Minutes of the Annual Meeting:
Held January 27, 2016 at 10:00 a.m. at the Trenton War Memorial, George Washington Ballroom, 1 Memorial Drive, Trenton NJ.

Council Members in Attendance:
Brendan T. Byrne, Jr., Chair
Marty Barrett (via telephone)
Michael Cleary
Michael Greaney
Guy Haselmann
Benjamin “Max” Hurst
James Joyner
Adam Liebtag, Vice Chair
Timothy McGuckin
Mitchell Shivers
Charles Dolan, James Hanson, and Jeffrey Oram were not in attendance.

Roll Call and Meeting Notice
The Annual Meeting was called to order by Brendan T. Byrne, Jr., Council Chair, at 10:01 a.m. Ernestine Jones-Booker, Council Secretary, performed roll call and reported that a quorum of the Council was present. Ms. Jones-Booker reported that notice of the Annual Meeting, scheduled for January 27, 2016, was posted on the website of the Division of Investment; 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 December 8, 2015. A copy of the notice was posted at the Division and is on file.

Remarks by the Council Chair
Mr. Byrne summarized his introductory letter to the Council’s Annual Report, commended the Division staff’s outperformance of the benchmark by 1.23% over the last fiscal year, and noted that a Washington watchdog group had praised the Council for its openness and transparency.

Speaker, Laurence Fink, Chairman and CEO of Blackrock, Inc.
Director Christopher McDonough introduced Laurence Fink, Chairman and CEO of Blackrock Inc., who discussed prospects for economic growth in Asia, Europe and North America, and described the global uncertainty caused by lower energy prices and asymmetric central bank policies. He noted the crisis in retirement planning caused by lower interest rates, and concluded by encouraging governments to focus on innovation, technology and infrastructure. When Mr. Byrne inquired regarding the effect of underfunding on the fund’s asset allocation, Mr. Fink responded that pension funds’ long-term liabilities generally allow them to look past short term volatility. In response to a question from Guy Haselmann regarding how to meet capital outflows and avoid significant market drawdowns, Mr. Fink cautioned that no options were “risk-free,” but that investors with similar risk concerns had concentrated on less volatile income-producing assets such as dividend stocks and infrastructure.
Report from the Division of Investment

Mr. McDonough provided an overview of the Division, the Council and the Pension Fund. Mr. McDonough provided a recap of the capital markets during 2015, and reported performance in total and relative to the benchmark for fiscal year and calendar year 2015. He provided a performance comparison to other large public pension funds on a risk and return basis; and described the performance of various asset classes. He described historical trends in asset allocation, reviewed accomplishments for 2015, and described 2016 goals and initiatives. In response to a question from Adam Liebtag, Mr. McDonough noted the number of staff at the Division has been essentially flat over the last five years. Mr. Haselmann and Mr. Byrne noted the need for additional resources for internal staff, and Max Hurst commented on the importance of proper pension funding by the State as well.

FY17 Annual Investment Plan

Mr. McDonough provided an overview of the process of adopting the annual investment plan for Fiscal Year 2017, and encouraged Council members to provide input to staff with respect to the plan. Deputy Director Corey Amon summarized the development of the FY17 Annual Investment Plan that will be presented for approval by the Council in May. Mr. Amon elaborated on capital market assumptions, and demonstrated how these assumptions affected investment returns for various asset classes. In response to a question from Mr. Byrne, Mr. Amon explained how the model assumes constant market volatility over an extended time period. Michael Cleary inquired regarding the contributions made by municipalities and their respective employees. Mr. Byrne responded that the Council could invite John Megariotis of the Division of Pensions and Benefits to discuss these questions. Mr. Haselmann commented on capital market assumption limitations and suggested that recent positive performance could be caused by unique factors such as monetary and fiscal stimulus that may be unavailable in the future.

Alternative Investments Presentation by Aon Hewitt

Kristen Doyle and Steve Cummings of Aon Hewitt presented a summary of the Division’s alternative investment program, describing the role of alternative investments in the Fund’s overall portfolio and comparing the Fund’s alternative investment portfolio to its peers. Ms. Doyle discussed the risk-adjusted long-term performance of various alternative asset classes versus stocks and bonds, and the relative performance of a well-diversified portfolio including alternatives versus various portfolios without alternatives. In response to Mitchell Shivers’ question about what the theoretical cap should be for alternative investments, Ms. Doyle and Mr. Cummings explained that it is possible to invest 100% in alternatives, but that Aon Hewitt ordinarily would recommend that no more than 40% of a fund’s risk allocation be invested in alternatives. Mr. Haselmann emphasized that the focus should be on the net returns of alternative investments, and not the amount of fees paid. In response to a question from Mr. Shivers regarding historical trends in alternative investments, Ms. Doyle and Mr. Cummings discussed enhanced transparency, lower fees, and increased sophistication of investors. In response to a question from Mr. Byrne regarding whether these types of investments could be made by internal staff rather than through funds, Ms. Doyle responded that resource constraints could cause a problem. Mr. Shivers further noted the benefit of a diversified portfolio of funds.

Sale of JLL Partners V, L.P. and Carlyle Mezzanine Partners II, L.P.

Mr. McDonough reported that the Division completed the sale of its interest in JLL Partners V L.P. and Carlyle Mezzanine Partners II as of December 31, 2015, and described the terms of the transaction. Mr.
Byrne and Mr. Shivers thanked the Division staff for its hard work in completing the transaction, noting that it was able to avoid fees by conducting the sale without the benefit of an agent.

Opportunity for Public Comment
Beverly Brown Ruggia of New Jersey Citizen Action, on behalf of New Jersey Citizen Action, the New Jersey NAACP, the First Baptist Church of Lincoln Gardens, the New Jersey Black Issues Conference and New Jersey Communities United, commended the Director, the Chair and other members of the Council for its decision to sell its interest in JLL Partners V, L.P., the owner of ACE Cash Express, a payday lender. Ms. Ruggia recommended that the Division review its policies to avoid investments in entities that engage in activities that are illegal in New Jersey.

Bruce Davis, Economic Development Chairman of the NAACP, read a letter from Charles Lowery, Senior Director of the NAACP Economic Development Department, applauding the sale of the Division’s interest in JLL Partners V, L.P.

Ms. Brown Ruggia asked on behalf of the First Baptist Church of Lincoln Gardens how the sale proceeds would be redeployed. Mr. McDonough explained that cash inflows are pooled and distributed to new investment opportunities.

Mr. Byrne motioned to adjourn the annual meeting, with James Joyner seconding the motion. All Council members present voted in favor. The meeting was adjourned at 12:58 pm.