NEW JERSEY DIVISION OF INVESTMENT

ANNUAL MEETING

State Investment Council

January 25, 2017

"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."

Background: The New Jersey State Investment Council

New Jersey State Investment Council (the "Council")

- **The State Investment Council is responsible for the formulation of policies that govern the investment of funds by the Division of Investment consistent with the fiduciary duties set forth by statute**
    - the Council provides fiduciary oversight for approximately $82 billion in assets managed by the Division
    - the Pension Fund, with $72.9 billion in assets, is the largest fund managed by the Division and overseen by the Council
        - 785,000 participants
        - 51% are still working and contributing to the Fund, 41% are retired, and 8% are active, non-contributing members

- **The State Investment Council is NOT responsible for:**
    - Funding Policy (plan contributions)
    - Benefits Policy (plan design)
    - Actuarial Activities (setting actuarial expected return)

Note: All figures are as of June 30, 2016

Background: The New Jersey Division of Investment

New Jersey Division of Investment (the "Division")

Division of Investment Net Assets Under Management

Assets as of 6/30/16 ($millions)	
Pension Fund	72,940
Cash Management Fund (CMF) (2)	11,849
Deferred Compensation Program Funds (DCP)	494
NJBest Funds (NJBest)	372
Supplemental Annuity Collective Trust (SACT)	202
Trustees For the Support of Public School Fund (TSPSF)	146
Total	**82,003**

Division of Investment "At A Glance"

- 34th largest global pension fund manager (1)
- 17th largest U.S. pension fund manager (1)
- 68 active employees with a $8.8 million personnel budget
- during Fiscal Year 2016, the Division traded:
  - 812 million shares of stock worth $25.8 billion
  - $10.3 billion in fixed income securities
  - $3.7 billion in foreign currency transactions
- during Fiscal Year 2016, the Division earned:
  - $870 million in stock dividends
  - $424 million in bond interest

MISSION STATEMENT

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

Note: All figures are as of June 30, 2016 unless otherwise noted.
(1) Source: *Pensions and Investments* as of December 31, 2015
(2) The total for the CMF includes $4 billion held for and included in the totals for the Pension Fund, the DCP, NJBest, SACT, and TSPSF

NJ Pension Fund Annual Performance: Fiscal Year 2000-2016

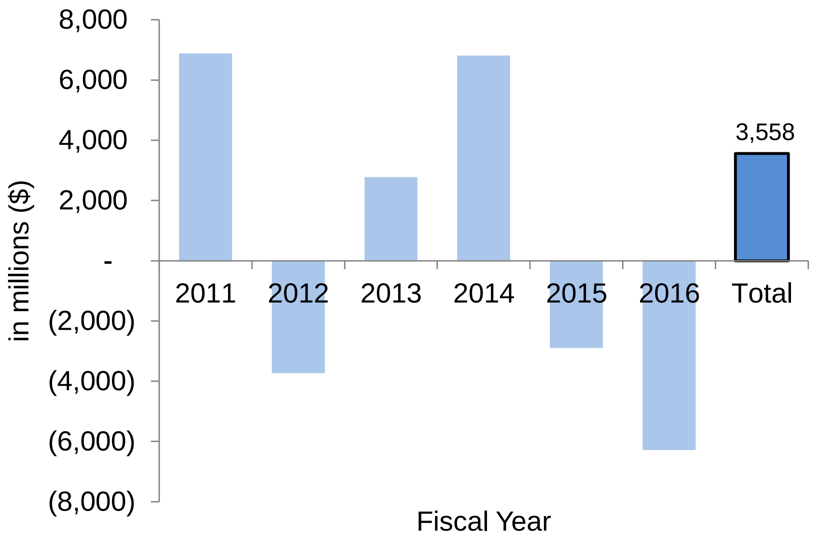
	NJ Pension Fund [1]	Policy Benchmark	Outperformance
FY 2000	11.86%	8.41%	345
FY 2001	-9.80%	-6.71%	-309
FY 2002	-8.61%	-7.25%	-136
FY 2003	3.31%	3.47%	-16
FY 2004	14.16%	14.44%	-28
FY 2005	8.77%	8.07%	70
FY 2006	9.79%	8.13%	166
FY 2007	17.14%	16.49%	65
FY 2008	-2.61%	-6.00%	339
FY 2009	-15.49%	-14.76%	-73
FY 2010	13.34%	13.51%	-17
FY 2011	17.97%	17.03%	94
FY 2012	2.47%	0.26%	221
FY 2013	11.72%	10.96%	76
FY 2014	16.79%	15.79%	100
FY 2015	4.09%	2.93%	116
FY 2016	-0.93%	0.23%	-116
Cumulative Returns	**130.82%**	**113.87%**	**1,695**
Annualized Returns	**5.04%**	**4.57%**	**47**

Since 2000, the NJ Pension Fund has outperformed its Policy Benchmark by 1,695 bps.

(1) Pension Fund returns exclude Police and Fire mortgage program and are unaudited

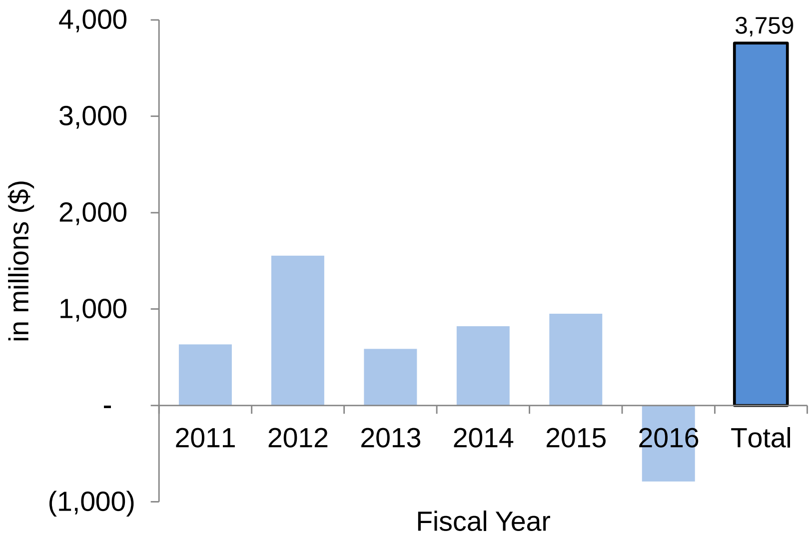
Value Added Through Alpha Generation Over Time

Value Added Outperformance versus Assumption Rate[1]



Over the last six fiscal years, outperformance versus the assumption rate has generated approximately $3.6 billion of additional value for the Pension Fund.

Value Added Outperformance versus Policy Benchmark[1]



Over the last six fiscal years, outperformance versus the Total Fund Policy Benchmark has generated approximately $3.8 billion of additional value for the Pension Fund.

Notwithstanding disappointing absolute and relative returns during FY16, the Fund has added value over the longer term relative to both the statutory assumption rate (currently 7.9%) and the Policy Benchmark.

(1) Based on average fund balances for each fiscal year and unaudited FY16 Total Fund return

Long-Term Capital Market Returns

	Annualized Returns for Periods Ending December 31, 2016 (%)				
	One Year	Three Years	Five Years	Ten Years	Fifteen Years
Global Equity Indices					
MSCI All Country World Index	7.87	3.13	9.35	3.56	5.92
US Equity Indices					
Russell 3000	12.72	8.42	14.65	7.06	7.09
Russell 1000	12.04	8.58	14.67	7.07	6.98
Russell 2000	21.28	6.73	14.44	7.05	8.46
Russell Growth	7.38	8.25	14.42	8.28	6.49
Russell Value	18.38	8.54	14.80	5.74	7.52
Non-US Equity Indices					
MSCI EAFE	1.00	-1.60	6.53	0.75	5.28
MSCI Emerging Markets	11.19	-2.55	1.27	1.84	9.49

Source: Bloomberg

Long-Term Capital Market Returns (continued)

	Annualized Returns for Periods Ending December 31, 2016 (1) (%)				
	One Year	Three Years	Five Years	Ten Years	Fifteen Years
Fixed Income Indices					
BarCap Aggregate	2.65	3.03	2.23	4.34	4.58
BarCap U.S. Treasury	1.04	2.29	1.20	3.97	4.19
BarCap U.S. Credit	5.63	4.06	3.84	5.31	5.50
BarCap U.S. High Yield	17.13	4.66	7.36	7.45	8.35
Commodities					
Bloomberg Commodities Index	11.40	-11.37	-9.05	-6.22	-0.11
Private Equity					
Cambridge Global Private Equity and VC Index	8.51	11.50	12.66	10.20	11.03
Real Estate					
NCREIF Property Index	9.22	11.31	11.18	7.22	8.93
Bloomberg REIT Index	9.00	13.22	11.99	4.98	10.47
Hedge Funds					
HFRI Composite Index	5.51	2.42	4.52	3.36	5.42

(1) Hedge Fund returns are preliminary as of January 19, 2017; Private Equity and Real Estate (NCREIF) returns are presented with a one quarter lag
Source: Bloomberg, Cambridge Associates, Hedge Fund Research, Inc., and National Council of Real Estate Investment Fiduciaries

Ten Year Periodic Table of Returns

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 (1)	2007 - 2016 (1)
EM 39.42	Treasuries 13.74	EM 78.51	EM 18.88	Real Estate 14.27	EM 18.17	R3000 33.57	R3000 12.55	Real Estate 13.47	High Yield 17.13	Private Equity 10.20
Private Equity 22.66	Corporates -3.07	High Yield 58.21	Private Equity 18.77	Treasuries 9.81	EAFE 17.27	EAFE 22.78	Real Estate 11.81	Private Equity 7.94	R3000 12.72	High Yield 7.45
Real Estate 15.83	Real Estate -6.46	EAFE 31.78	R3000 16.92	Corporates 8.35	R3000 16.37	Private Equity 20.05	Private Equity 10.25	Treasuries 0.84	Commodities 11.40	Real Estate 7.22
EAFE 11.17	Hedge Funds -19.03	R3000 28.29	Commodities 16.67	Private Equity 7.70	High Yield 15.77	Real Estate 10.99	Corporates 7.53	R3000 0.47	EM 11.19	R3000 7.06
Commodities 11.08	Private Equity -25.76	Hedge Funds 19.98	High Yield 15.12	High Yield 4.98	Private Equity 13.35	Hedge Funds 9.13	Treasuries 5.05	Corporates -0.77	Real Estate 9.22	Corporates 5.31
Hedge Funds 9.96	High Yield -26.09	Commodities 18.72	Real Estate 13.11	R3000 1.03	Real Estate 10.54	High Yield 7.44	Hedge Funds 2.98	EAFE -0.81	Private Equity 8.51	Treasuries 3.97
Treasuries 9.01	Commodities -36.53	Private Equity 16.76	Hedge Funds 10.25	Hedge Funds -5.25	Corporates 9.34	Corporates -2.01	High Yield 2.45	Hedge Funds -1.02	Corporates 5.63	Hedge Funds 3.36
R3000 5.17	R3000 -37.24	Corporates 16.04	Corporates 8.47	EAFE -12.14	Hedge Funds 6.36	EM -2.60	EM -2.19	High Yield -4.47	Hedge Funds 5.51	EM 1.84
Corporates 5.11	EAFE -43.29	Treasuries -3.57	EAFE 7.75	Commodities -13.37	Treasuries 1.99	Treasuries -2.75	EAFE -4.90	EM -14.92	Treasuries 1.04	EAFE 0.75
High Yield 1.87	EM -53.24	Real Estate -16.86	Treasuries 5.87	EM -18.42	Commodities -1.14	Commodities -9.58	Commodities -17.04	Commodities -24.70	EAFE 1.00	Commodities -6.22

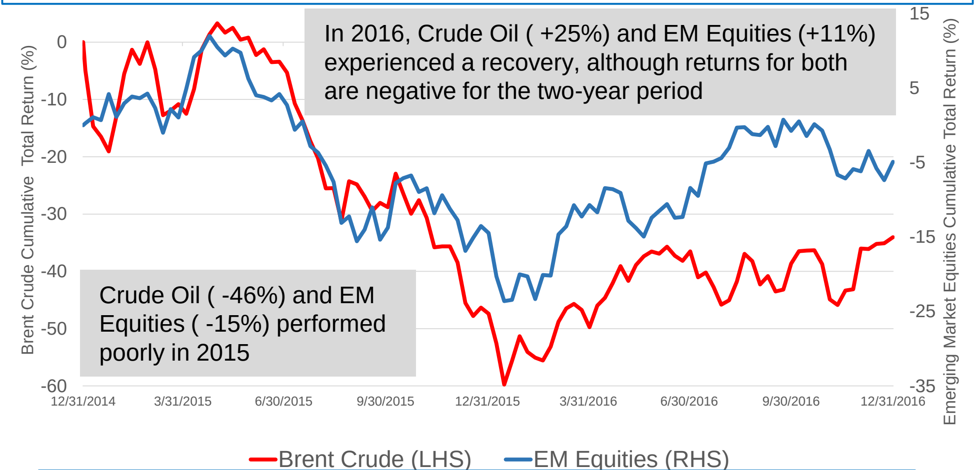
Over the past ten years, Private Equity has been the best performing asset classes, while Commodities has been the worst performing asset class. The wide variation of returns amongst asset classes in each of the past ten years demonstrates the important role of diversification in asset allocation.

(1) 2016 Hedge Fund returns are presented preliminary as of January 19, 2017;
2016 Private Equity (PE) and Real Estate (RE) returns reflect one year ended 9/30/16; 2007-2016 PE and RE returns reflect ten years ended 9/30/16

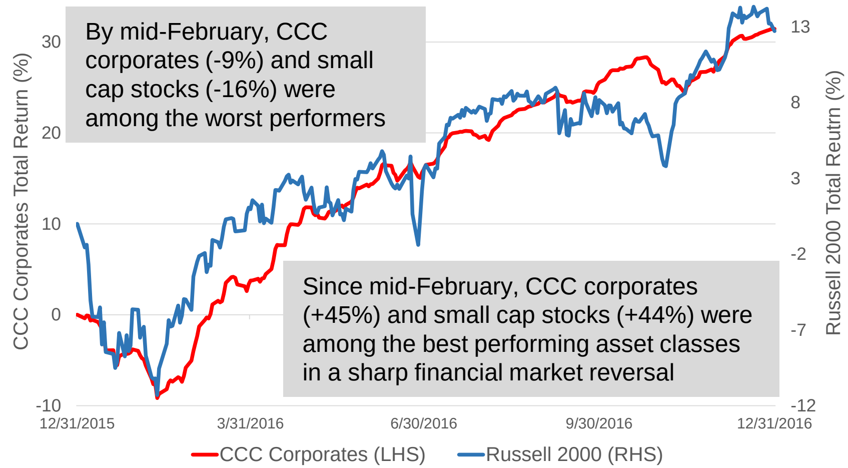
Source: Bloomberg, Cambridge Associates, Hedge Fund Research, Inc., and National Council of Real Estate Investment Fiduciaries

Favorable Financial Market Returns Were Led by Higher Risk Asset Classes in 2016

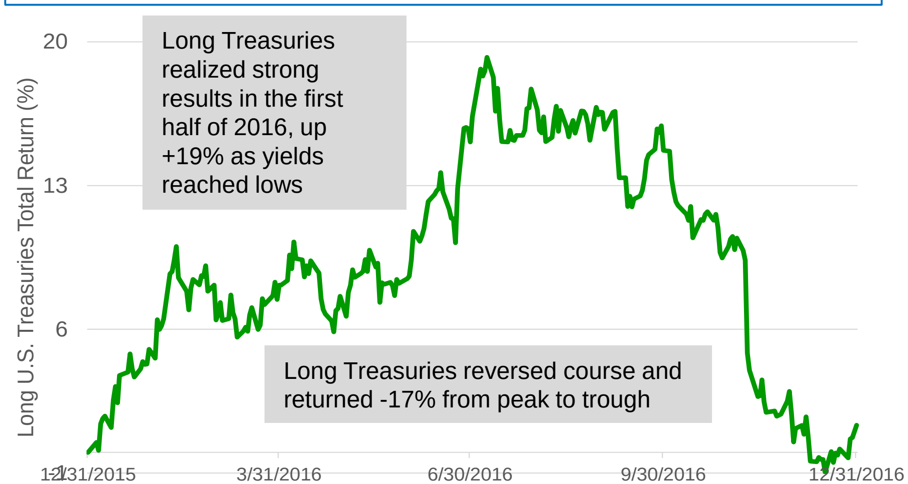
The worst performers for 2015 were the best performers for 2016



Higher risk asset classes outperformed in 2016



The "flight-to-quality" trade reversed sharply in 2016



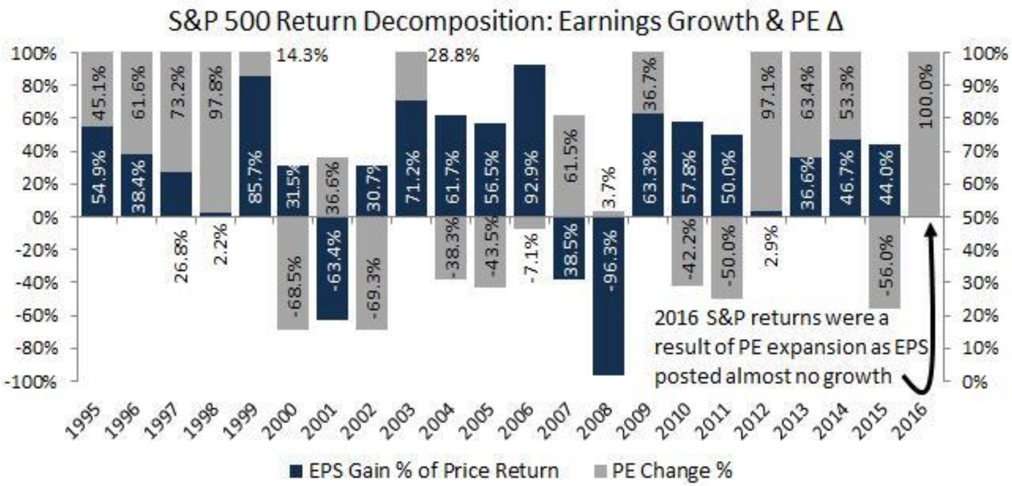
The worst performing asset classes of 2015 were among the best performing in 2016. During 2016, a "flight-to-quality" investment theme transitioned into a "risk-on" theme. In this environment, absolute returns were favorable across most asset classes, with higher risk assets outperforming. Equities outperformed fixed income. Small cap equities outperformed large cap equities. Emerging markets outperformed developed markets. High Yield fixed income outperformed investment grade. Corporate bonds outperformed Treasuries.

In contrast to 2015, higher risk asset classes outperformed in 2016, as markets sharply reversed course in February

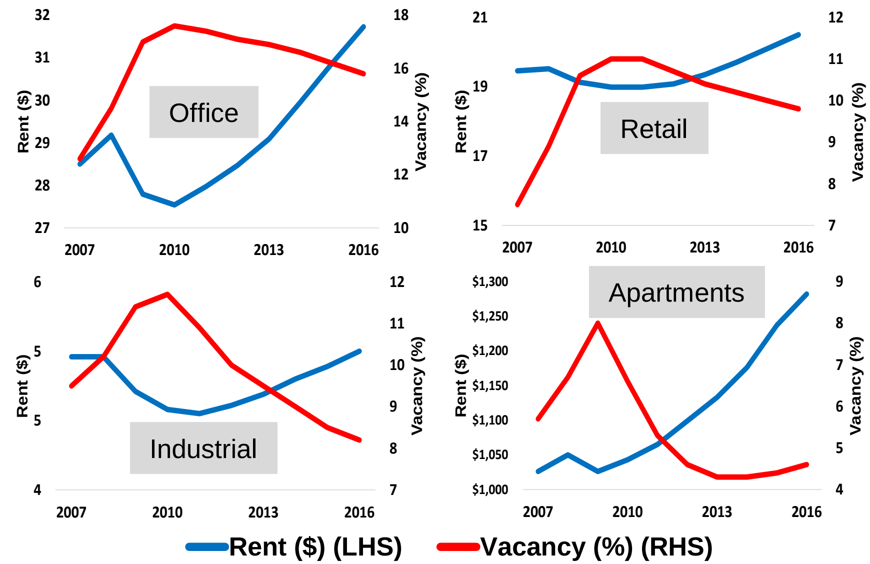
Source: Bloomberg

Favorable Financial Market Returns Were Driven by Valuations in 2016

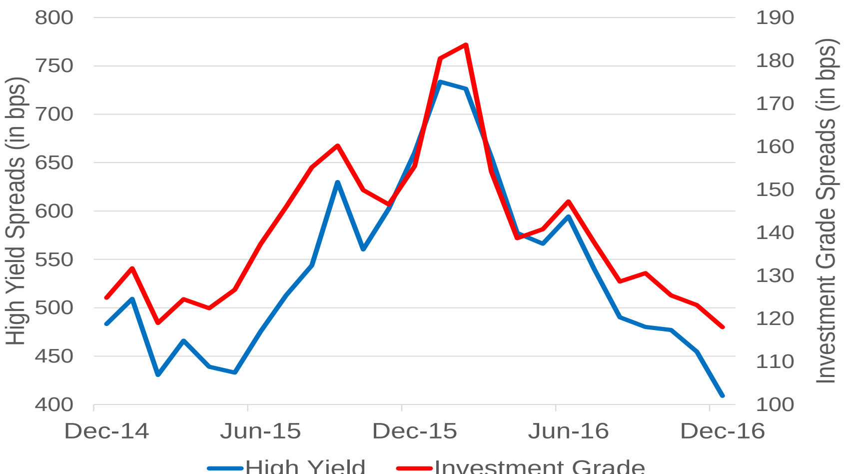
Multiple Expansion Drive Equity Market Returns in 2016



Strengthening Fundamentals Have Supported Strong RE Returns



A credit spread widening trend sharply reversed in 2016



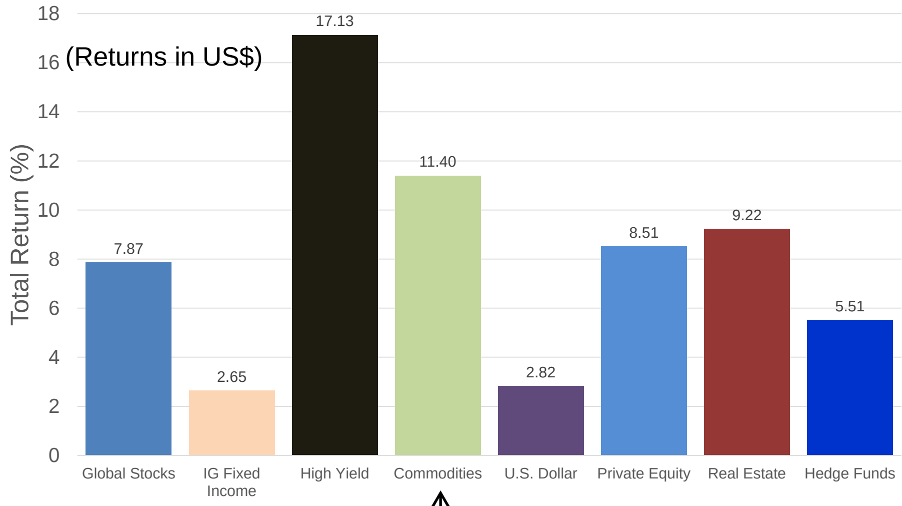
During 2016, the U.S. Equity market's strong returns coincided with little earnings growth. On the fixed income side, high yield was the best performing asset class as spreads narrowed sharply following a very challenging period in 2015. In recent years, real estate returns have been favorable on a more consistent basis. The attractive returns profile for real estate has been supported by a more stable pattern of improving fundamentals.

During 2016, strong equity market returns were the result of multiple expansion and strong credit market returns were the result of spread compression

Source: Bloomberg, Evercore ISI and RVK

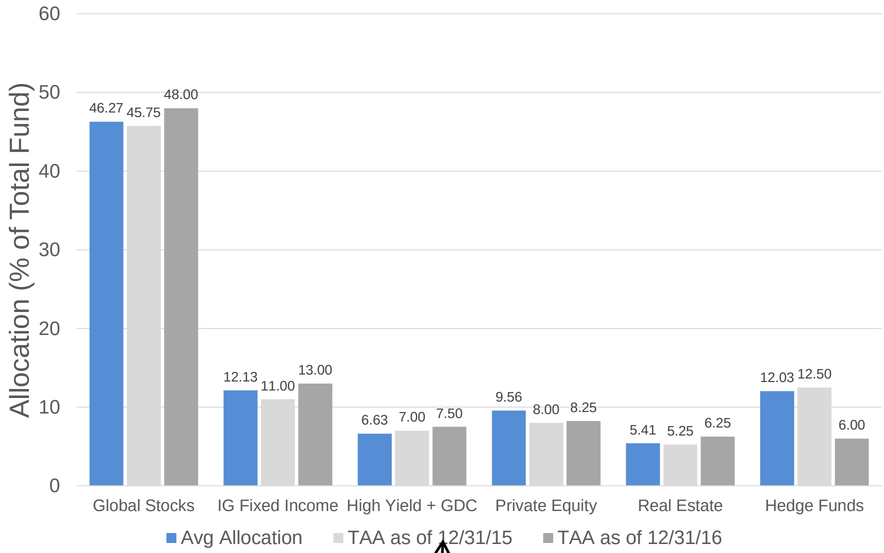
Calendar Year 2016 Capital Markets Review: Multi-Asset Class Returns

2016 Select Capital Market Returns [1]



During 2016, High Yield (+17.13%), Commodities (+11.40%) and Global Stocks (+7.87%) realized strong returns following negative returns the prior year. 2016 marked the seventh consecutive year of favorable returns for Private Equity (+8.51%) and Real Estate (+9.22%). In this environment, Fixed Income (+2.65%) broadly realized modestly positive returns.

2016 NJ Asset Allocation



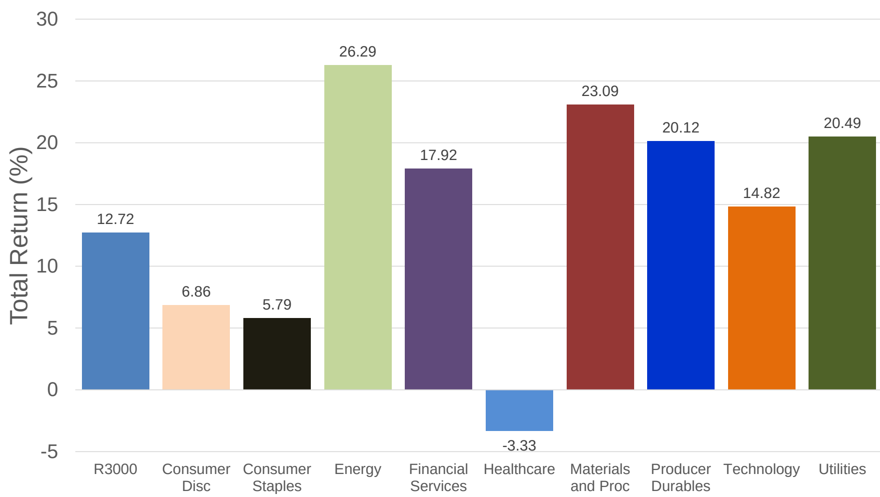
The above Policy Benchmark allocation to Private Equity proved favorable during 2016. The Fund has also benefited from an increased allocation to High Yield and Real Estate. The allocation to Hedge Funds will move towards the TAA over time as redemptions are realized.

During 2016, most broad asset classes realized attractive returns, led by High Yield, Commodities, Real Estate, Private Equity and Global Stocks. Broadly speaking, investor demand for "risky" assets somewhat tempered returns for Fixed Income.

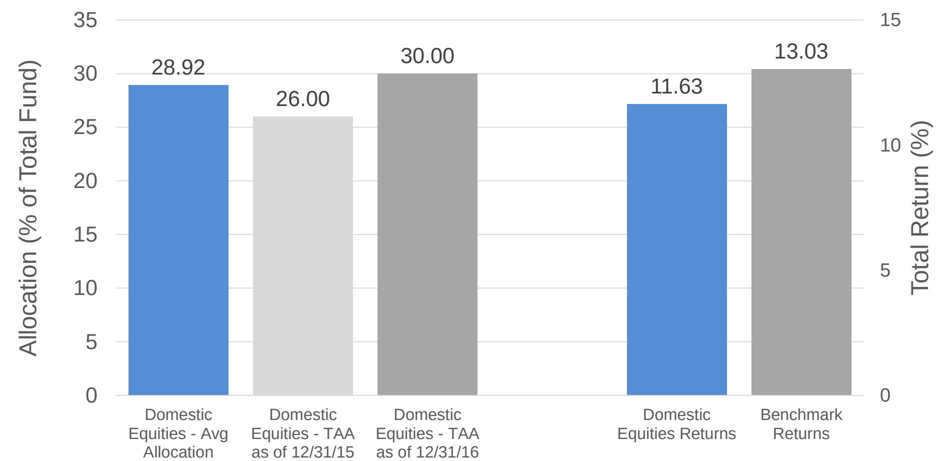
(1) Hedge Fund returns are presented preliminary as of January 19, 2017; Private Equity (PE) and Real Estate (RE) returns reflect one year ended 9/30/16
Source: Bloomberg, Cambridge Associates, Hedge Fund Research, Inc., National Council of Real Estate Investment Fiduciaries, and State Street

Calendar Year 2016 Capital Markets Review: US Equity Sector Returns

2016 Select Capital Market Returns



2016 NJ Asset Allocation and Returns



U.S. Equities realized strong returns (+12.72%) during 2016, led by Energy (+26.29%) as oil prices recovered from multi-year lows. Healthcare, in contrast, realized negative returns (-3.33%), adversely impacted by political concerns during an election year.

During 2016, the Fund benefited from a move to a higher Targeted Asset Allocation (TAA) for U.S. Equities (from 26% to 30%). While returns were favorable on an absolute return basis, the U.S. Equity portfolio underperformed the benchmark index (+11.63% vs. +13.03%), primarily as a result of sector allocation, with below market weightings in energy and financials.

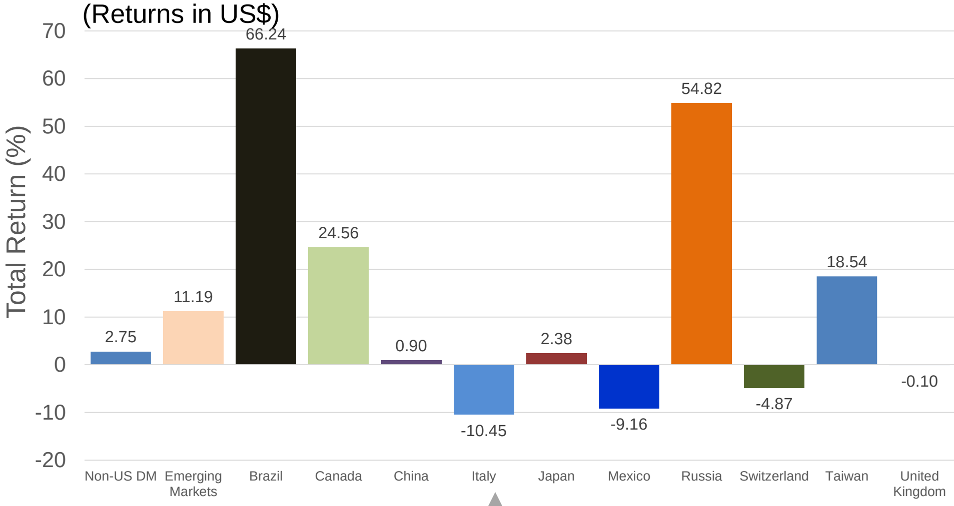
U.S. Equities performed well during 2016, led by Energy, Materials, and Producer Durables. An increased allocation to U.S. Equities led to higher returns for the Pension Fund over the past year.

Source: Bloomberg and State Street

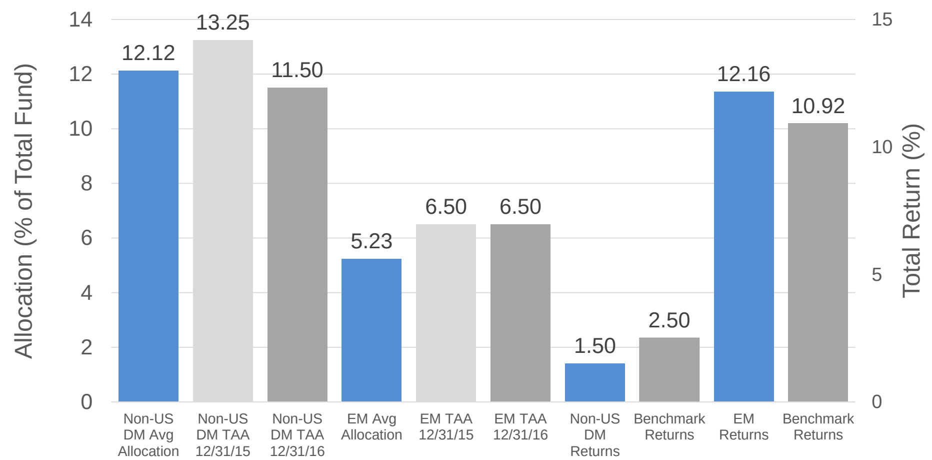
Note: Fund returns are unaudited. Both the Fund and Benchmark returns are based on preliminary values.

Calendar Year 2016 Capital Markets Review: International Equity Returns

2016 Select Capital Market Returns



2016 NJ Asset Allocation and Returns



During 2016, Emerging markets (EM) significantly outperformed Developed Markets(DM) by 845 bps (11.19% vs 2.75%), led by strong returns in Brazil (+66.24%) and Russia (54.82%). Canada (+24.56%) realized a strong rebound as energy prices rallied. Mexico (-9.16%), in contrast, faced political headwinds and a weak currency while Switzerland (-4.87%) was adversely impacted by the weak healthcare sector.

Within Int'l Equities, the TAA for DM was reduced from 13.25% to 11.50%, while the allocation for EM was unchanged, at 6.5%. The greater emphasis put on EM benefited the Pension Fund, as EM outperformed. Within EM, active management added value as the EM portfolio outperformed the benchmark index by 124 basis points (+12.16% vs. +10.92%).

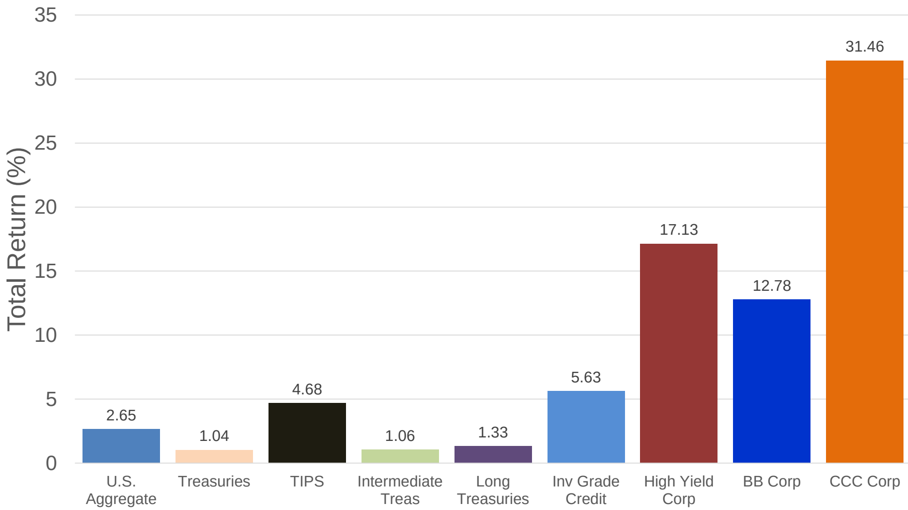
A rebound in valuations for Emerging Markets led to strong outperformance relative to Developed Markets. Within the International Equities portfolio, an increased emphasis on EM favorably impacted the Fund.

Source: Bloomberg and State Street

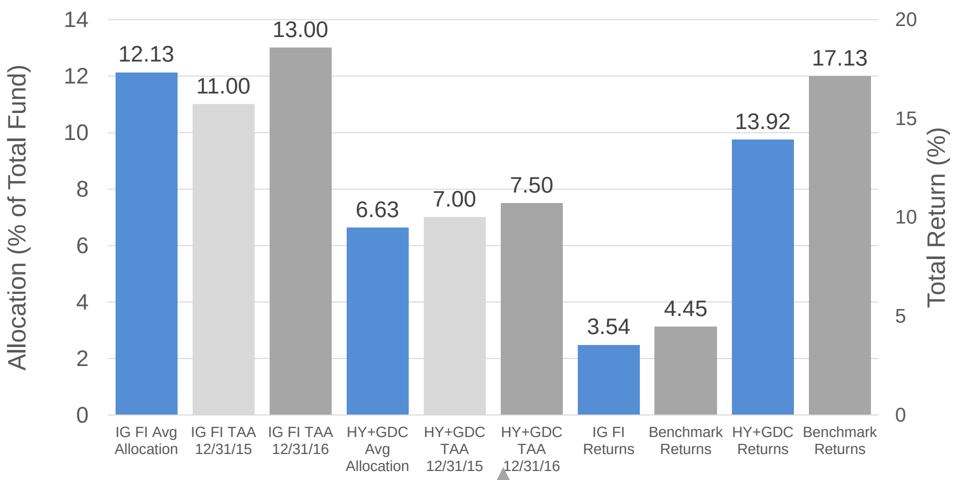
Note: Fund returns are unaudited. Both the Fund and Benchmark returns are based on preliminary values.

Calendar Year 2016 Capital Markets Review: Fixed Income Returns

2016 Select Capital Market Returns



2016 NJ Asset Allocation and Returns



Broadly speaking, Fixed Income (+2.65%) returns were modestly positive during 2016. Lower quality fixed income sharply outperformed as risky assets rallied. CCC corporates (+31.46%) outperformed Treasuries (+1.04%) by more than 30%.

The TAA to Investment Grade Fixed Income (IG FI) moved higher, from 11% to 13%, marking the first increase in the targeted allocation in the past six years. During 2016, the Fund also benefited from a move to a higher TAA (from 7% to 7.5%) for High Yield and Global Diversified Credit (HY+GDC). While returns were favorable on an absolute return basis, the higher quality structure of the Fixed Income portfolio underperformed the benchmark index as lower quality securities outperformed.

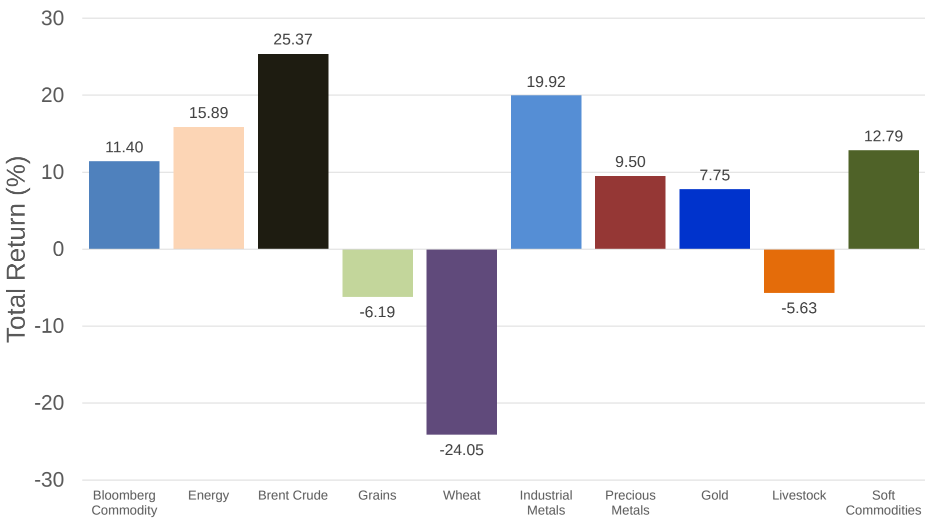
Over the past year, lower quality Fixed Income outperformed higher quality Fixed Income as credit spreads narrowed sharply. The Fund's commitment to High Yield benefited returns.

Source: Bloomberg and State Street

Note: Fund returns are unaudited. Both the Fund and Benchmark returns are based on preliminary values.

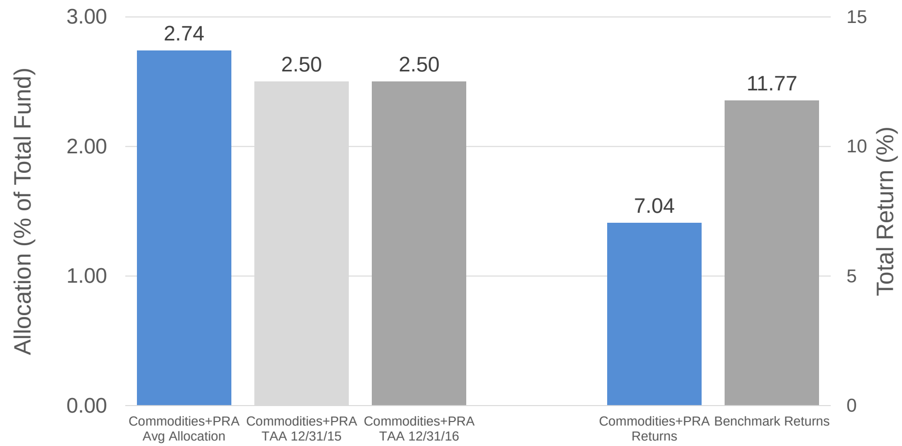
Calendar Year 2016 Capital Markets Review: Commodities Returns

2016 Select Capital Market Returns



During 2016, Commodities (+11.40) broadly realized strong returns, led by gains in Energy (+15.89%), and more specifically Crude Oil (+25.37%) as well as Industrial Metals (+19.92%). Agricultural commodities, in contrast, realized negative returns.

2016 NJ Asset Allocation and Returns



The targeted allocation to Commodities was eliminated in 2016, offset by an increased allocation to Private Real Assets (PRA). Direct investments in commodities are less likely to improve portfolio efficiency and offer little benefit to the Fund as an inflation hedge. Within PRA, the Fund emphasizes operationally-focused real assets as a more attractive investment structure.

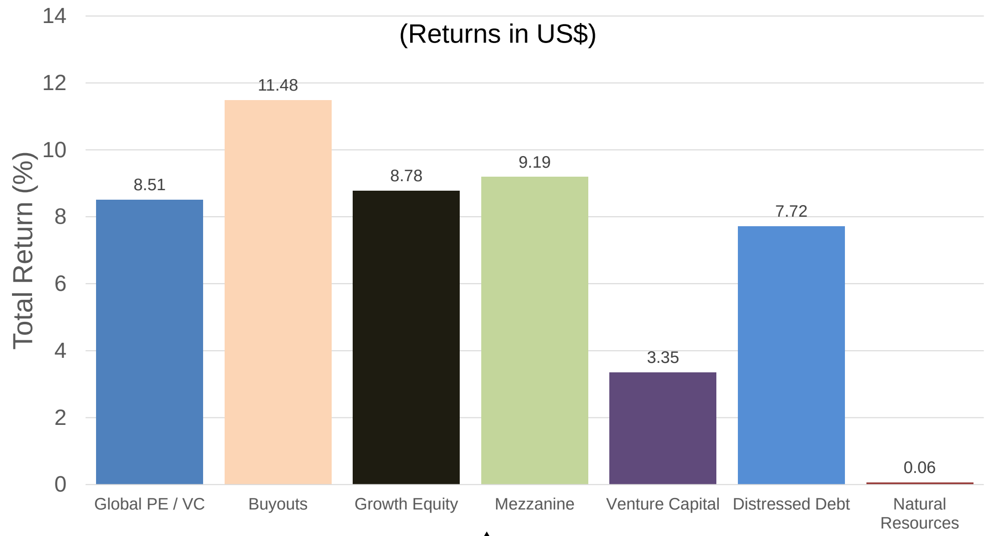
Following five consecutive years of negative returns, Commodities realized strong returns during 2016, led by a sharp rebound in crude oil and industrial metals.

Source: Bloomberg and State Street

Note: Fund returns are unaudited. Both the Fund and Benchmark returns are based on preliminary values.

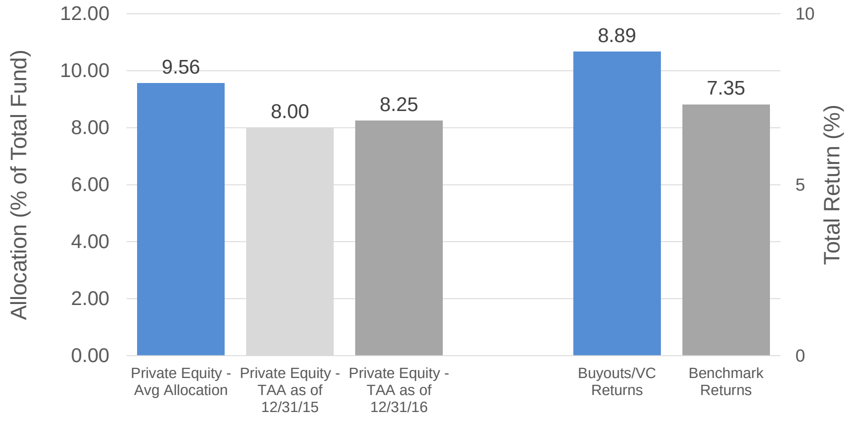
Calendar Year 2016 Capital Markets Review: Private Equity Returns

LTM Ended Sept 30, 2016 Select Capital Market Returns



Global Private Equity (+8.51%) generated strong returns during the twelve months ending September 30, 2016. The top performing strategies were Buyouts (+11.48%), Growth Equity (+8.78%) and Mezzanine (+9.19%). High exit multiples and attractive financing markets continued to benefit the asset class.

2016 NJ Asset Allocation and Returns



The above Policy Benchmark allocation to Private Equity proved favorable during 2016. The Division's most recent pacing analysis shows the allocation to Private Equity is expected to gradually move towards the TAA.

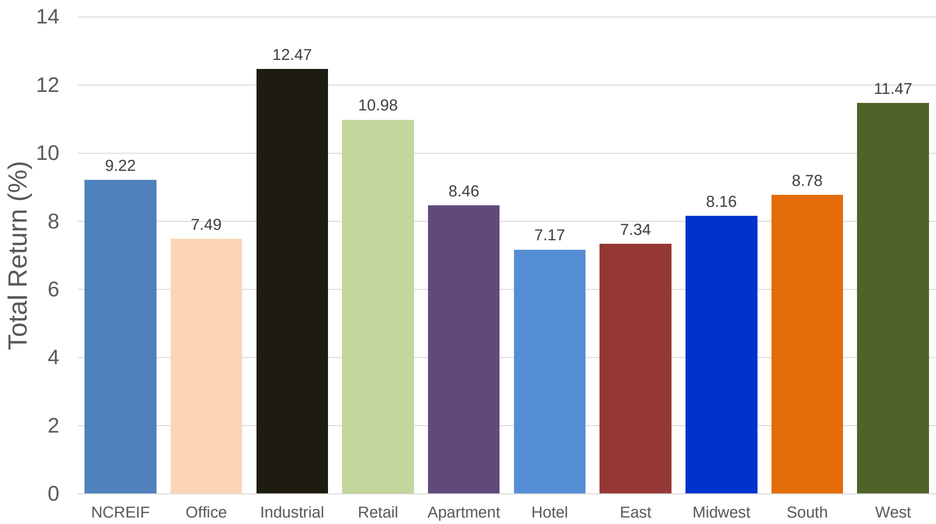
Global Private Equity benefited from high exit multiples and attractive financing markets. Natural Resources, in contrast, underperformed as the market has yet to fully recover from the effects of weak energy prices that were reached early in 2016.

Source: Cambridge Associates and State Street

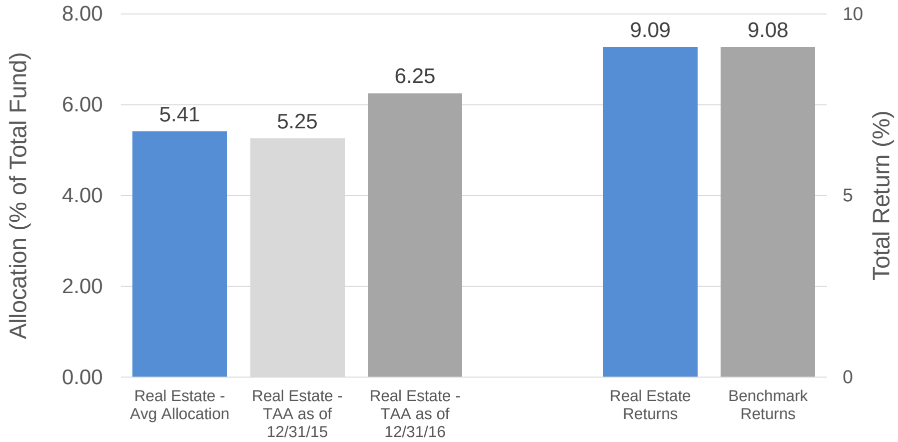
Note: Fund returns are unaudited. Both the Fund and Benchmark returns are based on preliminary values.

Calendar Year 2016 Capital Markets Review: Real Estate Returns

LTM Ended Sept 30, 2016 Select Capital Market Returns



2016 NJ Asset Allocation and Returns



During the LTM ended September 30, 2016, Real Estate (+9.22%) realized continued strength but at a slower pace versus the prior year. Capitalization rates remained at levels near all-time lows in sectors such as Central Business District Office and Apartment, while Industrial (distribution) properties also exhibited strong performance.

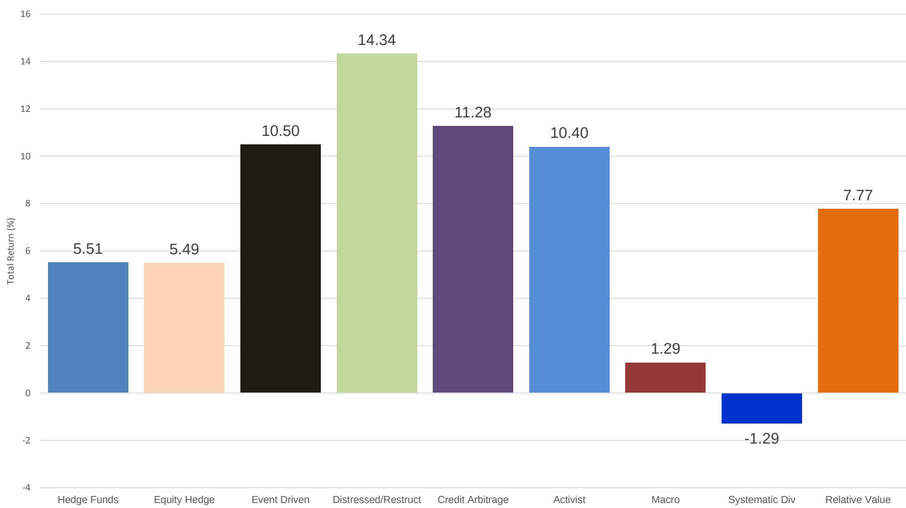
The increased TAA to Real Estate allows for better vintage year diversification, particularly in light of the somewhat less mature profile of the portfolio. Over time, the actual allocation is expected to move towards its target as capital is deployed. During 2016, the Real Estate portfolio performed in line with its benchmark index.

Real Estate continued to realize strong returns as capitalization rates remained low, supply and demand factors proved beneficial and fundamentals remained solid.

Source: National Council of Real Estate Investment Fiduciaries and State Street
Note: Fund returns are unaudited. Both the Fund and Benchmark returns are based on preliminary values.

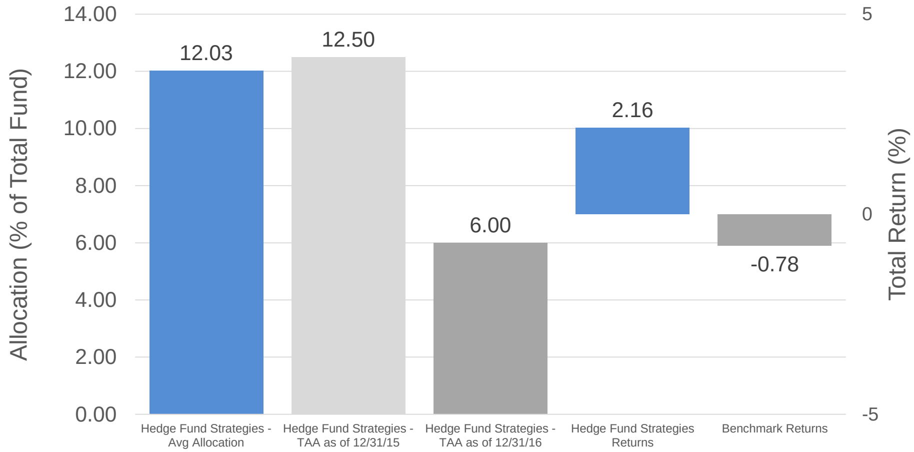
Calendar Year 2016 Capital Markets Review: Hedge Fund Returns

2016 Select Capital Market Returns (1)



During CY16, most hedge fund strategies realized positive performance. Hedge fund strategies with equity or credit beta performed well during 4Q16 as volatility increased, dispersion among names widened and credit markets strengthened, particularly in energy and materials.

2016 NJ Asset Allocation and Returns (1)

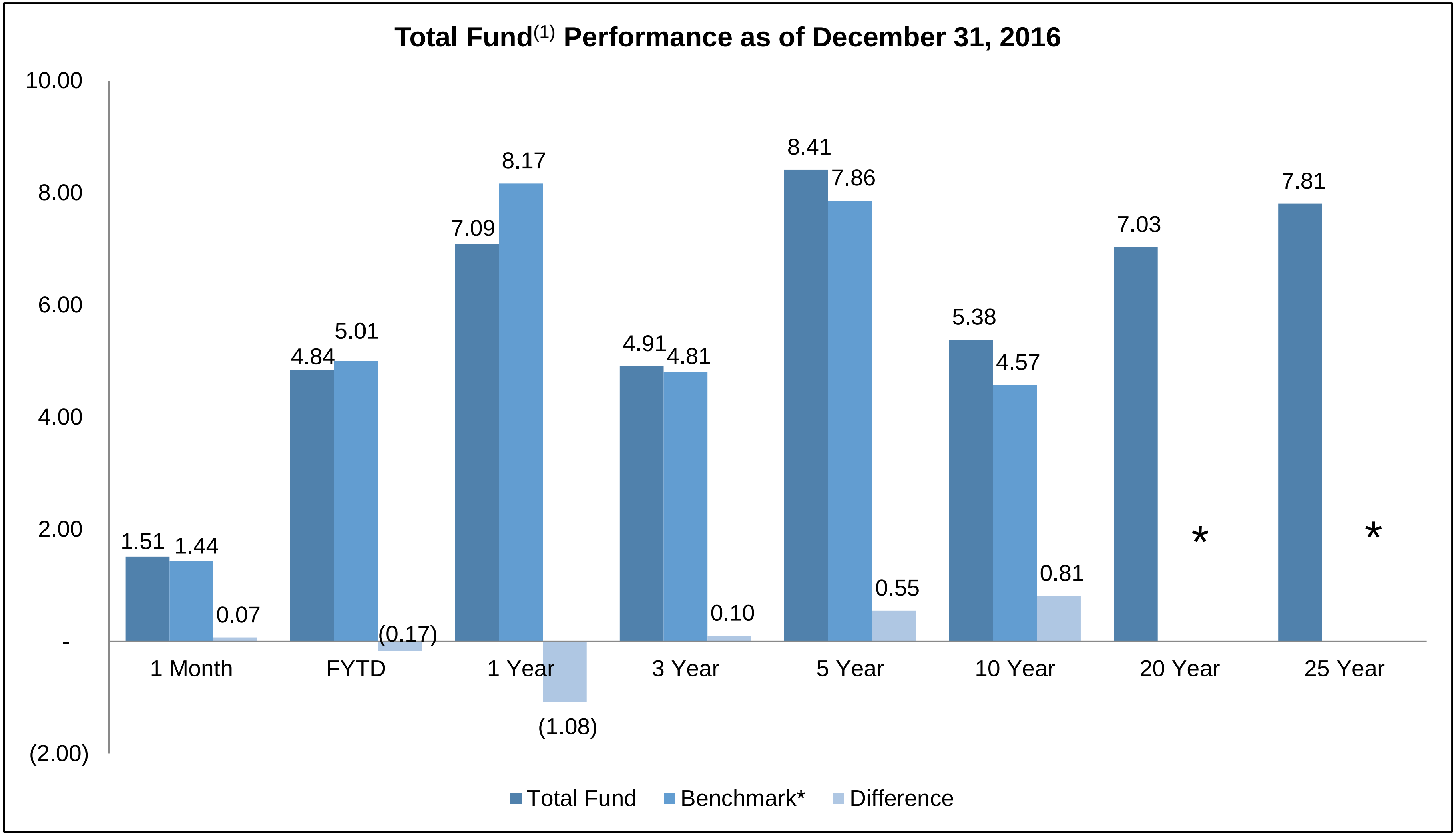


The change in the targeted allocation to hedge fund strategies represented a 52% reduction (from 12.5% to 6%). The actual allocation will shift towards the new TAA as redemptions are realized throughout the balance of FY17. Going forward, hedge fund strategies will emphasize diversification and downside protection as the primary roles in the Fund, with less market beta exposure.

During CY16, most hedge fund strategies had volatile returns. During the first half of 2016, most strategies underperformed as flight to quality and preference towards low volatility and yield oriented strategies dominated the marketplace. Recovery was experienced in the second half of the year as credit and equity markets recovered and company specific fundamentals took hold over the macro outlook.

(1) Hedge Fund returns are preliminary as of January 19, 2017; Hedge Fund benchmark return is reported with a one-month lag
(2) Source: Hedge Fund Research, Inc. and State Street
Note: Fund returns are unaudited. Both the Fund and Benchmark returns are based on preliminary values.

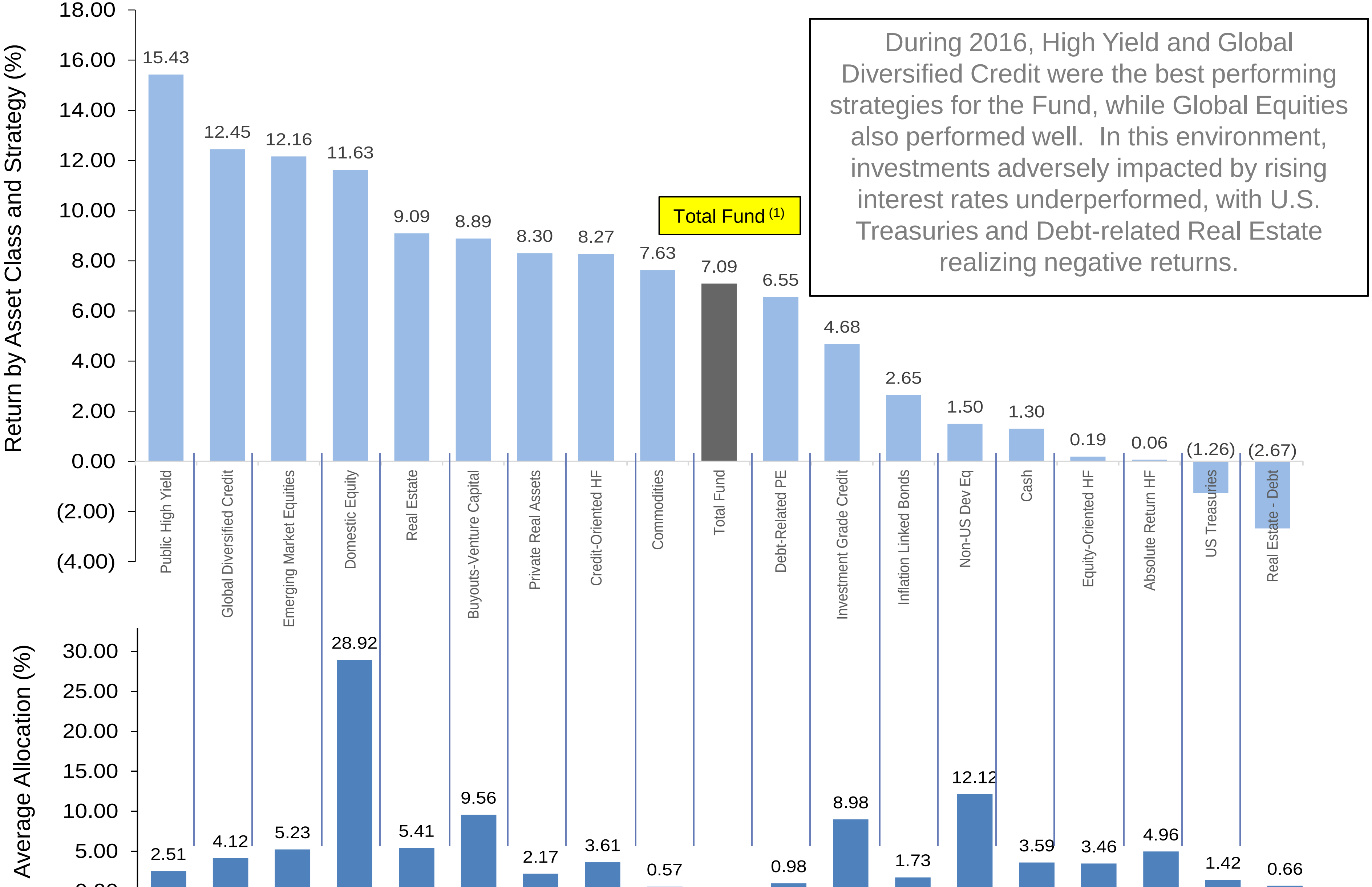
Long-Term NJ Pension Fund Returns versus Policy Benchmark (periods ending December 31, 2016)



The NJ Pension Fund has outperformed the benchmark for the
3 year (+10 bps), 5 year (+55 bps), and 10 year (+81 bps) returns on an annualized basis.

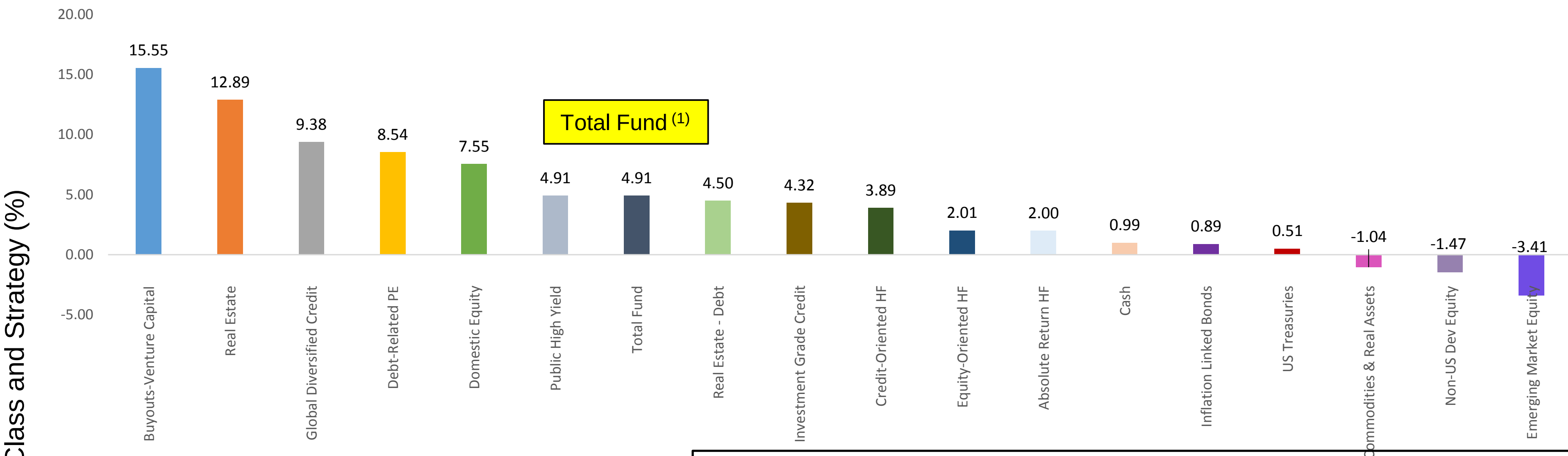
(1) Total Pension Fund returns exclude Police and Fire mortgage program and are unaudited. Both the Fund and Benchmark returns are based on preliminary values.
* Benchmark return not available for 20 and 25-Year period

The NJ Pension Fund Calendar Year 2016 Returns By Asset Class

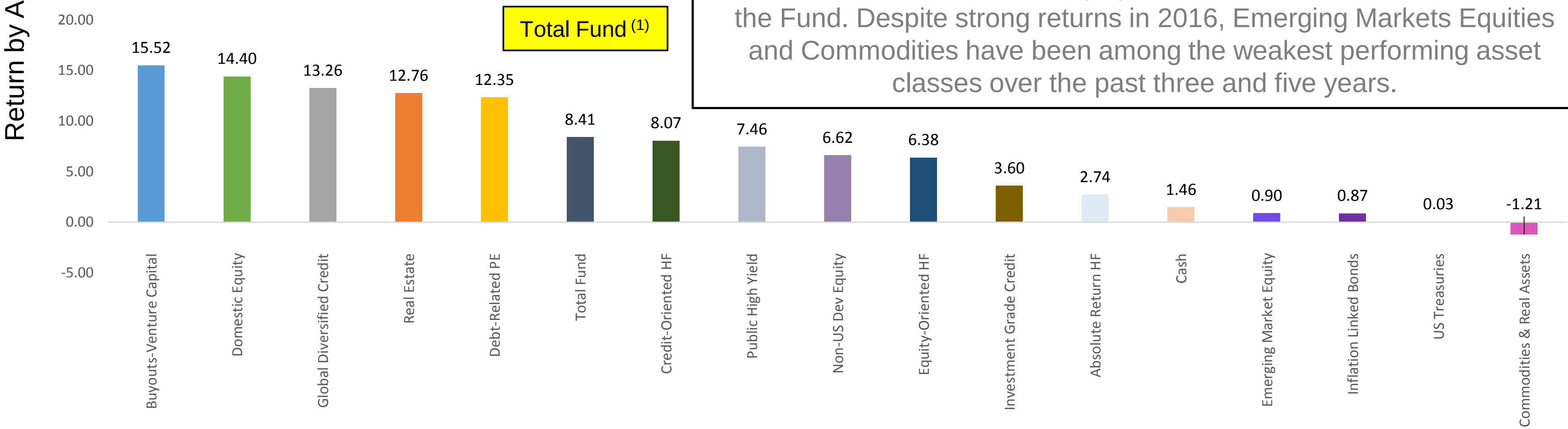


(1) Total Pension Fund returns exclude Police and Fire mortgage program and are unaudited. Both the Fund and Benchmark returns are based on preliminary values.

The NJ Pension Fund Three and Five Year Returns By Asset Class



Over the last three and five years, Buyouts/VC, Global Diversified Credit, Real Estate, and Domestic Equity have been the drivers of returns for the Fund. Despite strong returns in 2016, Emerging Markets Equities and Commodities have been among the weakest performing asset classes over the past three and five years.



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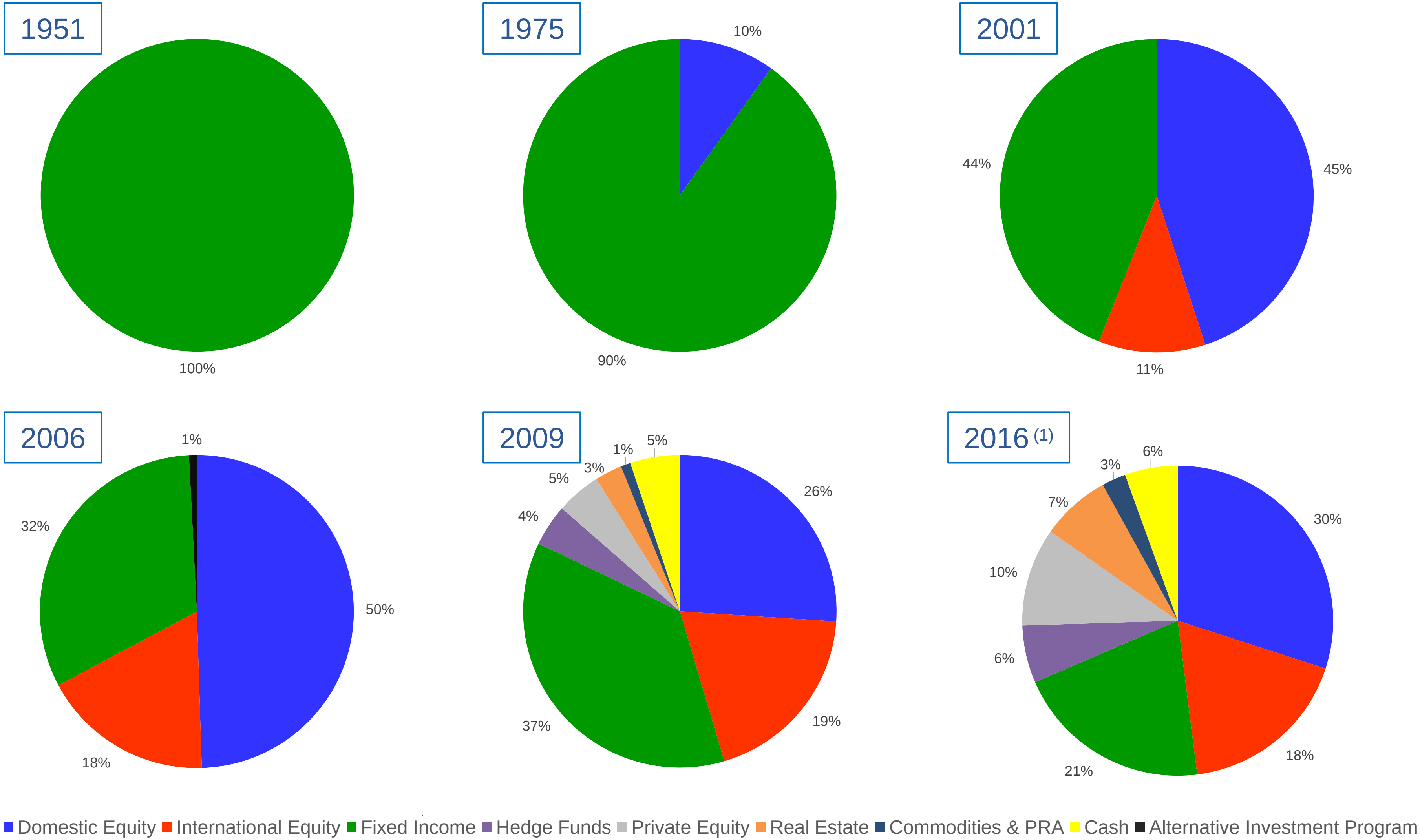
Pension Fund Asset Allocation: A Long-Term Perspective



The well diversified NJ Pension Fund asset allocation has evolved over a period of decades from a portfolio comprised solely of fixed income securities.

(1) 2016 reflects the Council's current targeted asset allocation

Pension Fund Asset Allocation: Recent Trends in the Annual Investment Plan

Asset Class	FY 2012 Target	FY 2013 Target	FY 2014 Target	FY 2015 Target	FY 2016 Target	FY 2017 Target
RISK MITIGATION	**2.00%**	**4.00%**	**4.50%**	**4.00%**	**5.00%**	**5.00%**
Absolute Return HFs	2.00%	4.00%	4.50%	4.00%	5.00%	5.00%
LIQUIDITY	**8.00%**	**6.50%**	**9.50%**	**8.25%**	**8.00%**	**8.50%**
Cash Equivalents	2.00%	1.50%	6.00%	5.00%	5.00%	5.50%
TIPS	3.50%	2.50%	2.50%	1.50%	1.50%	-
US Treasuries	2.50%	2.50%	1.00%	1.75%	1.50%	3.00%
INCOME	**27.00%**	**26.00%**	**24.20%**	**22.60%**	**21.75%**	**21.50%**
Investment Grade Credit	20.00%	13.00%	11.20%	10.00%	8.00%	10.00%
High Yield	2.50%	6.00%	5.50%	2.00%	2.00%	2.50%
Global Diversified Credit	--	--	--	3.50%	0.05	5.00%
Credit-Oriented HFs	3.00%	4.00%	3.75%	4.00%	3.75%	1.00%
Debt-Related PE	1.50%	1.50%	1.25%	1.00%	1.00%	2.00%
Debt Related Real Estate	--	--	1.30%	1.00%	0.80%	1.00%
P&F Mortgage	--	1.50%	1.20%	1.10%	1.20%	-
REAL RETURN	**9.00%**	**9.50%**	**5.70%**	**7.25%**	**7.75%**	**8.75%**
Commodities	4.00%	4.00%	2.50%	1.00%	0.50%	-
Private Real Assets	--	--	--	2.00%	2.00%	2.50%
Equity Related Real Estate	5.00%	5.50%	3.20%	4.25%	5.25%	6.25%
GLOBAL GROWTH	**54.00%**	**54.00%**	**56.10%**	**57.90%**	**57.50%**	**56.25%**
US Equity	23.50%	23.80%	25.90%	27.25%	26.00%	30.00%
Non-US Dev Market Eq	15.00%	12.50%	12.70%	12.00%	13.25%	11.50%
Emerging Market Eq	5.00%	7.00%	6.50%	6.40%	6.50%	6.50%
Buyouts/Venture Cap	5.50%	6.20%	7.00%	8.25%	8.00%	8.25%
Equity-Oriented HFs	5.00%	4.50%	4.00%	4.00%	3.75%	-

The State Investment Council is responsible for determining the Fund's targeted asset allocation. In recent years, modifications to allocations have been gradual and generally reflect a consistent long-term view with modest adjustments to account for recent capital market performance and changes in the broader financial, regulatory, and investment environment. The FY17 targets reflect the most significant changes of the past five years, as reductions were made to certain hedge fund (HF) strategies, while targets were eliminated for TIPS, P&F Mortgage, Commodities, and Equity-Oriented HFs.

Division of Investment Update: 2016 Year in Review

The Division introduced its FAIR (Fund Alignment and Incentive Reform) initiative

- **FAIR is an Alternative Investment Program initiative with key objectives to reduce fees, enhance returns, create better alignment of interests, offer greater transparency and lower operating costs**
  - the Division presented an initial $500 million commitment to the FAIR initiative during 2016 and will be presenting a proposal for an additional commitment of up to $300 million during the Council's January 2017 meeting

At the request of the Audit Committee, the Division completed a comprehensive study of all fees and expenses

- **final report includes detailed performance analysis and six years of all fees, expenses, and performance allocation**

Within the Alternative Investment Program, 20 new or add-on commitments totaling $3.7 billion were completed

- **the majority of the commitments included preferential terms, generating meaningful fee savings and improved governance rights**

The Fund has opportunistically expanded its internal investment capabilities in certain sub-asset classes

- **the Division initiated an allocation to Master Limited Partnerships (MLPs) within Real Assets**
  - MLPs offer exposure to the above market yields and relatively stable cash flows of the US mid-stream energy service sector, which is benefiting from the near-term recovery and long-term growth of domestic energy production
  - the total commitment to the MLP portfolio has grown to $154 million
- **the Division initiated an allocation to Preferred Stock and Business Development Corporations (BDC)**
  - preferred stock offers more attractive yields and is higher in the capital structure relative to common stock
  - BDCs can help to expand the Fund's direct lending exposure though the public markets
  - the total commitments to the Preferred Stock and BDC portfolios have grown to $200 million and $275 million, respectively

The Division selected five High Yield advisers following an extensive Request for Proposal (RFP) process

- **initial allocations for the $1.4 billion program were primarily completed through a transfer-in-kind of existing securities**
  - each of the five advisers brings high yield expertise and experience with specialized approaches and distinguishing characteristics that are complementary to each other and to the overall High Yield program

The Division announced expanded roles for key staff and the addition of new team members

- **Meghna Desai has been promoted to the role of Head of the Alternative Investment Program**
- **Gary Terwilliger has joined the Division as the Investment Systems and Technology Manager**
- **Komal Patel and Christian Caruso have joined the Division's Compliance team**
  - the Division thanks Linda Gaspari for her 46 years of service and wishes her the very best in her retirement

2017 Key Goals and Initiatives

The Division will work with Aon Hewitt to complete a comprehensive asset-liability study

- **an asset-liability study provides for an asset allocation that is informed by the liability profile of the Plan**
  - going forward, the Division will conduct a comprehensive asset-liability study every three years and to provide a formal asset allocation review to the Council on an annual basis
  - completion of the initial asset-liability study is targeted for January 2018; upon completion, the Division will present its findings to the Investment Policy Committee ahead of a formal recommendation for the Council's consideration

The Division has begun a wide-ranging review of its information technology, trading, reporting and risk analytics capabilities as the first phase of its Replacement Investment System Platform (RISP) initiative

- **the long-term objective of the RISP initiative is to ensure the Division's entire front, middle and back-office IT infrastructure is consistent with best practices and enables the Division to efficiently meet its investment objectives**
  - IT components to be reviewed include Order Management Systems (OMS) for all trading, trade compliance and reporting, as well as applications for portfolio position management, performance analytics and attribution, risk analysis and modelling, and market data and research

The Division is undertaking a Governance Documentation Review

- **the review includes an evaluation of the twelve policy documents that have been adopted by the Council**
  - an Investment Policy Statement and proposed changes to existing governing documents have been drafted
  - the Division will present its recommendations to the SIC following a comprehensive review that includes the internal management team, outside consultants and the Office of the Attorney General