

# New Jersey State Investment Council

## January 25, 2017 Regular Meeting

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### **Minutes of the Regular Meeting**

Held January 25, 2017 at the Trenton War Memorial, George Washington Ballroom, 1 Memorial Drive, Trenton, New Jersey.

### **Council Members in Attendance:**

Brendan T. Byrne, Jr., Chair

Adam Liebttag, Vice Chair

Marty Barrett

Thomas Bruno, Jr.

Michael Cleary

Charles Dolan

James Hanson

Guy Haselmann

James Joyner

Jeffrey Oram (via telephone)

Eric E. Richard

Mitchell Shivers (via telephone)

Timothy McGuckin and Michael Greaney were not in attendance.

### **Roll Call and Meeting Notice**

The Regular Meeting was called to order by Brendan T. Byrne, Jr., Council Chair, at 11:45 p.m. Ernestine Jones-Booker, Council Secretary, performed roll call and reported that a quorum of the Council was present. Ms. Jones-Booker reported that notice of the Regular Meeting scheduled for January 25, 2017 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 16, 2016. A copy of the notice was posted at the Division and is on file.

### **Minutes for the Regular Meeting held November 30, 2016**

James Joyner made a motion to approve the minutes of the regular meeting held on November 30, 2016, with Thomas Bruno, Jr. seconding the motion. All Council Members present voted in favor.

### **Report from the Division of Investment of All Management Fees, Expenses, and Performance Allocation for NJ Pension Fund, Fiscal Years 2011-2016**

Christopher McDonough, Director of the Division of Investment, presented a report of all management fees, expenses and performance allocation for fiscal years 2011 through 2016. To provide context, Mr. McDonough noted that the Alternative Investment Program had generated \$9.4 billion of net profits after expenses and fees over the same period. He further explained that while the methodology utilized by the Division allows for year-to-year comparisons, it was not helpful in comparing fees to other plans that used different methodologies with less transparency. Mr. Bruno pointed out that the annual difference between alternative investment returns and total fund returns was 50 basis points during the report period, which Charles Dolan noted was a significant amount, especially when compounded over six years. Mr. Bruno and Adam Liebttag thanked the Division and its consultants for the report. Mr. Liebttag stated that the labor representatives on the Council were concerned about hedge fund fees in particular. He noted that, while the percentage of fees had decreased slightly over time, the overall amount of fees has increased dramatically, and he was looking forward to the Division's initiatives, including the Fund Alignment Incentive Reform Program ("FAIR") program, to reduce these fees in

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the future. Mr. McDonough cautioned that the Division's ability to negotiate concessions on fees varies by asset class and over time.

### **State Investment Council 2016 Annual Report**

Mr. McDonough presented a draft of the 2016 Annual Report. Mr. McDonough reported that certain historical performance calculations had been adjusted so that the returns were net of all fees, and there is a small difference in returns versus prior annual reports. Also, Mr. McDonough explained that the benchmarks and corresponding bullet points for calendar year 2016 may change once all figures are finalized. Mr. Bruno made a motion to approve the annual report draft. Mr. Joyner seconded the motion, and all Council members present voted in favor.

### **Global Diversified Credit Investment**

#### ***Crayhill Capital Management LP separate account***

Meghna Desai of the Division presented an investment of up to \$150 million investment in a separate account managed by Crayhill Capital Management L.P., with up to \$100 million committed to be invested in Crayhill Principal Strategies Fund I or a parallel vehicle targeting private structured credit investments, and the remaining commitment reserved for other investments identified by Crayhill, including investments in Crayhill successor funds and co-investments. Ms. Desai and Matt Coyne of TorreyCove described the management of the fund, the fund strategy and the terms of the investment. Mr. Byrne expressed concern regarding investing in a first-time fund, to which Ms. Desai responded by describing the principals' successful prior working relationship. Mr. Byrne reported that the IPC reviewed the investment and was satisfied that appropriate and adequate due diligence had been performed.

### **Risk Mitigation and Global Diversified Credit Investment**

#### ***BCA Cap I, L.P.***

Mr. McDonough and Pete Keliuotis of Cliffwater presented an investment of up to \$300 million in BCA Cap I, L.P., a fund that will invest in smaller risk mitigation and global diversified credit funds and managed accounts whose terms are consistent with the Division's FAIR initiative. Mr. McDonough and Mr. Keliuotis described the objective of the fund, the expertise of the fund's management, and the terms of the investment. Mr. Dolan asked if the favorable investment terms sought by the fund reflected a broader change in the hedge fund industry, to which Mr. Keliuotis responded that a number of funds have changed their fee structures on both a solicited and unsolicited basis, but that hurdle rates continue to be rare. Mr. Byrne reported that the IPC reviewed the investment and was satisfied that appropriate and adequate due diligence had been conducted.

### **Purchase of Japanese Treasury Bills (JTBs)**

Corey Amon, Deputy Director of the Division, presented a proposal seeking the Council's approval, pursuant to N.J.A.C. 17:16-20.2(d), to purchase unrated debt issued by the Japanese government and to continue to hold unrated debt previously purchased on behalf of Common Pension Fund D, provided that the Japanese government maintains an investment grade issuer credit rating at least as high as the ratings specified in N.J.A.C 17:16-20.2(c) for debt obligations. Mr. Byrne made a motion to approve with Mr. Bruno seconding the motion. All members of the Council present voted in favor of the motion.

### **2017 Alternative Investment Pacing Plan**

Ms. Desai and Mr. McDonough presented a pacing analysis of alternative investments demonstrating the level of new commitments proposed for 2017 in order to maintain or reach a the target allocation for each asset class. Mr. Byrne commented that the Division should take account of the longevity of each participating fund going forward to ensure

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proper liquidity. Mr. Hanson asked if there was a particular ratio applied to pacing and whether the Division considered market events that could impact fund distributions. Ms. Desai replied that the cash flow models are developed on a strategy by strategy basis using historical data and stated that delays in distributions were not found to be especially impactful on pacing when compared to overall pension fund funding.

### **Alternative Investment Notifications**

Pursuant to the Council's Alternative Investment Modification Procedures, Ms. Desai notified the Council of amendments to the governing documents of TSG7 A, L.P., TSG7 B, L.P. and Vista Equity Partners Fund III that were approved by other limited partners of the funds and resulted in increased management fees. Mr. Byrne asked the magnitude of the fee increases and the motivation for other limited partners for approving the amendments. Ms. Desai provided an estimate of the increased amount and speculated that such limited partners may have considered the funds' positive performance and potential oversubscription in future funds.

### **Deferred Compensation Plan Annual Update**

Deputy Director Corey Amon provided an annual update on the New Jersey State Employees Deferred Compensation Plan, reporting that the Division did not recommend any changes to the Deferred Compensation Plan lineup since the last annual report. Mr. Amon stated that the Division would continue to monitor and review investment options on an ongoing basis, and make recommendation if deemed appropriate.

### **Report on Treasury Supplemental Code of Ethics**

Susan Sarnowski of the Division provided a report on the Treasury Supplemental Code of Ethics, which governs personal trading by Division employees. Ms. Sarnowski reported that there were no violations to the supplemental code since the last annual report. Ms. Sarnowski further reported that the Treasury's ethics officer is working with the State Ethics Commission to revise the supplemental code.

### **Report on Northern Ireland**

Ms. Sarnowski reported that, pursuant to a 1987 statute, the Division issued an annual report to the Governor and the Legislature with respect to U.S. corporations doing business in Northern Ireland and their adherence to the MacBride Principles against discrimination. Mr. Byrne asked if there have been any recent issues regarding adherence to the MacBride Principles, to which Ms. Sarnowski responded that there have not.

### **Treasurer's Report**

Dr. Marc Miles of the Treasurer's office provided a brief update on the state economy, including the labor market, housing and automotive sales, and consumer confidence. In response to a question from Mr. Byrne, Dr. Miles provided an update on the State's projected tax revenues.

### **Public Comment**

There were no public comments.

### **Adjournment**

Guy Haselmann made a motion to adjourn the meeting, with Mr. Dolan seconding the motion. All Council members present voted in favor. The meeting was adjourned at 1:13 pm.