

New Jersey State Investment Council

November 30, 2016 Regular Meeting

Minutes of the Regular Meeting

Held November 30, 2016 at the 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
Michael Greaney
James Hanson
Guy Haselmann
James Joyner
Timothy McGuckin
Jeffrey Oram
Eric Richard
Mitchell Shivers (via telephone)

Roll Call and Meeting Notice

The Regular Meeting was called to order by Brendan T. Byrne, Jr., Council Chair, at 10:09 a.m. Ernestine Jones-Booker, Council Secretary, reported that notice of the Regular Meeting scheduled for November 30, 2016 was posted on the website of the Division of Investment (Division); faxed to the Times of Trenton, the Bergen Record, and the Courier Post; and e-mailed to the Secretary of State on October 18, 2016. A copy of the notice was posted at the Division and is on file. Ms. Jones-Booker performed roll call and reported that a quorum of the Council was present.

Minutes of the Regular Meeting held September 28, 2016

Mr. Byrne presented for adoption the minutes for the regular meeting held September 28, 2016. Thomas Bruno, Jr. made a motion to approve the minutes, with Guy Haselmann seconding the motion. All Council Members present voted in favor, except for Charles Dolan and James Joyner who abstained as they were not present at the September 28 meeting.

Opening Remarks by Chair

Mr. Byrne made an opening statement regarding the positive performance of the fund and the economy as a whole, but noted that the rate of growth was below the actuarial target and that, even if this target were reached, a shortfall in the state pension system would still exist.

Presentation by Ruchir Sharma of Morgan Stanley Investment Management

Chair Byrne introduced Ruchir Sharma, Head of Emerging Markets and Chief Global Strategist at Morgan Stanley Investment Management. Mr. Sharma discussed long-term global trends and factors to consider when predicting a country's economic growth. In response to Mr. Byrne's question about timing investment in emerging markets, Mr. Sharma stated that emerging markets were currently projected to outperform the U.S. market for the first time in many years. Regarding Mr. Byrne's inquiry about possible ripple effects from China's economic situation, Mr. Sharma warned that the next global economic crisis would likely be caused by instability in China, especially if its debt burden continued

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to increase at its current pace. Mr. Byrne asked whether the relatively low bond yields in certain European countries accurately reflected credit risk, to which Mr. Sharma responded that credit risks are reflected in the spreads for each Country. Eric Richard inquired about the relative level of protectionism in the United States, and Mr. Sharma responded that the U.S. has adopted some protectionist measures but is not as protectionist as emerging markets such as India and Russia. Concerning Mr. Dolan's questions whether depopulation and de-democratization are expected to continue in the future, Mr. Sharma stated that depopulation is a global phenomenon based on long-term improvements in education and living standards, and that the totalitarian trend resulted as a response to public anti-establishment sentiment. Jeffrey Oram inquired whether increased urbanization around the world would benefit the United States, to which Mr. Sharma explained that the rate of urbanization is already high in the US and the number of migrants from other countries will likely decrease in the current environment. In response to Mr. Haselmann's and Mr. Byrne's question about the effect of increased debt levels on economic growth, Mr. Sharma responded that while high levels of debt are problematic, the most important factor in predicting growth is the rate of increase in debt. Mr. Sharma noted that historically, when debt levels rose by more than forty percentage points as a share of GDP in a market, growth in that markets slowed by more than half over the next five years relative to the five preceding years. Mr. Haselmann asked Mr. Sharma about the likeliness of a recession in the U.S. Mr. Sharma replied that the more likely scenario would be an artificially high level of growth followed by a dramatic contraction.

Resolution for Dr. Roger Cohen

Mr. Byrne presented a resolution of the Council recognizing the contributions of Dr. Roger Cohen, Assistant Treasurer for Tax Policy and Revenue Analysis of the State of New Jersey. The resolution attached as an exhibit was read into the record by Mr. Byrne and signed by all members of the Council.

Director's Report

Director Chris McDonough presented the Director's Report, providing an update on the equity and fixed-income markets, including post-election developments. Deputy Director Corey Amon provided an update on the performance of the portfolio on an absolute basis and relative to the policy benchmark. He discussed the performance of various asset classes, and described factors affecting such performance. He compared the fund's asset allocation to plan targets. In response to Mr. Byrne's question regarding the fund's emerging market target allocation relative to peer funds, Mr. McDonough and Kristen Doyle of Aon Hewitt noted that the fund's overall allocation to non-US versus US was lower than its peers, but within the international portfolio, the allocation to emerging markets versus developed markets was higher. Mr. Byrne noted the improved performance of equity-oriented hedge funds, while recognizing that they were in the process of being eliminated from the portfolio.

Mr. Amon updated the Council on two Division initiatives, the first being a review of Council policies and procedures and the drafting of an Investment Policy Statement, and the second being a change to the annual investment plan process to include a comprehensive asset-liability study every three years. In response to Mr. Haselmann's question regarding how the annual asset allocation process will incorporate the asset-liability study, Ms. Doyle said that industry best practices recommend matching long-term capital market assumptions with expected liabilities over a three to five year period, with a less comprehensive annual review to account for short-term variations and market events. Mr. Haselmann stated his support for conducting asset-liability studies, but expressed misgivings regarding using backwards-looking capital market assumptions as a basis for asset allocation decisions. Mr. Byrne explained that the initiative was intended to reallocate resources to permit staff to focus on conducting an asset-liability study rather than annual capital market forecasts. Mr.

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Dolan commented that the initiative added a needed complexity to any long-term review of asset allocation, while Mr. Bruno announced his concern that performing the asset liability study only once every three years could impair the Council's fiduciary duties to approve an annual asset allocation plan.

In response to Adam Liebttag's query regarding the source of liability data, Mr. Amon and Mr. McDonough explained that the data would be provided by the pension system actuaries. Mr. Amon offered to make available to Mr. Liebttag any requests by Aon Hewitt to the actuaries. Mr. Liebttag questioned how future contributions by the state and local governments would be calculated, and James Hanson responded that the actuaries have to follow standard actuarial principles in making its estimates. Mr. Bruno expressed concern regarding unverified data in the actuary reports, to which Ms. Doyle responded that all data received from the actuaries' valuation reports would be audited and verified.

Mr. McDonough stated that, due to the late adoption and implementation of the Fiscal Year 2017 investment plan, the Division was proposing to continue that plan for Fiscal Year 2018. Mr. Richard stated that he wanted to be clear that there would be an annual, formal asset allocation review that included a vote by Council. Mr. McDonough confirmed this was the intention. Mr. Haselmann concurred that asset allocation should be reviewed by the Council on an annual basis, if not more frequently.

Private Equity Investment

MBK IV

Robin Clifford of the Division, with Michelle Davidson of TorreyCove, presented an investment of up to \$100 million in MBK IV, L.P. a North Asian buyout private equity firm. Ms. Clifford described the fund's management team, investment strategy, and terms. In response to a question from Mr. Byrne about risks considered by staff, Ms. Clifford and Ms. Davidson discussed the departure of certain fund personnel. In response to a question from Mr. Oram regarding the performance of predecessor funds, Ms. Davidson noted that the earliest fund was a second quartile fund. Mr. Byrne reported that the IPC had discussed the investment and was satisfied that appropriate and adequate due diligence had been performed.

Real Asset Investment

EQT Infrastructure III

Meghna Desai, along with Matt Coyne of TorreyCove, presented an investment of up to \$100 million in EQT Infrastructure III, a real asset fund focusing on infrastructure investments in Europe and North America. Ms. Desai described the fund's senior management team, its industrial advisor network and its investment strategy. She also summarized the terms of the investment. Mr. Coyne described the investment's portfolio fit. Mr. Byrne asked how an increase in interest rates would affect the fund's target return, and Ms. Desai responded that such an increase would have some effect, but less than the effect it would have on a core infrastructure fund. Mr. Byrne reported that the IPC had reviewed the investment and was satisfied that appropriate and adequate due diligence had been performed.

Fiscal 2016 Proxy Voting Summary

Susan Sarnowski of the Division provided the Council with an overview of the Division's proxy voting for Fiscal Year 2016, with respect to both U.S. and international corporations. Mr. Byrne and Mr. Liebttag noted the importance of guarding against excessive executive compensation as a detractor from shareholder value. Ms. Sarnowski announced the retirement of Linda Gaspari, the Division's proxy voting specialist, after 44 years with the State.

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Treasurer's Report

Marc Miles, Assistant Treasurer for Tax Policy and Revenue Analysis, reported on the State's economic recovery, providing an update on state and national labor and housing statistics. Dr. Miles agreed to provide Mr. Byrne with the overall revenue growth number for Fiscal Year 2016. Dr. Miles also agreed to update Marty Barrett on the Treasurer's position on the pending bill requiring the State to make pension fund contributions on a quarterly basis.

2017 Proposed State Investment Council Meeting Dates

Mr. Byrne asked that the Council members put a hold on their calendars for October 4, 2017 as a possible date change for the meeting scheduled for September 27, 2017.

Public Comment

There were no public comments.

Adjournment

Mr. Oram made a motion to adjourn the meeting, with Mr. Haselmann seconding the motion. All Council Members present voted in favor. The meeting was adjourned at 12:46 p.m.

**STATE OF NEW JERSEY
STATE INVESTMENT COUNCIL**



RESOLUTION

WHEREAS, Dr. Roger S. Cohen, Assistant Treasurer for Tax Policy and Revenue Analysis of the State of New Jersey, for the past several years has served as representative of the State Treasurer at meetings of the State of New Jersey State Investment Council (the "Council"); and

WHEREAS, at those meetings, Dr. Cohen offered well-reasoned analysis and meaningful commentary regarding the economy of the State of New Jersey and of the United States, providing a valuable context to assist the Council in making decisions and creating policies consistent with its mandate to achieve the best possible return at an acceptable level of risk using the highest fiduciary standards.

THEREFORE BE IT RESOLVED, that the Council, on behalf of itself and the State of New Jersey Division of Investment, hereby expresses its gratitude to Dr. Cohen for his dedicated service and valuable contributions on behalf of the citizens, taxpayers and fund beneficiaries of the State of New Jersey.

Read into the record on the 30th day of November, 2016

Brendan Thomas Byrne Jr., Chair

Marty Barrett

Tom Bruno, Jr.

Michael Cleary

Charles Dolan

Andrew Michael Greaney

James E. Hanson

Guy Haselmann

James Joyner

Adam Liebtog

Timothy McGuckin

Jeffrey Oram

Eric E. Richard

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