Minutes of the Regular Meeting
Held March 25, 2015 at the Trenton War Memorial, Patriots Theater, 1 Memorial Drive, Trenton, New Jersey.

Council Members in Attendance:
Brendan T. Byrne, Jr., Acting Chair
Marty Barrett
Michael Cleary (via telephone)
Charles Dolan
Michael Greaney
James Hanson
Guy Haselmann
James Joyner
Adam Liebtag
Benjamin “Max” Hurst
Timothy McGuckin
Jeffrey Oram

Mitchell Shivers was unable to attend.

Roll Call and Meeting Notice
The Regular Meeting was called to order by Tom Byrne, Acting Chair, at 11:14 AM. Ernestine Jones-Booker, Council Secretary, performed roll call. Ms. Jones-Booker reported that notice of the Regular Meeting, scheduled for March 25, 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 February 23, 2015. A copy of the notice was posted at the Division and is on file.

Minutes for Annual and Regular Meetings held January 29, 2015
Mr. Byrne presented for adoption the minutes for the annual meeting held January 29, 2015. A motion was made by Guy Haselmann to approve the minutes, with Max Hurst seconding the motion. All Council Members present voted in favor, with the exception of James Hanson, who abstained.

Mr. Byrne presented for adoption the minutes for the regular meeting held January 29, 2015. A motion was made by James Joyner to approve the minutes, with Charles Dolan seconding the motion. All Council Members present voted in favor, with the exception of Mr. Hanson, who abstained.

Election of Chair and Vice Chair
Jeffrey Oram, Chair of the Nominating Committee, reported that the Nominating Committee, consisting of himself, Guy Haselmann and Timothy McGuckin, met telephonically on March 23rd and decided to nominate Mr. Byrne to serve as Chair and Adam Liebtag to serve as Vice Chair of the Council. A motion was made by Mr. Haselmann and seconded by Mr. Hurst to elect Mr. Byrne as Chair. All members of the Council present voted in favor, with the exception of Mr. Byrne who abstained from voting. A motion was made by Mr. Dolan and seconded by Mr. Joyner to elect Mr. Liebtag as Vice Chair. All members of the Council present voted in favor, with the exception of Mr. Liebtag who abstained from voting.
New Jersey State Investment Council
March 25, 2015 Regular Meeting

Agenda Item 1

Directors Report/Update

Chris McDonough, Director of the Division of Investment, reviewed the Director’s Report, providing a capital markets update and summarizing the pension fund’s performance and asset allocation. Mr. McDonough reported that February was a good month for the pension fund on both a relative and absolute basis, returning 2.6%, 34 basis points above the benchmark. He reported that risk mitigation stood out amongst asset classes, especially global macro and systematic macro hedge funds, while there was subpar performance in global growth, especially public equity. Mr. Haselmann noted the historic non-correlation of global macro hedge funds and cautioned that a strong dollar could have a different effect on small and large cap public equity. Mr. Dolan asked whether the decrease in stock prices for energy companies provided any opportunities for investment. Mr. McDonough responded that the Division regularly discusses the issue, but has not determined to increase exposure to date.

FY16 Annual Investment Plan

Mr. McDonough and Deputy Director Corey Amon discussed and presented the FY16 asset allocation plan recommendations that will be presented for approval by the SIC in May. They gave a background on the process for adopting the plan, and elaborated on investment themes that resulted in recommended changes: decreased projected returns for traditional asset classes, a strong dollar and weak commodity prices, and heightened volatility across markets.

Mr. Byrne described the role and composition of the IPC and stated that the members of the IPC were to a large degree unanimous in their support of the plan as proposed. Mr. Haselmann commended staff and the Division’s consultant for the level of detail provided to the IPC at its meetings. He warned of potentially dangerous central bank policies in Europe, and recommended focusing on underlying investment merit instead of chasing artificially inflated returns. He also noted the lack of liquidity in the credit markets, and recommended an increase in diversified credit investments. In response to a question by Mr. Liebtag, Mr. McDonough and Mr. Amon described alternative models considered by the Division. Mr. Hanson asked how the Division expected to achieve the proposed increase in allocations to real estate and absolute return hedge funds, given illiquidity and capacity constraints. Mr. McDonough responded that he would return in May with a description of the Division’s pacing analysis for real estate. He recognized that the Division needed to be prudent in allocating to absolute return hedge funds, to avoid making any one fund too large within the portfolio while, at the same time, refraining over-diversifying the portfolio to such an extent that fund results offset each other. Marty Barrett inquired about the effect of the report of the New Jersey Pension and Health Benefit Study Commission on the proposed investment plan. Mr. Byrne responded that implementation of any proposed reforms was highly speculative, and that until then the Council should move forward as usual. Mr. Hurst confirmed for the record his understanding that nothing being presented by the Division or endorsed by the Council or the IPC has anything to do with the recommendations or potential impact of the Commission report, and that the Division will continue to manage the fund in the same prudent manner as it always has, maximizing returns while balancing risk exposure for the benefit of the funds and their beneficiaries.

Real Assets Investment

NJ/HitecVision Co-Investment Vehicle

Jason MacDonald of the Division and Faraz Shooshani of SIS presented an investment of up to $150 million in a co-investment vehicle managed by HitecVision, an existing New Jersey relationship. The vehicle will invest in opportunities identified by HitecVision, with an initial investment being in Offshore Merchant Partners Asset Yield Fund, L.P. a vehicle
managed by Offshore Merchant Partners (OMP), a HitecVision portfolio company. HitecVision is a leading private equity investor, focused on the oil and gas industries internationally, and headquartered in Stavanger, Norway at the center of the Norwegian offshore oil and gas industry. HitecVision has consistently generated top-quartile returns in its funds. OMP is a special finance company providing asset-backed financing to the offshore oil and gas industry. Mr. MacDonald and Mr. Shooshani noted the attractive terms of the co-investment vehicle as well as the OMP fund investment. Mr. Byrne reported that the IPC had reviewed the investment and was satisfied that adequate due diligence had been performed.

**Real Estate Investment**

*KSL Capital Partners IV, L.P.*

Mr. MacDonald along with Joseph Jehl of RV Kuhns presented an investment of up to $100 million investment in KSL Capital Partners IV, L.P., a fund making real estate-related equity and debt investments in travel and leisure assets and businesses, focusing on hospitality, recreation, health and social club, and travel services. Mr. MacDonald noted the stellar performance of KSL’s prior funds. Mr. Byrne noted media reports that Michael Shannon, the Chairman of KSL, has been a major contributor to the Republican Governor’s Association. He stated that the contributions did not violate the SIC’s policy on contributions, but wanted to make the Council aware of the contributions. Mr. Liebtag asked whether the Division should be proactively researching whether such contributions were made, rather than relying on the self-reporting of funds and then reacting to media reports. Mr. Byrne responded that it was unclear whether the Division should be using resources to search for contributions that were not prohibited by the Council policy. Mr. Oram inquired as to the possibility of using a third party service provider to assist in searching for contributions. Mr. Dolan expressed concern that even if an exhaustive search were undertaken, it is possible that contributions could remain undiscovered. In response to a question from Mr. Byrne, Mr. MacDonald reported that the KSL investment was sourced internally. Mr. Byrne reported that the IPC reviewed the investment and found that the due diligence performed by staff was adequate.

**Directors Report to the Legislature on Iran Divestment Statute**

Susan Sarnowski of the Division reported that in accordance with a 2007 divestment statute (P.L. 2007, Chapter 250), the Division provides an annual update to the Legislature on its divestment from foreign companies doing business in specified industry sectors in Iran. The Division relies on research provided by its consultant, IW Financial. Ms. Sarnowski reported no divestments were required since the last report, and provided a copy of the report to the Council.

**Discussion of the Dept. of Treasury Internal Audit Unit Report regarding the SIC’s Policy concerning Political Contributions and Prohibitions on Investment Management Business**

Mr. McDonough discussed the report done by Treasury Internal Audit examining political contributions made by Charles Baker, an individual associated with General Catalyst. Mr. McDonough reported that the auditor reported that the Council’s policy was not violated and reported that the investment had since been sold in September 2014 for profit. Mr. Hurst said he was interested in hearing any recommended policy changes. Mr. Liebtag expressed his concerns with the time it took (over 10 months) to complete the audit and get the results. He noted that the report specifically stated that General Catalyst’s interpretation of whether or not Charles Baker was an employee was wrong, thus demonstrating that the existing terms are ambiguous and open for interpretation by self-reporting fund managers. He proposed that the Council follow the report’s recommendation to examine the definitions in the policy in order to enhance or clarify ambiguous terms. Mr. Byrne proposed that a subgroup of the Council meet to review the policy and to determine if any
changes should be brought to the Council. Mr. Byrne asked that Council members contact him if they were interested in being a part of the subgroup.

Mr. McGuckin asked the Division to explain how investments are sourced and Mr. McDonough agreed to make a presentation on the topic at a future meeting.

**Treasurer’s Report**

Dr. Cohen of the Treasurer’s office provided an update on reported labor market data and the revised revenue forecast for the Governor’s budget.

**Public Comment**

Chair Byrne informed the Council of the untimely passing of Secretary of CWA Local 1033, Anthony Miskowski, expressing his sadness and sympathy to Mr. Miskowski’s colleagues and family.

James Kane of UNITE HERE, a hospitality workers’ union, and two employees of the Hilton New Orleans Riverside, Wynika White and Chad Populis, spoke regarding a labor dispute with Hilton Worldwide, a portfolio company of Blackstone Real Estate VI L.P. Mr. Haselmann stated his opposition to harassment and intimidation in any form, and encouraged the Division to contact Blackstone to ensure that the labor dispute is handled with fairness and integrity. Mr. Hanson expressed concern that the Council should not be engaging in labor disputes, which are better handled by the NLRB, and stated that discussions regarding responsible property investing should be made in the context of a broader investment policy. Mr. Liebtag concurred with Mr. Haselmann’s comments. Mr. Byrne offered to have the Division contact Blackstone to express the Council’s concern that the dispute be handled properly.

Mr. Hurst noted for the record that all Council members attended mandatory ethics training prior to the meeting.

**Adjournment**

Mr. Dolan motioned to adjourn the meeting, with Mr. Haselmann seconding the motion. All Council Members present voted in favor. The meeting was adjourned at 1:39 pm.