New Jersey Division of Investment

Director's Report

May 16, 2013

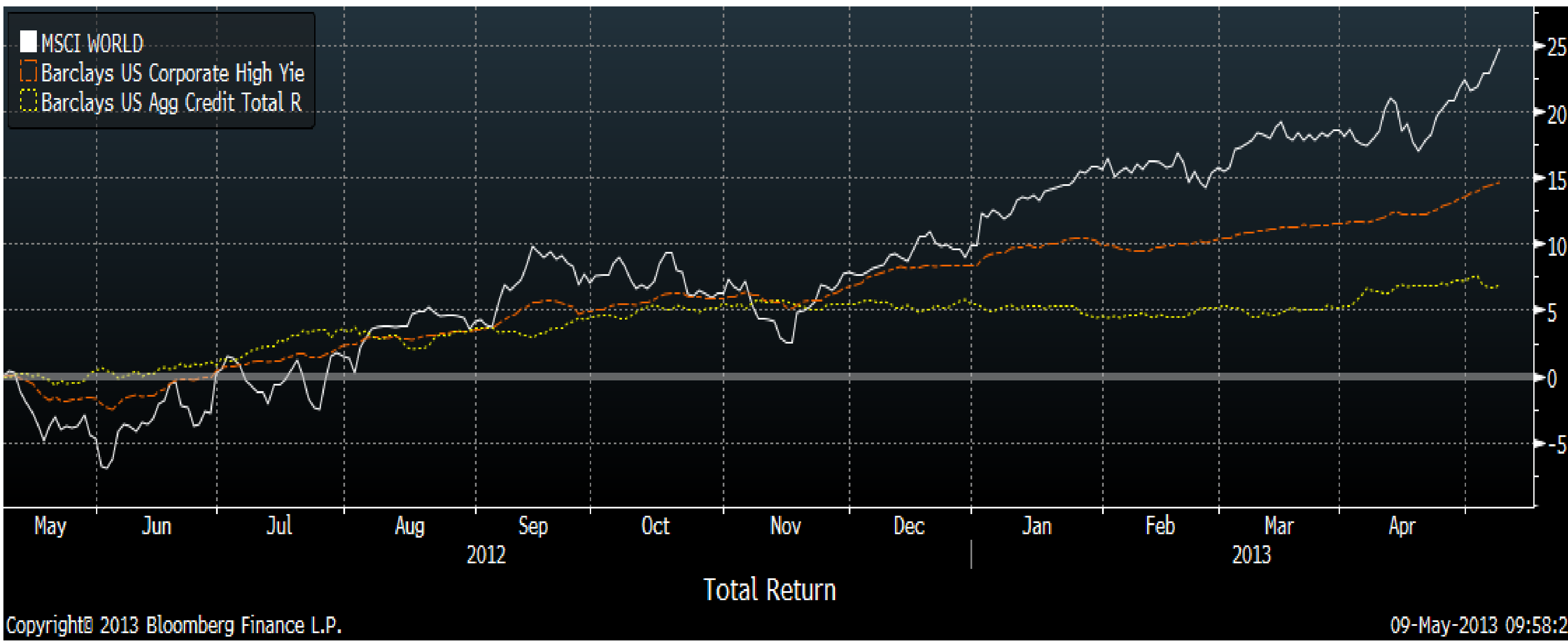
State Investment Council Meeting

"The mission of the New Jersey Division of Investment is to achieve the best possible return at an acceptable level of risk using the highest fiduciary standards."

What's Going on in the World

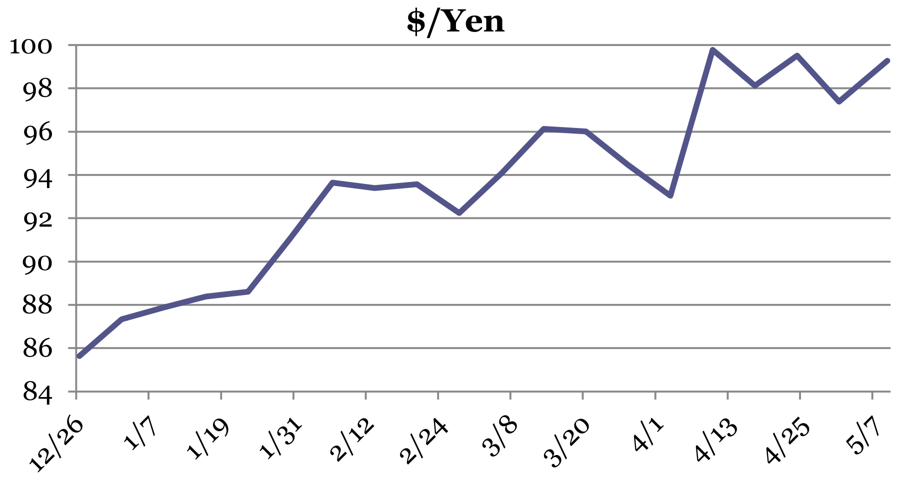
- Global Equity and Fixed Income Markets continue to strengthen, even with the set backs in Cypress and some commodity markets. The S&P 500 and Dow Jones hit new all time highs, surpassing 1,600 and 15,000, respectively.
- Recent good news includes a stronger than expected U.S. employment market, the European Central Bank cutting interest rates, strong US home sales and massive quantitative easing in Japan ("*Abenomics*".) US corporations continue strong stock buybacks and increased dividends.

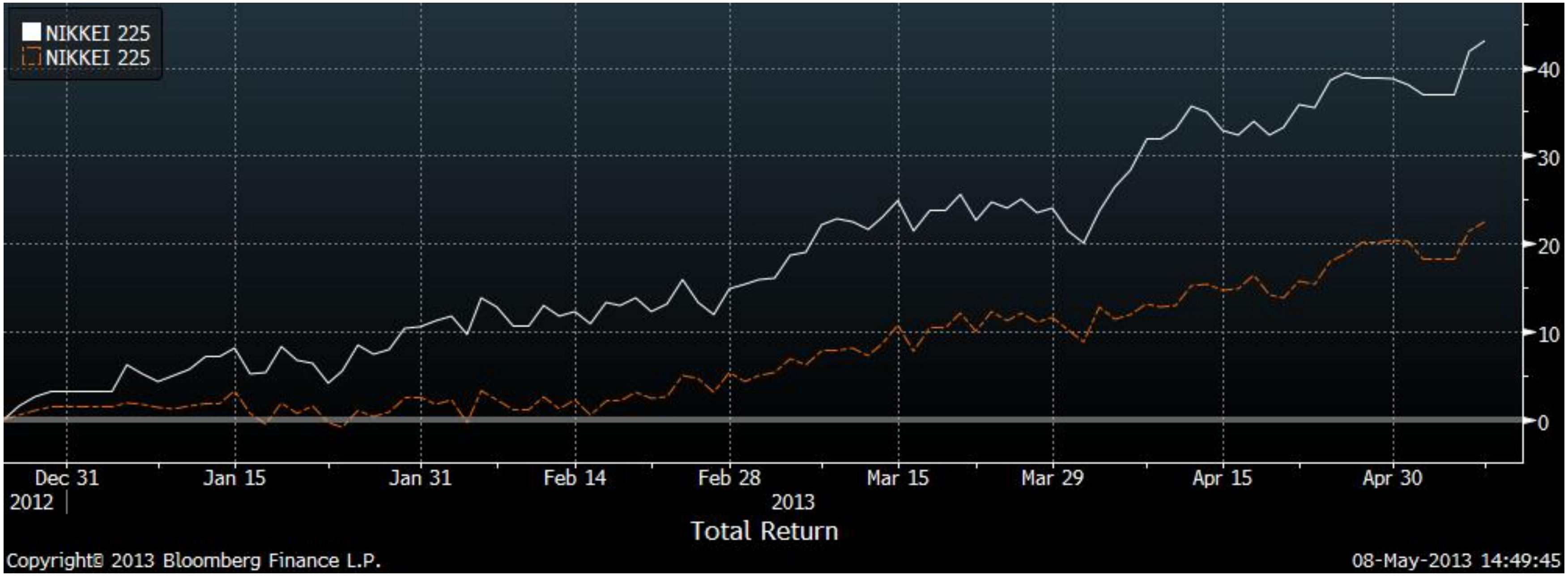
Index	One Year Return as of 5/8/13
MSCI World	22.85%
Barclays US High Yield	14.37%
Barclays US Credit	6.90%



What's Going on in the World - Japan

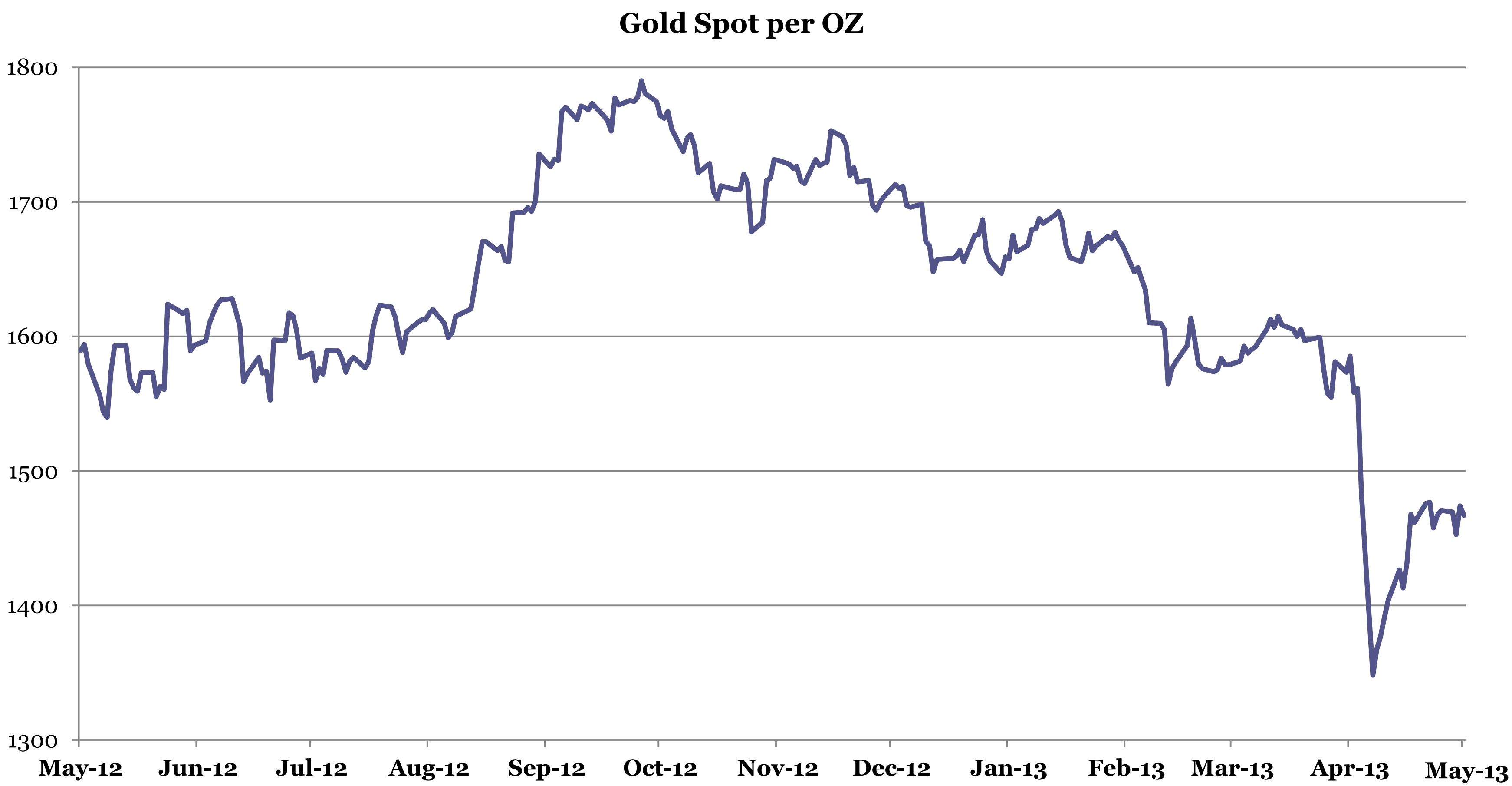
- Japanese Yen and stock market have been the big stories. The Yen has been weakening since the Bank of Japan announced stimulus measures and the Nikkei has topped 14,000 for the first time since 2008.
- Since new Prime Minister Shinzo Abe took office on December 26, 2012:
  - Nikkei: +42% in Yen/ +22% in USD
  - Yen: -14% vs. the dollar





What's Going on in the World -Gold

Gold officially went into bear market territory and sank below $1400 per ounce for the first time since July 2011. It has since recovered to around $1450 per ounce but is significantly below its peak of $1800 per ounce.



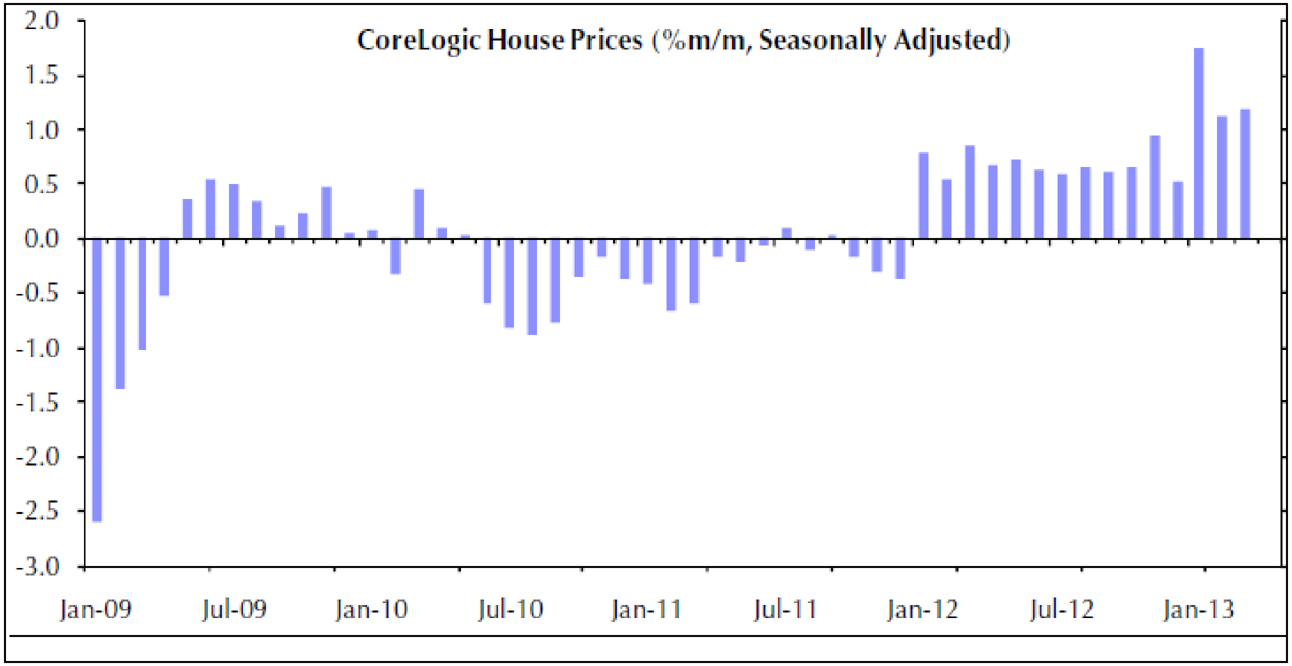
What's Going on in the World

Apple completed the largest corporate debt issue in history by borrowing $17 billion spread over four maturities. Apple received over $52 billion in orders.

Date Priced	Top 5 US Marketed Bonds* on Record	Value $m
4/30/2013	Apple Inc	17,000
2/18/2009	Roche Holdings Inc	16,500
3/6/2001	France Telecom SA	16,387
11/5/2012	AbbVie Inc	14,700
3/17/2009	Pfizer Inc	13,500

* Includes investment grade and high yield : corporates and financial. Source: Dealogic

The US housing market continues to show signs of recovery. Prices have now risen steadily for a year. Seasonally adjusted prices are up 10.5% over the past year.



Source: Capital Economics

Views from Omaha, NE

The Quotable Warren Buffet and Charlie Munger

Warren on Asset Bubbles:
"I do not worry about the banking system being the cause of the next bubble."

Charlie Munger on Berkshire's Returns:
"I don't pay attention to five years, three years in terms of annual gains because our past returns were almost unbelievable. We are slowing down a little bit but still pleasant."

Warren on not buying an airline:
"It's a labor-intensive, capital-intensive, largely commodity-type business, and it has been, as (Legg Mason's) Bill Miller points out, a death trap for investors since Orville (Wright) took off."

Warren on Deficit Spending:
"The amount of deficit spending in the last four years, the amount of stimulus provided ... I think has been quite appropriate in relation to the threat to the economy that was posed by the greatest panic in my lifetime.
"The question is, how do you get off that."

Warren on Berkshire's Size:
"We are now the fifth-most valuable company in the world."

Symbol	Top 5 Largest Market Capitalization in the World as of 5-9-13	Current Market Value ($billions)
AAPL	Apple Inc.	$435
XOM	Exxon Mobil Corp.	$408
GOOG	Google Inc. Cl A	$290
MSFT	Microsoft Corp.	$276
BRK.B	Berkshire Hathaway Inc. Cl B	$273

The top five companies are all US companies. Three are technology companies

Source: Chart from Bloomberg. Quotes from Reuters, May 4th 2013 Annual Meeting, Berkshire Hathaway, Omaha, NE

Updates Since Last SIC Meeting through 4-30-13

Asset Class (through Apr 30 2013)	Mar%	Apr% (Est.)	CYTD % (Est.)	FYTD % (Est.)	1 Year (Est.)	No.
Risk Mitigation	1.15	0.12	3.81	4.61	4.60	1
Liquidity	0.11	1.39	0.64	2.86	5.41	2
Income	0.48	1.84	3.27	8.51	10.85	3
Real Return	0.65	(0.12)	3.05	6.29	7.85	4
Global Growth	2.29	2.16	8.70	18.26	14.60	5
Total Pension Fund ex P&F	1.54	1.78	6.20	13.31	12.21	6
FY 2013 Total Policy Benchmark	1.51	1.90	6.47	14.54	12.20	7
FY2012 Total Policy Benchmark	n/a	n/a	5.91	13.55	11.22	8
Current Assets	$75.3 billion					9

***Due to lag reporting from Alternative funds we believe the Pension fund is positive 13.6-14.0% FYTD.**

	Apr 30th, 2013	MTD %	CYTD %	FYTD %	1 Yr %	3 Yrs %	5 Yrs %	10 Yrs %	10
Domestic Equity	S&P 500	1.93	12.74	19.45	16.89	12.79	5.21	7.88	11
	Russell 2000	(0.37)	11.98	20.05	17.69	11.24	7.27	10.50	12
International Equity	MCSI EAFE	5.33	10.84	26.41	19.96	7.95	(0.44)	9.71	13
	MSCI EMF	0.79	(0.79)	13.04	4.34	3.44	(0.02)	16.49	14
Bond	Barclays Agg	1.01	0.89	2.72	3.68	5.53	5.74	5.05	15
	Barclays HY	1.81	4.76	13.11	13.98	11.05	11.10	9.69	16
	Barclays US Tips	0.80	0.51	3.36	4.50	8.03	6.52	6.43	17
Commodity	DJUBS Com	(2.79)	(3.89)	(1.25)	(5.33)	(0.18)	(8.28)	3.45	18

Source: Cliffwater

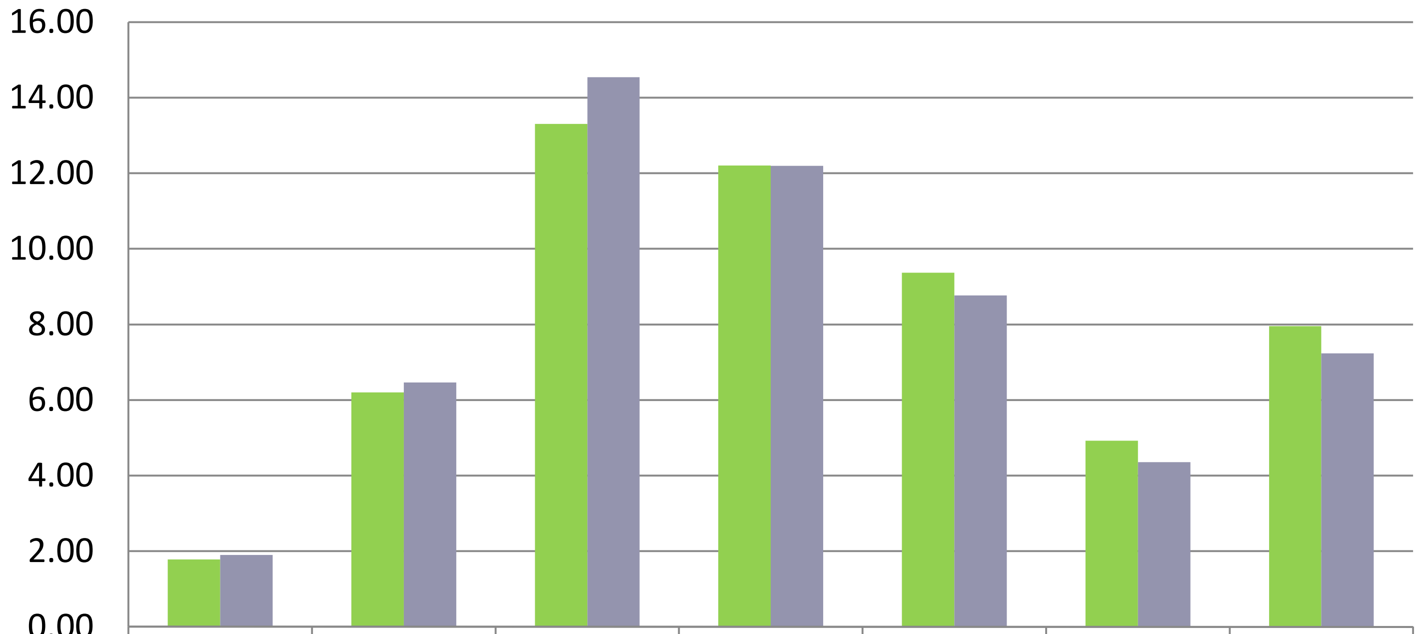
April 30th 2013 Asset Allocation

The decision to decrease the Investment Grade allocation at the start of the FY has generated approximately **$185 million** of increased value for the Fund.

Asset Class	Sub-Category	6/30/2012 Allocation	Current Allocation	Lower Limit	FY 2013 Target	Upper Limit	Over/Under Weight	Current Assets	FY 2013 Target $	Over/Under Weight $	No.
RISK MITIGATION		**2.10%**	**2.5%**	**0.0%**	**4.0%**	**4.5%**	**-1.54%**	**1,849,648,994**	**3,012,340,043**	**(1,162,691,049)**	1
	Absolute Return HFs	2.10%	2.5%		4.0%		-1.54%	1,849,648,994	3,012,340,043	(1,162,691,049)	2
LIQUIDITY		**6.60%**	**8.4%**	**1.0%**	**6.5%**	**9.5%**	**1.93%**	**6,346,199,042**	**4,895,052,570**	**1,451,146,472**	3
	Cash Equivalents	2.10%	5.1%		1.5%		3.58%	3,827,000,000	1,129,627,516	2,697,372,484	4
	TIPS	2.60%	2.6%		2.5%		0.12%	1,970,524,386	1,882,712,527	87,811,859	5
	US Treasuries	1.80%	0.7%		2.5%		-1.77%	548,674,656	1,882,712,527	(1,334,037,871)	6
INCOME		**28.70%**	**23.6%**	**22.0%**	**26.0%**	**32.0%**	**-2.44%**	**17,746,152,450**	**19,580,210,280**	**(1,834,057,830)**	7
	Investment Grade Credit	20.10%	14.3%		13.0%		1.27%	10,744,725,511	9,790,105,140	954,620,371	8
	High Yield Fixed Income	3.50%	4.4%		6.0%		-1.56%	3,343,549,703	4,518,510,065	(1,174,960,362)	9
	Credit-Oriented HFs	2.60%	2.7%		4.0%		-1.31%	2,022,368,752	3,012,340,043	(989,971,291)	10
	Debt-Related PE	1.00%	1.0%		1.5%		-0.51%	745,613,119	1,129,627,516	(384,014,397)	11
	P&F Mortgage	1.40%	1.2%		1.5%		-0.32%	889,895,365	1,129,627,516	(239,732,151)	12
REAL RETURN		**7.40%**	**7.7%**	**7.5%**	**9.5%**	**17.5%**	**-1.83%**	**5,775,062,342**	**7,154,307,602**	**(1,379,245,260)**	13
	Commodities/RA	2.80%	2.8%		4.0%		-1.23%	2,088,816,409	3,012,340,043	(923,523,634)	14
	Real Estate	4.60%	4.9%		5.5%		-0.61%	3,686,245,933	4,141,967,559	(455,721,626)	15
GLOBAL GROWTH		**55.20%**	**57.5%**	**49.0%**	**54.0%**	**59.0%**	**3.48%**	**43,286,084,269**	**40,666,590,581**	**2,619,493,688**	16
	US Equity	25.60%	26.6%		23.8%		2.77%	20,011,653,130	17,923,423,256	2,088,229,874	17
	Non-US Dev Market Eq	13.60%	13.1%		12.5%		0.61%	9,871,772,763	9,413,562,635	458,210,129	18
	Emerging Market Eq	6.10%	6.9%		7.0%		-0.12%	5,178,868,513	5,271,595,075	(92,726,562)	19
	Equity-Oriented HFs	3.10%	3.9%		4.5%		-0.61%	2,929,184,758	3,388,882,548	(459,697,790)	20
	Buyouts/Venture Cap	6.80%	7.0%		6.2%		0.83%	5,294,605,105	4,669,127,067	625,478,038	21
OTHER	Other Assets	0.10%	0.4%		0.0%		0.41%	305,353,979	0	305,353,979	22
							Total	**75,308,501,076**			

Based on estimated values

Total Fund ex Police and Fire Mortgages Performance as of April 30, 2013



	1 Month	CYTD	FYTD	1 Year	3 Year	5 Year	10 Year
Total Fund ex Police & Fire	**1.78**	**6.20**	**13.31**	**12.21**	**9.37**	**4.92**	**7.95**
Benchmark	**1.90**	**6.47**	**14.54**	**12.20**	**8.77**	**4.36**	**7.24**

- The Total Fund ex Police and Fire Mortgages returned 1.78% in April to bring the Fiscal Year to Date return to 13.31% and the Calendar Year return to 6.20%. The Fund has produced a positive return in 9 of 10 months this fiscal year, with the only exception being a -0.11% return in October.
- The Fund is ahead of the benchmark for the 1, 3, 5 and 10 year return.
- The Fund has underperformed the FY13 benchmark by 123 basis points for the fiscal year, however, when adjusting the Fund's return to account for performance reporting lags, the Division estimates the underperformance is 50 to 75 basis points. When compared to the FY12 benchmark and adjusting for lags, the Fund has outperformed by an estimated 25 basis points.

Based on estimated values

Performance Update

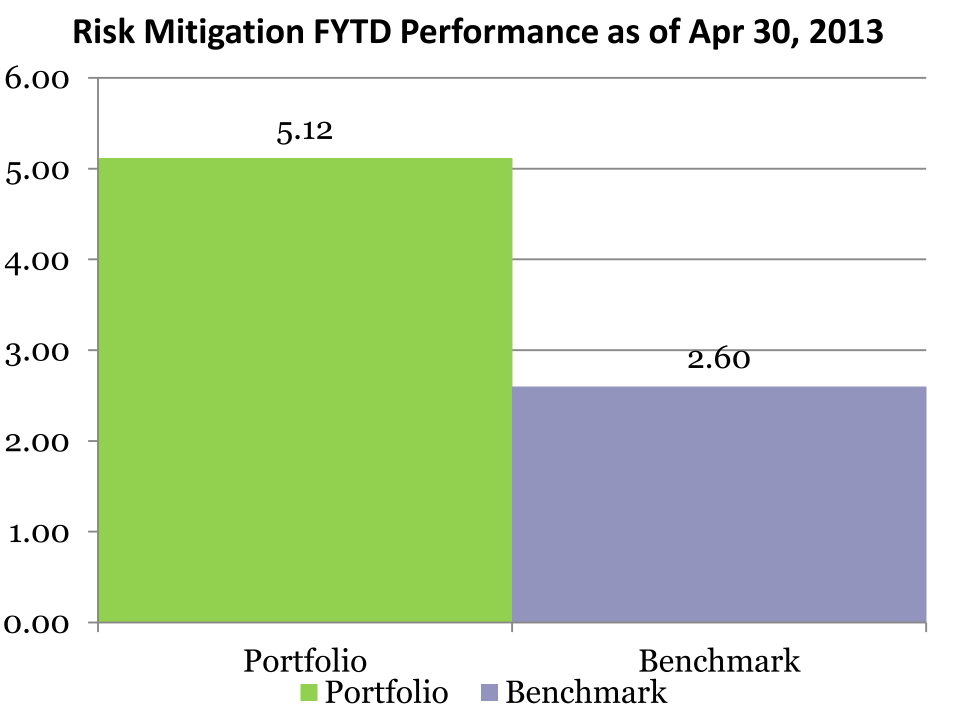
Positive Attribution:

- The Fund's overweight to public equities relative to the target allocation continues to be the largest positive contributor to performance as it has been the best performing segment of the portfolio.
- The Fund's underweight to Absolute Return hedge funds relative to the target allocation has positively impacted performance. These funds have outperformed the Risk Mitigation benchmark, however performance has lagged equity and credit markets.
- The Fund's High Yield portfolio has exceeded the benchmark as both the alternative high yield investments and the public high yield advisors have outperformed.
- The Fund's underweight to Real Assets and Commodities relative to the target allocation has been positive for performance as these segments have underperformed equities and credit.

Negative Attribution:

- While the Fund's Liquidity portfolio has outperformed the benchmark, the overweight to this category relative to the target allocation has been a drag on performance as cash, Treasuries, and TIPS have underperformed equity and credit markets.
- The Fund's overweight to Investment Grade Credit and underweight to High Yield relative to the target allocations has negatively impacted performance as the later has outperformed the former by approximately 700 bps. It should be noted that the overweight to the benchmark has been reduced by approximately $3.4 billion FYTD.
- Emerging Market ETFs have negatively impacted performance as they have underperformed the benchmark and the advisers.
- The Real Return portfolio has underperformed the benchmark as the portfolio's make-up differs from that of the benchmark fairly significantly.

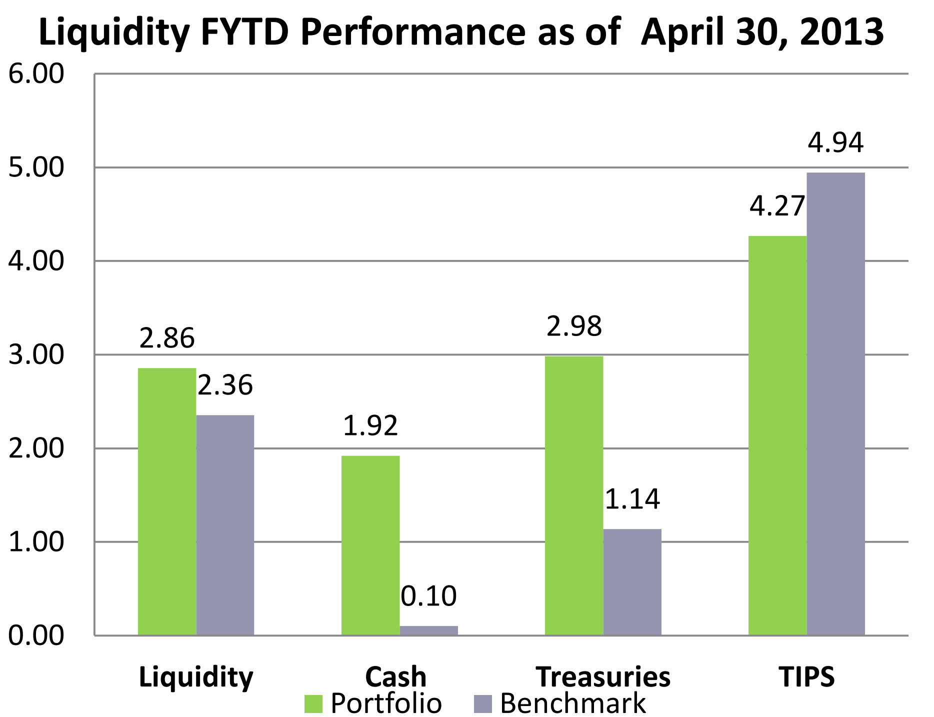
Based on estimated values



Returns as of Apr 30, 2013	1 Month	CYTD	3 Month	FYTD	1 Year
Absolute Return Hedge Funds	0.61	4.31	3.05	5.12	5.11
Fund of Fund Lag	0.90	4.59	3.36	6.89	4.78
Difference	(0.29)	(0.28)	(0.31)	(1.77)	0.32

- The Risk Mitigation return is composed largely of the returns of the Absolute Return Hedge Funds. The returns are generally reported on a one month lag for direct funds and one to two months for fund of funds.
- The Absolute Return Hedge Funds as a group have returned 5.12% FYTD and 4.31% CYTD in what has been a challenging environment for macro oriented managers. While the return is below the HFRI Fund of Funds Index, the portfolio has outperformed the HFRI Macro Index. The portfolio has also outperformed the T Bills plus 300 basis points Risk Mitigation benchmark.
- The Fund's underweight to the Risk Mitigation category against the target allocation has positively contributed to performance as equities and credit have outperformed.

Based on estimated values

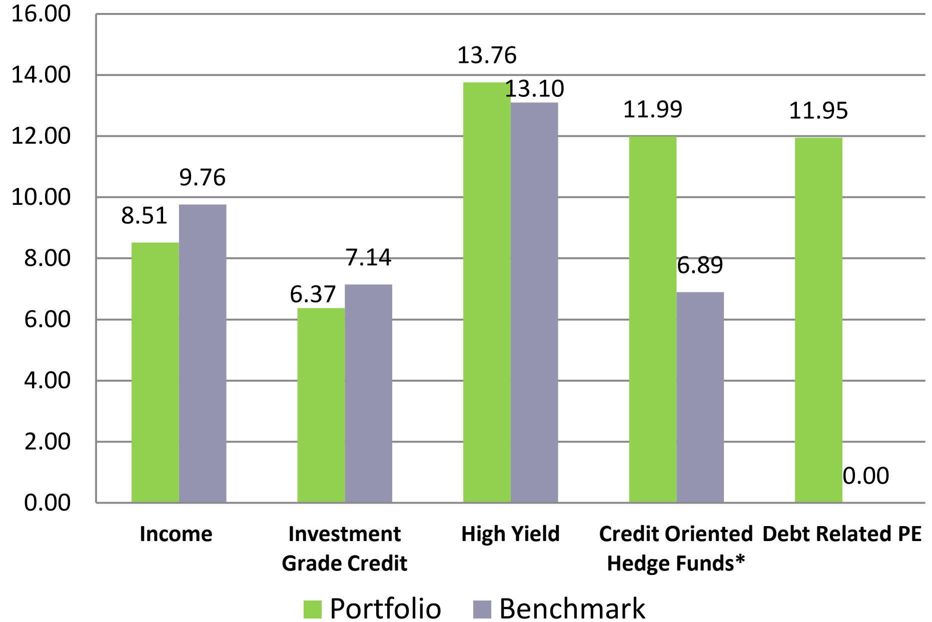


Returns as of April 30, 2013	1 Month	CYTD	3 Month	FYTD	1 Year
Cash Equivalents	0.94	1.19	1.11	1.92	3.13
91 Day Treasury Bill (Daily)	0.01	0.03	0.03	0.10	0.12
Difference	0.93	1.16	1.09	1.82	3.01
Common B High Grade US Treasuries	2.67	2.05	4.69	2.98	7.61
Custom US Treasuries Benchmark	1.92	0.99	2.73	1.14	2.51
Difference	0.75	1.06	1.96	1.85	5.10
TIPS	1.44	0.03	1.55	4.27	8.33
Custom TIPS Benchmark	2.72	0.61	2.59	4.94	6.25
Difference	(1.28)	(0.58)	(1.05)	(0.68)	2.07

- The Liquidity portfolio has outperformed the benchmark by 55 basis points FYTD as two out of three components of the portfolio have exceeded their respective benchmarks.
- An underweight to Treasuries relative to the target allocation has helped performance as TIPs have outperformed nominals, however, an overweight to the Liquidity asset class relative to the target allocation has detracted from Total Fund performance as equities and credit have outperformed.
- Over a trailing one-year period, all segments of the portfolio are well ahead of their respective benchmarks. The Treasuries and TIPs portfolios have benefited from having a longer duration than the benchmark.

Based on estimated values

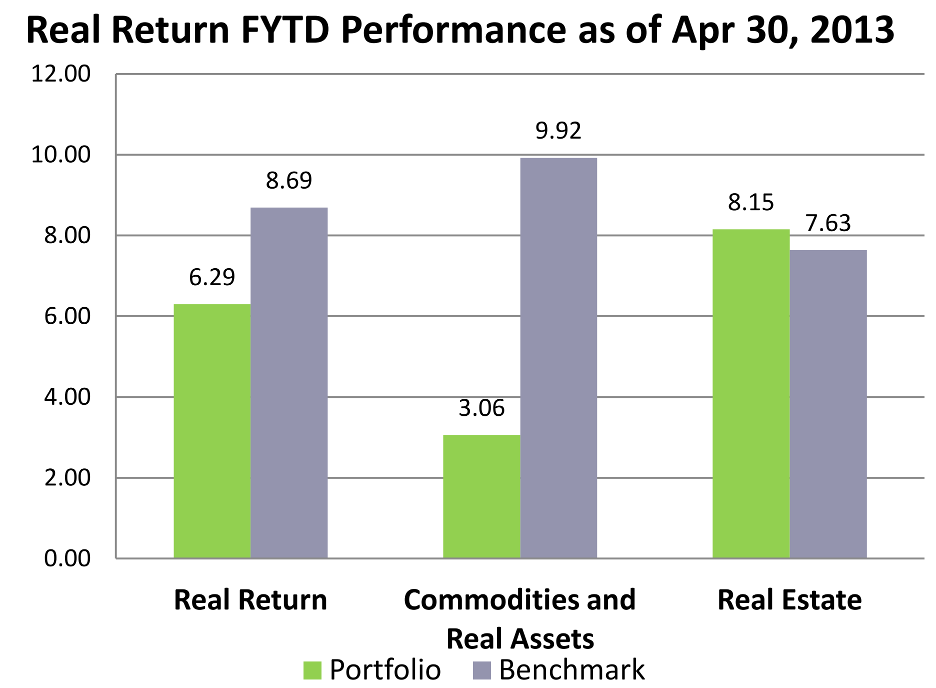
Income FYTD Performance as of April 30, 2013



Returns as of April 30, 2013	1 Month	CYTD	3 Month	FYTD	1 Year
Investment Grade Credit	2.03	2.07	3.32	6.37	8.69
Custom Investment Grade Credit	2.52	1.80	3.16	7.14	8.33
Difference	(0.50)	0.28	0.16	(0.77)	0.36
High Yield	1.11	5.20	3.35	13.76	16.31
Barclays Corp High Yield (Daily)	1.81	4.75	3.37	13.10	13.98
Difference	(0.70)	0.44	(0.02)	0.66	2.33
Credit-Oriented Hedge Funds*	1.97	6.31	5.81	11.99	12.27
Fund of Fund Lag	0.90	4.59	3.36	6.89	4.78
Difference	1.08	1.72	2.44	5.10	7.49
Debt-Related Private Equity	1.86	5.88	4.79	11.95	18.21
Cambridge Associates Private Equity 1 Qtr Lag**					
Difference					

- The Income portfolio has underperformed by 125 basis points FYTD. It is important to note that approximately 20% of the assets in this portfolio are reported on a lag. The high yield, credit oriented hedge fund and debt related PE portfolios are all effected by this lag and the Division believes the return shown for all is negatively impacted by this.
- The Division has reduced the overweight to the Investment Grade Credit portfolio relative to the target allocation by approximately $3.4 billion over the last 12 months and increased the High Yield exposure by almost $1 billion.
- The Investment Grade Credit portfolio has underperformed the benchmark FYTD as the portfolio has lower-beta, higher quality securities and very minimal exposure to the financial sector.
- Both traditional high yield and alternative high yield portfolios have performed well FYTD, up in excess of 13%.

*Reported on a one month lag
** Not available at this time
Based on estimated values

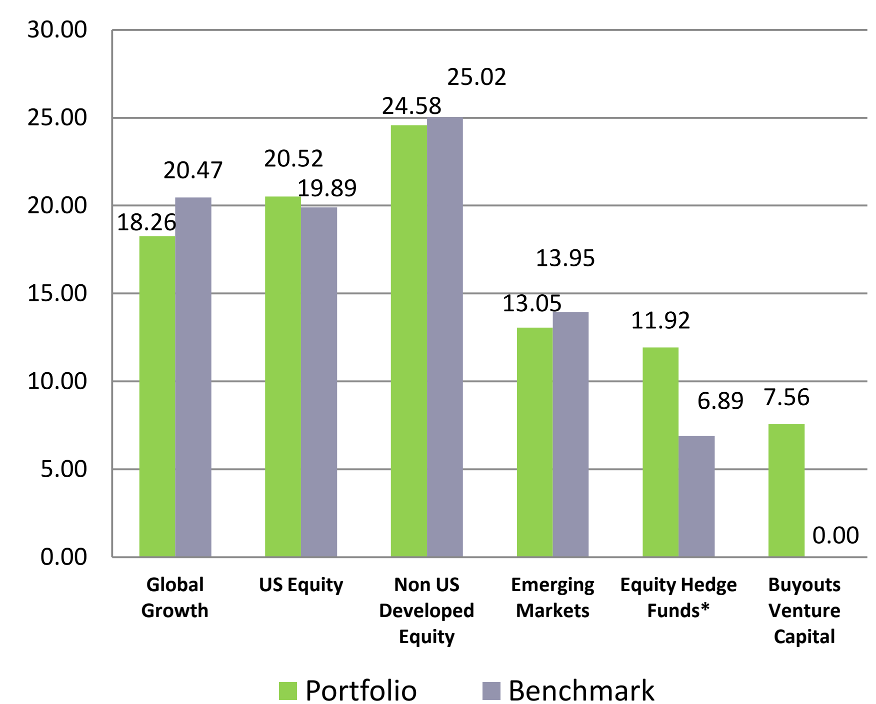


Returns as of April 30, 2013	1 Month	CYTD	3 Month	FYTD	1 Year
Commodities & Real Assets	(1.33)	(1.93)	(2.99)	3.06	(3.07)
SIS Real Return Index	(2.64)	4.01	(1.48)	9.92	2.63
Difference	1.31	(5.95)	(1.51)	(6.87)	(5.70)
Real Estate	0.58	6.05	5.06	8.15	13.04
NCREIF Property Index	0.00	2.57	2.57	7.63	10.52
Difference	0.58	3.49	2.50	0.52	2.52

- The Real Return portfolio underperformed by 240 basis points FYTD, however, since the bulk of the portfolio is reported on a lag, the Division believes the performance of the portfolio is understated.
- Recent performance of the Real Estate Portfolio has been strong relative to the benchmark based on some valuation increases as of year end.
- The Fund’s underweight to Real Return relative to the target weight has been a positive contributor to performance as equity markets have outperformed.
- The Global REIT portfolio is up over 33% FYTD, exceeding the benchmark return by over 500 basis points.

Based on estimated values

Global Growth FYTD Performance as of Apr 30, 2013



Returns as of April 30, 2013	1 Month	CYTD	3 Month	FYTD	1 Year
Domestic Equity	1.69	12.54	7.03	20.52	16.94
S&P 1500 Super Composite (Daily)	1.74	12.81	7.06	19.89	17.07
Difference	(0.05)	(0.28)	(0.03)	0.63	(0.12)
Non-US Dev Market Equity	4.61	10.05	5.05	24.58	17.33
NJDI Iran + Sudan Free EAFE + Canada	4.59	9.91	4.79	25.02	17.98
Difference	0.03	0.14	0.26	(0.44)	(0.65)
Emerging Market Equity	0.89	(1.06)	(1.72)	13.05	5.73
NJDIIran + Sudan Free EM Index	0.88	(0.30)	(1.84)	13.95	5.59
Difference	0.01	(0.76)	0.12	(0.90)	0.14
Total Equity Oriented Hedge Funds*	1.71	7.10	5.18	11.92	9.83
HFRI fund of funds lag	0.90	4.59	3.36	6.89	4.78
Difference	0.81	2.51	1.81	5.03	5.05
Buyouts-Venture Capital	0.92	3.75	3.36	7.56	13.44
Cambridge Associates PE 1 Qtr Lag**					
Difference					

- The Global Growth portfolio has underperformed the benchmark by 221 basis points FYTD. It is important to note that approximately 20% of the assets in this portfolio are reported on a lag. The equity hedge funds and buyouts/VC are affected by this lag and the Division believes the return shown for both is negatively impacted by this.
- The Fund's overweight to Global Growth relative to the target weight, in particular US and Developed non-US equity, has positively impacted Total Fund performance FYTD as publically traded equities have been the best performing segment of the portfolio.
- The Domestic Equity portfolio is now ahead of the benchmark by 63 basis points FYTD while the Developed Market Non US equity portfolio is behind the benchmark by 44 basis points FYTD, as the actively managed portfolio has underperformed.
- The Emerging Markets portfolio trails the benchmark by 90 basis points FYTD as the Adviser portfolios have outperformed by 193 basis points while the ETF portfolio underperformed by 230 basis points.
- The Equity Oriented hedge fund portfolio continues to perform well relative to the HFRI Fund of Fund Index.

*Reported on a one month lag
** Not available at this time
Based on estimated values

Highlights / Upcoming Activity

- Fixed Income duration continues to go lower and now stands at 8.23 years vs. benchmark of 9.57 years.
- Gradually increasing foreign exchange hedging to approximately $350 million currently.
- Real estate secondary sales process proceeding well; in discussion on purchase and sale agreement.
- We have received approximately $1.6 billion (98% of total amount due) from New Jersey municipalities for their fiscal year 2013 employer appropriation contributions.
- $1 billion reallocated from US equity index-like portfolio to US active portfolio.
- Hedged approximately $1 billion of notional equity exposure through puts and put spreads as of May 10th 13.

In the News

WALL STREET JOURNAL

'Joseph A. Dear, Chief Investment Officer of the California Public Employee's Retirement System talks about the performance of his clean-tech energy fund which has so far returned a loss and how that might affect future investments.
"Investing in clean energy has to be more than just a noble way to lose money," says Joseph Dear.'

-WSJ- 3-25-13

WALL STREET JOURNAL

Commodities are coming off their previous "super cycle." (see attached article)

-WSJ- 4-25-13

Pensions&Investments

Princeton University's $17 billion endowment has built a 5.9% cash position, moving almost entirely out of fixed income. (see attached article)

-P&I 3-29-13

Regulators Know Best?

WALL STREET JOURNAL

Dec 12, 1982, Wall Street Journal printed the article "Apple Computer Set to Go Public Today."

Apple Computer Set to Go Public Today; Massachusetts Bars Sale of Stock as Risky

By RICHARD E. RUSTIN
And MITCHELL C. LYNCH
Staff Reporters of THE WALL STREET JOURNAL

Apple Computer Inc. is slated to go public today, amid signs that the current stock market slump may cool some of the investor avidity that had made the offering one of the most eagerly awaited in recent years.

The Cupertino, Calif., maker of microcomputers will sell 4.6 million shares at $22 through an underwriting syndicate headed by Morgan Stanley & Co. and Hambrecht & Quist. The price indicates some degree of confidence on the syndicate's part because it's on the high side of the $20 to $22 range recently estimated for the offering.

Nevertheless, a broker at a major securities firm observed yesterday: "I think Apple will go at a premium, but I don't think it will explode. Take a look at the general market, and you'll see why. We've seen a dropping off of individual interest, and some institutions have pared back their commitments."

Under the Massachusetts ruling, the Apple stock falls short of several provisions aimed at weeding out highfliers that don't have solid earnings foundations. Unless the state later decides otherwise, stockbrokers in Massachusetts won't be able to trade the stock and Masschusetts residents won't be able to buy it.

The Apple offering is registered in 27 states, and an authority on securities law, Prof. Alan Bromberg of Southern Methodist University in Dallas, said that he wouldn't have been surprised to see "a domino effect" with other states following the Massachusetts lead.

One provision of Massachusetts securities law stipulates that the per-share offering price can't exceed 20 times earnings. Apple last year earned 24 cents a share and the $22 offering price is about 90 times earnings.

Officials in California and Ohio, two other states with stringent securities laws, said they didn't plan to bar the offering at this time, but Ohio had looked carefully at such an action.

Reflecting on the Genentech stock offering in October, an official for the Massachusetts securities division said: "If we had it to do over again, we would have barred Genentech." The company, which offered its shares at $35 each, earned two cents a share in 1979.

One firm at first worried about the Massachusetts decision was Nautilus Fund, a closed-end investment company that owns 180,000 unregistered shares of Apple. Nautilus, a highflier itself because of its Apple holdings, plans sometime in the future to register those shares and distribute them to Nautilus holders. "We don't think there will be any problems," Albert L. Toney Jr., Nautilus president, said.

Under terms of the Massachusetts order, the Apple underwriters withdrew the offering from the state, rather than await a formal notice from regulators.

Article: Heard on the Street: Wheels are Falling Off the Supercycle

Updated April 25, 2013, 6:09 a.m. ET

By LIAM DENNING

Have we fallen off the cycle or is the bike broken?

Since 1998, commodities have been in a bull market—the so-called supercycle, where surging demand for raw materials eclipses supply, juicing prices to abnormal highs.

Lately, though, it has been all downhill for commodities. On Morgan Stanley's MS +3.74%recent earnings call, finance chief Ruth Porat characterized this weakness as cyclical rather than structural. But a more fundamental shift appears under way.

Two things underpinned the upswing in industrial commodities. First, low prices discouraged investment in new oil fields and mines through most of the 1980s and 1990s. Second, demand in emerging markets, especially China, jumped.

Neither factor will hold this decade in the way they did during the last.

High prices have encouraged investment in new supply. The most obvious example is the rebound in U.S. oil-and-gas production. Globally, spending on oil-and-gas resources is forecast by consultancy IHS Herold at almost $700 billion this year, more than four times the level of 10 years ago.

Something similar is happening with industrial metals and minerals. Caterpillar CAT +0.12%just cut its guidance, citing weak demand for mining equipment. Excess capacity has weighed on aluminum for years and has started hitting iron ore.

Lately, it's been all downhill for commodities.

Now, copper is starting to feel the effects. Barclays BARC.LN -0.28%estimates global copper supply outpaced consumption last year and will continue to do so at least through 2014, reversing the deficits of 2010 and 2011. Inventories of copper are building, and it is noteworthy that J.P. Morgan Chase and others now want to launch copper-backed exchange-traded funds—one way of wringing profits from piles of idle metal.

Article: Heard on the Street: Wheels are Falling Off the Supercycle (Continued)

Just as supply accelerates, growth in demand has softened. Sluggish growth and enhanced fuel efficiency, especially in the U.S., mean the International Energy Agency expects oil demand in advanced economies in 2017 to be lower than in 1997.

For oil bulls, China is the great offset to this. In the decade ended in 2007, it accounted for 29% of oil-demand growth. Two other centers of growth in oil demand are the former Soviet Union and the Middle East. Looking to 2017, the IEA expects their combined demand to rise faster than China's. Yet these two regions' economies are heavily tied to energy exports, so estimates for their oil consumption rise and fall with China's fortunes.

Oil consumption in China over this decade is unlikely to repeat the surge of the last one, when it almost doubled. In that earlier period, China burned between one and 1.5 barrels of oil per $1,000 of real gross domestic product, according to Raymond James. By 2012, that had slipped below one barrel.

China's GDP growth has slowed as export markets, especially Europe, have weakened. In addition, Beijing is pushing to move the economy away from fixed-asset investment, currently half of GDP, toward consumption, which accounts for only about one-third. This shift will represent a fundamental restraint on growth.

Metals demand could fare even worse in this scenario, given how closely it is tied to China's construction binge. For example, between 2005 and 2010, China accounted for 150% of global copper-demand growth, reflecting declines in other countries. For the period from 2010 to 2014, Barclays estimates that dependency will remain high, with China accounting for 99% of net growth.

The wild card is a potential Chinese "hard landing." Longview Economics points to surging leverage, estimating China's private sector now needs roughly $3 of borrowing to generate $1 of extra GDP, more than 2.5 times the level that prevailed before the financial crisis. The risk of a credit bubble popping, and Chinese economic growth stalling out, is clear.

Article: Heard on the Street: Wheels are Falling Off the Supercycle (Continued)

Facing a more difficult environment in this decade, commodities investors must also face another hard truth: Even the last decade wasn't an unalloyed success.

Funds tracking indexes such as the S&P GSCI present the easiest way to buy a basket of raw materials, often in the form of futures contracts. Problem is, unlike stocks, commodities yield nothing. Indeed, the process of selling expiring futures contracts and buying new ones to maintain positions can impose substantial costs.

The total return on the S&P 500 has beaten three big commodities indexes—the GSCI, the Thomson Reuters Continuous Commodity and Dow Jones-UBS UBSN.VX +1.16%—over one-, two- and five-year periods.

On a six-year-to-15-year span, the Reuters index beat the S&P 500. So an investor who bought the Reuters index anytime between 1998 and 2007, the best of the commodities upswing, would have done better than holding stocks. But even looking back across that period, the S&P 500 still beats the GSCI and, across most time periods, the DJ-UBS indexes, likely reflecting different weightings of commodities in each index.

And, unfortunately, investors' timing hasn't been the best. Of $326 billion, net, that flowed into commodity-linked products between 2000 and 2012, half came between 2008 and 2010, according to Barclays. Loose monetary policy in response to the financial crisis prompted a rush into hard assets, but returns have lagged behind that of stocks.

Plus, as gold's recent selloff showed, investors appear less worried about inflation and more about securing some yield from their assets.

There is still money to be made in commodities. But this will require active management, market knowledge and timing. That is more suited to the skills of specialized traders than the buy-and-hold index investing that took off over the past decade or so. This generation's golden age of commodities is over..

Write to Liam Denning at liam.denning@wsj.com. Corrections & Amplifications The Thomson Reuters Continuous Commodity index is one of the three big commodities indexes. An earlier version of this column incorrectly gave the name as the Thomson Reuters/Jefferies CRB.

Article: Princeton endowment holding cash over bonds

BY AARON CUNNINGHAM | MARCH 29, 2013

Princeton University's $17 billion endowment has built a 5.9% cash position, moving almost entirely out of fixed income, according to a report recently issued by the university's finance and treasury office.

The endowment's target allocation to cash is zero. Fixed-income assets as of June 30 were 0.3%, while the target allocation is 6%.

“The underweight in fixed income should be viewed in conjunction with the cash position, as we consider cash a proxy for fixed-income exposure,” according to the treasurer's report. “We are currently holding cash rather than fixed income due to a combination of exceptionally low yields that U.S. government bonds offer, increased price risk, and decreased 'insurance' functionality.”

The endowment returned 3.1% for the fiscal year ended June 30, outperforming the policy benchmark, which returned 0.9%. Both the endowment and policy benchmark trailed the secondary benchmark of 65% S&P 500 and 35% Barclays Government/Credit indexes, which returned 6.6%.

Domestic equities and “independent return” strategies were top performers in the fiscal year ended June 30. Domestic equities returned 15.8% during the year compared to 3.96% for the Wilshire 5000. Independent return strategies returned 4.3% for the year.

International developed markets and emerging markets equities were the worst performers returning -9.7% and 0.2%, respectively, in fiscal year 2012.

For the 10 years ended June 30, the endowment returned 9.9% annually compared to the policy benchmark of 9.3% and the secondary benchmark of 5.9%. Emerging markets equity and private equity were the leading performers for the 10-year period, annually returning 17.4% and 11.5%, respectively.

Staff at Princeton University Investment Co., which manages the endowment, could not be reached for further comment by press time.

Contact Aaron Cunningham at acunningham@pionline.com | @Cunningham_PI

http://www.pionline.com/article/20130329/REG/130329867/princeton-endowment-holding-cash-over-bonds#

Update on the New Jersey Cash Management Fund
May 2013

Presented by
Linda Brooks,
Senior Portfolio Manager

What is the State of New Jersey Cash Management Fund?

- Short-term liquid investment fund utilized by the State's pension funds, the State of New Jersey for it's daily cash needs, as well as by towns, municipalities, school districts, and agencies and authorities (LGIP) on a voluntary basis
- Investment Manager is the New Jersey Division of Investment; Citibank is Custodian and Transfer Agent

History of the State of New Jersey Cash Management Fund

- In May 1977, the Council promulgated N.J.A.C. 17:16-61 of the Regulations of the Council, which established the State of New Jersey Cash Management Fund due to the need of the State to create a fund to pool and invest it's short-term cash.
- This subchapter establishes the rules governing participation, accounting and investment for the Fund.
- In November 1977, legislation was enacted (P.L. 1977, c. 281) which permitted counties, municipalities, school districts and the agencies or authorities created by any of these entities to participate in the Fund ("Other-than-State" entities).
- The regulations stated that the purposes of the Fund were "to provide a convenient and economical means of investing short-term funds at the best rates available for prudent investments."

Breakdown of the Fund (as of 5/01/2013)

	# of Accounts	Assets
State Accounts		
Pension Funds	11	$0.8 Billion
Other	179	$8.3 Billion
Non-State Accounts	2,684	$3.8Billion
Total Fund	**2,874**	**$12.9 Billion**

Rates of Return (as of 5/01/13)

- State 0.10%
- Non-State 0.04%
- 6 Basis Point difference, consisting of an Administrative Expense Fee of 5 Basis Points and a Reserve Fund Expense Fee of 1 Basis Point, charged only to non-state participants

Permissible Investments

- United States Treasury and Agency Obligations
- Commercial Paper
- Certificates of Deposit
- Short-term Corporate Obligations
- Repurchase Agreements
- Canadian Government Obligations
- Money Market Funds

For CP and CD's, the Division maintains an internal "approved list" with exposure limits for each issuer tied to credit quality

Portfolio as of May 1, 2013

Cash Management Fund

COMM PAPER	29.6%	$3,806,081
GOVT AGENCY	3.9%	$499,750
UST BILLS	51.4%	$6,606,274
UST NOTES	2.3%	$300,000
PROV OF CANADA	0.4%	$50,000
CERTIFICATES OF DEPOSIT	10.8%	$1,385,000
CORPORATE BONDS	1.6%	$209,500
TOTALS	**100.0%**	**$12,856,605**