Minutes of the Regular Meeting:

Held March 22, 2012 at 10:00 AM at the N.J. State Museum Auditorium, 205 West State Street, Trenton NJ.

Council Members in Attendance:
Robert Grady, Chair
Marty Barrett
Brendan T. Byrne, Jr.
James Hanson
Guy Haselmann
James Joyner
Adam Liebtag
Peter Maurer
Timothy McGuckin
Jeffrey Oram

Roll Call and Meeting Notice
Mr. Grady called the meeting to order at 10:00am. Ms. Christine Eckel performed roll call and reported that notice of the Regular Meeting scheduled for March 22, 2012, was posted to the Division’s website on March 7, 2012 and sent via fax to the Times of Trenton, the Star-Ledger, the Bergen Record, the Courier Post and the Secretary of State on March 7, 2012. A copy of the notice was posted at the Division and is on file.

Guest Speaker-Byron Wein
Byron Wein, Vice Chairman, Blackstone Advisory Partners LP, also acts as Senior Financial Advisor to both the Blackstone firm and its clients in analyzing economic, social and political trends to assess the direction of financial markets and thus help guide investment and strategic decisions.

Mr. Wein gave the Council a market overview with his presentation on “The Ten Surprises of 2012”, which can be found on the Division’s website.

Approval of Minutes for Regular and Annual Meetings held January 26, 2012
Chair Grady asked the Council Members if they had any comments on the minutes for the January 26, 2012 Regular and Annual Meetings. There were no comments. Chair Grady motioned to approve the Annual Meeting minutes. The motion was seconded by Vice Chair Byrne. All members voted in favor of the motion, except that Council Member Liebtag abstained as he was not a member of the Council at the time of the January 26 meetings, and Mr. McGuckin abstained as he was not present for the majority of the Annual Meeting. Chair Grady then motioned to approve the Regular Meeting minutes. The motion was seconded by Council Member Maurer. All members voted in favor of the motion, except Council Member Liebtag who abstained for the reason stated above.
Chair Grady welcomed Adam Liebtag to the Council. Mr. Liebtag was nominated by the New Jersey State AFL-CIO and appointed by the Governor to the Council position formally held by James Marketti. Chair Grady thanked Mr. Marketti for his service over the last decade, requesting a motion to formally thank Mr. Marketti. Council Member Barrett seconded the motion, with all in favor.

**Directors Report/Update**

Director Walsh advised the Council that the portfolio was overweight in Public Equity by approximately $3.1 billion on February 29, 2012. US Equity and Developed market Non US equity portfolio has performed much better since the start of the calendar year, while the internally managed domestic equity portfolio has outperformed its benchmark by 144 bps CYTD and the internally managed developed markets international equity portfolio has outperformed its benchmark by 231 bps CYTD. Director Walsh reported that the FYTD for both Domestic and International have underperformed benchmarks by 15 bps and 299 bps respectively.

Director Walsh informed the Council that the Division’s proposed $35 million dollar investment in Edison Ventures Fund VII, which was presented to the SIC at the January 26, 2012 meeting, did not close due to the —general partner’s’ failure to approve the Division’s negotiated business terms. The Director further reported that the Division, with the assistance of Cogent Partners, finalized the sale of its limited partnership interest in TPG VI, with $7.5 million of commitments being transferred on February 9, 2012. With this transaction, the Division has closed on the all sales of private equity limited partnership interests that began in the spring of 2011, as previously disclosed.

Mr. Barrett expressed his appreciation that the Director’s report contained a breakout of aggregate amounts transferred to the pension funds by each Common Fund, but asked that future reports provide detail as to amounts distributed to each pension fund. The Director agreed to provide that detail in future reports.

Deputy Director McDonough, along with Pete Keliuotis of Strategic Investment Solutions presented the Council with the Annual Investment Plan Initial Report for Fiscal Year 2013. The final report will be presented at the May 24, 2012 meeting. Mr. Haselmann asked that the plan include more granularity with respect to proposed allocations to emerging markets, developed markets and geographic area. Deputy Director McDonough agreed to take this request into account and discuss it with the IPC.

Director Walsh and Deputy Director McDonough then delivered an update on the Deferred Compensation Plan.

**Hedge Fund Investments**

**Blue Crest Capital International**

Deputy Director Chris McDonough along with Dan Stern of Cliffwater presented a proposed investment of $200 million in Blue Crest Capital International (BCI). BCI has generated excellent absolute and risk-adjusted performance, having an annualized return of 13.72% since inception and a Sharpe ratio of 1.85 through January 2012. This performance places BCI in the top quartile of all hedge funds and global
macro hedge funds on an absolute performance basis and the top percentile on a risk adjusted performance basis.

They further reported that Michael Platt is widely considered one of the best macro managers in the industry. Prior to establishing BlueCrest in April 2000, he was a managing director at JP Morgan in London where he was responsible for relative value proprietary trading. Mr. Platt joined JP Morgan in September 1991 and he assumed responsibility for developing its swaps business and subsequently its options trading business. In April 1996, he became head of trading for all swaps products relating to the eleven founder nations of the European single currency.

Chair Grady reported that the Investment Policy Committee has determined that appropriate and adequate due diligence was performed.

**Claren Road Credit Fund Ltd.**

Manick Kotwal along with Dan Stern of Cliffwater presented a proposed investment of $150 million in Claren Road Credit Fund, Ltd. Sub Class Two, a global long/short credit strategy. The fund has produced an annualized net return of 10.66% with a 3.94% standard deviation from January 2006 to January 2012, resulting in a 1.99 Sharpe ratio. This performance places Claren Road in the top 19% of all funds on a returns basis and also places it in the top 5% of all funds in regards to Sharpe ratio within the strategy universe since inception. The addition of Claren Road to the portfolio is expected to provide a good balance to the portfolio’s meaningful distressed exposure.

Chair Grady recused himself immediately prior to the presentation on Claren Road out of an abundance of caution given his previous employment with Carlyle Group, which ended in 2009. Mr. Grady reported that he had submitted a letter to the Division of Investment recusing himself from all matters involving The Carlyle Group. After Chair Grady left Carlyle Group, it acquired Claren Road. Vice-Chair Tom Byrne reported that the Investment Policy Committee has determined that appropriate and adequate due diligence was performed.

**Cadian Fund**

Manick Kotwal along with Dan Stern of Cliffwater presented a proposed investment of up to $100 million in Cadian Fund LP, which provides equity oriented hedge fund exposure, an area the Division is underweight by over $1.3 billion. The Fund was founded by Eric Bannasch who was a highly successful portfolio manager at Perry Capital for the Technology, Media and Telecommunications sectors. Since inception in October 2007 to January 2012, the fund has had an annualized return of 11.95% with 17.75% standard deviation. The HFRI Equity Hedge Index generated an annualized return of -.78% and a standard deviation of 13.65% over the same time period.

Vice-Chair Tom Byrne reported that the Investment Policy Committee has determined that appropriate and adequate due diligence was performed.

After a short break, Chairman Grady rejoined the meeting.
Private Equity Investments

**Warburg Pincus Private Equity XI**

Christine Pastore along with Harshal Shah of SIS presented a proposed investment of $300 million in Warburg Pincus Private Equity XI, LP. The Division views Warburg Pincus as a core relationship to its private equity portfolio and is currently invested in Warburg Pincus Fund VIII, IX and X (aggregate $625.75 million), which has generated consistent returns across various investment stages, sectors and cycles and is ranked as a top quartile performer among its peers. Founded in 1967, Warburg Pincus is one of the pioneering firms in private equity and one of the few remaining firms that has effectively dealt with management transition from one generation of leaders to the next. Consistent with prior Warburg Pincus funds, WP XI’s strategy is to largely invest in growing companies.

Chair Grady reported that the Investment Policy Committee has determined that appropriate and adequate due diligence was performed.

**TPG Growth Fund II**

Christine Pastore along with Harshal Shah of SIS proposed an investment of $100 million in TPG Growth Fund II, LP. The Division committed to TPG Star ($100 million), the predecessor to TPG Growth II, in the spring of 2007. The fund has produced top-quartile performance in the small to mid-market buyout space, with a 1.27x TVPI and a 13% Net IRR. Through the TPG platform, the Partnership will have access to 14 offices worldwide and more than 150 global investment professionals to assist with local diligence and knowledge. TPG Growth has a dedicated operating group with the mission of driving shareholder value creation by engaging in the investment due diligence process and portfolio construction to identity and effect revenue growth, operational effectiveness and profit enhancement initiatives.

Chair Grady reported that the Investment Policy Committee has determined that appropriate and adequate due diligence was performed.

Real Estate Investments

**CT High Grade Partners II, LP**

Director Walsh along with Roman Nemtsov of RVKuhns proposed an investment of up to $175 million to purchase the approximately 25% interest in CT High Grade Partners II, LLC (the “Fund”), which is currently owned by NJDOI/GMAM CT High Grade Partners II, L.P. (the “GMAM Fund”), and an additional investment of up to $1.2 million to purchase the less than 1% interest in GMAM Fund that is not currently owned by Common Pension Fund E. The Division is also proposing to convert the Common Pension Fund E’s current interest in the GMAM Fund (currently valued at $451,615,596) into an interest in the Fund. Also, Common Pension Fund E will pay GMAM the contractual value of its management
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fees up to $1.5 million in order to exercise its rights as an investor in the Fund. As a result of these transactions, Common Pension Fund E will become a direct investor in the Fund with up to $650 million invested.

Mr. Oram reported that he had recused himself from the IPC consideration of this investment. Mr. Byrne reported that the Investment Policy Committee has determined that appropriate and adequate due diligence was performed.

Report to the Legislature on Iran Divestment Act

Susan Sarnowski, Director of Operations and Compliance Officer of the Division, stated that annually the Director sends a report to the Legislature of companies on the Prohibited List in January. Chair Grady asked that a copy of the report be placed on the Division’s website. Ms. Sarnowski said that she would do so.

Christine Pastore

Chair Grady acknowledged Ms. Pastore, who has announced her resignation from the Division. Chair Grady remarked that Ms. Pastore has been an asset to the Division, having worked to build the private equity program during her seven-year tenure with the Division and serving as Co-head of Alternative Investments for the past one and one-half years. He also acknowledged her years of state government service prior to joining the Division. Mr. Grady credited Ms. Pastore with developing the Blackstone relationship in a manner that has benefitted the Common Pension Funds with lower management fees and complimented her on her creativity and dedication in creating a “state of the art” portfolio of investments. Chair Grady then moved that the Council formally recognize and thank Ms. Pastore for her exemplary service. Mr. Haselmann seconded the motion, with all in favor.

Report from the Treasurer

There was no report from the Treasurer.

Lehman Matter

Council Member Barrett asked for a report on the Lehman bankruptcy matter. Director Walsh stated that the case is not yet concluded and it is not yet known what the Common Pension Funds are likely to receive on their claims. The Chair requested that the Attorney General’s office provide a status report on the matter at the next meeting.

Opportunity for Public Comment

Rae Roeder, President of CWA Local 1033, asked when the first payment to the Pension Plan was made this year. Mr. Jeter responded that it will be made by the end of Fiscal Year 2012. Ms. Roeder also commented on the Division’s relatively small annual budget in comparison to the amount of management fees paid in connection with alternative investments.
Anthony Miskowski, Secretary of CWA Local 1033, provided Council members with a written presentation regarding the assumed rate of return on pension asset investments. Mr. Miskowski repeated his belief that the assumed rate is set too high. He urged the Council to assess the assumed rate of return and advise the State Legislature accordingly. Mr. Maurer moved to create a subcommittee for this purpose and Mr. Barrett seconded the motion. Chair Grady asked for comments before voting on Mr. Maurer’s motion. Chair Grady stated that the Council does not have authority to change the assumed rate of return as it is set by the Treasurer after consultation with the actuary and others. Vice Chair Byrne remarked that Council is not equipped to address the entire assumed rate question, which takes into account actuarial and other factors. Mr. Hansen suggested that the Council, through the IPC, may be able to consider the likely yield of the prudent balance in the portfolio of risk and return. The Council then considered Mr. Maurer’s motion, revised to provide that the IPC would consider and attempt to estimate the likely rate of return of the prudent balance of risk and return of the Common Funds and would continue to monitor the rate of return matter. All voted in favor.

A speaker who was not registered to speak stated that he is a State worker and Deferred Compensation Plan participant and asked that more index funds be available as investment options for plan participants.

Chair Grady motioned to adjourn the meeting, with Council Member Maurer seconding the motion. All voted in favor. The meeting was adjourned at 2:15 pm.