

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

**SPECIAL MEETING
New Jersey Pension Boards Meeting Room – Trenton
50 West State Street, First Floor
Trenton, New Jersey 08608**

**Friday, October 31, 2008
9:30 a.m.**

MINUTES

Approved November 20, 2008

Present: Orin Kramer, Chair – *by teleconference*
Monty Cerf – *by teleconference*
Jose Claxton – *by teleconference*
James Clemente
Sue Crotty – *by teleconference*
James C. Kellogg – *by teleconference*
Mark Kandrak – *by teleconference*
Douglas A. Love – *by teleconference*
James P. Marketti
Timothy McGuckin – *by teleconference*

Absent: Jonathan Berg, Erika Irish Brown

Also

Present: *From the Division of Investment:*
William G. Clark, Director
Ray A. Joseph, Deputy Director
Maneck Kotwal, Investment Officer
Amanda Truppa, Chief of Staff
Susan Sarnowski, Compliance Officer
Susan Burrows Farber, Secretary to the Council – *by teleconference*

From the Governor's Office, Dept of the Treasury and Attorney General's Office:
Rubin Weiner, Esq., Deputy Attorney General
Tom Vincz, Director of Communications
Elizabeth Cervenak, Legislative Liaison, Department of the Treasury

Other Invitees:
Stephen Nesbitt, Cliffwater

Members of the Public:
Tom Baldwin, *Gannett News*
Adam Cataldo, *Bloomberg*
John Gorman, Senate Republican Office
Valerie Kazhdan, NJEA

Members of the Public, con't:

Anthony Miskowski, Treasurer-CWA Local 1033

Rae Roeder, President-CWA Local 1033

I. Call to Order

Chair Kramer called the meeting to order at 9:32 a.m.

II. Notice of Meeting

Ms. Truppa reported that notice of the meeting scheduled for October 31, 2008 was sent by mail deposited in the post office, by facsimile and email on October 27, 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 the Secretary of State.

III. New Business

A. Proposed Alternative Investments

- I. Memorandum from Director Clark to the Council, dated October 29, 2008, entitled "Proposed Hedge Fund Investment in BlackRock Credit Investors Co-Investment LP Fund."*

Director Clark said the special meeting was required to enable an October-dated investment in the new fund, necessary to secure the favorable terms the Division had negotiated with BlackRock. He said the Division had already provided \$49.5 million to the new fund consistent with Division authority, and now sought to make another \$94.5 million investment within the October timeframe.

Mr. Nesbitt of Cliffwater said the Division invested \$400 million in September 2007 in the BlackRock Credit Investors Fund, to take advantage of distressed pricing in the bank loan and other debt markets. The additional capital is being sought from investors in the original fund to prevent the fund from being forced to sell underlying investments at artificially low prices that would result from a breach of the original funds margin requirements under current market conditions.

In response to a question from Mr. Kellogg, Director Clark noted the Division would pay no fees on the additional investment and would receive 100 percent of the returns on its additional fund investment.

Director Clark said the additional capital was a prudent response to protecting the original investment from current stresses on the market in general. He said the fund was managed with full transparency, and that staff had spent time reviewing fund activity on a loan by loan basis, and was satisfied fund transactions were prudent.

A brief discussion followed in which Director Clark noted the additional investment would be in securities that are senior to all of forms of debt, in response to a question from Mr. Kellogg noting bank loans are not always senior. Director Clark said that expected returns on the original investment were still 10 percent, with expected returns on the new money in excess of 20 percent. Director Clark pointed out that bank loans and high-quality bonds were all providing equity-like returns and that this investment was consistent with the Division's current direction in capitalizing on this opportunity while it lasted.

Chair Kramer said there was a certain irony in the fact that this investment required such scrutiny despite offering more transparency than any public equity. He commended the Division for "an exceptional level of activity" in bringing forward the opportunity in a timely way despite logistical challenges. He noted no one wants to participate in a forced sale.

Mr. Marketti asked several questions about the fund's value and whether the investment's value was locked into maturity assuming no default (it is). Mr. Marketti asked for the probability that bank loans now trading at 72 would later trade at 50. Mr. Kramer responded that it was about the same as the probability that 80 percent of companies would file for bankruptcy and wipe out their shareholders, with banks taking a 60 percent loss on their loans, or roughly the same probability of a depression, in which case all stocks with the possible exception of gold should be sold.

A general discussion ensued about general default and recovery rates. Dr. Love observed the stocks owned by the pension fund would do a whole lot worse than this investment if the loan market did not recover.

Mr. Marketti said he was not an investment professional but that this investment caused some to fear the fund had engaged in speculation and was now "doubling up" on its bet. He said he opposed this investment. Ms. Crotty said the investment was relatively riskless because it was a bond investment, and suggested Mr. Marketti help the Council better understand the concerns of some about alternative investments at a future meeting.

Mr. McGuckin received confirmation that the new investment was consistent with the strategy of the original investment, and carried no fees. Mr. Cerf said risk itself isn't a bad thing when done prudently, and that this investment is less risky than a whole swath of the pension fund invested in non-controversial equities.

Mr. Kramer thanked everyone for participating in the discussion, and the meeting was adjourned at 10:18 a.m. by unanimous vote on a motion by Mr. Cerf, seconded by Mr. Kandrak.

IV. Next Meeting

Thursday, November 20, 2008 Noon: Lunch/1 p.m. Meeting/3 p.m. ANNUAL MEETING
Trenton War Memorial, Delaware Room
Trenton, New Jersey 08608

V. *Adjournment*

Susan Burrows Farber
Secretary to the Council

State of New Jersey
State Investment Council

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