

***State of New Jersey  
State Investment Council***

**Meeting at  
Rutgers Student Center, College Campus  
Room 411 ABC  
126 College Avenue  
New Brunswick, New Jersey 08901-1166**

**Thursday, December 20, 2007  
Noon – Audit Committee Meeting Room 413/Lunch in Room 411 ABC  
1 p.m. Council Meeting**

***MINUTES***

*Approved January 17, 2008*

***Present:*** Orin Kramer, Chair  
Jonathan Berg, Vice Chair  
Maj. Marshall Brown  
W. Montgomery “Monty” Cerf  
Jose R. Claxton  
James Clemente  
Susan Ann Crotty  
James C. Kellogg  
Douglas A. Love

*Absent:* Erika Irish Brown, Mark Kandrak

***Also***

***Present:*** *From the Division of Investment:*  
William G. Clark, Director  
Linda Brooks, Senior Portfolio Manager  
Jessie Choi, Analyst  
James Falstrault, Investment Director  
Susan Burrows Farber, Chief Administrative Officer  
Maneck Kotwal, Investment Officer  
Jason MacDonald, Analyst  
Gilles Michel, Assistant Director  
O. Ike Michaels, Deputy Director  
Christine Pastore, Investment Officer  
Ainsley A. Reynolds, Accounting Manager  
Tim Robbins, Analyst  
Susan Sarnowski, Middle Office Manager and Compliance Officer

*From the Governor’s Office, Dept of the Treasury and Attorney General’s Office:*  
Elizabeth Cervenak, Legislative Liaison, Department of the Treasury  
Rubin Weiner, Esq., Deputy Attorney General

*Other invitees:*  
Scott Booth, Townsend

*Also*

**Present:** Pete Keliuotis, SIS  
Harshal Shah, SIS  
Daniel Stern, Cliffwater

*Members of the Public:*

Frederique Adam-Jupillat, LPS  
Jamie Barker, Revenue  
Karin A. Bauer, DEP  
William S. Bauer, Jr. DOE  
Gloria Jean Berry  
Morris Y. Boakai, OPD  
Shirley Bryant, L&PS  
Vonda Brunsting, SEIU  
Russell Caffey, CWA Staff  
Jose Cardona, TESC  
Dorothy Carl, Revenue  
Adam L. Cataldo, Bloomberg  
Shaunelle E. Clark, Revenue  
Clifford S. Cooper III, NJ DOBI  
Dennis Corny, PhD  
Barbara Counts. ELEC  
Paul P. Curcio, P&P  
Harvey Grossman, Banking and Insurance  
Jeff Grossman, DOI  
Deborah Jacobs, MVC  
Sandy Johnson  
Richard Klockner, NJPSA  
Nikk Kriss  
Peter G. Maurer, Pensions  
Mitchell Mercer, DSS  
Mary Ann Mesics, DOE  
Anthony F. Miskowski, Member, CWA Local 1033  
Clayton Mull  
Doug Newsome  
Shameko Palmer, Revenue  
Dale E. Parichuk, LPS  
Frank Percoskie, DOBI  
Rae C. Roeder, President, Local 1033  
John Ruth  
D. M. Sanders, NJMVC  
Rodney Stevens, Division of Revenue  
John Strachan, NJDHTS  
Raymond E. Weicker, NJ DOBI  
Marianne Wintens, DOE

**I. Call to Order**

Chair Kramer called the meeting to order at 1:12 p.m.

**II. Notice of Meeting**

Interim Council Secretary Susan Burrows Farber reported that in compliance with the Open Public Meetings Act, *NJSA 10:4-1 et seq.*, notice of the meeting scheduled for December 20, 2007 was sent by mail deposited in the post office, by facsimile and email on December 4, 2007. A copy of the notice is on file as posted in the Division and sent to the Council, the **Times of Trenton**, **The Star-Ledger**, the **Bergen Record**, the **Courier Post**, and Secretary of State.

**III. Approval of Minutes**

The minutes of the regular meeting of the Council and of the Executive Session of the Council, both held on November 15, 2007 were unanimously approved on a motion by Mr. Kellogg, seconded by Dr. Love. Minutes of the October 18, 2007 regular meeting as previously approved were amended by the same vote. The amendment corrected the first paragraph of Item VI. New Business, Section A. Proposed Alternative Investments, Item 2. Memorandum. The corrected sentence now reads, "Mr. Scott Booth of Townsend reported on proposed commitments of \$100 million to Five Mile Capital Partners and \$50 million to Tucker Development."

**IV. Committee Reports**

*Audit Committee* – Committee Chair Kellogg reported that the Committee had met with KPMG Auditors to discuss fiscal year 2007 "Draft" Financial Statements for the Pension Fund, The Trustees for the Support of Public Schools Fund and the annual Commission Report, and that final financial statements would be forthcoming.

Chair Kramer told the Council that a bill calling for the divestiture of certain state equity investments with ties to Iran appeared certain for passage. He noted that Council had discussions with legislators and interested parties, and the Division had the opportunity to offer comments on the bill, and that as a result the bill under consideration was narrower in its divestiture requirements than originally proposed. Director Clark noted the Division had already divested some qualifying investments under the Sudan divestiture bill. It appears the Myanmar divestiture bill will not be moved by this Legislature.

**V. Reports of Director Clark**

A. *Memorandum from Director Clark to the Council, dated December 14, 2007, entitled "Investment Reports."*

Director Clark reported that the fund had a good month within a good year to date, especially relative to the total market. The Division continues to be a net seller of equities, largely in the financial sector. The bond portfolio was up 2.4 percent for the month. It shows a slight underperformance relative to the benchmark for the month because the portfolio has a shorter duration than the index; offsetting that is a credit quality higher than the index on average. He said many new issues with attractive spreads are being carefully considered.

A brief discussion followed on how Division benchmarks address inflation sensitivity, especially for long-term holdings.

Assistant Director Michel said the international portfolio continues to reduce its exposure in the financial sector by selling banks, and has also reduced its exposure to Japanese equities.

Chair Kramer observed that the Division's reduction of equities is consistent with the movement in asset allocation by other major state pension funds. He noted that the Texas Teachers Fund, which formerly had an investment strategy similar to New Jersey's historical approach, had recently announced its intention to place 30 percent of assets in alternative investments in the next three years, and that CalPERS was also moving aggressively in the same direction. Mr. Clark noted the investment plan to be presented to the Council in January supported this direction but not as aggressively nor as rapidly as the change sought by other large funds.

Because some audience participants had expressed a need to leave the meeting early, Chair Kramer asked that the update on the Cash Management Fund be presented next.

*For the Information of the Council*

1. Presentation by Senior Portfolio Manager Brooks dated December 14, 2007, entitled, "Update on New Jersey's Cash Management Fund."

Director Clark reminded the Council that the Division did not have any direct exposure to asset-backed commercial paper in the Cash Management Fund, having divested the little it did have by September. He then introduced Linda Brooks, Senior Portfolio Manager for the fund who has managed the fund for the past 16 of her 27 years with the Division.

Ms. Brooks' presentation is attached to these minutes. She reported that all 21 counties participate in the fund, and municipal participation varies. She noted that the yield on the Fund tends to track the market but with a slight lag, so that the Fund can often outperform checking accounts and CDs when rates are declining.

She reported that the Division's policies are stricter than what state regulations require. The Division maintains an internal approved list of permissible CD and CD issuers, with each issuer having a credit limit tied to its short-term and long-term credit ratings.

Ms. Brooks noted that in addition to eliminating asset-backed paper over the summer, the Fund followed up in November by reducing its CD exposure, partly in reaction to the write-offs that were beginning in the financial sector.

Mr. Cerf saluted the team for the fund's performance, noting that the recent experience of other public funds has shown that under certain market conditions, not losing money can also be something deserving recognition.

Director Clark noted that the losses experienced by other public funds were in an asset class no one expected to be touched by the credit crisis. He said the Division tended to be suspicious of asset-backed paper, and a DOI team met weekly to assess the transparency and worth of all opportunities presented. He noted that the outside managers who support the Division played a key role in keeping the Division on the cutting edge of market developments so that DOI was able to perceive credit problems early enough to take corrective actions. As the market situation appeared to worsen in the spring, he said, the Division began to lower investment and maturity limits. In August, the Division refused to invest in any additional asset-backed paper, and allowed what it did own to expire without penalty.

#### **VI. *Public Comment***

Two audience members who had submitted speaker request forms prior to the meeting were invited to address the Council.

Mr. Raymond Weicker said as a banking and insurance examiner he regularly analyzed alternative investments and risk management models. He noted that while the logic for alternative investments was "compelling," risk could not be measured by loss alone. He said due diligence on such investments was critical, and said the public meetings provided little explanation of the quantitative or qualitative methods used in such decisions. His point was acknowledged by several Council members, who noted that behind every Council meeting was a meeting of the Investment Policy Committee which permitted a thorough examination of investment proposals, and that behind the Committee's meetings was extensive staff time on due diligence in selecting investments proposed. Ms. Crotty suggested that the Division post its due diligence criteria on the website to supplement the Council's summary discussions of investment decisions.

Mr. Anthony Miskowski, a member of CWA Local 1033, described hedge fund investing as "immoral, unethical and illegal." He cited examples of alternative investments under federal investigation and suggested more time be spent on identifying the special interests behind such companies. Mr. Kramer said the Division did understand the hedge fund companies and their strategies before making any investment. He noted it was ironic that so much concern be given to alternative investments following a month when the pension fund lost \$1 billion from public equity investments with corporations that are theoretically highly regulated but that can provide even less transparency to the investor.

**VII. Pending Matters**

There were no pending matters.

**VIII. New Business**

*A. Proposed Alternative Investments*

1. Memorandum from Director Clark to the Council, dated December 14, 2007, entitled "Proposed Hedge Fund Investments in Level Global, LP and Pendragon (Lancelot II) Fund, LLC."

Mr. Daniel Stern of Cliffwater reported that Level Global was a long-short fund with returns that had historically exceeded those of the equity market, with less volatility. He said terms for the fund had become more favorable than when it was first examined in 2006, prompting the current proposed investment of \$75 million. He said about 85 percent of the fund was in U.S. stocks, about half in large cap.

Mr. Stern said the proposed \$75 million commitment to Pendragon represented the first non-U.S. hedge fund recommended to the Council. The fund follows an event-driven strategy focused on European companies, and is primarily invested in equities with some bonds.

2. Memorandum from Director Clark to the Council, dated December 14, 2007, entitled "Proposed Private Equity Investments in The Resolute Fund II and Carlyle Mezzanine Partners II."

Mr. Hershah Shah of SIS said the proposed investment of \$75 million with Carlyle Mezzanine was a "re-up" with that team. The previous commitment is performing to plan, and Mr. Shah said the terms for mezzanine investments have become even more attractive. A brief discussion of carry terms followed. Mr. Kellogg suggested the Division seek more opportunities in the mezzanine arena to help good companies having trouble securing financing.

Mr. Shah said the Resolute Fund was led by a highly experienced and successful team that had been investing together in private equity since the 1970s, with a strategy of building companies over the long-term and making a value-added exit. The proposed commitment was \$100 million.

3. Memorandum from Director Clark to the Council, dated December 14, 2007, entitled "Proposed Real Estate Investment in the AEW Core Open-End Fund."

Mr. Scott Booth reported that the proposed \$100 million commitment to AEW would be a second investment with this management team in a newly formed, open-ended commingled fund. The firm initially raised \$800 million of seed capital in early 2007 for this same fund from a select group that included the Division.

*Ms. Crotty departed from the meeting at this point*

*B. For the Approval of the Council*

1. Memorandum from Compliance Officer Sarnowski to the Council dated December 7, 2007, entitled, "Broker/Dealer Eligibility Policy."

Director Clark said the Division proposed eliminating the minimum net capital requirement and instead use a broader set of criteria in broker selection, consistent with the practice of other funds. The change would permit transactions in smaller companies and allow the use of smaller brokers, resulting in improved service. The policy was unanimously approved on a motion by Mr. Cerf, seconded by Mr. Claxton. (Ms Crotty was not present for the vote.)

*C. For the Information of the Council*

1. Memorandum from Chief Administrative Officer Burrows Farber dated December 14, 2007, entitled, "Corporate Governance and Proxy Action Update."

Ms. Farber reported on House passage of a broad energy bill with specific standards for reducing greenhouse gas emissions, consistent with the appeals of the SIC as signatories in a Nov. 15, 2007 letter to Congress from a coalition of major institutional investors.

The Council voiced its support for signing onto the global Carbon Disclosure Project, involving a coalition of major private and public investors in a campaign requesting improved disclosure of greenhouse gas emissions data and climate-related risks and opportunities from the world's largest corporations. Ms. Farber offered to provide follow-up details by email. (This email was sent to the Council on Dec. 21, 2007.)

2. Memorandum from Chief Administrative Officer Burrows Farber, dated December 14, 2007, entitled "Investment News Clips for December 2007 Council Meeting."

Memorandum was acknowledged, with interest expressed in the Pew Trust study of pension funds cited in the articles. (This report was sent to the Council by email on Dec. 21, 2007)

**IX. *Communications***

There were no matters presented on behalf of the Acting Treasurer.

**X. *Next Meeting***

Thursday, 1/17/08 Noon: Lunch/1 p.m. Meeting

Rutgers, The State University  
Busch Campus Center  
604 Bartholomew Rd, Room MPR-B  
Piscataway, NJ 08854

**IX. *Adjournment***

All regular business of the Council being concluded, the meeting was adjourned by unanimous vote at 2:55 p.m. on a motion from Dr. Love, seconded by Mr. Clemente.

Susan Burrows Farber  
Interim Secretary to the Council