

New Jersey State Investment Council

May 26, 2021 Regular Meeting

Minutes of the Regular Meeting

Due to public health considerations related to COVID-19, this meeting was held remotely via video conference on May 26, 2021.

Council Members in Attendance:

Deepak Raj, Chair

Adam Liebttag, Vice-Chair

Theodore Aronson

Thomas Bruno

Leonard Carr

Michael Cleary

Vaughn Crowe

Michael Greaney

James Hanson

Timothy McGuckin

Samir Pandiri

Eric Richard

Jerome St. John

Edward Yarusinsky

Wasseem Boraie was unable to attend.

Roll Call and Meeting Notice

The Regular Meeting was called to order by Deepak Raj, Council Chair, at 10:02 a.m. Ernestine Jones-Booker, Council Secretary, performed roll call and reported that a quorum was present. Ms. Jones-Booker announced that notice of the Regular Meeting schedule for calendar year 2021 was posted on the website of the Division of Investment (Division); mailed to the Times of Trenton, the Star Ledger, the Bergen Record, and the Courier Post; and e-mailed to the Secretary of State on January 8, 2021 and is on file at the Division.

Minutes of the Regular Meeting held March 24, 2021

Thomas Bruno made a motion to approve the minutes of the regular meeting held on March 24, 2021 with Theodore Aronson seconding the motion. On a roll call vote, all Council members present voted in favor of the motion.

Treasurer's Report

Assistant Treasurer Dini Ajmani recognized Corey Amon, Director of the Division, for his contributions to the Division, to the pension fund, and to the State of New Jersey. Ms. Ajmani reported on the Fiscal Year 2022 budget process and discussed anticipated pension fund contributions for Fiscal Year 2023. In

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response to a question from Mr. Bruno, Ms. Ajmani discussed restrictions on use of the American Rescue Plan (ARP) funds received by the State.

Director's Report

Mr. Amon announced the pending retirement of Susan Sarnowski, Chief Compliance Officer of the Division, and thanked Ms. Sarnowski for her years of service, noting her effort, professionalism and work ethic. Mr. Amon and Shoaib Khan, Deputy Director of the Division, summarized the Director's Report, providing an update on capital markets, reporting on pension fund performance, and describing asset class allocations. At the request of James Hanson, Mr. Amon reported on private market performance. Mr. Raj thanked Mr. Amon, Mr. Khan and the investment team for their hard work in achieving favorable investment results.

Verbal Report of the Audit Committee

Timothy McGuckin reported that the Audit Committee met with Division staff and the KPMG audit team to discuss the FY 2020 financial statements for the Division of Pensions and Benefits and to start planning for the FY 2021 audit. Mr. McGuckin noted that KPMG had no management letter comments related to the Division and issued an unmodified opinion on the financial statements. On behalf of the committee, Mr. McGuckin thanked Ms. Sarnowski for her assistance and wished her well in her retirement.

Verbal Report of the Governance and Operations Committee

Mr. Raj announced his appointment of himself, Mr. Hanson, Vice Chair Adam Liebttag, Samir Pandiri, Eric Richard, and Jerome St. John to the Council's Governance and Operations Committee. Mr. Liebttag reported that the committee met on April 22, 2021 and discussed the Council's bylaws and regulations and increasing Council members' access to investment records by means of a virtual data room. Mr. Liebttag reported the committee recommended the bylaws be amended to expand membership on the Investment Policy Committee and the Governance and Operations Committee from six to seven members and recommended the proposed re-adoption of Council regulations. Finally, Mr. Liebttag reported that the committee requested that the Division make Council meeting materials available to the Council further in advance of Council meetings.

Verbal Report of the Environmental, Social and Governance (ESG) Policy Committee

Mr. Liebttag reported that the Environmental, Social and Governance (ESG) Policy Committee met telephonically regarding the Division's proxy voting determination with respect to candidates for the Board of Directors of a publicly traded company.

Proposed Amendments to State Investment Council Bylaws

Mr. Raj presented proposed amendments to the State Investment Council Bylaws, increasing the maximum size of the Investment Policy Committee, the Governance and Operations Committee, and the ESG Policy Committee to seven members. Mr. Bruno made a motion to approve the proposed

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amendments to the Council's bylaws, with Michael Cleary seconding the motion. On a roll call vote, all Council members present voted in favor of the motion.

Committee Member Appointments

Mr. Raj made the following appointments to Council Committees:

Mr. Bruno, Leonard Carr, Mr. Hanson, Mr. Liebtag, Mr. Raj and Mr. Richard to the ESG Policy Committee.

Mr. Aronson, Mr. Boraie, Mr. Carr, Vaughn Crowe, Mr. Liebtag, Mr. McGuckin and Mr. Raj to the Investment Policy Committee.

Mr. Crowe, Mr. Hanson, Mr. Liebtag, Mr. Pandiri, Mr. Raj, Mr. Richard and Mr. St. John to the Governance and Operations Committee.

Proposed Readoption of the State Investment Council Regulations

Ms. Sarnowski of the Division presented a proposal to readopt the Council's regulations, summarizing proposed amendments to the existing regulations. Mr. Richard thanked the Division staff for its efforts to increase Council members' access to investment records prior to Council meetings. Mr. Bruno made a motion to approve the attached Resolution Approving Proposed Readoption of N.J.A.C. 17:16 with Amendments, with Mr. Hanson seconding the motion. On a roll call vote, all members present voted in favor of the motion, with the exception of Mr. St. John, who voted against the motion.

Private Markets Pacing Analysis Update

Jared Speicher of the Division presented an update on the Division's private markets pacing analysis and notified the Council of modifications to Hellman & Friedman Capital Partners X; Eagle Point Defensive Income Fund LP and a related separate account; and Stonepeak Infrastructure Fund IV LP and a related co-investment vehicle. In response to a question from Mr. Cleary, Mr. Amon assured the Council that the Division was committed to remaining disciplined in selecting new investments while increasing private market exposure. Mr. Speicher addressed a question from Mr. Carr regarding the effect of the segregation of PFRS assets on the overall liquidity profile of the remaining pension funds.

Investments

Prime Property Fund, LLC – Real Estate

Kevin Higgins and John Panebianco of the Division presented an investment of up to \$200 million in Prime Property Fund, LLC, a core open-ended real estate fund focused on assets within the United States. Mr. Panebianco described the fund's performance history, investment strategy and management team, as well as the fund's key investment terms.

EQT Infrastructure V, L.P. – Real Assets

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Niraj Agarwal and Ryan Goodwin of the Division presented an investment of up to \$160 million in EQT infrastructure V L.P., a real asset fund focused on European infrastructure assets. Mr. Goodwin described the fund manager's track record and management team, and the fund's investment strategy and key investment terms. In response to questions from Mr. Aronson and Mr. Raj, Mr. Agarwal and Mr. Goodwin provided more detail on the fund's anticipated investments and returns. In response to a question from Mr. St. John, Mr. Amon confirmed that the Division did not intend to hedge against potential currency risk.

CVC Credit Partners EU DL II Co-Invest Fund – Private Credit

Mr. Speicher and Bill Connors of the Division presented an investment of up to €150 million in CVC Credit Partners EU DL II Co-Invest Fund, a private credit fund focused on direct lending to European middle-market companies. Mr. Connors described the fund's investment strategy and fee structure, and explained the Division's investment rationale. In response to a question from Mr. St. John regarding currency conversion, Mr. Amon explained the denomination of the commitment in Euros versus dollars. Mr. Speicher further explained the timing of commitments and capital contributions.

ICG Europe Fund VIII SCSp – Private Equity

Jessie Choi and Kenneth Wu of the Division presented an investment of up to €200 million in ICG Europe Fund VIII SCSp, a debt-related private equity focused on upper middle-market European companies, along with an additional €100 million in a related co-invest fund. Mr. Wu described the fund manager's investment team and track record, and described the fund's investment strategy and its key terms. In response to a question from Mr. Aronson, Mr. Wu described the fund manager's historical allocation to debt versus equity.

Excellere Capital Fund IV, L.P. – Private Equity

Ting Yang of the Division presented an investment of up to \$100 million in Excellere Capital Fund IV, L.P., a private equity buyout fund focused on lower middle-market companies within the healthcare, business and industrial services sectors. Ms. Yang described the fund's investment team and its strategy and investment process, as well as the key terms of the investment.

Mr. Raj reported that the IPC reviewed the investment due diligence for each of the above investments and recommended presentation to the full Council.

Public Comment

James Solomon, Kenneth Hammond, and Barbara Pal of Divest NJ spoke regarding the Division's investments in fossil fuels.

Adriana Alvarez, Eileen O'Grady and Zella Roberts spoke regarding the Division's investments with Roark Capital.

Adjournment

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Mr. Raj thanked Mr. Amon on behalf of the Council for his many contributions and wished him well in his future endeavors. Mr. Amon thanked everyone for their kind words and expressed his gratitude to the Council and Division staff for all of their efforts.

Mr. Bruno made a motion to adjourn the meeting, with Michael Greaney seconding the motion. On a roll call vote, all Council members present voted in favor of the motion. The meeting was adjourned at 12:15 p.m.

**Resolution Approving Proposed Readoption of N.J.A.C.17:16
with Amendments**

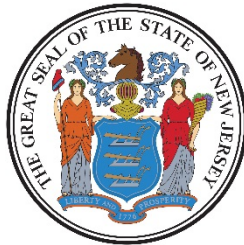
BE IT RESOLVED THAT:

The State Investment Council (the "Council") hereby approves the proposed readoption of N.J.A.C. 17:16 with amendments as attached hereto.

The Council hereby authorizes the Director of the Division of Investment to submit the attached proposal to the Office of Administrative Law for publication and public comment, and hereby delegates to staff of the Council and the Division of Investment the authority to make revisions to the proposals as required and as shall be made upon the advice of the Attorney General.

This resolution shall take effect immediately.

DATED: May 26, 2021



OFFICE OF ADMINISTRATIVE LAW

P.L. 2017 c. 262 Database Information Sheet

(to be completed and submitted electronically with every proposal)

Department Name: Treasury-General

Division/Subagency (if any): State Investment Council

PRN Number (for OAL use only): [Click or tap here to enter text.](#)

Date Published (for OAL use only): [Click or tap here to enter text.](#)

Authority (as indicated on notice of proposal): N.J.S.A. 52:18A-91

Title/Subject Matter of Rulemaking (one line topical description of proposal):

Proposed Readoption with Amendments to the State Investment Council Regulations

Abstract/Summary of the Rulemaking: N.J.A.C. 17:16 as proposed for readoption with amendments, will continue to provide a regulatory framework that governs the methods, practices, or procedures for investment, reinvestment, purchase, sale, or exchange transactions followed by the Director of the Division of Investment for the funds under the supervision of the State Investment Council. The proposed amendments to the chapter will provide clarifications, simplifications and allow for more timely investment decision making.

Why is the rulemaking needed (short background of the rule):

The chapter as proposed for readoption with amendments is necessary to continue to provide the regulatory framework for the purpose for which it was originally promulgated. The proposed amendments to the chapter are necessary to provide clarifications, simplifications and allow for more timely investment decision making. The rules will continue to provide strong investment guidelines for portfolio diversification as a means of both mitigating risk and providing the opportunity for positive overall risk adjusted returns for the State-administered funds.

Legal Deadlines (any statutory timeframes to rulemake?): [Click or tap here to enter text.](#)

Social Impact (type of significance): The chapter as proposed for readoption with amendments will continue to provide a regulatory framework for the investment of State-administered funds to be followed by the Director of the Division of Investment. The proposed amendments provide

necessary clarifications, simplifications and allow for more timely investment decision making. The chapter, as proposed for readoption with amendments, provides for continued investment diversification and the continued opportunity for overall risk-adjusted returns for the State-administered funds under the supervision of the Council, thereby benefitting the funds' beneficiaries and the State's taxpayers. If the chapter is not readopted with the proposed amendments, there could be a substantial negative impact on the funds' beneficiaries and the State's taxpayers.

Economic Impact (type of significance): The chapter as proposed for readoption, with amendments will continue to provide a regulatory framework for the investment of State-administered funds to be followed by the Director of the Division of Investment. The proposed amendments provide necessary clarifications, simplifications and allow for more timely investment decision making. The chapter as proposed for readoption with amendments, provides for continued investment diversification and the continued opportunity for overall risk-adjusted returns for the State-administered funds under the supervision of the Council. As such, these rules are beneficial to the long-term economic security of the funds' beneficiaries and are expected to lessen the long-term economic burden of state employee pension plans on the State's taxpayers. If the chapter is not readopted with the proposed amendments, there could be a substantial negative economic impact on the funds' beneficiaries and the State's taxpayers.

Jobs Impact (# of jobs anticipated to be generated/lost as a result of this rulemaking):

None

Agriculture Impact (type of significance): The chapter as proposed for readoption with amendments will have no impact on the agriculture industry. While the rules permit pension fund assets to be invested in farmland, it is unlikely that such investments will significantly impact the agriculture industry within the State of New Jersey.

Regulatory Flexibility Analysis: No

If yes, how many small businesses affected: [Click or tap here to enter text.](#)

TREASURY – GENERAL

STATE INVESTMENT COUNCIL

Proposed Readoptions without amendment: N.J.A.C. 17:16-1, 3, 5, 11, 12, 19, 20, 32, 33, 37, 40, 58, 61, 65, 68, 82, 83, 84, 85, and 95

Proposed Readoptions with amendments: N.J.A.C. 17:16-4, 17, 23, 31, 42, 48, 69, 71, 81, 90, and 100

Authorized By: State Investment Council, Corey Amon, 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 2021-XX.

Submit comments by XXX XX, 2021 to:

Corey Amon

Administrative Practice Officer

Division of Investment

PO Box 290

Trenton, New Jersey 08625-0290

doi@treas.nj.gov

The agency proposal follows:

Summary

Pursuant to N.J.S.A. 52:14B-5.1c, the rules in N.J.A.C. 17:16 are set to expire. In accordance with N.J.S.A. 52:14B-5.1c, the submission of this notice of proposal to the Office of Administrative Law will extend the expiration date of N.J.A.C. 17:16 for 180 days.

N.J.A.C. 17:16 provides the regulatory framework that governs the methods, practices, or procedures for investment, reinvestment, purchase, sale, or exchange transactions followed by the Director of the Division of Investment (“Director” or “Division”) for the funds under the supervision of the State Investment Council (“Council”). The Chapter, as proposed for readoption with proposed amendments, will continue to provide such regulatory framework for the purpose for which it was originally promulgated. The rules will continue to provide strong investment guidelines for portfolio diversification as a means of both mitigating risk and providing the opportunity for positive overall risk adjusted returns for the State-administered funds.

The Council is proposing to readopt N.J.A.C. 17:16-1, 3, 5, 11, 12, 19, 20, 32, 33, 37, 40, 58, 61, 65, 68, 82, 83, 84, 85, and 95 without amendment. The remaining subchapters are proposed for readoption with amendment.

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

The following summarizes the content of each subchapter, noting proposed amendments where applicable:

N.J.A.C. 17:16-1, General Provisions, includes the overall purpose of the chapter and definitions for general terms used throughout the chapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-3, Classification of Funds, establishes classifications for funds sharing similar investment characteristics and objectives. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-4, State Investment Council's Policy Concerning Political Contributions and Prohibitions on Investment Management Business, sets forth prohibitions on the engagement of investment management firms if certain political contributions and payments to political parties have been made and reporting requirements for investment management firms that provide or are applying to provide investment management services to the State. N.J.A.C. 17:16-4.2 provides definitions for terms used in the subchapter. Proposed amendments to N.J.A.C. 17:16-4.2 clarify that "third party solicitor" does not include a person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the investment management firm and therefore would not be included in the compensation reporting requirement under N.J.A.C. 17:16-4.6(a)4. Persons employed by investment management firms that provide or are applying to provide investment management services to the State or intermediaries will continue to be included in the definition of Investment Management Professional. N.J.A.C. 17:16-4.11(a) provides that each Council member shall comply with the reporting provisions of N.J.A.C. 17:16-4.6 for his or her term as a member of the Council. This reporting requirement is proposed to be deleted as unrelated to investments made by the Division and therefore not within the intention of the rule.

N.J.A.C. 17:16-5 permits the Director to engage in securities lending transactions secured by cash and sets forth the rules that govern securities lending transactions. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-11 establishes that the Director may invest and reinvest the moneys of any eligible fund in United States Treasury and government agency obligations, subject to the limitations expressed in the subchapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-12 establishes that the Director may invest and reinvest the moneys of any eligible fund in global debt obligations, subject to the limitations expressed in the subchapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-17 establishes that the Director may invest and reinvest the moneys of any eligible fund in state, municipal and public authority obligations, subject to the limitations expressed in the subchapter. N.J.A.C. 17:16-17.4(a)1 provides that the total amount of debt issues directly purchased or acquired of any one obligor shall not exceed 10 percent of the outstanding debt of the entity. This limitation is proposed to be deleted as unnecessary and redundant since not more than 10 percent of any one issue, serial note, or maturity may directly be purchased in the aggregate by all eligible funds.

N.J.A.C. 17:16-19 establishes that the Director may invest and reinvest the moneys of any eligible fund in collateralized notes and mortgages, subject to the limitations expressed in the subchapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-20 establishes that the Director may invest and reinvest the moneys of any eligible fund in international government and agency obligations, subject to the limitations expressed in the subchapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-23 establishes that the Director may invest and reinvest the moneys of any eligible fund in global diversified credit investments, subject to the limitations expressed in the subchapter. The heading of the subchapter is proposed to be amended from “Global Diversified Credit Investments” to “Private Credit Investments” as more descriptive and consistent with industry terms. Accordingly, all references to global diversified credit investments throughout the subchapter are proposed to be amended to private credit investments.

N.J.A.C. 17:16-23.4(a), 71.4(a), 90.4(a) and 100.4(a) set forth investment limitations at time of initial purchase for global diversified credit, real assets, private equity and absolute return strategy investments, respectively. Investments in these asset classes can be made through (i) the purchase of publicly traded securities and (ii) capital commitments to separate accounts, funds-of-funds, commingled funds, co-investments and joint ventures (“private investments”). The term “initial purchase” is not defined in the chapter, and the term is not clearly applicable to private investments, which often involve an initial “purchase” of fund interests through a subscription for interests with commitment to contribute capital at a future time, followed by a series of payments of capital contributions upon capital calls over the course of a multi-year investment period. The proposed amendments to N.J.A.C. 17:16-23.4(a), 71.4(a), 90.4(a) and 100.4(a) provide that the limitations for investments will be applied at the time of purchase, in the case of investments in publicly traded securities, and at the time of presentation to the Investment Policy Committee in accordance with N.J.A.C. 17:16-69.9(a)1, in the case of private investments. The proposed amendment for private investments will therefore apply the investment limitations at the earliest date on which the investment may proceed under the chapter, allowing the Division to make a determination whether the investment is permitted prior to expending staff and legal resources on negotiating the final terms of the investment.

N.J.A.C. 17:16-23.4(a)1 provides that not more than 10 percent of the market value of the combined assets of all of the Pension and Annuity Funds shall be invested in global diversified credit investments, which title is concurrently being revised to private credit investments. The proposed amendment increases the limit from 10 percent to 13 percent to provide for continued investment diversification and the opportunity for increased risk-adjusted returns of the State-administered funds.

N.J.A.C. 17:16-31 establishes that the Director may invest and reinvest the moneys of any eligible fund in commercial paper, subject to the limitations expressed in the subchapter. N.J.A.C. 17:16-31.2(a)4 provides that the issuer must meet certain minimum rating criteria. It further provides that if a rating for the issue is not available, the issue may be purchased if the issuer rating meets the minimum rating criteria; this sentence is proposed to be deleted as there is no rating requirement set forth for an issue. N.J.A.C. 17:16-31.2(a)4 also provides that if subsequent to purchase, the rating falls below the minimum rating criteria for such issue, the commercial paper does not have to be sold, and it may be exchanged for an issue with a credit rating lower than the minimum rating if the issue received in exchange is, on balance, similarly rated. The exchange provision is proposed to be deleted as unnecessary. The rule, as amended, will therefore provide that if the rating for the issuer subsequently fails to meet the minimum rating criteria, the issue does not have to be sold.

N.J.A.C. 17:16-32 establishes that the Director may invest and reinvest the moneys of any eligible fund in certificates of deposit, subject to the limitations expressed in the subchapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-33 establishes that the Director may invest and reinvest the moneys of any eligible fund in repurchase agreements, subject to the limitations expressed in the subchapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-37 establishes that the Director may invest and reinvest the moneys of any eligible fund in money market funds, subject to the limitations expressed in the subchapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-40 establishes that the Director may invest and reinvest the moneys of any eligible fund in non-convertible preferred stocks, subject to the limitations expressed in the subchapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-42 establishes that the Director may invest and reinvest the moneys of certain eligible funds (Supplemental Annuity Collective Trust, The Deferred Compensation Equity Fund, The Deferred Compensation Small Capitalization Equity Fund and the New Jersey Better Educational Savings Trust) in equity investments denominated in United States dollars that are traded on a securities exchange in the United States or the over-the-counter market, subject to the limitations expressed in the subchapter. N.J.A.C. 17:16-48 establishes that the Director may invest and reinvest the moneys of certain eligible funds (The Public Employees' Retirement System, The State Police Retirement System, The Teachers' Pension and Annuity Fund, The Judicial Retirement System of New Jersey and any fund classified as a Common Pension Fund and permitted to invest in global equity investments) in global equity investments traded on a securities exchange or the over-the-counter market, or offered and sold through a private placement, subject to the limitations expressed in the subchapter. N.J.A.C. 17:16-42.4(a)2 and 48.4(a)3, provide that the total amount of a particular class of stock directly purchased or acquired of any one entity by an eligible fund shall not exceed five percent and ten

percent, respectively, of that class of stock outstanding. The proposed amendments to N.J.A.C. 17:16-42.4(a)2 and 48.4(a)3 clarify that the total amount of shares owned under these sections, in the aggregate, of a swap dealer or major swap participant as defined in the Commodity Futures Trading Commission rules and that are eligible to vote, shall be less than ten percent. For consistency, the proposed amendment to N.J.A.C. 17:16-48.4(a)3 also provides that the total amount of a particular class of stock directly purchased or acquired shall be less than ten percent.

N.J.A.C. 17:16-58 establishes that the Director may invest and reinvest the moneys of any eligible fund in mortgage-backed senior debt securities, provided that the issue must be \$50,000,000 or more in size, subject to the limitations expressed in the subchapter. The Director may also invest or reinvest in mortgage-backed passthrough securities subject to the limitations expressed in the subchapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-61 sets forth the rules governing participation, permissible investments, valuation of investments and units and liquidation procedures for the State of New Jersey Cash Management Fund. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-65 sets forth the rules governing participation, permissible investments, and valuation of investments and units, and liquidation procedures for the New Jersey State Employees Deferred Compensation Equity Fund, the New Jersey State Employees Deferred Compensation Small Capitalization Equity Fund, the New Jersey State Employees Deferred Compensation Fixed Income Fund, and the New Jersey State Employees Deferred Compensation Cash Management Fund, as well as rules governing investment options offered and managed by outside vendors. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-68 sets forth the rules governing participation, permissible investments, valuation of investments and units and liquidation procedures for the New Jersey Better

Educational Savings Trust (NJBEST) Fund. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-69 sets forth the rules governing participation, permissible investments, valuation of investments and units and liquidation procedures for Common Pension Funds A, B, D, E, and L. N.J.A.C. 17:16-69.9(a)1 provides that the Director shall provide the Investment Policy Committee of the Council (Investment Committee) with the requested due diligence information for all investments recommended by the Division and a formal written report for each such investment. The rule further specifies the minimum requirements for such due diligence information. N.J.A.C. 17:16-69.9(a)2 provides that for investments of \$50 million or more, prior to any binding commitment, the Investment Committee shall provide a report to the Council, which report shall include a written memorandum by the Director. On a timely basis after receipt of such report, the Council may adopt or otherwise act upon the report. N.J.A.C. 17:16-69.9(a)3 provides that for investments of less than \$50 million, the Director shall provide an informational memorandum to the Council on each such investment made, which memorandum shall be provided no later than the first regularly scheduled meeting of the Council after the date such binding commitment has been made. N.J.A.C. 17:16-69.9(a)4 provides further requirements with respect to the number of investments and percentage of dollar amount of total investment commitments which are subject to a report by the Investment Committee to the Council. N.J.A.C. 17:16-69.9(a)1 will be readopted without amendment and all investments made by or on behalf of any Common Pension Fund under N.J.A.C. 17:16-23.2(a)2, 71.2(a)1, 90.2(a)1 and 100.2(a)1 will continue to be subject to due diligence information being provided by the Director to the Investment Committee prior to any binding commitment. The proposed amendments to N.J.A.C. 17:16-69.9(a)2 will replace the requirement for the Investment

Committee to provide a report to the Council on investments of \$50 million or more prior to any binding commitment with a requirement that the Director provide an informational memorandum to the Council on each binding commitment no later than the first regularly scheduled meeting of the Council after the date such binding commitment has been made. N.J.A.C. 17:16-69.9(a)3 and (a)4 are proposed to be deleted. The proposed amendments and deletions to N.J.A.C. 17:16-69.9(a) will provide the Division with the ability to commit capital to attractive investment opportunities and make investments in a more timely manner to meet closing deadlines established by the investment fund managers.

N.J.A.C. 17:69.9(c) provides that investments made through separate accounts, funds-of-funds, commingled funds, co-investments, and joint ventures pursuant to N.J.A.C. 17:16-23.2(a)2, 71.2(a)1, 90.2(a)1, and 100.2(a)1 cannot comprise more than 20 percent of any one investment manager's total assets. The proposed amendment will provide that a binding commitment shall not be made directly with an investment manager that, together with all other direct commitments made with the investment manager pursuant to N.J.A.C. 17:16-23.2(a)2, 71.2(a)1, 90.2(a)1, and 100.2(a)1, comprises more than 20 percent of the investment manager's total assets under management at the time of such binding commitment. Notwithstanding the above, a binding commitment may be made that exceeds the 20 percent limitation, provided that any obligation to fund the commitment shall be contingent upon the total amount invested directly with the investment manager (excluding unfunded commitments) being less than 20 percent of the investment manager's total assets under management (excluding unfunded commitments) at the time of funding.

N.J.A.C. 17:16-69.9(d) provides that not more than 38 percent of the market value of the assets of any fund under the supervision of the Council shall be represented by the fair market

value of investments as permitted by N.J.A.C. 17:16-71 (real assets), 90 (private equity), and 100 (absolute return strategy investments), whether held directly by such fund or through the Common Pension Funds. N.J.A.C. 17:16-23.4(a)1 provides that not more than 10 percent of the market value of the combined assets of all of the Pension and Annuity Funds shall be invested in global diversified credit investments, which asset class title is concurrently being revised to private credit investments. The proposed amendments to N.J.A.C. 17:16-69.9(d) will (a) include private credit investments made pursuant to N.J.A.C. 17:16-23.2(a)2 in the investment limitation, and (b) revise the limitation to 45%. The proposed amendment will also clarify that the investment limitation only applies to investments made through separate accounts, funds-of-funds, commingled funds, co-investments and joint ventures, and not to publicly traded securities. This more appropriately categorizes private credit investments as an alternative investment, while lowering the overall aggregate regulatory limits from 48% to 45%.

N.J.A.C. 17:16-71 establishes that the Director may invest and reinvest the moneys of any eligible fund in real assets, subject to the limitations expressed in the subchapter. N.J.A.C. 17:16-71.4(a)1 provides that the Pension and Annuity Funds' proportionate interest in the aggregate market value of the investment in real estate under the subchapter shall not exceed 10 percent of the combined assets of all of the Pension and Annuity Funds. The proposed amendment increases the limit from 10 percent to 13 percent to provide for continued investment diversification and the opportunity for increased risk-adjusted returns of the State-administered funds.

N.J.A.C. 17:16-71.4(a)2 provides that the maximum consolidated principal amount of leverage within the real estate portfolio shall not exceed 50 percent and 75 percent of the gross market value of the investment in core real estate and non-core real estate, respectively. This

rule is proposed to be deleted since a Common Pension Fund, as limited partner, cannot control the level of leverage used by the investment managers. N.J.A.C. 17:16-71.4(a)3, (a)4, and (a)5 provide various geographic, and property type concentration limitations. Given the maturity of the real estate investment program, these sections are proposed to be deleted as unnecessary. Accordingly, the definitions in N.J.A.C. 17:16-71.1 for East, Midwest, South and West are likewise proposed to be deleted. N.J.A.C. 17:16-71.4(a)6-9 will be recodified as N.J.A.C. 17:16-71.4(a)2-5.

N.J.A.C. 17:16-81 establishes that the Director may enter into foreign currency contracts, subject to the limitations expressed in the subchapter. N.J.A.C. 17:16-81.4 provides that with respect to international securities, the portfolio should be unhedged, except in such instances in which the Director believes that unusual circumstances exist in which hedging would serve to improve and protect the inherent returns of the international portfolio. The proposed amendment to N.J.A.C. 17:16-81.4 will delete the word “unusual” as ambiguous and unnecessary to the Director’s determination.

N.J.A.C. 17:16-82 establishes that the Director may invest and reinvest the moneys of any eligible fund in futures contracts provided that the futures contracts trade on a securities exchange or the over-the-counter market, subject to the limitations expressed in the subchapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-83 establishes that the Director may enter into swap transactions, including index-based swap transactions, on behalf of any eligible fund, subject to the limitations expressed in the subchapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-84 establishes that the Director may sell and repurchase covered call options on behalf of any eligible fund, provided that any covered call option purchased or sold

shall be listed on a securities exchange, traded on the over-the-counter market or be bid/offered on a competitive basis with multiple broker dealers, subject to the limitations expressed in the subchapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-85 establishes that the Director may purchase and subsequently sell put options including index-based put options, on behalf of any eligible fund, provided that any put option purchased or sold shall be listed on a securities exchange, traded on the over-the-counter market or be bid/offered on a competitive basis with multiple broker dealers, subject to the limitations expressed in the subchapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-90 establishes that the Director may invest and reinvest the moneys of any eligible fund in private equity, subject to the limitations expressed in the subchapter.

N.J.A.C. 17:16-90.1 defines private equity as investments in companies or entire business units in order to either restructure the target company's reserve capital, management and/or organizational structure or facilitate ongoing growth of the firm. The definition states that private equity firms generally receive a return on their investment through an initial public offering, sale, or merger of the company they control, or a recapitalization. To avoid limiting potential investment opportunities, the definition of private equity is proposed to be simplified by defining private equity as investments generally made through limited partnerships or other limited liability vehicles which in turn generally invest in the equity or debt of companies or business units. The proposed amendment to the definition will also provide for investment in the debt or equity of a trustee, general partner, or managing member of a fund as permissible investments. The subchapter further requires private equity investments to be categorized as buyout investments, venture capital investments and debt-related investments, with investment

limitations set forth in N.J.A.C. 17:16-90.4(a)2-4 for each subcategory, and on the amount which can be invested outside the United States. The proposed amendments to the subchapter delete (i) the subcategories of buyout investments, venture capital investments and debt-related investments included in the definition of private equity and their definitions in N.J.A.C. 17:16-90.1, and (ii) the corresponding limitations for the subcategories in N.J.A.C. 17:16-90.4(a)2-4. N.J.A.C. 17:16-90.4(a)5-7 will be recodified as N.J.A.C.17:16-90.4(a)2-4.

N.J.A.C. 17:16-90.4(a)1 provides that the Pension and Annuity Funds' proportionate interest in the aggregate market value of private equity investments under the subchapter shall not exceed 15 percent of the combined assets of all of the Pension and Annuity Funds. The proposed amendment to N.J.A.C. 17:16-90.4(a)1 increases the limit from 15 percent to 18 percent to provide for continued investment diversification and the opportunity for increased risk-adjusted returns of the State-administered funds.

N.J.A.C. 17:16-95 establishes that the Director may invest and reinvest the moneys of any eligible fund in opportunistic investments, subject to the limitations expressed in the subchapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-100 establishes that the Director may invest and reinvest the moneys of any eligible fund in absolute return strategy investments, subject to the limitations expressed in the subchapter. The proposed amendments to the subchapter delete (i) the definitions and subcategories of credit oriented funds, equity oriented funds, opportunistic funds and multi-strategy funds in N.J.A.C. 17:16-100.1 and 100.2, and (ii) the corresponding limitations for the subcategories in N.J.A.C. 17:16-100.4(a)2-5. N.J.A.C. 17:16-100.4(a)6-8 will be recodified as N.J.A.C.17:16-100.4(a)2-4.

N.J.A.C. 17:16-100.4(a)1 limits the Pension and Annuity Fund's proportionate interest in the aggregate market value of absolute return strategy investments to 15 percent of the combined assets of all the Pension and Annuity Funds. This limitation is proposed to be amended to 10 percent to reflect the reduction in the percentage of this asset class in the Council's asset allocation strategy while still providing flexibility for future asset allocation plans.

Social Impact

The chapter as proposed for readoption with amendments will continue to provide a regulatory framework for the investment of State-administered funds to be followed by the Director of the Division of Investment. The proposed amendments provide necessary clarifications and simplifications and allow for more timely investment decision making. The chapter, as proposed for readoption with amendments, provides for continued investment diversification and the continued opportunity for overall risk-adjusted returns for the State-administered funds under the supervision of the Council, thereby benefitting the funds' beneficiaries and the State's taxpayers. If the chapter is not readopted with the proposed amendments, there could be a substantial negative impact on the funds' beneficiaries and the State's taxpayers.

Economic Impact

The chapter as proposed for readoption with amendments will continue to provide a regulatory framework for the investment of State-administered funds to be followed by the Director of the Division of Investment. The proposed amendments provide necessary clarifications and simplifications and allow for more timely investment decision making. The chapter, as proposed for readoption with amendments, provides for continued investment diversification and the continued opportunity for overall risk-adjusted returns for the State-

administered funds under the supervision of the Council. As such, these rules are beneficial to the long-term economic security of the funds' beneficiaries and are expected to lessen the long-term economic burden of State employee pension plans on the State's taxpayers. If the chapter is not readopted with the proposed amendments, there could be a substantial negative economic impact on the funds' beneficiaries and the State's taxpayers.

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 laws or standards.

Jobs Impact

The chapter as proposed for re adoption with amendments will have no impact on the generation or loss of jobs in New Jersey.

Agricultural Industry Impact

The chapter as proposed for re adoption with amendments will have no impact on the agriculture industry. While the rules permit pension fund assets to be invested in farmland, it is unlikely that such investments will significantly impact the agriculture industry within the State of New Jersey.

Regulatory Flexibility Statement

A regulatory flexibility analysis is not required since the chapter as proposed for re adoption with amendments regulates only the Director of the Division of Investment and 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.

Housing Affordability Impact Analysis

The chapter as proposed for re adoption with amendments will have no impact on the affordability of housing in the State of New Jersey and is unlikely to evoke a change in the average costs associated with housing because the rules provide for investment diversification and the opportunity for overall risk-adjusted returns for the State-administered funds.

Smart Growth Development Impact Analysis

The chapter as proposed for re adoption with amendments is unlikely to evoke a change in housing production within Planning Areas 1 or 2, or within designated centers, under the State Development or Redevelopment Plan in New Jersey because the rules provide for investment diversification and the opportunity for overall risk-adjusted returns for the State-administered funds.

Racial and Ethnic Community Criminal Justice and Public Safety Impact

The Division has evaluated the chapter as proposed for re adoption with amendments and determined that it will not have an impact on pretrial detention, sentencing, probation, or parole policies concerning adults and juveniles in the State. Accordingly, no further analysis is required.

Full text of the rules proposed for re adoption may be found in the New Jersey Administrative Code at N.J.A.C. 17:16

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

SUBCHAPTER 4. STATE INVESTMENT COUNCIL'S POLICY CONCERNING
POLITICAL CONTRIBUTIONS AND PROHIBITIONS ON
INVESTMENT MANAGEMENT BUSINESS

17:16-4.2 Definitions

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

...

"Third party solicitor" means a third party placement agent or lobbyist who solicits investment management business through direct or indirect communication with a State officer, employee, or official on behalf of an investment management firm, but does not include any person whose sole basis of compensation from the investment management firm is the actual provision of legal, accounting, engineering, real estate, or other professional advice, services, or assistance. The term "third party solicitor," when used with respect to a particular investment management firm, shall not include **(i) a person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the investment management firm, (ii) a third party placement agent or lobbyist who solicits clients other than the Division to engage that investment management firm to provide investment management services, or (iii) a third party placement agent or lobbyist who solicits the Division on behalf of another investment management firm.**

17:16-4.11 Restrictions on Council members

[(a) Each Council member shall comply with the reporting provisions of N.J.A.C. 17:16-4.6 for his or her term as a member of the Council.

(b)]It is prohibited for any Council member to receive any form of compensation, gratuity, gift, service or payment in connection with the hiring or retention of any investment management firm by the Division during the Council member's term and for a two-year period immediately following the completion of such Council member's term. This subsection shall include any compensation, gratuity, gift, service, or payment to the Council member, the Council member's immediate family, or any partner or associate of the Council member. For the purposes of this subsection, "immediate family" shall mean a person's spouse, child, parent, or sibling residing in the same household or a person's domestic partner as defined in P.L. 2003, c. 246 (N.J.S.A. 26:8A-3).

SUBCHAPTER 17. STATE, MUNICIPAL, AND PUBLIC AUTHORITY OBLIGATIONS

17:16-17.4 Limitations

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

1. [The total amount of debt issues directly purchased or acquired of any one obligor shall not exceed 10 percent of the outstanding debt of the entity, and not] **Not** more than 10 percent of any one issue, serial note, or maturity may directly be purchased in the aggregate by all eligible funds;

2.-5. (No change.)

(b) (No change.)

SUBCHAPTER 23. [GLOBAL DIVERSIFIED] **PRIVATE** CREDIT INVESTMENTS

17:16-23.1 Definitions

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

...

“[Global diversified] **Private** credit investments” means investments in opportunistic credit, global collateralized notes, bank loans, mezzanine debt, credit structured products, commercial and residential mortgage-backed securities, commercial and residential whole loans, and other similar strategies, including through equity participation.

...

17:16-23.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in [global diversified] **private** credit investments in any of the following ways:

1. (No change.)
2. Invest in separate accounts, funds-of-funds, commingled funds, co-investments, and joint ventures that primarily invest in [global diversified] **private** credit investments provided that the further provisos contained in N.J.A.C. 17:16-69.9 have been met;
3. Purchase the common stock of an entity that primarily invests in [global diversified] **private** credit investments, and whose stock is traded on a securities exchange or over-the-counter market or offered and sold through a private placement; and
4. Purchase exchange-traded funds traded on a securities exchange or the over-the-counter market that primarily invest in [global diversified] **private** credit investments. For the purposes of this subchapter, exchange-traded funds shall be considered as common stock in determining all applicable limitations contained in this subchapter.

(b) In addition to (a) above, the Director may:

1. (No change.)

2. Retain any distribution received as a result of a corporate action or distribution by a [global diversified] **private** credit investment, even if such distribution does not meet the requirements of this subchapter;

3.- 4. (No change.)

5. Purchase stock in new public offerings of entities that primarily invest in [global diversified] **private** credit investments.

(c) Notwithstanding the restrictions in this subchapter, the Council may approve the purchase of [global diversified] **private** credit investments on a case-by-case basis.

(d) (No change.)

17:16-23.3 Eligible funds

For purposes of this subchapter, eligible funds shall include any fund classified as a Common Pension Fund and permitted to invest in [global diversified] **private** credit investments.

17:16-23.4 Limitations

(a) [At the time of initial purchase of global diversified credit investments the] **The following conditions shall all be met at the time of purchase, in the case of investments in publicly traded securities, and at the time of presentation to the Investment Policy Committee in accordance with N.J.A.C. 17:16-69.9(a)1, in the case of private credit investments made under N.J.A.C. 17:16-23.2(a)2:**

1. Not more than [10] **13** percent of the market value of the combined assets of all of the Pension and Annuity Funds shall be invested in [global diversified] **private** credit investments, whether directly or through separate accounts, funds-of-funds, commingled funds, co-investments, and joint ventures that primarily invest in [global

diversified] **private** credit investments. This limitation shall be applied to the Pension and Annuity Funds' proportionate interest in [global diversified] **private** credit investments;

2. (No change.)

3. The total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds. This limitation shall be applied to the Pension and Annuity Funds' proportionate interest in [global diversified] **private** credit investments;

4.-5. (No change.)

(b) (No change.)

SUBCHAPTER 31. COMMERCIAL PAPER

17:16-31.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in commercial paper provided that:

1. – 3. (No change.)

4. The issuer (or any guarantor pledging its full faith and credit to the issue) has a credit rating of P-1 or higher by Moody's Investors Service, Inc., A-1 or higher by Standard & Poor's Corporation, or F-1 or higher by Fitch Ratings. [If a rating for the issue has not been obtained from the above services, the issue may be purchased if the issuer rating meets the minimum rating criteria.] Subsequent to purchase, if the **issuer** rating [falls below] **fails to meet** the minimum rating **criteria** [for such issue],[it] **the commercial paper** does not have to be sold[, and it may be exchanged with an issue with a credit rating lower than the minimum rating if the issue received in exchange is, on balance, similarly rated].

(b) (No change.)

SUBCHAPTER 42. EQUITY INVESTMENTS (TRUST FUNDS)

17:16-42.4 Limitations

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

1. (No change.)

2. The total amount of a particular class of stock directly purchased or acquired of any one entity shall not exceed five percent of that class of stock outstanding **provided however, that the total amount of shares owned under this section and N.J.A.C. 17:16-48, in the aggregate, of a swap dealer or major swap participant as defined in the Commodity Futures Trading Commission rules and that are eligible to vote, shall be less than ten percent of that class of stock outstanding;** and

3. (No change.)

(b) (No change.)

SUBCHAPTER 48. GLOBAL EQUITY INVESTMENTS (PENSION AND ANNUITY FUNDS)

17:16-48.4 Limitations

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

1.-2. (No change.)

3. The total amount of a particular class of stock directly purchased or acquired of any one entity shall [not exceed] **be less than** ten percent of that class of stock outstanding, **provided however, that the total amount of shares owned under this section and N.J.A.C. 17:16-42, in the aggregate, of a swap dealer or major swap participant as**

defined in the Commodity Futures Trading Commission rules and that are eligible to vote, shall be less than ten percent of that class of stock outstanding;

4.-5. (No change.)

(b) (No change.)

SUBCHAPTER 69. COMMON PENSION FUNDS

17:16-69.9 Limitations

(a) For all investments made by or on behalf of any Common Pension Fund through direct investments, separate accounts, funds-of-funds, commingled funds, co-investments, or joint ventures under N.J.A.C. 17:16-23.2(a)2, 71.2(a)1, 90.2(a)1, and 100.2(a)1, the following shall occur:

1. (No change.)

2. [On investments of \$50 million or more, prior to any binding commitment, the Investment Committee] **The Director** shall provide [a report] **an informational memorandum** to the Council **on each binding commitment**, [which report shall include a written memorandum by the Director] **which memorandum shall be provided at the first regularly scheduled meeting of the Council subsequent to the date such binding commitment has been made.** [On a timely basis after receipt of such report, the Council may adopt or otherwise act upon the report.]

[3. On investments of less than \$50 million, the Director shall provide an informational memorandum to the Council on each such investment made, which memorandum shall be provided no later than the first regularly scheduled meeting of the Council after the date such binding commitment has been made.

4. In any given calendar year, and at any point within such year, at least 80 percent of the number of investments and 80 percent of the dollar amount of total investment commitments must be eligible for a report by the Investment Committee to the Council. For investments under \$50 million, so long as such investments constitute no more than 20 percent of the number of investments approved and 20 percent of the total investment dollars committed, the Director shall provide an informational memorandum to the Council pursuant to (a)³ above. Once the Division has exceeded its 20 percent "exemption" in any given year, all proposed investments will be subject to the Investment Committee providing a report to the Council until the number and dollar value of "exempt" investment again falls below the 20 percent threshold.]

(b) (No change.)

(c) [The investments] **A binding commitment shall not be made directly with an investment manager that, together with all other direct commitments made with the investment manager** [through separate accounts, funds-of-funds, commingled funds, co-investments, and joint ventures] pursuant to N.J.A.C. 17:16-23.2(a)2, 71.2(a)1, 90.2(a)1, and 100.2(a)1, [cannot] comprises more than 20 percent of [any one] **the investment manager's total assets under management at the time of such binding commitment. Notwithstanding the above, a binding commitment may be made that exceeds the 20 percent limitation, provided that any obligation to fund the commitment shall be contingent upon the total amount invested directly with the investment manager (excluding unfunded commitments) being less than 20 percent of the investment manager's total assets under management (excluding unfunded commitments) at the time of funding.**

(d) Not more than [38] **45** percent of the market value of the assets of any fund under the supervision of the Council shall be represented by the market value of investments as permitted

by N.J.A.C. 17:16-**23.2(a)2**, **71.2(a)1**, **90.2(a)1**, and **100.2(a)1**, whether held directly by such fund or through the Common Pension Funds. If the market value exceeds [38] **45** percent, then the Council shall be notified at the next regularly scheduled meeting of the Council. The Division may be granted a six-month period of grace to reduce the level of participation of the fund below the [38] **45** percent level, except that the period of grace may be extended for additional four-month periods with the approval of the Council.

(e) – (f) (No change.)

SUBCHAPTER 71. REAL ASSETS

17:16-71.1 Definitions

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

...

["East" means Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New Jersey, New York, Pennsylvania, Delaware, Kentucky, Maryland, North Carolina, South Carolina, Virginia, Washington D.C. and West Virginia.]

...

["Midwest" means Illinois, Indiana, Michigan, Ohio, Wisconsin, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota.]

...

["South" means Alabama, Florida, Georgia, Mississippi, Tennessee, Arkansas, Louisiana, Oklahoma and Texas.]

["West" means Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming, Alaska, California, Hawaii, Oregon and Washington.]

17:16-71.4 Limitations

(a) [At the time of initial purchase, the] **The following conditions shall be met at the time of purchase, in the case of investments in publicly traded securities, and at the time of presentation to the Investment Policy Committee in accordance with N.J.A.C. 17:16-69.9(a)1, in the case of real asset investments made under N.J.A.C. 17:16-71.2(a)1:**

1. The Pension and Annuity Funds' proportionate interest in the aggregate market value of the investment in real estate under this subchapter shall not exceed [10] **13** percent of the combined assets of all of the Pension and Annuity Funds;

[2. The maximum consolidated principal amount of leverage within the real estate portfolio shall not exceed 50 percent and 75 percent of the gross market value of the investment in core real estate and non-core real estate, respectively. This limitation shall not apply to direct investments in common and preferred stock, exchange-traded funds, and convertible debt issues;

3. No more than five percent of the combined assets of all of the Pension and Annuity Funds may be invested in real estate located outside the United States. This limitation shall be applied to the Pension and Annuity Funds' proportionate interest in the real estate investments. This limitation shall not apply to direct investments in common and preferred stock, exchange-traded funds, and convertible debt issues;

4. No more than seven percent of the combined assets of all of the Pension and Annuity Funds may be invested in a single real estate property type, such types being defined as office, retail, apartment/multi-family, hotel, industrial, and specialty use. This limitation shall be applied to the Pension and Annuity Funds' proportionate interest in the real estate

investments. This limitation shall not apply to direct investments in common and preferred stock, exchange-traded funds, and convertible debt issues;

5. No more than five percent of the combined assets of all of the Pension and Annuity Funds may be invested in direct investments, co-investments, and joint ventures investing in real estate in any one region of the United States, such regions being defined as: East, South, Midwest, and West. This limitation shall be applied to the Pension and Annuity Funds' proportionate interest in the real estate investments. This limitation shall not apply to investments in common and preferred stock, exchange-traded funds, and convertible issues;]

[6]2. (No change in text.)

[7]3. (No change in text).

[8]4. (No change in text).

[9]5. (No change in text).

SUBCHAPTER 81. FOREIGN CURRENCY TRANSACTIONS

17:16-81.4 Limitations

With respect to international securities, the portfolio should be unhedged, except in such instances in which the Director believes that [unusual] circumstances exist in which hedging would serve to improve and protect the inherent returns of the international portfolio.

SUBCHAPTER 90. PRIVATE EQUITY

17:16-90.1 Definitions

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

["Buyout investment" means the acquisition of an established company.

The acquisition may or may not be leveraged.]

...

["Debt related investment" means the purchase of investments in debt instruments which may include equity participation.]

...

"Private equity" means investments [in] **generally made through limited partnerships or other limited liability vehicles which in turn generally invest in the equity or debt of companies or [entire] business units [in order to either restructure the target company's reserve capital, management and/or organizational structure or facilitate ongoing growth of the firm. Private equity firms generally receive a return on their investment through an initial public offering, sale, or merger of the company they control, or a recapitalization. Private equity may consist of buyout investments, venture capital investments, and debt-related investments], or investments in the debt or equity of a trustee, general partner, or managing member of a fund.**

...

["Venture capital investment" means investment in the equity of a small, privately-owned, high-growth company during its early or expansion stages.]

17:16-90.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in private equity in any of the following ways:

1. Invest in [buyout investments, venture capital investments, and debt related] **private equity** investments through separate accounts, funds-of-funds, commingled funds, direct investments, co-investments, and joint ventures subject to the further provisos as contained in N.J.A.C.17:16-69.9;

2.-3. (No change.)

(b) – (c) (No change.)

17:16-90.4 Limitations

(a) [At the time of initial purchase, the] **The following conditions shall be met at the time of purchase, in the case of investments in publicly traded securities, and at the time of presentation to the Investment Policy Committee in accordance with N.J.A.C. 17:16-69.9(a)1, in the case of private equity investments made under N.J.A.C. 17:16-90.2(a)1:**

1. The Pension and Annuity Funds' proportionate interest in the aggregate market value of private equity investments under this subchapter shall not exceed [15] **18** percent of the combined assets of all of the Pension and Annuity Funds;

[2. No more than 15 percent of the combined assets of all of the Pension and Annuity Funds may be invested in buyout investments, and no more than seven percent of the combined assets of all of the Pension and Annuity Funds may be invested in buyout investments outside of the United States. This limitation shall be applied to the Pension and Annuity Funds' proportionate interest in the investments. This limitation shall not apply to direct investments in common and preferred stock, exchange-traded funds, and convertible debt issues;

3. No more than five percent of the combined assets of all of the Pension and Annuity Funds may be invested in venture capital investments, and no more than three percent of the combined assets of all of the Pension and Annuity Funds may be invested in venture capital investments outside of the United States. This limitation shall be applied to the Pension and Annuity Funds' proportionate interest in the investments. This limitation shall not apply

to direct investments in common and preferred stock, exchange-traded funds, and convertible debt issues;

4. No more than 12 percent of the combined assets of all of the Pension and Annuity Funds may be invested in debt-related investments, and no more than seven percent of the combined assets of all of the Pension and Annuity Funds may be invested in debt-related investments outside of the United States. This limitation shall be applied to the Pension and Annuity Funds' proportionate interest in the investments. This limitation shall not apply to direct investments in common and preferred stock, exchange-traded funds, and convertible debt issues;]

[5] 2. (No change in text.)

[6] 3. (No change in text.)

[7] 4. (No change in text.)

(b) (No change.)

SUBCHAPTER 100. ABSOLUTE RETURN STRATEGY INVESTMENTS

17:16-100.1 Definitions

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

...

["Commodity trading advisor fund" means a fund trading commodities, currencies and financial futures using mostly trend-following systems but sometimes discretionary/fundamental models.]

...

["Credit oriented fund" means a fund investing in convertible bond arbitrage, fixed income arbitrage, credit instruments, securities of companies under distress (in bankruptcy or close to bankruptcy), or other similar strategies primarily involving investment in fixed income securities.]

...

["Equity long/short strategy" means holding a combination of long and short positions primarily in publicly traded equities, with a net market exposure less than that of the overall equity market.

"Equity market neutral strategy" means holding a combination of long and short positions primarily in publicly traded equities, with minimal net market exposure to the overall equity market.

"Equity oriented fund" means a fund investing primarily in publicly traded positions employing equity long/short, quantitative, equity market neutral, event driven or other similar strategies.

"Event driven strategy" means merger arbitrage, capital structure arbitrage, relative value, activist or other similar strategies.]

...

["Global macro fund" means a fund investing in top-down, fundamental investments on global price movements in all markets, countries and currencies.

"Multi-strategy fund" means a fund that employs a combination of strategies including strategies employed by credit oriented funds, equity oriented funds, and opportunistic funds.

"Opportunistic fund" means a fund investing in speculative opportunities with high net market exposure across varied markets. Opportunistic funds include global macro funds, commodity trading advisor funds, tail risk hedging funds and funds employing other similar strategies.]

["Quantitative strategy" means the use of mathematical techniques to identify profit opportunities arising from relationships affecting the prices of various securities.]

...

["Tail risk hedging fund" means a fund that hedges the risk that a rare event will significantly and adversely affect the value of an asset or portfolio.]

17:16-100.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in absolute return strategy investments in any of the following ways:

1. Invest in [credit oriented funds, equity oriented funds, opportunistic funds or multi-strategy] **absolute return strategy** funds through commingled funds, funds-of-funds, separate accounts, managed accounts, and direct investments in individual funds subject to the further provisos as contained in N.J.A.C. 17:16-69.9;

2. – 3. (No change.)

(b) – (c) (No change.)

17:16-100.4 Limitations

(a) [At the time of initial purchase, the] **The following conditions shall be met at the time of purchase, in the case of investments in publicly traded securities, and at the time of presentation to the Investment Policy Committee in accordance with N.J.A.C. 17:16-**

69.9(a)1, in the case of absolute return strategy investments made under N.J.A.C. 17:16-100.2(a)1:

1. The Pension and Annuity Funds' proportionate interest in the aggregate market value of absolute return strategy investments under this subchapter shall not exceed [15]10 percent of the combined assets of all of the Pension and Annuity Funds[;] **and not more than one percent of the combined assets of all of the Pension and Annuity Funds may be invested directly in any individual fund.**

[2. No more than 10 percent of the combined assets of all of the Pension and Annuity Funds may be invested in credit oriented funds, and no more than one percent of the combined assets of all of the Pension and Annuity Funds may be invested directly in any individual credit oriented fund.] This limitation shall be applied to the Pension and Annuity Funds' proportionate interest in the investments[. This limitation shall not apply to direct investments in common and preferred stock, exchange-traded funds, and convertible debt issues];

[3. No more than 10 percent of the combined assets of all of the Pension and Annuity Funds may be invested in equity oriented funds, and no more than one percent of the combined assets of all of the Pension and Annuity Funds may be invested directly in any individual equity oriented fund. This limitation shall be applied to the Pension and Annuity Funds' proportionate interest in the investments. This limitation shall not apply to direct investments in common and preferred stock, exchange-traded funds, and convertible debt issues;

4. No more than 12 percent of the combined assets of all of the Pension and Annuity Funds may be invested in opportunistic funds, and no more than two percent of

the combined assets of all of the Pension and Annuity Funds may be invested directly in any individual opportunistic fund. This limitation shall be applied to the Pension and Annuity Funds' proportionate interest in the investments. This limitation shall not apply to direct investments in common and preferred stock, exchange-traded funds, and convertible debt issues;

5. No more than 15 percent of the combined assets of all of the Pension and Annuity Funds may be invested in multi-strategy funds, and no more than 2.5 percent of the combined assets of all of the Pension and Annuity Funds may be invested directly in any individual multi-strategy fund. This limitation shall be applied to the Pension and Annuity Funds' proportionate interest in the investments. This limitation shall not apply to direct investments in common and preferred stock, exchange-traded funds, and convertible debt issues;]

[6.] **2.** (No change in text.)

[7.] **3.** (No change in text.)

[8.] **4.** (No change in text.)

(b) – (c) (No change.)