

New Jersey Investment Council

January 17, 2013 Annual Meeting

Minutes of Annual Meeting

Held on January 17, 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.
James Joyner
Guy Haselmann
Peter Maurer
Adam Liebttag
Timothy McGuckin
Jeffrey Oram
Michael Greaney
Michael Cleary
Charles Dolan
Mitchell Shivers

Roll Call and Meeting Notice

Chair Grady called the meeting to order at 10:11 am. Ms. Christine Eckel performed roll call and reported that notice of the meeting was posted on the website of the Division of Investment (the Division), sent via fax to the Times of Trenton, the Star-Ledger, the Bergen Record, and the Courier Post on January 8, 2013 and emailed to the Secretary of State on January 2, 2013.

Chair Grady went on to report 2012 was a good year for the pension fund. For calendar year 2012, the fund was up 13.13%, beating the policy benchmark for a similar asset allocation, and higher than the assumed rate of return set by the Treasurer. For the fiscal year ending June 30, 2012, the pension fund had positive returns of 2.52%, compared to the policy benchmark of a similar asset allocation of 0.26%. The outperformance generated by the Division yielded a little over 200 basis points, resulting in \$1.4 billion in gains above the benchmark, during the fiscal year. Chair Grady also noted that the FY 12 returns exceeded those of many other well-regarded investors. He reported that the annualized return over the past three years exceeded the benchmark by over 100 basis points, and commented that the combination of investment returns and liability reforms have resulted in a stronger pension fund in the future.

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Overview of Global Capital Markets

Chair Grady introduced Steve Schwarzman, founder and CEO of the Blackstone Group, and noted the positive returns from the Division's various Blackstone investments. Mr. Schwarzman gave an overview of his firm and presented Council with a summary of global capital markets and investment opportunities around the world.

Chair Grady asked Mr. Schwarzman about the emergence of institution-caliber investments in Asia outside of the public equity markets, and asked him how many positions he anticipated Blackstone will ultimately hold in funds in which the New Jersey funds have invested. Mr. Schwarzman replied that private equity and real estate funds are extremely diversified, with over 75 positions. Councilmember Haselmann asked Mr. Schwarzman to comment on ecological limitations on China's growth. Councilmember Dolan questioned Mr. Schwarzman about current trends in management fees.

Report from the Division of Investment

Director Walsh discussed the different funds managed by the Division other than the Pension Fund, including the Cash Management Fund, NJBEST fund, and the Deferred Compensation program. The Division, based on last year's ranking as a Public Pension Fund, was 37th in the world, 16th in the United States and the 12th largest US Public Pension Fund, with 63 employees and a budget of approximately \$8 million.

Fiscal Year 2012 was a busy year for the Division, trading over 3 billion shares of equities with a value of over \$45 billion, \$20 billion in fixed income securities and \$9 billion of foreign currency. The Division received \$800 million in dividends and \$900 million in bond interest income. Over an 18-month period, the Division realized \$45 million in covered call premiums. The Division also evaluated 60 initial public offerings and participated in 19 of them.

The Division focuses on diversification by both asset class and geography, and on minimizing total costs.

Director Walsh discussed the Division's asset allocation. The Division's asset allocation is in line with peers that have over \$20 billion in assets, with the exception of Real Estate and International Fixed Income. He provided a historical review of the Division's asset allocations and returns.

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Director Walsh described examples of high-quality equity investments, and noted the volatility of the equity markets. He also discussed the Division's efforts to minimize administrative expenses.

Deputy Director McDonough provided an overview of the fund's performance, noting the disparity between domestic and international markets. He noted the strong results from REITs and weak results from commodities.

Director Walsh discussed highlights of the year, including the implementation of daily unitization and the Council presentation regarding fiduciary practices, and goals for the upcoming year.

Chair Grady noted the superior performance of the Canyon hedge funds, which were the subject of recent media criticism. He congratulated the Division on its performance, and stated that he thought the Division's initiatives were appropriate.

Councilmember Dolan asked about the Division's process in considering participation in IPOs.

Councilmember Barrett asked about the effect of Hurricane Sandy on the Division's operations. Director Walsh responded that the effect was fairly minimal.

Councilmember Liebttag asked whether the Investment Policy Committee discussed freezing investments in gun manufacturers. Chair Grady responded that the Division did not have investments in gun manufacturers.

Adjournment

Chair Grady made a motion to adjourn; Council Member Haselmann seconded the motion. The motion was unanimously approved.