Minutes of the Regular Meeting
Held July 23, 2014 at the Trenton War Memorial; George Washington Ballroom, 1 Memorial Drive, Trenton, New Jersey.

Council Members in Attendance:
Robert Grady, Chair
Brendan T. Byrne, Jr., Vice Chair
Marty Barrett (via conference call)
Michael Cleary
Charles Dolan (via conference call)
Michael Greaney
James Hanson (via conference call)
Guy Haselmann
James Joyner
Adam Liebtag
Timothy McGuckin
Jeffrey Oram
Mitchell Shivers

Mr. Peter Maurer was unable to attend.

Roll Call and Meeting Notice
The meeting was called to order by Robert Grady, Council Chair, at 10:12 AM. Ernestine Jones-Booker, Council Secretary, reported that notice of the Regular Meeting, scheduled for July 23, 2014, 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 June 25, 2014. Ms. Jones-Booker further stated that a copy of the notice was posted at the Division and was on file at the Division. Finally, Ms. Jones-Booker performed roll call and reported that a quorum of the SIC was present.

Minutes for Regular Meetings held on May 28, 2014 and June 23, 2014
Mr. Grady presented for adoption the minutes for the regular meetings held on May 28, 2014 and June 23, 2014. Mr. Grady made a motion to approve the minutes for the regular meeting held on May 28, 2014. Mr. Haselmann seconded the motion, and all Council Members present voted in favor. Mr. Grady made a motion to approve the minutes for the regular meeting held on June 23, 2014. Mr. Joyner seconded the motion, and all Council Members present voted in favor.

Introductory Remarks by Chair
Mr. Grady announced the preliminary results for the fiscal year ended June 30th, stating that the portfolio was up 15.9%, with a one-quarter time lag in the reporting of alternative investments. Mr. Grady noted that the portfolio had a two-year annualized performance of about 14% and a four-year annualized performance of about 12%. Mr. Grady noted that the fiscal year return is more than double the 7.9% assumed rate of return set by the State Treasurer and resulted in gains of more than $6 billion above the assumption rate. This was achieved even while the portfolio maintained a defensive position through diversification. Over the past four years the fund has generated approximately $35 billion in income and gains for the plan beneficiaries. Mr. Grady commented that the investment returns are contributing to the
increased health of the pension system, and that the funded status should continue to rise as earlier years with down markets fall off the five-year rolling average.

**Presentation by Jonathan Gray of Blackstone**

Chair Grady introduced guest speaker Jonathan Gray, Global Head of Real Estate for Blackstone. Mr. Gray presented an overview of global real estate market conditions, noting that moderate demand and limited new supply have resulted in better than expected performance in the United States, Europe and Asia. He predicted that a broad-based economic recovery in the United States would continue to contribute to rising home prices, which eventually will cause an increase in the historically low levels of new construction. In Asia, he commented that China’s transition from an export-oriented economy to a domestic consumption economy has resulted in slower growth and a decrease in available capital, which has created investment opportunities in certain real estate segments such as warehouses and shopping centers. He further identified Australia, India and Japan as locations with potential investment opportunities. In response to a question from Mr. Shivers, Mr. Gray described the state of the real estate investment market in Indonesia. With respect to Europe, he noted that sluggish economic conditions have resulted in opportunities to invest in distressed real estate, particularly in Spain, Italy and Ireland.

Chair Grady noted the strong performance of the Division’s investments in Blackstone’s real estate funds. He asked Mr. Gray how financial restructuring in Europe will affect the real estate investment environment. Mr. Gray responded that while Europe is past the bottom in terms of property prices, the shrinking of bank balance sheets have provided investment opportunities. In respect to Mr. Grady’s question regarding the real estate market in China, Mr. Gray recognized challenges in the residential space, but stated that Blackstone’s focus has been on the domestic consumption space. Mr. Byrne and Mr. Haselmann asked Mr. Gray if he had any recommendation regarding allocating additional capital to real estate. Mr. Gray responded that he felt good about the asset class as a whole, especially for investors with a long-term perspective, and opined that increasing the real estate allocation maybe by a point or two could be beneficial. Mr. Gray explained that his favorable view of real estate is based on its equity component due to growth and appreciation, as opposed to pure fixed-income investments. In response to Mr. Oram’s question regarding the expected disposition of Blackstone’s single-family home portfolio, Mr. Gray stated that it was most likely that the portfolio will be taken public.

**Director’s Report/Notifications**

Director Chris McDonough reviewed the Director’s Report, reporting preliminary pension fund unaudited returns for FY14 of 15.9% and describing returns for each of the asset classes. In response to a question from Mr. Grady, Susan Sarnowski of the Division reported that the final returns are expected to be available by the end of August. Mr. McDonough reported on overall U.S. economic conditions, noting the lower-than-expected GDP for the first quarter of 2014. Mr. Grady stated that this indicated that the overall US economy is not doing well, and Mr. Haselmann commented that the projected second quarter GDP growth estimates might be overstated as well. Mr. McDonough provided an update on employment numbers and corporate revenue and earnings growth. Acting Deputy Director Michael Wszolek reported on recent Division investment activity, and Mr. McDonough reported the Division’s progress toward meeting the Council’s FY 2015 asset allocation targets. Mr. McDonough provided an update on the performance of the U.S. and non-U.S. equity markets and its various sectors in FY14. Mr. Byrne asked the Division how it was dealing with the underperformance of the Russell 2000 compared to the S&P 500. Mr. McDonough responded that the Division
New Jersey State Investment Council  
July 23, 2014 Regular Meeting

is cautious with its small-cap portfolio, placing hedges where appropriate. Mr. Wszolek reported on sovereign and corporate fixed-income yields, with Mr. Grady noting the lack of change in sovereign debt yields globally.

Mr. McDonough notified the SIC of a modification to the Division’s investment in Dyal NJ Investors, L.P., stating that after discussions with counsel, it had been recommended that the investment be placed into a newly created fund, Dyal NJ Investors II, L.P. Mr. Shivers asked Mr. McDonough to confirm that the change will not affect the investment strategy of the fund, because the language in the memorandum merely stated that the change was “not expected to” affect the strategy. Mr. McDonough confirmed that there would be no change in investment strategy. In response to a request by the Council at the June meeting, Mr. McDonough provided additional information regarding MSCI market classifications.

Nominating Committee
Mr. Grady made a motion to elect Mr. Oram, Mr. McGuckin, and Mr. Haselmann to serve on the Council’s Nominating Committee. Mr. Barrett seconded the motion. All members of the Council present voted in favor, with Mr. Oram, Mr. McGuckin, and Mr. Haselmann abstaining.

Treasurer’s Report
Dr. Steindel of the Treasurer’s office provided an update on current U.S. and New Jersey economic conditions. In closing, Dr. Steindel confirmed that he was leaving his position in state government, and expressed his pleasure to have served as the Treasurer’s appointee at Council meetings. He noted the professionalism of the Director and his staff and of the Chair’s conduct of the Council’s public meetings. On behalf of the Council, Mr. Grady thanked Dr. Steindel for his service to the Treasurer, to the State, and to the Council and congratulated Dr. Steindel on his next assignment.

Public Comment/Closing Remarks
No members of the public registered to speak.

Mr. Liebtag asked the status of the State’s contribution to the pension fund. Mr. McDonough responded that $697 million was received on June 30th. Mr. Liebtag asked the Division to follow up on Mr. Byrne’s request to perform a variance analysis given various historical levels of State contributions. Mr. Byrne noted that he had no objection to Mr. Liebtag’s request, but clarified that his request for variance analysis was to examine various economic scenarios looking forward.

Adjournment
Chair Grady 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 11:52 am.