

# New Jersey State Investment Council

## July 11, 2013 Regular Meeting

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

Held on July 11, 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.  
Michael Greaney  
Guy Haselmann  
Adam Liebttag  
Peter Maurer  
Timothy McGuckin  
Jeffrey Oram  
Mitchell Shivers

James Joyner, James Hanson, Charles Dolan, and Michael Cleary were not in attendance for this meeting.

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

Chair Grady called the meeting to order at 10:00 AM. Ms. Christine Eckel performed roll call and reported that notice of the Regular Meeting scheduled for July 11, 2013 was posted to the website of the Division of Investment (the Division) on July 8, 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 June 17, 2013. A copy of the notice was posted at the Division and is on file. Chair Grady introduced and welcomed the Division's summer interns.

### **Approval of Minutes for Regular Meeting held on May 16, 2013**

Chair Grady motioned to approve the minutes as presented, Vice Chair Byrne seconded, and the motion was unanimously approved.

### **Presentation by Dr. David Kelly**

Chair Grady introduced and provided background information on Dr. David Kelly, Chief Global Strategist of J.P. Morgan. Dr. Kelly gave a presentation on "Investing in an Era of Tight Budgets and Easy Money." He provided his overview of the US economy and equity markets, Federal Reserve policy and fixed income markets, and developments in Europe, Japan and emerging markets, including China. Chair Grady commented on how the Division has changed its asset allocation to reflect some of these points already. Councilmember Barrett asked how Dr. Kelly's analysis affected New Jersey specifically, to which Dr. Kelly responded that he had not analyzed New Jersey specifically but that in general its economy would likely be consistent with the national economy as a whole. Councilmember Haselmann

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asked whether current valuations are adequately compensating for risk. Dr. Kelly replied that the equity market does not appear to be in a “bubble,” but that certain sectors of the equity market are interest rate sensitive and therefore should be considered riskier than other sectors. Chair Grady inquired regarding options to increase emerging market exposure outside of the public equity markets. Dr. Kelly noted the increased credit quality and decreased vulnerability to interest rate risk of emerging markets. Chair Grady asked whether there were any countries that, like Greece, were likely to be reclassified from developed to emerging market. Dr. Kelly responded that he was concerned about European monetary and fiscal policy, but did not view any specific countries as at risk.

### **Director’s Report**

Director Walsh reviewed the Director’s report, commenting on current market conditions and the Division’s recent performance. He stated that the final fiscal year performance numbers were not yet available. Deputy Director McDonough stated the fund returned -0.05% in May, but on a relative basis, the fund outperformed its benchmark by 60 basis points.

### **Bond Duration and Real Estate Benchmark**

Deputy Director McDonough discussed the Division’s determination to include the publicly traded high yield portfolio in the Division’s bond duration calculation, which has approximately a 20 bps impact. He also presented the Division’s proposal to replace a component of the previously approved FY 2014 Total Plan Benchmark (with regard to debt-related real estate, replacing the discontinued BarCap High Yield CMBS component of the benchmark with the Barclays US CMBS 2.0 Baa Index plus 100 bps). Chair Grady motioned to approve the revision; Jeffrey Oram seconded the motion, with all Council members present voting in favor.

### **Modification to CT High Grade Partners II**

Director Walsh notified the Council of a proposed modification to CT High Grade Partners II (“CTHG II”), which would allow CTHG II the ability to sell certain liquid investments and to reinvest certain proceeds in high-quality European real estate mezzanine loans and other proceeds in below-investment grade mortgage-backed securities.

### **Deferred Compensation Plan presentation by John Megariotis**

John Megariotis, Deputy Director of the Division of Pensions and Benefits, reviewed his memo and summary on the NJ State Employees Deferred Compensation Plan (DCP). He stated that in 2005 a third party vendor was procured, and that contract ends December 31, 2013. The New Jersey State Employees Deferred Compensation Plan Board (“NJSEDCP Board”) is looking to rebid the contract. The RFP has been drafted and DPP will handle the procurement. Mr. Megariotis conveyed the request of the NJSEDCP Board that the Council approve the proposed procurement. Councilmember Barrett asked whether municipal employees were covered by DCP; Mr. Megariotis explained that a different plan was available for those employees. Councilmember Liebttag asked about the status of the reopening of the

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Division-managed DCP funds; Mr. Megariotis responded that two of the funds may be reopened once the new contract is in place.

Chair Grady motioned to approve, Councilmember Haselmann seconded and all Council members present voted in favor.

### **Qualified Independent Representative (QIR) Policy**

Susan Sarnowski, the Division's Compliance Officer, requested adoption of the Division's proposed policy regarding Qualified Independent Representatives in connection with the recently implemented Dodd-Frank regulations. Chair Grady noted the policy's requirements regarding hiring employees of counterparties and percentage holding requirements. Councilmember Haselmann expressed concern that the Dodd-Frank regulations are unclear; Ms. Sarnowski responded that interpretation has been difficult; however, the Division needs a policy in order to provide derivative counterparties with a safe harbor.

Councilmember Haselmann motioned to approve, Chair Grady seconded, and all Council members present voted in favor. Chair Grady directed staff to return to the Council with policies and procedures to ensure that the QIRs do not result in the Division owning more than 10% of the voting shares in any public company.

### **Private Equity Investments**

#### *CVC Capital Partners VI, L.P. Fund*

Ms. Robin Clifford reported on the proposed investment in CVC Capital Partners VI, LP ("CVC VI"), an opportunity to gain direct access to a non-US private equity partnership, rather than through a fund of funds or separate account vehicle. The Division already has exposure to the two predecessor funds through two European fund of funds. CVC VI will pursue an investment strategy similar to that of prior CVC funds and will seek to maintain CVC's long track record of delivering consistent market-leading returns to its investors.

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

#### *Vista Foundation Fund II, L.P.*

Mr. Jason MacDonald reported on the proposed investment in Vista Foundation Fund II, L.P. ("VFF II"), noting that funds managed by Vista were the top performing private equity funds in the 2000 and 2007 vintage years. Alan Cline and Rob Rogers co-head the VFF II team and bring their prior experience in technology companies to execute the strategy. VFF II's strategy is to acquire controlling interests in small to middle market enterprise software businesses and technology-enabled solutions companies.

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VFF II will only invest in opportunities in which the principals believe the fund can drive operational change.

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

### **Real Estate Investment**

#### *ProLogis European Properties Fund II*

Deputy Director McDonough and Roman Nemtsov, of RV Kuhns, reported on the proposed investment in ProLogis European Properties Fund II ("ProLogis Fund II"). Deputy Director McDonough visited ProLogis in June. He gave background information and details of his visit in Europe. He stated the opportunity with ProLogis is to buy into an existing portfolio with high quality assets located in key European markets. Private REITs are paying 2x yield of the public sector. Mr. Nemtsov described ProLogis' structure and its consolidation rules, and stated his view that the best way for New Jersey to invest in European commercial real estate is through third party vehicles.

Council Member Oram recused himself from the discussion of this proposed investment. Chair Grady reported that the IPC had determined that appropriate and adequate due diligence was performed.

### **Hedge Funds**

#### *GSO Credit-A Partners, L.P.*

Director Walsh and Jason MacDonald reported on the proposed investment in GSO Credit-A Partners, L.P. ("GSO Credit"). Director Walsh provided background information on GSO. The Division has approximately \$700 million invested with Blackstone funds through various investments. The Division has \$250 million already invested with GSO and is requesting to increase the investment by an additional \$150 million. Of that \$150 million, \$50 million would be new money and the remaining \$100 million would be reallocated from CT High Grade Partners II LLC, another vehicle managed by Blackstone. GSO lends money to homeowners in need of financing where banks are slow to lend in the current cycle. Mr. MacDonald described the terms and fee structure of the agreement.

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

### **Treasurer's Report**

Dr. Steindel provided an update on current US and New Jersey economic conditions. Councilmember Haselmann commented on the effect of statements by the Federal Reserve Board Chair on the marketplace.

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### **Public Comment**

Jim Baker, a representative of UniteHere.com who does not reside in the State of New Jersey, came with 4 colleagues from the union and various casinos. He described their disappointment with TPG Partner V's buyout of Caesar's Entertainment, claiming poor returns, excessive transaction and monitoring fees, and a lack of alignment of interest. The casino employees noted examples of poor management practices at the casinos. Chair Grady explained that it is the SIC's current policy to ask that 100% of monitoring fees be paid to the limited partners, and has been a leader in obtaining better than market terms. Councilmember Liebtag asked whether any of the transaction and monitoring fees in the TPG fund are returned to the limited partners; staff responded that 65 percent of the fees go to the limited partners and 35 percent to the general partner. Chairman Grady pointed out that, in reviewing the request of TPG to extend the life of the fund in which the State had invested in an earlier era, TPG VI, the State of New Jersey was proposing zero additional management fee and that 100% of monitoring and other fees go to LPs, which is in alignment with the suggestions made by the union representatives.

### **Adjournment**

Chair Grady motioned to adjourn the meeting, with Councilmember Haselmann seconding the motion. All voted in favor. The meeting adjourned at 1:18 PM.