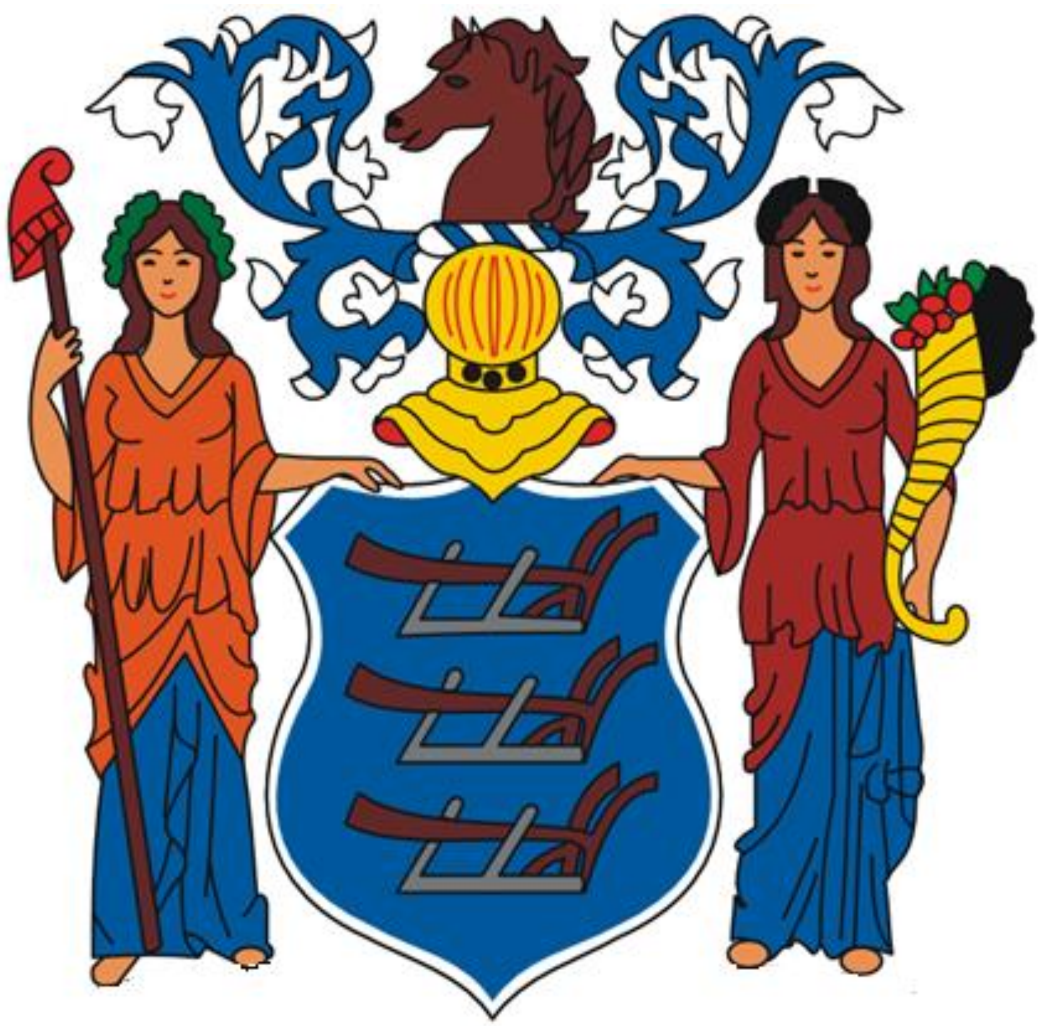
2012 ANNUAL REPORT

NEW JERSEY STATE INVESTMENT COUNCIL ♦ FOR FISCAL AND CALENDAR YEAR 2012



Liberty and Prosperity
1776

TABLE OF CONTENTS

New Jersey State Investment Council
50 West State Street, 9th Floor
P.O. Box 290
Trenton, New Jersey 08625

January 17, 2013

To the Honorable: the Governor, the Legislature, the State Treasurer and the Citizens of New Jersey:

I am pleased to send you, as required by statute, the Annual Report of the New Jersey State Investment Council and the Division of Investment for the Fiscal Year 2012.

In Fiscal Year 2012, global capital markets were buffeted by the ongoing European economic and debt crisis, and by the failure of the United States Government to address its large fiscal deficit, which riled markets significantly in the late summer of 2011 (the first quarter of the 2012 Fiscal Year) and caused United States Treasury securities to be downgraded by Standard and Poor's for the first time in American history.

In this volatile environment, New Jersey's Pension Fund achieved a positive return for the fiscal year ended June 30, 2012, of 2.52%. While this was below our desired rate of return, it represents outperformance of 2.26% above the Policy Benchmark for the fund's chosen asset allocation. Put another way, the investment skill of the Division of Investment generated over 200 basis points of *alpha* during the Fiscal Year, which, on a fund with over $70 billion in assets, represents an additional $1.4 billion over the benchmark returns that was made available to beneficiaries.

For the fiscal year ended June 30, 2012, the performance of the New Jersey Pension Fund also exceeded the Harvard University endowment's -0.05% return by 257 basis points, the 1.0% return of the California Public Employee Retirement System (CalPERS) by 152 basis points, the 1.0% return of the Stanford University endowment by 152 basis points, and the 0.29% return of the Florida State Board of Administration by 223 basis points. In other words, the performance of the New Jersey Division of Investment was better than that of other well-known and widely admired leading global institutional investors. For that, beneficiaries, taxpayers, citizens, and legislators should thank Director Tim Walsh and his outstanding staff.

For the three years ended June 30, 2012, the New Jersey Pension Fund has achieved an annualized return of 11.11%. Again, this performance has exceeded the Policy Benchmark for the fund's asset allocation of 10.05% by 106 basis points, representing real gains and providing important benefits for the system's beneficiaries. This three-year performance also significantly exceeds the Fund's actuarially-assumed rate of return, which is currently set at 7.95% per year.

During the Fiscal Year, New Jersey's Pension Fund also established itself as a market leader and a thought leader in crafting innovative partnerships and securing attractive terms on its investments from market participants, in part by virtue of New Jersey's standing as a large and important institutional investor. The Division struck an agreement with Blackstone, one of the world's largest and most successful private equity firms, under which New Jersey will invest alongside Blackstone in a range of equity, fixed income, and tactical opportunities, benefiting from Blackstone's global organization and access to unique investment opportunities, while at the same time paying fees that are far below the market standard and enjoying enhanced governance rights that few other institutional Limited Partners have been granted.

The Division extended that leadership into the hedge fund category by negotiating terms with hedge fund market leader Och-Ziff, under which New Jersey expects to again invest across a range of strategies and geographies with a leading global organization while paying significantly-below market fees and enjoying more favorable terms than other investors have been able to command.

The Division also exhibited impressive flexibility in being able to respond quickly to attractive but time-limited investment opportunities, and continued throughout the year to demonstrate keen attentiveness to changes and trends in the global economy and capital markets that can affect investment performance. In doing so, the Division and the Council have paid utmost attention to the question of appropriate asset allocation, which is the principal determinant of investment performance.

New Jersey's overall asset allocation strategy has been to continue to pursue diversification as a means of both mitigating risk and capturing attractive opportunities. The process of diversification proceeded apace in the past year, and some of the innovative partnerships pursued during the year were, above all, a part of that diversification strategy.

The Council and the Division have also sought to increase transparency by more accurately labeling the investment categories in which the State invests and by grouping them according to their investment purpose: Capital Preservation, Liquidity, Income, Real Return, and Global Growth. We hope that this will help both system beneficiaries and members of the public better understand the objective of investment decisions and asset allocation strategies that are pursued during the year.

As I write, the outlook for the global economy is cloudy and the growth of the U.S. economy has been subpar. Against this backdrop, the performance and increasing health of the New Jersey Pension Fund are all the more remarkable. The Division has pursued a prudently diversified strategy characterized by deep due diligence and attentiveness to changes in global markets. As a result, its investment performance over the last three years is superior to its benchmark, its assumed rate of return, and its peers. At the same time, New Jersey, unlike many other states, has paid attention to and addressed the liability side of the pension equation, and has enacted reforms that will significantly enhance the funded status of the system over the course of the coming decades. Beneficiaries should sleep more soundly knowing that this is the case.

The New Jersey Division of Investment, and the State Investment Council, will continue to work hard in the coming year toward their mutual goal of having the best possible investment policies, procedures and performance. All of us who serve the Pension Fund are constantly mindful of our fiduciary obligation to maximize returns for the beneficiaries while managing risk appropriately. In the year ahead, we look forward to working with you in this solemn duty.

Yours sincerely,

Robert E. Grady
Chairman

INTRODUCTION TO THE COUNCIL AND DIVISION

DIVISION STAFF

Director:
Timothy Walsh, Division of Investment

Deputy Director:
Christopher McDonough, Division of Investment

THE STATE INVESTMENT COUNCIL

The State Investment Council (the "Council") was created by the New Jersey Legislature in 1950 to formulate policies governing the investment of funds by the Director of the Division of Investment (the "Division"), as well as to consult with the Director with respect to the work of the Division.

The Council conducts meetings to discuss major investment policy issues, review Pension Fund performance and accept comments from members of the public. Other investment programs and returns are reviewed annually or when needed.

Council meetings are open to the public. Agendas, meeting times and locations are available on the Division's website, www.state.nj.us/treasury/doinvest under the State Investment Council tab.

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COUNCIL MEMBERSHIP AT DECEMBER 31, 2012:

Council Chairperson:
Robert Grady[1]
Managing Director, Cheyenne Capital Fund

Council Vice Chair:
Brendan Thomas Byrne, Jr. [1]
President, Byrne Asset Management

Council Members:
Marty Barrett
Police and Firemen's Retirement System Designee

Michael Cleary[1]
New Jersey State AFL-CIO Nominee

Charles Dolan[1]
Director of Business, AFScott

Andrew Michael Greaney[1]
State Troopers Fraternal Association Nominee

James E. Hanson II. [1]
CEO, Hampshire Real Estate Company

Guy Haselmann[1]
Director, U.S. Rate Sales & Strategy, Scotiabank

James L. Joyner
Teachers Pension and Annuity Fund Designee

Adam Liebtag[1]
New Jersey State AFL-CIO Nominee

Peter Maurer
Public Employees Retirement System Designee

Timothy McGuckin[1]
New Jersey Education Association Nominee

Jeffrey Oram[1]
Executive Managing Director, Colliers International

Mitchell Shivers[1]
Former Principal Deputy Assistant Secretary of Defense for Asian & Pacific Security Affairs

(1) *Appointed by the Governor*

COUNCIL MEMBERSHIP

The Council is comprised of sixteen (16) members pursuant to N.J.S.A. 52:18A-83 which was amended as part of the Pension and Healthcare reform enacted in June 2011.

Nine members are appointed by the Governor for five year terms, and are drawn traditionally from the corporate investment community. Of those nine appointments, eight are made with the advice and consent of the State Senate. One appointment is made from nominees submitted jointly by the President of the Senate and Speaker of the Assembly. The statute requires that at least seven of the nine gubernatorial appointments shall be qualified by training and experience in the direct management, analysis, supervision or investment of assets, which training and experience shall have been acquired through academic training or through actual employment in those fields.

Four members are appointed by the Governor from nominees submitted by various employee organizations. Two of these four are appointed for five year terms from nominees submitted by the New Jersey State AFL-CIO, with at least one appointed member being a member of a union representing police officers or firefighters. One of these four members is appointed for a three year term from nominees submitted by the New Jersey Education Association. The last of these four members is appointed by the Governor for a three year term from nominees submitted by the State Troopers Fraternal Association. The statute requires that these four appointments shall be qualified by training, experience or long-term interest in the direct management, analysis, supervision or investment of assets and this training, experience or long-term interest shall have been supplemented by academic training in the fields of economics, business, law, financial or actuarial science or by actual employment in those fields.

Three members, representing the Public Employees' Retirement System (PERS), Teachers' Pension and Annuity Fund (TPAF) and Police and Firemen's Retirement System (PFRS), are designated from members of the respective pension system's board of trustees and serve three year terms. All members serve until reappointed or a successor is named and has qualified.

THE DIVISION OF INVESTMENT

The Division, under the supervision of the Council, is the 12th largest public pension fund manager in the United States, the 37th largest pension fund manager globally and the 16th largest among public and corporate pension fund managers.(1) The Pension Fund supports the retirement plans of approximately 765,000 members in seven public pension systems: the Consolidated Police & Firemen's Pension Fund, the Judicial Retirement System, the Police & Firemen's Retirement System, the Prison Officers Pension Fund, the Public Employees' Retirement System, the State Police Retirement System and the Teachers' Pension & Annuity Fund (collectively referred to in this report as the "Pension Fund"). Approximately 63% are still working and contributing to the pension while 37% are retired.

The net asset value of the Pension Fund was $70.1 billion as of June 30, 2012. The investment return for fiscal year 2012 excluding the Police and Fire Mortgages was 2.52% and approximately $8.3 billion was paid to plan beneficiaries.

The Division also manages the State of New Jersey Cash Management Fund, Supplemental Annuity Collective Trust (a 403b plan), a portion of the NJBEST Fund (a 529 college savings plan) as well as several funds under the New Jersey State Employees Deferred Compensation Program (a 457 plan).

(1) Measured by assets as of 12/31/11. Reported by P&I and TowerWatson.com in "P&I/ TW 300 analysis." Year end 2011. Towers Watson. August 2012. http://www.towerswatson.com/united-kingdom/research/7857. Page 38.

STATUTORY AUTHORITY AND HISTORY OF THE DIVISION

The Division was created in 1950 by the New Jersey Legislature (P.L. 1950, c.270) to centralize all functions relating to the purchase, sale or exchange of securities for the State's diverse funds under experienced and professional management. The statute also established a State Investment Council to formulate policies that govern the methods, practices or procedures for investments, reinvestments, sale or exchange transactions to be followed by the Director of the Division. The statute vests investment authority in the Director of the Division, who is appointed by the State Treasurer from candidates nominated by the Council. New and amended regulations adopted by the Council after public comment are filed with the Office of Administrative Law and reported in the *New Jersey Register.*

INVESTMENT PARAMETERS

All investments must conform to the heightened "prudent person" standard set by the New Jersey Legislature (P.L. 1997, c.26). This standard requires the Director "to manage and invest the portfolio solely in the interests of the beneficiaries of the portfolio and for the exclusive purpose of providing financial benefits to the beneficiaries of the portfolio."

The mission of the Division is to achieve the best possible return at an acceptable level of risk utilizing the highest fiduciary standards.

COUNCIL REGULATIONS AND STRUCTURE

In addition to investment guidelines established by law, the Council is authorized by statute to establish investment policies that govern the methods, practices or procedures for investments, reinvestments, sale or exchange transactions (P.L. 1950, c.270).

All proposed regulations and amendments are filed upon approval of the Council with the Office of Administrative Law for publication in *The New Jersey Register*, followed by a 60-day public comment period. Following the public comment period, each proposal is returned to the Council for adoption, along with any comments received. The adopted regulations of the Council are published in the New Jersey Administrative Code (N.J.A.C. 17:16), and are available for viewing online at http://www.lexisnexis.com/njoal.

COUNCIL ORGANIZATIONAL CHANGES DURING CALENDAR YEAR 2012

The Council underwent the following organizational changes between January 1, 2012 and December 31, 2012:

- The Council re-elected Robert Grady as Council Chair and Brendan Thomas Byrne, Jr., as Council Vice Chair, each for a one year term.
- Three members were appointed by the Governor from nominees submitted by various employee organizations.
  - i. Adam Liebtag, New Jersey State AFL-CIO Nominee
  - ii. Michael Cleary, New Jersey State AFL-CIO Nominee
  - iii. Michael Greaney, State Troopers Fraternal Association Nominee
- Two other members were appointed by the Governor.
  - i. Charles Dolan
  - ii. Mitchell Shivers

LEGISLATIVE AND REGULATORY UPDATE

REGULATORY UPDATE

During fiscal year 2012 many Council Regulations were updated. On June 18, 2012, N.J.A.C. 17:16-71, governing investment in real assets, was amended. The amendments provide for debt-related investments in real assets and real estate in addition to equity investments. The real asset categories were expanded to include energy, water, mining, utilities and agriculture investments, as well as commodity–related investments (e.g. exploration, production, processing, transportation, storage or trading of commodities, or other similar activities). The permissible investments in real assets were also amended to include related investments in products, services and technology.

On December 3, 2012, N.J.A.C. 17:16-65, governing the Deferred Compensation Plan, was amended to allow the Common Funds managed by the Division to be opened for contributions from participants if so determined by the New Jersey State Employees Deferred Compensation Board (the "DCP Board"). The amendments further provide that the DCP Board, in consultation with the Director, will determine which DCP Funds shall accept ongoing deposits or transfers from participants as of a specified date. These funds may include the Common Funds (managed by the Division) and shall include a minimum of five Outside Funds. The DCP Board, in consultation with the Director, will determine whether participants may maintain balances in a DCP Fund that is closed to ongoing deposits or transfers, or whether balances must be transferred to other DCP Funds.

The Council has proposed amendments to N.J.A.C. 17:16-12 (Corporate Obligations), 16 (International Corporate Obligations), 19 (Collateralized Notes and Mortgages), 20 (International Government and Agency Obligations), 23 (Bank Loans), 40 (Non-convertible Preferred Stock), 44 (International Developed Market Equities), 46 (Emerging Market Equities), 58 (Mortgage Backed Securities) and 69 (Common Pension Fund E). The proposed amendments will provide, among other things, for an increase in the regulatory cap on high yield investments, broaden permissible investments to include global diversified credit investments, eliminate the purchase limitation of 25% of an issue at time of issue for obligations of US and international corporations and raise the limitation for the Cash Management Fund on the amount that can be invested in individual Canadian sovereign issuers from one percent to five percent of fund assets.

The Council also proposed an amendment to N.J.A.C. 17:16-42 due to an amendment to N.J.S.A. 52:18A-115 which provides that common stocks and securities purchased for the Supplemental Collective Trust Fund shall be traded on a securities exchange in the United States or over-the-counter market.

The proposed amendments discussed above were published in the *NJ Register* and the 60 day comment period ended on November 30, 2012. It is anticipated that the amendments will become effective in the first calendar quarter of 2013.

PROHIBITED INVESTMENTS

The Division maintains a list of international companies ineligible for investment under two State laws: a Sudan divestiture law adopted in 2005 (P.L. 2005, C. 162), and an Iran divestiture law adopted in 2007 (P.L. 2007, C. 250). The Division utilizes an independent research firm to assist it in complying with the provisions of the statutes.

Divestitures pose three primary fiscal challenges to the Pension Fund: they require the identification and sale of holdings on a timetable that does not consider market conditions; they impact risk and return for the Pension Fund; and they permanently reduce the investment universe available to the Pension Fund. Together, the Sudan and Iran divestiture laws reduced the investment universe in fiscal year 2012 by almost 7.1% in developed markets and 5.1% in emerging markets, relative to its respective benchmarks.

NORTHERN IRELAND REPORT

The Division has been required since 1987 (P.L. 1987, c.177) to report annually to the Legislature regarding the adherence of US companies and their subsidiaries doing business in Northern Ireland, in which the assets of any state pension or annuity fund are invested, to the "MacBride Principles," a name given to a body of employment laws aimed at reducing employment discrimination in Northern Ireland. The report is filed each year by January 15th in accordance with the statute.

NET ASSETS UNDER MANAGEMENT

	NET ASSETS IN MILLIONS 6/30/2012	6/30/2011
PENSION FUND The Pension Fund contains pension assets contributed by participants and by state and local employers for currently working and/or retired participants in seven statewide retirement plans.	**$70,109**	**$73,735**
Teachers' Pension & Annuity Fund	25,559	27,657
Public Employees' Retirement System	23,369	24,334
Police & Firemen's Retirement System	19,205	19,656
State Police Retirement System	1,728	1,808
Judicial Retirement System	235	263
Consolidated Police & Firemen's Pension Fund	4	7
Prison Officers' Pension Fund	9	10
Note: Total may not equal sum of components due to rounding		
CASH MANAGEMENT FUND* This fund contains the cash balances of state government funds and "other-than-state" government entities (counties, municipalities, school districts and the agencies or authorities created by any of these).	**$8,779**	**$14,654**
SUPPLEMENTAL ANNUITY COLLECTIVE TRUST This fund contains voluntary investments by employees for retirement income separate from, and in addition to, their basic pension plan.	**$155**	**$162**

**The total for the Cash Management Fund includes $1.4 billion in 2012 ($4.5 billion on 6/30/11) held for and included in the totals for the Pension Fund, the Supplemental Annuity Collective Trust, Trustees for the Support of Public Schools Fund, the NJBEST Fund and Deferred Compensation Program.*

NJBEST FUND

The Division manages some of the contributions of New Jersey residents for the state's tax-advantaged 529 college savings program. On June 30, 2012, the Division-managed portion of this fund had a market value of $403 million ($411 million on 6/30/11).

DEFERRED COMPENSATION PROGRAM

The Division manages some of the assets contributed by employees into the New Jersey State Employees Deferred Compensation Program. Prudential Retirement, a business of New Jersey-based Prudential Financial, serves as the third-party administrator for this plan. Funds managed by the Division include contributions to the Bond (Fixed Income) Fund, Equity Fund, Money Market (Cash Management) Fund and Small Capitalization Equity Fund. On June 30, 2012, these funds had a combined market value of $488 million ($594 million on 6/30/11).

TRUSTEES FOR THE SUPPORT OF PUBLIC SCHOOL FUND

The Division manages the fund reserve required to support the rating of school bonds issued for the maintenance and support of the state's public schools. On June 30, 2012, the portfolio had a market value of $134 million ($129 million on 6/30/11).

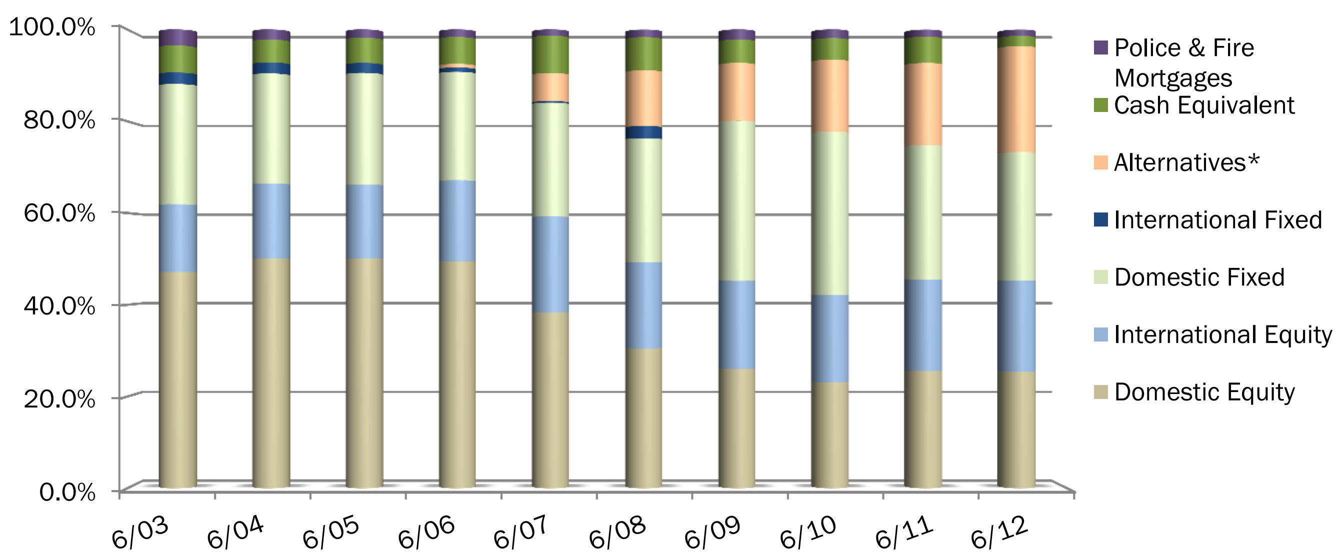
10 YEAR PENSION FUND FINANCIAL SUMMARY

FISCAL YEAR	NET ASSETS ($BILLIONS)	RATE OF RETURN[1] %	GROSS PENSION PAYMENTS ($BILLIONS)
2012	70.1	2.52	8.3
2011	73.7	18.03	7.7
2010	66.8	13.35	7.0
2009	62.9	(15.48)	6.6
2008	78.6	(2.70)	6.1
5 YEAR ANNUALIZED RETURN		2.46	
2007	82.5	17.14	5.6
2006	73.1	9.79	5.2
2005	69.8	8.77	4.8
2004	67.8	14.16	4.4
2003	62.6	3.31	4.1
10 YEAR ANNUALIZED RETURN		6.42	

[1] *Returns exclude Police and Fire Mortgages*

Asset allocation policies for the Pension Fund are adopted and revised by the Council as conditions warrant. Eligible investments are governed by the "whole plan" or "whole portfolio" principle, which permits a broad spectrum of investments to ensure diversity, and optimize expected risk/return tradeoffs on the investments as a whole.

PENSION FUND COMPOSITE ASSET ALLOCATION HISTORY



**Alternative Investment Program started 9/05*

PENSION FUND ASSET ALLOCATIONS

ACTUAL ALLOCATION VERSUS FISCAL YEAR 2012 INVESTMENT PLAN TARGET
6/30/2012

	Actual Allocation %	Target %	Difference%	Allocation$
Absolute Return Hedge Funds	2.12%	2.00%	0.12%	1,483.32
Total Capital Preservation	**2.12%**	**2.00%**	**0.12%**	**1,483.32**
Cash Equivalents [1]	1.71%	2.00%	(0.29)%	1,201.62
US Treasuries	1.80%	2.50%	(0.70)%	1,259.85
Total Liquidity	**3.51%**	**4.50%**	**(0.99)%**	**2,461.47**
Investment Grade Credit	20.03%	20.00%	0.03%	14,042.13
High Yield Fixed Income	3.56%	2.50%	1.06%	2,496.33
Credit Orient Hedge Funds	2.61%	3.00%	(0.39)%	1,828.42
Debt Related Private Equity	1.05%	1.50%	(0.45)%	737.93
Total Income	**27.25%**	**27.00%**	**0.25%**	**19,104.81**
Commodities and Other Real Assets	2.82%	4.00%	(1.18)%	1,977.94
TIPS	2.63%	3.50%	(0.87)%	1,841.71
Real Estate	4.67%	5.00%	(0.33)%	3,272.24
Total Real Return	**10.12%**	**12.50%**	**(2.38)%**	**7,091.89**
US Equity	25.38%	23.50%	1.88%	17,792.29
Non-US Developed Markets Equity	13.80%	15.00%	(1.20)%	9,678.19
Emerging Markets Equity	6.05%	5.00%	1.05%	4,239.35
Equity Oriented Hedge Funds	3.10%	5.00%	(1.90)%	2,172.85
Buyouts/Venture Capital	6.78%	5.50%	1.28%	4,751.04
Total Global Growth	**55.11%**	**54.00%**	**1.11%**	**38,633.73**
Police and Fire Mortgage Program [2]	1.38%	0.00%	1.38%	967.84
Other Cash and Receivables	0.52%	0.00%	0.52%	366.13
Total Pension Fund	**100.00%**	**100.00%**	**0.00%**	**70,109.19**

[1] The cash aggregate comprises the four common fund cash accounts, in addition to the seven plan cash accounts.
[2] Police & Fire Mortgage Program is not included in target asset allocation; assets are private mortgages that cannot be sold.

Totals may not equal sum of components due to rounding

TOTAL PENSION FUND RETURN VS BENCHMARK

	Annualized Returns (%)			
	FY12	3 Years	5 Years	10 Years
Total Pension Fund	2.51			
Total Pension Fund excluding Police and Fire Mortgages	2.52	11.11	2.46	6.42
Total Fund Benchmark[1]	*0.26*	*10.05*	*1.33*	*5.58*

[1] Benchmark is a weighted composite of index returns in each asset class

- The Total Pension Fund excluding Police and Fire Mortgages outperformed the Total Fund Benchmark by 226 basis points for fiscal year 2012. The Pension Fund has outperformed the benchmark on a trailing one, three, five, and ten-year basis.
- Relative overweights of US versus international equities was by far the largest single factor in the outperformance relative to the Total Fund Benchmark for fiscal year 2012. Partially offsetting this was underperformance by the domestic and international equity asset classes against their individual benchmarks by 26 basis points and 46 basis points, respectively.
- An underweight to commodities throughout the fiscal year also contributed to relative outperformance.
- Strong performance in the U.S. Treasury and TIPs portfolios also positively impacted performance.
- Also positively impacting returns were lower cash balances beginning in January 2012 as a result of amendments to the Council Regulations which provide for daily unitization of the common pension funds.

DOMESTIC EQUITY HIGHLIGHTS OF FISCAL YEAR 2012

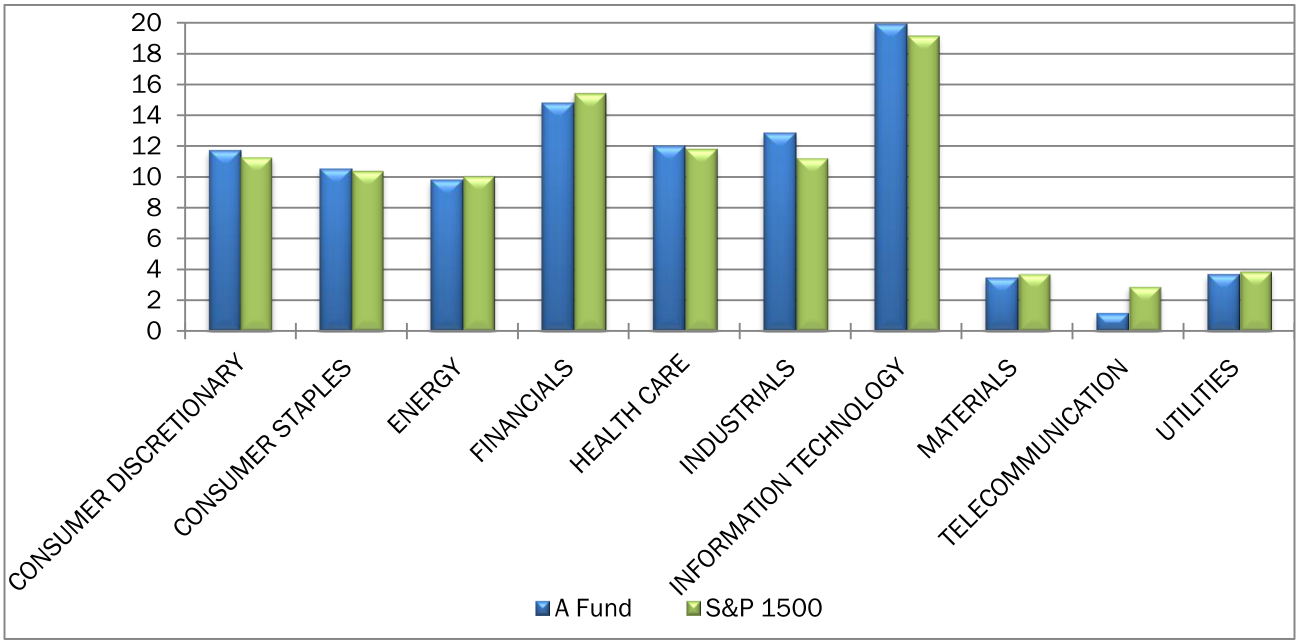
	Annualized Returns (%)			
	FY12	3 Years	5 Years	10 Years
Domestic Equity with Cash, Hedges, Miscellaneous	3.58	16.68	1.79	6.41
Domestic Equity Only (Ex Cash and hedges)	3.54	17.16	1.93	6.48
S&P 1500 Composite	4.63	16.76	0.46	5.67

- The domestic equity portfolio is broadly diversified by economic sector and includes approximately 850 publicly traded stocks. While exposure to most sectors is comparable to that of the overall market benchmark, the Division will overweight and underweight securities and industries in the portfolio in an effort to outperform the benchmark.
- The US equity market rose for a third consecutive year as investors overlooked concerns over sluggish economic growth, the continuing Eurozone debt crisis, the uncertainty of the presidential election, and a weak new issue market. Instead, equities benefitted from low valuation levels, strong corporate balance sheets, improving margins, and low interest rates. Telecommunication services and utilities in particular were helped by both high relative dividend yields and little exposure to troubled overseas economies. Energy was the weakest sector, driven by lower crude prices. US equities finished fiscal year 2012 up over 100 percent from the March 2009 lows.
- The domestic equity portfolio gained 3.58 percent for fiscal year 2012. Strong performances in technology and industrials, and particularly in Apple, were offset by weak stock selection in

materials, consumer discretionary and telecommunication services. US equity returns have outperformed the benchmark on a three, five, and ten year-basis.

- The Pension Fund benefitted by maintaining an overweight position to domestic equities throughout the fiscal year. As of June 30, 2012, the Pension Fund had a 25.4 percent allocation to US equities, versus a 23.5 percent target in the benchmark.

SECTOR WEIGHTING OF DOMESTIC EQUITY PORTFOLIO IN COMPARISON TO S&P 1500 AS OF 6/30/12



TOP HOLDINGS IN DOMESTIC EQUITY AS OF 6/30/12

Company	% of Portfolio
APPLE INC.	5.96
EXXON MOBIL CORP.	2.76
GENERAL ELECTRIC CO	2.48
MICROSOFT CORP.	2.09
MERCK & CO. INC.	1.66
WELLS FARGO CO.	1.58
JPMORGAN CHASE & CO.	1.48
PFIZER INC.	1.47
PROCTER & GAMBLE	1.29
PHILIP MORRIS INTERNATIONAL	1.28

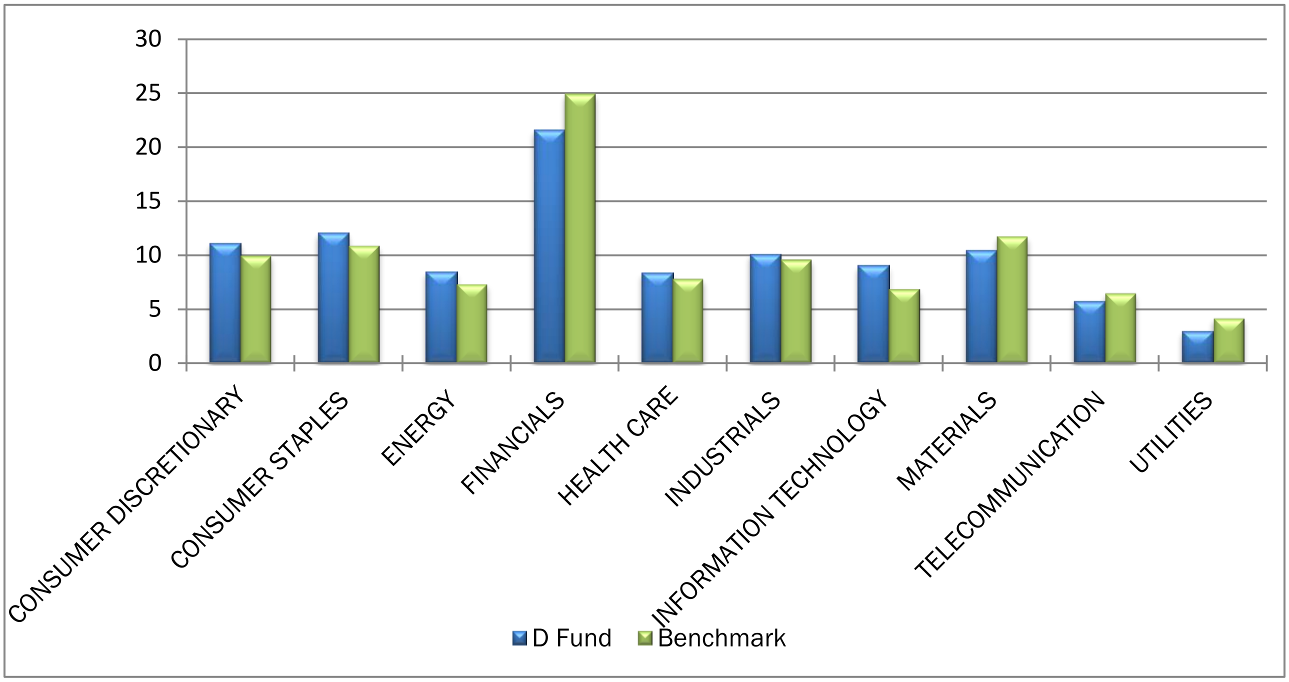
INTERNATIONAL EQUITY HIGHLIGHTS OF FISCAL YEAR 2012

	Annualized Returns (%)			
	FY12	3 Years	5 Years	10 Years
International Equity with Cash, Hedges, Miscellaneous	(16.53)	3.80	(5.08)	5.31
Custom International Benchmark (1)	(14.33)			
MSCI All Country World Index (ex US)	(14.57)	6.97	(4.62)	6.74
Developed Markets Equity	(17.41)			
Custom International Developed Market Benchmark (1)	(14.12)			
MSCI EAFE Index	(13.83)			
Emerging Markets Equity	(13.92)			
Custom Emerging Market Benchmark(1)	(14.98)			
MSCI Emerging Markets Index	(15.95)			

(1) These benchmarks are based on MSCI data, which was provided by MSCI for the internal use of the Division only and may not be redistributed or used in connection with creating or offering any securities, financial products or indices. MSCI disclaims all express and implied warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to such data. These benchmarks exclude those securities deemed ineligible for investment under the State statutes governing investments in Iran and Sudan.

- The international equity portfolio is broadly diversified with exposure to more than 45 countries and investments in approximately 900 publicly traded non-U.S. stocks. The actively managed developed international portfolio asset allocation reflects a top-down, fundamentally-driven investment methodology. The international portfolio ended the fiscal year with 45% of the portfolio being actively managed.
- The international markets continued to experience a challenging investment environment for fiscal year 2012. The European crisis entered its third year of expanding the sovereign debt crisis across the region and carving out the periphery from the core countries. China's slowing economic growth contributed to the world slowdown as exports dried up and demand softened. The economic slowdown was a drag on the world wide economy, heightened global concern over recession, and continued to fuel a lack of confidence in most financial institutions. Against this back-drop the international markets dramatically underperformed the US domestic market for the entire period.
- The international equity portfolio underperformed the benchmark by 220 basis points for fiscal year 2012. The emerging market equity portfolio solidly outperformed its benchmark by 106 basis points, with the actively managed advisery group outperforming the custom benchmark by approximately 240 basis points while the passive ETF allocation underperformed the custom benchmark by approximately 100 basis points. The developed market equity portfolio underperformed its benchmark by 329 basis points.
- From a regional perspective, the Asia/Pacific area made the largest positive contribution to return relative to the benchmark while Europe and Canada were the largest detractors. By country, an underweight to Spain had the largest positive impact while an overweight and poor stock selection in Portugal had the largest negative impact.
- From a sector perspective, overweights to and stock selection within Consumer Staples and Information Technology and an underweight to and stock selection within Utilities had the largest positive impact on relative returns. Poor stock selection in Industrials and Materials –specifically metals and mining– provided the largest detraction to return on a relative basis.

SECTOR WEIGHTING OF INTERNATIONAL EQUITY PORTFOLIO IN COMPARISON TO CUSTOM INTERNATIONAL EQUITY MARKETS INDEX AS OF 6/30/12[1]



(1) This chart represents sector weights against the custom benchmark, which excludes those names deemed ineligible for investment under the State's Sudan and Iran Divestment laws.

TOP HOLDINGS IN INTERNATIONAL EQUITY AS OF 6/30/12

Company	% of Portfolio
VANGUARD EMERGING MARKETS ETF	13.12
ISHARES MSCI EAFE ETF	9.47
ISHARES MSCI EMERGING MARKETS ETF	3.50
GLAXOSMITHKLINE PLC	1.38
ISHARES S&P /TSX 60 INDEX FUND	1.31
ROCHE HOLDING AG GENUSSCHEIN	1.13
DIAGEO PLC	0.93
ANHEUSER BUSCH INBEV NV	0.71
LOREAL PRIME DE FIDELITE	0.68
BG GROUP PLC	0.64

DOMESTIC FIXED INCOME HIGHLIGHTS OF FISCAL YEAR 2012

	Annualized Returns (%)			
	FY12	3 Years	5 Years	10 Years
Domestic Fixed Income with Cash, Hedges, Miscellaneous[(1)]	15.89	12.76	10.77	7.68
Domestic Fixed Income Blended Benchmark [(2)]	16.50	11.88	9.52	8.02
Investment Grade	17.30	12.73	10.60	7.59
Barclays Government /Credit Long	24.58	14.41	11.00	8.75
High Yield	4.46	18.33		
Barclays High Yield Index	7.27	16.29		

(1) Domestic Fixed income performance includes the effect of transferring a number of bank loan funds from Alternative Investments in fiscal year 2009.

(2)Domestic Fixed Income Blended Benchmark from 7/1/11 forward is a 50/50 blend of Barclays Government/Credit Long and the Barclays Government/Credit. Prior to 7/1/11 it was 100% Barclays Government/Credit Long.

- The Fixed Income portfolio's 15.89% fiscal year return was the Pension Fund's best performing asset class. The Fixed Income portfolio slightly underperformed the Barclays Blended Government/Credit Benchmark due to the portfolio's more conservative asset allocation with a bias to higher quality bonds and a slightly shorter duration.
- The portfolio benefited overall from an underweight in Financials which underperformed relative to the overall benchmark.
- U.S. Treasury bonds were the top performer with nominal treasuries returning over 26% while TIPs returned 16.5%. Both outperformed their respective benchmarks.
- Leveraged loans were a drag to the High Yield portfolio's performance as they returned 2.25% for the fiscal year while high yield bonds returned 7.90% for the fiscal year.
- Fixed income markets were dominated by the headlines. Turmoil in Greece and other European sovereign debt, a slowdown in China, Operation Twist, and rumors of QE3 all contributed to lowering the yield on the 30 Year U.S Treasury Bonds from 4.37% on July 1, 2011 to 2.75% on June 30, 2012. Political paralysis in the United States also contributed to the market uncertainties. The U.S. credit rating was downgraded by Standard & Poor's on August 5, 2011 and Fitch changed its outlook on the United States to negative on November 28, 2011.
- Corporations took advantage of the lower rates by issuing over $450 billion in debt in the second half of fiscal year 2012. Risk aversion coupled with the US Treasury rally plus the large new issuance of corporate debt put pressure on corporate spreads, especially on the lower quality securities. Single-A 10 year corporate credits spreads widened about 32 basis points, Double-B widened 130 basis points, and Triple-C widened about 400 basis points. As a result, the Division's focus was to maintain or improve the quality of its High Grade Portfolio while maintaining a diverse portfolio. On a select basis however, the Division purchased weaker securities that were affected by market events and sold them as the events subsided. This strategy was highly effective in the first half of the fiscal year when the concessions on new corporate issues were on average 25 to 50 basis points wider than their current outstanding issues. In the second half of the fiscal year the spreads narrowed, limiting opportunities.
- The Division's U.S. Treasury holdings consisted of both Nominal Treasuries and TIPS and accounted for about 17% of the Investment Grade Portfolio as of June 30, 2012. The Division viewed the portfolio as a core holding so there was minimal activity in this sector. The main activity was swapping between Treasury bonds and TIPS as the spread between the two warranted.
- As of June 30, 2012 the Investment Grade Portfolio had a market value of approximately $17.1 billon consisting of over 600 line items from over 250 different issuers.

- The High Yield Fixed Income space mirrored the Investment Grade as it also traded off of the headlines starting off the year poorly following the news of a possible downgrade of the United States by Standard & Poor's. The Barclays High Yield Bond Index hit a low on October 4, 2011 as the Yield to Worst (YTW) was 10.11 and peaked in April when the YTW hit 6.96. The market turned again in May due to European issues reaching an 8.08 YTW before finishing the year at a 7.35 YTW, almost completely flat from the year's start (7.29 YTW). The total return for the Index over this volatile year was 7.27% which basically represents the carry on the bonds. Higher quality outperformed as BBs returned 8.34% versus 4.7% for CCCs. The High Yield portfolio underperformed the Index due to the leveraged loan fiscal year total return of 2.25%.

ALTERNATIVE INVESTMENTS

In fiscal year 2012, the Division focused on structuring investments that more closely aligned the interests of the investment managers with those of the Division. Many of the investments committed in fiscal year 2012 had preferential terms negotiated by the Division which the Division estimates will save tens of millions of dollars per year in fees. Among the highlights was a strategic relationship formed with the Blackstone Group which provides the Division with expanded and more flexible investment opportunities, enhanced support of Division resources, a discounted fee structure, better alignment of interests and strong governance rights.

PRIVATE EQUITY HIGHLIGHTS OF FISCAL YEAR 2012

	Annualized Returns (%)		
	FY12	3 Years	5 Years
Private Equity	4.85	14.42	3.74
Cambridge Associates Benchmark[1]	10.83	18.22	6.97

[1] Cambridge Associates Benchmark is reported on a one quarter lag.

- The Pension Fund committed $1.9 billion to 14 new private equity partnerships in fiscal year 2012.
- The private equity portfolio contributed $1.2 billion to various funds and received distributions totaling $1.1 billion during the fiscal year. The private equity portfolio is beginning to mature, as evidenced by the significant level of distributions in fiscal year 2012.
- The Total Value Multiple for the overall Private Equity Portfolio increased from 1.13x to 1.16x from June 30, 2011 to June 30, 2012. The Domestic Buyout, Mezzanine, and Venture Capital segments of the portfolio all saw meaningful increases in Total Value Multiple for the year.

REAL ESTATE HIGHLIGHTS OF FISCAL YEAR 2012

	Annualized Returns (%)		
	FY12	3 Years	5 Years
Real Estate	8.30	6.36	(5.50)
NCREIF(NPI)	12.04	8.82	2.51

- The Pension Fund committed $869 million to 5 real estate partnerships in fiscal year 2012.
- The real estate portfolio contributed $633 million to various funds and received distributions totaling $394 million during the fiscal year.

- The Total Value Multiple for the overall Real Estate Portfolio increased from 0.85x to 0.92x from June 30, 2011 to June 30, 2012.
- Fiscal year 2012 was the second consecutive year that the Real Estate portfolio has produced a positive return.

HEDGE FUND HIGHLIGHTS OF FISCAL YEAR 2012

	Annualized Returns (%)		
	FY12	3 Years	5 Years
Hedge Funds [1] [2]	(1.33)	6.25	(0.74)
HFRI Fund of Funds Composite [2]	(5.42)	2.42	(1.84)

[1] Hedge Fund performance includes the effect of transferring a number of bank loan funds from Alternative Investments to Domestic Fixed Income in fiscal year 2009. Trailing Hedge Fund Performance including bank loans funds as of June 30, 2012 as calculated by Hedge Fund Consultant Cliffwater is: 1 Year: 0.69%, 3 Year: 9.86%; 5 Year 2.42%.
[2] Reported on a one month lag.

- For fiscal year 2012, the Pension Fund committed $2.5 billion to direct and fund of hedge fund strategies, including new investments and additions to existing investments.
- Absolute return oriented managers were the best performing segment of the hedge fund portfolio for the fiscal year, returning 2.58% as a group.
- Equity oriented managers and credit oriented managers returned -0.64% and -1.12%, respectively, in both cases outperforming the HFRI Fund of Fund Composite.

COMMODITIES/REAL ASSET HIGHLIGHTS OF FISCAL YEAR 2012

	Annualized Returns (%)	
	FY12	3 Years
Real Assets/Commodities	(9.54)	4.40
Dow Jones UBS Commodity Total Return Index	(14.32)	3.49

- The Real Assets/Commodities portfolio outperformed the benchmark by 478 basis points for the fiscal year.
- The Pension Fund's commodity-related ETF portfolio performed particularly well relative to the benchmark Dow Jones UBS Commodity Total Return Index which it outperformed by 851 basis points with a return of -5.81%. One of the portfolio's largest positions, gold ETFs, returned approximately 7% for the fiscal year
- The Pension Fund remains underweight commodities as the program is built. This underweight was a net positive for fiscal year 2012 with the S&P 1500 outperforming the DJUBS Total Return index.

SUMMARY OF CALENDAR YEAR 2012

Returns for Calendar Year 2012 (Unaudited)	CY12	Benchmark
Total Pension Fund	13.13	12.66[1]
Total Pension Fund excluding Police and Fire Mortgages	13.32	12.66[1]
Domestic Equity with Cash, Hedges, Miscellaneous	17.41	16.17
International Equity with Cash, Hedges, Miscellaneous	18.19	17.79
Developed Markets Equity	17.92	17.01
Emerging Markets Equity	20.39	20.04
Domestic Fixed Income with Cash, Hedges, Miscellaneous	9.77	9.33
Alternative Investments	8.75	
Private Equity[2]	12.07	n/a[4]
Real Estate[2]	8.72	n/a[4]
Hedge Funds[2]	7.73	3.02
Real Assets/Commodities	1.61	n/a[4]
Cash Mgt. Fund[3]	0.15	0.08

[1] Benchmark is a weighted composite of index returns in each asset class. Benchmark return is preliminary
[2] Performance based on most recent values available
[3] Returns represent the annual rate for the period based on the average daily rate of return
[4] Not available at time of publication

- The net asset value of the Pension Fund at December 31, 2012 was $71.1 billion.
- The Total Pension Fund excluding Police and Fire Mortgages outperformed the Total Fund Benchmark by 66 basis points for calendar year 2012.
- The domestic equity portfolio benefited from early signs of an improving US economy. This led to gains in overweighted cyclical groups such as industrials, technology, energy and consumer discretionary. Stock selection within these sectors was also a key contributor.
- In the international equity portfolio, both the developed market and emerging market portfolios outperformed their benchmarks for the calendar year. After a sluggish first half, the second half of 2012 saw performance move robustly higher across both the developed and emerging markets. Financials, consumer staples, and consumer discretionary provided the best contributions to return within the portfolio among all sectors. By country, portfolio positions in France, Sweden, and Spain provided the best performance relative to the benchmark.
- The outperformance of the Treasury, TIPs and High Yield investments all contributed to the strong performance of the fixed income portfolio. Bank loan funds were the best performing segment of fixed income portfolio returning 23.40% vs. 15.81% for the Barclays High Yield Index. US TIPs positively impacted performance as they outperformed Nominal Treasuries (15.42% vs. 5%). In addition, the portfolio's longer duration benefited the returns.
- In the alternative investment portfolio, hedge funds outperformed the benchmark by returning 7.73% versus a benchmark of 3.02% based on the most recent available cash adjusted market values which are reported on a one month lag. Within the hedge fund portfolio, credit oriented funds were the best performing segment, returning 13.15%.

CASH MANAGEMENT FUND

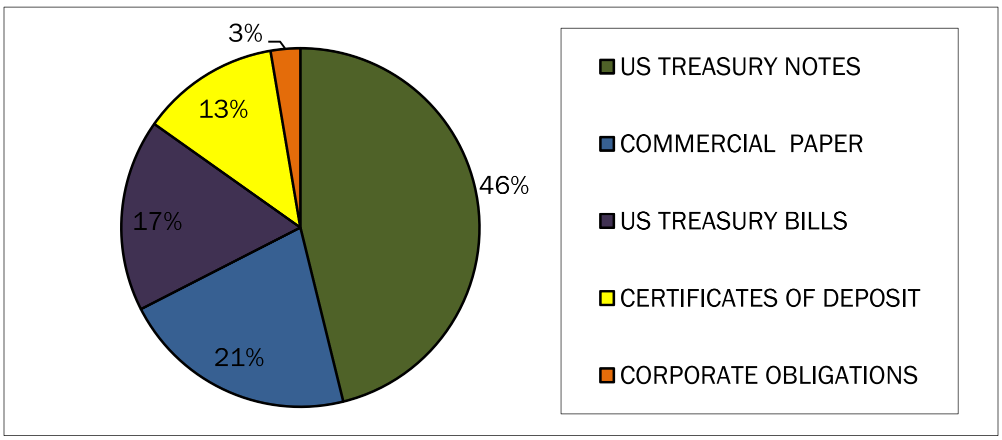
	Returns(1) (%)		
	FY12	3 Years	5 Years
Cash Mgt. Fund	0.15	0.30	1.31
US Treasury Bills (3 month)	0.04	0.10	0.87

(1) Returns represent the annual rate for the period based on the average daily rate of return

The State of New Jersey Cash Management Fund has consistently beaten its benchmark. The downward trend in rates is due to lower short term interest rates available in the marketplace.

The net assets of the cash management fund of $8.8 billion decreased by $5.9 billion or 40.4% during the fiscal year primarily due to net participant withdrawals, which are at the discretion of the participants.

ASSET ALLOCATION CHART AS OF 6/30/2012



CASH MANAGEMENT DETAIL AS OF 6/30/2012

	Percentage	PAR (000's)
US TREASURY NOTES	46.15%	$4,039,150
COMMERCIAL PAPER	21.33%	$1,866,832
US TREASURY BILLS	17.33%	$1,516,241
CERTIFICATES OF DEPOSIT	12.52%	$1,096,000
CORPORATE OBLIGATIONS	2.67%	$233,310
TOTAL	**100.00%**	**$8,751,533**

COSTS OF MANAGEMENT

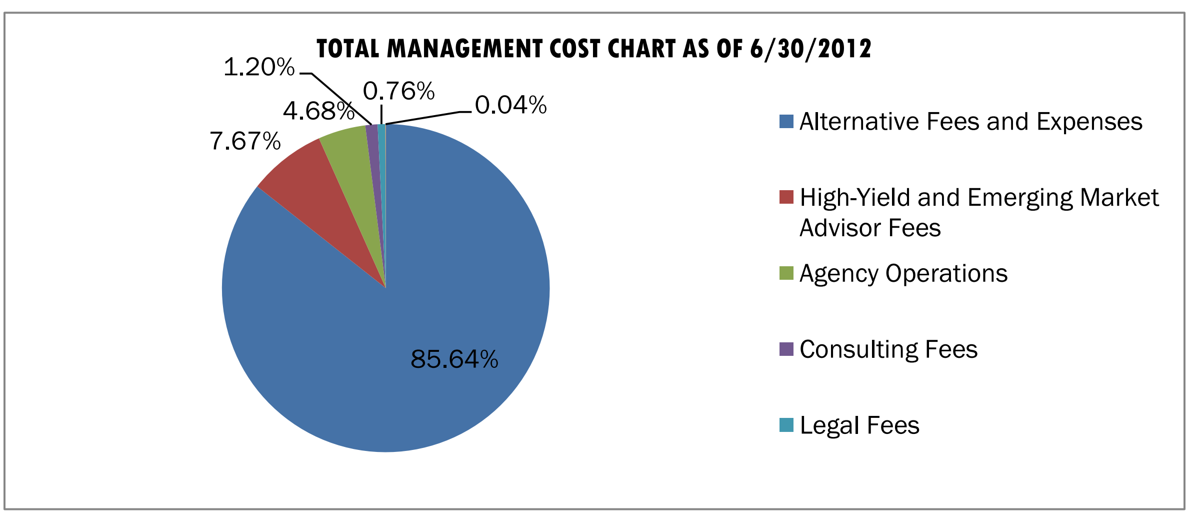
The Division operates at among the lowest costs of all public pension funds, largely because approximately 74% of the net assets of $78.7 billion are actively managed by in-house staff. The Division relies on external fund managers only through its alternative investments and bank loan funds; it also utilizes the expertise of external investment advisers in the specialty areas of emerging market equity and high-yield fixed income.

The Division paid $192 million in fees and expenses in fiscal year 2012 to the alternative investment and bank loan fund managers. These investments totaled $17.3 billion on June 30, 2012. Annual fees in this sector therefore represent 1.1% of the June 30 market value. The Division paid an additional $17.2 million to the advisers of its emerging market equity and high-yield fixed income portfolios in fiscal year 2012. Investments in these portfolios totaled $2.9 billion on June 30, 2012. Annual fees in this sector thus represent 0.6% of the June 30 market value.

Operating expenses for staff compensation, overhead and equipment were $10.5 million for the fiscal year, and represent about 4.68% of total costs. Remaining expenses, which include fees for consulting services, custodial banking and legal services, are shown in the chart below.

In total, costs to manage the portfolios totaled 0.28% of assets under management for the fiscal year.

Fiscal Year Ended	6/30/2012
Alternative Investment Fees & Expenses	$192.0
High-Yield and Emerging Market Adviser Fees	17.2
Agency Operations	10.5
Consulting Fees	2.7
Legal Fees	1.7
Custodial Banking Fees	0.1
Total	**$224.2 million**
Total net assets under management	$78.7 billion
Cost as a percentage of assets under management	0.28%
Cost per each $100 under management	**28 cents**



COMMISSIONS

The Division incurred broker/dealer commission costs totaling $28.5 million for fiscal year 2012 from equity security trades related to the $78.7 billion in assets under Division management. The brokerage commission total includes $3.4 million in “soft dollar” commissions used to procure systems and services critical to the Division’s trading and research.

The Division purchases and sells certain investments with no involvement by a broker/dealer, including commercial paper, certificates of deposit, foreign currency transactions and investments in alternative investment funds by transacting directly with the issuer, partnership or fund; as a result, no direct commissions are paid.