

New Jersey State Investment Council

July 21, 2011 Regular Meeting Minutes

Minutes of the Regular Meeting

Held July 21, 2011 at 2:00 PM at 50 West State Street, 1st floor conference room.

Council Members in Attendance:

Robert Grady, Chair (Telephonic)

Marty Barrett

Brendan T. Byrne, Jr.

James Hanson, II (Telephonic)

Guy Haselmann (Telephonic)

James Joyner

James Kellogg (Joined telephonically at 2:15 during discussion of the minutes)

James Marketti

Peter Maurer

Timothy McGuckin

Jeffrey Oram (Telephonic)

The Regular Meeting was called to order by Chair Grady at 2:02 PM.

Roll Call and Meeting Notice

Ms. Christine Eckel performed roll call and reported that notice of the Regular Meeting scheduled for July 21, 2011 was posted on the Division's website and faxed to the Times of Trenton, the Star-Ledger, the Bergen Record, the Courier Post and the Secretary of State on July 13, 2011. A copy of the notice was posted at the Division and is on file.

Chair Grady motioned to appoint Ms. Eckel as Council Secretary. Council Member Barrett seconded the motion and all were in favor. Chair Grady also welcomed new Council Members, Mr. James Joyner (representing TPAF) and Mr. Peter Maurer(representing PERS), as well as returning Council Member Marty Barrett (representing PFRS).

Chair Grady also announced the upcoming resignation of Council Member Kellogg, effective July 31, 2011. He thanked Mr. Kellogg for his extraordinary service to the Council, with his many contributions, insight and wisdom.

Approval of Minutes for Special Meeting held June 30, 2011

Chair Grady and Council Members Kellogg and Byrne noted some changes to the Minutes for the special meeting held on June 30, 2011. A motion was made by Chair Grady to approve the minutes as amended and Council Member Bryne seconded the motion. Council Members Barrett, Joyner and Maurer abstained from the vote since they were not present at the meeting. All Council Members voted in favor.

Directors Report for June 2011

The Director's report for June 2011 was not available due to the additional time required to affect the fiscal year end accounting close.

Approval of amendments to the State Investment Council By-Laws

Chair Grady noted that the proposed amendments to the State Investment Council By-Laws reflected the changes to the Council membership based upon a statute enacted at the end of June. Council Member Marketti pointed out an incorrect cross-reference between sections in the document. Chair Grady motioned to approve the By-Laws as amended by Council Member Marketti. The motion was seconded by Council Member Oram. All Council Members voted in favor of the motion.

Approval of adopted amendments to N.J.A.C. 17:16-22 and 45

Director Walsh stated that the Division had not received any comments on the proposed amendments to N.J.A.C. 17:16-22 and 45 and the Council Members were presented with the notices of adoption and a resolution for approval. Council Member Haselmann motioned to approve the resolution adopting amendments to N.J.A.C. 17:16-22 and 45. The motion was seconded by Council Member Byrne. All Council members voted in favor of the motion. [See attached resolution]

High Yield allocation

Director Walsh gave a brief overview of the high yield fixed income asset class. In 2008, the Division recommended to the Council that \$2 billion be allocated to this class, and the Division engaged several external investment advisors to provide non-discretionary investment advice. At the time the initial portfolios were established, the amount allocated to the portfolio advised by Logan Circle, one of the external advisors, was limited to \$100 million based upon the firm's assets under management. Director Walsh informed the Council Members that the portfolio account for which Logan Circle will be providing investment advice may be increased up to \$300 million due to the growth of their assets under management and performance to date.

Commission Soft Dollar Expenditures

Director Walsh gave a brief overview on the Division's Commission Soft Dollar expenditures. Director Walsh stated that this is money that is used to fund mainly Information research and brokerage services. As part of its effort to reduce overall expenditures, the Division anticipates that it will reduce the value of services paid through soft dollars by approximately 10% for fiscal year 2012.

Real Asset Investment

Blackstone Resources Select John Nicolini of SIS, the Division's consultant, presented the proposed \$250 million investment in Blackstone Resources Select Fund ("BRSF") to the Council. He advised the Council that this fund is a means to increase commodities exposure through a customized, long-biased portfolio which trades across energy, metals and agriculture. BRSF has an annualized return since inception of May 2007 through May 2011 of 10.65% net vs. 2.39% for the BXCI, -2.33% for the GSCI and 0.19% for the DJ-UBS. Chairman Grady commented that the 0.80% management fee with no carry was better than market for fund of fund products, and is a reasonable fee structure. In response to Chair Grady's question, Director Walsh stated that the Division's target allocation for real assets is 4% or \$1.5 billion for fiscal year 2012. Chair Grady noted that BRSF would be investing in Astenbeck Commodities Fund, and the Pension Fund was investing in that fund directly as well. Mr. Nicolini responded that 22% of BRSF will be invested in Astenbeck active management portfolio custom strategy, which is different from the stand alone investment in

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Astenbeck Commodities Fund, which is a Hedge Fund. Chair Grady informed the Council that the Investment Policy committee had discussed this investment and found the Division's due diligence to be adequate and appropriate. Council Member Marketti went on record as opposing the Investment and made a motion to reject the investment. Council Member Maurer seconded the motion. The motion was rejected by a vote of 2-9, with Council Members Marketti and Maurer voting in favor of the motion.

Real Estate Investment

Blackstone Real Estate Partners VII

Kevin Lynch of The Townsend Group presented the proposed \$300 million investment in Blackstone Real Estate Partners VII ("BREP VII"). BREP VII will seek to invest in distressed portfolios or assets where either the capital structure is broken, the real estate is undermanaged or the current owner is a motivated seller. BREP VII is a follow on to Funds V and VI which are both in the top quartile of fund performance. Participants in the first closing will receive a management fee reduction of 25 basis points to 1.25%, in addition to a management fee waiver for 4 months which equates to a savings of about \$1.25 million. Chair Grady informed the Council that the Investment Policy committee had discussed this investment and found the Division's due diligence to be adequate and appropriate. Council Member Marketti went on record as opposed to the Investment and made a motion to reject the investment. Council Member Maurer seconded the motion. The motion was rejected by a vote of 2-9, with Council Members Marketti and Maurer voting in favor of the motion.

Election of Nominating Committee Members

Chair Grady nominated Council Members Oram, Haselmann and McGuckin as members of the nominating committee. All Council Members voted in favor of the nominated slate. Chair Grady requested that the committee present its nominations for Chair and Vice Chair at the September 2011 meeting.

Treasurer's Report

Steve Harris stated that there was no report from the Treasurer.

Opportunity for Public Comment

Mr. Miskowski made a comment that he would like to discuss the issue of International FX Rates and Custodial Banks at the September Council meeting.

Chair Grady motioned to adjourn the meeting, with Council Member Oram seconding the motion. All voted in favor. The meeting was adjourned at 3:50 pm.