

Housing Affordability Impact Analysis

The proposed amendments will have no impact on the affordability of housing in the State of New Jersey. The proposed amendments will modify the investment in collateralized notes and mortgages thereby providing an opportunity for increased risk-adjusted returns of the State-administered funds.

Smart Growth Development Impact Analysis

The proposed amendments are not anticipated to have an impact on the availability of affordable housing or housing production within Planning Areas 1 or 2, or within designated centers, under the State Development and Redevelopment Plan in New Jersey. The proposed amendments will modify the investment in collateralized notes and mortgages thereby providing an opportunity for increased risk-adjusted returns of the State-administered funds.

Full text of the proposal follows (additions indicated in boldface **thus**; deletions indicated in brackets [thus]):

17:16-19.2 Permissible investments

(a) (No change.)

(b) Notwithstanding the restrictions in (a) above, the Director may invest and reinvest the moneys of Common Pension Fund B in corporate obligations **of U.S. based corporations**, international corporate obligations, collateralized notes and mortgages, [bank loans] **global diversified credit investments**, non-convertible preferred stock, and mortgage backed passthrough securities that do not meet the minimum credit ratings set forth in N.J.A.C. 17:16-12.2 and 16.2, this section, and N.J.A.C. 17:16-23.2, 40.2, and 58.2, respectively; provided, however, the market value of such investments shall not exceed [five] **eight** percent of the combined assets of all of the Pension and Annuity Funds.

(c) (No change.)

(a)

**STATE INVESTMENT COUNCIL
International Government and Agency Obligations
Definitions; Permissible Investments; Eligible
Funds; Limitations
Proposed Amendments: N.J.A.C. 17:16-20.1 through
20.4**

Authorized By: State Investment Council, Timothy M. Walsh,
Director, Division of Investment.

Authority: N.J.S.A. 52:18A-91.

Calendar Reference: See Summary below for explanation of
exception to calendar requirement.

Proposal Number: PRN 2012-135.

Submit comments by November 30, 2012 to:

Timothy M. Walsh
Administrative Practice Officer
Division of Investment
PO Box 290
Trenton, New Jersey 08625-0290

The agency proposal follows:

Summary

N.J.A.C. 17:16-20 permits the Director to invest in international government and agency obligations on behalf of any eligible fund. N.J.A.C. 17:16-20.2(c)1 requires that all securities purchased for Common Pension Fund B must be denominated in United States dollars. This requirement is proposed to be deleted, thereby allowing investment in international government and agency obligations denominated in foreign currency to provide for expanded investment opportunities and the opportunity for increased risk-adjusted returns.

The proposed amendments to N.J.A.C. 17:16-20.3 will delete Police and Firemen’s Retirement System, Public Employees’ Retirement System, State Police Retirement System, Teachers’ Pension and Annuity Fund, Judicial Retirement System of New Jersey, and Common Pension

Fund D as eligible funds. All pension and annuity fund investments in international government and agency obligations are proposed to be made through Common Pension Fund B. In addition, eligible funds will continue to include the State of New Jersey Cash Management Fund.

N.J.A.C. 17:16-20.4(a)1 provides that not more than one percent of the market value of the assets of any eligible fund shall be invested in obligations, whether direct or guaranteed, of any one issuer. The proposed amendment will revise the limitation to not more than five percent, in addition to having the language reflect the concurrently proposed amendment to eligible funds. The increased limit will provide the opportunity for increased risk adjusted returns.

N.J.A.C. 17:16-20.4(a)3 provides that the market value of international debt and equity securities held by any fund, other than Common Pension Fund D, shall not exceed 30 percent of the market value of such fund. The proposed amendment will provide that not more than five percent of the combined assets of all the Pension and Annuity Funds shall be invested in international government and agency obligations.

N.J.A.C. 17:16-20.4(a)4 provides a limitation on the investment in the debt and equity of companies based in emerging market countries; this paragraph, and the definition of “emerging market country” in N.J.A.C. 17:16-20.1, are proposed to be deleted. The proposed deletions, along with the separation of investment limits for debt and equity investments being proposed concurrently for N.J.A.C. 17:16-16, 44, and 46 elsewhere in this issue of the New Jersey Register, will provide investment flexibility and the opportunity for increased risk-adjusted returns and will express the limitations in a manner which is consistent with the asset allocation plan.

Because the Division is providing a 60-day comment period on this notice of proposal, this notice is exempted from the rulemaking calendar requirement pursuant to N.J.A.C. 1:30-3.3(a)5.

Social Impact

The proposed amendments shall have a positive social impact because the opportunity for increased overall risk-adjusted returns for the State-administered funds will benefit the funds’ beneficiaries and will lessen the long-term burden on the State’s taxpayers.

Economic Impact

The proposed amendments shall have a positive economic impact by providing an opportunity for increased risk-adjusted returns of the State-administered funds.

Federal Standards Statement

A Federal standards analysis is not required because the investment policy rules of the State Investment Council are not subject to any Federal requirements or standards.

Jobs Impact

The State Investment Council and the Division of Investment do not anticipate that any jobs will be generated or lost by virtue of the proposed amendments.

Agriculture Industry Impact

The proposed amendments will have no impact on the agriculture industry.

Regulatory Flexibility Statement

A regulatory flexibility analysis is not required since the proposed amendments will have no effect on small businesses as the term is defined in the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq., but regulate only the Director of the Division of Investment.

Housing Affordability Impact Analysis

The proposed amendments will have no impact on the affordability of housing in the State of New Jersey. The proposed amendments will modify investment in international government and agency obligations thereby providing an opportunity for increased risk-adjusted returns of the State-administered funds.

Smart Growth Development Impact Analysis

The proposed amendments are not anticipated to have an impact on the availability of affordable housing or housing production within Planning Areas 1 or 2, or within designated centers, under the State Development and Redevelopment Plan in New Jersey. The proposed amendments will

modify investment in international government and agency obligations thereby providing an opportunity for increased risk-adjusted returns of the State-administered funds.

Full text of the proposal follows (additions indicated in boldface **thus**; deletions indicated in brackets [thus]):

17:16-20.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

...

["Emerging market country" shall mean a country that is not included in the Morgan Stanley Capital International (MSCI) Equity Index Series for developed markets or another similar index selected by the Director and approved by the Council.]

17:16-20.2 Permissible investments

(a)-(b) (No change.)

(c) Notwithstanding (a) above, the Director may only invest and reinvest the moneys of Common Pension Fund B in international government and agency obligations that [are:

1. Denominated in United States dollars; and
2. Have] **have** a credit rating of Baa3 or higher by Moody's Investor Service, Inc., BBB- or higher by Standard & Poor's Corporation, and BBB- or higher by Fitch Ratings, except that two of the three ratings is sufficient and one of the three ratings is sufficient if only one rating is available.

(d) (No change.)

17:16-20.3 Eligible funds

(a) For purposes of this subchapter, eligible funds shall include:

- [1. Police and Firemen's Retirement System;
2. Public Employees' Retirement System;
3. State Police Retirement System;
4. Teachers' Pension and Annuity Fund;
5. Judicial Retirement System of New Jersey;]
- [6.] **1.** Common Pension Fund B; **and**
- [7. Common Pension Fund D; and]
- [8.] **2.** (No change in text.)

17:16-20.4 Limitations

(a) At time of initial purchase, the following conditions shall be met:

1. Not more than [one] **five** percent of the market value of the assets of any eligible fund[, either directly or through Common Pension Funds B or D.] shall be invested in obligations, whether direct or guaranteed, of any one issuer. The [one] **five** percent limitation shall not apply to Common Pension Fund[s] B [and D].

2. (No change.)

3. [The market value of international government and agency obligations held by an eligible fund (other than Common Pension Fund D), either directly or through Common Pension Fund D, when combined with common and preferred stock and issues convertible into common stock permitted under N.J.A.C. 17:16-44 and 46 and international corporate obligation permitted under N.J.A.C. 17:16-16, cannot exceed 30 percent of the market value of the assets of such fund, subject to such further provisos as are contained in N.J.A.C. 17:16-67.] **Not more than five percent of the combined assets of all of the Pension and Annuity Funds shall be invested in international government and agency obligations.**

[4. The total market value of stock, or securities convertible into stock, of companies in emerging market countries permitted under N.J.A.C. 17:16-46, the shares or interests in global, regional or country funds in emerging market countries permitted under N.J.A.C. 17:16-46, and international government and agency obligations in emerging market countries permitted under this subchapter, held by Common Pension Fund D shall not exceed 1.5 times the percentage derived by dividing the total market capitalization of companies included in the MSCI Emerging Market Index by the total market capitalization of the companies included in the MSCI All-Country World Ex-United States Index of the total market value of the assets held by Common Pension Fund D. In calculating the above percentage, the Director may substitute such other

similar indices as may be selected by the Director and approved by the Council.]

(b) (No change.)

(a)

STATE INVESTMENT COUNCIL

Bank Loans

Definitions; Permissible Investments; Eligible Funds; Limitations

Proposed Amendments: N.J.A.C. 17:16-23.1 through 23.4

Authorized By: State Investment Council, Timothy M. Walsh, Director, Division of Investment.

Authority: N.J.S.A. 52:18A-91.

Calendar Reference: See Summary below for explanation of exception to calendar requirement.

Proposal Number: PRN 2012-136.

Submit comments by November 30, 2012 to:

Timothy M. Walsh
 Administrative Practice Officer
 Division of Investment
 PO Box 290
 Trenton, New Jersey 08625-0290

The agency proposal follows:

Summary

N.J.A.C. 17:16-23 permits the Director to invest the monies of any eligible fund in bank loans. The heading of the subchapter is proposed to be amended from "Bank Loans" to "Global Diversified Credit Investments" to more accurately describe the contents of the subchapter after incorporation of the proposed amendments. Accordingly, the proposed amendments to N.J.A.C. 17:16-23.2(a)2, 23.2(d), and 23.4(a) include revision of the term bank loan in these provisions to the broader proposed category of global diversified credit investments.

The proposed amendments include the addition of definitions to N.J.A.C. 17:16-23.1 for credit structured products, global diversified credit investments, mezzanine debt, mortgage-backed securities, and whole loans which are proposed to be added as permissible investments in N.J.A.C. 17:16-23.2.

N.J.A.C. 17:16-23.2(a)1i requires that all bank loans must be payable as to both principal and interest in United States dollars. This requirement is proposed to be deleted to allow for investment in international bank loans denominated in foreign currency to provide for expanded investment opportunities and the opportunity for increased risk-adjusted returns.

Proposed N.J.A.C. 17:16-23.2(a)2i will provide that the separate accounts, funds-of-funds, commingled funds, co-investments, and joint ventures, that primarily invest in global diversified credit investments, must primarily consist of investment grade securities at the time of purchase or commitment. N.J.A.C. 17:16-23.2(b), as proposed for amendment, will provide for investment in high yield global diversified credit investments. The requirement that investment in separate accounts, funds-of-funds, commingled funds, co-investments, and joint ventures are subject to the further provisos contained in N.J.A.C. 17:16-63 is recodified from N.J.A.C. 17:16-23.2(a)2 to N.J.A.C. 17:16-23.2(a)2ii.

N.J.A.C. 17:16-23.2(b) provides that up to five percent of the combined assets of all of the Pension and Annuity Funds may be invested in corporate obligations, international corporate obligations, collateralized notes and mortgages, bank loans, non-convertible preferred stock, and mortgage-backed passthrough securities that do not meet the minimum credit ratings set forth in N.J.A.C. 17:16-12.2, 16.2, 19.2, 23.2, 40.2, and 58.2, respectively. The proposed amendment to N.J.A.C. 17:16-23.2(b), concurrent with the proposed amendments to the other subchapters published elsewhere in this issue of the New Jersey Register, will raise the five percent cap to eight percent and expand the high yield category to include global diversified credit investments to provide the