

SUBCHAPTER 100. ABSOLUTE RETURN STRATEGY INVESTMENTS

N.J.A.C. 17:16-100

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:

"Absolute return strategy" means an investment strategy with the goal of achieving positive returns with less correlation than long-only strategies to traditional performance benchmarks.

"Commingled fund" means 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, 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 trustee, general partner, or other managing member of such fund.

"Commodity trading advisor fund" means a fund trading commodities, currencies and financial futures using mostly trend-following systems but sometimes discretionary/fundamental models.

"Common stocks" shall mean shares of stock, other than preferred stocks, representing ownership in a corporation.

"Credit oriented fund" means a fund investing in convertible bond arbitrage, fixed income arbitrage, credit instruments, securities of companies under distress (in bankruptcy or close to bankruptcy), or other similar strategies primarily involving investment in fixed income securities.

"Direct investment" means the purchase of an interest in a company or venture directly by an eligible fund, rather than through an investment vehicle.

"Equity long/short strategy" means holding a combination of long and short positions primarily in publicly traded equities, with a net market exposure less than that of the overall equity market.

"Equity market neutral strategy" means holding a combination of long and short positions primarily in publicly traded equities, with minimal net market exposure to the overall equity market.

"Equity oriented fund" means a fund investing primarily in publicly traded positions employing equity long/short, quantitative, equity market neutral, event driven or other similar strategies.

“Event driven strategy” means merger arbitrage, capital structure arbitrage, relative value, activist or other similar strategies.

"Exchange-traded funds" means funds that track a predetermined index and 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.

“Global macro fund” means a fund investing in top-down, fundamental investments on global price movements in all markets, countries and currencies.

"Multi-strategy fund" means a fund that employs a combination of strategies including credit oriented strategies, equity oriented strategies, and opportunistic strategies.

"Opportunistic fund" means a fund investing in speculative opportunities with high net market exposure across varied markets. Opportunistic funds include global macro funds, commodity trading advisor funds, tail risk hedging funds and funds employing other similar strategies.

"Preferred stocks" shall mean 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.

“Quantitative strategy” means the use of mathematical techniques to identify profit opportunities arising from relationships affecting the prices of various securities.

"Separate accounts" or “managed accounts” means ownership is segregated and kept in the investor's name.

“Tail risk hedging fund” means a fund that hedges the risk that a rare event will significantly and adversely affect the value of an asset or portfolio.

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 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.

2. Purchase the common stock of a U.S. or international corporation that primarily invests in absolute return strategy investments and whose stock is traded on a securities exchange or

over-the-counter market.

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) Notwithstanding the restrictions in (a) above, the Director may:

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

2. Purchase the preferred stock, whether convertible or not, of a company, the common stock of which qualifies for investment under this subchapter;

3. Purchase the convertible issue of a company, the common stock of which qualifies for investment under this subchapter;

4. 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; and

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

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. Common Pension Fund E.

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 assets of any Pension and Annuity Fund investing in Common Pension Fund E;

2. No more than 10 percent of the market value of the assets of any Pension and Annuity Fund 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 assets of any Pension and Annuity Fund investing in Common Pension Fund E may be invested directly in any individual credit oriented fund. This limitation shall not apply to investments in common and preferred stock, exchange-traded funds and convertible issues;

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

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

5. No more than 15 percent of the market value of the assets of any Pension and Annuity Fund 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 assets of any Pension and Annuity Fund investing in Common Fund E may be invested directly in any individual multi-strategy fund. 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 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;

7. The total amount of stock purchased or acquired of any one corporation eligible for investment pursuant to N.J.A.C.17:16-100.2(a)2 shall not exceed five 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; 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.

(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.

(c) For investments in funds-of-funds, the limitations in (a) above shall apply to the underlying investments, and not to the funds-of-funds themselves.

17:16-100.5 (Reserved)