

***State of New Jersey
State Investment Council***

**Meeting at
Rutgers Student Center – NEW BRUNSWICK
126 College Avenue – Multi-Purpose Room B
New Brunswick, New Jersey 08901-1166**

III

**Thursday, July 17, 2008
Noon Lunch/1 p.m. Council Meeting**

MINUTES

*Approved September 18, 2008 with
corrections (italicized, pg 9)*

Present: Orin Kramer, Chair
Jonathan Berg
Erika Irish Brown
Jose R. Claxton – *by teleconference*
Sue Crotty – *by teleconference*
Mark Kandrak
James C. Kellogg
Douglas A. Love

Absent: Monty Cerf, James Clemente, Marshall Brown

Also

Present: *From the Division of Investment:*
William G. Clark, Director
Brian Arena, Investment Officer
Jessie Choi, Analyst
James Falstrault, Investment Officer
Susan Burrows Farber, Chief Administrative Officer
Jason MacDonald, Analyst
Gilles Michel, Assistant Director
Christine Pastore, Investment Officer
Ainsley A. Reynolds, Accounting Manager
Tim Rollender, Analyst
Susan Sarnowski, Middle Office Manager and Compliance Officer

From the Governor's Office, Dept of the Treasury and Attorney General's Office:
Rubin Weiner, Deputy Attorney General
Liz Cervenak, Legislative Liaison, Department of the Treasury

Other Invitees:
Pete Keliuotis, Strategic Investment Solutions
Harshal Shah, Strategic Investment Solutions
Faraz Shooshani, Strategic Investment Solutions

Members of the Public:
Frederique Adam-Jupillat, LPS

Members of the Public, con't:

Jamie Barker, Revenue
Karin Bauer, DEP
William S. Bauer, Jr.
Ellen Brockmann, PCREA
Linda L. Brown, DOL
Shirley Bryant, L&PS
Mike Calabrese
Dorothy Carl
Shaunelle E. Clark
Sandy Coia
Phyllis Coleman
Clifford S. Cooper III, DOBI
Dennis Corny, PhD
Terrence Dopp, Bloomberg
Steven Green, DOBI
Christine Hairston
David Harris
Derrick Haynes, Bank of NY Mellon
Regina M. Jackson
Jim Jameson, NJEA
Sandy Johnson, DMVC
Richard Klockner, NJ Principals and Supervisors Association
Nikk Kriss
Patricia Latimer
Lisa J. Logan-Willis
Wanda McEwen
Dusty McNichol, The Star Ledger
Mitchell Mercer, DDS
Mary Ann Mesics, DOE
Anthony F. Miskowski, Member, CWA Local 1033
Marion Mnych
Jerald Morris
Clayton Mull, SCREA
Anne Marie Newman
Doug Newsome, Babson Capital
Rodney Nichols
Kevin P. Norton, Bank of NY Mellon
Rita Oghoghome
Joan C. Onorati-Pascucci
Shameko K. Palmer, Revenue
Dale Parichuk, LPS
Freddie L. Richardson
Rae Roeder, President CWA Local 1033
Joanna Rowson
Yvette Rue
Steve Sgourakis

Members of the Public, con't:

Jim Shanley, Bank of NY Mellon

Sam Smulyan

Deborah A. Soto

Dianne Spence-Brown, Executive Vice President, CWA Local 1033

John Strachan

Donna Teel

Paula S. Van Pelt

Marianne Winters, MVC

I. *Call to Order*

The meeting was called to order at 1:15 p.m. by Chair Kramer.

II. *Notice of Meeting*

Council Secretary Susan Burrows Farber reported that in compliance with the Open Public Meetings Act, *NJSA 10:4-1 et seq.*, notice of the meeting scheduled for July 17, 2008 was sent by mail deposited in the post office, by facsimile and email on July 1, 2008. A copy of the notice is on file as posted in the Division and sent to the Council, the **Times of Trenton**, **The Star-Ledger**, the **Bergen Record**, the **Courier Post**, and Secretary of State.

III. *Approval of Minutes*

The minutes of the regular meeting of the Council held on June 19, 2008 were approved unanimously on a motion by Mr. Kandrac, seconded by Mr. Kellogg.

IV. *Pending Matters*

A. *Status of Proposed Amendments Filing*

Secretary Farber noted that proposed amendments to the Council's regulations regarding various types of investments (N.J.A.C. 17:16-12, 13, 14, 15, 16, 19, 23, 24, 40, 41, 44, 46, 58, 63 and 69) approved by the Council at the June 19, 2008 meeting had been approved by the Smart Growth Ombudsman and the Governor's Office for publication in the August 18, 2008 issue of the *New Jersey Register*. The 60-day public comment period extends through October 17, 2008.

V. *Committee Reports*

There were no committee reports.

VI. New Business

A. Proposed Alternative Investments

- 1. Memorandum from Director Clark to the Council, dated July 10, 2008, entitled "Proposed Private Equity Investments in the JPMorgan Venture Capital Institutional Investors IV LLC, the Lehman Brothers Secondary Opportunities Fund II, L.P. and the Lindsay Goldberg III Fund."*

Director Clark said that two of the three proposed investments were "reups" with existing managers for new funds: the JPMorgan Venture Capital Institutional Investors IV LLC fund and the Lindsay Goldberg III Fund.

Mr. Shah of Strategic Investment Solutions said the proposed \$100 million commitment to the JP Morgan fund provided a critical new source of access to strategic, early-stage venture capital opportunities in the technology and life sciences sector.

Mr. Shah said a proposed commitment of \$200 million to the Lindsay Goldberg fund would enable the Division to benefit from the fund's unique strategy of partnering with well-managed family-owned companies to help them grow over time.

Note: Ms. Irish Brown recused herself at this point by leaving the room for the Council's discussion of the Lehman investment.

Mr. Shah reported that the Lehman fund rose to the top of the most recent search for new funds of this type. Director Clark said the proposed commitment of \$100 million represented a type of "secondary investment" by which the Lehman Fund would buy the interests of investors in other, established funds looking to sell those interests to raise capital or reduce their assets. He said the fund represented an opportunity to reap extra value for the Pension Fund.

Note: Ms. Irish Brown returned to the room at the conclusion of the Lehman discussion.

B. For Action by the Council

- 1. Election of Nominating Committee*

Chair Kramer reported that the Council's annual election of Chair and Vice Chair were scheduled for the Council's September 18 meeting. Noting the Council was not scheduled to meet in August, Chair Kramer recommended Ms. Crotty be named as Chair of the Nominating Committee, and that Ms. Brown and Mr. Kandrac serve as Committee members. They were elected unanimously to these positions on a motion by Dr. Love.

- 2. Memorandum from Director Clark to the Council, dated July 9, 2008, entitled "Adopted Amendments to N.J.A.C. 17:16-12, 43, 45, 46, 69, 71, 90 and 100."*

Director Clark said the amendments drew one letter of comment during the public comment period. He said the amendments did not seek to authorize any new alternative investment activity, but rather would allow the Division to separate such investments among all Common Funds and so improve tracking against asset allocations. As example, he said the amendments would allow the Division to buy public stocks for Common Fund E, as well as Common Funds A and D where public stocks are currently held, when such stocks offer a better value to the fund than entering a partnership, the usual route for an investment in Common Fund E. Director Clark said the amendments would provide more flexibility to Division staff in managing alternative investments and the potential for superior value for lower fees.

In response to a question from Ms. Brown, Director Clark said the amendments did not change asset classes or asset exposure for the Pension Fund. The amendments were adopted by unanimous vote.

3. *Memorandum from Director Clark to the Council, dated July 15, 2008, entitled "Exemption from State Investment Council's Policy Concerning Political Contributions and Prohibitions on Investment Management Businesses – N.J.A.C. 17:16-4.10."*

Director Clark noted the Council had granted only one exemption to its contributions policy to date. However, he said, applying the policy without exemption in this case would not lead to the right result.

He said Nomura was a high-yield debt manager previously approved by the Council. Subsequent to the approval, it was learned through the firm's internal due diligence that one of its members had contributed \$500 to a relative running for state office, prior to the firm's decision to seek to do business with the Division. The employee was not involved in either the negotiations or the resulting business with the Division. Director Clark noted that the employee had obtained a return of the contribution and that had the contribution been \$250 instead of \$500, an exemption would not be needed.

In response to a question from Mr. Berg, Director Clark said Nomura had created a policy for review of all employee contributions to ensure compliance in the future; he added that the Division can terminate the contract if another violation occurs. Mr. Kandrak was assured there was no connection between the relative who received the contribution and the Council. Ms. Brown was told the RFP issued by the Division did contain the policy language, and that it was in its attempts to comply that the firm's violation was discovered.

Chair Kramer noted that New Jersey is the only state that imposes such restrictions on political contributions, and that the rules had deterred some larger, multi-state firms from business with the Division.

The Council voted unanimously to grant the exemption on a motion by Dr. Love, seconded by Mr. Kellogg.

C. For the Approval of the Council

- 1. Change of annual meeting site from Rutgers Student Center in New Brunswick to Trenton, and a related change in date.*

Secretary Burrows Farber reported that the Division had changed the venue for the 2008 Annual Meeting to the War Memorial in Trenton in response to public request, and that the rescheduled Annual Meeting would now follow the regular Council meeting on Thursday, November 20, 2008.

D. For the Information of the Council

- 1. Verbal update by Chief Administrative Officer Susan Burrows Farber to the Council on corporate governance.*

Secretary Burrows Farber reported that the Division had received a letter dated July 1 from the Director of Investor Relations at Washington Mutual acknowledging the Division's letter of April 18, which requested that the WaMu Board disclose the voting results from its annual meeting and take appropriate action in addressing any director who received a majority withhold vote. The Division's letter noted early results indicated James E. Stever, a director from whom the Division withheld its vote, did not receive an affirmative majority of the votes cast. The Washington Mutual letter indicated the company would not release information about uninstructed broker votes, but had made other changes at the board level, including the naming of Stephen Frank as Chair, while Kerry Killinger would continue as Chief Executive Officer.

Separately, Jonathan Berg asked that the Division watch for movement of a pending bill during the upcoming lame duck session of the legislature that would mandate payment by the state, as well as county and municipal employers, of annual pension fund contributions.

- 2. Memorandum from Chief Administrative Officer Burrows Farber to the Council, dated July 11, 2008, entitled "Investment News Clips for September 2008 Council Meeting."*

The memo was noted without discussion.

VII. *Reports of Director Clark*

- A. Memorandum from Director Clark to the Council, dated July 11, 2008, entitled "Investment Reports."*

Director Clark reported that the Pension Fund had ended the fiscal year on June 30 down 3.1 percent using conservative estimates. He noted a July 17 *Wall Street Journal* article showed New Jersey's performance was slightly better than that of other early-reporting

pension funds, including CalSTRS (down -3.7 percent); and that Merrill Lynch had estimated the average public fund would return -5.1 percent for the past fiscal year. Director Clark said that despite the “very rough environment,” the Fund’s three leading portfolios had all out-performed their market benchmarks: domestic equities by 2.33 percent, domestic fixed income by 2.10 percent and international equities by 1.45 percent. He praised the Division’s staff for their hard work, noting, “It’s hard to imagine more consistent results.”

He said the Division continues to maintain a significantly underweight position in financials; he said the \$180 million reported in purchases for this sector for June in Lehman Brothers was funded by almost \$400 million in sales from that sector.

He added that the Division had been reducing its exposure to US agency stocks, specifically Freddie Mac and Fannie Mae, for the past three to four years, and that current holdings of about a million shares in each were not a significant exposure.

Investment Officer Arena said the Domestic Equity portfolio’s stronger-than-market finish for the fiscal year had been helped by the portfolio’s underweight position in financials but hurt by the required divestiture of Schlumberger in compliance with the state’s Sudan divestiture law.

Assistant Director Michel said that the International Portfolio presently carried a higher cash balance than usual, and that the portfolio was warming to international opportunities in infrastructure.

Director Clark said fixed income investments continued to carry a higher credit quality than average for the overall market, and that this portfolio continued to extend its duration.

Director Clark acknowledged the presence and contributions of three high school interns working in the Division this summer as part of the Fast-Track Program for gifted students administered by the National Association of Securities Professionals New York Chapter: Christopher Gooding, Emanuela Pepaj and Crystal Rosario.

He said the Treasurer and his office were proving extremely supportive in arranging additional personnel resources by transfer to the Division, especially for accounting. He added that the Division anticipated no significant impact from the state’s early retirement incentive offer.

VIII. Communications

There were no matters presented on behalf of Treasurer Rousseau.

IX. Public Comment

Two audience members who had submitted speaker request forms prior to the meeting were invited to address the Council.

Anthony F. Miskowski, executive secretary of CWA Local 1033, asked Director Clark to expand on the fiscal year results and the contribution of alternative investments. Director Clark briefly walked the audience through the relevant exhibits, and explained the use of weighted averages. He said the yearend performance estimate of -3.1 percent assumed a zero or negative return from some categories of alternative investments for the last six months of the fiscal year, but that these numbers could be slightly positive when final figures were in.

In response to additional questions, Mr. Miskowski was told the Fund's preferred stock in Citigroup is not affected by the company's plans to cut the common dividend; that the recent investment in Lehman was based on that company's strengths, not because the sector was strong; and that Lehman has a different business and financial profile than Bear Stearns, and so is unlikely to follow that company's fate. Director Clark said not every financial decision would prove over time to be the right one, so the Division strived to be diversified enough that any decision that proved wrong would not have a significant effect on the Fund.

Ms. Rae Roeder, president of CWA Local 1033, thanked the Council for relocating its Annual Meeting to Trenton, requested the use of lanyard microphones for speakers at that meeting, and asked for materials in advance of the meeting with the opportunity to submit questions in advance.

A discussion ensued about the meaning of language used in recent amendments. Chair Kramer clarified that the due diligence process was not changing, and that the type and quantity of information presented to the Council and Investment Committee also remained unchanged by the amendments. The Investment Policy Committee members were named, as posted on the Division's website, and the Committee's role was reviewed in some detail.

Chair Kramer explained that the Council doesn't vote on alternative investments, but that these are reviewed and discussed with the Investment Policy Committee prior to every Council meeting so that critical questions can be raised and due diligence and details examined. In response to questions, Dr. Love said that the Council does not make final decisions at the level of individual investments. Instead, he said, the Council establishes the size of asset classes and investment policies to be followed, and "asks the hard questions." In response to questions from Mr. Berg, Director Clark said that the Council receives a summary of what is presented to the Committee; and that if new issues arise or agreement on contractual terms can't be reached, not every investment presented will go forward.

Mr. Kandrac expressed his approval for the "several layers of checks and balances" built into the process, calling it "tremendous" that the Committee gets to ask detailed questions, and the Council and the public also receive presentations with as much detail as possible without competitive disadvantage to the Division.

X. Next Meeting

Thursday, 9/18/08 Noon: Lunch/1 p.m. Meeting *New Jersey Pension Boards
1st Floor Meeting Room
50 West State Street
Trenton, New Jersey 08608*

XI. Adjournment

All regular business of the Council being concluded, the meeting was adjourned by unanimous vote at 2:45 p.m.

Susan Burrows Farber
Secretary to the Council