

increased patronage. Any attempt to predict that impact would be speculative at this time.

Agriculture Industry Impact

The proposed new rule will have no impact on agriculture in New Jersey.

Regulatory Flexibility Statement

The proposed new rule will only affect the operations of New Jersey casino licensees, none of which qualifies as a “small business” as defined in the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq., because they all employ more than 100 persons full-time in the State of New Jersey. Accordingly, a regulatory flexibility analysis is not required.

Housing Affordability Impact Analysis

The proposed new rule will have no impact on the affordability of housing in the State of New Jersey and there is an extreme unlikelihood that the rule would evoke a change in the average costs associated with housing because the rule regulates fantasy sport tournaments in casinos in Atlantic City.

Smart Growth Development Impact Analysis

The proposed new rule will have no impact on the achievement of smart growth development in the State of New Jersey and would not evoke a change in housing production in Planning Areas 1 or 2, or within designated centers, under the State Development and Redevelopment Plan because the rule regulates fantasy sport tournaments in casinos in Atlantic City.

Full text of the proposed new rule follows:

CHAPTER 69P
FANTASY SPORTS TOURNAMENTS

SUBCHAPTER 1. GENERAL PROVISIONS

13:69P-1.1 General provisions

(a) A casino licensee may offer fantasy sports tournaments to its patrons subject to requirements of this chapter and 31 U.S.C. §§ 5361 et seq. A fantasy sports tournament is any fantasy or simulated game or contest involving athletic events in which a patron owns or manages an imaginary sports team and competes against other patrons or a target score for a predetermined prize.

(b) The conduct of a fantasy sports tournament shall not be considered “gaming” or “gambling” as defined in N.J.S.A. 5:12-22, nor shall the entry fee, management fee, or any other revenue generated from the conduct of a fantasy sports tournament be considered “gross revenue” as defined in N.J.S.A. 5:12-24.

(c) All prizes and awards offered to winning participants in a fantasy sports tournament shall be established and made known to all participants prior to the start of the tournament.

(d) The winning outcome of a fantasy sports tournament shall:

1. Reflect the relative skill of the participating patrons and be determined by statistics generated by actual individuals participating in real-world athletic events; and

2. Not be based solely on the performance of an individual athlete, or on the score, point spread, or any performances of any single real-world team or combination of real-world teams.

(e) A casino licensee may permit a patron to utilize, in a manner approved by the Division, a mobile wagering account established pursuant to N.J.A.C. 13:69O-1.3 or a patron deposit account established pursuant to N.J.A.C. 13:69D-1.24 to enter fantasy sports tournaments.

(f) A casino licensee may utilize the casino cage to accept entry fees for fantasy sports tournaments and pay out winnings resulting from fantasy sports tournaments in a manner approved by the Division.

(g) A casino licensee may partner or otherwise contract with one or more third-party entities to offer fantasy sports tournaments. Such other entities shall be registered as a vendor pursuant to N.J.S.A. 5:12-92.c. The provisions of N.J.S.A. 5:12-104.a shall not apply to any such partnership or contractual relationship.

(h) The minimum age for participating in fantasy sports tournaments conducted pursuant to this chapter is 21 years old.

TREASURY — GENERAL

(a)

STATE INVESTMENT COUNCIL

Proposed Readoptions: N.J.A.C. 17:16-1 and 3

Proposed Readoptions with Amendments: N.J.A.C. 17:16-4, 11, 12, 17, 19, 20, 23, 31, 32, 33, 37, 40, 42, 58, 61, 65, 68, 69, 71, 81, 90, and 100

Proposed Readoptions and Recodification with Amendments: N.J.A.C. 17:16-43 and 45 as 17:16-84 and 85, respectively

Proposed Repeals: N.J.A.C. 17:16-12.5, 13, 16, 17.5, 18, 19.5, 20.5, 21, 22, 23.5, 24, 41, 44, 46, 47, 62, 63, 65.9, and 67

Proposed New Rules: N.J.A.C. 17:16-5, 31.4, 48, 81.3, 82, 83, and 95

Proposed Repeal and New Rule: N.J.A.C. 17:16-4.11

Authorized By: State Investment Council, Timothy M. Walsh,
Director, Division of Investment.

Authority: N.J.S.A. 52:18A-91.

Calendar Reference: See Summary below for explanation of exception to calendar requirement.

Proposal Number: PRN 2013-104.

Submit comments by August 16, 2013 to:

Timothy M. Walsh
Administrative Practice Officer
Division of Investment
PO Box 290
Trenton, New Jersey 08625-0290

The agency proposal follows:

Summary

Pursuant to N.J.S.A. 52:14B-5.1.c, the rules in N.J.A.C. 17:16 are scheduled to expire August 7, 2013. In accordance with N.J.S.A. 52:14B-5.1.c, the submission of this notice of proposal to the Office of Administrative Law extended the expiration date of N.J.A.C. 17:16 for 180 days to February 3, 2014.

N.J.A.C. 17:16 provides the regulatory framework to govern the methods, practices, or procedures for investment, reinvestment, purchase, sale, or exchange transactions to be followed by the Director of the Division of Investment. The chapter proposed for readoption, with proposed amendments, repeals, and new rules, will continue to provide such regulatory framework for the purpose for which it was originally promulgated. The rules, as proposed to be amended, are intended to further strengthen certain investment guidelines and align the investment limitations with the State Investment Council’s asset allocation strategy which provides for diversification as a means of both mitigating risk and providing the opportunity for positive overall risk adjusted returns for the State-administered funds.

The Council is proposing to readopt N.J.A.C. 17:16-1 and 3, which govern general provisions and classification of funds, respectively, without amendment. The Council has determined that N.J.A.C. 17:16-34, 36, 53, 54, and 55, which permit investment in bankers acceptances, guaranteed income contracts and funding agreements, Title II Federal Housing Administration insured mortgages - multi-family, Title II Federal Housing Administration insured construction - multi-family, and Title II Federal Housing Administration insured hospital mortgages, respectively, are no longer necessary since investments are not made in these types of securities. The Council is therefore allowing these rules to expire. The remaining subchapters are proposed for readoption with amendment. In addition, the proposal consolidates certain subchapters governing similar categories of permissible investments, thereby streamlining the rules in the aggregate, and lessening the overall administrative burden.

The Division is providing a 60-day comment period on this notice of proposal, so the proposal is exempted from the rulemaking calendar requirement pursuant to N.J.A.C. 1:30-3.3(a)5.

The following summarizes the content of each subchapter, noting proposed amendments, repeals, and new rules:

N.J.A.C. 17:16-1, General Provisions, includes the overall purpose of the chapter and definitions for general terms used throughout the chapter. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-3, Classification of Funds, establishes classifications for funds sharing similar investment characteristics and objectives. This subchapter is proposed to be readopted without amendment.

N.J.A.C. 17:16-4, State Investment Council's Policy Concerning Political Contributions and Prohibitions on Investment Management Business, sets forth prohibitions on the engagement of investment management firms if certain political contributions and payments to political parties have been made and reporting requirements for investment management firms that provide or are applying to provide investment management services to the State. Proposed amendments to this subchapter are intended to clarify the scope of the subchapter, remove provisions that were applicable to the initial reports made in 2005 but are no longer applicable, and make various conforming and non-substantive changes.

The proposed amendments amend a number of definitions found in N.J.A.C. 17:16-4.2. The term "investment management professional," as currently defined, includes persons associated with an investment management firm involved in the solicitation of business for "investment management services" from "pension fund clients." The term "investment management services" is limited elsewhere in the section to services provided to State pension and annuity funds, but the term "pension fund clients" is not similarly limited. To eliminate any confusion, the term "investment management services" has been deleted, and extra language specifically including non-State pension fund clients has been added. The term "investment management services" currently includes the business of advising or managing a separate entity which makes or recommends investment management decisions for or on behalf of State pension and annuity funds. The proposed amendment will make clear that such a separate entity would include "investment vehicles," which term is defined in the proposal to include entities described in subchapters governing global diversified credit, real assets, private equity, and absolute strategy investments. The amendment is consistent with the current practice of the Division, which requires forms under this subchapter to be provided by general partners and investment managers of global diversified credit and alternative investment funds. The existing definition of "political party" is proposed to be amended to include examples of political committees that are considered inside or outside the scope of the definition. An added example of a committee that is inside the scope of the proposed definition of "political party" is a State legislative leadership committee. Examples of committees that the proposal excludes from the definition of the term "political party" are Federal or national campaign committees and non-State political committees. These types of committees are excluded from the definition of "political party" even if they make political contributions or payments to political parties that would otherwise be governed by the subchapter. The proposal includes a new definition for the term "separate account," which is defined to mean an investment vehicle in which a State pension and annuity fund or common pension fund is the sole investor who is unaffiliated with the vehicle's sponsor or manager, and for the term "State Pension and Annuity Fund," which is defined to include each of the pension and annuity funds plus the Common Pension Funds through which such Pension and Annuity Funds may invest. The proposal also adds a definition for the term "supervisor," which is defined to mean a person who has supervisory responsibility for an investment management professional. Finally, the existing definition of "third party solicitor" is proposed to be amended to clarify that placement agents are considered third party solicitors, and to exclude from the term certain firms working for investment management firms engaged by the Division that solicit clients other than the Division. The proposed amendment also clarifies that one investment management firm will not be held responsible for solicitations made by its third party solicitor on behalf of other investment management firms.

N.J.A.C. 17:16-4.3 contains the requirement that the Division shall not engage a firm that has made specified contributions or payments within two years prior to the engagement and shall terminate a firm who makes such contributions or payments during the term of the engagement. The proposal separates the provisions regarding engagement (proposed subsection (a)) from the provisions regarding termination (proposed subsection (b)). It also includes a prohibition against the Division recommending that a separate account invest with an investment management firm, to prevent the Division from investing indirectly in circumstances where it could not invest directly. Proposed paragraph (b)3 is proposed to be amended, compared to paragraph (a)3, to clarify that a firm will only be held responsible for payments or contributions by its third party solicitor if the solicitor was engaged by the firm at the time of the solicitor's payment or contribution. Proposed amendments to current subsections (b), (c), and (d) make additional conforming and non-substantive changes.

N.J.A.C. 17:16-4.5 prohibits indirect violations which attempt to circumvent the prohibitions of the subchapter. This section is proposed to be amended to add a new subsection (b) describing three examples of indirect violations of the subchapter. These examples are having a family member or other person make a prohibited contribution or payment on the person or entity's behalf, making payments to a Federal or other political committee or organization for the purpose of influencing State or local elections governed by the subchapter, and a third party solicitor making political contributions or payments to a political party in order to encourage the engagement of an investment management firm for which it is not directly soliciting business from the Division.

N.J.A.C. 17:16-4.6 sets forth the reporting requirements for investment management firms and Council members. The proposed amendments to the section will reorganize the section by moving the requirement to designate professionals into the general reporting requirement of paragraph (b) and to make conforming changes to the other parts of the section. The proposal amends existing paragraph (b)3 to clarify that only reportable contributions need to be exempted under N.J.A.C. 17:16-4.10. The proposal deletes subsection (c), which only applies to payments made prior to April 18, 2005, and amends subsection (d) to clarify that quarterly updates only need to provide information that has not already been reported in a prior report. The proposal amends existing subsection (f) to clarify that the subsection merely requires the use of Division forms when making required reports, and does not constitute a separate reporting requirement. Finally, the proposal moves subsections (g) and (h), which refer to Council member reporting and compensation, to a separate proposed new section (N.J.A.C. 17:16-4.11), so it is not confused with investment manager reporting requirements.

N.J.A.C. 17:16-4.7 provides that all reports received from investment management firms shall be made public. The proposal amends this section to clarify that these reports are required to be publicly available, but are not required to be actively published or disseminated.

N.J.A.C. 17:16-4.9 provides that contracts with investment management firms must contain a provision terminating the contract upon violation of the subchapter. The proposal adds language more directly applicable to investment vehicles. Under the proposed language, the governing documents of an investment vehicle would not need to require the investment vehicle to be dissolved upon a violation, but instead must permit the investing State Pension and Annuity fund to terminate its relationship with the entity violating the rules. For example, if a Common Pension Fund invests in a limited partnership and the general partner violates the subchapter, the Common Pension Fund may withdraw from the partnership or require the general partner to resign, rather than dissolving the partnership.

N.J.A.C. 17:16-4.10 provides a procedure for investment management firms to obtain exemptions for payments or contributions that would otherwise preclude them from being engaged by the State. The proposal amends subsection (a) to provide that such exemptions are not self-executing, but must be approved by the Division (in the case of contributions or payments under paragraph (a)1) or by the Council (in the case of other contributions or payments). The proposal amends subsection (b) to clarify that the cap on a firm's exemptions does not accrue annually, but rather is limited to two exemptions in any 12-month period. N.J.A.C. 17:16-4.11 establishes April 18, 2005 as the effective

date for the subchapter. The proposal repeals this section and replaces it with a new rule setting forth the Council member reporting requirements and compensation restrictions currently found in N.J.A.C. 17:16-4.9(d) and (e). The prohibition on compensation to a Council member has been expanded to include partners or associates of the Council member. Language requiring Council member reports for periods prior to April 18, 2005 is proposed to be deleted as unnecessary.

N.J.S.A. 52:18A-89 permits the Director to engage in securities lending transactions secured by cash. Proposed new N.J.A.C. 17:16-5 will set forth rules that govern securities lending transactions. Proposed N.J.A.C. 17:16-5.1 sets forth definitions for terms used in the subchapter. Proposed N.J.A.C. 17:16-5.2 outlines the requirements for permissible securities lending transactions. Proposed N.J.A.C. 17:16-5.3 lists the eligible funds. Proposed N.J.A.C. 17:16-5.4 sets forth the limitations for securities lending transactions.

N.J.A.C. 17:16-11 establishes that the Director may invest and reinvest the moneys of any eligible fund in United States Treasury and Government Agency Obligations, subject to the limitations expressed in the subchapter. The proposed amendments to the definitions in N.J.A.C. 17:16-11.1 will clarify that United States Treasury Obligations include debt obligations that are explicitly guaranteed by the full faith and credit of the United States Government and Government Agency Obligations include debt obligations that are not explicitly guaranteed by the full faith and credit of the United States Government. The proposed amendment to N.J.A.C. 17:16-11.3 will add that eligible Common Pension Funds must be permitted to invest in United States Treasury and Government Agency Obligations, consistent with the concurrently proposed amendments to N.J.A.C. 17:16-69.

N.J.A.C. 17:16-12 and 16 establish that the Director may invest and reinvest the moneys of any eligible fund in corporate obligations of U.S. based corporations and international corporate obligations, respectively, subject to the limitations expressed in the respective subchapters. The proposed amendments to N.J.A.C. 17:16-12 reflects a consolidation of the requirements and limitations of existing N.J.A.C. 17:16-12 and 16 into N.J.A.C. 17:16-12 with the simultaneous proposed repeal of N.J.A.C. 17:16-16 as a separate subchapter. The distinctions between U.S. based corporations and international based corporations have become blurred, with less correlation between where global companies are incorporated and where business is conducted. The heading of N.J.A.C. 17:16-12 is proposed to be amended to Global Debt Obligations and the term corporate obligations utilized throughout the subchapter is proposed to be amended to global debt obligations.

The proposed amendments to the definition of “corporate obligations” in N.J.A.C. 17:16-12.1 will (i) revise the definition of “corporate obligation” to a definition for “global debt obligations,” (ii) delete the word “shall” in the phrase “shall means” within the definition for consistency among subchapters, (iii) expand issuers of global debt obligations to include trusts, master limited partnerships, limited liability companies, or other forms of legal entities in addition to corporations and banks, and (iv) delete the requirement that the issuing corporation be U.S. based to reflect the proposed consolidation of Subchapters 12 and 16. The proposed amendments to the definition of “private placement” will (i) revise the phrase “shall mean” to “means” for consistency among subchapters, (ii) provide the full name of the U.S. Securities and Exchange Commission, (iii) revise the definition to state that private placements includes offerings which are not registered with the applicable foreign regulatory body since the subchapter as proposed to be amended will include international obligations, and (iv) add that private placement includes the sale of securities pursuant to Section 4(2), Regulation D, Regulation S or Rule 144A under the Securities Act of 1933, as amended.

N.J.A.C. 17:16-12.2(a)1, which requires that the issue be registered with the Securities and Exchange Commission or issued pursuant to Rule 144A or through a private placement, is proposed to be deleted since obligations of foreign entities will not necessarily meet these requirements. The proposed consolidation of N.J.A.C. 17:16-12 and 16 into N.J.A.C. 17:16-12, in conjunction with the proposed amendments to N.J.A.C. 17:16-12.3, will (i) delete Static Funds as eligible funds to comply with the underlying statutes for funds included in this classification, (ii) add Trust Funds to funds which are eligible to purchase

international corporate obligations, and (iii) replace Common Pension Fund B as an eligible fund with any fund classified as a Common Pension Fund and permitted to invest in global debt obligations, consistent with the concurrently proposed amendments to N.J.A.C. 17:16-69. Trust funds are not included as eligible funds permitted to invest in international corporate obligations under N.J.A.C. 17:16-16; the proposed consolidation of N.J.A.C. 17:16-12 and 16, along with the amendments to N.J.A.C. 17:16-12.2(b) and 12.3 will permit Trust Funds to invest in global debt obligations which are payable as to both principal and interest in United States dollars. The proposed amendments to N.J.A.C. 17:16-12.2(c) and (d) will reflect the proposed amendment to eligible funds by replacing the reference to Common Pension Fund B with any eligible Common Pension Fund, and deleting the reference to N.J.A.C. 17:16-16 which is simultaneously proposed to be repealed. The proposed amendment to N.J.A.C. 17:16-12.2(c) will also reflect the concurrently proposed amendment to the subchapter heading, and clarify that the reference to the market value of investments means the aggregate market value. The proposed amendment to N.J.A.C. 17:16-12.2(e) will clarify that the types of permissible investments referenced in this section are in addition to the permissible investments outlined in N.J.A.C. 17:16-12.2(a).

The proposed amendments to N.J.A.C. 17:16-12.4(a)1 will clarify that the limitation on investment in the total outstanding long term debt of an issuer applies to direct purchases and the issuer concentration limitation is evaluated for investments by each eligible fund independently. The proposed amendments to N.J.A.C. 17:16-12.4(a) 2, 3, and 4 will (i) provide issuer concentration limitations by eligible funds, (ii) clarify that issuer concentration limitations are applied to direct investments, (iii) require that issuer concentration limitations be applied to issuers and affiliates in the aggregate, and across all categories of permissible investments for an eligible fund, and (iv) provide that the total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds. N.J.A.C. 17:16-12.4(a)5 limits investments in corporate obligations issued through a private placement to five percent of the market value of an eligible fund. The proposed amendments to N.J.A.C. 17:16-12.4(a)5 and 6 will provide a separately expressed limitation for direct debt investments for the Pension and Annuity Funds and Common Pension Funds made through private placements, and revise the limitation to not more than seven percent of the combined assets of all of the Pension and Annuity Funds. The proposed increased limit is intended to provide the opportunity for increased risk adjusted returns and express the limitation in a manner which is consistent with the asset allocation plan.

N.J.A.C. 17:16-12.5 requires all purchases of corporate obligations to be reported at the next regularly scheduled meeting of the Council. This section is proposed to be repealed since the requirement is redundant to N.J.S.A. 52:18A-92 which requires that all purchases and sales of securities made by the Division be reported publicly 15 days after the close of each month. Said report is published monthly on the Division’s public website. N.J.A.C. 17:16-16.4(a)1 provides that not more than 2.5 percent of Pension and Annuity Fund assets may be invested in international corporate obligations. This limitation will be eliminated through the proposed repeal of N.J.A.C. 17:16-12.5.

N.J.A.C. 17:16-13 and 24 establish that the Director may enter into interest rate swap transactions and credit default swap transactions, respectively, on behalf of any eligible fund, subject to the limitations expressed in the respective subchapters. N.J.A.C. 17:16-13 and 24 are proposed to be repealed as separate rules. Proposed new N.J.A.C. 17:16-83, Swap Transactions, will set forth rules for interest rate and credit default swap transactions which are currently permissible, and expand swap transaction categories to include equity, currency, and index-based swap transactions. Proposed N.J.A.C. 17:16-83.1 sets forth definitions for terms used in the subchapter. Proposed N.J.A.C. 17:16-83.2 outlines the requirements for permissible swap transactions. N.J.A.C. 17:16-13.2(a) and 24.2(c) set forth minimum credit rating requirements for counterparties of A1 or higher by Moody’s Investors Service, Inc, A+ or higher by Standard & Poor’s Corporation, and A+ or higher by Fitch Ratings. Proposed N.J.A.C. 17:16-83.2(a)3 will require that the

counterparty to the transaction be approved by and included on a list maintained by the Director. At the time of the transaction, the counterparty (or any guarantor pledging its full faith and credit to the transaction) shall have a long term credit rating of Baa2 or higher by Moody's Investors Service, Inc, BBB or higher by Standard & Poor's Corporation, and BBB or higher by Fitch Ratings, and the counterparty must be approved by the Council, except that two of the three ratings are sufficient, and one of the three ratings is sufficient if only one rating is available. Proposed N.J.A.C. 17:16-83.3 provides that eligible funds will include any fund classified as a Common Pension Fund and permitted to enter into swap transactions. Proposed N.J.A.C. 17:16-83.4 sets forth the limitations for permissible swap transactions. Exposure to any one counterparty is limited to not more than ten percent of the assets of an eligible fund in N.J.A.C. 17:16-13.4(a) and 24.4(a). The limitation for the notional value of net exposure to any one counterparty in N.J.A.C. 17:16-83.4(a)1 is proposed to be not more than one percent of the combined value of all of the Pension and Annuity Funds. Proposed N.J.A.C. 17:16-83.4(a)2 will limit the total aggregate notional value of all swap transactions to not more than five percent of the combined value of all of the Pension and Annuity Funds, except that this limit may be increased to an amount not to exceed 10 percent by the Director for a fixed period of time after consultation with the Investment Policy Committee of the Council.

N.J.A.C. 17:16-17 and 18 establish that the Director may invest and reinvest the moneys of any eligible fund in state and municipal general obligations and public authority revenue obligations, respectively, subject to the limitations expressed in the respective subchapters. The proposed amendments to N.J.A.C. 17:16-17 reflect a consolidation of subchapters N.J.A.C. 17:16-17 and 18 into N.J.A.C. 17:16-17, with the simultaneous proposed repeal of N.J.A.C. 17:16-18 as a separate subchapter. Accordingly, the heading of N.J.A.C. 17:16-17 is proposed to be amended to State, Municipal, and Public Authority Obligations, and the applicable references throughout the subchapter are proposed to be amended to include public authority revenue obligations in addition to general obligations.

The definition of "revenue obligation" contained in N.J.A.C. 17:16-18.1 states that the principal and interest are payable from the revenues derived from a utility or enterprise owned or operated by the public authority which issued the obligations, or by an agency or instrumentality thereof. The proposed definition of "public authority revenue obligation" in N.J.A.C. 17:16-17.1 states that the principal and interest are paid from a specified revenue source. The proposed amendment to N.J.A.C. 17:16-17.2(a) clarifies that the Trustees for the Support of Public Schools may only invest in obligations issued by the State of New Jersey or its counties, municipalities, and school districts as required by N.J.S.A. 18A:56-8 and proposed N.J.A.C. 17:16-17.4(a)4 and 5 set forth the related investment limitations stipulated in that governing statute. The proposed amendment to N.J.A.C. 17:16-17.2(b) clarifies that investments shall comply with Federal arbitrage regulations, if applicable. The proposed amendment to N.J.A.C. 17:16-17.3 will replace Common Pension Fund B as an eligible fund with any fund classified as a Common Pension Fund and permitted to invest in State and municipal general obligations and public authority revenue obligations, consistent with the concurrently proposed amendments to N.J.A.C. 17:16-69.

N.J.A.C. 17:16-17.4(a)1 is proposed to be amended to (i) change the reference to the issuer of obligations from political entity to obligor, and (ii) clarify that that limitation applies to direct purchases. N.J.A.C. 17:16-17.4(a)2 provides that not more than two percent of the assets at the time of purchase of any one fund shall be invested in senior debt of any one political entity maturing more than 12 months from date of purchase. The proposed amendments to this paragraph will provide that direct investments in the debt of any one obligor may not exceed five percent of the assets of an eligible fund other than a Pension and Annuity Fund or Common Pension Fund; the maturity limitation is proposed to be deleted. Proposed N.J.A.C. 17:16-17.4(a)3 will limit the total amount directly invested in the debt of any one obligor by the Pension and Annuity Funds and Common Pension Funds, in the aggregate, to no more than two percent of the combined assets of all the Pension and Annuity Funds. N.J.A.C. 17:16-17.5 requires all purchases to be reported at the next regularly scheduled meeting of the Council. This section is proposed to

be repealed since the requirement is redundant to N.J.S.A. 52:18A-92 which requires that all purchases and sales of securities made by the Division be reported publicly 15 days after the close of each month. Said report is published monthly on the Division's public website.

N.J.A.C. 17:16-19 establishes that the Director may invest and reinvest the moneys of any eligible fund in collateralized notes and mortgages, subject to the limitations expressed in the subchapter. The proposed amendment to N.J.A.C. 17:16-19.3 will replace Common Pension Fund B as an eligible fund with any fund classified as a Common Pension Fund and permitted to invest in collateralized notes and mortgages, consistent with the concurrently proposed amendments to N.J.A.C. 17:16-69. The proposed amendments to N.J.A.C. 17:16-19.2(b), governing investments in high yield debt, will (i) reflect the concurrently proposed amendment to eligible funds by replacing the reference to Common Pension fund B with any eligible Common Pension Fund, (ii) reflect the concurrently proposed change to the scope of N.J.A.C. 17:16-12, (iii) delete the reference to N.J.A.C. 17:16-16, which is concurrently proposed to be repealed, and (iv) clarify that the reference to the market value of investments means the aggregate market value.

The proposed amendments to N.J.A.C. 17:16-19.4(a)2 will clarify that the limitation on the amount that may be invested in any one issue applies to direct investments and proposes to exclude investments by the Common Pension Funds from this limitation; the limitation on the amount of any one issue which may be purchased by the Common Pension Funds is 25 percent of the issue, as set forth in N.J.A.C. 17:16-19.4(a)1. Issuer concentration limits are proposed in N.J.A.C. 17:16-19.4(a)3 and 4. Proposed N.J.A.C. 17:16-19.4(a)3 provides that not more than five percent of the market value of the State of New Jersey Cash Management Fund shall be directly invested in the fixed income obligations of any one issuer and affiliated entities. Proposed N.J.A.C. 17:16-19.4(a)4 provides that the total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds. N.J.A.C. 17:16-19.4(a)3 limits investment in collateralized notes and mortgages to 10 percent of the assets of any one fund or 20 percent of the assets of Common Pension Fund B. This section is proposed to be recodified as N.J.A.C. 17:16-19.4(a)5 and amended to (i) clarify that the limitation applies to direct investments, (ii) clarify that the 10 percent limitation applies to any eligible fund other than a Pension and Annuity Fund or Common Pension Fund, and (iii) revise the investment limitation for the Pension and Annuity Funds to five percent of the combined assets of all the Pension and Annuity Funds. N.J.A.C. 17:16-19.5 requires all purchases to be reported at the next regularly scheduled meeting of the Council. This section is proposed to be repealed since the requirement is redundant to N.J.S.A. 52:18A-92 which requires that all purchases and sales of securities made by the Division be reported publicly 15 days after the close of each month. Said report is published monthly on the Division's public website.

N.J.A.C. 17:16-20 establishes that the Director may invest and reinvest the moneys of any eligible fund in international government and agency obligations, subject to the limitations expressed in the subchapter. The proposed amendments to the definition of "international government and agency obligations" in N.J.A.C. 17:16-20.1 will (i) delete the word "shall" in the phrase "shall mean" for consistency among subchapters, (ii) provide that the debt obligations may be issued by financial institutions, in addition to international agencies, backed by the collective credit of multiple sovereign governments, and (iii) clarify that the international agencies or financial institutions are backed, but not necessarily guaranteed, by the collective credit of multiple sovereign governments. The proposed amendments to N.J.A.C. 17:16-20.2(a) will (i) provide that permissible investments are international government and agency obligations, and (ii) delete paragraphs (a)1 through 4 as redundant to the definition included in N.J.A.C. 17:16-20.1. The proposed amendment to N.J.A.C. 17:16-20.3 will replace Common Pension Fund B as an eligible fund with any fund classified as a Common Pension Fund and permitted to invest in international government and agency obligations, consistent with the concurrently proposed amendments to N.J.A.C. 17:16-69. Accordingly, the proposed amendments to N.J.A.C. 17:16-20.2(c) and

20.4 will delete the specific references to Common Pension Fund B; the reference in N.J.A.C. 17:16-20.2(c) is proposed to be revised to a Common Pension Fund.

N.J.A.C. 17:16-20.4(a)1 provides that not more than five percent of the market value of the assets of any eligible fund, excluding Common Pension Fund B, shall be invested in the obligations of any one issuer. N.J.A.C. 17:16-20.4(a)1, as proposed to be amended, will provide that not more than five percent of the market value of the assets of the State of New Jersey Cash Management Fund shall be directly invested in international government and agency obligations, whether direct or guaranteed, of any one issuer. N.J.A.C. 17:16-20.4(a)2 stipulates that not more than 25 percent of the outstanding debt of an issuer may be acquired, and not more than the greater of \$US 10 million or 25 percent of any one issue may be purchased. The proposed amendments to this section will (i) clarify that debt issues means international government and agency debt issues, (ii) clarify that the limitation applies to direct investments, and (iii) delete the \$US 10 million limitation. The proposed amendment to N.J.A.C. 17:16-20.4(a)3 will clarify that the limitation applies to direct purchases. N.J.A.C. 17:16-20.5 requires all purchases to be reported at the next regularly scheduled meeting of the Council. This section is proposed to be repealed since the requirement is redundant to N.J.S.A. 52:18A-92 which requires that all purchases and sales of securities made by the Division be reported publicly 15 days after the close of each month. Said report is published monthly on the Division's public website.

N.J.A.C. 17:16-21 and 47 provide that the Director may invest and reinvest the moneys of any eligible fund in U.S. Treasury futures contracts and equity futures, respectively, subject to the limitations expressed in the respective subchapters. N.J.A.C. 17:16-21 and 47 are proposed to be repealed as separate subchapters. Proposed new N.J.A.C. 17:16-82, Futures Contracts, will encompass rules for currently permissible U.S. Treasury and equity futures, and expand permissible investments to include agreements based on a referenced item, such as financial indices or interest rates, or a financial instrument, such as equity or fixed income securities, physical commodities or currencies. Proposed N.J.A.C. 17:16-82.1 sets forth definitions for terms used in the subchapter. Proposed N.J.A.C. 17:16-82.2 outlines the requirements for permissible futures transactions. N.J.A.C. 17:16-47.2(a), governing permissible equity futures contracts, requires that equity futures contracts must have a minimum average daily trading volume of \$US 1 billion and trade on a securities exchange or the over the counter market. Proposed N.J.A.C. 17:16-82.2(a) will provide that futures contract must trade on a securities exchange or the over-the-counter market.

Proposed N.J.A.C. 17:16-82.4(a)1 will require that the limitation for each transaction be subject to applicable market or other regulatory position limits. N.J.A.C. 17:16-21.2(c) provides that only primary government Securities Dealers may be used for executing transactions in U.S. Treasury Futures Contracts. This requirement is not included in the proposed new rules as broker dealers are selected in accordance with the Division's Brokerage Firm Eligibility Policy which evaluates broker dealers on a combination of quantitative and qualitative criteria. Proposed N.J.A.C. 17:16-82.3 lists the eligible funds which will include any fund classified as a Common Pension Fund and permitted to invest in futures contracts, consistent with the concurrently proposed amendments to N.J.A.C. 17:16-69. Proposed N.J.A.C. 17:16-82.4 sets forth the limitations for permissible futures transactions. N.J.A.C. 17:16-21.4 and 47.4 provide that net purchases of U.S. Treasury futures contracts and equity futures contracts, respectively, shall not exceed the amount equal to 10 percent of the market value of the assets of any eligible fund, except that this limit may be increased to an amount not to exceed 50 percent by the Director for a fixed period of time after consultation with the Executive Committee of the Council. Proposed N.J.A.C. 17:16-82.4(a)2 provides that the aggregate market value of each asset class, together with the value of any futures contract obligations, should be within the asset allocation range for the respective asset class. Proposed N.J.A.C. 17:16-82.4(a)3 provides that the total aggregate notional value of all futures contracts shall not exceed an amount equal to five percent of the combined assets of all the Pension and Annuity Funds, except that this limit may be increased to an amount not to exceed 10 percent by the Director for a fixed period of time after consultation with the Investment

Policy Committee. Long and short positions shall not be netted when computing total aggregate notional value. The proposed limitations are intended to strengthen the risk controls and express the limitations in accordance with the Council's asset allocation policy.

N.J.A.C. 17:16-22 establishes that the Director may invest and reinvest the moneys of any eligible fund in fixed income exchange-traded funds, subject to the limitations expressed in the subchapter. This subchapter is proposed to be repealed as a separate subchapter. Investment in exchange-traded funds will be governed by concurrently proposed new N.J.A.C. 17:16-48.

N.J.A.C. 17:16-23 establishes that the Director may invest and reinvest the moneys of any eligible fund in bank loans, subject to the limitations expressed in the subchapter. The proposed amendments to the definition of "commingled fund" in N.J.A.C. 17:16-23.1 will (i) clarify that pooled investment vehicles may be open-ended or closed-ended, (ii) add that a fund may be organized as a limited liability company, and (iii) clarify that the investment may be in the fund or in the trustee, general partner, or other managing member of such fund. N.J.A.C. 17:16-23.1 defines "separate account" as ownership which is segregated and kept in the investor's name. The definition is proposed to be amended to an investment vehicle with a single investor that is unaffiliated with its sponsor or manager to more accurately reflect the marketplace convention. The proposed amendments to N.J.A.C. 17:16-23.2(b), governing investments in high yield debt, will (i) reflect the concurrently proposed amendment to eligible funds by replacing the reference to Common Pension fund B with any eligible Common Pension Fund, (ii) reflect the concurrently proposed change to the scope of N.J.A.C. 17:16-12, (iii) delete the reference to N.J.A.C. 17:16-16, which is concurrently proposed to be repealed, and (iv) clarify that the reference to the market value of investments means the aggregate market value. The proposed amendment to N.J.A.C. 17:16-23.2(c) will clarify that the permissible investments outlined in this section are in addition to those in subsection (a). The proposed amendment to N.J.A.C. 17:16-23.2(c) will clarify that the reference to investments means direct investments. The proposed amendment to N.J.A.C. 17:16-23.3 will replace Common Pension Fund B as an eligible fund with any fund classified as a Common Pension Fund and permitted to invest in global diversified credit investments. Proposed N.J.A.C. 17:16-23.4(a)3 provides that the total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds. N.J.A.C. 17:16-23.5 requires all purchases to be reported at the next regularly scheduled meeting of the Council. This section is proposed to be repealed since the requirement is redundant to N.J.S.A. 52:18A-92 which requires that all purchases and sales of securities made by the Division be reported publicly 15 days after the close of each month. Said report is published monthly on the Division's public website.

N.J.A.C. 17:16-31 establishes that the Director may invest and reinvest the moneys of any eligible fund in commercial paper, subject to the limitations expressed in the subchapter. The proposed amendments to the definition of "commercial paper" in N.J.A.C. 17:16-31.1 will (i) delete the word "shall" in the phrase "shall mean" for consistency among subchapters, (ii) replace the term promissory notes with short-term debt, and (iii) delete the requirement that issuers of commercial paper be U.S. based companies. The proposed amendment to N.J.A.C. 17:16-31.2 at new paragraph (a)2 will require that investments in commercial paper be payable as to both principal and interest in United States dollars. N.J.A.C. 17:16-31.2(a)3 requires that the issuer (or any guarantor pledging its full faith and credit to the issue) have a credit rating of P-1 or higher by Moody's Investors Service, Inc., A-1 or higher by Standard & Poor's Corporation, and F-1 or higher by Fitch Ratings, except that two of the three ratings is sufficient, and one of the three ratings is sufficient if only one rating is available. The proposed amendments to this paragraph will allow investment in commercial paper in those instances where the issuer has a split rating by the three rating agencies. The proposed amendments to eligible funds in N.J.A.C. 17:16-31.3(a) will (i) delete Static Funds as eligible funds and (ii) clarify that eligible Common Pension Funds must be permitted to invest in commercial paper, consistent with the concurrently proposed amendments to N.J.A.C. 17:16-69. Proposed

N.J.A.C. 17:16-31.4 will set forth the concentration limitations by eligible fund for investments in commercial paper, provide for notification to the Council in the event that those limitations are exceeded subsequent to initial purchase and provide the ability of the Council to grant grace periods to the Division to reduce the level of participation.

N.J.A.C. 17:16-32 establishes that the Director may invest and reinvest the moneys of any eligible fund in certificates of deposit, subject to the limitations expressed in the subchapter. The proposed amendment to the definition of “certificates of deposit” in N.J.A.C. 17:16-32.1 will delete the word “shall” in the phrase “shall mean” for consistency among subchapters. N.J.A.C. 17:16-32.2(a)3ii and 4ii require that the issuer (or any guarantor pledging its full faith and credit to the issue) have a credit rating of A3/P-1 or higher by Moody’s Investors Service, Inc., A-/A-1 or higher by Standard & Poor’s Corporation, and A-/F-1 or higher by Fitch Ratings, except that two of the three ratings is sufficient, and one of the three ratings is sufficient if only one rating is available. The proposed amendments to these subparagraphs will allow investment in certificates of deposit in those instances where the issuer has a split rating by the three rating agencies. N.J.A.C. 17:16-32.2(a)5 requires that issuers must be in conformance with capital requirements as stipulated by the Federal Reserve Board or appropriate national regulatory body. This requirement is proposed to be deleted. The proposed amendments to eligible funds in N.J.A.C. 17:16-32.3(a) will (i) delete Static Funds as eligible funds and (ii) delete Common Pension Fund B as an eligible fund, replacing it with any Common Pension Fund that is permitted to invest in certificates of deposit, consistent with the concurrently proposed amendments to N.J.A.C. 17:16-69. The proposed amendment to N.J.A.C. 17:16-32.4(a) clarifies that the limitations which follow in this section shall be met. The reference to investment in bankers acceptances in N.J.A.C. 17:16-32.4(a)1 is proposed to be deleted as N.J.A.C. 17:16-34, governing investment in bankers acceptances, is concurrently proposed to expire. The proposed amendment to this section also clarifies that the limitation on certificates of deposit is applied to any eligible fund. Proposed N.J.A.C. 17:16-32.4(a) 2, 3, and 4 will set forth issuer concentration limitations by eligible fund for investments in any one issuer and affiliated entities.

N.J.A.C. 17:16-33 establishes that the Director may invest and reinvest the moneys of any eligible fund in repurchase agreements, subject to the limitations expressed in the subchapter. The proposed amendment to the definition of “repurchase agreements” in N.J.A.C. 17:16-33.1 will delete the word “shall” in the phrase “shall mean” for consistency among subchapters. The proposed amendments to N.J.A.C. 17:16-33.2(a)4, (a)4iii, and (a)4iv will modify the grammar and revise plural to singular. The proposed amendment to N.J.A.C. 17:16-33.2(a)6, which requires the underlying securities to the repurchase agreement be equal to at least 102 percent of the par value of the repurchase agreement, will delete the reference to time of purchase since repurchase agreements are marked to market. The proposed amendments to eligible funds in N.J.A.C. 17:16-33.3(a) will (i) delete Static Funds as eligible funds and (ii) delete Common Pension Fund B as an eligible fund and replace it with any fund classified as an eligible Common Pension Fund permitted to invest in certificates of deposit, consistent with the concurrently proposed amendments to N.J.A.C. 17:16-69.

N.J.A.C. 17:16-37 establishes that the Director may invest and reinvest the moneys of any eligible fund in money market funds, subject to the limitations expressed in the subchapter. The proposed amendment to the definition of “money market funds” in N.J.A.C. 17:16-37.1 will delete the word “shall” in the phrase “shall mean” for consistency among subchapters. The proposed amendments to eligible funds in N.J.A.C. 17:16-37.3(a) will (i) delete Static Funds as eligible funds and (ii) delete Common Pension Fund B as an eligible fund, replacing it with any Common Pension Fund permitted to invest in money market funds, consistent with the concurrently proposed amendments to N.J.A.C. 17:16-69. The proposed amendments to N.J.A.C. 17:16-37.4(a)1 and 2 will separate the 10 percent investment limitation in money market funds for the Pension and Annuity Funds and Common Pension Funds from other eligible funds; the proposed limitation for investments in money market funds is five percent of the combined assets of all the Pension and Annuity Funds. The proposed amendment to N.J.A.C. 17:16-37.4(a)3 will clarify that the five percent limitation on the total amount of shares

of a money market fund purchased or acquired applies to the eligible funds individually.

N.J.A.C. 17:16-40 establishes that the Director may invest and reinvest the moneys of any eligible fund in the non-convertible preferred stocks of U.S. corporations, subject to the limitations expressed in the subchapter. The heading of the subchapter and description of permissible investments in N.J.A.C. 17:16-40.2(a) and (a)1 are proposed to be amended to delete the references to U.S. Corporations and the requirement that permissible securities trade on a U.S. securities exchange, thereby permitting investment in non-convertible preferred stocks on a global basis. Accordingly, the definition of “U.S. corporation” in N.J.A.C. 17:16-40.1 is proposed to be deleted. The definition of “non-convertible preferred stock” is proposed to be amended to change “means” to “mean” and clarify that the definition applies to non-convertible preferred stock issued by any form of legal entity and is not limited to issuers who are corporations. The proposed amendment to N.J.A.C. 17:16-40.4(a) will likewise change the reference to an issuer from corporation to issuer. The proposed amendments to the definition of “private placement” will (i) revise the phrase “shall mean” to “means” for consistency among subchapters, (ii) provide the full name of the U.S. Securities and Exchange Commission, (iii) revise the definition to state that private placements includes offerings which are not registered with the applicable foreign regulatory body since the subchapter as proposed to be amended will include international obligations, and (iv) add that private placement includes the sale of securities pursuant to Section 4(2), Regulation D, Regulation S or Rule 144A under the Securities Act of 1933, as amended.

The proposed amendments to N.J.A.C. 17:16-40.2(b), governing investments in high yield debt, will (i) reflect the concurrently proposed amendment to eligible funds by replacing the reference to Common Pension fund B with any eligible Common Pension Fund, (ii) reflect the concurrently proposed change to the scope of N.J.A.C. 17:16-12, (iii) delete the reference to N.J.A.C. 17:16-16, which is concurrently proposed to be repealed, and (iv) clarify that the reference to the market value of investments means the aggregate market value. The proposed amendments to N.J.A.C. 17:16-40.2(d) will (i) reflect the concurrently proposed amendment to eligible funds by replacing the reference to Common Pension Fund B with any eligible Common Pension Fund, (ii) reflect the concurrently proposed heading change to N.J.A.C. 17:16-12, and (iii) delete the reference to N.J.A.C. 17:16-16 which is simultaneously proposed to be repealed. The proposed amendment to N.J.A.C. 17:16-40.3 will replace Common Pension Fund B as an eligible fund with any fund classified as a Common Pension Fund and permitted to invest in non-convertible preferred stocks, consistent with the concurrently proposed amendments to N.J.A.C. 17:16-69. N.J.A.C. 17:16-40.4(a)2 provides that not more than five percent of the market value of the assets of any eligible fund shall be invested in the debt and non-convertible preferred convertible stock of any one corporation. The concentration limitation is proposed to be revised to provide that the total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds. N.J.A.C. 17:16-40.4(a)3 limits investments made through a private placement to five percent of the market value of the assets of any eligible fund. This limitation is proposed to be amended to provide that the total amount directly invested in debt issued through a private placement by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed seven percent of the combined assets of all the Pension and Annuity Funds.

N.J.A.C. 17:16-41 establishes that the Director may invest and reinvest the moneys of any eligible fund in the common stock, convertible preferred stock and convertible debt issues of corporations based in the U.S., and exchange-traded funds traded on a U.S. exchange or over-the-counter market, subject to the limitations expressed in the subchapter. N.J.A.C. 17:16-44 establishes that the Director may invest and reinvest the moneys of any eligible fund in the common stock, preferred stock and convertible debt issues of corporations based in developed market countries, and exchange-traded funds and closed-end global, regional, and country funds which invest in international developed markets,

subject to the limitations expressed in the subchapter. N.J.A.C. 17:16-46 establishes that the Director may invest and reinvest the moneys of any eligible fund in common stock, preferred stock, and convertible debt issues of corporations based in emerging market countries, and exchange-traded funds and closed-end global, regional, and country funds which invest in emerging markets, subject to the limitations expressed in the subchapter. The distinctions between U.S. based corporations and international based corporations have become blurred, with less correlation between where global companies are incorporated and where business is conducted. In addition, the current rules impose a significant administrative burden in classifying investments as either U.S. based or international based. Therefore, N.J.A.C. 17:16-41, 44, and 46 are proposed to be repealed as separate subchapters. Proposed new N.J.A.C. 17:16-48, Global Equity Investments (Pension Funds), will govern equity investments for the Pension and Annuity Funds. Proposed N.J.A.C. 17:16-48.1 sets forth definitions for terms used in the subchapter and includes certain definitions as proposed to be amended from N.J.A.C. 17:16-41.1, 44.1, and 46.1 while proposing to delete certain other definitions. The section deletes definitions for U.S. corporation, international corporation, developed market country, and emerging markets currently included in N.J.A.C. 17:16-41.1, 44.1 and 46.1 as unnecessary.

Definitions for equity investments, non-convertible preferred stock, and private placement are proposed to be included in N.J.A.C. 17:16-48.1. The definitions for “equity investments,” “common stock,” and “convertible preferred stock” are proposed to be amended to include other forms of legal issuing entities in addition to corporations. The definition for “exchange-traded funds,” as proposed to be amended, will stipulate that such funds include those that invest in a strategy, commodity, or basket of assets in addition to funds that track a predetermined index.

Proposed N.J.A.C. 17:16-48.2 sets forth the requirements for permissible global equity investments and incorporates requirements from N.J.A.C. 17:16-41.2, 44.2, and 46.2 with certain proposed additions, amendments, and deletions. Proposed N.J.A.C. 17:16-48.2(a) will include the requirement that global equity investments trade on a securities exchange or over-the-counter market as contained in current rules N.J.A.C. 17:16-41.2, 44.2, and 46.2 governing equity investments, along with a proposed amendment that permissible investments include those issued through a private placement. Proposed N.J.A.C. 17:16-48.2(a) will exclude the required minimum market capitalization of \$100 million for exchange-traded funds or closed-end global, regional, or country funds contained in the current rules to provide investment opportunity in smaller or new funds; however, proposed N.J.A.C. 17:16-48.4(a)4 will provide a concentration limit on the investment in such funds to 10 percent of the total shares outstanding or interests of such fund. The additional permissible investments included in proposed N.J.A.C. 17:16-48.2(b) will expand the permissible investments in the current rules to include that rights may be exercised or purchased.

Proposed N.J.A.C. 17:16-48.3 provides that the eligible funds will include Police and Firemen’s Retirement System, Public Employees’ Retirement System, State Police Retirement System, Teachers’ Pension and Annuity Fund, Judicial Retirement System of New Jersey, and any fund classified as a Common Pension Fund and permitted to invest in equity investments, consistent with the concurrently proposed amendments to N.J.A.C. 17:16-69.

Proposed N.J.A.C. 17:16-48.4 sets forth the limitations for permissible global equity investments and incorporates the requirements from N.J.A.C. 17:16-41.4, 44.4, and 46.4 with certain proposed additions, amendments, and deletions. Proposed N.J.A.C. 17:16-48.4(a)1 will maintain the 70 percent limitation on equity investments for the Pension and Annuity Funds in the aggregate; this limitation is proposed to be amended to stipulate that it excludes exchange-traded funds that invest in fixed income assets, strategies, or indices since investments in such funds would be included as fixed income investments, as opposed to equity investments, in the asset allocation plan. The issuer concentration limit in N.J.A.C. 17:16-48.4(a)2 will limit the total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, to not more than five percent of the combined

assets of all the Pension and Annuity Funds. This proposal broadens issuer concentration limitations contained in the chapter to include investments in fixed income and equities in the aggregate, in addition to those of affiliated entities. Proposed N.J.A.C. 17:16-48.4(a)3 will stipulate that the total amount of a particular class of stock purchased or acquired of any one entity shall not exceed ten percent of that class of stock outstanding. The current investment concentration limitation included in N.J.A.C. 17:16-41.4, 44.4, and 46.4 is five percent of the common stock outstanding, or any other class of voting stock. The proposed limitation is intended to provide more investment opportunities, particularly in the case of small and mid-cap securities, while expanding the limitation to cover all classes of equity securities. Proposed N.J.A.C. 17:16-48.4(a)4 will limit the total amount of shares or interests in any one exchange-traded fund or closed-end global, regional, or country fund to not more than 10 percent of the total shares outstanding or interests of such fund. This proposal reflects tighter investment limitations than those currently contained in the chapter; current rules only limit investments in fixed income and emerging market exchange-traded funds or emerging market closed-end global, regional, or country funds. Proposed N.J.A.C. 17:16-48.4(a)5 will limit the total amount directly invested in equity investments issued through a private placement by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, to not more than two percent of the combined assets of all the Pension and Annuity Funds. Proposed N.J.A.C. 17:16-48.4(b) outlines the procedure for reporting limitations which have been exceeded to the Council, which is consistent with the provisions of the current rules governing equity investments. Proposed N.J.A.C. 17:16-48 will not include the limitations on international or emerging market investments currently included in N.J.A.C. 17:16-44 and 46, as these investment categories will be guided by the Council’s asset allocation plan. The proposed subchapter will also exclude the limitation that not more than seven percent of an eligible fund be invested in exchange-traded funds that invest in commodities or assets other than corporate equity securities to provide investment flexibility in conjunction with the asset allocation plan. Proposed N.J.A.C. 17:16-48 will also exclude the provision currently contained in N.J.A.C. 17:16-41.2(b) that provides that a debt issue or non-convertible preferred stock of a company may be purchased and considered as common stock in determining all applicable limitations. This provision allowed Common Pension Fund A, which primarily invests in domestic equities, to also invest in a limited amount of debt obligations. Since this proposal provides the ability for debt and equity investments to be purchased in the same Common Pension Fund, this provision is no longer necessary.

N.J.A.C. 17:16-42 establishes that the Director may invest and reinvest the moneys of any eligible trust fund in the common stocks and convertible issues of a company, subject to the limitations expressed in the subchapter. The heading of the subchapter is proposed to be amended from Common Stocks and Issues Convertible into Common Stocks to Equity Investments (Trust Funds) and permissible investments are proposed to be expanded, to provide increased investment opportunities, to include investment in convertible and non-convertible preferred stock, rights, convertible debt issues, or any other security representing an ownership interest and exchange traded funds.

Definitions for “convertible debt issue,” “convertible preferred stock,” “equity investments,” “exchange-traded funds,” and “non-convertible preferred stock” are proposed to be added to N.J.A.C. 17:16-42.1. The definitions for “common stocks” and “preferred stocks” are proposed to be amended by revising the terms to their singular form and deleting the word “shall” for consistency among subchapters. The definition for “common stock” is also proposed to be amended to clarify that common stocks may be issued by forms of legal entities other than corporations. The proposed amendment to the definition for “preferred stock” also contains a grammatical correction.

N.J.A.C. 17:16-42.2(a) is proposed to be amended to (i) replace the reference to common stock issued by a company with a reference to equity investments, (ii) state that investments must be denominated in United States dollars, and (iii) delete the statutory reference to N.J.S.A. 18A:64G-9 which has been repealed. N.J.A.C. 17:16-42.2(b) is proposed to be amended to replace the reference to common stock with a reference to equity investments. The proposed amendment to N.J.A.C. 17:16-42.2(c) will clarify that the permissible investments outlined in this

section are in addition to those outlined in subsection (a). The proposed amendments to this subsection will (i) change all references to company to the term entity, (ii) add that any rights of the equity investments may be exercised, (iii) provide that the convertible preferred stock or rights of an entity may be purchased, and (iv) modify the language related to the purchase of stock in new public offerings to delete the requirement that securities be sold if they do not subsequently meet the requirements of the subchapter since this occurrence is unlikely.

The University of Medicine and Dentistry of New Jersey-Endowment Funds is proposed to be deleted as an eligible fund in N.J.A.C. 17:16-42.3 as the authority to make investments on behalf of the University of Medicine and Dentistry of New Jersey under N.J.S.A. 18A:64G-9 is repealed effective July 1, 2013 pursuant to P.L. 2012, c. 45.

N.J.A.C. 17:16-42.4(a)1 limits investment in the common stock and convertible securities of any one corporation to 10 percent of the market value of the assets of any eligible fund. The proposed amendments to this paragraph will broaden the issuer concentration limit to include all investments in equity and fixed income obligations of any one issuer and affiliated entities. The five percent limitation on the amount of stock which may be purchased or acquired in N.J.A.C. 17:16-42.4(a)2 is proposed to be amended to (i) be applied to each class of stock owned as opposed to only voting classes of stock, (ii) clarify that the limitation applies to direct purchases or acquisitions, and (iii) reflect that legal entities other than just corporations may issue securities. Proposed N.J.A.C. 17:16-42.3(a)3 will limit the direct purchase or acquisition of shares in any one exchange-traded fund to not more than five percent of the total shares outstanding of such fund.

N.J.A.C. 17:16-43 establishes that the Director may sell and repurchase covered call options on behalf of any eligible fund, subject to the limitations expressed in the subchapter. This subchapter is proposed to be recodified as N.J.A.C. 17:16-84. The definition for “covered call options” in N.J.A.C. 17:16-84.1 is proposed to be amended by deleting the word “shall” for consistency among subchapters. The proposed amendment to N.J.A.C. 17:16-84.2 will recodify the section’s current paragraph as subsection (a) and change the reference to an over-the-counter market to the over-the-counter market, consistent with the reference elsewhere in the chapter. Proposed N.J.A.C. 17:16-84.2(b) will state that notwithstanding the restrictions in this subchapter, the Council may approve covered call options on a case-by-case basis, consistent with the provisions elsewhere in the chapter. The proposed amendments to N.J.A.C. 17:16-84.3 will replace Common Pension Funds A and D as eligible funds with any fund classified as a Common Pension Fund and permitted to invest in covered call options, consistent with the concurrently proposed amendments to N.J.A.C. 17:16-69.

N.J.A.C. 17:16-45 establishes that the Director may invest in put options on behalf of any eligible fund, subject to the limitations expressed in the subchapter. This subchapter is proposed to be recodified as N.J.A.C. 17:16-85. The definitions for “put options” and “put spreads” in N.J.A.C. 17:16-85.1 are proposed to be amended by deleting the word “shall” for consistency among subchapters. The proposed amendment to N.J.A.C. 17:16-85.2(a) and (b) will change the reference to an over-the-counter market to the over-the-counter market, consistent with the reference elsewhere in the chapter. The proposed amendments to N.J.A.C. 17:16-85.3 will replace Common Pension Funds A, B, D, and E as eligible funds with any fund classified as a Common Pension Fund and permitted to invest in put options.

N.J.A.C. 17:16-58 establishes that the Director may invest and reinvest the moneys of any eligible fund in mortgage backed senior debt securities and mortgage backed passthrough securities, subject to the limitations expressed in the subchapter.

The definitions in N.J.A.C. 17:16-58.1 are proposed to be amended by deleting the word “shall” for consistency among subchapters. N.J.A.C. 17:16-58.2(a) and 58.4(a)1 are proposed to be amended to revise the reference to mortgage backed senior debt securities to match the term defined in N.J.A.C. 17:16-58.1.

N.J.A.C. 17:16-58.2(b)1 is proposed to be amended to use the term Council to reference the State Investment Council, consistent with the reference elsewhere in the chapter. The limitation in N.J.A.C. 17:16-58.2(b)3 which requires the individual mortgage loans serving as collateral to have an average loan-to-value ratio of 75 percent or less, and

the collateral to be at least 90 percent single-family detached residential property and 95 percent owner-occupied residential property, is proposed to be deleted. The proposed amendments to N.J.A.C. 17:16-58.2(c) governing investments in high yield debt, will (i) reflect the concurrently proposed amendment to eligible funds by replacing the reference to Common Pension Fund B with any eligible Common Pension Fund, (ii) reflect the concurrently proposed change to the scope of N.J.A.C. 17:16-12, (iii) delete the reference to N.J.A.C. 17:16-16, which is concurrently proposed to be repealed, and (iv) clarify that the reference to the market value of investments means the aggregate market value.

The proposed amendments to N.J.A.C. 17:16-58.3(a) and (b) will (i) delete Static Funds as eligible funds, and (ii) replace Common Pension Fund B as an eligible fund with any fund classified as a Common Pension Fund and permitted to invest in mortgage backed senior debt securities and passthrough securities, respectively.

N.J.A.C. 17:16-58.4(a)2 requires that not more than five percent of the market value of the assets of any fund be invested in any one issue. The proposed amendments to this section will provide that not more than five percent of the market value of the assets of any eligible fund (other than the Pension and Annuity Funds and Common Pension Funds) shall be directly invested in any one issue. The limitations on issue exposure for the Pension and Annuity Funds are governed by N.J.A.C. 17:16-58.4(a)1 which limits investments to no more than 25 percent of any one issue. In addition, proposed N.J.A.C. 17:16-58.4(a)3 will require that not more than 10 percent of the combined assets of all of the Pension and Annuity Funds be invested in mortgage backed senior debt securities and mortgage backed passthrough securities.

N.J.A.C. 17:16-61 sets forth the rules governing participation, permissible investments, valuation of investments and units, and liquidation procedures for the State of New Jersey Cash Management Fund. N.J.A.C. 17:16-61.2 provides that the Director may invest the assets of the State of New Jersey Cash management Fund in fixed-income and debt securities, including any investments permitted under this chapter. The phrase “including any investments” is proposed to be deleted as unnecessary. The proposed amendment to N.J.A.C. 17:16-61.3(c) will clarify that units in the fund may be purchased at the unit valuation price instead of the principal valuation price. N.J.A.C. 17:16-61.4 states that the valuation shall be determined at the opening of business on each business day, and shall be based on realized gains or losses, accruals, and amortization as of the close of the previous business day. The proposed amendments to N.J.A.C. 17:16-61.4(b) will clarify that the valuation of investments shall be determined at the opening of business on each business day and shall be based on the assets as of the close of the previous business day. N.J.A.C. 17:16-61.4(c) sets forth a specific methodology for the correction of errors based on a prescribed threshold of one-third of a true calculation of income or \$100,000, whichever is greater. N.J.A.C. 17:16-61.4(c) is proposed to be deleted in its entirety since materiality of an error on the daily income will vary based on units outstanding. Proposed N.J.A.C. 17:16-61.4(c) will state that the valuation of investments shall be made in accordance with applicable accounting standards, using recognized industry pricing sources, which incorporates the requirement that the valuations meet applicable accounting standards for materiality. N.J.A.C. 17:16-61.6 states that admissions prior to 1:00 P.M. will receive credit for net income available for distribution for such day if such admissions remain in the fund through the close of such day. The proposed amendment will replace the stipulated time with such time as may be established by the Director from time to time, to provide flexibility in altering the closing time of the fund as necessary. The proposed amendments to N.J.A.C. 17:16-61.9 will clarify that investments are held by the fund. The proposed amendment to N.J.A.C. 17:16-61.10(d) will clarify that distribution upon liquidation is based on the unit value as opposed to the principal value per unit.

N.J.A.C. 17:16-62, 63, 67, and 69 set forth the rules governing participation, permissible investments, valuation of investments and units and liquidation procedures for Common Pension Funds A, B, D, and E, respectively. The proposed amendments to N.J.A.C. 17:16-69, in conjunction with the simultaneous repeal of N.J.A.C. 17:16-62, 63, and 67, will consolidate the rules governing the Common Pension Funds into one subchapter.

N.J.A.C. 17:16-69.1 provides for the creation of Common Pension Fund E for the purpose of investing in alternative investments, and lists the five State pension plans which may invest in Common Pension Fund E. The proposed amendments to N.J.A.C. 17:16-69.1 will (i) delete specific references to Common Pension Fund E and its investment purpose, and (ii) state that the Council established Common Pension Funds A, B, D, and E effective February 1, 1971, March 8, 1972, January 2, 1990, and June 20, 2005, respectively. In the current rules governing the Common Pension Funds, N.J.A.C. 17:16-62.2, 63.2, 67.2, and 69.2 stipulate the specific asset classes in which each of the common trust funds may invest. N.J.A.C. 17:16-69.2, as proposed to be amended, will stipulate that the Director may invest the assets of any Common Pension Fund in such asset classes permitted under the chapter as have been designated by the Director and approved by the Council for such Common Pension Fund. Given that the same five State pension plans participate in each of the four existing Common Pension Funds, N.J.A.C. 17:16-69.2, as proposed to be amended, will provide for more administrative flexibility in managing the assets of the Pension and Annuity Funds. Concurrently in this proposal, each of the subchapters governing permissible securities for the Common Pension Funds is proposed to be amended to reflect that the Common Pension Fund must be permitted to invest in such class of securities. The proposed amendments to N.J.A.C. 17:16-69.3(a) and (b) will revise all references to Common Pension Fund E to each Common Pension Fund.

The proposed amendments to N.J.A.C. 17:16-69.4(a) will clarify that the requirement for the valuation of investments and net assets applies to each Common Pension Fund. N.J.A.C. 17:16-69.4(b) provides that the valuation of investments and net assets shall be determined at the opening of each business day at the discretion of the Director but in any event such valuation of investments shall be determined no less frequently than once per quarter. Since a Common Pension Fund may contain both publicly traded and non-publicly traded investments, the proposed amendment to N.J.A.C. 17:16-69.4(b) will clarify that the valuation of investments that are not publicly traded shall be determined at the discretion of the Director but no less frequently than once per quarter. Also included in the amendments to this section is the clarification that all valuations shall be converted to United States dollars. The proposed amendments to N.J.A.C. 17:16-69.5, 69.6, and 69.8 will clarify that the rules for valuations, admission and withdrawals, and distributions of realized gains, respectively, apply to each Common Pension Fund. The proposed amendments to N.J.A.C. 17:16-69.8 will also revise the reference from realized appreciation to realized gains to reflect the more appropriate accounting terminology.

The proposed amendments to the limitations in N.J.A.C. 17:16-69.9 will revise specific references to Common Pension Fund E throughout the section to alternatively refer to Common Pension Fund(s) since the requirements apply to all Common Pension Funds. The proposed amendment to N.J.A.C. 17:16-69.9(a) will clarify that the reporting procedures in this section apply to investments made by or on behalf of any Common Pension Fund through direct investments, separate accounts, funds-of-funds, commingled funds, co-investments or joint ventures under N.J.A.C. 17:16-23.2(a)2, 71.2(a)1, 90.2(a)1, and 100.2(a)1. The cross-reference to other subchapters in N.J.A.C. 17:16-69.9(a)1 is being amended to include N.J.A.C. 17:16-23 due to the consolidation of the subchapters governing the Common Pension Funds. N.J.A.C. 17:16-69.9(a)3 provides that on investments of less than \$50 million, the Director shall provide an informational memorandum to the Council of every investment made, which shall be provided on a regular basis subsequent to the date such investment has been made. This section is proposed to be amended to clarify that the memorandum is on each such investment made, and require that the memorandum must be provided no later than the first regularly scheduled meeting of the Council after the date such binding commitment has been made. The reference to the approval of investments in N.J.A.C. 17:16-69.9(a)4 is proposed to be deleted since the action taken by the Council is to adopt or otherwise act upon the report as stipulated in N.J.A.C. 17:16-69.9(a)2. The portion of the limitation in N.J.A.C. 17:16-69.9(b) that applies to binding commitments between \$2 billion and \$5 billion is proposed to be deleted as no longer relevant since commitments have exceeded the upper limit. The limitations in N.J.A.C. 17:16-69.9(b) and (c) on the amount

that may be invested in any one partnership or investment or the amount that may be invested by any one manager are proposed to be amended to apply the limitation to the market value of the assets invested through direct investments, separate accounts, funds-of-funds, commingled funds, co-investments, or joint ventures under N.J.A.C. 17:16-23.2(a)2, 71.2(a)1, 90.2(a)1, and 100.2(a)1, since this proposal will allow such investments to be held by other than just Common Pension Fund E. N.J.A.C. 17:16-69.9(f) provides in the event that any subchapter contains a limitation on the percentage of an investment or class of investment, that limitation shall be construed to exclude investments purchased on behalf of Common Pension Fund E. The proposed amendments will clarify that this exclusion applies to investments made through separate accounts, funds-of-funds, commingled funds, co-investments, and joint ventures pursuant to N.J.A.C. 17:16-23, 71, 90, and 100 on behalf of the Common Pension Funds. The proposed amendment to N.J.A.C. 17:16-69.10(a) will revise the reference to Common Pension Fund E to a Common Pension Fund.

N.J.A.C. 17:16-65 sets forth the rules governing participation, permissible investments, and valuation of investments and units, and liquidation procedures for the New Jersey State Employees Deferred Compensation Equity Fund, the New Jersey State Employees Deferred Compensation Small Capitalization Equity Fund, the New Jersey State Employees Deferred Compensation Fixed Income Fund, and the New Jersey State Employees Deferred Compensation Cash Management Fund, as well as rules governing investment options offered and managed by outside vendors. The proposed amendment to N.J.A.C. 17:16-65.2(b)2 will reflect the concurrently proposed amendments to N.J.A.C. 17:16-42 to amend permissible investments from common stock and issues convertible into common stock to the broader asset class of equity investments. The proposed amendment to N.J.A.C. 17:16-65.2(b)3 will eliminate the words "such other" as superfluous. N.J.A.C. 17:16-65.9, which outlines certain issuer and issue limitations, is proposed to be repealed as the limitations are contained elsewhere in the chapter.

N.J.A.C. 17:16-68 sets forth the rules governing participation, permissible investments, valuation of investments and units, and liquidation procedures for the New Jersey Better Educational Savings Trust (NJBEST) Fund. The proposed amendments to N.J.A.C. 17:16-68.2 and 68.9(c) will reflect the concurrently proposed amendments to N.J.A.C. 17:16-42 to amend permissible investments from common and preferred stocks and issues convertible into common stock to the broader asset class of equity investments. The proposed amendment to N.J.A.C. 17:16-68.3(c) will (i) correct the statement that units are purchased by a participating fund to the statement that units are purchased by participants and (ii) clarify that units are purchased for the unit valuation price as opposed to the principal valuation price.

The proposed amendment to N.J.A.C. 17:16-68.4(b) will clarify that the valuation of investments determined at the opening of business on each business day is based on the assets, rather than the market prices and income accruals, as of the close of the previous business day. The proposed amendments to N.J.A.C. 17:16-68.4(c) will replace previously specified valuation methodologies which attempted to outline industry pricing and accounting practices, certain of which have become outdated. The proposed amendments will stipulate that investments must be valued in accordance with applicable accounting standards, using recognized industry pricing sources. The proposed amendment to N.J.A.C. 17:16-68.4(d) will clarify the process specified for correction of error or omission applies to the valuation of investments, consistent with the section.

N.J.A.C. 17:16-68.5, which governs the valuation of units, is proposed to be amended to (i) clarify the net asset value is per unit, (ii) stipulate that the unit value is calculated as the net assets of the fund divided by the total outstanding units of participation, (iii) stipulate that the valuation of net assets shall be calculated as total assets minus total liabilities, in accordance with applicable accounting standards and (iii) delete the reference to initial unit values of \$1.00 as no longer relevant. The proposed amendment to N.J.A.C. 17:16-68.6(a) will correct the statute cross-reference. N.J.A.C. 17:16-68.9(a) and (b) are proposed to be deleted since the issuer and issue limitations are contained elsewhere in the chapter. The 80 percent limitation on investments in common stocks, preferred stocks, and securities convertible into common stock contained

in N.J.A.C. 17:16-68.9(c) and recodified as N.J.A.C. 17:16-68.9(a) is proposed to be amended to refer to the broader category of equity investments as are permitted under N.J.A.C. 17:16-42. The proposed amendment to N.J.A.C. 17:16-68.10 will clarify that any distribution upon liquidation will be based on the net asset value, not principal value per unit.

N.J.A.C. 17:16-71 establishes that the Director may invest and reinvest the moneys of any eligible fund in real assets, subject to the limitations expressed in the subchapter. N.J.A.C. 17:16-71.1 outlines definitions for terms used in the subchapter. Definitions are proposed to be added for “convertible debt issue,” “convertible preferred stock,” “funds-of-funds,” and “private placement.” The definition for “co-investment” is proposed to be revised to clarify that an investor, which may be other than a limited partner, has co-investment rights and may end up with two separate stakes. The proposed amendments to the definition of “commingled funds” will (i) add that a fund may be organized as a limited liability company and (ii) clarify that the investment may be in the fund or in the trustee, general partner, or other managing member of such fund. The definition for “common stocks” is proposed to be amended to make the term singular and reflect that issuers may include other forms of legal entities in addition to corporations. The proposed amendment to the definition of “exchange-traded funds” will include funds that track a predetermined strategy and delete the reference to the likeness of an index fund. The proposed definition of “joint venture” will clarify that joint ventures are usually private. The definition of the term “preferred stocks” is proposed to be amended to make the term singular and clarify that a dividend, but not necessarily a specific dividend, is paid to holders. The definition of the term “royalty trust” is proposed to be amended to make the term plural. “Separate account” is defined as ownership which is segregated and kept in the investor’s name. The definition is proposed to be amended to an investment vehicle with a single investor that is unaffiliated with its sponsor or manager to more accurately reflect the marketplace convention.

The proposed amendment to N.J.A.C. 17:16-71.2(a)1 will (i) correct the term investment to invest, (ii) add that investments in real assets may also be made through funds-of-funds, and (iii) provide the clarification that all investments made through direct investments, separate accounts, commingled funds, co-investments, funds-of-funds, and joint ventures are subject to the further provisos contained in N.J.A.C. 17:16-69.9. The proposed amendments to N.J.A.C. 17:16-71.2(a)2 will provide that permissible investments include (i) common stock issued by legal forms of entities other than just U.S. or international corporations and (ii) common stock issued through a private placement. The proposed amendment to N.J.A.C. 17:16-71.2(a)3 will delete the required minimum market cap of \$100 million for investments in exchange-traded funds to provide investment opportunities in smaller or new funds; however, proposed N.J.A.C. 17:16-71.4(a)9 will provide a concentration limit on the investment in exchange-traded funds to 10 percent of the total shares outstanding of such fund. N.J.A.C. 17:16-71.2(b) is recodified as subsection (c) and replaces the reference to subsection (a) with a reference to the subchapter. The proposed amendments to N.J.A.C. 17:16-71.2(c) will (i) recodify the subsection as subsection (b), (ii) clarify that the permissible investments listed in this section are in addition to subsection (a), (iii) clarify that rights may be exercised or purchased in paragraphs (b)1 and 2, (iii) clarify that legal entities other than corporations are issuers by replacing company with entity in paragraphs (b)2, 3, and 4, (iv) clarify that convertible issues refer to debt issues in paragraph (b)3, and (v) modify the language related to the purchase of stock in new public offerings to delete the requirement that securities be sold if they do not subsequently meet the requirements of the subchapter since the likelihood of this occurring is believed to be low.

The proposed amendments to N.J.A.C. 17:16-71.3 will (i) delete Police and Firemen’s Retirement System, Public Employees’ Retirement System, State Police Retirement System, Teacher’s Pension and Annuity Fund, and Judicial Retirement System of New Jersey as eligible funds, and (ii) replace Common Pension Fund E as an eligible fund with any fund classified as a Common Pension Fund and permitted to invest in real assets in conjunction with the concurrently proposed amendments to N.J.A.C. 17:16-69.

The limitations on real estate and real asset investments in N.J.A.C. 17:16-71.4(a)1 and 3 through 6 are currently expressed as a percentage of the market value of the assets of any Pension and Annuity Funds investing in Common Pension Fund E. The proposed amendments to these sections will express each of the limitations as a percentage of the combined assets of all of the Pension and Annuity Funds, consistent with the asset allocation plan. N.J.A.C. 17:16-71.4(a)2, 3, and 4 state that the limitations shall not apply to investments in common and preferred stock, exchange-traded funds and convertible issues. These paragraphs are proposed to be amended to clarify that investment means direct investments and convertible issues means convertible debt issues. The leverage limitation of the real estate portfolio in N.J.A.C. 17:16-71.4(a)2 is expressed as 50 percent and 75 percent of Common Pension Fund E’s share of the gross market value of Common Pension Fund E’s investment in core real estate and non-core real estate, respectively. This limitation is proposed to be revised to replace the expression of the leverage limitations as a percentage of the funds investing in Common Pension Fund E with an expression of the limitations as percentages of the core and non-core real estate portfolios. N.J.A.C. 17:16-71.4(a)7 provides that no more than seven percent of the market value of the assets of any eligible fund, other than Common Pension Fund E, may be invested in the common and preferred stock of any one corporation eligible for investment under N.J.A.C. 17:16-71.2(a)3. Concurrent with the proposed amendment to eligible funds, the proposed amendments to the issuer concentration limitation in N.J.A.C. 17:16-71.4(a)7 will provide that the total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds, consistent with the proposed amendments elsewhere in the chapter. N.J.A.C. 17:16-71.4(a)8 limits investments in the common stock of corporations to five percent of voting securities. The proposed amendments to this section will correct the cross-reference to other sections of the subchapter and limit purchases or acquisitions of a particular class of stock of any one issuer to not more than 10 percent of a particular class of stock, consistent with the proposed amendments elsewhere in the chapter.

N.J.A.C. 17:16-81 establishes that the Director may enter into foreign exchange contracts to hedge a fund’s international portfolio, subject to the limitations expressed in the subchapter. The subchapter is proposed to be amended to cover spot contracts as well as forward contracts, and the heading is therefore proposed to be amended to Foreign Currency Transactions. N.J.A.C. 17:16-81.1 sets forth the definitions of terms used in the subchapter. The proposed amendments to this section will add definitions for “foreign currency transactions,” “forward contracts,” and “spot contracts.” The definition for “foreign exchange contracts” is proposed to be amended to (i) change the defined term to “forward contracts,” (ii) state that these contracts take place on a date after the date that a spot contract settles, and (iii) state that the forward exchange contracts may involve the purchase or sale of foreign currency. The definition of “foreign exchange contracts” in N.J.A.C. 17:16-81.1 requires counterparties to the transactions to be a commercial bank chartered in the U.S. or Canada having total assets of at least \$US 2 billion or a broker-dealer having a net capital of at least \$100 million. These outdated qualification requirements are proposed to be deleted.

Proposed N.J.A.C. 17:16-81.2(c) will require counterparties to foreign currency transactions to be approved by and included on a list maintained by the Director. At the time of the transaction, the counterparty (or any guarantor pledging its full faith and credit to the transaction) shall have a long term credit rating of Baa2 or higher by Moody’s Investors Service, Inc, BBB or higher by Standard & Poor’s Corporation, and BBB or higher by Fitch Ratings, or the counterparty must be approved by the Council, except that two of the three ratings are sufficient, and one of the three ratings is sufficient if only one rating is available. Proposed N.J.A.C. 17:16-81.2(a) will permit the Director to enter into spot contracts for the purpose of settling investment transactions denominated in foreign currency. The proposed amendments to N.J.A.C. 17:16-81.2(b), recodified from subsection (a), will permit the Director to enter into forward contracts for the purpose of hedging an eligible fund’s international portfolio. The statement that such foreign exchange

contracts may involve the purchase or sale of international currency is moved to the definition of “forward contracts” in N.J.A.C. 17:16-81.1. The proposed amendment to N.J.A.C. 17:16-81.2(d), recodified from subsection (b), will amend the term “exchange contracts” to “currency transactions” to more accurately reflect the proposed changes to the subchapter and modify the exception language to be consistent with that contained elsewhere in the chapter. Proposed N.J.A.C. 17:16-81.3 will set forth the eligible funds. N.J.A.C. 17:16-81.3 provides that with respect to international stocks, the portfolio should be unhedged, except in such instances in which the Director believes that unusual circumstances exist in which hedging would serve to improve and protect the inherent returns of the international portfolio. The proposed amendments will recodify this section as N.J.A.C. 17:16-81.4 and revise the term “international stocks” to “international securities” to reflect all classes of investments that may be denominated in foreign currencies.

N.J.A.C. 17:16-90 establishes that the Director may invest and reinvest the moneys of any eligible fund in private equity, subject to the limitations expressed in the subchapter. N.J.A.C. 17:16-90.1 outlines definitions for terms used in the subchapter. Definitions are proposed to be added for “convertible debt issue,” “convertible preferred stock,” and “private placement.” The definition for “co-investment” is proposed to be revised to clarify that an investor, which may be other than a limited partner, has co-investment rights and may end up with two separate stakes. The definition of “commingled fund” is proposed to be amended to (i) clarify that pooled investment vehicles may be open-end or closed-end, (ii) add that a fund may be organized as a limited liability company, (iii) clarify that the investment may be in the fund or in the trustee, general partner or other managing member of such fund, and (iv) delete that the formation purpose is to invest in private equity. The definition for “common stocks” is proposed to be amended to make the term singular and reflect that issuers may include other forms of legal entities in addition to corporations. The definition of “exchange-traded funds” is proposed to be amended to (i) delete the reference to a mutual fund, (ii) add that the funds invest in underlying securities, (iii) add that the fund may track a strategy, a commodity, or a basket of assets, and (iv) clarify that the exchange traded fund’s shares can be traded like shares of common stock. The definition of the term “preferred stocks” is proposed to be amended to make the term singular and clarify that a dividend, but not necessarily a specific dividend, is paid to holders. The proposed amendments to the definition of “private equity” will (i) delete that the intention is to exercise control and (ii) change the word “fund” to “investments” since the investment vehicle may be other than a fund. “Separate account” is defined as ownership which is segregated and kept in the investor’s name. The definition is proposed to be amended to an investment vehicle with a single investor that is unaffiliated with its sponsor or manager to more accurately reflect the marketplace convention.

The proposed amendments to N.J.A.C. 17:16-90.2(a)1 will (i) clarify that private equity investments made through separate accounts, funds-of-funds, commingled funds, direct investments, co-investments, and joint ventures are subject to the further provisos as contained in N.J.A.C. 17:16-69.9, and (ii) correct the word “investment” to “invest.” The proposed amendments to N.J.A.C. 17:16-90.2(a)2 will provide that permissible investments include (i) common stock issued by legal forms of entities other than just U.S. or international corporations and (ii) common stock issued through a private placement. The proposed amendment to N.J.A.C. 17:16-90.2(a)3 will delete the required minimum market cap of \$100 million for investments in exchange-traded funds to provide investment opportunities in smaller or new funds; however, proposed N.J.A.C. 17:16-90.4(a)7 will provide a concentration limit on the investment in exchange-traded funds to 10 percent of the total shares outstanding of such fund. N.J.A.C. 17:16-90.2(b) is recodified as subsection (c) and replaces the reference to subsection (a) with a reference to the subchapter. The proposed amendments to N.J.A.C. 17:16-90.2(c) will (i) recodify the subsection as subsection (b), (ii) clarify that the permissible investments listed in this section are in addition to subsection (a), (iii) clarify that rights may be exercised or purchased in paragraphs (b)1 and 2, (iii) clarify that legal entities other than corporations are issuers by replacing company(ies) with entity(ies) in paragraphs (b)2, 3 and 4, (iv) clarify that convertible issues refer to debt

issues in paragraph (b)3, and (v) modify the language related to the purchase of stock in new public offerings to delete the requirement that securities be sold if they do not subsequently meet the requirements of the subchapter since the likelihood of this occurring is believed to be low.

The proposed amendments to N.J.A.C. 17:16-90.3 will (i) delete Police and Firemen’s Retirement System, Public Employees’ Retirement System, State Police Retirement System, Teacher’s Pension and Annuity Fund and Judicial Retirement System of New Jersey as eligible funds, and (ii) replace Common Pension Fund E as an eligible fund with any fund classified as a Common Pension Fund and permitted to invest in private equity consistent with the concurrently proposed amendments to N.J.A.C. 17:16-69.

The limitations in N.J.A.C. 17:16-90.4(a)1 through 4 are currently expressed as a percentage of the market value of the assets of any Pension and Annuity Funds investing in Common Pension Fund E. The proposed amendments to these sections will express each of the limitations as a percentage of the combined assets of all of the Pension and Annuity Funds, consistent with the asset allocation plan. N.J.A.C. 17:16-90.4(a)2, 3, and 4 state that the limitations shall not apply to investments in common and preferred stock, exchange-traded funds and convertible issues. These paragraphs are proposed to be amended to clarify that investment means direct investments and convertible issues means convertible debt issues. N.J.A.C. 17:16-90.4(a)5 provides that no more than seven percent of the market value of the assets of any eligible fund, other than Common Pension Fund E, may be invested in the common and preferred stock of any one corporation eligible for investment under N.J.A.C. 17:16-90.2(a)2. Concurrent with the proposed amendment to eligible funds, the proposed amendments to the issuer concentration limitation in N.J.A.C. 17:16-90.2(a)5 will provide that the total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds, consistent with the proposed amendments elsewhere in the chapter. N.J.A.C. 17:16-90.4(a)6 limits investments in the common stock of corporations to five percent of voting securities. The proposed amendments to this paragraph will limit purchases or acquisitions of a particular class of stock of any one issuer to not more than 10 percent of a particular class of stock, consistent with the proposed amendments elsewhere in the chapter.

Proposed new N.J.A.C. 17:16-95, Opportunistic Investments, would provide the Pension and Annuity Funds with investment and marketplace flexibility. Proposed N.J.A.C. 17:16-95.1 defines opportunistic investments as investments with one or more readily identifiable attributes which are sufficiently different from those of other asset classes permitted under the chapter so as to be outside the scope of such asset classes. Proposed N.J.A.C. 17:16-95.2 would require the Director to (i) present the Investment Policy Committee of the Council, prior to any binding commitment, with the requested due diligence for all opportunistic investments recommended by the Division and a formal written report for each such investment, and (ii) present a report to the Council at the next regularly scheduled meeting subsequent to when the investment is made. Proposed N.J.A.C. 17:16-95.3 defines “eligible funds” as any fund classified as a Common Pension Fund and permitted to invest in opportunistic investments. Proposed N.J.A.C. 17:16-95.4 limits aggregate investments in this category to seven percent of Pension and Annuity Fund assets, and limits any one investment to two percent of Pension and Annuity Fund assets. If the limitations are exceeded subsequent to purchase, then the Council shall be notified at the next regularly scheduled meeting of the Council. The Division may be granted a six-month period of grace to reduce the level of participation below the maximum levels, except that the period of grace may be extended for additional four-month periods with the approval of the Council.

N.J.A.C. 17:16-100 establishes that the Director may invest and reinvest the moneys of any eligible fund in absolute return strategy investments, subject to the limitations expressed in the subchapter. N.J.A.C. 17:16-100.1 outlines definitions for terms used in the subchapter. Definitions are proposed to be added for “convertible debt issue,” “convertible preferred stock,” and “private placement.” The definition of “commingled fund” is proposed to be amended to (i) clarify that pooled investment vehicles may be open-end or closed-end, (ii) add

that a fund may be organized as a limited liability company, (iii) clarify that the investment may be in the fund or in the trustee, general partner, or other managing member of such fund, and (iv) delete that the formation purpose is to invest in absolute return strategy funds. The definition for “common stocks” is proposed to be amended to make the term singular and reflect that issuers may include other forms of legal entities in addition to corporations. The definition of “exchange-traded fund” is proposed to be amended to (i) add that the funds invest in underlying securities, (ii) add that the fund may track a strategy, a commodity, or a basket of assets, and (iii) clarify that the exchange traded fund’s shares can be traded like shares of common stock. The definition of “multi-strategy fund” is proposed to be amended to clarify that the listed strategies are employed by credit oriented funds, equity oriented funds, and opportunistic funds. The definition of the term “preferred stocks” is proposed to be amended to make the term singular and to replace the reference to specific dividend with dividend. “Separate account” or “managed account” is defined as ownership which is segregated and kept in the investor’s name. The definition is proposed to be amended to delete the reference to managed account and define a separate account as an investment vehicle with a single investor that is unaffiliated with its sponsor or manager to more accurately reflect the marketplace convention.

The proposed amendment to N.J.A.C. 17:16-100.2(a)1 will clarify that fund investments made through commingled funds, funds-of-funds, separate accounts, managed accounts, and direct investments in individual funds are subject to the further provisos as contained in N.J.A.C. 17:16-69.9. The proposed amendments to N.J.A.C. 17:16-100.2(a)2 will provide that permissible investments include (i) common stock issued by legal forms of entities other than just U.S. or international corporations and (ii) common stock issued through a private placement. The proposed amendment to N.J.A.C. 17:16-100.2(a)3 will delete the required minimum market cap of \$100 million for investments in exchange-traded funds to provide investment opportunities in smaller or new funds; however, proposed N.J.A.C. 17:16-100.4(a)8 will provide a concentration limit on the investment in exchange-traded funds to 10 percent of the total shares outstanding of such fund. N.J.A.C. 17:16-100.2(b) is recodified as subsection (c) and replaces the reference to subsection (a) with a reference to the subchapter. The proposed amendments to N.J.A.C. 17:16-100.2(c) will (i) recodify the subsection as subsection (b), (ii) clarify that the permissible investments listed in this section are in addition to subsection (a), (iii) clarify that rights may be exercised or purchased in paragraphs (b)1 and 2, (iv) revise the reference of issuer from corporation to entity in paragraphs (b)2, 3 and 4, (v) clarify that convertible issues refer to debt issues in paragraph (b)3, and (vi) modify the language related to the purchase of stock in new public offerings to delete the requirement that securities be sold if they do not subsequently meet the requirements of the subchapter since the likelihood of this occurring is believed to be low.

The proposed amendments to N.J.A.C. 17:16-100.3 will (i) delete Police and Firemen’s Retirement System, Public Employees’ Retirement System, State Police Retirement System, Teacher’s Pension and Annuity Fund, and Judicial Retirement System of New Jersey as eligible funds, and (ii) replace Common Pension Fund E as an eligible fund with any fund classified as a Common Pension Fund and permitted to invest in absolute return strategy investments in conjunction with the concurrently proposed amendments to N.J.A.C. 17:16-69.

The limitations in N.J.A.C. 17:16-100.4(a)1 through 5 are currently expressed as a percentage of the market value of the assets of any Pension and Annuity Funds investing in Common Pension Fund E. The proposed amendments to these paragraphs will express each of the limitations as a percentage of the combined assets of all of the Pension and Annuity Funds, consistent with the asset allocation plan. N.J.A.C. 17:16-100.4(a)2 through 5 state that the limitations shall not apply to investments in common and preferred stock, exchange-traded funds, and convertible issues. These paragraphs are proposed to be amended to clarify that investment means direct investments and convertible issues means convertible debt issues. N.J.A.C. 17:16-100.4(a)6 provides that no more than seven percent of the market value of the assets of any eligible fund, other than Common Pension Fund E, may be invested in the common and preferred stock of any one corporation eligible for investment under

N.J.A.C. 17:16-100.2(a)2. Concurrent with the proposed amendment to eligible funds, the proposed amendments to the issuer concentration limitation in N.J.A.C. 17:16-100.4(a)6 will provide that the total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds, consistent with the proposed amendments elsewhere in the chapter. N.J.A.C. 17:16-100.4(a)7 limits investments in the common stock of corporations to five percent of voting securities. The proposed amendments to this paragraph will limit purchases or acquisitions of a particular class of stock of any one issuer to not more than 10 percent of a particular class of stock.

Social Impact

The rules proposed for re-adoption with amendments, the proposed repeals, and the proposed new rules will continue to provide a regulatory framework for the investment of State-administered funds to be followed by the Director of the Division of Investment. The proposed amendments, repeals, and new rules will streamline the rules in the aggregate, thereby lessening the overall administrative burden, expand permissible investments, and further strengthen certain investment limitations and guidelines, thereby providing better overall risk control. The consolidation of the subchapters governing the common pension funds into one subchapter will provide for more administrative flexibility in managing the assets of the pension and annuity funds, thereby allowing for simplifying the operational structure of the pension fund, reducing the administrative burden and opportunity cost, and allowing for better investment decision making. The chapter, as changed, provides for continued investment diversification and the continued opportunity for increased overall risk-adjusted returns for the State-administered funds. As such, these rules are expected to have a positive social impact in that the long-term economic effects on the State-administered funds is expected to provide a benefit to the funds’ beneficiaries and lessen the long-term burden on the State’s taxpayers. If the chapter is not re-adopted with the proposed amendments, repeals, and new rules, there could be a substantial negative impact on the funds’ beneficiaries and the State’s taxpayers.

Economic Impact

The rules proposed for re-adoption with amendments, the proposed repeals, and the proposed new rules will continue to provide a regulatory framework for the investment of State-administered funds to be followed by the Director of the Division of Investment. The proposed amendments, repeals, and new rules will streamline the rules in the aggregate, thereby lessening the overall administrative burden, expand permissible investments, and further strengthen certain investment limitations and guidelines, thereby providing better overall risk control. The consolidation of the subchapters governing the common pension funds into one subchapter will provide for more administrative flexibility in managing the assets of the pension and annuity funds, thereby allowing for simplifying the operational structure of the pension fund, reducing the administrative burden and opportunity cost, and allowing for better investment decision making. The rules provide for continued investment diversification and the continued opportunity for increased overall risk-adjusted returns for the State-administered funds. As such, these rules are beneficial to the long-term economic security of the funds’ beneficiaries and are expected to lessen the long-term economic burden on the State’s taxpayers. If the chapter is not re-adopted with the proposed amendments, repeals, and new rules, there could be a substantial negative economic impact on the funds’ beneficiaries and the State’s taxpayers.

Federal Standards Statement

A Federal standards analysis is not required because the investment policy rules of the State Investment Council are not subject to any Federal requirements or standards.

Jobs Impact

It is not anticipated that any jobs will be generated or lost by virtue of the rules proposed for re-adoption with amendments, repeals, and new rules.

Agricultural Industry Impact

The rules proposed for readoption with amendments, repeals, and new rules will have no impact on the agriculture industry. While the rules permit pension fund assets to be invested in farmland, it is unlikely that such investments will significantly impact the agriculture industry within the State of New Jersey.

Regulatory Flexibility Statement

A regulatory flexibility analysis is not required, since the rules proposed for readoption with amendments, repeals, and new rules regulate only the Director of the Division of Investment and will have no effect on small businesses as the term is defined in the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq.

Housing Affordability Impact Analysis

The rules proposed for readoption with amendments, repeals, and new rules will have no impact on the affordability of housing in the State of New Jersey. The rules provide for investment diversification and the opportunity for increased overall risk-adjusted returns for the State-administered funds.

Smart Growth Development Impact Analysis

The rules proposed for readoption with amendments, repeals, and new rules are not anticipated to have an impact on the availability of affordable housing or housing production within Planning Areas 1 or 2, or within designated centers, under the State Development or Redevelopment Plan in New Jersey. The rules provide for investment diversification and the opportunity for increased overall risk-adjusted returns for the State-administered funds.

Full text of the rules proposed for repeal may be found in the New Jersey Administrative Code at N.J.A.C. 17:16-4.11, 12.5, 13, 16, 17.5, 18, 19.5, 20.5, 21, 22, 23.5, 24, 41, 44, 46, 47, 62, 63, 65.9, and 67.

Full text of the rules proposed for readoption may be found in the New Jersey Administrative Code at N.J.A.C. 17:16-1, 3, 4, 11, 12, 17, 19, 20, 23, 31, 32, 33, 37, 40, 42, 43, 45, 58, 61, 65, 68, 69, 71, 81, 90, and 100.

Full text of the proposed amendments, new rules, and recodifications follows (additions indicated in boldface **thus**; deletions indicated in brackets [thus]):

SUBCHAPTER 4. STATE INVESTMENT COUNCIL’S POLICY CONCERNING POLITICAL CONTRIBUTIONS AND PROHIBITIONS ON INVESTMENT MANAGEMENT BUSINESS

17:16-4.2 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

... “Investment management professional” means:

- 1. (No change.)
- 2. Any person associated with an investment management firm involved in client development or the solicitation of business [for investment management services] from pension fund clients, **including pension fund clients that are not State Pension and Annuity Fund clients**;

3.-4. (No change.)

“Investment management services” means:

1. The business of making or recommending investment management decisions for or on behalf of [the] a State Pension and Annuity Fund [clients];

2. The business of advising or managing a separate entity which makes or recommends investment management decisions for or on behalf of [the] a State Pension and Annuity Fund [clients], **including as general partner, investment manager, or similar entity of an investment vehicle**; or

3. The provision of financial advisory or consultant services to a State Pension and Annuity Fund [clients].

“Investment vehicle” means an investment in which a State Pension and Annuity Fund invests directly under N.J.A.C. 17:16-23.2(a)2, 71.2(a)1, 90.2(a)1, or 100.2(a)1.

... “Political party” means any political party or political committee organized in [this] the State, including, **without limitation, State legislative leadership committees, county committees, and independent committees. The term “political party” does not include a Federal or national campaign committee or a non-State political committee, even if such Federal or national or non-State political committee makes payments or contributions to which this subchapter would otherwise apply.**

“Separate account” means an investment vehicle in which a State Pension and Annuity Fund is the sole investor that is unaffiliated with the investment vehicle’s sponsor or manager.

... “State Pension and Annuity Fund” means any Pension and Annuity Fund or any Common Pension Fund.

“Supervisor” means a person who has supervisory responsibility (whether or not related to investment management activities) for an investment management professional.

“Third party solicitor” means a third party placement agent or lobbyist who solicits investment management business through direct or indirect communication with a State officer, employee, or official on behalf of an investment management firm, but does not include any person whose sole basis of compensation from the investment management firm is the actual provision of legal, accounting, engineering, real estate, or other professional advice, services, or assistance. **The term “third party solicitor,” when used with respect to a particular investment management firm, shall not include a third party placement agent or lobbyist who solicits clients other than the Division to engage that investment management firm to provide investment management services, or a third party placement agent or lobbyist who solicits the Division on behalf of another investment management firm.**

17:16-4.3 Restrictions

(a) The Division [of Investment] shall not engage an investment management firm to provide investment management services for the benefit of [the] a State Pension and Annuity Fund[s], and shall [terminate the contract of any investment management firm] **not recommend that a separate account invest with an investment management firm**, if, within the two years prior to such engagement or [during the term of such engagement] **recommendation**, any political contribution or payment to a political party covered by this [policy] **subchapter** has been made or paid by:

1.-4. (No change.)

(b) The Division shall terminate the contract of any investment management firm if it is discovered that, within the two years prior to such engagement or during the term of such engagement, any political contribution or payment to a political party covered by this subchapter was made or paid by:

1. The investment management firm, its parent company, or any other person or entity that controls the investment management firm;

2. Any investment management professional associated with such investment management firm;

3. Any third party solicitor who solicited the Division to engage the investment management firm and was still associated with the investment management firm at the time of the contribution or payment; or

4. Any political action committee controlled by the investment management firm, its parent company, or any other entity that controls the investment management firm, or by an investment management professional of such investment management firm or controlling entity.

[(b)] (c) The provisions of (a) and (b) above shall not, however, prohibit the **engagement or require the termination of an investment management firm** [from being engaged to provide investment management services to the State], or **prohibit the recommendation of**

an investment, if the only political contributions made by a person noted above within the two years prior to, and during, any such engagement were/are made by the contributor to State officials for whom the contributor was/is entitled to vote. Political contributions made by a contributor, pursuant to this subsection, shall not exceed \$250.00 per State official, per election.

[(c)] **(d)** The provisions of (a) and (b) above shall not, however, prohibit the **engagement or require the termination of an investment management firm** [from being engaged to provide investment management services to the State], or **prohibit the recommendation of an investment**, if the only payments to any political party made by a person noted above within the two years prior to, and during, any such engagement did/do not exceed \$250.00 per political party, per year.

[(d)] **(e)** The provisions of (a) through [(c)] **(d)** above shall apply to political contributions and payments to political parties made by any individual or entity for the 12-month period prior to such individual or entity becoming an investment management firm, investment management professional, or third party solicitor.

17:16-4.5 Indirect violations

(a) No investment management firm, investment management professional, or third party solicitor shall, directly or indirectly, through or by any other person or any means whatsoever, do any act which would violate the provisions of N.J.A.C. 17:16-4.3 or 4.4.

(b) Indirect violations shall include, but are not limited to:

1. A family member or other person making political contributions or payments to a political party on the person or entity's behalf;

2. A person or entity making payments to a Federal party committee or other political committee or organization for the purpose of influencing State or local elections governed by this subchapter; and

3. A third party solicitor making political contributions or payments to a political party in order to encourage the engagement of an investment management firm for which it is not directly soliciting business from the Division.

17:16-4.6 Reporting

[(a)] Each investment management firm that seeks to be engaged to provide investment management services to the State shall designate those persons who qualify as investment management professionals.]

[(b)] **(a)** Except as otherwise provided in **(b)** and (c) [and (d)] below, each investment management firm that is engaged to provide investment management services to the State shall, prior to engagement and by the last day of the month following the end of each calendar quarter during the term of such engagement, send to the Council and the Division [of Investment] the following information:

1. [Any] A list of those persons who qualify as investment management professionals, and any updates to [designations pursuant to (a) above] this list;

2. For all political contributions and payments to political parties [in the State] made by persons described in N.J.A.C. 17:16-4.3(a) or (b), excluding any political contribution or payment to a political party made pursuant to N.J.A.C. 17:16-4.3[(b)](c) and [(c)](d):

i.-iv. (No change.)

3. Whether any reported political contribution or payment to a political party [listed in (b) above] is the subject of an exemption pursuant to N.J.A.C. 17:16-4.10, and the date of such exemption; and

4. (No change.)

[(c)] No investment management firm shall be required to report to the Council and the Division any contributions or payments made prior to April 18, 2005.]

[(d)] **(b)** No investment management firm shall be required to report to the Council and the Division [of Investment] for any calendar quarter in which such investment management firm has no **additions or revisions to** information that [is required to be] **was already** reported [pursuant to (b) above for such calendar quarter] **in a prior report.**

[(e)] (c) (No change in text.)

[(f)] **(d)** [Each investment management firm seeking to be engaged to provide investment management services to the State shall report the]

The information required by this section **shall be reported** on forms provided by the Division [of Investment].

[(g)] Each Council member shall comply with the reporting provisions of (b) above for their term as a member of the Council. Each Council member shall further send to the Council quarterly disclosure reports as provided in (b) above for the four quarters immediately preceding April 18, 2005.

(h) It is prohibited for any Council member to receive any form of compensation, gratuity, gift, service or payment in connection with the hiring or retention of any investment management firm by the Division of Investment, any investment management professional associated therewith or third party solicitor related thereto during the Council member's term and for a two-year period immediately following the completion of such Council member's term. This subsection shall include any and all compensation, gratuity, service or payment from such investment management firm, investment management professional or third party solicitor made to the Council member's immediate family. For the purposes of this subsection, "immediate family" shall mean a person's spouse, child, parent or sibling residing in the same household or a person's domestic partner as defined in P.L. 2003, c.246 (N.J.S.A. 26:8A-3).]

17:16-4.7 Public disclosure

The Council and the Division [of Investment] shall make **available to the public** a copy of each report received from an investment management firm within 30 days of its receipt or as otherwise required by law.

17:16-4.8 Additional information

The Council and the Division [of Investment] will accept additional information related to political contributions, payments to political parties, and payments to third party solicitors voluntarily submitted by investment management firms or others.

17:16-4.9 Contract termination

The Division [of Investment] shall provide in each contract with an investment management firm that a violation of the provisions in this subchapter shall be cause for immediate termination of such contract. **In the case of a violation by a general partner, investment manager, or similar entity of an investment vehicle, the governing documents of the investment vehicle shall provide that the State Pension and Annuity Fund shall have the right to terminate its relationship with the investment management firm.**

17:16-4.10 Exemptions

(a) An investment management firm that [is] **would otherwise be** prohibited from being engaged to provide investment management services to the State pursuant to N.J.A.C. 17:16-4.3 [may] **shall be** exempt [itself] from such prohibition, subject to (b) and (c) below, upon satisfaction of the following requirements:

1. The investment management firm demonstrates in writing to the Division that:

i.-iii. (No change.)

2. (No change.)

(b) An investment management firm is entitled to no more than two exemptions [for every] in any 12-month period.

(c) (No change.)

17:16-4.11 Restrictions on Council members

(a) Each Council member shall comply with the reporting provisions of N.J.A.C. 17:16-4.6 for his or her term as a member of the Council.

(b) It is prohibited for any Council member to receive any form of compensation, gratuity, gift, service, or payment in connection with the hiring or retention of any investment management firm by the Division during the Council member's term and for a two-year period immediately following the completion of such Council member's term. This subsection shall include any compensation, gratuity, gift, service, or payment to the Council member, the Council member's immediate family, or any partner or associate of the Council member. For the purposes of this subsection, "immediate family" shall mean a person's spouse, child, parent, or sibling

residing in the same household or a person's domestic partner as defined in P.L. 2003, c. 246 (N.J.S.A. 26:8A-3).

SUBCHAPTER 5. SECURITIES LENDING TRANSACTIONS

17:16-5.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meaning, unless the context clearly indicates otherwise:

"Cash collateral" means cash and cash equivalents delivered by a borrower to secure its obligations under a securities lending agreement.

"Cash equivalents" mean U.S. Treasury obligations, irrevocable bank letters of credit, or any other security which can be converted immediately to cash.

"Securities lending agent" means a third party engaged by the Division or the Treasurer to effect securities lending transactions on behalf of an eligible fund.

"Securities lending agreement" means a legal contract between a borrower and an eligible fund or a securities lending agent on behalf of an eligible fund, which governs the contractual obligations of the parties.

"Securities lending transactions" means arrangements whereby securities are loaned to a borrower in exchange for cash collateral. Ownership of the securities is transferred temporarily to the borrower.

17:16-5.2 Permissible transactions

(a) Subject to the limitations contained in this subchapter, the Director may enter into securities lending transactions on behalf of any eligible fund, provided that:

1. The securities are on a list of securities eligible for securities lending transactions maintained by the Director;
2. The borrower is on a list of approved borrowers maintained by the Director;
3. The transaction is evidenced by a written securities lending agreement executed by the borrower and an eligible fund;
4. The collateral is held in a separate account on behalf of any eligible fund;
5. The securities loaned by an eligible fund and the cash collateral delivered by the borrower shall be marked to market each business day. The borrower shall be required to deliver additional collateral in the event the market value of the cash collateral is less than the required percentage of the market value of the loaned securities as required by the securities lending agreement; and
6. The securities lending agent, if applicable, shall establish and maintain such records as are reasonably necessary to account for the securities lending transactions and the income derived therefrom.

(b) The cash collateral shall be reinvested in securities permissible for investment for any Common Pension Fund under this chapter and included on a list of securities permissible for securities lending transactions maintained by the Director.

(c) Notwithstanding the restrictions in this subchapter, the Council may approve securities lending transactions or the reinvestment of cash collateral on a case-by-case basis.

17:16-5.3 Eligible funds

(a) For purposes of this subchapter, eligible funds shall include:

1. The Police and Firemen's Retirement System;
2. The Public Employees' Retirement System;
3. The State Police Retirement System;
4. The Teachers' Pension and Annuity Fund;
5. The Judicial Retirement System of New Jersey; and
6. Any fund classified as a Common Pension Fund.

17:16-5.4 Limitations

(a) Not more than 15 percent of the market value of the assets of any Common Pension Fund shall be loaned to any one borrower.

(b) The required collateral levels by type of security shall be specified in an agreement with the securities lending agent, where applicable, and in each securities lending agreement, but in no event

shall the required collateral level be less than 100 percent of the market value of the loaned securities.

(c) If the limitations in this subchapter are not met, then the Council shall be notified at the next regularly scheduled meeting of the Council. The Division may be granted a six-month period of grace to bring the transactions into compliance, except that the period of grace may be extended for additional four-month periods with the approval of the Council.

SUBCHAPTER 11. UNITED STATES TREASURY AND GOVERNMENT AGENCY OBLIGATIONS

17:16-11.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

"Government Agency Obligations" [shall] mean debt obligations of any United States governmental agency that are not explicitly guaranteed by the full faith and credit of the United States Government included on a list of such agencies maintained by the Director.

"United States Treasury Obligations" [shall] mean debt obligations of the United States Treasury or any debt obligations that are explicitly guaranteed by the full faith and credit of the United States Government.

17:16-11.3 Eligible funds

(a) For purposes of this subchapter, eligible funds shall include funds classified as:

1.-6. (No change.)

7. **Any fund classified as a Common Pension Fund[s] and permitted to invest in United States Treasury and Government Agency Obligations.**

SUBCHAPTER 12. [CORPORATE] GLOBAL DEBT OBLIGATIONS [OF U.S. BASED CORPORATIONS]

17:16-12.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

"[Corporate] Global debt obligations" [shall] mean debt [obligations of] issued by any corporation, [or] bank, trust, master limited partnership, limited liability company, or other form of legal entity [deemed by the Director to be based in the United States. In determining whether a corporation is based in the United States, the Director shall consider factors including, but not limited to, the corporation's country of incorporation, its main equity trading market, its shareholder base, the geographical distribution of its operations, the location of its headquarters, and the country in which investors consider the corporation to be most appropriately classified].

"Private placement" [shall] means a negotiated sale in which the securities are sold directly to institutional or private investors, rather than through a public offering[. Such placements are not] registered with the U.S. Securities and Exchange Commission or applicable foreign regulatory body. Private placement includes the sale of securities pursuant to Section 4(2), Regulation D, Regulation S, or Rule 144A under the Securities Act of 1933, as amended.

17:16-12.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in [corporate] global debt obligations provided that:

[1. The issue has been registered with the Securities and Exchange Commission, or has been issued pursuant to Rule 144A of the Securities and Exchange Commission or through a private placement;]

Recodify existing 2.-3. as 1.-2. (No change in text.)

(b) Notwithstanding (a) above, the Director may only invest and reinvest the moneys of any fund classified as a Trust Fund and the State of New Jersey Cash Management Fund in [corporate] global debt

obligations that are payable as to both principal and interest in United States dollars. The moneys of the State of New Jersey Cash Management Fund may only be invested in global debt obligations with maturities of 25 months or less.

(c) Notwithstanding the restrictions in (a) above, the Director may invest and reinvest the moneys of any eligible Common Pension Fund [B] in [corporate] global debt obligations [of U.S. based corporations, international corporate obligations], collateralized notes and mortgages, global diversified credit investments, non-convertible preferred stock, and mortgage-backed passthrough securities that do not meet the minimum credit ratings set forth in this section and N.J.A.C. 17:16-[16.2,] 19.2, 23.2, 40.2, and 58.2, respectively; provided, however, the aggregate market value of such investments shall not exceed eight percent of the combined assets of all of the Pension and Annuity Funds.

(d) Notwithstanding the restrictions in (a) above, the Director may invest and reinvest the moneys of any eligible Common Pension Fund [B] in [corporate] global debt obligations [of U.S. based corporations, international corporate obligations,] and non-convertible preferred stock of companies that do not meet the minimum market capitalization or contributed capital set forth in this section and N.J.A.C. 17:16-[16.2 and] 40.2, respectively; provided, however, the market value of such investments shall not exceed one percent of the combined assets of all the Pension and Annuity Funds.

(e) [Notwithstanding the restrictions in] In addition to (a) above, the Director may:

1.-2. (No change.)

(f) Notwithstanding the restrictions in this subchapter, the Council may approve the purchase of [corporate] global debt obligations on a case-by-case basis.

17:16-12.3 Eligible funds

(a) For purposes of this subchapter, eligible funds shall include:

1. (No change.)

[2. Any fund classified as a Static Fund;]

[3.] 2. (No change in text.)

[4. Common Pension Fund B; and]

3. Any fund classified as a Common Pension Fund and permitted to invest in global debt obligations; and

[5.] 4. (No change in text.)

17:16-12.4 Limitations

(a) At the time of initial purchase, the following conditions shall be met:

1. The total amount of debt issues directly purchased or acquired for each eligible fund under this subchapter of any one issuer shall not exceed 10 percent of the outstanding long term debt of the issuer, except that [these] this requirement[s] may be waived by the Council;

2. Not more than five percent of the market value of the assets of [any fund (other than the New Jersey State Employees Deferred Compensation Fixed Income Fund and the New Jersey Better Educational Savings Trust)] the State of New Jersey Cash Management Fund shall be directly invested in the [debt and non-convertible preferred stock] fixed income obligations of any one issuer and affiliated entities;

3. Not more than 10 percent of the market value of the assets of the New Jersey State Employees Deferred Compensation Fixed Income Fund or the New Jersey Better Educational Savings Trust shall be directly invested in the [debt] equity and fixed income obligations of any one issuer and affiliated entities; [and]

4. The total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds;

[4.] 5. Not more than five percent of the market value of the assets of any eligible fund (other than a Pension and Annuity Fund or Common Pension Fund) shall be directly invested in debt issued through a private placement[.]; and

6. The total amount directly invested in debt issued through a private placement by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed seven percent of the combined assets of all the Pension and Annuity Funds.

(b) (No change.)

SUBCHAPTERS [14.] 13. THROUGH [15.] 16. (RESERVED)

SUBCHAPTER 17. STATE, [AND] MUNICIPAL, AND PUBLIC AUTHORITY [GENERAL] OBLIGATIONS

17:16-17.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Public authority” means any state or any political subdivision thereof, any authority, department, district, or commission, or any agency or instrumentality of any of the foregoing, or any agency or instrumentality of the Federal government, or a commission or other public body created by an Act of Congress or pursuant to a compact between any two or more states.

“Public authority revenue obligations” means any bonds or other interest-bearing obligations of a public authority, the principal and interest of which are by their terms payable from a specified revenue source.

...

17:16-17.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest moneys of any eligible fund in state and municipal general obligations and public authority revenue obligations, except that moneys of the Trustees for the Support of Public Schools shall only be invested and reinvested in obligations issued by the State of New Jersey or its counties, municipalities, and school districts as required by N.J.S.A. 18A:56-8, provided that:

1.-2. (No change.)

(b) Investments made pursuant to this subchapter shall comply with Federal arbitrage regulations, if applicable.

(c) (No change.)

(d) Notwithstanding the restrictions in this subchapter, the Council may approve the purchase of state and municipal general obligations and public authority revenue obligations on a case-by-case basis.

17:16-17.3 Eligible funds

(a) For purposes of this subchapter, eligible funds shall include:

1.-5. (No change.)

6. [Common Pension Fund B] Any fund classified as a Common Pension Fund and permitted to invest in state and municipal general obligations and public authority revenue obligations.

17:16-17.4 Limitations

(a) At the time of initial purchase, the following conditions should be met:

1. The total amount of debt issues directly purchased or acquired of any one [political entity] obligor shall not exceed 10 percent of the outstanding debt of the entity, and not more than 10 percent of any one issue, serial note, or maturity may directly be purchased in the aggregate by all eligible funds; [and]

2. Not more than [two] five percent of the assets [at the time of purchase] of any [one] eligible fund (other than a Pension and Annuity Fund or Common Pension Fund) shall be directly invested in [senior] the debt of any one [political entity maturing more than 12 months from date of purchase] obligor[.];

3. The total amount directly invested in the debt of any one obligor by the Pension and Annuity Funds and Common Pension Funds, in the aggregate, shall not exceed two percent of the combined assets of all the Pension and Annuity Funds;

4. In accordance with N.J.S.A. 18A:56-8, investments for the Trustees for the Support of Public Schools shall not be made in the obligations of any municipality, the total indebtedness of which, including the school debt, exceeds 30 percent of the assessed valuation of all the real and personal property therein; in ascertaining the total indebtedness, credit shall be allowed only for such moneys or property as shall be in the sinking funds; and

5. In accordance with N.J.S.A. 18A:56-8, investments for the Trustees for the Support of Public Schools shall not be made in the

obligations of any county, the total indebtedness of which exceeds in the aggregate 15 percent of the total assessable valuation of all taxable property therein.

(b) (No change.)

SUBCHAPTER 18. (RESERVED)

SUBCHAPTER 19. COLLATERALIZED NOTES AND MORTGAGES

17:16-19.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Collateralized notes and mortgages” [shall] mean securities fully collateralized by mortgage-backed securities, credit card receivables, automobile loans, home equity loans, bank loans, or other forms of receivables originated in the United States.

17:16-19.2 Permissible investments

(a) (No change.)

(b) Notwithstanding the restrictions in (a) above, the Director may invest and reinvest the moneys of **any eligible** Common Pension Fund [B] in [corporate] **global debt** obligations [of U.S. based corporations, international corporate obligations], collateralized notes and mortgages, global diversified credit investments, non-convertible preferred stock, and mortgage-backed passthrough securities that do not meet the minimum credit ratings set forth in N.J.A.C. 17:16-12.2 [and 16.2], this section, and N.J.A.C. 17:16-23.2, 40.2, and 58.2, respectively; provided, however, the **aggregate** market value of such investments shall not exceed eight percent of the combined assets of all of the Pension and Annuity Funds.

(c) (No change.)

17:16-19.3 Eligible funds

(a) For purposes of this subchapter, eligible funds shall include:

1.-2. (No change.)

3. **Any fund classified as a Common Pension Fund [B] and permitted to invest in collateralized notes and mortgages.**

17:16-19.4 Limitations

(a) At the time of initial purchase, the following conditions shall be met:

1. No amount in excess of 25 percent of any one issue may be purchased **directly**. For the purpose of this limitation, the issue size shall be considered as the principal amount issued pursuant to all classes of securities payable from the returns generated by the underlying collateral;

2. Not more than five percent of the assets of any one fund shall be **directly** invested in the obligations of any one issue. **This limitation shall not apply to any fund classified as a Common Pension Fund; [and]**

3. **Not more than five percent of the market value of the State of New Jersey Cash Management Fund shall be directly invested in the fixed income obligations of any one issuer and affiliated entities;**

4. **The total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds; and**

[3.] 5. Not more than 10 percent of the assets of any [one] **eligible fund other than a Pension and Annuity Fund or Common Pension Fund** (or [20] five percent of the **combined** assets of [Common Pension Fund B] **all the Pension and Annuity Funds**) shall consist of collateralized notes and mortgages **directly** purchased pursuant to this subchapter.

(b) (No change.)

SUBCHAPTER 20. INTERNATIONAL GOVERNMENT AND AGENCY OBLIGATIONS

17:16-20.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“International government and agency obligations” [shall] mean direct debt obligations of a sovereign government or its political subdivisions, debt obligations of agencies of a sovereign government which are unconditionally guaranteed as to principal and interest by the sovereign government’s full faith and credit, and debt obligations of international agencies **or financial institutions** that are [directly] backed, **but not necessarily guaranteed**, by the collective credit of multiple sovereign governments.

17:16-20.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in[.] **international government and agency obligations.**

[1. Direct obligations of sovereign governments;

2. Obligations of political subdivisions of a sovereign government;

3. Obligations of agencies of a sovereign government which are unconditionally guaranteed as to principal and interest by the sovereign government’s full faith and credit; and

4. Obligations of international agencies which are directly backed by the collective credit of multiple sovereign governments.]

(b) (No change.)

(c) Notwithstanding (a) above, the Director may only invest and reinvest the moneys of a Common Pension Fund [B] in international government and agency obligations that have a credit rating of Baa3 or higher by Moody’s Investor Service, Inc., BBB- or higher by Standard & Poor’s Corporation, and BBB- or higher by Fitch Ratings, except that two of the three ratings is sufficient and one of the three ratings is sufficient if only one rating is available.

(d) (No change.)

17:16-20.3 Eligible funds

(a) For purposes of this subchapter, eligible funds shall include:

1. **Any fund classified as a Common Pension Fund [B] and permitted to invest in international government and agency obligations; and**

2. (No change.)

17:16-20.4 Limitations

(a) At time of initial purchase, the following conditions shall be met:

1. Not more than five percent of the market value of the assets of [any eligible fund] **the State of New Jersey Cash Management Fund** shall be **directly** invested in **international government and agency** obligations, whether direct or guaranteed, of any one issuer. [The five percent limitation shall not apply to Common Pension Fund B.]

2. The total amount of **international government and agency** debt issues **directly** purchased or acquired of any one issuer shall not exceed 25 percent of the outstanding debt of the issuer, and not more than [the greater of \$US 10 million or] 25 percent of any one issue may be purchased at the time of issue, except that these requirements may be waived by the Council.

3. Not more than five percent of the combined assets of all of the Pension and Annuity Funds shall be **directly** invested in international government and agency obligations.

(b) (No change.)

SUBCHAPTER 21 AND 22. (RESERVED)

SUBCHAPTER 23. GLOBAL DIVERSIFIED CREDIT INVESTMENTS

17:16-23.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

...

“Commingled fund” means **all open-end and closed-end** pooled investment vehicles formed for the purpose of investing. A commingled fund may be organized as a group trust, partnership, **limited liability company**, corporation, insurance company separate account, or other multiple ownership entity. An investment in a commingled fund may take the form of an investment in the **fund or in the** trustee, general partner, or other managing member of such fund.

“Separate account” means [ownership is segregated and kept in the investor’s name] **an investment vehicle with a single investor that is unaffiliated with its sponsor or manager.**

17:16-23.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in:

1. (No change.)
2. Separate accounts, funds-of-funds, commingled funds, co-investments, and joint ventures that primarily invest in global diversified credit investments provided that:
 - i. (No change.)
 - ii. The further provisos contained in N.J.A.C. 17:16-[63]**69.9** have been met.

(b) Notwithstanding the restrictions in (a) above, the Director may invest and reinvest the moneys of **any eligible** Common Pension Fund [B] in [corporate] **global debt** obligations [of U.S. based corporations, international corporate obligations], collateralized notes and mortgages, global diversified credit investments, non-convertible preferred stock, and mortgage-backed passthrough securities that do not meet the minimum credit ratings set forth in N.J.A.C. 17:16-12.2, [16.2,] 19.2, this section, and N.J.A.C. 17:16-40.2 and 58.2, respectively; provided, however, the **aggregate** market value of such investments shall not exceed eight percent of the combined assets of all of the Pension and Annuity Funds.

(c) [Notwithstanding the restrictions in] **In addition to** (a) above, the Director may:

- 1.-2. (No change.)
- (d) (No change.)

(e) Nothing in this subchapter shall preclude the Director from investing the monies of any eligible fund **directly** in individual collateralized notes and mortgages pursuant to N.J.A.C. 17:16-19 and individual mortgage-backed senior debt securities pursuant to N.J.A.C. 17:16-58.

17:16-23.3 Eligible funds

For purposes of this subchapter, eligible funds shall include **any fund classified as a Common Pension Fund [B] and permitted to invest in global diversified credit investments.**

17:16-23.4 Limitations

(a) At the time of initial purchase of global diversified credit investments, the following conditions shall be met:

1. Not more than seven percent of the market value of the combined assets of all of the Pension and Annuity Funds shall be invested in global diversified credit investments, whether directly or through separate accounts, funds-of-funds, commingled funds, co-investments, and joint ventures that primarily invest in global diversified credit investments; [and]
 2. The total amount of direct bank loans purchased or acquired under this subchapter shall not exceed 10 percent of the outstanding long-term debt of the borrower except that these requirements may be waived by the Council[.]; **and**
 3. **The total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds.**
- (b) (No change.)

SUBCHAPTERS [25.] **24. THROUGH 30.** (RESERVED)

SUBCHAPTER 31. COMMERCIAL PAPER

17:16-31.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Commercial paper” [shall] means secured or unsecured [promissory notes] **short-term debt** issued by a company [deemed by the Director to be based in the United States. In determining whether an obligor is based in the United States, the Director shall consider factors including, but not limited to, the obligor’s country of incorporation, its main equity trading market, its shareholder base, the geographical distribution of its operations, the location of its headquarters, and the country in which investors consider the obligor to be most appropriately classified].

17:16-31.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in commercial paper provided that:

1. The issuer is not in default as to the payment of principal or interest upon any of its outstanding obligations[.];

2. All such securities are payable as to both principal and interest in United States dollars;

[2.] **3.** (No change in text.)

[3.] **4.** The issuer (or any guarantor pledging its full faith and credit to the issue) has a credit rating of P-1 or higher by Moody’s Investors Service, Inc., A-1 or higher by Standard & Poor’s Corporation, [and] **or** F-1 or higher by Fitch Ratings[, except that two of the three ratings is sufficient and one of the three ratings is sufficient if only one rating is available]. If a rating for the issue has not been obtained from the above services, the issue may be purchased if the issuer rating meets the minimum rating criteria. Subsequent to purchase, if the rating falls below the minimum rating for such issue, it does not have to be sold, and it may be exchanged with an issue with a credit rating lower than the minimum rating if the issue received in exchange is, on balance, similarly rated.

(b) (No change.)

17:16-31.3 Eligible funds

(a) For purposes of this subchapter, eligible funds shall include:

1. (No change.)
- [2. Any fund classified as a Static Fund;]
Recodify existing 3.-6. as **2.-5.** (No change in text.)
- [7.] **6.** Any fund classified as a Common Pension Fund **and permitted to invest in commercial paper.**

17:16-31.4 [(Reserved)] **Limitations**

(a) At the time of initial purchase, the following conditions shall be met:

- 1. Not more than five percent of the market value of the assets of any fund (other than the Pension and Annuity Funds, the New Jersey State Employees Deferred Compensation Fixed Income Fund, the New Jersey Better Educational Savings Trust, and the Common Pension Funds) shall be directly invested in the fixed income obligations of any one issuer and affiliated entities;**
- 2. Not more than 10 percent of the market value of the assets of the New Jersey State Employees Deferred Compensation Fixed Income Fund or the New Jersey Better Educational Savings Trust shall be directly invested in the equity and fixed income obligations of any one issuer and affiliated entities; and**
- 3. The total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds.**

(b) If, subsequent to initial purchase, the limitations in (a) above are exceeded, then the Council shall be notified at the next regularly scheduled meeting of the Council. The Division may be granted a six-month period of grace to reduce the level of participation below the

maximum levels, except that the period of grace may be extended for additional four-month periods with the approval of the Council.

SUBCHAPTER 32. CERTIFICATES OF DEPOSIT

17:16-32.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Certificates of deposit” [shall] mean [a] debt instruments issued by a bank or trust company, or by a wholly-owned subsidiary of a bank or trust company where the full faith and credit of the bank or trust company is pledged to the issue.

17:16-32.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in certificates of deposit, provided that:

1.-2. (No change.)

3. If headquartered in the United States or if a United States subsidiary of a foreign bank:

i. (No change.)

ii. The issuer (or any parent bank or trust company, whose full faith and credit is pledged to the issue) has a rating on its long-term and short-term deposits, respectively, of A3/P-1 or higher by Moody’s Investors Service, Inc., A-/A-1 or higher by Standard & Poor’s Corporation, [and] or A-/F-1 or higher by Fitch Ratings[, except that two of the three agency ratings is sufficient and one of the three agency ratings is sufficient if only one agency rating is available]. Subsequent to purchase, if the issuer rating fails to meet the minimum rating criteria, the certificate of deposit does not have to be sold; **and**

4. If headquartered outside of the United States:

i. (No change.)

ii. The issuer (or any parent bank or trust company, whose full faith and credit is pledged to the issue) has a rating on its long-term and short-term deposits, respectively, of at least Aa3/P-1 or higher by Moody’s Investors Service, Inc., AA-/A-1 or higher by Standard & Poor’s Corporation, [and] or AA-/F-1 or higher by Fitch Ratings[, except that two of the three agency ratings is sufficient and one of the three agency ratings is sufficient if only one agency rating is available]. Subsequent to purchase, if the issuer rating fails to meet the minimum rating criteria, the certificate of deposit does not have to be sold.]; and

5. The issuer, at the date of its last published balance sheet preceding the date of investment, was in conformance with all capital requirements as stipulated by the Federal Reserve Board, in the case of United States banks, and the appropriate national regulatory body, in the case of foreign-headquartered banks.]

(b)-(c) (No change.)

17:16-32.3 Eligible funds

(a) For purposes of this subchapter, eligible funds shall include:

1. (No change.)

[2. Any fund classified as a Static Fund;]

Recodify existing 3.-6. as 2.-5. (No change in text.)

[7.] **6. Any fund classified as a Common Pension Fund [B] and permitted to invest in certificates of deposit.**

17:16-32.4 Limitations

(a) At the time of initial purchase, the **following conditions shall be met:**

1. The total investment by any eligible fund in [the] certificates of deposit of any one issuer [under this subchapter, combined with the total investment in the bankers acceptances of such issuer under N.J.A.C. 17:16-34,] shall not exceed 10 percent of the issuer’s primary capital[.];

2. Not more than five percent of the market value of the assets of any fund (other than the Pension and Annuity Funds, Common Pension Funds, New Jersey State Employees Deferred Compensation Fixed Income Fund, and the New Jersey Better Educational Savings Trust) shall be directly invested in the fixed income obligations of any one issuer and affiliated entities;

3. Not more than 10 percent of the market value of the assets of the New Jersey State Employees Deferred Compensation Fixed

Income Fund or the New Jersey Better Educational Savings Trust shall be directly invested in the equity and fixed income obligations of any one issuer and affiliated entities; and

4. The total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds.

(b) (No change.)

SUBCHAPTER 33. REPURCHASE AGREEMENTS

17:16-33.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Repurchase agreements” [shall] mean agreements between parties whereby one party sells another a security at a specified price with a commitment to repurchase the security at a later date at a specified price.

17:16-33.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest moneys of any eligible fund in repurchase agreements, provided that:

1.-3. (No change.)

4. The security [and] subject to repurchase is[;]:

i.-ii. (No change.)

iii. [Collateralized] **A collateralized** note[s] and] or mortgage[s] or mortgage-backed [securities] **security** eligible for investment under N.J.A.C. 17:16-19 or 17:16-58, respectively; or

iv. [Corporate] **A corporate** obligation[s] with a credit rating of Aa3 or higher by Moody’s Investors Service, Inc., AA- or higher by Standard & Poor’s Corporation, and AA- or higher by Fitch Ratings, except that two of the three ratings is sufficient and one of the three ratings is sufficient if only one rating is available;

5. (No change.)

6. [At the time of purchase, the] **The** market value of the securities delivered pursuant to the repurchase agreement shall be equal to at least 102 percent of the par value of the repurchase agreement; and

7. (No change.)

(b) (No change.)

17:16-33.3 Eligible funds

(a) For purposes of this subchapter, eligible funds shall include:

1. (No change.)

[2. Any fund classified as a Static Fund;]

Recodify existing 3.-6. as 2.-5. (No change in text.)

[7.] **6. Any fund classified as a Common Pension Fund [B] and permitted to invest in repurchase agreements.**

SUBCHAPTER 37. MONEY MARKET FUNDS

17:16-37.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Money market funds” [shall] mean mutual funds that invest in short-term debt instruments and seek to maintain a stable share price of one dollar.

17:16-37.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in money market funds provided that the money market funds:

1. Invest primarily in money market securities authorized pursuant to N.J.A.C. 17:16-11 and 17:16-31 through [36] **33;**

2.-3. (No change.)

(b) (No change.)

17:16-37.3 Eligible funds

(a) For purposes of this subchapter, eligible funds shall include:

1. (No change.)

[2. Any fund classified as a Static Fund;]
Recodify existing 3.-6. as 2.-5. (No change in text.)

[7.] **6. Any fund classified as a Common Pension Fund [B] and permitted to invest in money market funds.**

17:16-37.4 Limitations

(a) At the time of initial purchase, the following conditions shall be met:

1. Not more than 10 percent of the market value of any **eligible fund (other than a Pension and Annuity Fund or Common Pension Fund)** shall be invested in money market funds; [and]

2. Not more than five percent of the combined assets of all of the Pension and Annuity Funds shall be invested in money market funds; and

[2.] **3.** The total amount of shares or units purchased or acquired by **any eligible fund** of any one money market fund shall not exceed five percent of the shares or units outstanding.

(b) (No change.)

SUBCHAPTER 40. NON-CONVERTIBLE PREFERRED STOCKS [OF U.S. CORPORATIONS]

17:16-40.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Non-convertible preferred stocks” mean[s] shares of stock which provide a dividend that is paid before any dividends are paid to holders of common stock and additional rights above and beyond those conferred by common stock. The shares are not convertible into common stock of the [corporation] **issuing entity**.

“Private placement” [shall] means a negotiated sale in which the securities are sold directly to institutional or private investors, rather than through a public offering[. Such placements are not] registered with the U.S. Securities and Exchange Commission or **applicable foreign regulatory body**. **Private placement includes the sale of securities pursuant to Section 4(2), Regulation D, Regulation S, or Rule 144A under the Securities Act of 1933.**

[“U.S. corporation” means a corporation deemed by the Director to be based in the United States. In determining whether a corporation is based in the United States, the Director shall consider factors including, but not limited to, the corporation’s country of incorporation, its main equity trading market, its shareholder base, the geographical distribution of its operations, the location of its headquarters, and the country in which investors consider the corporation to be most appropriately classified.]

17:16-40.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in [the] non-convertible preferred stock [of a U.S. corporation] provided that:

1. The stock is traded on a securities exchange [in the United States] or the over-the-counter market or issued through a private placement[. If the Director invests in non-convertible preferred stock of a company not incorporated in the United States, but is deemed to be based in the United States, he or she shall prepare a memorandum explaining such determination, and shall inform the Council of his or her determination at its next regularly scheduled meeting];

2.-3. (No change.)

(b) Notwithstanding the restrictions in (a) above, the Director may invest and reinvest the moneys of **any eligible** Common Pension Fund [B] in [corporate] **global debt** obligations [of U.S. based corporations, international corporate obligations], collateralized notes and mortgages, global diversified credit investments, non-convertible preferred stock, and mortgage-backed passthrough securities that do not meet the minimum credit ratings set forth in N.J.A.C. 17:16-12.2, [16.2,] 19.2, 23.2, this section, and N.J.A.C. 17:16-58.2, respectively; provided, however, the **aggregate** market value of such investments shall not exceed eight percent of the combined assets of all of the Pension and Annuity Funds.

(c) Notwithstanding the restrictions in (a) above, the Director may invest and reinvest the moneys of **any eligible** Common Pension Fund [B] in [corporate] **global debt** obligations [of U.S. based corporations,

international corporate obligations,] and non-convertible preferred stock of companies that do not meet the minimum market capitalization or contributed capital set forth in N.J.A.C. 17:16-12.2 [and 16.2] and this section, respectively; provided, however, the market value of such investments shall not exceed one percent of the combined assets of all the Pension and Annuity Funds.

(d) (No change.)

17:16-40.3 Eligible funds

[a)] For purposes of this subchapter, eligible funds shall include[:

1.] **any fund classified as a Common Pension Fund [B] and permitted to invest in non-convertible preferred stock.**

17:16-40.4 Limitations

(a) At the time of initial purchase, the following conditions shall be met:

1. The total amount of non-convertible preferred stock purchased or acquired under this subchapter of any one [corporation] **issuer** shall not exceed 10 percent of the outstanding non-convertible preferred stock or 25 percent of the issue at the time of issue, except that these requirements may be waived by the Council;

2. [Not more than five percent of the market value of the assets of any eligible fund shall be invested in the debt and non-convertible preferred convertible stock of any one corporation] **The total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds; and**

3. [Not more than five percent of the market value of the assets of any eligible fund shall be invested in debt issued through a private placement.] **The total amount directly invested in debt issued through a private placement by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed seven percent of the combined assets of all the Pension and Annuity Funds.**

(b) (No change.)

SUBCHAPTER 41. (RESERVED)

SUBCHAPTER 42. [COMMON STOCKS AND ISSUES CONVERTIBLE INTO COMMON STOCKS] EQUITY INVESTMENTS (TRUST FUNDS)

17:16-42.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Common stock[s]” [shall] means shares of stock, other than preferred stock[s], representing ownership in a corporation **or other form of legal entity**.

“Convertible debt issue” means a debt obligation of any corporation or other form of legal entity which is convertible into the common stock of the entity.

“Convertible preferred stock” means preferred stock of any corporation or other form of legal entity which is convertible into the common stock of the entity.

“Equity investments” mean common stock, convertible and non-convertible preferred stock, rights, convertible debt issues, or any other security representing an ownership interest in a corporation, bank, master limited partnership, limited liability company, limited liability partnership, or other form of legal entity. Equity investments may also include investments in exchange-traded funds.

“Exchange-traded funds” mean funds that invest in underlying securities that track a predetermined index or strategy, a commodity, or a basket of assets, and can be traded like shares of common stock.

“Non-convertible preferred stock” means preferred stock of any corporation or other form of legal entity which is not convertible into the common stock of the entity.

“Preferred stock[s]” [shall] means shares of stock [which] **that** provide a specific dividend that is paid before any dividends are paid to holders of

common stock and additional rights above and beyond those conferred by common stock.

17:16-42.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in [common stock issued by a company] **equity investments denominated in United States dollars** that [is] are traded on a securities exchange in the United States or the over-the-counter market[, except that the common stock for the University of Medicine and Dentistry of New Jersey - Endowment Funds shall be issued by a company incorporated within the United States or within the Dominion of Canada, as required by N.J.S.A. 18A:64G-9].

(b) Notwithstanding the restrictions contained in this subchapter, the Council may approve the purchase of [common stock] **equity investments** on a case-by-case basis.

(c) [Notwithstanding the restrictions in] **In addition to** (a) above, the Director may:

1. Exercise the **rights or** conversion privileges [into common stock] **of the equity investments** of any security acquired under this [Subchapter] **subchapter**;

2. Purchase the convertible [issue of a company] **preferred stock or rights of an entity**, the common stock of which qualifies for investment under this subchapter;

3. Purchase stock in new public offerings of [companies without prior approval of the Council provided, however, approval will be sought at the next regularly scheduled Council meeting in the event the security does not subsequently meet the requirements of this subchapter. If approval is not granted, the securities will be sold within three months of the Council's disapproval] **entities**; and

4. (No change.)

17:16-42.3 Eligible funds

(a) For purposes of this subchapter, eligible funds shall include:

[1. University of Medicine and Dentistry of New Jersey—Endowment Funds;]

Recodify existing 2.-5. as 1.-4. (No change in text.)

17:16-42.4 Limitations

(a) At the time of initial purchase, the following conditions shall be met:

1. Not more than 10 percent of the market value of the assets of any eligible fund shall be **directly** invested in [the common stock and convertible securities] **equity and fixed income obligations** of any one [corporation] **issuer and affiliated entities**; [and]

2. The total amount of a **particular class** of stock **directly** purchased or acquired of any one [corporation] **entity** shall not exceed five percent of [the common] **that class** of stock **outstanding**[, or of any other class of stock which entitles the holder thereof to vote at all the elections of directors, of such corporation.]; **and**

3. **The total amount of shares directly purchased or acquired of any one exchange-traded fund shall not exceed five percent of the total shares outstanding of such fund.**

(b) (No change.)

(Agency Note: N.J.A.C. 17:16-43 and 45 are proposed for recodification with amendments as N.J.A.C. 17:16-84 and 85, respectively.)

SUBCHAPTERS 43. THROUGH 47. (RESERVED)

SUBCHAPTER 48. GLOBAL EQUITY INVESTMENTS (PENSION AND ANNUITY FUNDS)

17:16-48.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Closed-end global, regional, or country funds” mean funds that invest in underlying securities that concentrate on a specific industry, geographic market, or sector.

“Common stock” means shares of stock, other than preferred stock, representing ownership in a corporation or other form of legal entity.

“Convertible debt issue” means a debt obligation of any corporation or other form of legal entity that is convertible into the common stock of the entity.

“Convertible preferred stock” means preferred stock of any corporation or other form of legal entity that is convertible into the common stock of the entity.

“Equity investments” mean common stock, convertible and non-convertible preferred stock, rights, convertible debt issues, or any other security representing an ownership interest in a corporation, bank, master limited partnership, limited liability company, limited liability partnership, or other form of legal entity. Equity investments may also include investments in exchange-traded funds and closed-end global, regional, or country funds.

“Exchange-traded funds” mean funds that invest in underlying securities that track a predetermined index or strategy, a commodity, or a basket of assets, and whose shares can be traded like shares of common stock.

“Non-convertible preferred stock” means preferred stock of any corporation or other form of legal entity that is not convertible into the common stock of the entity.

“Preferred stock” means shares of stock that provide a dividend that is paid before any dividends are paid to holders of common stock and additional rights above and beyond those conferred by common stock.

“Private placement” means a negotiated sale in which the securities are sold directly to institutional or private investors, rather than through a public offering registered with the U.S. Securities and Exchange Commission or applicable foreign regulatory body. Private placement includes the sale of securities pursuant to Section 4(2), Regulation D, Regulation S, or Rule 144A under the Securities Act of 1933, as amended.

17:16-48.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in global equity investments traded on a securities exchange or the over-the-counter market, or offered and sold through a private placement.

(b) In addition to (a) above, the Director may:

1. Exercise the rights or conversion privileges of any global equity investment acquired under this subchapter;

2. Purchase the convertible preferred stock or rights of an entity, the common stock of such entity which qualifies for investment under this subchapter;

3. Purchase the convertible debt issue of an entity, the common stock of such entity which qualifies for investment under this subchapter;

4. Purchase stock in new public offerings of entities; and

5. Retain any distribution received as a result of a corporate action, even if the security distributed does not meet the requirements of this subchapter.

(c) Notwithstanding the restrictions in this subchapter, the Council may approve the purchase of global equity investments on a case-by-case basis.

17:16-48.3 Eligible funds

(a) For purposes of this subchapter, eligible funds shall include:

1. The Police and Firemen's Retirement System;
2. The Public Employees' Retirement System;
3. The State Police Retirement System;
4. The Teachers' Pension and Annuity Fund;
5. The Judicial Retirement System of New Jersey; and
6. Any fund classified as a Common Pension Fund and permitted to invest in global equity investments.

17:16-48.4 Limitations

(a) At the time of initial purchase, the following conditions shall be met:

1. The combined market value of global equity investments, excluding exchange traded funds that invest in fixed income assets, strategies, or indices, held directly by the eligible funds under this subchapter shall not exceed 70 percent of the total market value of the combined assets of all of the Pension and Annuity Funds. The Council shall be notified at the next regularly scheduled meeting of the Council when the combined market value of the equity investments held by the eligible funds reaches or exceeds 68 percent of the total market value of the combined assets of all of the Pension and Annuity Funds. Subsection (b) below shall apply when the combined market value of the equity investments held by the eligible funds exceeds 70 percent of the total market value of the combined assets of all of the Pension and Annuity Funds;

2. The total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds;

3. The total amount of a particular class of stock directly purchased or acquired of any one entity shall not exceed ten percent of that class of stock outstanding;

4. The total amount of shares or interests directly purchased or acquired of any one exchange-traded fund or closed-end global, regional, or country fund shall not exceed 10 percent of the total shares outstanding or interests of such fund; and

5. The total amount directly invested in equity investments issued through a private placement by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed two percent of the combined assets of all the Pension and Annuity Funds.

(b) If, subsequent to initial purchase, the limitations in (a) above are exceeded, then the Council shall be notified at the next regularly scheduled meeting of the Council. The Division may be granted a six-month period of grace to reduce the level of participation below the maximum levels, except that the period of grace may be extended for additional four-month periods with the approval of the Council.

SUBCHAPTERS [48.] 49. THROUGH 52. (RESERVED)

SUBCHAPTER 58. MORTGAGE-BACKED SENIOR DEBT SECURITIES; MORTGAGE-BACKED PASSTHROUGH SECURITIES

17:16-58.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Mortgage-backed senior debt securities” [shall] mean senior debt securities that are fully collateralized by mortgage securities.

“Mortgage-backed passthrough securities” [shall] mean passthrough securities that are fully collateralized by residential or commercial mortgage securities and are issued by a sponsor deemed by the Director to be based in the United States. In determining whether a sponsor is based in the United States, the Director shall consider factors including, but not limited to, the sponsor’s country of incorporation, its main equity trading market, its shareholder base, the geographical distribution of its operations, the location of its headquarters, and the country in which investors consider the sponsor to be most appropriately classified.

17:16-58.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in [senior debt] **mortgage-backed senior debt** securities [which are fully collateralized by mortgage securities] provided that the issue must be \$50,000,000 or more in size.

(b) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in mortgage-backed passthrough securities provided that:

1. The issue has been registered with the Securities and Exchange Commission, except that this requirement may be waived by the [State Investment] Council;

2. The sponsor is not in default as to the payment of principal or interest upon any of its outstanding obligations. If subsequent to purchase, the sponsor defaults, the investment does not have to be sold; **and**

[3. The individual mortgage loans serving as collateral have an average loan-to-value ratio of 75 percent or less; and the collateral is at least 90 percent single-family detached residential property and at least 95 percent owner-occupied residential property; and]

[4.] 3. (No change in text.)

(c) Notwithstanding the restrictions in (b) above, the Director may invest and reinvest the moneys of **any eligible** Common Pension Fund [B] in [corporate] **global debt** obligations [of U.S. based corporations, international corporate obligations], collateralized notes and mortgages, global diversified credit opportunity investments, non-convertible preferred stock, and mortgage-backed passthrough securities that do not meet the minimum credit ratings set forth in N.J.A.C. 17:16-12.2, [16.2,] 19.2, 23.2, 40.2, and this section, respectively; provided, however, the **aggregate** market value of such investments shall not exceed eight percent of the combined assets of all of the Pension and Annuity Funds.

(d) (No change.)

17:16-58.3 Eligible funds

(a) For purposes of N.J.A.C. 17:16-58.2(a), eligible funds shall include:

1. (No change.)

[2. Any fund classified as a Static Fund;]

Recodify existing 3.-6. as 2.-5. (No change in text.)

[7.] 6. **Any fund classified as a Common Pension Fund [B] and permitted to invest in mortgage-backed senior debt securities.**

(b) For purposes of N.J.A.C. 17:16-58.2(b), eligible funds shall include:

1. (No change.)

[2. Any fund classified as a Static Fund;]

[3.] 2. (No change in text.)

[4.] 3. **Any fund classified as a Common Pension Fund [B] and permitted to invest in mortgage-backed passthrough securities.**

17:16-58.4 Limitations

(a) At the time of initial purchase, the following conditions shall be met:

1. Not more than 25 percent of any one issue of [senior debt] **mortgage-backed senior debt** securities [which are fully collateralized by mortgage loans] may be **directly** purchased at the time of issue, except that this requirement may be waived by the Council; [and]

2. Not more than five percent of the market value of the assets of any **eligible fund (other than the Pension and Annuity Funds and Common Pension Funds)** shall be **directly** invested in any one issue[.]; **and**

3. **Not more than 10 percent of the combined assets of all of the Pension and Annuity Funds shall be directly invested in mortgage-backed senior debt securities and mortgage-backed passthrough securities.**

(b) (No change.)

SUBCHAPTER 61. STATE OF NEW JERSEY CASH MANAGEMENT FUND

17:16-61.2 Permissible investments

The Director may invest the assets of the State of New Jersey Cash Management Fund in fixed-income and debt securities[, including any investments] permitted under this chapter.

17:16-61.3 Units of participation

(a)-(b) (No change.)

(c) All units of participation shall be purchased by cash payments. All units shall be purchased by the participating fund for the [principal] **unit** valuation price determined by this subchapter.

17:16-61.4 Valuation of investments

(a) (No change.)

(b) The valuation **of investments** shall be determined at the opening of business on each business day, and shall be based on [realized gains or

losses, accruals, and amortization] **the assets** as of the close of the previous business day.

(c) [Any error in the statement of daily income to participants which is less than either one-third of a true calculation of such income or \$100,000, whichever is greater, may be adjusted over future daily income of the Fund in such a manner as may be approved by the Director. Any error in excess of such amount may be adjusted in such a manner as may be approved by the Council, through the restatement of income on days the error occurred, by charge against income on future days, or otherwise.] **The valuation of investments shall be made in accordance with applicable accounting standards, using recognized industry pricing sources.**

17:16-61.6 Admission and withdrawal

(a) Admission to or withdrawal from the fund shall be permitted on any business day. Admissions prior to [1:00 P.M.] **such time as may be established by the Director from time to time** will receive credit for net income available for distribution for such day if such admissions remain in the fund through the close of such day. Withdrawals from the fund will receive credit for net income available for distribution only as of the close of the day next preceding such withdrawal.

(b) (No change.)

17:16-61.9 Limitations

All investments [in] **held by** the fund shall mature or are to be redeemed within one year, except that up to 25 percent of the fund may be invested in eligible securities which mature within 25 months; provided, however, that the average maturity of all investments [in] **held by** the fund shall not exceed one year.

17:16-61.10 Liquidation

(a)-(c) (No change.)

(d) Distribution upon liquidation shall occur within five days after a valuation date and shall be based upon the [principal] **unit** value [per unit] determined upon such valuation date.

(e) (No change.)

SUBCHAPTERS 62. THROUGH 64. (RESERVED)

SUBCHAPTER 65. DEFERRED COMPENSATION PLAN

17:16-65.2 Permissible investments

(a) (No change.)

(b) Moneys in the Common Funds shall be invested as follows:

1. (No change.)

2. The New Jersey State Employees Deferred Compensation Equity Fund and the New Jersey State Employees Deferred Compensation Small Capitalization Equity Fund will be invested in such [common stocks and issues convertible into common stock] **equity investments** as are permitted under N.J.A.C. 17:16-42; provided that, in the case of the New Jersey State Employees Deferred Compensation Small Capitalization Equity Fund, investments will be made in [common stocks and issues convertible into common stock, which are eligible] **such equity investments permissible for investment** under N.J.A.C. 17:16-42 and which are designated as small capitalization stocks by the Division.

3. The New Jersey State Employees Deferred Compensation Cash Management Fund shall be invested in the State of New Jersey Cash Management Fund or in [such other] fixed income securities maturing in less than one year as permitted by the rules of the Council.

4. (No change.)

(c)-(f) (No change.)

SUBCHAPTERS 66. AND 67. (RESERVED)

SUBCHAPTER 68. NEW JERSEY BETTER EDUCATIONAL SAVINGS TRUST (NJBEST) FUND

17:16-68.2 Permissible investments

The Director may invest the assets of the NJBEST Fund in fixed income securities and [in common and preferred stocks and issues convertible into common stock, including any] **equity investments**

permitted under this chapter, and in the State of New Jersey Cash Management Fund.

17:16-68.3 Units of participation

(a)-(b) (No change.)

(c) All units of participation shall be purchased by cash payments. All units shall be purchased by the [participating fund] **participants** for the [principal] **unit** valuation price determined by this subchapter.

17:16-68.4 Valuation of investments

(a) (No change.)

(b) The valuation shall be determined at the opening of business on each business day, and shall be based on [market prices and income accruals] **the assets** as of the close of the previous business day.

(c) The [Director shall use the following method of] valuation of investments[:] **shall be made in accordance with applicable accounting standards, using recognized industry pricing sources.**

[1. Securities prices will be determined by a pricing service or a method which has been approved by the Director.

2. Accrual and amortization procedures will be calculated by procedures and formulas approved by the Director.

3. The method of pricing the fund shall be in accordance with contractual obligations of the custodian bank.

4. In the case of a stock where a dividend has been declared and not as yet paid and the amount of such dividend has been included as income, such amount shall be deducted from the value of the stock, unless such value is based on an ex-dividend valuation.

5. An investment purchased and awaiting payment against delivery shall be included for valuation purposes as a security and the cost thereof recorded as an account payable.

6. An investment sold but not delivered pending receipt of proceeds shall be valued at the net sales price.

7. For the purposes of valuation of an investment, with the exception of investments sold but not delivered, it shall not be necessary to deduct from the value ascertained by this section, brokers' commission or other expenses which would be incurred on a sale thereof.]

(d) In the event of errors or omissions in the [calculation of accruals of income, amortization or pricing of securities] **valuation of investments**, the custodian bank shall correct such errors or omissions as is set forth in the custody agreement.

17:16-68.5 Valuation of units

(a) The net asset value [of the] **per unit[s]** of participation of the fund shall be [determined by dividing the total market value of the fund's securities and other assets, less any administrative expenses or other liabilities,] **calculated as the net assets of the fund divided** by the total outstanding units of participation in the fund. [Initial unit values will be \$1.00.] **The valuation of net assets shall be calculated as total assets minus total liabilities, in accordance with applicable accounting standards.**

(b)-(d) (No change.)

17:16-68.6 Admission and withdrawal

(a) Admission to or withdrawal from the NJBEST Fund shall be permitted as of the end of each business day, subject to the requirements of N.J.A.C. [9:9-8] **9A:10-7.**

(b) (No change.)

17:16-68.9 Limitations

[(a) The Director may not invest more than 10 percent of the market value of the assets of the NJBEST Fund in common stock, preferred stock and securities convertible into common stock of any one corporation.

(b) The Director may not invest more than 10 percent of the market value of the assets of the NJBEST Fund in the debt of any one corporation, and not more than 25 percent of any one issue may be purchased at the time of issue.]

[(c)] **(a)** The Director may not invest more than 80 percent of the market value of the assets of the NJBEST Fund in [common stocks, preferred stocks and securities convertible into common stock] **equity investments as are permitted under N.J.A.C. 17:16-42.**

[(d)] **(b)** (No change in text.)

17:16-68.10 Liquidation

(a)-(c) (No change.)

(d) Distribution upon liquidation shall occur within five days after a valuation date and shall be based upon the [principal] **net asset** value per unit determined upon such valuation date.

(e) (No change.)

SUBCHAPTER 69. COMMON PENSION FUNDS [E]

17:16-69.1 General provisions

(a) Pursuant to P.L. 1970, c. 270, [there is hereby created in the Division a] **the Council established the following** common trust funds[, to be known as Common Pension Fund E, for the purpose of investing in alternative investments.]:

1. Common Pension Fund A, effective February 1, 1971 (3 N.J.R. 52(b));

2. Common Pension Fund B, effective March 8, 1972 (4 N.J.R. 79(c));

3. Common Pension Fund D, effective January 2, 1990 (22 N.J.R. 60(b)); and

4. Common Pension Fund E, effective June 20, 2005 (37 N.J.R. 2217(a)).

(b) The following funds may participate in **the** Common Pension Funds [E]:

1.-5. (No change.)

17:16-69.2 Permissible investments

The Director may invest the assets of **any** Common Pension Fund [E] in [alternative investments, including any investment permitted under this chapter, the State of New Jersey Cash Management Fund, United States Treasury Obligations and commercial paper] **such of the asset classes permitted under this chapter as have been designated by the Director and approved by the Council for such Common Pension Fund.**

17:16-69.3 Units of participation

(a) **Each** Common Pension Fund [E] shall be composed of units of participation of unlimited quantity. Each unit of participation shall represent an equal beneficial interest in the fund and no unit shall have priority or preference over any other. Each unit of participation shall be valued at the net asset value per unit as provided in N.J.A.C. 17:16-69.5.

(b) All units of participation in **each** Common Pension Fund [E], representing net capital contributions to the fund together with any income thereon, shall be evidenced by records maintained by the Division.

(c) (No change.)

17:16-69.4 Valuation of investments and net assets

(a) Upon each valuation date, as provided in (b) below, there shall be a valuation for every investment in [the common fund] **each Common Pension Fund** and the net assets of [the common fund] **each Common Pension Fund** in the method provided for in this section.

(b) The valuation of investments and net assets shall be determined at the opening of each business day [at the discretion of the Director but in any event such valuation of investments shall be determined no less frequently than once per quarter. The valuation] **and** shall be based on assets and liabilities as of the close of the previous business day[.]; **provided, however, that the valuation of investments that are not publicly traded shall be determined at the discretion of the Director but no less frequently than once per quarter. The valuation, in every case, shall be converted into United States dollars.**

(c) (No change.)

17:16-69.5 Valuation of units

The net asset value per unit **of each Common Pension Fund** shall be calculated as the net assets of the fund divided by the total number of units outstanding as of such valuation date.

17:16-69.6 Admission and withdrawal

(a) No admission to or withdrawal from [the common fund] **each Common Pension Fund** shall be permitted except on a valuation date and shall be based upon the value of each unit as of that valuation date.

(b) (No change.)

17:16-69.8 Distribution of realized [appreciation] gains

(a) Subsequent to the receipt of audited financial statements for the prior fiscal year, the Council may consider the realized [appreciation] **gains** in [the common fund] **each Common Pension Fund** per unit. The Council may, in its sole discretion, choose either of the following options **with respect to each such Common Pension Fund:**

1. Declare as income to the participating funds such percentage of said realized [appreciation of principal] **gains** as it may deem prudent. When such declaration is made, the percentage of such [appreciation of principal] **gains** declared to be income shall be deducted from the total net assets of [the common fund] **each Common Pension Fund** and distributed to the participating funds in proportion to the number of units owned; or

2. Retain any or all realized [appreciation] **gains** for future investments within [the common fund] **each Common Pension Fund.**

17:16-69.9 Limitations

(a) For all investments [(other than the State of New Jersey Cash Management Fund, United States Treasury Obligations, commercial paper, common and preferred stocks, issues convertible into common stock and exchange-traded funds, and forward, option and swap transactions)] made [in] **by or on behalf of any** Common Pension Fund [E] **through direct investments, separate accounts, funds-of-funds, commingled funds, co-investments, or joint ventures under N.J.A.C. 17:16-23.2(a)2, 71.2(a)1, 90.2(a)1, and 100.2(a)1,** the following shall occur:

1. The Director shall provide the Investment Policy Committee of the Council (Investment Committee) with the requested due diligence information for all investments recommended by the Division and a formal written report for each such investment. Due diligence information shall include but not be limited to, in all cases, information demonstrating that the investment satisfies the limitations and conditions contained in N.J.A.C. 17:16-23, 71, 90, and 100, and a written disclosure submitted by the asset manager summarizing any and all compensation arrangements with consultants and intermediaries, whether direct or indirect, in connection with the proposed investment.

2. (No change.)

3. On investments of less than \$50 million, the Director shall provide an informational memorandum to the Council [of every] **on each such** investment made, which **memorandum** shall be provided [on a regular basis subsequent to the date] **no later than the first regularly scheduled meeting of the Council after the date** such [investment] **binding commitment** has been made.

4. In any given calendar year, and at any point within such year, at least 80 percent of the number of investments [which are approved] and 80 percent of the dollar amount of total investment commitments must be eligible for a report by the Investment Committee to the Council. For investments under \$50 million, so long as such investments constitute no more than 20 percent of the number of investments approved and 20 percent of the total investment dollars committed, the Director shall provide an informational memorandum to the Council pursuant to (a)3 above. Once the Division has exceeded its 20 percent “exemption” in any given year, all proposed investments will be subject to the Investment Committee providing a report to the Council until the number and dollar value of “exempt” investment again falls below the 20 percent threshold.

(b) [After the Director has made binding commitments aggregating an amount between \$2 billion and \$5 billion, not more than 10 percent of the market value of the assets of Common Pension Fund E, plus outstanding commitments, may be committed to any one partnership or investment, without the prior written approval of the Council. After the Director has made binding commitments aggregating an amount of \$5 billion or more, not] **Not** more than five percent of the market value of the assets [of Common Pension Fund E] **invested through direct investments, separate accounts, funds-of-funds, commingled funds, co-investments, and joint ventures pursuant to N.J.A.C. 17:16-23.2(a)2, 71.2(a)1, 90.2(a)1, and 100.2(a)1,** plus outstanding commitments, may be committed to any one partnership or investment, without the prior written approval of the Council.

(c) The investments [in Common Pension Fund E] **made through separate accounts, funds-of-funds, commingled funds, co-**

investments, and joint ventures pursuant to N.J.A.C. 17:16-23.2(a)2, 71.2(a)1, 90.2(a)1, and 100.2(a)1 cannot comprise more than 20 percent of any one investment manager’s total assets.

(d) Not more than 38 percent of the market value of the assets of any fund shall be represented by the market value of investments as permitted by N.J.A.C. 17:16-71, 90, and 100, whether held directly by such fund or through the Common Pension Funds [E]. If the market value exceeds 38 percent, then the Council shall be notified at the next regularly scheduled meeting of the Council. The Division may be granted a six-month period of grace to reduce the level of participation of the fund below the 38 percent level, except that the period of grace may be extended for additional four-month periods with the approval of the Council.

(e) Unless otherwise specifically provided therein, in the event that any subchapter contains a limitation on the percentage of assets of any Pension and Annuity Fund which may be invested in an investment or class of investments, that limitation shall be construed to apply to the percentage of combined assets of all of the Pension and Annuity Funds participating in a Common Pension Fund [E] and shall not restrict the total investment by that Common Pension Fund [E] in such investment or class of investments to the percentage limitations applicable to any individual Pension and Annuity Fund.

(f) Unless otherwise specifically provided therein, in the event that any subchapter contains a limitation on the percentage of an investment or class of investment in which the Director may invest, that limitation shall be construed to exclude investments [purchased] **made through separate accounts, funds-of-funds, commingled funds, co-investments, and joint ventures pursuant to N.J.A.C. 17:16-23, 71, 90, and 100** on behalf of the Common Pension Funds [E].

17:16-69.10 Liquidation

(a) The Director, subject to the approval of the Council and the Treasurer, may, upon two months’ notice, liquidate a Common Pension Fund [E].

(b)-(e) (No change.)

SUBCHAPTER 71. REAL ASSETS

17:16-71.1 Definitions

The following words and terms, as used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Co-investment” means two parties (usually the limited partner and the general partner of a fund) invest alongside each other in the same company, portfolio, or property. If [a limited partner] **an investor** in a fund has co-investment rights, it can invest directly in a company, portfolio, or property in which the fund also invests. The [institution] **investor**, therefore, ends up with two separate stakes – one indirectly through the fund; one directly in the company, portfolio, or property. Co-investment may also include multiple like-minded institutional investors investing in a specific company, portfolio, or property.

“Commingled funds” means all open-end and closed-end pooled investment vehicles [designed primarily for institutional tax-exempt investors]. A commingled fund may be organized as a group trust, partnership, **limited liability company**, corporation, insurance company separate account, or other multiple ownership entity. An investment in a commingled fund may take the form of an investment in the **fund or in the trustee, general partner, or other managing member of such fund.**

“Common stock[s]” means shares of stock, other than preferred stock[s], representing ownership in a corporation **or other form of legal entity.**

“Convertible debt issue” means a **debt obligation of any corporation or other form of legal entity which is convertible into the common stock of the entity.**

“Convertible preferred stock” means **preferred stock of any corporation or other form of legal entity which is convertible into the common stock of the entity.**

“Exchange-traded funds” mean funds that invest in underlying securities that track a predetermined index **or strategy**, a commodity, or a basket of assets [like an index fund], and **whose shares** can be traded like shares of common stock.

“Funds-of-funds” means **funds set up to distribute investments among a selection of fund managers, who in turn invest the capital directly.**

“Joint venture” means a contractual agreement joining two or more parties for the purpose of executing a particular undertaking. All parties agree to share in the profits and losses of the enterprise. **Joint ventures are usually private.**

“Preferred stock[s]” means shares of stock which provide a [specific] dividend that is paid before any dividends are paid to holders of common stock and additional rights above and beyond those conferred by common stock.

“Private placement” means **a negotiated sale in which the securities are sold directly to institutional or private investors, rather than through a public offering registered with the U.S. Securities and Exchange Commission or applicable foreign regulatory body. Private placement includes the sale of securities pursuant to Section 4(2), Regulation D, Regulation S, or Rule 144A under the Securities Act of 1933, as amended.**

“Separate account” means [ownership is segregated and kept in the investor’s name] **an investment vehicle with a single investor that is unaffiliated with its sponsor or manager.**

17:16-71.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in real assets in any of the following ways:

1. [Investment] **Invest** in real assets through direct investments, separate accounts, commingled funds, co-investments, **funds-of-funds**, and joint ventures[.] **subject to the further provisos contained in N.J.A.C. 17:16-69.9;**

2. Purchase the common stock of [a U.S. or international corporation] **an entity** that primarily invests in real assets, and whose stock is traded on a securities exchange or over-the-counter market[.] **or offered and sold through a private placement; and**

3. Purchase exchange-traded funds traded on a securities exchange or the over-the-counter market that primarily invest in real assets. [Exchange-traded funds shall have a minimum market capitalization of \$100 million.] For the purposes of this subchapter, exchange-traded funds shall be considered as common stock in determining all applicable limitations contained in this subchapter. [Subsequent to purchase, if capitalization falls below \$100 million, the investment does not have to be sold.]

[(b) Notwithstanding the restrictions contained in (a) above, the Council may approve the purchase of real assets on a case-by-case basis.]

[(c)] **(b)** [Notwithstanding the restrictions in] **In addition to** (a) above, the Director may:

1. Exercise the **rights or** conversion privileges into the common stock of any security acquired under this subchapter;

2. Purchase the preferred stock, whether convertible or not, **or rights** of [a company] **an entity**, the common stock of which qualifies for investment under this subchapter;

3. Purchase the convertible **debt** issue of [a company] **an entity**, the common stock of which qualifies for investment under this subchapter;

4. Purchase stock in new public offerings of [companies] **entities that primarily invest in real assets** [without prior approval of the Council, provided, however, approval will be sought at the next regularly scheduled Council meeting in the event the security does not subsequently meet the requirements of this subchapter. If approval is not granted, the securities will be sold within three months of the Council’s disapproval]; and

5. Retain any distribution received as a result of a corporate action or distribution by a [fund] **real asset investment**, even if the security does not meet the requirements of this subchapter.

(c) Notwithstanding the restrictions contained in this subchapter, the Council may approve the purchase of real assets on a case-by-case basis.

17:16-71.3 Eligible funds

(a) For purposes of this subchapter, eligible funds shall include:

1. Police and Firemen's Retirement System;
2. Public Employees' Retirement System;
3. State Police Retirement System;
4. Teachers' Pension and Annuity Fund;
5. Judicial Retirement System of New Jersey; and

6.] **any fund classified as a Common Pension Fund [E] and permitted to invest in real assets.**

17:16-71.4 Limitations

(a) At the time of initial purchase, the following conditions shall be met:

1. The aggregate market value of the investment in real estate under this subchapter shall not exceed nine percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E];

2. The maximum consolidated principal amount of leverage within the real estate portfolio [of Common Pension Fund E] shall not exceed 50 percent and 75 percent of [Common Pension Fund E's share of] the gross market value of [Common Pension Fund E's] **the** investment in core real estate and non-core real estate, respectively. This limitation shall not apply to **direct** investments in common and preferred stock, exchange-traded funds, and convertible **debt** issues;

3. No more than five percent of the [market] **combined** [value of the] assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E] may be invested in real estate located outside the United States. This limitation shall not apply to **direct** investments in common and preferred stock, exchange-traded funds, and convertible **debt** issues;

4. No more than seven percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E] may be invested in a single real estate property type, such types being defined as office, retail, apartment/multi-family, hotel, industrial, and specialty use. This limitation shall not apply to **direct** investments in common and preferred stock, exchange-traded funds, and convertible **debt** issues;

5. No more than five percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E] may be invested in direct investments, co-investments, and joint ventures investing in real estate in any one region of the United States, such regions being defined as: East, South, Midwest, and West. This limitation shall not apply to investments in common and preferred stock, exchange-traded funds, and convertible issues;

6. No more than seven percent of the market value of the **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E] may be invested in real assets other than real estate;

7. [No more than seven percent of the market value of the assets of any eligible fund shall be invested in the common and preferred stock of any one corporation eligible for investment pursuant to N.J.A.C.17:16-71.2(a)3. This seven percent limitation shall not apply to Common Pension Fund E;] **The total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds;**

8. The total amount of a **particular class of** stock purchased or acquired of any one [corporation] **issuer** eligible for investment pursuant to N.J.A.C. 17:16-71.2(a)[3] **2 and (b)** shall not exceed [five] **10** percent of [the common stock, or of any other class of stock which entitles the holder thereof to vote at all elections of directors, of such corporation] **that class of stock outstanding;** and

9. [No more than seven percent of the market value of the assets of any eligible fund shall be invested in exchange-traded funds that invest in commodities or assets other than corporate equity securities.] **The total amount of shares directly purchased or acquired any one exchange-traded fund shall not exceed 10 percent of the total shares outstanding of such fund.**

(b) (No change.)

SUBCHAPTER 81. FOREIGN [EXCHANGE CONTRACTS]
CURRENCY TRANSACTIONS

17:16-81.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

"Foreign currency transactions" mean agreements between two parties to exchange two currencies at a specific time in the future. Foreign currency transactions include both spot and forward contracts.

"[Foreign exchange] Forward contracts" mean [forward contracts] agreements to sell or buy a specified amount of a specified foreign currency at a rate fixed at the time of the transaction but with delivery at a specified future time[, entered into with any commercial bank chartered in the United States or Canada having total assets of at least \$US 2 billion; any United States broker-dealer (or subsidiary or affiliate thereof) having a net capital of at least \$100 million; or any other foreign exchange counterparty approved by the Council]. These contracts take place on a date after the date that a spot contract settles. Forward exchange contracts may involve the purchase or sale of foreign currency.

"Spot contracts" mean agreements to sell or buy a specified amount of a specified foreign currency at a rate fixed at the time of the transaction but with settlement (payment and delivery) on the spot date. The settlement cycle of spot contracts is generally related to the settlement cycle of the related security transaction.

17:16-81.2 Permissible investments

(a) Subject to the limitations in this subchapter, the Director may enter into spot contracts for the purpose of settling investment transactions denominated in foreign currency.

[(a) (b) Subject to the limitations contained in this subchapter, the Director may enter into [foreign exchange] **forward** contracts for the purpose of hedging [a] **an eligible** fund's international portfolio. [Such foreign exchange contracts may involve the purchase or sale of international currency.]

(c) Counterparties to foreign currency transactions shall be approved by and included on a list maintained by the Director. At the time of each transaction, the counterparty (or any guarantor pledging its full faith and credit to the transaction) shall have a long term credit rating of Baa2 or higher by Moody's Investors Service, Inc., BBB or higher by Standard & Poor's Corporation, and BBB or higher by Fitch Ratings, or the counterparty must be approved by the Council, except that two of the three ratings are sufficient and one of the three ratings is sufficient if only one rating is available.

[(b) (d) Notwithstanding the restrictions [contained in (a) above] **in this subchapter**, the Council may approve the entering into foreign [exchange contracts] **currency transactions** on a case-by-case basis.

17:16-81.3 Eligible funds

(a) For purposes of this subchapter, eligible funds shall include:

1. Police and Firemen's Retirement System;
2. Public Employees' Retirement System;
3. State Police Retirement System;
4. Teachers' Pension and Annuity Fund;
5. Judicial Retirement System of New Jersey; and
6. **Any fund classified as a Common Pension Fund and permitted to invest in foreign exchange contracts.**

17:16-[81.3]81.4 Limitations

With respect to international [stocks] **securities**, the portfolio should be unhedged, except in such instances in which the Director believes that unusual circumstances exist in which hedging would serve to improve and protect the inherent returns of the international portfolio.

SUBCHAPTER 82. FUTURES CONTRACTS

17:16-82.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Futures contract” means an agreement between a buyer and a seller that is based on a referenced item, such as financial indices or interest rates, or a financial instrument, such as equity or fixed income securities, physical commodities, or currencies. Futures contracts may call for physical delivery of a specified quantity of the underlying asset at a specified price (futures or strike price) and date, or be settled in cash. Prices are determined by competitive bids on the applicable exchange. The terms of the contract are standardized and the applicable exchange is the counterparty to each cleared transaction.

17:16-82.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in futures contracts provided that the futures contracts trade on a securities exchange or the over-the-counter market.

(b) The Director may deliver securities to satisfy contractual obligations pursuant to the Division’s purchase and sale of a futures contract.

(c) Notwithstanding the restrictions in this subchapter, the Council may approve the purchase of futures contracts on a case-by-case basis.

17:16-82.3 Eligible funds

For purposes of this subchapter, eligible funds shall include any fund classified as a Common Pension Fund and permitted to invest in futures contracts.

17:16-82.4 Limitations

(a) At the time of each transaction, the following conditions shall be met:

1. Each transaction shall be subject to the applicable market or other regulatory position limits;

2. The aggregate market value of each asset class, together with the value of any futures contract obligations should be within the asset allocation range for the respective asset class; and

3. The total aggregate notional value of all futures contracts shall not exceed an amount equal to five percent of the combined assets of all of the Pension and Annuity Funds, except that this limit may be increased to an amount not to exceed 10 percent by the Director for a fixed period of time after consultation with the Investment Policy Committee of the Council. Long and short positions shall not be netted when computing total aggregate notional value.

(b) If, subsequent to the initial transaction, the limitations in (a) above are exceeded, then the Council shall be notified at the next regularly scheduled meeting of the Council. The Division may be granted a six-month period of grace to reduce the level of participation below the maximum levels, except that the period of grace may be extended for additional four-month periods with the approval of the Council.

SUBCHAPTER 83. SWAP TRANSACTIONS

17:16-83.1 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Credit default swap transactions” mean agreements between two parties, whereby one party makes periodic payments to the other party and receives the promise of a payoff if a third party defaults. The former party receives credit protection and is said to be the “buyer” while the other party provides credit protection and is said to be the “seller.” The risk of default is transferred from the buyer of the swap to the seller of the swap.

“Currency swap transactions” mean agreements between two parties that involves the exchange of principal and interest in one currency for the same in another currency.

“Equity swap transactions” mean agreements between two parties to exchange cash flows while still holding the original assets. The two sets of nominally equal cash flows are exchanged per the terms of the swap, and may involve an equity-based cash flow that is traded for a fixed-income cash flow.

“Interest rate swap transactions” mean agreements between two parties where one stream of future interest payments is exchanged for another according to a prearranged formula. Interest rate swap transactions often exchange a fixed payment for a floating payment that is linked to an interest rate.

“Swap transactions” mean agreements between two parties to exchange securities or cash flows in the future, according to a prearranged formula. Swap transactions may include equity swap transactions, currency swap transactions, interest rate swap transactions, and credit default swap transactions.

17:16-83.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may enter into swap transactions, including index-based swap transactions, on behalf of any eligible fund provided that:

1. Swap transactions shall be listed on a securities exchange, traded on an over-the-counter market or be bid/offered on a competitive basis with multiple broker dealers;

2. Credit default swap transactions may only be purchased for fixed income securities held in the pertinent portfolio of any eligible fund, except that index-based swaps may be purchased if the Director determines that a significant number of the underlying obligations contained in the index correspond to securities eligible for investment by, and are actually held in the portfolio of, an eligible fund; and

3. The counterparty (or any guarantor pledging its full faith and credit to the transaction) has been approved by and is included on a list maintained by the Director. At the time of each transaction, the counterparty (or any guarantor pledging its full faith and credit to the transaction) shall have a long term credit rating of Baa2 or higher by Moody’s Investors Service, Inc., BBB or higher by Standard & Poor’s Corporation, and BBB or higher by Fitch Ratings, or the counterparty must be approved by the Council, except that two of the three ratings are sufficient and one of the three ratings is sufficient if only one rating is available.

(b) Notwithstanding the restrictions in this subchapter, the Council may approve swap transactions on a case-by-case basis.

17:16-83.3 Eligible funds

For purposes of this subchapter, eligible funds shall include any fund classified as a Common Pension Fund and permitted to enter into swap transactions.

17:16-83.4 Limitations

(a) At the time of entering into a swap transaction:

1. The notional value of net exposure to any one counterparty shall not exceed one percent of the combined value of all of the Pension and Annuity Funds; and

2. The total notional value of all swap transactions shall not exceed five percent of the combined assets of all of the Pension and Annuity Funds, except that this limit may be increased to an amount not to exceed 10 percent by the Director for a fixed period of time after consultation with the Investment Policy Committee of the Council.

(b) If, subsequent to entering into a swap transaction, the limitations in (a) above are exceeded, then the Council shall be notified at the next regularly scheduled meeting of the Council. The Division may be granted a six-month period of grace to reduce the net exposure below the maximum levels, except that the period of grace may be extended for additional four-month periods with the approval of the Council.

SUBCHAPTER [43.] **84.** COVERED CALL OPTIONS

17:16-[43.1]**84.1** Definitions

The following words and terms, when used in this subchapter, shall have the following meaning, unless the context clearly indicates otherwise:

“Covered call options” [shall] mean call options, including index-based call options, sold on common stocks held in the pertinent portfolio, except that index-based call options may be sold and subsequently repurchased if substantially all of the underlying securities contained in the index correspond to securities eligible for investment by, and are actually held in the portfolio of, an eligible fund.

17:16-[43.2]**84.2** Permissible transactions

(a) Subject to the limitations contained in this subchapter, the Director may sell and repurchase covered call options on behalf of any eligible fund, provided that any covered call option purchased or sold shall be listed on a securities exchange, traded on [an] **the** over-the-counter market or be bid/offered on a competitive basis with multiple broker dealers.

(b) Notwithstanding the restrictions in this subchapter, the Council may approve covered call options on a case-by-case basis.

17:16-[43.3]**84.3** Eligible funds

(a) For purposes of this subchapter, eligible funds shall include:

- 1.-3. (No change.)
- 4. New Jersey State Employees Deferred Compensation Small Capitalization Equity Fund; **and**
- 5. **Any fund classified as a Common Pension Fund [A] and permitted to invest in covered call options.**]; and
- 6. Common Pension Fund D.]

17:16-[43.4]**84.4** (No change in text.)

SUBCHAPTER [45.] **85.** PUT OPTIONS

17:16-[45.1]**85.1** Definitions

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Put options” [shall] mean put options, including index-based put options, purchased or written for securities, assets, or foreign currencies permissible for investment in the eligible fund.

“Put spreads” [shall] mean the purchase of put options on particular underlying securities, assets, or foreign currencies permissible for investment in the eligible fund, with the simultaneous writing of put options on the same underlying securities, assets, or currencies, at a lower strike price.

17:16-[45.2]**85.2** Permissible transactions

(a) Subject to the limitations contained in this subchapter, the Director may purchase and subsequently sell put options, including index-based put options, on behalf of any eligible fund, provided that any put option purchased or sold shall be listed on a securities exchange, traded on [an] **the** over-the-counter market, or be bid/offered on a competitive basis with multiple broker dealers.

(b) Subject to the limitations contained in this subchapter, the Director may execute and subsequently terminate put spreads, provided that the purchased and written put options shall be for the same number of contracts, and shall be listed on a securities exchange, traded on [an] **the** over-the-counter market, or be bid/offered on a competitive basis with multiple broker dealers.

(c) (No change.)

17:16-[45.3]**85.3** Eligible funds

[a)] For purposes of this subchapter, eligible funds shall include[:

- [1.] **any fund classified as a Common Pension Fund [A] and permitted to invest in put options**];.
- [2. Common Pension Fund B;
- 3. Common Pension Fund D; and
- 4. Common Pension Fund E.]

17:16-[45.4]**85.4** (No change in text.)

SUBCHAPTERS [82.] **86.** THROUGH 89. (RESERVED)

SUBCHAPTER 90. PRIVATE EQUITY

17:16-90.1 Definitions

The following words and terms, as used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Buyout investment” means the acquisition of an established company. The [transaction] **acquisition** may or may not be leveraged.

“Co-investment” means two parties (usually the limited partner and the general partner of a fund) invest alongside each other in the same company. If [a limited partner] **an investor** in a fund has co-investment rights, it can invest directly in a company that is also backed by [a] **the** fund. The [institution] **investor** therefore ends up with two separate stakes in the company - one indirectly through the fund; one directly in the company. Co-investment may also include multiple like-minded institutional investors investing in a specific company or portfolio.

“Commingled fund” means **all open-end and closed-end** pooled investment vehicles [formed for the purpose of investing in private equity]. A commingled fund may be organized as a group trust, partnership, **limited liability company**, corporation, insurance company separate account, or other multiple ownership entity. An investment in a commingled fund may take the form of an investment in the **fund or in** the trustee, general partner, or other managing member of such fund.

“Common stock[s]” means shares of stock, other than preferred stock[s], representing ownership in a corporation **or other form of legal entity**.

“Convertible debt issue” means a debt obligation of any corporation or other form of legal entity that is convertible into the common stock of the entity.

“Convertible preferred stock” means preferred stock of any corporation or other form of legal entity that is convertible into the common stock of the entity.

...
“Exchange-traded funds” means [mutual] funds that **invest in underlying securities that track a predetermined index or strategy, a commodity, or a basket of assets, and whose shares** can be traded like shares of common stock.

...
“Preferred stock[s]” means shares of stock which provide a [specific] dividend that is paid before any dividends are paid to holders of common stock and additional rights above and beyond those conferred by common stock.

“Private placement” means a negotiated sale in which the securities are sold directly to institutional or private investors, rather than through a public offering registered with the U.S. Securities and Exchange Commission or applicable foreign regulatory body. **Private placement includes the sale of securities pursuant to Section 4(2), Regulation D, Regulation S, or Rule 144A under the Securities Act of 1933, as amended.**

“Private equity” means investments in companies or entire business units [with the intention of exercising control] in order to either restructure the target company’s reserve capital, management and/or organizational structure or facilitate ongoing growth of the firm. Private equity firms generally receive a return on their investment through an initial public offering, sale, or merger of the company they control, or a recapitalization. Private equity may consist of buyout [funds] **investments**, venture capital [funds] **investments**, and debt-related investments.

“Separate account” means [ownership is segregated and kept in the investor’s name] **an investment vehicle with a single investor that is unaffiliated with its sponsor or manager.**

17:16-90.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in private equity in any of the following ways:

1. [Investment] **Invest** in buyout investments, venture capital investments, and debt related investments through separate accounts, funds-of-funds, commingled funds, direct investments, co-investments, and joint ventures[.] **subject to the further provisos as contained in N.J.A.C. 17:16-69.9;**

2. Purchase the common stock of [a U.S. or international corporation] **an entity** that primarily invests in private equity, and whose stock is traded on a securities exchange or over-the-counter market[.] **or offered and sold through a private placement; and**

3. Purchase exchange-traded funds traded on a securities exchange or the over-the-counter market that primarily invest in private equity. [Exchange-traded funds shall have a minimum market capitalization of \$100 million.] For the purposes of this subchapter, exchange-traded funds shall be considered as common stock in determining all applicable limitations contained in this subchapter. [Subsequent to purchase, if capitalization falls below \$100 million, the investment does not have to be sold.]

[(b) Notwithstanding the restrictions contained in (a) above, the Council may approve the purchase of private equity on a case-by-case basis.]

[(c)] **(b)** [Notwithstanding the restrictions in] **In addition to** (a) above, the Director may:

1. Exercise the **rights** or conversion privileges [into the common stock] of any security acquired under this subchapter;

2. Purchase the preferred stock, whether convertible or not, **or rights** of [a company,] **an entity**, the common stock of which qualifies for investment under this subchapter;

3. Purchase the convertible **debt** issue of [a company] **an entity**, the common stock of which qualifies for investment under this subchapter;

4. Purchase stock in new public offerings of [companies] **entities that primarily invest in private equity** [without prior approval of the Council provided, however, approval will be sought at the next regularly scheduled Council meeting in the event the security does not subsequently meet the requirements of this subchapter. If approval is not granted, the securities will be sold within three months of the Council's disapproval]; and

5. Retain any distribution received as a result of a corporate action or distribution by a [fund] **private equity investment**, even if the security does not meet the requirements of this subchapter.

(c) Notwithstanding the restrictions contained in this subchapter, the Council may approve the purchase of private equity on a case-by-case basis.

17:16-90.3 Eligible funds

[(a)] For purposes of this subchapter, eligible funds shall include[:

1. Police and Firemen's Retirement System;

2. Public Employees' Retirement System;

3. State Police Retirement System;

4. Teachers' Pension and Annuity Fund;

5. Judicial Retirement System of New Jersey; and

6.] **any fund classified as a Common Pension Fund [E] and permitted to invest in private equity.**

17:16-90.4 Limitations

(a) At the time of initial purchase, the following conditions shall be met:

1. The aggregate market value of private equity investments under this subchapter[, for any eligible fund,] shall not exceed 12 percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E];

2. No more than 12 percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E] may be invested in buyout investments, and no more than seven percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E] may be invested in buyout investments outside of the United States. This limitation shall not apply to **direct** investments in common and preferred stock, exchange-traded funds, and convertible **debt** issues;

3. No more than five percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in

Common Pension Fund E] may be invested in venture capital investments, and no more than three percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E] may be invested in venture capital investments outside of the United States. This limitation shall not apply to **direct** investments in common and preferred stock, exchange-traded funds, and convertible **debt** issues;

4. No more than 12 percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E] may be invested in debt-related investments, and no more than seven percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E] may be invested in debt-related investments outside of the United States. This limitation shall not apply to **direct** investments in common and preferred stock, exchange-traded funds, and convertible **debt** issues;

5. [No more than seven percent of the market value of the assets of any eligible fund shall be invested in the common and preferred stock of any one corporation eligible for investment pursuant to N.J.A.C.17:16-90.2(a)2. This seven percent limitation shall not apply to Common Pension Fund E;] **The total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds;**

6. The total amount of a **particular class** of stock purchased or acquired of any one [corporation] **issuer** shall not exceed [five] **10** percent of [the common stock eligible for investment pursuant to N.J.A.C.17:16-90.2(a)2, or of any other class of stock which entitles the holder thereof to vote at all elections of directors, of such corporation] **that class of stock outstanding; and**

7. [No more than seven percent of the market value of the assets of any eligible fund shall be invested in exchange-traded funds that invest in private equity other than corporate equity securities.] **The total amount of shares directly purchased or acquired of any one exchange-traded fund shall not exceed 10 percent of the total shares outstanding of such fund.**

(b) (No change.)

SUBCHAPTERS 91. THROUGH [99.] **94.** (RESERVED)

SUBCHAPTER 95. OPPORTUNISTIC INVESTMENTS

17:16-95.1 Definitions

The following words and terms, as used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“**Opportunistic investments**” mean investments which have one or more readily identifiable attributes which are sufficiently different from those of other asset classes permitted under this chapter so as to be outside the scope of such asset classes.

17:16-95.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in opportunistic investments provided that:

1. The Director shall provide the Investment Policy Committee of the Council, prior to any binding commitment, with the requested due diligence information for all opportunistic investments recommended by the Division and a formal written report for each such investment; and

2. The Director shall provide an informational memorandum to the Council of every opportunistic investment made, which memorandum shall be provided at the next regularly scheduled meeting of the Council subsequent to the date such investment has been made.

17:16-95.3 Eligible funds

For purposes of this subchapter, eligible funds shall include any fund classified as a Common Pension Fund and permitted to invest in opportunistic investments.

17:16-95.4 Limitations

(a) At the time of initial purchase, the following conditions shall be met:

1. Not more than seven percent of the combined assets of all the Pension and Annuity Funds shall be invested in opportunistic investments in the aggregate; and

2. Not more than two percent of the combined assets of all the Pension and Annuity Funds shall be invested in any one opportunistic investment.

(b) If, subsequent to initial purchase, the limitations in (a) above are exceeded, then the Council shall be notified at the next regularly scheduled meeting of the Council. The Division may be granted a six-month period of grace to reduce the level of participation below the maximum levels, except that the period of grace may be extended for additional four-month periods with the approval of the Council.

SUBCHAPTERS 96. THROUGH 99. (RESERVED)

SUBCHAPTER 100. ABSOLUTE RETURN STRATEGY INVESTMENTS

17:16-100.1 Definitions

The following words and terms, as used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Commingled fund” means **all open-end and closed-end** pooled investment vehicles [formed for the purpose of investing in absolute return strategy funds]. A commingled fund may be organized as a group trust, partnership, **limited liability company**, corporation, insurance company separate account, or other multiple ownership entity. An investment in a commingled fund may take the form of an investment in the **fund or in the trustee, general partner, or other managing member of such fund.**

“Common stock[s]” [shall] means shares of stock, other than preferred stock[s], representing ownership in a corporation **or other form of legal entity.**

“Convertible debt issue” means a **debt obligation of any corporation or other form of legal entity that is convertible into the common stock of the entity.**

“Convertible preferred stock” means **preferred stock of any corporation or other form of legal entity that is convertible into the common stock of the entity.**

“Exchange-traded funds” [shall] means [mutual] funds that **invest in underlying securities that track a predetermined index or strategy, a commodity, or a basket of assets, and whose shares can be traded like shares of common stock.**

“Multi-strategy fund” means a fund that employs a combination of strategies including **strategies employed by credit oriented [strategies] funds, equity oriented [strategies] funds, and opportunistic [strategies] funds.**

“Preferred stock[s]” [shall] means shares of stock which provide a [specific] dividend that is paid before any dividends are paid to holders of common stock and additional rights above and beyond those conferred by common stock.

“Private placement” means a **negotiated sale in which the securities are sold directly to institutional or private investors, rather than through a public offering registered with the U.S. Securities and Exchange Commission or applicable foreign regulatory body. Private placement includes the sale of securities pursuant to Section 4(2), Regulation D, Regulation S, or Rule 144A under the Securities Act of 1933, as amended.**

“Separate accounts” [or “managed accounts”] means [ownership is segregated and kept in the investor’s name] **an investment vehicle with a single investor that is unaffiliated with its fund sponsor or manager.**

17:16-100.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in absolute return strategy investments in any of the following ways:

1. [Investment] **Invest** in credit oriented funds, equity oriented funds, opportunistic funds, or multi-strategy funds through commingled funds, funds-of-funds, separate accounts, managed accounts, and direct investments in individual funds[.] **subject to the further provisos as contained in N.J.A.C. 17:16-69.9;**

2. Purchase the common stock of [a U.S. or international corporation] **an entity** that primarily invests in absolute return strategy investments, and whose stock is traded on a securities exchange or over-the-counter market[.] **or offered and sold through a private placement; and**

3. Purchase exchange-traded funds traded on a securities exchange or the over-the-counter market that primarily invests in absolute return strategy investments. [Exchange-traded funds shall have a minimum market capitalization of \$100 million.] For the purposes of this subchapter, exchange-traded funds shall be considered as common stock in determining all applicable limitations contained in this subchapter. [Subsequent to purchase, if capitalization falls below \$100 million, the investment does not have to be sold.]

[(b) Notwithstanding the restrictions contained in (a) above, the Council may approve the purchase of absolute return strategy investments on a case-by-case basis.]

[(c) (b) [Notwithstanding the restrictions in] **In addition to (a) above,** the Director may:

1. Exercise the **rights or** conversion privileges [into the common stock] of any security acquired under this subchapter;

2. Purchase the preferred stock, whether convertible or not, **or rights** of [a company] **an entity**, the common stock of which qualifies for investment under this subchapter;

3. Purchase the convertible **debt** issue of [a company] **an entity**, the common stock of which qualifies for investment under this subchapter;

4. Purchase stock in new public offerings of [companies] **entities that primarily invest in absolute return strategy investments** [without prior approval of the Council, provided, however, approval will be sought at the next regularly scheduled Council meeting in the event the security does not subsequently meet the requirements of this subchapter. If approval is not granted, the securities will be sold within three months of the Council’s disapproval]; and

5. (No change.)

(c) Notwithstanding the restrictions contained in this subchapter, the Council may approve the purchase of absolute return strategy investments on a case-by-case basis.

17:16-100.3 Eligible funds

[(a) For purposes of this subchapter, eligible funds shall include:]

1. Police and Firemen’s Retirement System;
2. Public Employees’ Retirement System;
3. State Police Retirement System;
4. Teachers’ Pension and Annuity Fund;
5. Judicial Retirement System of New Jersey; and
6. **any fund classified as a Common Pension Fund [E] and permitted to invest in absolute return strategy investments.**

17:16-100.4 Limitations

(a) At the time of initial purchase, the following conditions shall be met:

1. The aggregate market value of absolute return strategy investments under this subchapter[, for any eligible fund,] shall not exceed 15 percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E];

2. No more than 10 percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E] may be invested in credit oriented funds, and no more than one percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E] may be invested directly in any individual credit oriented fund. This limitation shall not apply to **direct** investments in

common and preferred stock, exchange-traded funds, and convertible **debt** issues;

3. No more than 10 percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E] may be invested in equity oriented funds, and no more than one percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Fund E] may be invested directly in any individual equity oriented fund. This limitation shall not apply to **direct** investments in common and preferred stock, exchange-traded funds, and convertible **debt** issues;

4. No more than 12 percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E] may be invested in opportunistic funds, and no more than two percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E] may be invested directly in any individual opportunistic fund. This limitation shall not apply to **direct** investments in common and preferred stock, exchange-traded funds, and convertible **debt** issues;

5. No more than 15 percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Pension Fund E] may be invested in multi-strategy funds, and no more than 2.5 percent of the [market value of the] **combined** assets of [any] **all of the** Pension and Annuity Funds [investing in Common Fund E] may be invested directly in any individual multi-strategy fund. This

limitation shall not apply to **direct** investments in common and preferred stock, exchange-traded funds, and convertible **debt** issues;

6. [No more than seven percent of the market value of the assets of any eligible fund shall be invested in the common and preferred stock of any one corporation eligible for investment pursuant to N.J.A.C.17:16-100.2(a)2. This seven percent limitation shall not apply to Common Pension Fund E;] **The total amount directly invested in the equity and fixed income obligations of any one issuer and affiliated entities by the Pension and Annuity Funds and the Common Pension Funds, in the aggregate, shall not exceed five percent of the combined assets of all the Pension and Annuity Funds;**

7. The total amount of a **particular class** of stock purchased or acquired of any one [corporation] **issuer** eligible for investment pursuant to N.J.A.C. 17:16-100.2(a)2 **and (b)** shall not exceed [five] **10** percent of [the common stock, or of an other class of stock which entitles the holder thereof to vote at all elections of directors, of such corporation] **that class of stock outstanding;** and

8. [No more than seven percent of the market value of the assets of any eligible fund shall be invested in exchange-traded funds that invest in absolute return strategy funds other than corporate equity securities.] **The total amount of shares directly purchased or acquired of any one exchange-traded fund shall not exceed 10 percent of the total shares outstanding of such fund.**

(b)-(c) (No change.)