

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

3.-4. (No change.)

5. Retain any distribution received as a result of a corporate action, even if [the security] **such distribution** does not meet the requirements of this subchapter.

17:16-44.4 Limitations

(a) At time of initial purchase, the following conditions shall be met:

1.-3. (No change.)

4. The market value of international common and preferred stock and **debt** issues convertible into common stock **and the shares or interests in international exchange-traded, global, regional, or country funds** held by an eligible fund [(other than Common Pension Fund D)], either directly or through Common Pension Fund D, [when combined with the market value of international government and agency obligations permitted under N.J.A.C. 17:16-20 and international corporate obligations permitted under N.J.A.C. 17:16-16,] cannot exceed 30 percent of the market value of the **combined** assets of [such fund] **all of the Pension and Annuity Funds**, subject to such further provisos as are contained in N.J.A.C. 17:16-67.

5. (No change.)

(b) (No change.)

(a)

STATE INVESTMENT COUNCIL

**Common and Preferred Stocks and Debt Issues
Convertible into Common Stock of Corporations
and Exchange-Traded, Global, Regional, or
Country Funds in Emerging Markets
Permissible Investments; Limitations**

Proposed Amendments: N.J.A.C. 17:16-46.2 and 46.4

Authorized By: State Investment Council, Timothy M. Walsh,
Director, Division of Investment.

Authority: N.J.S.A. 52:18A-91.

Calendar Reference: See Summary below for explanation of
exception to calendar requirement.

Proposal Number: PRN 2012-139.

Submit comments by November 30, 2012 to:

Timothy M. Walsh
Administrative Practice Officer
Division of Investment
PO Box 290
Trenton, New Jersey 08625-0290

The agency proposal follows:

Summary

N.J.A.C. 17:16-46 permits the Director to invest in common and preferred stocks and debt issues convertible into common stock of corporations based in emerging market countries and exchange-traded, global, regional, or country funds which invest in emerging markets on behalf of any eligible fund. The heading of the subchapter and N.J.A.C. 17:16-46.2(b) and 46.4(a)4 and 6 are proposed to be amended to more accurately reflect the permissible investments under N.J.A.C. 17:16-46.

The proposed amendment to N.J.A.C. 17:16-46.2(c)1 will provide that the Director may exercise rights privileges. The proposed amendment to N.J.A.C. 17:16-46.2(c)2 will provide that the rights may be purchased if the common stock qualifies for investment. The proposed amendment to N.J.A.C. 17:16-46.2(c)5 will clarify that the Director may retain any distribution.

N.J.A.C. 17:16-46.4(a)4 provides that the aggregation of debt and equity investments in companies based in emerging markets cannot exceed 1.5 times the percentage derived by dividing the total market capitalization of companies included in the MSCI Emerging Market Index by the total market capitalization of the companies included in the

MSCI All-Country World Ex-United States Index of the total market value of the assets held by Common Pension Fund D. The proposed amendment will revise the ratio to include only equity type investments, and to express the limit as 50 percent of the percentage derived by dividing the total market capitalization of companies included in the MSCI Emerging Market Index by the total market capitalization of the companies included in the MSCI All-Country World Ex-United States Index of the total market value of the combined assets of all of the Pension and Annuity Funds. The proposed amendment, along with the separation of investment limits for debt and equity investments being proposed concurrently for N.J.A.C. 17:16-16, 20, and 44 published elsewhere in this issue of the New Jersey Register, will provide investment flexibility and the opportunity for increased risk-adjusted returns and will express the limitation in a manner which is consistent with the asset allocation plan.

N.J.A.C. 17:16-44.4(a)6 provides that the market value of international debt and equity investments held by any fund, other than Common Pension Fund D, shall not exceed 30 percent of the market value of such fund. The proposed amendment will provide that the market value of international common and preferred stock and debt issues convertible into common stock and the shares or interests in international exchange-traded, global, regional, or country funds held by an eligible fund, either directly or through Common Pension Fund D, cannot exceed 30 percent of the market value of the assets of the combined assets of all of the Pension and Annuity Funds. The proposed amendment, along with the separation of investment limits for debt and equity investments being proposed concurrently for N.J.A.C. 17:16-16, 20 and 44, will provide investment flexibility and the opportunity for increased risk-adjusted returns and will express the limitations in a manner which is consistent with the asset allocation plan.

Because the Division is providing a 60-day comment period on this notice of proposal, this notice is exempted from the rulemaking calendar requirement pursuant to N.J.A.C. 1:30-3.3(a)5.

Social Impact

The proposed amendments shall have a positive social impact because the opportunity for increased overall risk-adjusted returns for the State-administered funds will benefit the funds' beneficiaries and will lessen the long-term burden on the State's taxpayers.

Economic Impact

The proposed amendments shall have a positive economic impact by providing an opportunity for increased risk-adjusted returns of the State-administered funds.

Federal Standards Statement

A Federal standards analysis is not required because the investment policy rules of the State Investment Council are not subject to any Federal requirements or standards.

Jobs Impact

The State Investment Council and the Division of Investment do not anticipate that any jobs will be generated or lost by virtue of the proposed amendments.

Agriculture Industry Impact

The proposed amendments will have no impact on the agriculture industry.

Regulatory Flexibility Statement

A regulatory flexibility analysis is not required since the proposed amendments will have no effect on small businesses as the term is defined in the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq., but regulate only the Director of the Division of Investment.

Housing Affordability Impact Analysis

The proposed amendments will have no impact on the affordability of housing in the State of New Jersey. The proposed amendments will modify investment in international emerging market equity investments thereby providing an opportunity for increased risk-adjusted returns of the State-administered funds.

Smart Growth Development Impact Analysis

The proposed amendments are not anticipated to have an impact on the availability of affordable housing or housing production within Planning Areas 1 or 2, or within designated centers, under the State Development and Redevelopment Plan in New Jersey. The proposed amendments will modify investment in international emerging market equity investments thereby providing an opportunity for increased risk-adjusted returns of the State-administered funds.

Full text of the proposal follows (additions indicated in boldface thus; deletions indicated in brackets [thus]):

SUBCHAPTER 46. COMMON AND PREFERRED STOCKS AND DEBT ISSUES CONVERTIBLE INTO COMMON STOCK OF CORPORATIONS **BASED IN EMERGING MARKET COUNTRIES AND EXCHANGE-TRADED, GLOBAL, REGIONAL, OR COUNTRY FUNDS WHICH INVEST IN EMERGING MARKETS**

17:16-46.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in:

1.-2. (No change.)

(b) Notwithstanding the restrictions contained in (a) above, the Council may approve the purchase of common and preferred stocks and **debt** issues convertible into common stock of [international] corporations **based in emerging market countries or exchange-traded funds**, global, regional, or country funds **which invest** in emerging markets on a case-by-case basis.

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

1. Exercise the **rights or** conversion privileges in the common stocks of any security acquired under this subchapter;

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

3.-4. (No change.)

5. Retain any distribution received as a result of a corporate action, even if [the security] **such distribution** does not meet the requirements of this subchapter.

17:16-46.4 Limitations

(a) At the time of initial purchase, the following conditions shall be met:

1.-3. (No change.)

4. The total market value of stock, or securities convertible into stock, of companies **based** in emerging markets, **and** the shares or interests in **exchange-traded**, global, regional, or country funds **which invest** in emerging markets, [and international government and agency obligations in emerging markets permitted under N.J.A.C. 17:16-20,] held by Common Pension Fund D shall not exceed [1.5 times] **50 percent** of the percentage derived by dividing the total market capitalization of companies included in the MSCI Emerging Market Index by the total market capitalization of the companies included in the MSCI All-Country World Ex-United States Index of the total market value of the **combined assets [held by Common Pension Fund D] of all of the Pension and Annuity Funds**. In calculating the above percentage, the Director may substitute such other similar indices as may be selected by the Director and approved by the Council;

5. (No change.)

6. The market value of international common and preferred stock and **debt** issues convertible into common stock **and the shares or interests in exchange-traded, global, regional, or country funds in emerging markets** held by an eligible fund [(other than Common Pension Fund D)], either directly or through Common Pension Fund D, [when combined with the market value of international government and agency obligations permitted under N.J.A.C. 17:16-20 and international corporate obligations permitted under N.J.A.C. 17:16-16,] cannot exceed 30 percent of the market value of the **combined** assets of [such fund] **all**

of the Pension and Annuity Funds, subject to such further provisions as are contained in N.J.A.C. 17:16-67.

(b) (No change.)

(a)

**STATE INVESTMENT COUNCIL
Mortgage Backed Senior Debt Securities; Mortgage Backed Passthrough Securities
Permissible Investments
Proposed Amendment: N.J.A.C. 17:16-58.2**

Authorized By: State Investment Council, Timothy M. Walsh, Director, Division of Investment.

Authority: N.J.S.A. 52:18A-91.

Calendar Reference: See Summary below for explanation of exception to calendar requirement.

Proposal Number: PRN 2012-140.

Submit comments by November 30, 2012 to:

Timothy M. Walsh
Administrative Practice Officer
Division of Investment
PO Box 290
Trenton, New Jersey 08625-0290

The agency proposal follows:

Summary

N.J.A.C. 17:16-58 permits the Director to invest in Mortgage Backed Senior Debt Securities and Mortgage Backed Passthrough Securities on behalf of any eligible fund. N.J.A.C. 17:16-58.2(c) provides that up to five percent of the combined assets of all of the Pension and Annuity Funds may be invested in corporate obligations, international corporate obligations, collateralized notes and mortgages, bank loans, non-convertible preferred stock, and mortgage backed passthrough securities that do not meet the minimum credit ratings set forth in N.J.A.C. 17:16-12.2, 16.2, 19.2, 23.2, 40.2, and 58.2, respectively. The proposed amendment to N.J.A.C. 17:16-58.2(c), concurrent with the proposed amendments to the other subchapters published elsewhere in this issue of the New Jersey Register, will raise the five percent cap to eight percent and expand the high yield category to include global diversified credit investments to provide the opportunity for increased risk-adjusted returns. The proposed amendment also clarifies that corporate obligations means corporate obligations of U.S. based corporations.

Because the Division is providing a 60-day comment period on this notice of proposal, this notice is exempted from the rulemaking calendar requirement pursuant to N.J.A.C. 1:30-3.3(a)5.

Social Impact

The proposed amendment shall have a positive social impact because the opportunity for increased overall risk-adjusted returns for the State-administered funds will benefit the funds' beneficiaries and will lessen the long-term burden on the State's taxpayers.

Economic Impact

The proposed amendment shall have a positive economic impact by providing an opportunity for increased risk-adjusted returns of the State-administered funds.

Federal Standards Statement

A Federal standards analysis is not required because the investment policy rules of the State Investment Council are not subject to any Federal requirements or standards.

Jobs Impact

The State Investment Council and the Division of Investment do not anticipate that any jobs will be generated or lost by virtue of the proposed amendment.

Agriculture Industry Impact

The proposed amendment will have no impact on the agriculture industry.