

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

**Meeting at  
Rutgers Student Center, New Brunswick  
126 College Avenue  
Multi-Purpose Room B, First Floor  
New Brunswick, New Jersey 08901**

**Thursday, March 20, 2008  
Noon – Audit Committee Meeting in meeting room (Closed to the public)  
1 p.m. Council Meeting**

***MINUTES***

*Approved May 22, 2008*

***Present:*** Orin Kramer, Chair  
Jonathan Berg  
Erika Irish Brown  
Marshall Brown  
W. Montgomery “Monty” Cerf  
Jose R. Claxton – *via teleconference*  
Mark Kandrak  
James C. Kellogg – *via teleconference*

*Absent:* James Clemente, Sue Crotty, Douglas A. Love

***Also***

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

*From the Governor’s Office, Dept of the Treasury and Attorney General’s Office:*  
Rubin Weiner, Deputy Attorney General

*Other invitees:*

Mr. Scott Booth, Townsend  
Mr. Steve Nesbitt, Cliffwater  
Mr. Harshal Shah, Strategic Investment Solutions  
Mr. Richard Teisch, Cliffwater

*Members of the Public:*

Frederique Adam-Jupillat, LPS  
Jamie Barker, Revenue

*Also*

***Present:***

*(continued)*

Gloria Jean Berry  
Ellen Brockmann, PCREA  
Shirley Bryant, L&PS  
Mike Calabrese  
Jose Cardona, LBH  
Dorothy Carl, Revenue  
Sandy Coia  
Barbara Counts, ELEC  
Paul Curcio, P&P  
Steven Dovidio  
Steven R. Green, DOBI  
Harvey Grossman, DOBI  
Jeff Grossman, DOI  
David Harris  
Deborah Jacobs, MVC  
James Jameson, NJEA  
Sandy Johnson, DMVC  
Nikk Kriss, Alcohol Beverage Control  
Dusty McNichol, The Star Ledger  
Mary Ann Mesics, DOE  
Joseph Michelsohn, Taxation  
Anthony F. Miskowski, Member, CWA Local 1033  
Barbara Montgomery  
Jerald Morris, NJSM  
Clayton Mull, SCREA  
Doug Newsome, Babson  
Rodney E. Nichols  
Dale E. Parichuk, LPS  
Freddie L. Richardson-Guerra, Pensions  
Rae C. Roeder, President, Local 1033  
John Ruth, Treasury  
Luz Sanchez, LBH  
D.M. Sanders, DMV  
James Shanley, Bank of New York Mellon  
Sam Smulyan  
Rodney Stevens, Executive Board Local 1033  
John Strachan, NJDHTS  
Raymond E. Weicker, DOBI

***I. Call to Order***

Chair Kramer called the meeting to order at 1:05 p.m.

## II. *Notice of Meeting*

Interim Council Secretary Susan Burrows Farber reported that in compliance with the Open Public Meetings Act, *NJSA 10:4-1 et seq.*, notice of the meeting scheduled for March 20, 2008 was sent by mail deposited in the post office, by facsimile and email on March 3, 2008. A copy of the notice is on file as posted in the Division and sent to the Council, the **Times of Trenton**, **The Star-Ledger**, the **Bergen Record**, the **Courier Post**, and Secretary of State.

## III. *Approval of Minutes*

The minutes of the regular meeting of the Council held on February 21, 2008 were approved on a motion by Mr. Kandrac, with all voting aye except Mr. Berg and Ms. Irish Brown, who abstained because they were not at the February meeting.

## IV. *Committee Reports*

*Audit Committee* – Committee Chair Kellogg reported that the Committee had reviewed and approved a draft Request for Proposals for a new outside auditor. The Division's contract with the current auditor expires in the current fiscal year.

## V. *New Business*

Chair Kramer asked that the Council move to the discussion of alternative investments while a quorum was available by teleconference.

### A. *Proposed Alternative Investments*

1. *Memorandum from Director Clark to the Council, dated March 14, 2008, entitled, "Proposed Private Equity Investments in Hamilton Lane Separate Account, Credit Suisse (NJDI) Emerging Manager Separate Account II, Credit Swiss Customized Fund Investment Group, and Anacap Financial Partners II, LP" (including an investment in the general partner, Anacap Financial Partners, LP).*

Mr. Shah of SIS reported that all proposed private equity investments build on multi-year relationships with the fund managers. He said that a proposed investment of \$200 million in Hamilton Lane would allow the Division to invest in larger international corporate finance/buyout opportunities with significant investment exposure to European-based companies; the proposed investment of \$100 million to the Credit Suisse Emerging Manager fund would enable investments in small and/or emerging buyout and venture capital funds; and the proposed re-up commitment of \$400 million to the Credit Suisse/CFIG would allow continued participation in this fund's small-to-middle market buyout strategy, with \$50 million of the total available for Credit Suisse to invest opportunistically.

Mr. Shah reported the proposed commitment of €106.25 million to AnaCap would include a 5 percent ownership stake in the management company. Director Clark noted the benefits to the Pension Fund of this ownership included recouping a share of fees

paid, sharing in a piece of the profits of the firm attributable to other investors, a stake in the fund's future growth and "eyes and ears" on the ground in Europe.

In response to questions from Mr. Kandrac, Director Clark said the Division has been seeking small, general partner opportunities, though in this case the fund approached the Division; and as a limited partner, the Pension Fund would not have any legal liability beyond the amount of its investment.

In response to questions from Ms. Irish Brown, Investment Officer Christine Pastore described in detail the environment for middle market buyout investments in Europe. She noted there is no counterpart in this market to the US financial services industries for mortgage loans, so that the average owner has 95 percent equity in their home. Ms. Pastore said this creates an opportunity for investment with a minimal risk of capital loss to any decline in housing prices.

2. *Memorandum from Director Clark to the Council, dated March 14, 2008, entitled, "Proposed Real Estate Investment in Lehman Brothers Real Estate Partners III."*

Note: This proposal was tabled at the February Council meeting for lack of a quorum. At the March 20, 2008 meeting, Mr. Cerf and Ms. Irish Brown recused themselves by leaving the room for the duration of this discussion. The quorum remaining was composed of Chair Kramer, Mr. Kandrac, Mr. Kellogg, Mr. Claxton, Mr. Berg and Major Brown. Additionally, Mr. Cerf recused himself by leaving an earlier review of this proposed investment by the Investment Policy Committee. Neither Mr. Cerf nor Ms. Irish Brown received any Council materials regarding this proposed investment.

Mr. Booth of Townsend reported this fund is a global, high-return follow-on to earlier and very successful similar funds under the same manager. He noted Lehman is making an \$800 million commitment to its fund. New Jersey's proposed investment is \$100 million.

3. *Memorandum from Director Clark to the Council, dated March 14, 2008, entitled, "Proposed Hedge Fund Investments in Knight Vinke Institutional Partners II, L.P., and Marathon Special Opportunities Fund."*

Director Clark reported that Assistant Director Gilles Michel became familiar with Knight Vinke Asset Management as part of his Division work. Mr. Nesbitt of Cliffwater reported the proposed \$100 million commitment was for an equity long/short fund with a lower risk level than the Standard & Poor's 500 Index. In response to Council questions, Mr. Nesbitt reported that the fund's 20 percent return since inception was net of fees, and the fund had been founded with seed capital from CalPERS.

Mr. Teisch of Cliffwater reported that the proposed investment of \$100 million to Marathon would be directed to the firm's flagship fund of global distressed securities. He said that the firm's employees' and their families were the fund and company's largest investors.

*B. For the Approval of the Council*

- 1. Memorandum from Director Clark to the Council, dated March 14, 2008, entitled "Request for Qualifications (RFQ) for Small Cap and Small-Mid Cap Investment Managers."*

Director Clark reported that this RFQ was designed to complement investment work done internally, similar to earlier RFQs for high-yield and emerging market managers. This RFQ is to be advertised in major financial publications, and shared with consultants and managers.

The RFQ was approved unanimously on a motion by Mr. Berg, seconded by Mr. Cerf.

*(At this point, Mr. Claxton and Mr. Kellogg ended their teleconference participation.)*

*C. For the Information of the Council*

- 1. Memorandum from Director Clark to the Council, dated March 14, 2008, entitled "Selection of High Yield Fixed Income Investment Managers."*

Director Clark reported that five firms had been selected by the Division from a finalist field of eight managers. They are BlackRock, Logan Circle, Nomura, PIMCO and Post Advisory; the latter firm only manages high yield investments. Director Clark reported the firms utilize somewhat different investment strategies, and that the combination of firms should allow for a well-diversified portfolio.

- 2. Memorandum from Director Clark to the Council, dated March 10, 2008, entitled "Iran Legislation."*

Director Clark said the report to the legislature provided with his memo was done in compliance with the Iran Divestiture law which went into effect in January 2008. The report lists the companies identified as having equity ties to Iran and so qualifying for divestiture within the next three years. Director Clark noted that many of the qualifying companies had already been eliminated from the portfolio under the Sudan divestiture law. He noted both divestiture laws had reduced the Pension Fund's investment universe by 10 percent in developed markets and 14 percent in emerging markets.

- 3. Verbal report by Susan Burrows Farber to the Council on corporate governance and legislation.*

Chief Administrative Officer Farber reported the Division was among a limited number of large public funds invited to participate in collective action being organized by CalPERS, Change to Win Investment Group and the AFL-CIO to improve director accountability to shareholders, and specifically to support proxy efforts at the major financial institutions most impacted by subprime losses.

She said the Division had also been asked by a taxpayer to vote its Wells Fargo and Morgan Stanley proxies in support of an Amnesty International-sponsored resolution, which seeks to have these companies use their investment leverage to engage Sudanese leaders on strategies to increase the nation's stability for humans and investments.

There was a general consensus expressed in support for the Sudan proxies, consistent with the Council's support of the Sudan divestiture law, and a request that the Division consider proxy votes at the financial institutions on a case-by-case basis.

4. *Memorandum from Director Clark to the Council, dated March 14, 2008, entitled "Large Public Pension Plan of the Year Award."*

The Council extended its congratulations to the Division on receiving this honor.

5. *Memorandum from Chief Administrative Officer Burrows Farber to the Council, dated March 14, 2008, entitled "Investment News Clips for March 2008 Council Meeting."*

The memo was noted without discussion.

## **VI. *Reports of Director Clark***

1. *Memorandum from Director Clark to the Council, dated March 14, 2008, entitled "Investment Reports."*

Director Clark observed that recent market challenges could be rightly called the greatest in any investment career. He said even with such challenges, the Fund was weathering the turmoil well and had produced good returns in February. He noted the decline of the dollar in late February had caused the Division to take some risk-reduction measures, including put options and increased investment in international bonds as a hedge against stock prices and to help offset losses in other classes.

In response to a Council question, Director Clark said the Division had held almost nothing in Bear Stearns. He commended Division Portfolio Manager Jeff Lebowitz for his foresight in reducing the Division's investment Bear Stearns and in other troubled financial investments before problems started.

Investment Officer Brian Arena noted the equity portfolio's continuing underweight position in financials continued to help its performance. He noted the portfolio had gained back what it lost in January's market and was performing ahead of its benchmark, but was still down significantly for the fiscal year to date.

Assistant Director Gilles Michel said the international portfolio had performed above the market index for the month, and that a \$200 million reallocation had been made in the month for use in emerging markets. Mr. Cerf asked if the reallocation had been tactical or strategic. Director Clark responded that the Division was being both strategic and opportunistic in looking for the best entry point. In response to a question from Ms. Irish

Brown, Director Clark said the reallocation would be implemented slowly and across a broad geography, including Eastern Europe.

**VII. *Pending Matters***

Interim Council Secretary Farber reported that proposed amendments to the Council's regulations governing Alternative Investments and other issues (N.J.A.C. 17:16-12.4, 43.1, 43.2, 45.2, 46.2, 69.9, 71.1, 71.2, 71.4, 90.1, 90.2, 90.4, 100.1, 100.2, 100.4) would be published in the April 21, 2008 issue of the *New Jersey Register*. The 60-day public comment period extends through June 20, 2008.

**VIII. *Public Comment***

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

Dr. Mary Ann Mesics asked the Council to "do the right thing" in following the example of the Teachers' Pension and Annuity Fund, which recently passed a resolution urging a full funding of the Pension Plan by the Governor and Legislature.

Mr. Ray Weicker offered comments as a banking regulator. He expressed concerns that hedge funds remained too high risk for the fund and that the economy was showing signs of a Japanese-style recession. He asked about hedge fund monitoring and whether a plan was in place for addressing such a recession.

Chair Kramer responded that the pension portfolio was less risky than a few years ago because of its diversification into hedge funds and other asset classes. He noted that in any given period of time, hedge funds have never carried the risk level of the equities market. He noted it was ironic that the current, extreme market stress had originated in the most highly regulated portion of the market: financial institutions and banks. Mr. Cerf said the first defense against tough economic times is diversification, and agreed with Chair Kramer that the fund is much better off now than a few years ago. He acknowledged the discomfort of some with investments in hedge funds and private equity, but noted such investments won't suffer the way stocks have in the current market. Director Clark observed that the federal government could be expected to step in and address a recession more quickly in the US than historically has happened in Japan. He explained that the Division has a third party evaluate every hedge fund investment, and that hedge funds are monitored by outside auditors, as well. He said the Division "will not go near" funds where the valuation procedures or processes are suspect.

Mr. Tony Miskowski offered an update to his October Council testimony expressing concerns about investment in companies providing global outsourcing, and said his CWA local was engaged in discussions with state legislators to prohibit such investment. He asked several questions about the fund's recent investment in financial institutions, and was told the preferred stock held with Citigroup and Merrill Lynch took priority for payment

ahead of common stock; and that the Fund suffered no significant impact from the collapse of Bear Stearns.

Mr. Kandrac said the Council shared the concern expressed by the first speaker about the Pension Fund's employer under-funding, but that the Council's role was to set investment policy and regulations to meet actuarial goals, with limited authority and influence over employer contributions. Acknowledging the regular concerns expressed by some over alternative investments, he pointed out that New Jersey has one of the lowest percentages of alternative investments among all major public funds.

Mr. Berg said he would take the suggestion of a formal resolution to the Public Employees' Retirement System board on which he serves, and added all pension boards annually express their concern about under-funding to the Treasurer.

**IX. Communications**

*There were no matters presented on behalf of Treasurer Rousseau.*

**X. Next Meeting**

Thursday, 4/17/08

Noon: Lunch/1 p.m. Meeting  
Rutgers Student Center  
126 College Avenue, Room 411 ABC  
New Brunswick, NJ 08901

*(Note: This meeting was cancelled by public notice posted on April 1, 2008)*

**XI. Adjournment**

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

Susan Burrows Farber  
Interim Secretary to the Council