

State of New Jersey
State Investment Council

Meeting at
New Jersey Pension Boards Meeting Room
50 West State Street, 1st floor
Trenton, New Jersey 08608

Thursday, May 22, 2008
Noon Lunch/1 p.m. Council Meeting
followed by Council Governance Training

MINUTES

Approved June 19, 2008

Present: Orin Kramer, Chair
Jonathan Berg – *joined meeting at 3 p.m.*
Erika Irish Brown
Marshall Brown
W. Montgomery “Monty” Cerf
Jose R. Claxton
James Clemente
Sue Crotty – *via teleconference*
Mark Kandrak
James C. Kellogg
Douglas A. Love – *left meeting at 3 p.m.*

Also

Present: *From the Division of Investment:*
William G. Clark, Director
Brian Arena, Investment Officer
Vincent Benedetti, Senior Analyst
James Falstrault, Investment Director
Susan Burrows Farber, Chief Administrative Officer
Jessie Choi, Analyst
Maneck Kotwal, Investment Officer
Jason MacDonald, Analyst
Gilles Michel, Assistant Director
Ainsley A. Reynolds, Accounting Manager
Tim Rollender, Analyst
Susan Sarnowski, Middle Office Manager and Compliance Officer

From the Governor’s Office, Dept of the Treasury and Attorney General’s Office:
Rubin Weiner, Deputy Attorney General
Frederick J. Beaver, Director-Pensions and Benefits
Tom Bell, Public Information Officer
Liz Cervenak, Legislative Liaison, Department of the Treasury

Other invitees:

Scott Booth, Townsend
Peter Keliuotis, Strategic Investment Solutions
Steve Nesbitt, Cliffwater

Other invitees, continued:

Daniel Stern, Cliffwater
Curt Smith, Strategic Investment Solutions
Nancy A. Williams, Ennis Knupp

Members of the Public:

Frederique Adam-Jupillat, LPS
Jamie Barker, Revenue
Karin Bauer, DEP
William Bauer
Gloria Jean Berry
Morris Boakai, OPD
Linda Brown, DOL
Shirley Bryant, L&PS
Vonda Brunsting, SEIU
Russell Caffey
Jose Cardona, LBH
Dorothy Carl, Revenue
Adam Cataldo, *Bloomberg*
Sandy Coia
Clifford S. Cooper III, DOBI
Dennis Cory
Barbara Counts, ELEC
Mariann Curcio, Revenue
Steven Dovidio, Revenue
Steven R. Green, DOBI
Harvey Grossman, DOBI
Christine Hairston, NJL
Deborah Jacobs, MVC
Sandy Johnson, DMVC
Charmell Jones
Nikk Kriss, Alcohol Beverage Control
Rosanna Leonard
Dusty McNichol, *The Star Ledger*
Mitchell Mercer, DSS
Anthony F. Miskowski, Member, CWA Local 1033
Marion Mnych
Clayton Mull, SCREA
Kevin P. Norton, Bank of NY Mellon
Joan C. Onorati-Pascucci, NJL
Dale E. Parichuk, LPS
Lisa Radcliffe, MVC
Rae C. Roeder, President, Local 1033
Joann Richmond
Luz D. Sanchez, LBH
Lisa Southard
Marianne Winters, MVC
Gail Wright, NJL

I. Call to Order

Chair Kramer called the meeting to order at 1:15 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 May 22, 2008 was sent by mail deposited in the post office, by facsimile and email on May 1, 2008. 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 held on March 20, 2008 were approved unanimously on a motion by Mr. Kandrac, seconded by Dr. Love.

IV. Committee Reports

There were no committee reports.

V. Pending Matters

A. Status of Proposed Amendments Filing

Secretary Farber noted that proposed amendments to the Council's regulations governing Alternative Investments and other issues (N.J.A.C. 17:16-12.4, 43.1, 43.2, 45.2, 46.2, 69.9, 71.1, 71.2, 71.4, 90.1, 90.2, 90.4, 100.1, 100.2, 100.4) were filed with the Office of Administrative Law on March 20, and published in the April 21, 2008 issue of the New Jersey Register. The 60-day public comment period extends through June 20, 2008.

VI. New Business

A. Proposed Alternative Investments

- 1. Memorandum from Director Clark to the Council, dated May 16, 2008, entitled, "Proposed Hedge Fund Investment in Asian Century Quest Capital LCC Fund."**

Mr. Stern of Cliffwater reported that the proposed commitment of \$75 million provided an opportunity for equity long/short investment in Asia; Director Clark noted that research provided by the fund would supplement the work of staff. In response to a

question from Mr. Claxton, Mr. Stern said the fund's focus was 60 percent Japan and 20 percent Korea, with low net exposure.

2. *Memorandum from Director Clark to the Council, dated May 16, 2008, entitled, "Proposed Real Estate Investment in CT High Grade Partners II, LLC Fund."*

Mr. Keliuotis of Strategic Investment Solutions said the proposed commitment of up to \$500 million would enable the fund to benefit from dislocations in the commercial mortgage market. Director Clark said the investment demonstrated well the increasing synergy between internal staff and outside managers. He said Division staff had been seeking opportunities in the commercial mortgage market as yields rose with the withdrawal of banks for unrelated reasons. He commended Senior Analyst Kathy Jassem for her research in identifying firms with good reputations in such mortgage underwriting, and that due diligence had been performed by General Motors Investment Management, a partner in another real estate fund of funds investment, who asked if they could invest in the fund along with the Division. In response to several questions from the Council, Director Clark noted the fund was created for the Division and seeks to provide long-term returns consistent with our assumption for real estate equity at significantly lower risk.

3. *Memorandum from Director Clark to the Council, dated May 16, 2008, entitled, "Proposed Private Equity Investments in the GSO Capital Opportunities Fund, JLL Partners Fund VI, the Texas Pacific Group Partners VI Fund, the TPG Financial Partners Fund and the H.I.G Bayside Debt & LBO Fund II, LP."*

Mr. Smith of Strategic Investment Solutions said a proposed \$100 million commitment to the GSO Fund was a "re-up" to an existing investment in Blackstone's mezzanine fund. A discussion of management fees and industry practices followed, with agreement that the Council would review fund performance relative to fees next spring.

Mr. Clark said a proposed \$150 million commitment to the JLL Partners Fund was made after extensive due-diligence on the investments in the prior fund to which the Division has committed capital.

A proposed \$400 million commitment to Texas Pacific Group Partners reflects the Division's confidence in this fund's ability to buy and operate complex and/or distressed assets, Director Clark said. A general discussion of debt trading followed.

Mr. Smith said a proposed commitment of \$100 million to TPG Financial Partners was essentially a sidecar, or overage, fund to the TPG Fund dedicated exclusively to financial services investments.

Mr. Smith said the proposed commitment of \$100 million to the H.I.G. Bayside Fund concentrates on middle-market distressed debt and stressed LBOs. An extended discussion of industry standards in clawback provisions and drawdowns for private equity funds ensued. Mr., Kellogg repeated his concerns that fund performance relative to fees be examined by the Council next spring.

4. *Memorandum from Director Clark to the Council, dated May 16, 2008, entitled, "Proposed Real Asset Investment in the Cargill ProAlpha Commodity Program."*

Mr. Keliuotis said that a proposed investment of up to \$500 million in the Cargill Fund would partner Division staff with one of the largest commodity producers and traders in the world, providing full transparency to the fund's investing on a daily basis. A discussion of alpha and beta returns followed.

B. For the Approval of the Council

1. *Appointment of Susan Burrows Farber as Council Secretary.*

Chair Kramer noted Ms. Farber had served as interim secretary since November 2007, and that her formal appointment required the approval of the Council under Article III of the Council bylaws. The appointment was approved unanimously on a motion by Mr. Claxton, seconded by Mr. Kellogg.

C. For the Information of the Council

1. *Memorandum from Chief Administrative Officer Susan Burrows Farber to the Council, dated May 16, 2008, called "Corporate Governance and Legislative Update."*

Ms. Farber reported that the Division had been active this proxy season, co-sponsoring a proposal at Exxon which asked the company to set goals for the reduction of green house gas emissions, and voting in support of the development of a renewable energy policy at the company. The Division was also voting in support of shareholder initiatives calling for the separation of chair and chief executive positions, with other institutional investors.

2. *Memorandum from Chief Administrative Officer Burrows Farber to the Council, dated May 16, 2008, entitled "Investment News Clips for May 2008 Council Meeting."*

The memo was noted without discussion.

3. *Memorandum from Director Clark to the Council, dated May 16, 2008, entitled "Consultant Background for Council Governance Training."*

Council training was held until the conclusion of the regular meeting.

VII. Reports of Director Clark

1. *Memorandum from Director Clark to the Council, dated May 16, 2008, entitled "Investment Reports."*

Director Clark noted the portfolio was up .88 percent for the fiscal year-to-date period against a Council benchmark of 1.95 percent; he said the primary reason for the

underperformance was a reluctance to be aggressive in commodities, where market performance continued to be confounding.

He also noted the Division had reached a gross settlement of \$73 million in a lawsuit it had initiated against the Tyco company, and that the net settlement would be between \$60 million and \$65 million.

Investment Officer Arena noted that the domestic equity portfolio returned 5.14 percent for April against 5.06 percent of the benchmark, with Apple being the largest contributor to the month's out-performance. He said the portfolio was still down for the fiscal year but the Division was still up over the performance of the S&P index used as a benchmark. A short discussion followed on the industry's inclusion of companies in this index because they were incorporated in the US, even though they did business internationally, Coca Cola and Phillip Morris as examples.

Assistant Director Michel said the international portfolio had slightly underperformed the market in the past month because it chose to wait out a slight bounce in the banking sector, and that the market had since proven that decision correct.

Director Clark said most of the month's activity had occurred on the bond side. A high exposure to US Treasuries had given the Division a good year, and now that the market was turning, the Division was shifting into corporate bonds. He said the Division had also done some minimal investing in municipal bonds because of the high yields available for short-term investing; and that this too was being reversed as yields dropped.

Director Clark noted that the Pension Fund had redeemed one hedge fund investment of \$100 million in Barclays Global Investors for a small penalty because, though the Fund had not lost money, it was not pleased with the hedge fund's performance.

VIII. Public Comment

One audience member who had submitted a speaker request form prior to the meeting was invited to address the Council.

Mr. Tony Miskowski, executive secretary of CWA Local 1033, thanked the Council for the review of the Tyco settlement and led the audience in a round of applause. In response to his other questions, Director Clark noted that the Division has reaped higher than the industry average of 3 percent recovery of losses, and that another Division lawsuit against Tyco senior management was still pending, as well as additional class action cases. In response to another item raised by Mr. Miskowski, Chair Kramer said the Division was not on the verge of entering into a consortium with any other investors, but will continue to keep an open mind to other state funds and sovereign wealth funds as potential partners in increased buying power and opportunity access, consistent with the Council's investment plan.

In response to questions from the audience, Director Clark said the Division was moving gradually into commodities, and that a full annual report on the past fiscal year was in draft form and near release. He noted a summary of fiscal year performance meeting the letter of the law had been posted previously to the website. He said the Division would explore the suggestion of a larger venue for the annual meeting.

IX. *Communications*

There were no matters presented on behalf of Treasurer Rousseau.

X. *New Business -- Council Governance Training*

At 2:45 pm the Council adjourned for a brief break with all regular business concluded.

At 3:20 pm the Council resumed its meeting for Governance Training, with all Council members but Dr. Love in attendance. Others in attendance were Rubin Weiner, Deputy Attorney General; Sue Sarnowski, Compliance Officer; and Sue Burrows Farber, Council Secretary. There were no members of the public present.

Director Clark introduced Nancy Williams of Ennis Knupp as uniquely qualified to lead governance training both because of her decades of work with other large public pension funds and her professional experience on both sides of fund governance, as a former Trustee and General Counsel for the State Teachers Retirement System of Ohio and as Deputy Director and General Council with the Colorado Public Employee's Retirement Association.

Ms. Williams provided the attached outline to members, calling councils the "unsung heroes" of the public pension fund world because they assumed all the significant liabilities of fiduciary duty for no pay. She added pension fund boards and councils such as the State Investment Council are unique in the specific scope of their duties, specifically:

-- The duty of loyalty, to act *solely* in the interest of the fund and its beneficiaries. The word "solely" survived a four-year legal debate, she said, and is known as the "exclusive benefit rule." It applies to all Council members regardless of who appointed or elected them.

-- The duty of prudence, a standard that has evolved over time. Today's courts interpret prudence to mean the decision-making of experts, over merely "prudent" people, she said. Councils that lack sufficient expertise are obligated to obtain it.

Ms. Williams recommended that all Councils have a standard orientation, readily accessible legal counsel and a clear understanding of their role and obligations within the pension process.

XI. Next Meeting

Thursday, 6/19/08	Noon: Lunch/1 p.m. Meeting	Rutgers Student Center 126 College Avenue, MPR New Brunswick, NJ 08901
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XII. Adjournment

All regular business of the Council being concluded, the meeting was adjourned by unanimous vote at 4:35 p.m.

Susan Burrows Farber
Secretary to the Council