

# New Jersey State Investment Council

## March 28, 2018 Regular Meeting

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### **Minutes of the Regular Meeting**

Held March 28, 2018 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  
Thomas Bruno Jr.  
Michael Cleary  
James Hanson  
James Joyner  
Timothy McGuckin  
Brady Middlesworth  
Eric Richard  
Mitchell Shivers (via telephone)

Charles Dolan and Michael Greaney were not in attendance.

### **Roll Call and Meeting Notice**

The Regular Meeting was called to order by Brendan T. Byrne, Jr., Council Chair, at 10:08 a.m. Ernestine Jones-Booker, Council Secretary, performed roll call and reported that a quorum of the State Investment Council (Council) was present. Ms. Jones-Booker reported that notice of the Regular Meeting, scheduled for March 28, 2018, was posted on the website of the Division of Investment (Division); faxed to the Times of Trenton, the Bergen Record, and the Courier Post; and e-mailed to the Secretary of State on February 26, 2018. A copy of the notice was posted at the Division and is on file.

### **Minutes of the Annual and Regular Meetings held February 1, 2018**

Mr. Byrne presented for adoption the minutes of the annual and regular meetings held February 1, 2018. Thomas Bruno Jr. made a motion to approve the minutes for the annual meeting, with Michael Cleary seconding the motion. All Council Members present voted in favor. Mr. Bruno made a motion to approve the minutes for the regular meeting, with Mr. Cleary seconding the motion. All Council Members present voted in favor, except James Hanson who abstained since he was not in attendance at that meeting.

### **Opening Remarks by Chair**

Mr. Byrne made some opening comments, announcing positive investment returns but cautioning that system reforms were still needed. He noted a more challenging investment environment and emphasized the importance of a diversified portfolio, including private investments. Mr. Byrne thanked Division staff for their work, and expressed concern that compensation levels were resulting in the loss of key investment professionals. Mr. Byrne highlighted the Division's ESG initiatives, including its recent engagement efforts, and encouraged the Division to work with other public funds on ESG issues to achieve better investment results. Further, Mr. Byrne commented on changes in the assumed rate of return, acknowledging practical constraints militating against a full immediate reduction, but praising the new Administration's commitment to having reiterating the importance of a lower rate as an eventual target. Finally, he remarked on pending legislation separating the governance of PFRS from that of the other State pension funds, pointing out that the most

## New Jersey State Investment Council March 28, 2018 Regular Meeting

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important issue was not the separate governance structure but the details regarding the extent to which taxpayers bear the burden of subpar investment results and increased benefits.

### **Asset Liability Study Presentation**

Phil Kivarkis and Kristen Doyle of Aon Hewitt presented the results of the firm's Asset Liability Study. Mr. Kivarkis provided an overview of the study, which analyzed the pension funds' asset allocation in the context of projected fund liabilities. The study modeled projections for various investment strategies over thousands of economic scenarios over a 30 year period, and concluded that the funds' current asset allocation appeared to have the appropriate balance between return-seeking assets and risk-reducing assets. Mr. Kivarkis explained that the ability of the funds to approach fully funded status will be highly dependent on State, local and employee contributions, in addition to investment returns. Adam Liebttag and Eric Richard requested a breakdown of employer contributions by the State and local employers. Mr. Byrne suggested that it might be beneficial also to include projected State budget contributions over time.

### **Environmental, Social and Governance (ESG) Update**

Jeffrey Warshauer of the Division provided an overview of the Division's Environmental, Social and Governance (ESG) initiatives. Mr. Liebttag summarized the work of the ESG Subcommittee, emphasizing that ESG factors will be applied to investment decisions across the entire portfolio and commenting on the difficulty of sourcing ESG scoring information and obtaining ESG information in the private market.

Christopher McDonough, Director of the Division, provided an update on the Division's holdings in firearm companies, and announced that the Division had fully exited its position in Vista Outdoor. Mr. McDonough stated that the decision to liquidate the company's holdings was based on the company's long-term financial prospects. With the sale, Mr. McDonough reported that the Division did not hold positions in any publicly-traded companies which had been identified as manufacturers of automatic or semiautomatic civilian firearms. Mr. Richard requested that the Division provide this updated information to the sponsor of the firearms bill currently being considered by the Legislature. Mr. Liebttag made a motion recommending that the ESG Subcommittee be tasked to review investments in firearm and ammunition manufacturing and retail companies and to develop a policy recommendation with respect to investments in such companies. The motion was seconded by Timothy McGuckin. All present members of the Council voted in favor.

Mr. Liebttag departed the meeting at this time.

### **Director's Report**

Mr. McDonough presented the Director's Report, providing an update on capital markets. Deputy Director Corey Amon provided an update on pension fund performance and asset allocation. Mr. McDonough noted changes to the assumed rate of return, described cash flows from the lottery and local employers, and updated the Council on staffing issues. Finally, Mr. McDonough provided an update on the mortgage foreclosure crisis in Puerto Rico that was discussed at the prior Council meeting. At the request of Mr. Byrne, Mr. McDonough described the Division's process for monitoring beta in the portfolio.

### **Alternative Investment Notifications – Och Ziff Management and Carlyle Realty Partners V, L.P.**

Pursuant to the Council's Alternative Investment Modification Procedures, Mr. McDonough notified the Council of modifications to the Och Ziff investment platform and the Division's investment in Carlyle Realty Partners V, L.P. Mr.

## **New Jersey State Investment Council March 28, 2018 Regular Meeting**

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Hanson recused himself from the Och Ziff discussion, because of his personal relationship with the firm's chief executive officer.

### **Selection of Real Estate Consultant**

Kevin Higgins of the Division provided a summary of the bid selection and evaluation process for real estate investment consulting services, reporting that the Division had selected Hamilton Lane as its consultant.

### **Report to the Legislature on Investments in Iran**

Susan Sarnowski of the Division presented the March 2018 report issued to the Legislature in accordance with the 2007 Iran divestment law, reporting the sale of securities in two companies over the prior year. Ms. Sarnowski also reported that Volkswagen AG had been recently added to the Division's prohibited investment list.

### **Treasurer's Report**

Dini Ajmani of the Treasurer's office provided an update on the State budget, the assumed rate of return, and State tax revenues.

### **Determination under State Investment Council's Policy Concerning Political Contributions and Prohibitions on Investment Management Business**

Ms. Sarnowski of the Division presented to the Council the matter of a political contribution by the spouse of an investment professional at Centerbridge Partners, L.P. for its determination of whether or not the contribution was an indirect violation of the Council's political contribution policy under N.J.A.C. 17:16-4.5. Mr. Byrne called for a vote, and all Council members present voted in favor of a determination that the contribution did not constitute an indirect violation under N.J.A.C. 17:16-4.5.

### **Real Estate Investment**

#### ***TPG Real Estate Partners III, L.P.***

Mr. Higgins and Michelle Davidson of TorreyCove presented an investment of up to \$100 million in TPG Real Estate Partners III, L.P., a real estate fund managed by TPG Real Estate. Mr. Higgins and Ms. Davidson described the Fund's management team and its platform-based approach, as well as the material terms of the investment. Mr. Byrne reported that the IPC had reviewed the investment and was satisfied that appropriate and adequate due diligence had been performed.

### **Audit Committee Report**

Mr. McGuckin reported that the Audit Committee, comprised of himself, Michael Greaney, Mr. Hanson, Charles Dolan and Mr. Cleary, met with the auditor, KPMG, regarding completion of the annual audit for FY 2017. Mr. McGuckin noted that once the audit was completed, the audited financial statements would be shared with the Council and the Division.

### **Public Comment**

Fred Potter and Gabriel Procel of the International Brotherhood of Teamsters spoke about issues in the port trucking industry. At the request of Mr. Richard, Brady Middlesworth and Mr. Bruno, after Council discussion, staff was directed to draft a letter addressing the issues for review by the Council's ESG subcommittee at its April meeting.

## **New Jersey State Investment Council March 28, 2018 Regular Meeting**

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Jim Baker of the Private Equity Stakeholder Project provided an update on comments made at a prior meeting with respect to the housing foreclosure crisis in Puerto Rico.

### **Adjournment**

Mr. Byrne made a motion to adjourn the meeting, with Mitchell Shivers seconding the motion. All Council Members present voted in favor. The meeting was adjourned at 12:22 p.m.