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STATE INVESTMENT COUNCIL

**Common and Preferred Stocks and Debt Issues
Convertible into Common Stock of International
Corporations and International Exchange-Traded
Funds**

Permissible Investments; Limitations

Proposed Amendments: N.J.A.C. 17:16-44.2 and 44.4

Authorized By: State Investment Council, Timothy M. Walsh,

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 2012-138.

Submit comments by November 30, 2012 to:

Timothy M. Walsh
Administrative Practice Officer
Division of Investment
PO Box 290
Trenton, New Jersey 08625-0290

The agency proposal follows:

Summary

N.J.A.C. 17:16-44 permits the Director to invest in common and preferred stocks and debt issues convertible into common stock of corporations based in international developed market countries and exchange-traded funds, global, regional, or country funds which invest in international developed markets on behalf of any eligible fund. The heading of the subchapter, as well as N.J.A.C. 17:16-44.2(a)2 and (b), are proposed to be amended to more accurately reflect the permissible investments under N.J.A.C. 17:16-44.

The proposed amendment to N.J.A.C. 17:16-44.2(c)1 will provide that the Director may exercise rights or privileges of any security acquired under the subchapter. The proposed amendment to N.J.A.C. 17:16-44.2(c)2 will provide that the rights may be purchased if the common stock qualifies for investment. The proposed amendment to N.J.A.C. 17:16-44.2(c)5 will clarify that the Director may retain any distribution.

N.J.A.C. 17:16-44.4(a)4 provides that the market value of international debt and equity securities held by any fund, other than Common Pension Fund D, shall not exceed 30 percent of the market value of such fund. The proposed amendment will provide that the market value of international common and preferred stock and debt issues convertible into common stock and the shares or interests in international exchange-traded, global, regional, or country funds held by an eligible fund, either directly or through Common Pension Fund D, cannot exceed 30 percent of the market value of the assets of the combined assets of all of the Pension and Annuity Funds. The proposed amendment, along with the separation of investment limits for debt and equity investments being proposed concurrently for N.J.A.C. 17:16-16, 20, and 46 published elsewhere in this issue of the New Jersey Register, will provide investment flexibility and the opportunity for increased risk-adjusted returns and will express the limitations in a manner which is consistent with the asset allocation plan.

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

Social Impact

The proposed amendments shall have a positive social impact because the opportunity for increased overall risk-adjusted returns for the State-administered funds will benefit the funds' beneficiaries and will lessen the long-term burden on the State's taxpayers.

Economic Impact

The proposed amendments shall have a positive economic impact by providing an opportunity for increased risk-adjusted returns of the State-administered funds.

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 requirements or standards.

Jobs Impact

The State Investment Council and the Division of Investment do not anticipate that any jobs will be generated or lost by virtue of the proposed amendments.

Agriculture Industry Impact

The proposed amendments will have no impact on the agriculture industry.

Regulatory Flexibility Statement

A regulatory flexibility analysis is not required since the proposed amendments 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., but regulate only the Director of the Division of Investment.

Housing Affordability Impact Analysis

The proposed amendments will have no impact on the affordability of housing in the State of New Jersey. The proposed amendments will modify investment in international equity investments thereby providing an opportunity for increased risk-adjusted returns of the State-administered funds.

Smart Growth Development Impact Analysis

The proposed amendments are not anticipated to have an impact on the availability of affordable housing or housing production within Planning Areas 1 or 2, or within designated centers, under the State Development and Redevelopment Plan in New Jersey. The proposed amendments will modify investment in international equity investments thereby providing an opportunity for increased risk-adjusted returns of the State-administered funds.

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

SUBCHAPTER 44. COMMON AND PREFERRED STOCKS AND DEBT ISSUES CONVERTIBLE INTO COMMON STOCK OF [INTERNATIONAL] CORPORATIONS **BASED IN INTERNATIONAL DEVELOPED MARKET COUNTRIES AND [INTERNATIONAL] EXCHANGE-TRADED FUNDS, GLOBAL, REGIONAL, OR COUNTRY FUNDS WHICH INVEST IN INTERNATIONAL DEVELOPED MARKETS**

17:16-44.2 Permissible investments

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

1. (No change.)
2. [International exchange-traded] **Exchange-traded** funds or closed-end global, regional, or country funds that **invest in international developed markets and which** are traded on a securities exchange or over-the-counter market, and have a minimum market capitalization of \$US 100 million. For the purposes of this subchapter, exchange-traded funds or closed-end global, regional, or country funds shall be considered as common stock in determining all applicable limitations contained within this subchapter. Subsequent to purchase, if capitalization falls below \$US 100 million, the investment does not have to be sold.

(b) Notwithstanding the restrictions contained in (a) above, the Council may approve the purchase of common and preferred stock and **debt** issues convertible into common stock of international corporations **based in international developed market countries** or [international equity] exchange-traded funds or closed-end global, regional, or country funds **which invest in international developed markets** on a case-by-case basis.

- (c) Notwithstanding the restrictions in (a) above, the Director may:
 1. Exercise the **rights or** conversion privileges [in the common stock] of any security acquired under this subchapter;

2. Purchase the preferred stock, whether convertible or not, **or rights** of a company, the **common** stock of which qualifies for investment under this subchapter;

3.-4. (No change.)

5. Retain any distribution received as a result of a corporate action, even if [the security] **such distribution** does not meet the requirements of this subchapter.

17:16-44.4 Limitations

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

1.-3. (No change.)

4. The market value of international common and preferred stock and **debt** issues convertible into common stock **and the shares or interests in international exchange-traded, global, regional, or country funds** held by an eligible fund [(other than Common Pension Fund D)], either directly or through Common Pension Fund D, [when combined with the market value of international government and agency obligations permitted under N.J.A.C. 17:16-20 and international corporate obligations permitted under N.J.A.C. 17:16-16,] cannot exceed 30 percent of the market value of the **combined** assets of [such fund] **all of the Pension and Annuity Funds**, subject to such further provisos as are contained in N.J.A.C. 17:16-67.

5. (No change.)

(b) (No change.)

(a)

STATE INVESTMENT COUNCIL

**Common and Preferred Stocks and Debt Issues
Convertible into Common Stock of Corporations
and Exchange-Traded, Global, Regional, or
Country Funds in Emerging Markets
Permissible Investments; Limitations**

Proposed Amendments: N.J.A.C. 17:16-46.2 and 46.4

Authorized By: State Investment Council, Timothy M. Walsh,
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 2012-139.

Submit comments by November 30, 2012 to:

Timothy M. Walsh
Administrative Practice Officer
Division of Investment
PO Box 290
Trenton, New Jersey 08625-0290

The agency proposal follows:

Summary

N.J.A.C. 17:16-46 permits the Director to invest in common and preferred stocks and debt issues convertible into common stock of corporations based in emerging market countries and exchange-traded, global, regional, or country funds which invest in emerging markets on behalf of any eligible fund. The heading of the subchapter and N.J.A.C. 17:16-46.2(b) and 46.4(a)4 and 6 are proposed to be amended to more accurately reflect the permissible investments under N.J.A.C. 17:16-46.

The proposed amendment to N.J.A.C. 17:16-46.2(c)1 will provide that the Director may exercise rights privileges. The proposed amendment to N.J.A.C. 17:16-46.2(c)2 will provide that the rights may be purchased if the common stock qualifies for investment. The proposed amendment to N.J.A.C. 17:16-46.2(c)5 will clarify that the Director may retain any distribution.

N.J.A.C. 17:16-46.4(a)4 provides that the aggregation of debt and equity investments in companies based in emerging markets cannot exceed 1.5 times the percentage derived by dividing the total market capitalization of companies included in the MSCI Emerging Market Index by the total market capitalization of the companies included in the

MSCI All-Country World Ex-United States Index of the total market value of the assets held by Common Pension Fund D. The proposed amendment will revise the ratio to include only equity type investments, and to express the limit as 50 percent of the percentage derived by dividing the total market capitalization of companies included in the MSCI Emerging Market Index by the total market capitalization of the companies included in the MSCI All-Country World Ex-United States Index of the total market value of the combined assets of all of the Pension and Annuity Funds. The proposed amendment, along with the separation of investment limits for debt and equity investments being proposed concurrently for N.J.A.C. 17:16-16, 20, and 44 published elsewhere in this issue of the New Jersey Register, will provide investment flexibility and the opportunity for increased risk-adjusted returns and will express the limitation in a manner which is consistent with the asset allocation plan.

N.J.A.C. 17:16-44.4(a)6 provides that the market value of international debt and equity investments held by any fund, other than Common Pension Fund D, shall not exceed 30 percent of the market value of such fund. The proposed amendment will provide that the market value of international common and preferred stock and debt issues convertible into common stock and the shares or interests in international exchange-traded, global, regional, or country funds held by an eligible fund, either directly or through Common Pension Fund D, cannot exceed 30 percent of the market value of the assets of the combined assets of all of the Pension and Annuity Funds. The proposed amendment, along with the separation of investment limits for debt and equity investments being proposed concurrently for N.J.A.C. 17:16-16, 20 and 44, will provide investment flexibility and the opportunity for increased risk-adjusted returns and will express the limitations in a manner which is consistent with the asset allocation plan.

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

Social Impact

The proposed amendments shall have a positive social impact because the opportunity for increased overall risk-adjusted returns for the State-administered funds will benefit the funds' beneficiaries and will lessen the long-term burden on the State's taxpayers.

Economic Impact

The proposed amendments shall have a positive economic impact by providing an opportunity for increased risk-adjusted returns of the State-administered funds.

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 requirements or standards.

Jobs Impact

The State Investment Council and the Division of Investment do not anticipate that any jobs will be generated or lost by virtue of the proposed amendments.

Agriculture Industry Impact

The proposed amendments will have no impact on the agriculture industry.

Regulatory Flexibility Statement

A regulatory flexibility analysis is not required since the proposed amendments 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., but regulate only the Director of the Division of Investment.

Housing Affordability Impact Analysis

The proposed amendments will have no impact on the affordability of housing in the State of New Jersey. The proposed amendments will modify investment in international emerging market equity investments thereby providing an opportunity for increased risk-adjusted returns of the State-administered funds.