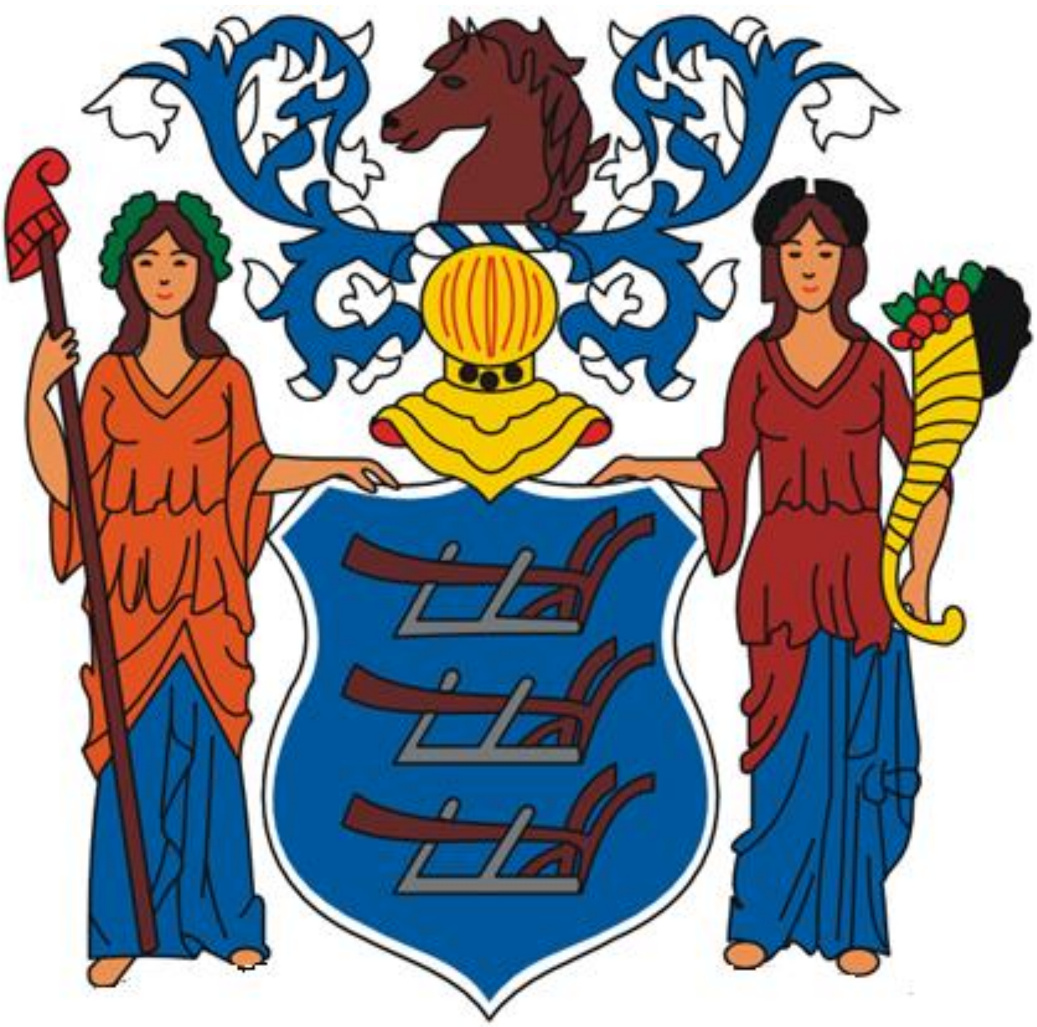
2014 ANNUAL REPORT

NEW JERSEY STATE INVESTMENT COUNCIL ♦ FOR FISCAL AND CALENDAR YEAR 2014



Liberty and Prosperity
1776

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

January 29, 2015

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

I am pleased to report that the State pension funds had another good year in the fiscal year ended June 30, 2014. Despite gross pension payments of over $9 billion, the Pension Fund increased last year from $74.4 billion to $81.2 billion thanks to excellent investment returns. That translates to an overall return of 16.9%, which compares very favorably to the assumed rate of return which is set at 7.9%. At the end of calendar year 2014, the unaudited net asset value of the Pension Fund was $75.9 billion.

Sound investing is not just a matter of good returns; it is even more a matter of good *risk-adjusted* returns. In simple terms, you do not put all your eggs in one basket. New Jersey has a Pension Fund portfolio that tends to be less volatile than 85% of its peers. In other words, we have matched the returns of others while taking less risk to do so. We do this by making sure that we are well diversified into many different types of investments. No one can predict which asset class will perform best in a given year. In years when the stock market is up a lot, it is natural to say we should have had more money there. However, in 2008-09, the Pension Fund lost less money than most of its peers because we maintain a discipline around intelligent diversification. We must remind ourselves that markets can go down again, and that we want to remain prudently positioned to make the most of good times while limiting the downside when market conditions are bad.

We do our best to be open and transparent about what we do. The Division of Investment website (http://www.state.nj.us/treasury/doinvest) has a lot of information about our investment strategy and the performance of our assets. We try to communicate openly during our public meetings. We encourage beneficiaries to take advantage of all this, and to ask any questions that they may have on our investing during our public meetings.

The State Investment Council has a responsibility for overall governance and general investment policies, but the day to day implementation and discretion rests with a dedicated staff, who are also beneficiaries. Many of these individuals would earn far more money in the private sector, and we are lucky to have some very smart and hard-working people doing such important work every day.

Both Council members and staff take the responsibility for the retirement security of the beneficiaries very seriously, all the more so because we know that the pensions have been underfunded for nearly 20 years. We cannot control market outcomes, but it is my hope that there is confidence that the Pension Fund assets are in good hands.

Yours sincerely,

Tom Byrne

Brendan Thomas Byrne, Jr.
Acting Chairman

INTRODUCTION TO THE COUNCIL AND DIVISION

DIVISION STAFF

Director:
Christopher McDonough
Deputy Director:
Corey Amon

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, 2014:

Council Chairperson:
Vacant

Council Acting Chairperson:
Brendan Thomas Byrne, Jr. (1)
President, Byrne Asset Management LLC

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, Capital Markets Strategy, Scotiabank

Benjamin "Max" Hurst
Public Employees Retirement System Designee

James L. Joyner
Teachers Pension and Annuity Fund Designee

Adam Liebtag(1)
New Jersey State AFL-CIO Nominee

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
Former Managing Director, Merrill Lynch

(1) *Appointed by the Governor*

COUNCIL MEMBERSHIP

The Council is comprised of sixteen (16) members pursuant to N.J.S.A. 52:18A-83. 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 of such two appointed members 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 until 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 34th 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 773,000 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 53% are still working and contributing to the pension while 39% are retired. The remaining 8% reflects the number of active noncontributing members.
The net asset value of the Pension Fund assets managed by the Division was $81.2 billion as of June 30, 2014. The investment return for fiscal year 2014 excluding the Police and Fire Mortgages was 16.87% and approximately $9.1 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 12/31/13. Reported by P&I and TowerWatson.com in "P&I/ TW 300 analysis." Year end 2013. Towers Watson. September 2014. http://www.towerswatson.com/en-US/Insights/IC-Types/Survey-Research-Results/2014/09/The-worlds-300-largest-pension-funds-year-end-2013 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 a list of candidates certified as qualified and submitted by the Council. New and amended regulations adopted by the Council after public comments 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.

Every seven years administrative rules must be readopted to avoid expiration. The Council Regulations were set to expire on August 7, 2013, and accordingly, the Council proposed a combination of amendments, repeals and new rules to streamline the rules in the aggregate and further strengthen certain investment guidelines. The proposal was published in *The New Jersey Register* and no public comments were received. The amended, readopted and new rules became effective on March 3, 2014.

COUNCIL ORGANIZATIONAL CHANGES DURING CALENDAR YEAR 2014

The Council underwent the following organizational changes between January 1, 2014 and December 31, 2014:

- The Council re-elected Robert Grady as Council Chair and Brendan Thomas Byrne, Jr., as Council Vice-Chair, each for a one year term on September 16, 2014. Mr. Grady resigned from the Council effective at the conclusion of the November 19, 2014 Council meeting. In accordance with the Council Bylaws, Mr. Byrne assumed all of the duties of the Chair as of that time.

- The Public Employees Retirement System (PERS) designated Benjamin "Max" Hurst to serve as its Council Representative for the term of July 2014 to June 2017.

LEGISLATIVE UPDATE

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 2014 by almost 2.8% in developed markets and 3.7% 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 U.S. 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 6/30/2014	6/30/2013
PENSION FUND (1) The Pension Fund includes pension assets contributed by participants and by state and local employers for currently working and/or retired participants in seven statewide retirement plans.	**$81,220**	**$74,446**
Teachers' Pension & Annuity Fund	27,323	25,913
Public Employees' Retirement System	27,815	25,209
Police & Firemen's Retirement System	23,900	21,297
State Police Retirement System	1,937	1,785
Judicial Retirement System	234	228
Prison Officers' Pension Fund	7	8
Consolidated Police & Firemen's Pension Fund	3	4
Note: Total may not equal sum of components due to rounding		
CASH MANAGEMENT FUND (2) This fund includes 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).	**$11,635**	**$11,359**
SUPPLEMENTAL ANNUITY COLLECTIVE TRUST This fund includes voluntary investments by employees for retirement income separate from, and in addition to, their basic pension plan.	**$210**	**$180**

(1) The net assets of the Pension fund include the net assets managed by the Division through the Common Pension Funds and exclude certain direct assets and liabilities of the seven underlying pension plans.

(2) The total for the Cash Management Fund includes $5 billion on 6/30/14 ($3.6 billion on 6/30/13) 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, 2014, the Division-managed portion of this fund had a market value of $435 million ($412 million on 6/30/13).

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, 2014, these funds had a combined market value of $591 million ($526 million on 6/30/13). On August 1, 2014 the Bond and Money Market Funds were closed.

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, 2014, the portfolio had a market value of $141 million ($138 million on 6/30/13).

20 YEAR PENSION FUND FINANCIAL SUMMARY

FISCAL YEAR	NET ASSETS(1) ($BILLIONS)	RATE OF RETURN(2) (%)	GROSS PENSION PAYMENTS ($BILLIONS)
2014	81.2	16.87	9.1
2013	74.4	11.78	8.7
2012	70.1	2.52	8.3
2011	73.7	18.03	7.7
2010	66.8	13.35	7.0
5 YEAR ANNUALIZED RETURN		12.37	
2009	62.9	(15.48)	6.6
2008	78.6	(2.61)	6.1
2007	82.5	17.14	5.6
2006	73.1	9.79	5.2
2005	69.8	8.77	4.8
10 YEAR ANNUALIZED RETURN		7.51	
2004	67.8	14.16	4.4
2003	62.6	3.31	4.1
2002	63.3	(8.61)	3.6
2001	72.2	(9.80)	3.2
2000	82.6	11.86	2.9
15 YEAR ANNUALIZED RETURN		5.53	
1999	76.2	16.27	2.7
1998	67.3	22.70	2.5
1997	56.6	22.09	2.3
1996	45.6	16.13	2.1
1995	40.5	19.69	2.0
20 YEAR ANNUALIZED RETURN		8.83	

(1) *Includes the net assets of the Common Pension Funds managed by the Division.*
(2) *Returns exclude Police and Fire Mortgages*

During fiscal year 2014, net transfers of $5.76 billion were made from the Pension Fund to the following pension plans: $45 million to the Judicial Retirement System, $906 million to the Police & Firemen's Retirement System, $1.59 billion to the Public Employees' Retirement System, $170 million to the State Police Retirement System and $3.05 billion to the Teachers' Pension & Annuity Fund.

PENSION FUND ASSET ALLOCATION

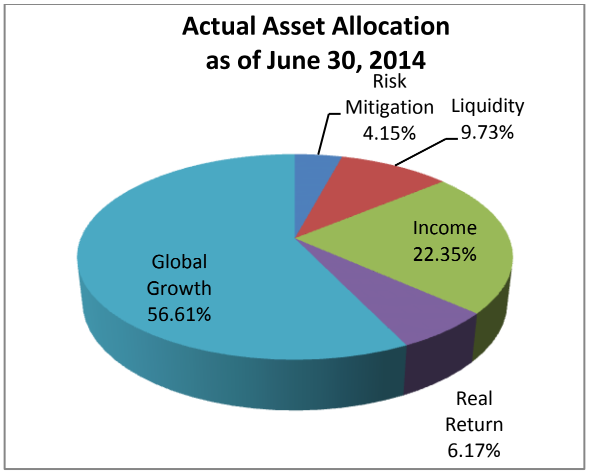
Asset allocation policies for the Pension Fund are adopted and revised by the Council as conditions warrant. The Council formally adopts an annual investment plan which includes long term ranges and annual target allocations for each asset class and asset category. Eligible investments are governed by 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.

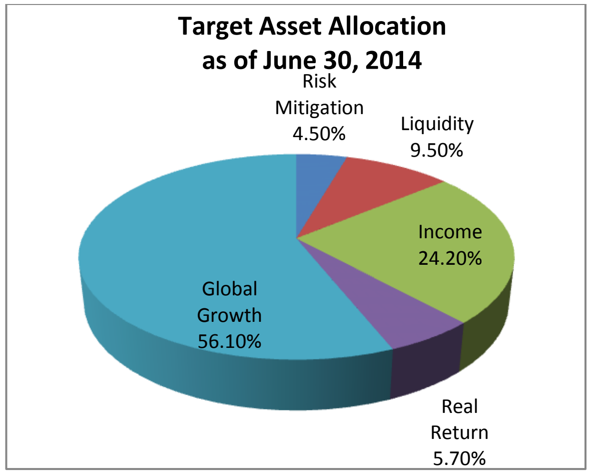
In May 2013, the Council adopted an Annual Investment Plan for fiscal year 2014. The most significant changes from the fiscal year 2013 plan included an increased target allocation for the Global Growth asset class and decreases in the target allocations for the Liquidity and Real Return asset classes. During fiscal year 2014, the target allocations were further revised with an objective of increasing liquidity in the portfolio and reducing risk. The most significant change in the asset allocation at the strategy level was to the target allocation for the Liquidity asset class, which was increased from 4.5% to 9.5%, and included an increase in cash equivalents from 1% to to 6%. The table below reflects the revised target allocations for fiscal year 2014.

ACTUAL ALLOCATION AS OF JUNE 30, 2014 VS. FISCAL YEAR 2014 INVESTMENT PLAN TARGET

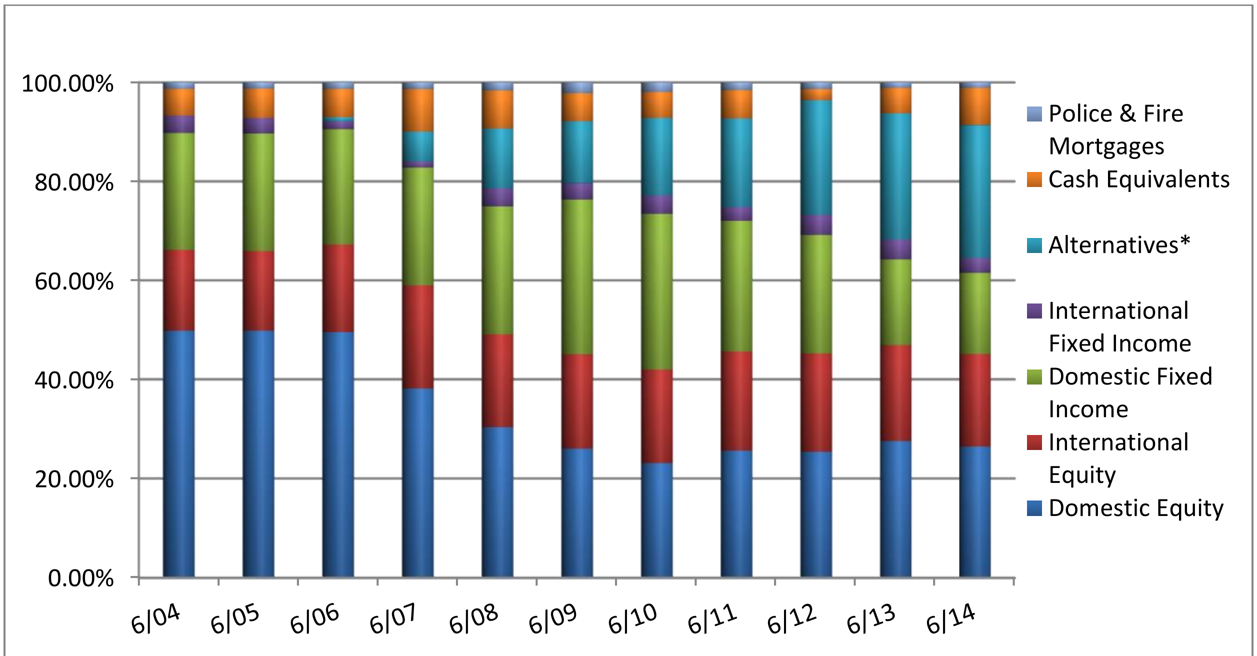
	Actual Allocation %	Target %	Difference %	Allocation ($ in millions)
Absolute Return/Risk Mitigation	4.15%	4.50%	(0.35%)	3,367.29
Risk Mitigation	**4.15%**	**4.50%**	**(0.35%)**	**3,367.29**
Cash Equivalents [(1)]	6.21%	6.00%	0.21%	5,047.30
Short Term Cash Equivalents	0.49%	0.00%	0.49%	396.16
TIPS	2.01%	2.50%	(0.49%)	1,630.54
US Treasuries	1.02%	1.00%	0.02%	832.38
Total Liquidity	**9.73%**	**9.50%**	**0.23%**	**7,906.38**
Investment Grade Credit	11.54%	11.20%	0.34%	9,376.72
High Yield Fixed Income	4.82%	5.50%	(0.68%)	3,915.83
Credit Oriented Hedge Funds	2.91%	3.75%	(0.84%)	2,360.83
Debt Related Private Equity	1.02%	1.25%	(0.23%)	824.83
Real Estate-Debt	0.97%	1.30%	(0.33%)	786.08
Police and Fire Mortgage Program [(2)]	1.10%	1.20%	(0.10%)	890.00
Total Income	**22.35%**	**24.20%**	**(1.85%)**	**18,154.29**
Commodities and Other Real Assets	2.57%	2.50%	0.07%	2,085.02
Real Estate	3.60%	3.20%	0.40%	2,926.24
Total Real Return	**6.17%**	**5.70%**	**0.47%**	**5,011.26**
US Equity	26.41%	25.90%	0.51%	21,450.30
Non-US Developed Markets Equity	12.31%	12.70%	(0.39%)	9,994.31
Emerging Markets Equity	6.43%	6.50%	(0.07%)	5,218.62
Equity Oriented Hedge Funds	3.61%	4.00%	(0.39%)	2,928.51
Buyout/Venture Capital Funds	7.87%	7.00%	0.87%	6,390.31
Total Global Growth	**56.61%**	**56.10%**	**0.51%**	**45,982.05**
Opportunistic Private Equity	**0.18%**	**0.00%**	0.18%	143.81
Other Cash and Receivables	**0.81%**	**0.00%**	0.81%	654.88
Total Pension Fund	**100.00%**	**100.00%**	**0.0%**	**81,219.96**

[1] The cash aggregate comprises the two common fund cash accounts, in addition to the seven plan cash accounts.
[2] Police and Fire Mortgage Program are private mortgages that cannot be sold.
Totals may not equal sum of components due to rounding





PENSION FUND COMPOSITE ASSET ALLOCATION TEN YEAR HISTORY



**Alternative Investment Program commenced 9/05*

MARKET OVERVIEW FOR FISCAL 2014

The U.S. equity market rose for a fifth consecutive year on improving U.S. economic growth, a robust mergers and acquisitions environment, and increasing stock buybacks. The employment picture continued to improve, with the unemployment rate falling to 6.1% in June 2014. This provided a positive backdrop for improving U.S. economic growth. Mergers and acquisitions and stock buybacks were significant market catalysts in fiscal 2014, driven by accumulated cash and improved company balance sheets. Large deals included Comcast's proposed $68 billion acquisition of Time Warner Cable, and AT&T's proposed $66 billion acquisition of DirecTV. Rising shareholder activism was also a prominent theme in a drive to create greater shareholder value by demanding a return of cash, spin-offs, restructurings, and mergers and acquisitions.

The U.S. equity markets were able to overcome several headwinds during fiscal 2014 including the federal government shutdown in the fall of 2013, federal debt ceiling concerns, the tapering of bond purchases by the Federal Reserve as part of its quantitative easing strategy (QE3), weaker economies in Europe and emerging markets, and weather-related economic weakness in the U.S during the quarter ended March 2014. In total, the S&P 1500 rose 24.7% for the year, the second consecutive year of returns over 20%. All industry sectors registered positive returns, with information technology, and materials faring best. Returns in telecommunication services and consumer staples were the weakest.

In four of the last five fiscal years the International Equity Markets (ex-US) have returned positive performance on overall global repair from the financial crisis. For fiscal 2014, the International Equity Markets increased 21.75% (MSCI All Country World Index ex U.S.) with Developed Markets increasing 23.6% (MSCI EAFE Index) and outperforming the Emerging Markets double digit returns of 14.3% (MSCI Emerging Markets Index). However, these strong returns obfuscate the challenging investment environment experienced during fiscal year 2014. Geopolitical events and military conflict in South East Asia and the Middle East, sanctions against Russia after its annexation of Crimea, government upheaval in countries such as Ukraine, Thailand, and Egypt, the German and EU Parliament elections as well as changing political or central bank leadership in multiple countries including the United States, Italy and India all contributed to high volatility. Stagnant economic growth in Europe combined with continued downward revisions of growth in China and the speculation of rising of interest rates by the U.S. Federal Reserve and the end of quantitative easing exerted downward pressure on international equities. On a positive note, India equities experienced significant gains after the election of Prime Minister Narendra Modi lifted hopes of economic reform. Finally, significant economic programs were also introduced in China, Japan, Brazil, and the EU through stimulus packages, major currency interventions or policy rate changes.

During fiscal year 2014, yields on global government securities dropped as central banks around the world embarked on various forms of accommodative monetary policy and quantitative easing. In this environment, lower rated sovereign credits outperformed higher rated issuers. For example, sharp declines in Italian and Spanish sovereign yields led to strong returns for Italy (+14.4%) and Spain (+15.6%). Conversely, German, Canadian and Japanese sovereign debt returned 4.1%, 3.6% and 3.1%, respectively, as higher rated sovereign debt underperformed.

Yields on U.S. Treasuries remained higher relative to other developed market sovereign debt, reflecting in part more favorable domestic economic growth prospects. For example, the spread between German Government Bonds and U.S. Treasuries in the five, ten and thirty year space was approximately 150 basis points. Comparatively, the average spread between the two countries for the past ten years was 29 basis points for the 5-year bonds, 42 basis points for the 10-year bonds, and 58 basis points for the 30-year bonds.

Within the U.S. fixed income markets, corporate bonds outperformed U.S. Treasuries as credit spreads narrowed. During fiscal year 2014, investment grade and high yield spreads narrowed by 48 and 155 basis points, respectively, on average. In this environment, investment grade credit (7.44% per the Barclay's U.S. Credit Index) and high yield credit (11.73% per the Barclay's U.S. Corporate High Yield Index) significantly outperformed U.S. Treasuries (2.04% per the Barclay's U.S. Treasury Index).

In fiscal year 2014, the private equity market benefited from many of the same themes as the previous year: (1) readily available credit, (2) strong public markets, and (3) substantial distributions to investors. Buyout valuations continued their upward trend through the first half of the year exhibiting their highest levels since 2007. Although fundraising has not yet caught up to 2007/2008 levels, institutional investors' current and target allocations to private equity are on the rise, which has been aided by the significant amount of distributions recently received. According to statistics published by Prequin in *Private Equity Spotlight,* in calendar year 2013, $388 billion was called for investment and $568 billion was distributed in the private equity markets, compared to calendar year 2012 when $492 billion was called and $381 billion was distributed. The industry as a whole continues to mature and now represents $4 trillion of assets under management.

The real estate market continued to perform well in fiscal year 2014, particularly in the U.S Core markets as evidenced by the 12.74% return in the NCREIF-ODCE index. Pricing for commercial real estate rose 16.4% in fiscal year 2014 according to the Moody's/RCA national composite index. Overall valuations remain below the December 2007 peak, however, values are beginning to exceed peak levels in certain sectors and markets. Additionally, capital has begun to shift towards non-gateway markets as the consensus view is that stabilized assets in most gateway markets are fully priced today.

Most hedge fund strategies performed well during fiscal year 2014, supported by favorable equity market performance, enhanced corporate activity, a benign credit market with declining rates and tightening spreads, and low and decreasing observed volatilities. Long/short equity, event driven and credit/distressed strategies generally outperformed. Laggards included market neutral and volatility-driven strategies including relative value, global macro and systematic trading/CTAs. Overall, hedge funds posted solid returns of 9% based on the HFRI Fund Weighted Composite Index.

Commodity markets were up for fiscal year 2014 as the DJ-UBS Index returned 8.21%. Most major commodity baskets were positive with the exception of agriculture. Energy performed nicely due to lower inventories, colder winter weather and geopolitical issues in the first half of 2014. Livestock was also a big contributor as lower costs of production led to improved margins.

TOTAL PENSION FUND RETURN VS BENCHMARK

	Annualized Returns (%)				
	FY14	3 Years	5 Years	10 Years	20 Years
Total Pension Fund	16.72	10.13			
Total Pension Fund excluding Police and Fire Mortgages	16.87	10.23	12.37	7.51	8.83
Total Fund Benchmark[(1)]	*15.79*	*8.81*	*11.36*	*6.45*	*N/A*

[(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 108 basis points for fiscal year 2014. Three of the five asset classes, Global Growth, Real Return and Income, outperformed their respective benchmarks for fiscal year 2014 while two, Risk Mitigation and Liquidity, trailed their respective benchmarks.

- The primary drivers of the outperformance throughout the fiscal year were the Global Growth and Income asset classes. Within Global Growth, the Pension Fund's overweight allocation to the U.S. Equity market as well as strong relative performance by the U.S. Equity, Private Equity, and Equity Hedge Fund portfolios all contributed positively. Within Income, strong relative performance by the Investment Grade Bonds, High Yield Bonds, and Global Diversified Credit strategies contributed to the outperformance of the asset class. Primary detractors were in Liquidity, where the positions in Treasuries and TIPs did not fully capture the strong performance resulting from both the capital flight to safety and investors' move to hedge against rising inflation expectations.

- The Pension Fund has outperformed its benchmark in each of the last four fiscal years (fiscal year 2011 by 100 basis points, fiscal year 2012 by 226 basis points, fiscal year 2013 by 82 basis points, and fiscal year 2014 by 108 basis points), adding incremental value of approximately $3.7 billion to the Pension Fund.

- The Pension Fund has outperformed the benchmark on a trailing one, three, five, and ten-year basis.

DOMESTIC EQUITY HIGHLIGHTS OF FISCAL YEAR 2014

	Annualized Returns (%)			
	FY14	3 Years	5 Years	10 Years
Domestic Equity with Cash, Hedges, Miscellaneous	25.45	16.46	19.36	9.08
Domestic Equity Only (Ex Cash and hedges)	26.23	16.79	19.87	9.26
S&P 1500 Composite	24.70	16.48	19.18	8.09

- The Domestic Equity portfolio is broadly diversified by economic sector with over 800 publicly traded stocks. While exposure to most sectors is comparable to that of the overall market, the Division will overweight and underweight securities and industries in the portfolio in an effort to outperform the benchmark.

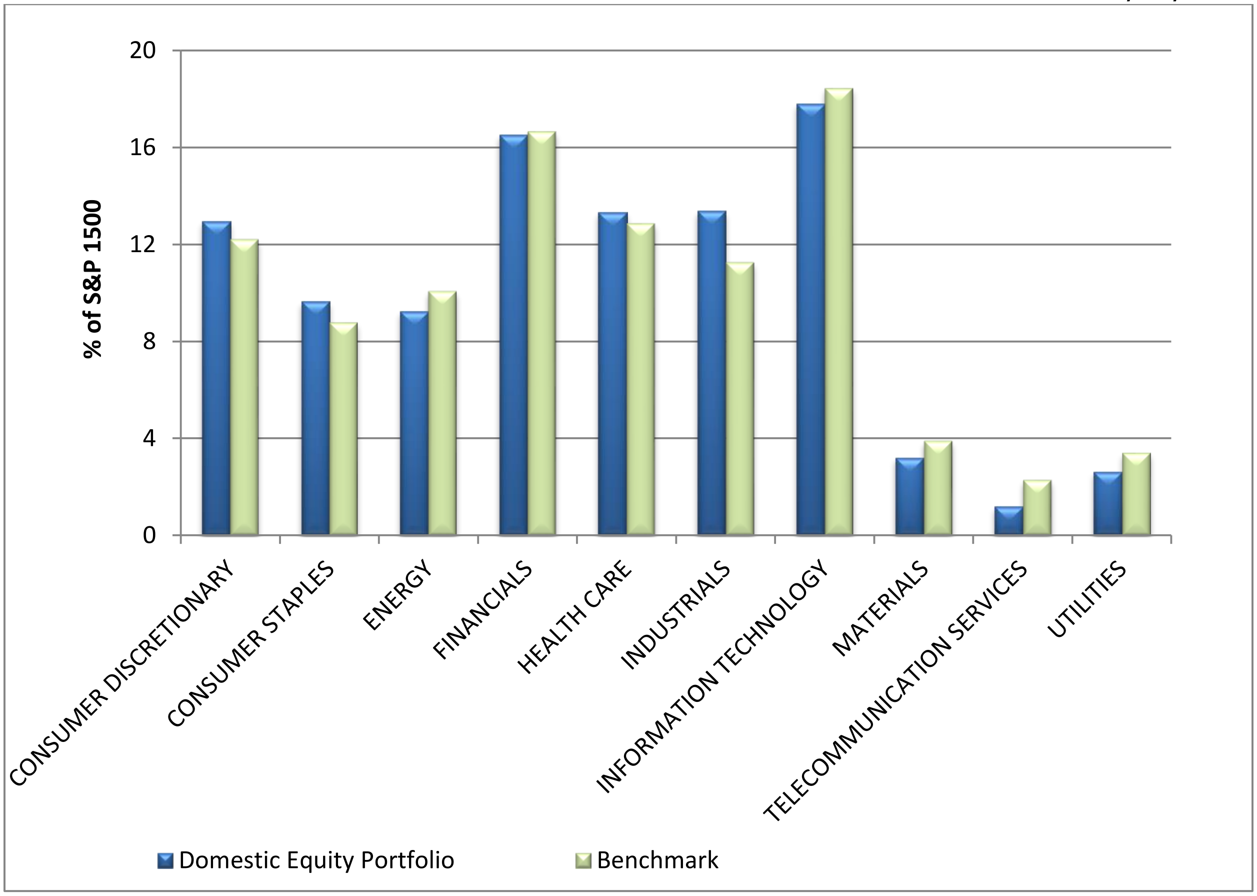
- Stocks in the Domestic Equity portfolio gained 26.23% for fiscal 2014, exceeding the 24.70% return of the S&P 1500 Index by 153 basis points. Stock selection was particularly strong in the financial, consumer discretionary, and information technology sectors.

- Domestic Equity returns for the Pension Fund have outperformed the benchmark in nine of the last ten fiscal years. Over this 10-year period, the portfolio has outperformed its benchmark by 117 bps on an annualized basis.

- The Pension Fund benefited by maintaining on overweight position to domestic equities throughout the fiscal year.

- The industrial sector was the largest overweight during the fiscal year. The information technology sector experienced the largest decline in relative sector weighting from a 62 bps overweight at the beginning of the year to an 85 bps underweight at year-end due to a decrease in semiconductor exposure, and the inclusion of Facebook in the benchmark. The consumer discretionary sector went from a 17 bps underweight to a 150 bps overweight on investments in media stocks based on discount valuations pending M&A deals closing.

SECTOR WEIGHTING OF DOMESTIC EQUITY PORTFOLIO IN COMPARISON TO S&P 1500 AS OF 6/30/14



- The top ten holdings in the Domestic Equity portfolio represent 18.25% of the total portfolio. Apple Inc. continues to be the largest holding. The top ten holdings are similar to those at the end of fiscal year 2013, with Pfizer Inc. and Procter & Gamble Co. being replaced with Chevron Corp. and General Electric Co.

TOP HOLDINGS IN DOMESTIC EQUITY PORTFOLIO AS OF 6/30/14

Company	% of Portfolio
APPLE INC	3.48
EXXON MOBIL CORP	2.26
MICROSOFT CORP	2.08
WELLS FARGO CO	1.82
GOOGLE INC	1.76
GENERAL ELECTRIC CO	1.48
JOHNSON & JOHNSON	1.46
MERCK & CO.	1.41
JP MORGAN CHASE CO.	1.27
CHEVRON CORP	1.23

INTERNATIONAL EQUITY HIGHLIGHTS OF FISCAL YEAR 2014

	Annualized Returns (%)			
	FY14	3 Years	5 Years	10 Years
International Equity with Cash, Hedges, Miscellaneous	19.38	3.70	8.36	6.37
Custom International Equity Markets Benchmark (1)	19.64	4.95		
MSCI All Country World Index (ex U.S.)	21.75	5.73	11.11	7.75
Developed Markets Equity	23.31	6.25		
Custom International Developed Markets Benchmark (1)	23.40	7.64		
MSCI EAFE Index	23.57	8.10		
Emerging Markets Equity	13.62	0.21		
Custom Int'l Emerging Markets Benchmark(1)	13.78	0.19		
MSCI Emerging Markets Index	14.31	(0.39)		

(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.

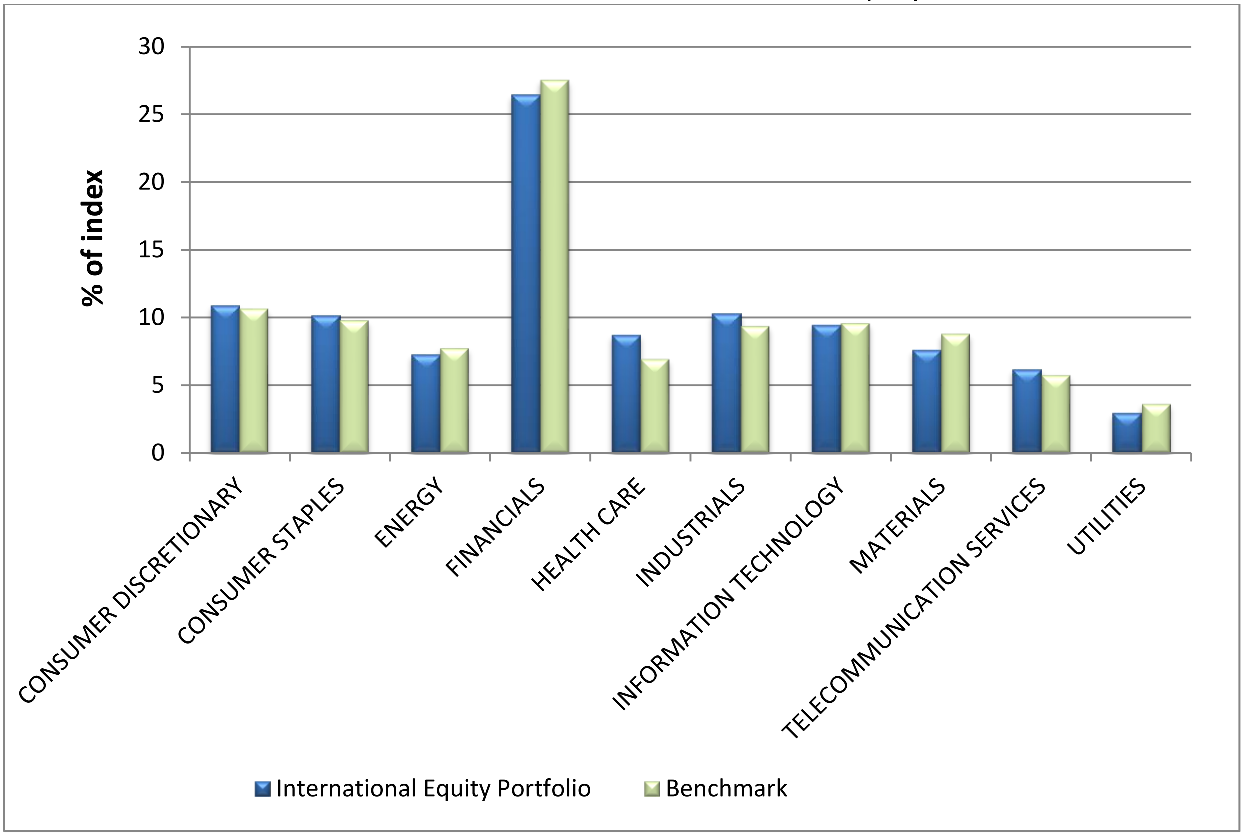
- The International Equity portfolio is broadly diversified with exposure to approximately 50 countries and investments in approximately 800 publicly traded non-U.S. stocks. The International Equity portfolio includes both developed market equities and emerging market equities. The developed market portfolio is a composite of ETFs, a passively managed optimized portfolio, and an actively managed portfolio. The emerging market portfolio is a composite of ETFs and an actively managed portfolio of individual securities. At fiscal year-end, approximately 25% of the total international equity portfolio was actively managed.

- The International Equity portfolio underperformed the benchmark by 26 basis points for fiscal year 2014. The emerging market equity portfolio underperformed its benchmark by 16 basis points, with the actively managed portion outperforming the custom benchmark by approximately 126 basis points while the passive ETF allocation underperformed the custom benchmark by approximately 222 basis points. The developed market equity portfolio underperformed its benchmark by 9 basis points.

- From a regional perspective, Europe made the largest positive contribution to return relative to the benchmark while Asia/Pacific Ex Japan and Africa were the largest detractors. An overweight to Switzerland, and strong stock selection in that country, had the largest positive impact on the portfolio's relative return, while an underweight to Taiwan had the largest negative impact.

- From a sector perspective, relative to the benchmark, an overweight to the health care sector had the largest positive impact on the portfolio's relative return, while an underweight allocation during the year to the information technology sector had the largest negative impact.

SECTOR WEIGHTING OF INTERNATIONAL EQUITY PORTFOLIO IN COMPARISON TO CUSTOM INTERNATIONAL EQUITY MARKETS INDEX AS OF 6/30/14(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.

- The top ten holdings in the International Equity portfolio represent 20.3% of the portfolio with ETFs representing 14.7% of the portfolio. In terms of individual securities, Novartis, Taiwan Semiconductor and Bayer AG are new to the top ten holdings for the portfolio since the end of the previous fiscal year.

TOP HOLDINGS IN INTERNATIONAL EQUITY PORTFOLIO AS OF 6/30/14

Company	% of Portfolio
ISHARES MSCI EMERGING MARKETS	9.09
ISHARES MSCI EAFE ETF	3.54
ROCHE HOLDING AG	1.16
ISHARES CORE MSCI EMERGING MARKETS	1.14
NOVARTIS AG	1.03
NESTLE SA	0.98
ISHARES MSCI SOUTH KOREA CAPPE	0.91
L OREAL PRIME DE FIDELITE	0.86
TAIWAN SEMICONDUCTOR SP ADR	0.78
BAYER AG	0.77

FIXED INCOME HIGHLIGHTS OF FISCAL YEAR 2014

	Annualized Returns (%)			
	FY14	3 Years	5 Years	10 Years
Fixed Income with Cash, Hedges, Miscellaneous	7.66	8.27	9.45	7.44
Fixed Income Blended Benchmark(1)	7.45	8.09	8.71	7.16
Investment Grade	6.23	7.20	8.51	6.90
Investment Grade Blended Benchmark(2)	6.04	9.02	9.27	7.44
High Grade	7.02	7.41		
Custom Investment Grade Credit Benchmark(3)	5.97	5.07		
U.S. Treasuries	(0.12)	6.25		
Custom US Treasuries Benchmark(4)	3.45	2.75		
TIPS	4.29	4.86		
Custom TIPS Benchmark(5)	7.09	3.01		
High Yield	15.53	11.27	16.92	
Barclays Corp High Yield Index	11.73	9.49	13.98	

(1) *Fixed Income Blended Benchmark from 7/1/13 forward is a blend of the following Barclays Indices: 11% TIPS 10yr+, 3% Treasury, 1% Treasury Long, 8% Credit, 4% Credit Long, 48% Credit Intermediate, and 25% Corporate High Yield. From 7/1/12 to 6/30/13it was a blend of the following Barclays Indices: 10% TIPS 10yr+, 7% Treasury, 4% Treasury Long, 36% Credit, 18% Credit Long and 25% Corporate High Yield. From 7/1/11 to 6/30/12 it was 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.*

(2) *Investment Grade Blended Benchmark from 7/1/13 forward is a blend of the following Barclays Indices: 16% TIPS 10yr+, 4% Treasury, 2% Treasury Long, 10% Credit, 54% Credit Long, and 63% Credit Intermediate. From 7/1/12 to 6/30/13 it was a blend of the following Barclays Indices: 14% TIPS 10yr+, 9% Treasury, 5% Treasury Long, 48% Credit, 24% Credit Long. Prior to 7/1/12 it was 100% Barclays Government/Credit Long.*

(3) *Custom Investment Grade Credit Benchmark from 7/1/13 forward is a blend of the following Barclays Indices: 13% Credit, 6% Credit Long, and 81% Credit Intermediate. From 7/1/2012 to 6/30/2013 it was a blend of the following Barclays Indices: 67% Credit, 33% Credit Long. From 7/1/2010 to 6/30/2012 it was 100% Barclays Credit.*

(4) *Custom US Treasuries Benchmark from 7/1/12 forward is a blend of the following Barclays Indices: 67% US Aggregate Government - Treasury, and 33% Treasury Long. From 7/1/11 to 6/30/12 it was 100% Barclays US Aggregate Government – Treasury.*

(5) *Custom TIPS Benchmark from 7/1/12 forward is 100% Barclays US Treasury Inf Notes (TIPS) 10+Y. From 7/1/10 to 6/30/12 it was 100% Barclays US Infl-Linked Bond Index.*

- The Fixed Income portfolio is broadly diversified with investments in U.S. Treasuries, TIPS, investment grade corporate bonds and high yield securities. The portfolio includes investments in approximately 1,700 securities and nine global diversified credit funds.

- The Fixed Income portfolio outperformed the blended custom benchmark by 21 basis points for the fiscal year.

- The Investment Grade portfolio returned 6.23% for fiscal year 2014, outperforming its benchmark by 19 basis points. The Investment Grade portfolio benefited from being overweight high grade credit relative to U.S. Treasuries. The High Grade Credit portfolio returned 7.02% for the fiscal year, outperforming its benchmark by 105 basis points. The U.S. Treasury portfolio had a return of (0.12%) and underperformed its benchmark by 357 basis points. The TIPs portfolio had a return of 4.29% and underperformed its benchmark by 280 basis points. The underperformance in both categories resulted from the respective portfolios' shorter duration relative to their benchmarks.

- The High Yield portfolio had a return of 15.53% for the fiscal year and outperformed its benchmark by 380 basis points. The Global Diversified Credit portfolio returned 18.38%, outperforming its benchmark by 665 basis points, as the portfolio benefited from exposure to structured credit and middle market lending strategies. The public high yield portfolio had a return of 12.09% for the fiscal year, and outperformed its benchmark by 36 basis points. High yield returns benefited from an overall narrowing of credit spreads during the year. For example, the spread between 10-year BB rated securities and 10-year U.S. Treasuries narrowed from approximately 330 basis points to about 270 basis points.

ALTERNATIVE INVESTMENTS

PRIVATE EQUITY HIGHLIGHTS OF FISCAL YEAR 2014

	Annualized Returns (%)		
	FY14	3 Years	5 Years
Private Equity	24.14	14.35	16.39
Cambridge Associates Benchmark(1)	18.90	14.36	17.35

(1) Reported on a one quarter lag.

- The Private Equity portfolio is broadly diversified with investments in buy-out, venture capital and debt strategies through the Pension Fund's interests in private equity fund limited partnerships and co-investment opportunities. At June 30, 2014 the Pension Fund was invested in approximately 95 limited partnerships and co-investments.

- The overall Private Equity portfolio returned 24.14% for the fiscal year, outperforming the benchmark by 524 basis points. The buyouts and venture capital portfolio was the best performing segment of the entire Pension Fund, returning 26.25% for the year.

- The Total Value Multiple for the overall Private Equity Portfolio increased from 1.26x to 1.38x from June 30, 2013 to June 30, 2014. All segments within the Private Equity portfolio saw increases in fiscal year 2014 with large buyouts leading the way.

- The Pension Fund committed $1.5 billion to 9 new private equity partnerships in fiscal year 2014.

- The Pension Fund contributed $1.4 billion to various Private Equity portfolio funds and received distributions totaling $1.9 billion from funds in the portfolio during the fiscal year. In fiscal years 2013 and 2012, the Pension Fund contributed $938 million and $1.2 billion, respectively, to various Private Equity portfolio funds and received distributions of $1.2 billion and $1.1 billion, respectively, from funs in the portfolio. Over the trailing four years, the Private Equity portfolio has been cash flow positive with $5.1 billion in distributions and $4.9 billion in contributions.

REAL ESTATE HIGHLIGHTS OF FISCAL YEAR 2014

	Annualized Returns (%)		
	FY14	3 Years	5 Years
Real Estate	14.21	11.86	9.23
NCREIF(ODCE) (1)	12.74	11.83	9.97

(1) Reported on a one quarter lag.

- The Real Estate portfolio consists of approximately 38 limited partnerships at June 30, 2014 which invest in opportunities both in the U.S. and abroad.

- The Real Estate portfolio returned 14.21% for the fiscal year, outperforming the benchmark by 147 basis points. Fiscal year 2014 was the fourth consecutive year that the Real Estate portfolio produced a positive overall return, driven primarily by performance of the non-core strategies focused on distressed debt and equity in Europe and Asia.

- The Total Value Multiple for the overall Real Estate portfolio increased from 1.07x to 1.31x from June 30, 2013 to June 30, 2014.

- The Pension Fund committed $1.04 billion to 7 real estate partnerships in fiscal year 2014.

- The Pension Fund contributed $800 million to various Real Estate portfolio funds and received distributions totaling $983 million from funds in the portfolio during the fiscal year. In fiscal years 2013 and 2012, the Pension Fund contributed $536 million and $633 million, respectively to various Real Estate portfolio funds and received distributions of $544 million and $394 million, respectively, from funds in the portfolio.

- The Pension Fund sold 25 existing Real Estate portfolio fund investments in the secondary market for a total sales price of $925 million.

HEDGE FUND HIGHLIGHTS OF FISCAL YEAR 2014

	Annualized Returns (%)		
	FY14	3 Years	5 Years
Hedge Funds	10.53	7.08	8.34
HFRI Fund of Funds Composite(1)	5.10	2.52	4.12

(1) Reported on a one month lag.

- The Hedge Fund portfolio is broadly diversified in 43 hedge funds at June 30, 2014 which employ diversified strategies including absolute return, credit, distressed, equity long/short, event driven and global macro.

- The Hedge Fund portfolio outperformed the HFRI Fund of Funds Composite by 543 basis points for the fiscal year. The credit oriented and equity oriented hedge funds were the best performing segments of the Hedge Fund portfolio for the fiscal year, returning 11.97% and 12.55%, respectively.

- For fiscal year 2014, the Pension Fund committed $1.35 billion to 11 direct and fund-of-fund strategies in the Hedge Fund portfolio, including new investments and additions to existing investments. During the same period, the Pension Fund redeemed $630 million from nine funds.

COMMODITIES/REAL ASSET HIGHLIGHTS OF FISCAL YEAR 2014

	Annualized Returns (%)		
	FY14	3 Years	5 Years
Real Assets/Commodities	9.74	(0.54)	4.36
Dow Jones UBS Commodity Total Return Index	8.21	(5.17)	1.99

- The Commodities/Real Asset portfolio is invested in 17 funds with diversified strategies at June 30, 2014.

- The Commodities/Real Asset portfolio outperformed the Dow Jones UBS Commodity Total Return Index by 153 basis points for the fiscal year. The strong performance was the result of rising valuations and active portfolio management by the underlying funds which focus on private real asset investments.

SUMMARY OF CALENDAR YEAR 2014

Returns for Calendar Year 2014 (Unaudited)	CY14	Benchmark
Total Pension Fund	7.25	7.28 (1)
Total Pension Fund excluding Police and Fire Mortgages	7.27	7.28 (1)
Domestic Equity with Cash, Hedges, Miscellaneous	11.92	13.08
International Equity with Cash, Hedges, Miscellaneous	(3.21)	(3.09)
Developed Markets Equity	(3.50)	(4.10)
Emerging Markets Equity	(3.24)	(1.53)
Fixed Income with Cash, Hedges, Miscellaneous	6.61	5.63
Investment Grade	6.69	6.97
High Grade	8.19	6.02
US Treasuries	1.19	8.17
Tips	0.81	9.38
High Yield	9.38	2.45
Alternative Investments		
Private Equity(2)	20.25	18.09
Real Estate(2)	12.40	11.36
Hedge Funds(2)	6.85	4.35
Real Assets/Commodities	0.89	(17.01)
Cash Management Fund	0.12	0.03

(1) *Benchmark is a weighted composite of index returns in each asset class.*
(2) *Performance based on most recent values available*

- The net asset value of the Pension Fund was $76.8 billion at December 31, 2014.

- The Total Pension Fund excluding Police and Fire Mortgages underperformed the Total Fund Benchmark by 1 basis point for calendar year 2014.

- The Domestic Equity portfolio returned 11.92% compared with 13.08% for the S&P 1500 Index. The U.S. economy rebounded from a weather-induced contraction in the first quarter, and steadily improved throughout the year, as the labor market continued its recovery. All industry sectors except energy produced positive returns. The biggest drag on relative performance was the industrial sector with the significant decline in oil prices negatively impacting commodity-related industrial stocks. The materials sector also detracted from performance due to overall commodities weakness related to a global growth slowdown, particularly in emerging markets. The portfolio did benefit from positive stock selection in the healthcare and consumer staples sectors. Merger and acquisition activity continued to be a prominent investment theme in the healthcare sector, while consumer staples were a safe haven in a volatile equity environment.

- The International Equity portfolio returned -3.21%, underperforming its benchmark by 12 basis points. The developed markets equity portfolio outperformed its benchmark by 60 basis points, returning -3.50%. The outperformance was driven by an underweight to Europe and the United Kingdom coupled with increased exposure and strong stock selection in Canada. From a sector perspective, stock selection in the consumer discretionary sector produced the best contribution to return for the portfolio, while the decision to underweight energy related stocks during the second half of the year was also a positive contributor to performance. Emerging markets had a challenging year marked by geo-political turmoil and a general slowdown in growth (ex-US). The emerging market equity portfolio underperformed its benchmark by 171 basis points, returning -3.24%. Positive contributions to performance came from an underweight to Brazil and Korea, as well as strategic moves out of the broad based ETFs into country specific ETF positions. The major detractors to performance were the underweight to China and long positions in Russia. From a sector perspective, the underweight to the materials and energy sectors positively impacted returns while the financials and information technology sectors were the worst performing sectors.

- The Fixed Income portfolio outperformed the blended custom benchmark by 98 basis points. The High Yield portfolio was the best performing segment, returning 9.38% as compared to the Barclays High Yield Index which returned 2.45%. The dramatic outperformance in High Yield was driven primarily by the Global Diversified Credit portfolio. The Investment Grade portfolio underperformed its index by 28 basis points. While the High Grade Credit portion of the Investment Grade Portfolio outperformed its index by 217 basis points, it was not enough to offset the underperformance by the U.S. Treasury and TIPS portfolios. The underperformance of the U.S. Treasury and TIPS portfolios was due primarily to the substantially lower duration compared to their respective benchmarks.

- Private Equity was the best performing segment of the Alternative Investment portfolio as investments benefited from rising equity markets and robust IPO activity. Real Estate had a strong year on both an absolute and relative basis as residential and commercial real estate values continue to rebound from the lows of the financial crisis. The Hedge Fund portfolio outperformed the benchmark by 250 basis points for the year as long biased equity and credit funds produced strong performance. The Real Assets and Commodities portfolio was slightly positive for the year, but was negatively impacted by strategies tied to the major commodity indexes, which performed poorly for the year.

CASH MANAGEMENT FUND

	Returns (1) (%)		
	FY14	3 Years	5 Years
Cash Mgt. Fund – State Participants	0.12	0.20	0.52
Cash Mgt. Fund – Non-State Participants	0.06	0.10	0.41
U.S. Treasury Bills (3 month)	0.04	0.05	0.08

(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 in recent years is a result of the Federal Reserve's continuing policy of maintaining lower short term interest rates.

- The net assets of the Cash Management Fund of $11.6 billion increased by $276 million or 2.4% during the fiscal year primarily due to net participant contributions.

CASH MANAGEMENT DETAIL AS OF 6/30/2014

	Percentage	June 30, 2014
		PAR (000'S)
US TREASURY NOTES	38.81%	$4,505,304
COMMERCIAL PAPER	35.25%	$4,092,892
CERTIFICATES OF DEPOSIT	17.12%	$1,987,300
GOVERNMENT AGENCY	4.29%	$498,631
GOVT OF CANADA COMMERICAL PAPER	2.33%	$270,000
CORPORATE BONDS	2.20%	$255,649
TOTAL	100.00%	$11,609,776

COSTS OF MANAGEMENT

The Division strives to operate at a low cost. To that end, approximately 74% of the net assets of $89 billion of all funds under Division management are managed by in-house staff. The Division relies on external fund managers only for alternative investments and global diversified credit funds.

The Division paid $236.9 million in management fees and expenses in fiscal year 2014 to the alternative investment and global diversified credit fund managers. These investments totaled $23.4 billion on June 30, 2014. Annual fees in this sector therefore represent 1% of the June 30 market value. The Division paid an additional $28.5 million to the advisers of a portion of its emerging market equity and high-yield fixed income portfolios in fiscal year 2014. Investments in these portfolios totaled $4.8 billion on June 30, 2014. Annual fees in this sector thus represent 0.59% of the June 30 market value.

Operating expenses for staff compensation, overhead and equipment were $10.6 million for the fiscal year, and represent about 3.8% of fees and expenses. 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 .32% of assets under management for the fiscal year. This is considerably below the average cost of management of .44% for 22 public pension funds with assets over $20 billion as reported by investment consulting firm RVK, Inc.

	Fiscal Year Ended 6/30/2014
Fees & Expenses:	
Hedge Funds management and other fees	$93.1
Private Equity Funds management and other fees	79.6
Real Estate Funds management and other fees	37.2
Real Asset management and other fees	14.6
Global Diversified Credit Fund fees and expenses	12.4
High-Yield and Emerging Market Adviser Fees	28.5
Division Operations	10.6
Consulting Fees	2.6
Legal Fees	2.1
Custodial Banking Fees	.4
Total	**$281.1 million**
Total net assets under management	$89.0 billion
Cost as a percentage of assets under management	0.32%
Cost per each $100 under management	**.32 cents**

Alternative investment fund managers may earn a performance allocation if certain objectives are met. When negotiating investment agreements, the Division is committed to negotiating preferential terms that incentivize strong performance, provide the Division with meaningful governance rights, and ensure the alignment of interests. While there is no standard for reporting performance allocations among public funds, the Council strives to be an industry leader as it relates to transparency.

In fiscal year 2014, the alternative investment fund managers received $334.8 million of performance allocations. These allocations were earned based on returns generated by the managers.

	Fiscal Year Ended 6/30/2014
Hedge Funds performance allocation	$143.9
Private Equity Funds performance allocation	91.3
Real Estate Funds performance allocation	49.1
Real Asset performance allocation	8.9
Global Diversified Credit Funds performance allocation	41.6
Total Performance Allocation	**$334.8**

COMMISSIONS

The Division incurred broker/dealer commission costs totaling $19.6 million for fiscal year 2014 from security trades related to the $89 billion in assets under Division management. The brokerage commission total includes $3.9 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.