

New Jersey State Investment Council

November 18, 2015 Regular Meeting

Minutes of the Regular Meeting

Held November 18, 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
James Joyner
Timothy McGuckin
Jeffrey Oram
Mitchell Shivers (via telephone)

Benjamin “Max” Hurst and Guy Haselmann were not in attendance.

Roll Call and Meeting Notice

The Regular Meeting was called to order by Brendan T. Byrne, Jr., Council Chair, at 10:06 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 November 18, 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 October 14, 2015. A copy of the notice was posted at the Division and is on file.

Opening Remarks by Chair

Mr. Byrne made some brief opening remarks, discussing the weak investment returns of the equity and fixed income markets generally and directing Council members to be mindful of asset allocation decisions for fiscal year 2017. He also emphasized the importance of adequate contributions and structural reforms in maintaining an adequately funded pension plan.

Minutes of Regular Meeting held September 23, 2015

Mr. Byrne presented for adoption the minutes for the regular meeting held September 23, 2015. Charles Dolan made a motion to approve the minutes, with Michael Cleary seconding the motion. All Council Members present voted in favor.

Presentation by Erik Knutzen of Neuberger Berman

Director McDonough introduced Erik Knutzen, Multi-Asset Class Chief Investment Officer of Neuberger Berman. Mr. Knutzen shared his firm’s global economic outlook and its implications for asset allocation decisions. He also responded to questions from Council members.

New Jersey State Investment Council

November 18, 2015 Regular Meeting

Proposed SIC Meeting Dates for 2016

Mr. Byrne presented the proposed SIC Meeting Dates for 2016. Acknowledging concerns from Council members regarding potential scheduling conflicts with the January 27, 2016 annual meeting, Mr. Byrne stated that the Council would be advised if an alternate date is identified.

Audit Committee Report on Fiscal Year 2015 Audit

Tim McGuckin reported that the Audit Committee met on October 5th with the auditor, KPMG, who completed the audit of the State of New Jersey Cash Management Fund with a clean opinion; however, Mr. McGuckin noted that the auditor had not yet completed its larger audit of the financial statements of the Division of Pensions and Benefits, which includes the pension funds. Once that report is completed, the Audit Committee would present the results to the Council.

Mr. McGuckin further reported that the Audit Committee recommended enhanced disclosure of fees by the Division. Mr. McGuckin made a motion for the Division to prepare a report of all management and performance fees paid to investment fund managers during at least the past five fiscal years, consistent with the format utilized in reporting fees in the 2014 State Investment Council Annual Report. Mr. McGuckin further stated that the report can contain performance information related to the investments if the Division deems it appropriate. Mr. McGuckin recognized the magnitude of the request and acknowledged the project would be a major undertaking for the Division. Jeffrey Oram seconded the motion. Adam Liebttag proposed an amendment to the motion that the report also include cost and performance information for the same period with respect to assets that were not invested in funds managed by outside managers. All members of Council present voted in favor of both the amendment and the motion. Mr. McGuckin stated that the Audit Committee is not ready to bring forward a recommendation for an independent review of the report at this time. Marty Barrett indicated his support for such an independent review.

Director's Report/Updates

Director Chris McDonough presented the Director's Report, providing an update on capital markets and portfolio performance and positioning through October 31.

Alternative Investment Notifications

Pursuant to the Council's Alternative Investment Modification Procedures, Mr. McDonough provided updates to two previously presented alternative investments, **Blackstone Tactical Opportunities Fund – A (RE) L.P.** and **Knight TAO, L.P.**, and informed counsel that the Division decided not to go forward with the investment in **Stone Milliner Macro Fund, L.P.** previously presented to counsel.

JLL Partners V, L.P. Update

Mr. McDonough of the Division reported on the status of the sale of the Division's interest in JLL Partners V, L.P.

Private Equity Investment

Advent International Global Private Equity VIII, L.P.

Robin Clifford and Jason MacDonald of the Division, along with Michelle Davidson of TorreyCove, presented an investment of \$100 million in Advent International Global Private Equity VIII, L.P., a large global buyout private equity fund with a strategy of investing in specific sectors across Europe and North America. Ms. Clifford provided an overview of the fund, summarizing the fund manager's investment practices and the terms of the investment. In response to Mr. Byrne's

New Jersey State Investment Council November 18, 2015 Regular Meeting

question whether the fund's past performance was a function of fund size, Mr. McDonough responded that the fund managers' investment discipline was seen as a positive factor. In response to James Hanson's question regarding the fund's lack of hurdle rate, Ms. Davidson noted that there are other mechanisms that protect against excessive distributions to the general partner. 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.

Real Assets Investment

Brookfield Capital Partners IV, L.P.

Mr. MacDonald and Ms. Davidson presented an investment of \$150 million in Brookfield Capital Partners IV, L.P., a fund focused on value investments in real assets and real asset-related investments. Mr. MacDonald discussed the Division's investment rationale and the terms of the investment. In response to a question from Mr. Byrne about the portfolio's allocation to real asset investments, Mr. MacDonald responded that this investment would improve the portfolio's underweight position. 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.

Global Diversified Credit Investments

Knight TAO, L.P.

Meghna Desai of the Division and Ms. Davidson presented an additional investment of up to \$300 million to Knight TAO, L.P., a separate account managed by TPG's credit team, that will participate in co-invest opportunities that are outside the mandate of other TPG credit funds. Ms. Desai described the fund's investment team and strategy, and outlined the terms 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.

Blackstone Tac Opps Residential Opportunities

Mr. Byrne recused himself from the Blackstone TacOpps Residential Opportunities investment discussion and Mr. Liebttag assumed Mr. Byrne's duties as Council Chair.

Ms. Desai and Ms. Davidson presented an investment of \$250 million in a newly formed Blackstone Tac Opps Residential Opportunities fund, designed to take advantage of opportunities created by dislocation in the residential mortgage market. Ms. Desai explained the fund's investment strategy and the discounted fees being charged to the State as a seed investor. In response to a query by Mr. Liebttag, Ms. Desai offered additional information regarding the fund's proposed revenue-sharing arrangement.

Fiscal 2015 Proxy Voting Summary

Mr. Byrne returned to the meeting as Council Chair.

Susan Sarnowski of the Division provided the Council with an overview of the Division's proxy voting for the fiscal year ending June 30, 2015, with respect to both U.S. and non-U.S. corporations. Mr. Byrne commended the Division for its clear and comprehensive proxy voting report. In response to a question from Mr. Barrett, Ms. Sarnowski explained the non-binding nature of many shareholder-approved proposals.

New Jersey State Investment Council November 18, 2015 Regular Meeting

Treasurer's Report

Dr. Roger Cohen, Director of the Treasurer's Office of Revenue and Economic Analysis, reported on the State's economy and announced the appointment of Acting Treasurer Ford Scudder.

Public Comment

Phyllis Salowe-Kaye and Beverly Brown Ruggia of New Jersey Citizen Action and Bruce Davis of the NAACP spoke regarding the Division's investment in JLL Partners V, L.P. Ms. Ruggia recommended that the Division adjust its due diligence process to avoid future investments in entities that that engage in (or invest in other companies that engage in) businesses activities that are illegal in New Jersey. Mr. Liebttag responded that the portfolio company at issue was purchased by JLL Partners V, L.P. subsequent to the State's investment. Mr. Liebttag noted for the record that no New Jersey money was invested directly in any illegal practice or business.

Adjournment

Mr. Oram made a motion to adjourn the meeting, with Mr. Cleary seconding the motion. All Council Members present voted in favor. The meeting was adjourned at 12:32 p.m.