

New Jersey State Investment Council

November 29, 2017 Regular Meeting

Minutes of the Regular Meeting

Held November 29, 2017 at the War Memorial, George Washington Ballroom, 1 Memorial Drive, Trenton, New Jersey.

Council Members in Attendance:

Brendan T. Byrne, Jr., Chair
Adam Liebttag, Vice Chair
Thomas Bruno Jr.
Michael Cleary
Charles Dolan
Michael Greaney
Guy Haselmann
James Joyner
Jeffrey Oram
Eric Richard
Mitchell Shivers (via telephone)

James Hanson, Timothy McGuckin, and Brady Middlesworth were not present.

Roll Call and Meeting Notice

The Regular Meeting was called to order by Brendan T. Byrne, Jr., Council Chair, at 10:12 a.m. Ernestine Jones-Booker, Council Secretary, reported that notice of the Regular Meeting scheduled for November 29, 2017 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 18, 2017. A copy of the notice was posted at the Division and is on file. Ms. Jones-Booker performed roll call and reported that a quorum of the Council was present.

Minutes of the Regular Meeting held October 4, 2017

Mr. Byrne presented for adoption the minutes for the regular meeting held October 4, 2017. Guy Haselmann proposed amending the first full paragraph on page 3 of the minutes by replacing the words "Director Amon" with "Deputy Director Amon" and replacing the words "financial market inflation has skewed" with "financial market valuations have skewed." Further, Mr. Byrne asked that the last sentence of the fourth full paragraph on page 2 of the minutes be amended to read, "Additionally, at the request of Mr. Byrne, Mr. Arena provided an estimate (1.05) of the beta of the domestic portfolio." James Joyner made a motion to approve the minutes as so amended, with Mr. Haselmann seconding the motion. All Council Members present voted in favor.

Opening Remarks by Chair

Mr. Byrne made an opening statement, noting his status as a holdover appointee and thanking his fellow Council members for their diligence and civility. He reported the positive performance of the fund, but cautioned that vigilance, risk controls and appropriate asset allocation strategies remained essential in a volatile market. Mr. Haselmann thanked Mr. Byrne for his leadership and pointed out that the fund's returns were more impressive when adjusted for risk in the portfolio.

Eric Richard joined the meeting at this time.

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Presentation by Robert F. Smith, Vista Equity Partners

Director Chris McDonough introduced Robert F. Smith, the founder, chairman and chief executive officer of Vista Equity Partners. Mr. Smith discussed the effect of digitization on various industries. Mr. Smith responded to Council questions regarding the role of private equity investments in a diversified portfolio and recent developments in alternative currency and block chain technology, noting that nearly all of the growth in the enterprise software sector is currently being generated by private companies.

Director's Report

Mr. McDonough and Deputy Director Corey Amon presented the Director's Report, providing an update on capital markets and an update on the performance of the portfolio on an absolute basis and relative to the policy benchmark. Mr. McDonough and Mr. Amon discussed allocations to, and performance of, various asset classes, and described factors affecting performance. Mr. Haselmann expressed concern regarding the long-term outlook for European debt. Mr. McDonough discussed cash flows of the private equity and real estate portfolios and noted receipt of monthly lottery enterprise contributions. Mr. McDonough notified the SIC of modifications to two of the fund's alternative investments: Excellere Capital Fund III and Prologis European Property Fund II.

Adoption of Amendments to N.J.A.C. 17:16-12 (Global Debt Obligations), 19 (Collateralized Notes and Mortgages), 23 (Global Diversified Credit Investments), 40 (Non-convertible Preferred Stocks), and 58 (Mortgage Backed Senior Debt Securities; Mortgage Backed Passthrough Securities)

Susan Sarnowski of the Division reported that there were no comments received to the proposed amendments that were filed with the Office of Administrative Law and published in the New Jersey Register. A motion to approve the attached resolution adopting the amendments was made by Mr. Haselmann and seconded by Mr. Byrne. A roll call vote was taken, and all members of the Council present voted in favor of the motion.

Fiscal 2017 Proxy Voting Summary

Ms. Sarnowski provided the Council with an overview of the Division's proxy voting for the fiscal year ending June 30, 2017, with respect to both U.S. and non-U.S. corporations. Mr. Byrne and Mr. Richard thanked Division staff for their efforts, with Mr. Byrne noting the significant number of votes against management. In response to questions from Mr. Byrne, Mr. Oram, Mr. Richard and Adam Liebttag, Ms. Sarnowski outlined the process used by the Division in voting proxies, described certain situations where the Division did not vote, and explained that the Council could revisit the Division's proxy voting guidelines at any time.

Private Equity Investment

Sycamore Partners Fund III, L.P.

Robin Clifford of the Division, with Michelle Davidson of TorreyCove, presented an investment of up to \$150 million in Sycamore Partners Fund III, L.P., a private equity buyout fund focused on the consumer retail sector. Ms. Clifford described the fund's management team and investment strategy, as well as the terms of the investment. Mr. Byrne, Charles Dolan and Jeffrey Oram pointed out the difficulties facing the consumer retail sector, but acknowledged the investment team's successful track record in that sector. Mr. Byrne reported that the IPC had discussed the investment and was satisfied that appropriate and adequate due diligence had been performed.

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Real Asset Investment

Aether Real Assets SONJ Fund, L.P.

Jared Speicher of the Division, with Matt Coyne of TorreyCove, presented an investment of up to \$135 million in Aether Real Assets SONJ Fund, L.P., a separate account investing opportunistically across various real asset subsectors. Mr. Speicher described the fund's management team and investment strategy, the terms of the investment, and the Division's investment thesis. Mr. McDonough spoke about the relative advantages of investing in the fund versus a passive investment in commodities. Mr. Byrne and Mr. Haselmann commented on the fund's effect on portfolio diversification. In response to questions from Adam Liebttag and Thomas Bruno, Mr. Speicher explained the fund's fee structure and hurdle rate. Mr. Liebttag and Mr. Speicher also discussed the expected role of renewable energy in the fund's portfolio. Mr. Byrne reported that the IPC had reviewed the investment and was satisfied that appropriate and adequate due diligence had been performed.

Potential Exemption from State Investment Council's Policy Concerning Political Contributions and Prohibitions on Investment Management Business – N.J.A.C. 17:16-4.10

Ms. Sarnowski presented a request by Quantitative Management Associates LLC (QMA) for an exemption from the SIC for a violation of the Council's policy prohibiting political contributions. Mr. Byrne noted that the contributor was not an employee at the time of the contribution and that the firm had already been engaged by the State for over a year prior to the date of the contribution. Mr. Byrne also noted the views of DOI staff, as expressed in the memorandum provided to the Council, regarding the positive effect of the QMA strategy on the emerging markets portfolio and the possible downside of replacing QMA. Mr. Liebttag further noted that the firm had voluntarily disclosed the contribution and had barred the employee from soliciting investment management business from the State or any other state or local governmental entity until after January 22, 2019. Mr. Byrne made a motion that the Council resolve that it has determined that (a) QMA has demonstrated in writing that the violation of the Council's policy was unintentional and inadvertent and (b) the beneficiaries of the pension and annuity funds, the State taxpayers and the public are best served by granting the exemption. Mr. Liebttag seconded the motion. A roll call vote was taken, and all members of the Council present voted in favor of the motion.

Treasurer's Report

Dr. Marc Miles, Director of the Office of Revenue and Economic Analysis, reported on the State's economy and described the updated Division of Taxation website.

Public Comment

Mike Malloy of the New Jersey Retired Public Employees Organization asked the Council to support his organization's request for increased funding for the pension funds and elevation of the pension system to a cabinet level position.

Gregg Sgambati of S Network Global Indexes recommended consideration of environmental, social and governance (ESG) issues as part of the investment process.

Adjournment

Mr. Byrne made a motion to adjourn the meeting, with Mr. Bruno seconding the motion. All Council Members present voted in favor. The meeting was adjourned at 1:17 p.m.