higher than what was expected by experts, thus adding $13 billion of unanticipated value to the funds and raising their value to $80 billion even while distributing $34 billion to beneficiaries;
- Asset allocation decisions were made to increase the funds’ diversification, thus helping it to perform well in various market conditions – including the movement of funds out of low interest fixed income securities into a range of other asset classes that enhanced overall returns for beneficiaries while keeping New Jersey’s risk profile low;
- The council maintained strict and disciplined adherence its mission “to achieve the best possible return at an acceptable level of risk using the highest fiduciary standards”;
- Communication with beneficiaries and others in public meetings and otherwise was open and cordial;
- We operated with a high degree of comity, and believe that our reputation for professionalism was enhanced.

BE IT RESOLVED, the members of the council acknowledge and appreciate Chairman Grady’s unique blend of outstanding investment and communication skills, which will be deeply missed. We are grateful for his leadership, will miss his warmth and wisdom and good humor, and thank him for his selfless and exemplary service.

Read into the record on the 19th day of November, 2014

Brendan Thomas Byrne Jr., Vice Chair

Marty Barrett  
Michael Cleary  
Charles Dolan

Andrew Michael Greaney  
James E. Hanson, II  
Guy Haselmann

Benjamin “Max” Hurst  
James L. Joyner  
Adam Liebtag

Timothy McGuckin  
Jeffrey Oram  
Mitchell Shivers