outstanding long term debt of the issuer, [and shall not be more than 25 percent of the issue at the time of issue,] except that these requirements may be waived by the Council;

2.-4. (No change.)

(b) (No change.)

---

## (a)

## STATE INVESTMENT COUNCIL

### International Corporate Obligations
### Permissible Investments; Limitations

### Proposed Amendments: N.J.A.C. 17:16-16.2 and 16.4

Authorized By: State Investment Council, Timothy M. Walsh, Director, Division of Investment.

Authority: N.J.S.A. 52:18A-91.

Calendar Reference: See Summary below for explanation of exception to calendar requirement.

Proposal Number: PRN 2012-133.

Submit comments by November 30, 2012 to:

Timothy M. Walsh
Administrative Practice Officer
Division of Investment
PO Box 290
Trenton, New Jersey 08625-0290

The agency proposal follows:

**Summary**

N.J.A.C. 17:16-16 permits the Director to invest in international corporate obligations on behalf of any eligible fund. N.J.A.C. 17:16-16.2(a)1 requires that all securities must be payable as to both principal and interest in United States dollars. This requirement is proposed to be deleted, thereby allowing investment in international corporate obligations denominated in foreign currency to provide for expanded investment opportunities and the opportunity for increased risk-adjusted returns.

N.J.A.C. 17:16-16.2(a)3 provides that obligors must have a market capitalization of at least $100 million. N.J.A.C. 17:16-16.2(c) stipulates that up to one percent of the combined assets of all the Pension and Annuity Funds may be invested in debt obligations and non-convertible preferred stock of corporations that do not meet the minimum capitalization requirements. The proposed amendments to these provisions will provide that contributed capital may be considered when evaluating the obligor since non-public companies lack market capitalization. The proposed amendment to N.J.A.C. 17:16-16.2(c) also clarifies that corporate obligations means corporate obligations of U.S. based corporations.

N.J.A.C. 17:16-16.2(b) provides that up to five percent of the combined assets of all of the Pension and Annuity Funds may be invested in corporate obligations, international corporate obligations, collateralized notes and mortgages, bank loans, non-convertible preferred stock and mortgage backed passthrough securities that do not meet the minimum credit ratings set forth in N.J.A.C. 17:16-12.2, 16.2, 19.2, 23.2, 40.2, and 58.2, respectively. The proposed amendment to N.J.A.C. 17:16-16.2(b), concurrent with the proposed amendments to the other subchapters published elsewhere in this issue of the New Jersey Register, will raise the five percent cap to eight percent and expand the high yield category to include global diversified credit investments to provide the opportunity for increased risk-adjusted returns. The proposed amendment also clarifies that corporate obligations means corporate obligations of U.S. based corporations.

Proposed N.J.A.C. 17:16-16.2(d) will provide that the Director may exercise the rights and conversion privileges of any security acquired under the subchapter and retain any distribution received as a result of a corporate action, even if such distribution does not meet the requirements of the subchapter.

N.J.A.C. 17:16-16.4(a)1 provides not more than 10 percent of the market value of the assets of any eligible fund shall be invested in international corporate obligations, whether direct or guaranteed. The proposed amendment will revise the expression of the limitation to not more than 2.5 percent of the market value of the combined assets of all of the Pension and Annuity Funds. The increased limit will provide the opportunity for increased risk adjusted returns and express the limitation in a manner which is consistent with the asset allocation plan.

The proposed amendment to N.J.A.C. 17:16-16.4(a)2 will delete the limitation that not more than 25 percent of an issue may be purchased at the time of issue. This amendment will provide for improved duration management of the portfolio.

The proposed amendment to N.J.A.C. 17:16-16.4(a)3 will clarify that the five percent investment limitation in any one issuer applies to any eligible fund.

N.J.A.C. 17:16-16.4(a)4 provides that the market value of international debt and equity securities held by any fund, other than Common Pension Funds B or D, shall not exceed 30 percent of the market value of the fund. This paragraph is proposed to be deleted since concurrently proposed amendments will provide for separate limitations for the international debt and equity portfolios.

Because the Division is providing a 60-day comment period on this notice of proposal, this notice is exempted from the rulemaking calendar requirement pursuant to N.J.A.C. 1:30-3.3(a)5.

**Social Impact**

The proposed amendments shall have a positive social impact because the opportunity for increased overall risk-adjusted returns for the State-administered funds will benefit the funds' beneficiaries and will lessen the long-term burden on the State's taxpayers.

**Economic Impact**

The proposed amendments shall have a positive economic impact by providing an opportunity for increased risk-adjusted returns of the State-administered funds.

**Federal Standards Statement**

A Federal standards analysis is not required because the investment policy rules of the State Investment Council are not subject to any Federal requirements or standards.

**Jobs Impact**

The State Investment Council and the Division of Investment do not anticipate that any jobs will be generated or lost by virtue of the proposed amendments.

**Agriculture Industry Impact**

The proposed amendments will have no impact on the agriculture industry.

**Regulatory Flexibility Statement**

A regulatory flexibility analysis is not required since the proposed amendments will have no effect on small businesses as the term is defined in the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq., but regulate only the Director of the Division of Investment.

**Housing Affordability Impact Analysis**

The proposed amendments will have no impact on the affordability of housing in the State of New Jersey. The proposed amendments will modify investment in international corporate obligations thereby providing an opportunity for increased risk-adjusted returns of the State-administered funds.

**Smart Growth Development Impact Analysis**

The proposed amendments are not anticipated to have an impact on the availability of affordable housing or housing production within Planning Areas 1 or 2, or within designated centers, under the State Development and Redevelopment Plan in New Jersey. The proposed amendments will modify investment in international corporate obligations thereby providing an opportunity for increased risk-adjusted returns of the State-administered funds.

**Full text** of the proposal follows (additions indicated in boldface **thus**; deletions indicated in brackets [thus]):

17:16-16.2 Permissible investments

(a) Subject to the limitations contained in this subchapter, the Director may invest and reinvest the moneys of any eligible fund in international corporate obligations provided that:

[1. All such securities must be payable as to both principal and interest in United States dollars;]

[2.] **1.** (No change in text.)

[3.] **2.** The obligor has a market capitalization **or contributed capital** of at least $US 100 million. Subsequent to purchase, if capitalization **or contributed capital** falls below $US 100 million, the investment does not have to be sold; and

[4.] **3.** (No change in text.)

(b) Notwithstanding the restrictions in (a) above, the Director may invest and reinvest the moneys of Common Pension Fund B in corporate obligations **of U.S. based corporations**, international corporate obligations, collateralized notes and mortgages, [bank loans] **global diversified credit investments**, non-convertible preferred stock, and mortgage backed passthrough securities that do not meet the minimum credit ratings set forth in N.J.A.C. 17:16-12.2, this section, and N.J.A.C. 17:16-19.2, 23.2, 40.2, and 58.2, respectively; provided, however, the market value of such investments shall not exceed [five] **eight** percent of the combined assets of all of the Pension and Annuity Funds.

(c) Notwithstanding the restrictions in (a) above, the Director may invest and reinvest the moneys of Common Pension Fund B in corporate obligations **of U.S. based corporations**, international corporate obligations, and non-convertible preferred stock of companies that do not meet the minimum market capitalization **or contributed capital** set forth in N.J.A.C. 17:16-12.2, this section, and N.J.A.C. 17:16-40.2, respectively; provided, however, the market value of such investments shall not exceed one percent of the combined assets of all the Pension and Annuity Funds.

**(d) Notwithstanding the restrictions in (a) above, the Director may:**

**1. Exercise the rights and conversion privileges of any security acquired under this subchapter; and**

**2. Retain any distribution received as a result of a corporate action, even if such distribution does not meet the requirements of this subchapter.**

[(d)] **(e)** (No change in text.)

17:16-16.4 Limitations

(a) At the time of initial purchase, the following conditions shall be met:

1. Not more than [10] **2.5** percent of the market value of the assets of [any eligible fund] **the combined assets of all of the Pension and Annuity Funds** shall be invested in international corporate obligations, whether direct or guaranteed;

2. The total amount of debt issues purchased or acquired of any one issuer shall not exceed 10 percent of the outstanding debt of the issuer, [or 25 percent of any one issue may be purchased at the time of issue,] except that these requirements may be waived by the Council; **and**

3. Not more than five percent of the assets of any [one] **eligible** fund shall be invested in debt issues and non-convertible preferred stock of any one issuer[; and]**.**

[4. The market value of international corporate obligations, when combined with common and preferred stock and issues convertible into common stock permitted under N.J.A.C. 17:16-44 and 46 and international government and agency obligations permitted under N.J.A.C. 17:16-20, held by any fund (other than Common Pension Funds B or D), either directly or through Common Pension Fund B or D, shall not exceed 30 percent of the market value of the assets of such fund, subject to such further provisos as are contained in N.J.A.C. 17:16-67.]

(b) (No change.)

---

# (a)

## STATE INVESTMENT COUNCIL
## Collateralized Notes and Mortgages
## Permissible Investments
## Proposed Amendment: N.J.A.C. 17:16-19.2

Authorized By: State Investment Council, Timothy M. Walsh, Director, Division of Investment.
Authority: N.J.S.A. 52:18A-91.
Calendar Reference: See Summary below for explanation of exception to calendar requirement.
Proposal Number: PRN 2012-134.

Submit comments by November 30, 2012 to:

Timothy M. Walsh
Administrative Practice Officer
Division of Investment
PO Box 290
Trenton, New Jersey 08625-0290

The agency proposal follows:

**Summary**

N.J.A.C. 17:16-19 permits the Director to invest in collateralized notes and mortgages on behalf of any eligible fund. N.J.A.C. 17:16-19.2(b) provides that up to five percent of the combined assets of all of the Pension and Annuity Funds may be invested in corporate obligations, international corporate obligations, collateralized notes and mortgages, bank loans, non-convertible preferred stock, and mortgage backed passthrough securities that do not meet the minimum credit ratings set forth in N.J.A.C. 17:16-12.2, 16.2, 19.2, 23.2, 40.2, and 58.2, respectively. The proposed amendment to N.J.A.C. 17:16-19.2(b), concurrent with the proposed amendments to the other subchapters published elsewhere in this issue of the New Jersey Register, will raise the five percent cap to eight percent and expand the high yield category to include global diversified credit investments to provide the opportunity for increased risk-adjusted returns. The proposed amendment also clarifies that corporate obligations means corporate obligations of U.S. based corporations.

Because the Division is providing a 60-day comment period on this notice of proposal, this notice is exempted from the rulemaking calendar requirement pursuant to N.J.A.C. 1:30-3.3(a)5.

**Social Impact**

The proposed amendments shall have a positive social impact because the opportunity for increased overall risk-adjusted returns for the State-administered funds will benefit the funds' beneficiaries and will lessen the long-term burden on the State's taxpayers.

**Economic Impact**

The proposed amendments shall have a positive economic impact by providing an opportunity for increased risk-adjusted returns of the State-administered funds.

**Federal Standards Statement**

A Federal standards analysis is not required because the investment policy rules of the State Investment Council are not subject to any Federal requirements or standards.

**Jobs Impact**

The State Investment Council and the Division of Investment do not anticipate that any jobs will be generated or lost by virtue of the proposed amendments.

**Agriculture Industry Impact**

The proposed amendments will have no impact on the agriculture industry.

**Regulatory Flexibility Statement**

A regulatory flexibility analysis is not required since the proposed amendments will have no effect on small businesses as the term is defined in the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq., but regulate only the Director of the Division of Investment.