

New Jersey State Investment Council

January 29, 2015, Annual Meeting

Minutes of the Annual Meeting:

Held January 29, 2015 at 10:00 AM at the Trenton War Memorial, George Washington Ballroom, 1 Memorial Drive, Trenton NJ.

Council Members in Attendance:

Brendan T. Byrne, Jr., Acting Chair
Marty Barrett
Michael Cleary
Charles Dolan
Michael Greaney
Guy Haselmann
Benjamin "Max" Hurst
James Joyner
Adam Liebttag
Timothy McGuckin
Jeffrey Oram
Mitchell Shivers (via telephone)

James Hanson was unable to attend.

Roll Call and Meeting Notice

The Annual Meeting was called to order by Tom Byrne, Acting Chair, at 10:10 a.m. Mrs. Ernestine Jones-Booker, Council Secretary, performed roll call and reported that notice of the Annual Meeting, scheduled for January 29, 2015, was posted on the Division's website; faxed to the Times of Trenton, the Star-Ledger, the Bergen Record, and the Courier Post; and e-mailed to the Secretary of State on December 10, 2014. A copy of the notice was posted at the Division and is on file.

Speaker, Timothy Geithner, President, Warburg Pincus

Mr. Byrne introduced Timothy Geithner, president of Warburg Pincus. In response to questions from Mr. Byrne, Mr. Geithner discussed the prospects for economic growth in the United States, Europe, China, Japan and emerging markets.

Presentation by Aon Hewitt

Brady O'Connell and Kristen Doyle of Aon Hewitt made a presentation, comparing the Fund's asset allocation to its peers, including a universe of public funds over \$1 billion and a universe of Aon Hewitt's largest public pension fund clients. Mr. O'Connell further reviewed recent trends in institutional investing. In response to a question from Mr. Byrne, Ms. Doyle and Mr. O'Connell reviewed trends in fixed income bond durations. Guy Haselmann discussed the difference between fixed income investments by corporate plan sponsors and public fund sponsors. Max Hurst inquired where the Division stood amongst its peers in terms of funding ratio. Mr. O'Connell responded that there is a big divergence in funding ratios, with some funds almost fully funded while others are similar to New Jersey. Adam Liebttag asked if there was a correlation between funding ratios and allocations to alternative investments. Mr. O'Connell responded that it would be an oversimplification to draw a direct

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correlation between funding ratios and allocations to alternatives, because there are other factors determining asset allocations. Mr. Haselmann added that, in his view, funding ratios should affect liquidity of a portfolio to avoid mismatches, but that otherwise investments should be designed to maximize risk-adjusted returns regardless of funding ratios. Michael Cleary asked how the investment returns for the Fund compared to its peers. Mr. McDonough responded that a return analysis would be provided in the next presentation. Marty Barrett asked whether the peer universe was identical to last year; Mr. O'Connell responded that there was one change due to a change in Aon Hewitt's client base.

Report from the Division of Investment

Director Chris McDonough and Deputy Director Corey Amon of the Division provided an overview of the Division, the Council and the Pension Fund. Mr. McDonough provided a recap of the capital markets during 2014, and Mr. Amon described the major factors that drove returns. Mr. McDonough reported performance numbers for calendar year 2014, including sector analysis, attribution analysis and net cash flows for alternatives. Charles Dolan asked if the cash flows for alternatives were net of fees to which Mr. McDonough responded yes.

Mr. McDonough presented on the Division's primary investment themes of diversification, cost minimization and long-term investing. With respect to cost minimization, Mr. McDonough reported low administrative fees, but said inadequate compensation for Division staff continues to be a concern. Mr. Dolan asked if other public pension funds have increased staff salaries, and Mr. McDonough responded that the trend among public pension plans was to increase compensation and also to provide for incentive compensation. Mr. Haselmann and Mr. Byrne expressed support for such increased compensation. Mr. McDonough also reported on management fees paid to funds in the alternative investment portfolio. Mr. Dolan asked if there was any trend in these fees, to which Mr. McDonough responded that the Division's ability to negotiate fees varied according to each fund's need for new investors. Mr. Byrne noted that cash flow restraints on oil-driven sovereign wealth funds may improve the Pension Fund's relative bargaining position.

Mr. McDonough reported overall pension fund performance for FY14, noting that the fund is one of the best performing funds relative to its peers over longer periods when considering risk vs returns. Mr. McDonough summarized the Division's major accomplishments from 2014, and described the Division's initiatives for 2015. Finally, Mr. McDonough acknowledged the retirement of Maneck Kotwal, who was essential in the development of the Division's alternative investment program, and informed the Council of the passing of Vincent Benedetti, an integral member of the Division's domestic equity team.

Opportunity for Public Comment

No members from the public registered to speak.

Mr. Byrne motioned to adjourn the annual meeting, with Jeffrey Oram seconding the motion. All Council members present voted in favor. The meeting was adjourned at 12:21 pm.