

New Jersey State Investment Council

May 23, 2018 Regular Meeting

Minutes of the Regular Meeting

Held May 23, 2018 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
Michael Cleary
Michael Greaney
James Hanson
James Joyner
Eric Richard

Thomas Bruno Jr., Timothy McGuckin, and Brady Middlesworth were not in attendance.

Roll Call and Meeting Notice

The Regular Meeting was called to order by Brendan T. Byrne, Jr. at 10:06 a.m. Ernestine Jones-Booker, Council Secretary, performed roll call and reported that a quorum of the State Investment Council (Council) was present. Ms. Jones-Booker reported that notice of the Regular Meeting scheduled for May 23, 2018 was posted on the website of the Division of Investment (Division); 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 April 25, 2018. A copy of the notice was posted at the Division and is on file.

Minutes of the Regular Meeting Held March 28, 2018

Mr. Byrne presented minutes of the regular meeting held March 28, 2018 for adoption. Adam Liebttag made a motion to approve the minutes, with Michael Cleary seconding the motion. All Council Members present voted in favor, except for Michael Greaney, who abstained because he was absent from the March 28th meeting.

Opening Remarks by Chair

Mr. Byrne made some brief opening remarks, noting the pension fund's positive returns for the fiscal year and emphasizing the importance of the State honoring its commitment to funding increases and continuing to pursue a diversified investment strategy. Mr. Byrne announced that this would be his last meeting as a Council member, and expressed how proud he was of the work done by the Council and Division staff. Mr. Byrne thanked Tim Patton, the Division's fixed Income portfolio manager, for his decades of service and wished him well in retirement. Finally, Mr. Byrne acknowledged the passing of former CWA president Rae Roeder and paid tribute to her passionate advocacy at Council meetings.

Guest Speaker, Douglas Peebles, CIO and Partner of AB Fixed Income

Elizabeth Smith and Aaron Montano of Alliance Bernstein introduced Douglas Peebles, the Chief Investment Officer for the firm's fixed income group. Mr. Peebles provided a financial market update, reviewing the effects of monetary expansion on asset prices and other key economic indicators, and providing a historical summary of global financial indices. Mr. Peebles recommended that fund managers take an opportunistic approach to risk, engage active managers (including hedge funds) where appropriate, and not expect the outsized returns of the past decade to continue. He also emphasized the importance of diversification, especially among uncorrelated asset classes. In response to a question from Dini Ajmani, Assistant State Treasurer, Mr. Peebles reviewed the state of the municipal bond market.

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Mr. Byrne acknowledged the presence in the audience of three State Investment Council nominees: Danielle Beyer, Wasseem Boraie, and Vaughn Crowe.

Director's Report/Updates

Director Christopher McDonough of the Division presented an update on capital markets. Deputy Director Corey Amon of the Division discussed pension fund performance and asset allocation. Mr. McDonough reported to the Council on the status of Senate Bill 5, which would transfer policy-making authority over PFRS assets from the Council to the PFRS Board. He also provided an update on staffing initiatives; cash flows from the lottery and local employers; and the procurement of a vendor to provide proxy research and related services. Finally, Mr. McDonough provided an update of Council membership, reporting the resignation of Charles Dolan and Mitchell Shivers, and thanking all departing members for their contributions and expertise. He noted that the pension fund had returned 8.3% per year and 82.7% cumulatively since Mr. Byrne had joined the Council.

Environmental, Social and Governance (ESG) Update

Jeffrey Warshauer of the Division provided an overview of the Division's Environmental, Social and Governance (ESG) initiatives. Mr. Liebtag thanked Division staff for the support it had provided to the Council's ESG subcommittee.

Alternative Investment Notifications

Pursuant to the Council's Alternative Investment Modification Procedures, Mr. McDonough notified the Council of modifications and clarifications to the Division's investments in Blackstone TORO Fund A L.P. and Neuberger Berman New Jersey Custom Fund III, L.P.

Report from the State Treasurer

Dini Ajmani thanked the departing Council members for their service and time commitment, and stated that she was looking forward to welcoming the eight new Council nominees upon their confirmation. Ms. Ajmani also provided an update on the status of the State's budget for Fiscal Year 2019.

Proposed Amendment to the State Investment Council Bylaws

Mr. McDonough presented an amendment to the Council bylaws that would formally establish the ESG Committee as a committee of the Council. Mr. Byrne reported that the Investment Policy Committee recommended adoption of the proposed amendment. Mr. Liebtag made a motion to adopt the amendment, which motion was seconded by Mr. Byrne. On a roll call vote, all members of the Council present who were present voted in favor of the motion.

Proposed Readoption of Specially Adopted Amendment

Susan Sarnowski of the Division presented for readoption an amendment to Council regulations adopted on an interim basis in 2017 to implement the provisions of P.L. 2017, c. 98. Mr. Liebtag made a motion to adopt the attached resolution approving the readoption, which motion was seconded by Mr. Byrne. On a roll call vote, all members of the Council present voted in favor of the motion.

Private Equity Investment

Vista Equity Partners Fund VII, L.P.

Robin Clifford of the Division and Michelle Davidson of TorreyCove Capital Partners presented an investment of up to \$300 million in Vista Equity Partners Fund VII L.P., a private equity fund focusing on companies within the enterprise software

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sector. Ms. Clifford and Ms. Davidson described the terms of the investment, and noted the fund manager's strong track record and stable senior management team. Mr. Byrne reported that the IPC had reviewed the investment and was satisfied that appropriate and adequate due diligence had been performed.

Public Comment

Gregg Sgambati of S Network Global Indexes spoke about ESG matters.

Adjournment

Mr. Liebtag made a motion to adjourn the meeting, with Mr. Greaney seconding the motion. All Council members present voted in favor. The meeting was adjourned at 11:55 a.m.

Resolution Approving the Proposed Readoption of Specially Adopted Amendments to N.J.A.C. 17:16-69 (Common Pension Funds)

BE IT RESOLVED THAT:

The State Investment Council (the "Council") hereby approves the Proposed Readoption of Specially Adopted Amendments to N.J.A.C. 17:16-69 (Common Pension Funds) as attached hereto.

The Council hereby authorizes the Director of the Division of Investment to submit the attached Proposed Readoption of Specially Adopted Amendments to the Office of Administrative Law for publication, and hereby delegates to staff of the Council and the Division of Investment the authority to make revisions to such proposal as required and as shall be made upon the advice of the Attorney General.

This resolution shall take effect immediately.

DATED: May 23, 2018