

New Jersey State Investment Council September 19, 2013 Regular Meeting

Minutes of the Regular Meeting:

Held on September 19, 2013 at 10:00 AM at the Trenton War Memorial, George Washington Ballroom, 1 Memorial Drive, Trenton New Jersey.

Council Members in Attendance:

Robert Grady, Chair
Marty Barrett
Brendan T. Byrne, Jr., Vice Chair
Michael Greaney
Guy Haselmann
James Joyner
James Hanson
Michael Cleary
Peter Maurer
Timothy McGuckin
Jeffrey Oram
Mitchell Shivers
Adam Liebttag (via telephone)

Charles Dolan was not in attendance for this meeting.

Roll Call and Meeting Notice

Mr. Grady called the meeting to order at 10:09am. Ms. Christine Eckel performed roll call and reported that there was a quorum. She stated that notice of the Regular Meeting scheduled for September 19, 2013, was posted to the website of the Division of Investment (the Division) on August 14, 2013 and sent via fax to the Times of Trenton, the Star-Ledger, the Bergen Record, the Courier Post and the Secretary of State on August 14, 2013. A copy of the notice was posted at the Division and is on file.

Approval of Minutes for Regular Meeting held on July 11, 2013

Mr. Grady motioned to approve the minutes as presented, Mr. Maurer seconded, and the motion was unanimously approved by all members in attendance, with the exceptions of Mr. Joyner, Mr. Hanson and Mr. Cleary who abstained, for they were not in attendance at the July 11, 2013 Regular Meeting.

Approval of Minutes for Special Meeting held on August 29, 2013

Mr. Grady motioned to approve the minutes as presented, Mr. Byrne seconded, and the motion was unanimously approved by all members in attendance, with the exceptions of Mr. Greaney and Mr. Oram who abstained, for they were not in attendance at the August 29, 2013 Special Meeting.

New Jersey State Investment Council

September 19, 2013 Regular Meeting

Election of Nominating Committee Members

Mr. Grady nominated Mr. Oram, Mr. McGuckin and Mr. Haselmann to the nominating committee. Mr. Byrne seconded the nominations, with all Council Members in attendance voting in favor. Mr. Grady asked the nominating committee to report its nominations for Chair and Vice-Chair at the next Council meeting.

Presentation of Dwight Scott

Dwight Scott, Senior Managing Director of Blackstone and Head of Energy Practice at GSO Capital Partners gave a presentation on recent events in the U.S. energy industry. In response to Council questions, Mr. Scott discussed the sustainability of shale reserves, the need for diversification among energy sources, concerns regarding the burn off of waste gases, and the probability of significant disruptions due to catastrophic events and regulatory responses. Mr. Scott stated his view that energy investment is a long-term, rather than short-term, investment and encouraged the State to consider investing in energy-related companies such as service companies and private credit providers.

Director's Report

Acting Director McDonough first introduced Michael Wszolek as the Acting Deputy Director. Mr. Wszolek has been with the Division for 27 years and has served as Head Trader for the Division for the last 10 years.

Mr. McDonough reviewed the Director's report, commenting on current market conditions and the Division's recent performance. He stated the fund returned -1.30% in June to bring the final 2013 fiscal year return to approximately 11.8%, outperforming the benchmark by 83 basis points. Mr. McDonough also stated the Fund has outperformed its benchmark in each of the last three fiscal years, adding incremental value of \$2.8 billion to the Pension Fund. He reported that the fund is also ahead of the benchmark on a calendar year-to-date, 1, 3, 5 and 10 year basis. He discussed the absolute and relative performance of each of the asset classes, and the fund's performance in relation to its peers. He discussed recent market events and recent investment actions taken by the Division. He also reported a clarification on the ProLogis investment, which had been previously presented to the Council.

Mr. Haselmann commended the Division for its performance. Mr. Shivers requested that the Division report at a future meeting on the Division's risk assessment program, and Mr. Byrne requested further information regarding the Division's ability to respond quickly to market changes.

The Council and Dr. Charles Steindel, the Treasurer's representative, discussed changes in the Federal Reserve Board, the potential tapering of quantitative easement and its effects on financial markets, and potential changes to asset allocations.

New Jersey State Investment Council

September 19, 2013 Regular Meeting

Private Equity Investment

Siguler Guff/NJ Developing Markets, L.P.

Mr. Jason MacDonald along with Mr. Pete Keliotis of Strategic Investment Services (SIS) presented a proposed \$300 million investment in Siguler Guff/NJ Developing Markets L.P. Mr. MacDonald stated this investment would add to the Division's exposure to private equity in emerging markets, which currently is \$300 million and focused exclusively in Asia. He explained that this investment would build out the fund's exposure to developing markets outside of Asia to include markets in Latin America, Africa, and Central and Eastern Europe, including Russia. He briefly described the Division's selection process, and discussed the fund's fee structure. Mr. Keliotis commented on Siguler Guff's extensive experience in emerging markets, and stated that his firm considered the fund, in the aggregate, as a top quartile performer.

Mr. Grady reported that the Investment Policy Committee (IPC) had determined that extensive and appropriate due diligence was conducted.

Real Asset Investment

Aether Real Assets III, L.P. and Aether Real Assets III, L.P. Surplus

Mr. MacDonald and Mr. Keliotis presented a proposed \$30 million investment in Aether Real Assets III, L.P. (ARA III) as well as a proposed \$100 million investment in Aether Real Assets III, L.P. Surplus (ARA Surplus), an overage account for ARA III. Mr. MacDonald reported that the Division currently has over \$2 billion invested in real assets, but only \$315 million in private markets. The ARA Surplus account will have the ability to absorb excess capacity Aether receives, allowing the Division to increase its allocation to desirable managers. This fund structure will also provide the Division access to Aether's database of information and the ability to have Aether assist in reviewing real asset investments that the Division may consider on a direct basis. Mr. Keliotis described the fund's attractive fee structure and track record, and pointed out that the fund focused on smaller managers.

Mr. Grady reported that the IPC had determined that appropriate and adequate due diligence was performed.

Since prior to the pending readoption, N.J.A.C. 17:16-71 does not explicitly provide for real asset investments through fund-of-fund vehicles, Mr. Grady motioned to approve the use of a fund-of-funds structure for a real asset investment in this case under N.J.A.C. 17:16-71.2(b), Mr. Haselmann seconded, and the motion was unanimously approved by all members in attendance.

New Jersey State Investment Council

September 19, 2013 Regular Meeting

Real Estate Investment

GLP China Logistics Fund I, L.P.

Kathy Jassem and Roman Nemtsov of RV Kuhns presented a proposed \$75 million investment in GLP China Logistics Fund I, L.P. Ms. Jassem described the background of the management of the fund, and Mr. Nemtsov outlined the fund's favorable economic terms. Mr. Nemtsov also characterized the fund's performance as top quartile.

Mr. Grady reported that the IPC had determined that appropriate and adequate due diligence was performed.

Approval of NJBEST Investment Policy Statement

Mr. McDonough reported that the statute for NJBEST, which is the college savings plan for New Jersey, requires Council approval of the investment plan for the program. The Council approved the original investment plan in 2002. The Division recently worked with HESAA and Franklin Templeton to update the plan, in an effort to improve investment performance, increase diversification, reduce costs and strengthen criteria for evaluation. All of these revisions are intended to benefit participants in the program.

Mr. Grady motioned to approve the revised investment plan, Mr. Haselmann seconded, and the motion was unanimously approved by all members in attendance. (Mr. Hanson had left the meeting.)

Report on Sudan

Susan Sarnowski, Chief Compliance Officer, indicated that under the Sudan Divestment Law, the Division is required to provide an annual update to the Legislature concerning the status of any investments in the portfolio that are foreign companies doing business in or with Sudan. The Division has already divested of all such investments, and the report issued to the Legislature includes a list of companies that the Division has determined are currently ineligible for investment under the law. The Division engages a consultant that provides monthly updates to the Division.

Treasurer's Report

Dr. Steindel provided an update on current U.S. and New Jersey economic conditions. He also informed the Council that there will be a State Conference on State Economics on November 20 for those that would wish to attend.

New Jersey State Investment Council September 19, 2013 Regular Meeting

Adjournment

Mr. Grady motioned to adjourn the meeting, with Mr. Haselmann and Mr. Byrne seconding the motion. All voted in favor. The meeting adjourned at 1:26 p.m.