

Minutes of the Regular Meeting
Held January 12, 2011 at 2:30 P.M. in the State Museum Auditorium
205 West State Street, Trenton, New Jersey

Council Members in Attendance:

Robert Grady, chair
Nicholas Caprio, vice chair
Jeffrey Oram
Andrew Michael Greaney
Timothy McGuckin
James P. Marketti
Richard Klockner
Guy Haselmann
Brendan Thomas Byrne, Jr.

Council Members Not in Attendance:

Orin Kramer
James C. Kellogg*
Marty Barrett*

**please note that there were technical difficulties establishing a conference call connection and these members were not able to participate in the meeting.*

The Regular Meeting was called to order by Chair Grady at 2:32 P.M.

Roll Call and Meeting Notice

Chair Grady thanked all of the Council members and public attendees for braving the inclement weather. Secretary Adams performed roll call and reported that notice of the Regular Meeting scheduled for January 12, 2011 was sent by mail deposited in the post office, by facsimile and email on December 28, 2010. A copy of the notice was posted in the Division on December 28, 2010, mailed to the Council, Times of Trenton, Star-Ledger, Bergen Record, and Courier Post on December 28, 2010 and filed with the Secretary of State on December 28, 2010. Chair Grady also introduced Chris McDonough to the Council. Mr. McDonough was appointed as Deputy Director for the Division of Investment.

Approval of Minutes for Regular Meeting held November 18, 2010

Chair Grady asked the Council Members if they had any comments on the minutes for the November meetings. Council Member Haselmann requested a change to reflect a comment on long-term capital models. Council Member Grady motioned to approve the minutes for the Regular Meetings of November 18, 2010. This motion was seconded by Council Member Haselmann and Council Member Marketti abstained.

Private Equity Classifications and Limitations

Memorandum "Private Equity Classifications and Limitations" dated January 4, 2011

Director of Operations Susan Sarnowski reviewed the memo presented to the Council regarding the reclassifications of specific investments into different subcategories pursuant to the regulations. Further, Ms. Sarnowski stated that the buyout subcategory within private equity had nominally exceeded its 5% regulatory cap by 0.03%. The Council has the authority to grant a six-month grace period to reduce the level of participation in the non-compliant subcategory. However, the proposed regulatory changes would increase the caps for each subcategory within

private equity, which would nullify the violation. Chair Grady motioned for the Council to adopt this six month grace period. The motion was seconded by Council Member Haselmann. A majority of the Council voted in favor of the motion, with none opposed. Council Member Marketti abstained from the vote.

Director's Report

Memorandum "Investment Reports" dated January 7, 2011

Director Walsh stated that the Fund was down 0.63% for November, slightly outperforming the Council benchmark, which was down 96 basis points. Fiscal year through November 30, 2010, the Fund was virtually even with the benchmark, with the Fund up 8.71% and the benchmark up 8.53%.

Brian Arena stated that domestic equities were up 0.6% in November versus the benchmark being positive 0.4%. The portfolio is up 16.58% fiscal year-to-date, with the benchmark being up 16.06% over the same period. Consumer cyclical and energy were the strongest contributors.

Mr. Arena also presented the international equity portfolio performance, as Mr. Michel was out of the country. November performance for the International Equity portfolio was down -3.13%, slightly outperforming the benchmark, which was down -3.85%. Emerging markets, which represent a quarter of the portfolio, generated a return of -2.6%. The best performing sector overall was Industrials.

Tim Patton stated that there was a rise in interest rates, resulting in spreads tightening for November and December. As a result, there is an effort to shorten duration and reduce the overweight position in corporate bonds, which comprise 57% of the portfolio as of December 31, 2010. The largest underweight position is in financials.

Excluding the TIPS and high-yield positions, performance was -0.93% versus -1.35% for the Barclays Long Government/Credit Index. For the fiscal year-to-date, Common Pension Fund B (excluding TIPS and High Yield) returned 3.03% versus 2.10% for the Barclays Index. The duration of Common Pension Fund B (excluding TIPS and High Yield) was 10.73 years as of November 30, 2010.

The High Yield portfolio was 1.49% for November versus -1.17% for the Barclays High Yield Index. Fiscal year-to-date, the High Yield portfolio returned 9.06% versus 8.19% for the Barclays High Yield Index.

The TIPS portfolio returned -3.47% in November versus -1.73% for the Barclays TIPS Index. Fiscal year-to-date, the TIPS portfolio returned 5.18% versus 3.45% for the Barclays TIPS Index.

Within domestic fixed income, we were net sellers of \$207.4 million in domestic fixed income in November, consisting of purchases of \$699.7 million and sales of \$907.1 million.

Director Walsh stated that within the Alternatives portfolio, we funded approximately \$105.2 million of commitments to private equity and received distributions of approximately \$51.5 million during the month. The major investment for the month was \$13.4 million into a private equity buyout fund.

We funded approximately \$33.2 million of commitments to real estate investments in November 2010 and received distributions of approximately \$3.6 million during the month. The major investment for the month was \$7 million into a real estate debt fund.

The Hedge Fund portfolio returned 1.28% for October versus its benchmark return of 1.49%. Fiscal year-to-date, the hedge fund portfolio returned 6.20% versus 3.87% for the HFRI Fund of Funds Composite Index. Additionally, the portfolio received distributions of approximately \$98.4 million during the month of November.

Total assets in the Cash Management Fund were \$12.1 billion as of November 30, 2010. The current yield is 0.31% for state participants and 0.21% for "non-State" participants.

Director Walsh pointed out to the Council that the Police and Fire Mortgages are now reported differently.

Vice Chair Caprio made a comment about the format of the investment reports.

Report on Northern Ireland

Memorandum "Report on Northern Ireland" dated January 6, 2011

Director of Operations Susan Sarnowski provided an update on the Division's compliance with the MacBride Principles. She advised the Council that the Division engages Institutional Shareholder Services (ISS) to provide the necessary reports and that the Division would be filing a report with the Governor and Legislature as required by statute. Ms. Sarnowski advised the Council that a full copy of the report was available for their review in the Division.

Hedge Fund Investment

Memorandum "Additional Investment in Centerbridge Credit Partners Fund, L.P." dated January 5, 2011

Co-Head of Alternative Investments Maneck Kotwal advised the Council of the \$40 million add-on investment for Centerbridge Investments as of January 1, 2011. Mr. Kotwal introduced Daniel Stern of Cliffwater, the Division's hedge fund consultant, to provide background to the Council. The Division originally invested \$100 million in Centerbridge in November 2007 and our investment in the fund since inception has a cumulative return of 47%. Mr. Stern advised the Council that the fund's leadership is very experienced and that they have made a significant investment in the fund. The fund focuses on buyouts and distressed investments and minimizes the use of leverage. The fund terms are consistent with the industry average.

Chair Grady asked about Centerbridge's performance relative to the benchmark. Mr. Stern advised that they are a top quartile fund. Chair Grady also asked Mr. Stern to comment on the lockup period of the investment. Chair Grady noted that the Investment Policy Committee had reviewed the proposed investment and concluded that appropriate due diligence had been conducted by the Division staff and its hedge fund consultant. Council Member Marketti went on the record as being opposed to this investment.

Overview of Fixed Income Portfolio

Director Walsh provided an overview of the Fixed Income portfolio, along with Phil Pagliaro and Tim Patton, Senior Portfolio Managers for Fixed Income. The \$23.7 billion portfolio is comprised

of three parts: High Grade, valued at \$18.3 billion, TIPS, valued at \$3.7 billion and High Yield, valued at \$1.7 billion. All values are as of June 30, 2010.

The High Grade portion of the portfolio outperformed the benchmark in the one, three, five and ten year time periods. As of June 30, 2010, the duration of the portfolio was 10.36 years. The High Grade duration as of the same date was 10.97 years. The Division is looking to shorten duration. Director Walsh stated that the Division is looking at benchmarks to be more reflective of the Division's stance to shorten fixed income duration.

Tim Patton briefed the Council on the Build America Bonds (BAB), which is a federal program aimed to assist municipalities by reducing interest rates on bonds. The Division currently has \$1.7 billion in BAB's; however, Congress has not renewed the program, so there is a "wait and see" attitude until more is known about Congress' intent.

Phil Pagliaro briefed the Council on the TIPS portion of the portfolio. He stated that the Division is trying to move the TIPS exposure neutral to the index and that TIPS are viewed as a long-term investment and a partial hedge on inflation. He said that TIPS are fairly valued in the current market. The Division is overweighted in credit, however it is slowly reducing its credit position to become more neutral to the index. The Division is underweighted in Treasuries, exclusive of TIPS.

Chair Grady asked about the trading activity of the fixed income portfolio. Director Walsh advised that trades were completed on a daily basis.

Council Member Marketti made a motion for the Council to go on record encouraging the Governor and Legislature to fund more fully the State contribution to the pension system; however, this motion was not addressed during the Annual Meeting. The text of the motion made by Council Member Marketti read "Moved, the N.J. Investment Council goes on record as encouraging the N.J. State Legislature and Governor to fully fund the actuarially determined required contributions to the various pension systems for Fiscal Year 2011." Chair Grady offered an amendment to Mr. Marketti's motion, which read "The State Investment Council urges the Governor and Legislature enact the compromise on needed reforms of the State pension system and when such compromise is enacted, increase its contributions to the pension system in accord with the compromise that has been reached." There was discussion among the members of the Council about the actuarial liability as well as the impact of making such a statement to the Governor and Legislature. Council Member Byrne commented that it may be more effective to meet in person with members of the Legislature rather than passing a written resolution. The motion was eventually tabled for further discussion at the March meeting. Mr. Grady's amendment to the original motion was withdrawn.

Treasurer's Report

Treasurer's designee Christopher Jeter invited the Council to see the Treasurer's Office as a resource and welcomed new Deputy Director Chris McDonough on behalf of the Treasurer. Mr. Jeter is an Assistant State Treasurer with responsibility for the Divisions of Taxation, Revenue and Lottery.

Adjournment of Meeting

Chair Grady motioned to adjourn the meeting. Council Member Byrne seconded the motion.

The meeting was adjourned at 3:35 PM.

Respectfully submitted,

A handwritten signature in black ink that reads "Kaitlyn J. Adams". The signature is written in a cursive style with a large, looping initial "K".

Kaitlyn J. Adams
Secretary to the Council