

# New Jersey State Investment Council

## January 30, 2019 Regular Meeting

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

Held January 30, 2019 at the Trenton War Memorial, George Washington Ballroom, 1 Memorial Drive, Trenton, New Jersey.

### **Council Members in Attendance:**

Adam Liebttag, Acting Chair  
Thomas Bruno  
Michael Cleary  
Vaughn Crowe  
Michael Greaney  
James Hanson  
Kevin Kelleher  
Timothy McGuckin  
Samir Pandiri  
Eric Richard

Marty Barrett was not in attendance.

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

The Regular Meeting was called to order by Adam Liebttag, Acting Chair, at 10:59 a.m. Ernestine Jones-Booker, Council Secretary, performed roll call and reported that notice of the Regular Meeting, scheduled for January 30, 2019 was posted on the website of the Division of Investment (Division); 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 January 4, 2019. A copy of the notice was posted at the Division and is on file.

### **Minutes for the Regular Meeting held November 29, 2018**

Mr. Liebttag presented the minutes of the regular meeting held on November 29, 2018. Thomas Bruno made a motion to approve the minutes, with Michael Cleary seconding the motion. All Council Members present voted in favor of the motion.

### **State Investment Council Fiscal Year 2018 Annual Report**

Corey Amon, Acting Director of the Division, presented a draft of the annual report for fiscal year 2018. Mr. Liebttag thanked the Division staff and its consultants for preparing the comprehensive report, and commended staff on its particular attention to fee disclosure. In response to a question from Mr. Cleary, Christine Brennan of the Division explained the breakdown of management fees and performance allocation for the Division's alternative investments in Appendix 1 of the report. Mr. Bruno made a motion to approve the Fiscal Year 2018 Annual Report as presented, with Timothy McGuckin seconding the motion. A roll call vote was taken, with all Council Members present voting in favor of the motion.

### **Comments by Acting Chair**

Mr. Liebttag commented that the Division and the Investment Policy Committee were beginning discussions regarding the Asset Allocation Plan for fiscal year 2020 with a goal of presenting the plan to the full Council in May. He invited all of the Council Members to provide suggestions and

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recommendations for the process. Mr. Liebttag also referenced continuing efforts to have additional resources allocated to the Division in order to improve its capacity and effectiveness.

### **Director's Report/Portfolio Update**

Mr. Amon presented the Director's Report, providing an update on portfolio performance and asset allocation through December 31, 2018.

Mr. Amon notified the Council of modifications to the Division's investments in CVC Capital Partners VI; OZNJ Real Asset Opportunities and OZ Energy Partners; Benefit Street Partners Special Situations Fund; and Perella Weinberg Real Estate Funds II and II. Further, Mr. Amon notified the Council of redemptions in the Division's risk mitigation and global diversified credit portfolios. Eric Richard reiterated his concerns about the cost of the risk mitigation portfolio and its effectiveness in providing downside protection.

The Council took a brief meeting recess at this time.

### **Private Equity Investments**

#### ***Pacing Analysis Overview***

Michelle Davidson of TorreyCove presented a commitment pacing and cash flow analysis overview for the fund's private equity and real asset portfolios, including recommended commitment amounts for 2019 and subsequent years.

#### ***Interpretation of N.J.A.C. 17:16-90.4***

Mr. Amon explained the difficulties faced by the Division in interpreting and implementing the regulatory limitation on private equity investments set forth in N.J.A.C. 17:16-90.4 and presented a proposed interpretation for Council consideration in "Attachment A". Mr. Liebttag made a motion to approve the interpretation as presented, which motion was seconded by Kevin Kelleher. On a roll call vote, the motion was approved, with nine members (Messrs. Cleary, Crowe, Greaney, Hanson, Kelleher, Liebttag, McGuckin, Pandiri and Richard) voting in favor and one (Mr. Bruno) voting against.

### **Real Assets Investments**

#### ***Real Assets Overview***

Michelle Davidson of TorreyCove presented an overview of private real assets and presented a proposed framework for investing in these assets. In response to Mr. Liebttag's question regarding proper benchmarks for real assets, Ms. Davidson presented a number of options that could be considered by the Council.

#### ***Brookfield Capital Partners V, L.P.***

Kevin Higgins of the Division and Ms. Davidson presented an investment of up to \$100 million in Brookfield Capital Partners V, L.P., a fund focused on diversified real assets. Mr. Higgins summarized the experience and track record of the fund's investment team, the fund's investment strategy and Environmental, Social, Governance (ESG) Policy, and the terms of the investment. Mr. Higgins and Ms. Davidson explained the

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Division's investment in, and the performance of, a prior Brookfield fund, in response to questions from Mr. Liebtag. Mr. Liebtag reported that the IPC had extensively reviewed the investment and recommended presentation to the Council.

### ***Homestead Capital USA Farmland Fund II, L.P.***

Jared Speicher of the Division and Ms. Davidson presented an investment of up to \$100 million in Homestead Capital USA Farmland Fund III, L.P., a real asset fund focused on U.S. farmland investments. Mr. Speicher described the fund's strategy, investment team and ESG policy, as well as material terms of the investment. In response to a request by Mr. Liebtag, Mr. Speicher discussed the effect of tariffs on the investment. Mr. Speicher, Mr. Amon and Ms. Davidson discussed the performance of Homestead's prior funds, in response to queries from Mr. Liebtag and Samir Pandiri. Mr. Liebtag reported that the IPC had extensively reviewed the investment and recommended presentation to the Council.

### **Deferred Compensation Plan Annual Update**

Todd Rowohlt of the Division provided an annual update on the New Jersey State Employees Deferred Compensation Plan ("DCP"), reporting a change in the DCP's fund options. Mr. Rowohlt reported that the DCP Board had replaced the Small Cap Growth Fund, managed by RBC Global Asset Management, with the Small Cap Growth II Fund, managed by Wellington Management, as an investment option.

### **Report on Treasury Supplemental Code of Ethics**

Susan Sarnowski of the Division provided a report on the Treasury Supplemental Code of Ethics, which governs personal investing by Division employees. Ms. Sarnowski reported that the Division made revisions to the Supplemental Code that took effect in March 2018 and conducted employee training on the Supplemental Code as revised. Ms. Sarnowski reported that there were three violations of the Supplemental Code since the date of the Division's last report to the Council.

### **Proposed Amendments to Council Regulations**

Susan Sarnowski of the Division presented proposed amendments to N.J.A.C. 17:16-1 (General Provisions), 3 (Classification of Funds), 5 (Securities Lending Transactions), 23 (Global Diversified Credit Investments), 32 (Certificates of Deposit), 48 (Global Equity Investments (Pension and Annuity Funds)), 69 (Common Pension Funds), 71 (Real Assets), 81 (Foreign Currency Transactions), 90 (Private Equity), 95 (Opportunistic Investments) and 100 (Absolute Return Strategy Investments). The proposed amendments are intended to implement the provisions of P.L. 2018, c.55, which, among other changes, transfers investment policy authority from the Council to the Board of Trustees of the Police and Firemen's Retirement System (PFRS). The proposed amendments also include amendments to Subchapter 32 (Certificates of Deposit) to address issues related to investing in certificates of deposit issued by banks. In response to questions from Mr. Cleary and Mr. Bruno, Ms. Sarnowski described the proposed allocation of investments and fees among the various pension plans.

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Mr. Liebtag made a motion to adopt the attached resolution "Attachment B" approving the proposed amendments, which motion was seconded by James Hanson. On a roll call vote, all members of the Council present voted in favor of the motion.

### **Report on Northern Ireland**

Ms. Sarnowski presented to the Council the Division's annual report to the Governor and the Legislature with respect to U.S. corporations doing business in Northern Ireland and their adherence to the MacBride Principles of nondiscrimination in employment and freedom of workplace opportunity.

### **Report on Statute Prohibiting Investments in Companies that Boycott Israel**

Ms. Sarnowski presented to the Council the Division's annual report to the Legislature in accordance with P.L. 2016, c. 24, which prohibits investment in companies that boycott Israel. In response to a question from Mr. Liebtag, Mr. Amon described the Division's practice of considering input from interested third parties.

### **Notice of Change in May and July 2019 Council Meeting Dates**

Mr. Liebtag notified the Council of a change in the meeting date of the Council's May and July meetings due to scheduling conflicts. The revised dates for those meetings are May 29, 2019 and July 24, 2019.

### **Public Comment**

Frank Abella of Investment Partners Asset Management and Community Informatics presented a number of proposed recommendations regarding pension reform, investments and various Division management matters.

### **Adjournment**

Mr. Liebtag made a motion to adjourn the meeting, with Vaughn Crowe seconding the motion. All Council members present voted in favor of the motion. The meeting was adjourned at 1:13 p.m.



## State of New Jersey

**PHILIP D. MURPHY**  
*Governor*

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**ELIZABETH MAHER MUOIO**  
*State Treasurer*

**SHEILA Y. OLIVER**  
*Lt. Governor*

**COREY AMON**  
*Acting Director*

January 25, 2019

MEMORANDUM TO: State Investment Council

FROM: Corey Amon  
Acting Director

SUBJECT: **Interpretation of N.J.A.C. 17:16-90.4 - Limitations on Private Equity Investments**

### Background

Under the State Investment Council's (the "Council") Regulations, N.J.A.C. 17:16-90.4(a)(1) provides that "[a]t the time of initial purchase... [t]he aggregate market value of private equity investments under this subchapter shall not exceed 12 percent of the combined assets of all of the Pension and Annuity Funds." N.J.A.C. 17:16-90.4(b) provides that "[i]f, subsequent to initial purchase, the limitations in (a) above are exceeded, then the Council shall be notified ... [and] the Division may be granted a six-month period of grace to reduce the level of participation below the maximum levels..."

To date, the Division has determined compliance with the 12 percent limitation by performing a calculation using the most recently available market values for the private and public portfolios, updated for cash flows. While the public investments are marked to market daily, the values used for private investments (including private equity investments) are based on the most recent information from the individual funds, which is received on a lag. The calculation excludes uncalled commitments and anticipated distributions.

The Division manages alternative investments in accordance with pacing analyses prepared by the various asset class consultants, with a goal of timing commitments so that anticipated capital calls and distributions result in a market value within the targeted range as set forth in the Council's asset allocation.

### Discussion

With respect to private equity investments, the Division's attempts to maintain the proper percentage under the asset allocation plan (10.25 percent) have resulted in the market value being close to the 12 percent regulatory cap in N.J.A.C. 17:16-90.4(a)(1). For example, as of June 30, 2018, the value of the private equity portfolio was \$8.71 billion, or 11.14% of the Pension Fund's total assets. The recent downturn in the public markets resulted in a ratio higher than 12 percent on two dates in December 2018. The Division and its private

equity consultant, TorreyCove Capital Partners, are currently undergoing a comprehensive portfolio review that may include consideration for various secondary sale options.

The recent volatility in the public markets has caused a number of issues with respect to the Pension Fund's private equity investments. First, because of the delay between the date of presentation to the Council and the date of closing, it is now difficult to predict whether the Pension Fund will be above or below the cap on the exact day of closing prior to expending resources on negotiating the final terms of the investment. Second, to the extent that the market value of private equity investments exceeds the 12 percent limitation, the Pension Fund will be unable to make additional private equity commitments, even if the pacing analysis indicates that distributions will likely reduce the percentage prior to any commitments being called. Failure to close on investments that are consistent with the pacing analysis interferes with the Division's ability to meet the asset allocation goals set by the Council.

### **Recommendation**

In order to preserve the ability to invest the Pension Fund assets in a manner consistent with the Council's asset allocation goals while at the same time avoiding unnecessary expenditures of staff and legal resources, the Division is asking the Council to do the following:

- 1) Interpret the term "time of initial purchase" in N.J.A.C. 17:16-90.4 to mean at the time of presentation to the State Investment Council (or, for investments under \$50 million, the Investment Policy Committee) under N.J.A.C. 17:16-69.9. The term "initial purchase" is not defined in the Regulations, and it is unclear how the term applies to private equity investments, which often involve an initial "purchase" of fund interests with no market value, followed by a series of capital calls and distributions over the course of a multi-year investment period. By interpreting the term "time of initial purchase" to mean the earliest date on which the investment may proceed under the Regulations, the Division will be able to make a determination whether the investment is permitted under N.J.A.C. 17:16-90.4(a)(1) prior to expending staff and legal resources on negotiating the final terms of the investment. If the market value of the Pension Fund's private equity investments subsequently exceeds the limitation, the Division will notify the Council, at which point the Council can determine under N.J.A.C. 17:16-90.4(b) whether to provide the Division with a grace period to reduce the overall exposure of its private equity portfolio below the maximum level.
- 2) As part of its asset allocation discussion, consider adjusting the regulatory limit on private equity investments to provide adequate flexibility relative to the target allocation.

Since the Council is the proper body to interpret its own regulations, the Division is seeking guidance from the Council in interpreting N.J.A.C. 17:16-90.4 prior to finalizing the legal documentation on its pending private equity investments.

**Resolution Approving Proposed Amendments to N.J.A.C. 17:16-1 (General Provisions), 3 (Classification of Funds), 5 (Securities Lending Transactions), 23 (Global Diversified Credit Investments), 32 (Certificates of Deposit), 48 (Global Equity Investments (Pension and Annuity Funds)), 69 (Common Pension Funds), 71 (Real Assets), 81 (Foreign Currency Transactions), 90 (Private Equity), 95 (Opportunistic Investments) and 100 (Absolute Return Strategy Investments)**

BE IT RESOLVED THAT:

The State Investment Council (the "Council") hereby approves the proposed amendments to N.J.A.C. 17:16-1 (General Provisions), 3 (Classification of Funds), 5 (Securities Lending Transactions), 23 (Global Diversified Credit Investments), 32 (Certificates of Deposit), 48 (Global Equity Investments (Pension and Annuity Funds)), 69 (Common Pension Funds), 71 (Real Assets), 81 (Foreign Currency Transactions), 90 (Private Equity), 95 (Opportunistic Investments) and 100 (Absolute Return Strategy Investments) as attached hereto.

The Council hereby authorizes the Acting Director of the Division of Investment to submit the attached proposals to the Office of Administrative Law for publication and public comment, and hereby delegates to staff of the Council and the Division of Investment the authority to make revisions to the proposals as required and as shall be made upon the advice of the Attorney General.

This resolution shall take effect immediately.

DATED: January 30, 2019