

New Jersey State Investment Council

January 27, 2016 Regular Meeting

Minutes of the Regular Meeting

Held January 27, 2016 at the Trenton War Memorial, George Washington Ballroom, 1 Memorial Drive, Trenton, New Jersey.

Council Members in Attendance:

Brendan T. Byrne, Jr., Chair
Adam Liebttag, Vice Chair
Marty Barrett (via telephone)
Michael Cleary
Michael Greaney
Guy Haselmann
Benjamin "Max" Hurst
James Joyner
Timothy McGuckin
Mitchell Shivers

James Hanson, Charles Dolan, and Jeffrey Oram were not in attendance.

Roll Call and Meeting Notice

The Regular Meeting was called to order by Brendan T. Byrne, Jr., Council Chair, at 1:25 p.m. Ernestine Jones-Booker, Council Secretary, performed roll call and reported that a quorum of the Council was present. Ms. Jones-Booker reported that notice of the Regular Meeting scheduled for January 27, 2016 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 December 08, 2015. A copy of the notice was posted at the Division and is on file.

Minutes for the Regular Meeting held November 18, 2015

James Joyner made a motion to approve the minutes of the regular meeting held on November 18, 2015, with Mitchell Shivers seconding the motion. All Council Members present voted in favor, with the exception of Max Hurst and Guy Haselmann who abstained since neither attended the meeting.

Approval of 2015 Annual Report

Director Christopher McDonough of the Division presented a draft of the 2015 Annual Report. Mr. McDonough noted, in an effort to further enhance transparency, the Cost of Management section was revised to include management fees, expenses, and performance allocations for underlying assets within fund-of-fund structures. Mr. McDonough reported that this enhancement will make year-to-year comparisons more difficult in the short term, but that the multi-year fee analysis requested by the Council will allow for such a comparison. Michael Cleary pointed out that the Police & Fire pension fund was the only fund to have an increase in value from Fiscal Year 2014 to Fiscal Year 2015, due to 100 percent contributions made by its members and by municipalities. In response to a question from Tim McGuckin, Mr. McDonough reported that the Fiscal Year 2015 fees were \$145 million higher than they would have been without inclusion of the fund-of-fund fees. Adam Liebttag clarified that the fees for prior years will similarly be higher using the new method of calculation. Mr. Haselmann made a motion to approve the annual report draft, with the final benchmarks and verified returns for calendar year 2015 to be inserted when they become available. Mr. Cleary seconded the motion, and all Council members present voted in favor. Marty Barrett asked that, in the future, the mission statement within the annual report be revised to include statutory language requiring assets to be managed solely in the interest of the beneficiaries.

New Jersey State Investment Council

January 27, 2016 Regular Meeting

Director's Report/Update

Mr. McDonough presented the Director's Report, providing an update on capital markets, asset allocation, portfolio performance and cash flow through December 31, 2015.

Pursuant to the Council's Alternative Investment Modification Procedures, Mr. McDonough notified the Council that a new legal entity was created to act as manager of all of the Anacap funds in which the Division is invested. In response to a question from Mr. Shivers, Mr. McDonough responded that staff had undertaken due diligence to ensure that the same personnel were still managing the funds. Mr. McDonough also notified the Council of two hedge fund redemptions, including a partial redemption from Omega Overseas Partners, Ltd. in order to reduce the overall beta exposure in the equity hedge fund portfolio, and a full redemption from Claren Road Credit Fund, Ltd. due to disappointing recent performance.

Deferred Compensation Plan Annual Update

Deputy Director Corey Amon provided an annual update on the New Jersey State Employees Deferred Compensation Plan, presenting a summary of the Plan's investment options, including asset class description, market value, and trailing performance track record. Mr. Amon stated that two changes were made to the menu of investment options in the past year: (1) Prudential Investment Management Fixed Income replaced PIMCO as the Plan's core plus fixed income option; and (2) Columbia Management Fund replaced Fidelity Contrafund as the Plan's large cap equity growth option. In response to Mr. Byrne's inquiry regarding the rationale for replacing Fidelity Contrafund, Mr. Amon pointed to its underperformance over the three and five year horizons. Mr. Amon reported that Prudential Retirement conducted a fund lineup review, which found that the lineup included a full range of options across the risk return and active and passive spectrums.

Report on Northern Ireland

Susan Sarnowski of the Division reported that, pursuant to a 1987 statute, the Division issued an annual report to the Governor and the Legislature with respect to U.S. companies doing business in Northern Ireland and their adherence to the MacBride Principles. Mr. Byrne asked about the cost of producing this report, and Ms. Sarnowski responded that there was an annual fixed cost of engaging a consultant plus additional unquantified internal costs.

Report on Treasury Supplemental Code of Ethics

Ms. Sarnowski provided a verbal report on the Treasury Supplemental Code of Ethics, which governs personal investing of Division employees. Ms. Sarnowski reported that there were two violations since the last update, both of which were referred to Labor Relations and the Treasurer's Office of Ethics Compliance for appropriate action. Ms. Sarnowski further reported that the Division had undertaken a review of the provisions of the Supplemental Code and had submitted revisions to the State Ethics Commission for consideration and approval.

Private Equity Investments

Tenex Capital Partners II, L.P.

Jason MacDonald of the Division presented an investment of up to \$100 million investment in Tenex Capital Partners II, L.P., a middle market buyout fund. The Division previously committed to a prior Tenex fund, and purchased an additional stake in that fund through the secondary market. Mr. MacDonald described the fund's investment strategy, the terms of

New Jersey State Investment Council January 27, 2016 Regular Meeting

the investment, and the Division's investment rationale. In response to a question from Mr. Byrne, Mr. MacDonald reviewed the fund's distribution waterfall. Mr. Byrne noted the substantial general partner commitment, and reported that the IPC reviewed the investment and was satisfied that appropriate and adequate due diligence had been performed.

New Jersey Asia Investors III, L.P.

Robin Clifford of the Division and Heidi Poon of Torrey Cove Capital Partners presented an investment of up to \$300 million in New Jersey Asia Investors III, L.P., a private equity separate account that invests in developed and emerging Asia markets. Ms. Clifford summarized the Division's investments in prior funds and the terms of the investment in Fund III. In response to Mr. Shivers' question regarding the fund's geographic focus within Asia, Ms. Poon replied that the fund would invest primarily in China, Japan, India, and Korea. Mr. Byrne noted the positive performance of the prior funds, and reported that the IPC reviewed the investment and was satisfied that appropriate and adequate due diligence had been conducted.

Treasurer's Report

Dr. Roger Cohen of the Treasurer's office provided a brief update on the New Jersey real estate and labor markets and on revenue forecasts for the current fiscal year.

Public Comment

There were no public comments. Mr. Byrne informed the Council of the untimely passing of former Council member, James C. Kellogg, expressing his sadness and sympathy. Mr. Shivers echoed Mr. Byrne's comments and asked that a resolution be prepared for the next Council meeting.

Mr. Byrne departed the meeting at this point, and Mr. Liebttag, Council Vice-Chair, assumed duties as Chair.

Exemption from State Investment Council's Policy Concerning Political Contributions and Prohibitions on Investment

Management Business

(Mr. Byrne recused himself from the discussion to avoid any perceived conflict of interest since he had a personal relationship with certain of the individuals involved.)

Mr. Liebttag introduced a discussion of a request by CVC Capital Partners seeking an exemption for a violation of the Council's Policy concerning political contributions. Mr. Liebttag reported that the IPC had discussed and reviewed the request, and recommended approving the waiver with a strong message of admonition. Director McDonough added that CVC is a long-established firm with a top quartile record of performance and that maintaining the investment is in the best interest of the beneficiaries. Mr. Liebttag made a motion determining that CVC demonstrated that the violation was unintentional and inadvertent, that the beneficiaries, taxpayers and public are best served by such an exemption, and that the exemption be approved. Mr. Haselmann seconded the motion. A roll call vote resulted in approval of the motion, with 9 votes in favor (Barrett, Cleary, Greaney, Haselmann, Hurst, Joyner, Liebttag, McGuckin and Shivers) and none against.

Real Estate Investment

Blackstone Real Estate Debt Strategies III, L.P.

(Mr. Byrne recused himself from the discussion to avoid any perceived conflict of interest since his company has invested client assets in Blackstone stock.)

New Jersey State Investment Council January 27, 2016 Regular Meeting

Kevin Higgins of the Division presented an investment of \$100 million in Blackstone Real Estate Debt Strategies III, L.P., a dedicated debt fund. Mr. Higgins described the performance of prior funds and the terms of the investment. Mr. Liebttag reported that the IPC had met and reviewed the investment and determined that appropriate and adequate due diligence had been conducted.

Adjournment

Mr. Joyner made a motion to adjourn the meeting, with Mr. Haselmann seconding the motion. All Council members present voted in favor. The meeting was adjourned at 2:43 pm.