

New Jersey State Investment Council

September 23, 2015 Regular Meeting

Minutes of the Regular Meeting

Held September 23, 2015 at the Trenton War Memorial, George Washington Ballroom, 1 Memorial Drive, Trenton, New Jersey.

Council Members in Attendance:

Brendan T. Byrne, Jr., Chair
Adam Liebttag, Vice Chair
Marty Barrett
Michael Cleary
Charles Dolan
Michael Greaney
James Hanson
Guy Haselmann
Benjamin "Max" Hurst
James Joyner
Timothy McGuckin
Jeffrey Oram
Mitchell Shivers (via telephone)

Roll Call and Meeting Notice

The Regular Meeting was called to order by Brendan T. Byrne, Jr., Council Chair, at 10:04 a.m. Ernestine Jones-Booker, Council Secretary, performed roll call and reported that a quorum of the State Investment Council (Council) was present. Ms. Jones-Booker reported that notice of the Regular Meeting, scheduled for September 23, 2015, was posted on the website of the Division of Investment (Division), faxed to the Times of Trenton, the Bergen Record, and the Courier Post, and e-mailed to the Secretary of State on August 19, 2015. A copy of the notice was posted at the Division and is on file.

Minutes of Regular Meeting held July 22, 2015

Mr. Byrne presented for adoption the minutes for the regular meeting held July 22, 2015. Charles Dolan made a motion to approve the minutes, with Guy Haselmann seconding the motion. Max Hurst, Timothy McGuckin and Jeffrey Oram abstained since they were not present at the meeting. All other Council Members present voted in favor.

Election of Chair and Vice Chair

Mr. Oram, Chair of the Nominating Committee, reported that the Nominating Committee, consisting of himself, Mr. Haselmann and Mr. McGuckin, met telephonically and decided to nominate Mr. Byrne to continue to serve as Chair and Adam Liebttag to continue serve as Vice Chair of the Council. All members of the Council voted in favor of Mr. Byrne's election as Chair, and Mr. Liebttag's election as Vice Chair.

Appointments of Members to Council Committees

Mr. Byrne made the following appointments to Council Committees: (1) Mr. Byrne, Mr. Liebttag, Mr. Haselmann, Mr. McGuckin, and Mr. Oram were reappointed to the Executive Committee; (2) Mr. Byrne, Mr. Liebttag, Mr. Haselmann, Mr. McGuckin, Mr. Oram, and Mr. Shivers were reappointed to the Investment Policy Committee; and (3) Michael Cleary, Michael Greaney, James Hanson and Mr. McGuckin were reappointed to the Audit Committee, with Mr. McGuckin to serve as chair.

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Opening Remarks by Chair

Mr. Byrne made some brief opening remarks, announcing lower returns for Fiscal Year 2015 relative to the past several years (subject to final audit) and a net outflow of pension fund assets, but noting the Division's outperformance of its benchmark and the positive contributions of the Division's alternative investment program. Mr. Byrne also announced that the pension fund received an "A" rating for transparency by a watchdog group. Mr. Haselmann commended Mr. Byrne on his assessment and suggested that a written version of his remarks be made available.

Director's Report/Updates

Director Chris McDonough presented the Director's Report, reporting that the Pension Fund returned, on an unaudited basis, 4.16 percent for the fiscal year, outperforming the benchmark by 123 basis points. Mr. McDonough provided an update on the performance of the portfolio as a whole and the performance of specific asset classes, both on an absolute basis and relative to its benchmark and its peers. Mr. McDonough noted the strong contribution to returns from various alternative investment portfolios. Mr. Haselmann commended the Division on its outstanding Sharpe Ratio (return per unit of risk). Mr. Dolan asked if the alternatives investment returns were net of all fees, which Mr. McDonough affirmed. Marty Barrett, Mr. Hurst, and Mr. Liebttag expressed concern about the effect of missing fund contributions on investment returns, and asked if the Division had the capacity to calculate the effect. Mr. Byrne referenced public information that was provided by the pension and benefit study commission. Mr. McDonough explained that the calculation would require an actuarial analysis that was beyond the Division's purview, but offered to provide investment return information to any pension fund actuary undertaking such an analysis.

Brian Arena and Karen Paardecamp of the Division presented an overview of the Division's domestic and international equity portfolios, respectively. Mr. Haselmann inquired about the foreign currency hedging activities of other large pension funds, to which Kristen Doyle of Aon Hewitt Consulting responded that hedging currencies has not been a historically significant activity of such funds, but that there is a renewed focus on currency risk in conjunction with the increasing global exposure of pension fund portfolios.

Tim Patton, Kevin McGrath, and Phil Pagliaro of the Division provided an overview of the Division's fixed income portfolio. In response to Mr. Byrne's question regarding investment opportunities in the global diversified credit sector, Mr. McGrath and Mr. McDonough discussed the role of alternative managers in this sector, citing complex yet favorable opportunities. In response to Mr. Oram's inquiry about TIPs, Mr. Pagliaro noted that, despite their recent underperformance, TIPs were an inexpensive means of obtaining long-term protection against inflation. Mr. Haselmann described various scenarios where TIPs were particularly useful.

Deputy Director Corey Amon provided an overview of U.S. and global economic and market conditions. Mr. Haselmann discussed recent actions taken by the Chinese government, and repeated his concern about the future depreciation of financial assets, despite positive economic indicators. Mr. Hurst emphasized the importance of getting contributions into the system in order to obtain a return on investment. Mr. Oram noted the need for liquidity to avoid selling into a down market. Mr. McDonough discussed performance by asset class and asset allocation as of August 31, 2015.

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Arden Garden State NJ Fund LP Update

Pursuant to the Council's Alternative Investment Modification Procedures, Mr. McDonough notified the Council of its intent to make a partial, rather than a full, redemption from Arden Asset Management.

JLL Partners V, L.P. Update

Mr. McDonough reported that the Division had received indications of interest from potential purchasers of the Division's investment in JLL Partners V, L.P., and was proceeding in accordance with the Council's procedures regarding secondary sales.

Presentation by TorreyCove Capital Partners

Mr. McDonough introduced Michelle Davidson and Mike Krems of TorreyCove Capital Partners (TorreyCove), the Division's new private equity consultant, who provided an overview of the firm. In response to queries from Mr. Byrne and Mr. Hanson, Ms. Davidson and Mr. Krems explained the firm's sourcing process. Mr. Byrne and Mr. Haselmann commented on the persistence of similar names in the private equity sector as top quartile performers. Charles Dolan inquired about the down side of restricting investments to top quartile firms, to which Mr. Krems and Ms. Davidson emphasized the importance of evaluating other factors, such as risk and the use of leverage, that drive performance. In response to a question from Mr. Byrne regarding why some funds are attractive to some investors but not others, Mr. Krems outlined a number of selection criteria that vary among investors. Mr. Hurst inquired about how TorreyCove is paid, to which Mr. McDonough responded that TorreyCove is working under a five year flat rate contract.

Private Equity Investments

Catalyst Fund Limited Partnership V

Jason MacDonald of the Division, along with Mr. Krems of TorreyCove, presented an investment of \$100 million in Catalyst Fund Limited Partnership V, a private equity fund focused on Canadian distressed opportunities. Mr. MacDonald provided an overview of the fund and the Division's investment rationale. Mr. Dolan commented on the diverse experience of the fund's investment team. Mr. Byrne asked about the fund's exposure to the energy sector, to which Mr. Krems responded that the fund has not historically focused on that sector. Mr. Byrne reported that the Investment Policy Committee discussed the investment and was satisfied that the due diligence that was performed was adequate and appropriate.

TSG7 A, L.P. & TSG7 B, L.P.

Mr. MacDonald and Ms. Davidson presented an investment of \$100 million in TSG7 A, L.P. and \$25 million in TSG7 B, L.P., private equity funds focused on growth capital investments in middle-market companies in the branded consumer products sector. Mr. MacDonald explained that TSG7 A is the main fund, and that TSG7 B is a fund available to a subset of TSG7 A investors focusing on smaller deals. Mr. MacDonald summarized the funds' strategy, performance and investment terms. Mr. Liebttag expressed his opposition to the fee structure, which had a percentage carry amount that was beyond the twenty percent generally seen for these types of investments. Mr. Byrne reported that the Investment Policy Committee discussed the investment and was satisfied that the due diligence that was performed was adequate and appropriate.

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Opportunistic Investment

Dyal Capital Partners III L.P. & Related Co-Investment Separate Account

Mr. MacDonald and Pete Keliuotis of Cliffwater presented an investment of up to \$200 million in Dyal Capital Partners III L.P. and up to \$100 million in a related co-investment separate account. Both funds would invest in equity stakes in private equity and other alternative investment fund managers. Mr. MacDonald noted the performance of the prior Dyal funds and described the investment opportunity in more detail. He also noted the funds' favorable investment terms. Mr. Oram asked whether the investment strategy was unique, to which Mr. McDonald responded that he is unaware of other similarly constructed investments. In response to a question from Mr. Hanson, Mr. Keliuotis described the investment multiples for the types of transactions contemplated by these funds. Mr. Byrne reported that the Investment Policy Committee discussed the investment and was satisfied that the due diligence that was performed was adequate and appropriate.

Hedge Fund Investments

Winton Futures Fund

Samantha Rosenstock of the Division, along with Mr. Keliuotis of Cliffwater, presented an add-on investment of \$150 million in Winton Futures Fund, a diversified CTA fund managed by Winton Capital Management (Winton). Ms. Rosenstock stated that, as of July 31, 2015, the Division's previous commitment to the fund was valued at \$252 million, and therefore the additional investment would result in a combined total investment of \$402 million. The Division intends to transfer this combined investment into a new account managed by Winton with the same or better economic terms. Ms. Rosenstock provided an overview of the fund and its strategy, and noted the fund's attractive returns. Mr. Byrne inquired about the fund's lower returns in recent years, to which Ms. Rosenstock responded that the fund reduced its risk profile with more diversified strategies. Mr. Haselmann noted the lack of correlation between the fund's performance and the performance of the public equity markets. Mr. Byrne reported that the Investment Policy Committee discussed the investment and was satisfied that the due diligence that was performed was adequate and appropriate.

Lynx (Bermuda) Ltd.

Ms. Choi and Mr. Keliuotis presented an add-on investment of \$100 million in Lynx (Bermuda) Ltd., a CTA fund managed by Lynx Asset Management (Lynx). Ms. Choi stated the total commitment to the fund after the add-on would be approximately \$200 million. The Division intends to transfer this combined investment into a new account managed by Lynx at the same or better economic terms. Ms. Choi provided an overview of the fund and described the Division's investment rationale. Mr. Haselmann noted the fund's exceptional performance during the difficult 2008 market environment. Mr. Byrne reported that the Investment Policy Committee discussed the investment and was satisfied that the due diligence that was performed was adequate and appropriate.

MKP Opportunity Partners, L.P.

Ms. Rosenstock and Mr. Keliuotis presented an add-on investment of \$110 million in MKP Opportunity Partners, L.P. a discretionary macro fund. The additional investment would be in addition to the Division's prior investment of \$243 million, resulting in a total of approximately \$350 million invested in the fund. Ms. Rosenstock provided an overview of the fund, and noted that the additional investment will result in better economic terms for the Division. Mr. Keliuotis reviewed the fund's historical performance. Mr. Byrne reported that the Investment Policy Committee discussed the investment and was satisfied that the due diligence that was performed was adequate and appropriate. In response to a question from Mr. Hurst, Mr. Byrne described the role of the IPC in reviewing investments.

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Real Estate Investment

PW Real Estate Fund III L.P.

Kevin Higgins of the Division along with Joseph Jehl of RV Kuhns presented an investment of up to €90 million (approximately USD \$100 million) in PW Real Estate Fund III L.P., a fund focused on opportunistic real estate investments across Europe. Mr. Higgins provided an overview of the fund and the investment terms. Mr. Oram recused himself from Council discussion of the investment. Mr. Byrne reported that the Investment Policy Committee discussed the investment and was satisfied that the due diligence that was performed was adequate and appropriate.

Report on Sudan

Susan Sarnowski of the Division presented the Division's annual report to the Legislature concerning investments in Sudan. Ms. Sarnowski reported that no new names were added during the year that required divestment and that the Division does not currently hold any securities that are prohibited under the State divestment law.

Treasurer's Report

Dr. Roger Cohen, Director of the Treasurer's Office of Revenue and Economic Analysis, reported on the State's economy and labor market.

Public Comment

James Kane of UNITE HERE, Jose Turcios, and Pastor William Cherry spoke regarding a labor dispute at Palms Casino Resort in Las Vegas, a holding of TPG Capital. Beverly Brown Ruggia of New Jersey Citizen Action spoke regarding the Division's investment in JLL Partners and its alternative investment due diligence procedures.

Adjournment

Mr. Haselmann made a motion to adjourn the meeting, with Mitchell Shivers seconding the motion. All Council Members present voted in favor. The meeting was adjourned at 1:43 p.m.