

# NEW JERSEY DIVISION OF INVESTMENT

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## ANNUAL MEETING

State Investment Council

January 27, 2016

*“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

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### 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 \$88.1 billion in assets managed by the Division
  - the Pension Fund, with \$79.0 billion in assets, is the largest fund managed by the Division and overseen by the Council
    - 779,000 participants
    - 51% are still working and contributing to the Fund, 40% are retired, and 9% 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)

## Background: The New Jersey Division of Investment

### New Jersey Division of Investment (the “Division”)

#### Division of Investment Net Assets Under Management

Assets as of 6/30/15 (\$millions)	
Pension Fund	79,001
Cash Management Fund (CMF) <sup>(2)</sup>	11,875
Deferred Compensation Program Funds (DCP)	541
NJBest Funds (NJBest)	415
Supplemental Annuity Collective Trust (SACT)	212
Trustees For the Support of Public School Fund (TSPSF)	143
<b>Total</b>	<b>88,117</b>

#### Division of Investment “At A Glance”

- 33<sup>rd</sup> largest global pension fund manager <sup>(1)</sup>
- 17<sup>th</sup> largest U.S. pension fund manager <sup>(1)</sup>
- 65 active employees with a \$8.1 million personnel budget
- during Fiscal Year 2015, the Division traded:
  - › 1.2 billion shares of stock worth \$28.7 billion
  - › \$12.5 billion in fixed income securities
  - › \$4.4 billion in foreign currency transactions
- during Fiscal Year 2015, the Division earned:
  - › \$855 million in stock dividends
  - › \$461 million in bond interest
  - › \$21.3 million in premiums from covered call writing

#### 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, 2015 unless otherwise noted.

(1) Source: *Pensions and Investments* as of December 31, 2014

(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

## Long-Term Capital Market Returns

	Annualized Returns for Periods Ending December 31, 2015 (%)				
	One Year	Three Years	Five Years	Ten Years	Fifteen Years
<u>Global Equity Indices</u>					
MSCI All Country World Index	-2.36	7.69	6.08	4.75	4.15
<u>US Equity Indices</u>					
Russell 3000	0.47	14.74	12.17	7.34	5.39
Russell 1000	0.91	15.01	12.44	7.39	5.24
Russell 2000	-4.41	11.65	9.19	6.78	7.26
Russell Growth	5.09	16.62	13.29	8.48	4.46
Russell Value	-4.14	12.76	10.97	6.09	6.01
<u>Non-US Equity Indices</u>					
MSCI EAFE	-0.81	5.01	3.60	3.03	3.53
MSCI Emerging Markets	-14.92	-6.76	-4.80	3.61	8.53

## Long-Term Capital Market Returns (continued)

	Annualized Returns for Periods Ending December 31, 2015 <sup>(1)</sup> (%)				
	One Year	Three Years	Five Years	Ten Years	Fifteen Years
<u>Fixed Income Indices</u>					
BarCap Aggregate	0.55	1.44	3.25	4.52	4.97
BarCap U.S. Treasury	0.84	1.00	2.91	4.18	4.57
BarCap U.S. Credit	-0.77	1.49	4.38	5.18	5.82
BarCap U.S. High Yield	-4.47	1.69	5.04	6.96	7.59
<u>Commodities</u>					
Bloomberg Commodities Index	-24.70	-17.34	-13.51	-7.49	-2.49
<u>Private Equity</u>					
Cambridge Global Private Equity and VC Index	7.94	13.84	13.56	11.42	8.82
<u>Real Estate</u>					
NCREIF Property Index	13.47	11.90	12.55	8.02	8.99
Bloomberg REIT Index	3.18	10.90	11.82	7.16	10.73
<u>Hedge Funds</u>					
HFRI Composite Index	-1.02	3.62	2.31	4.07	5.37

(1) Hedge Fund returns are preliminary as of January 21, 2016; Private Equity and Real Estate (NCREIF) returns are presented with a one quarter lag  
Source: Barclays Capital, Bloomberg, Cambridge Associates, Hedge Fund Research, Inc., and National Council of Real Estate Investment Fiduciaries

## Ten Year Periodic Table of Returns

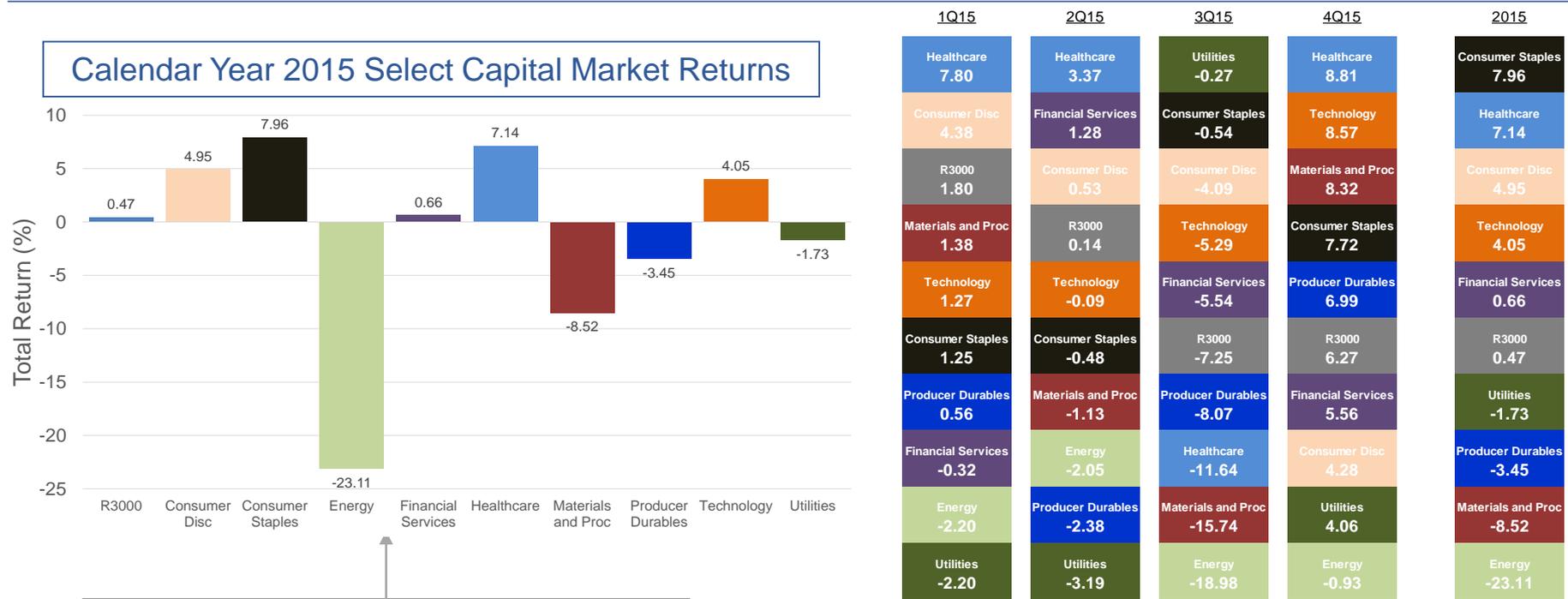
<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u> <sup>(1)</sup>	<u>2006 - 2015</u> <sup>(1)</sup>
Private Equity 32.76	EM 39.42	Treasuries 13.74	EM 78.51	EM 18.88	Real Estate 14.27	EM 18.17	R3000 33.57	R3000 12.55	Real Estate 13.47	Private Equity 11.42
EM 32.14	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	Real Estate 8.02
EAFE 26.34	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	R3000 7.34
Real Estate 16.59	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	High Yield 6.96
R3000 15.68	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	Corporates 5.18
Hedge Funds 12.89	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	Treasuries 4.18
High Yield 11.85	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	Hedge Funds 4.07
Corporates 4.26	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	EM 3.61
Treasuries 3.08	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	EAFE 3.03
Commodities -2.71	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	Commodities -7.49

Over the past ten years, Private Equity and Real Estate have 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) 2015 Hedge Fund returns are preliminary as of January 21, 2016; 2015 Private Equity (PE) and Real Estate (RE) returns reflect one year ended 9/30/15; 2006-2015 PE and RE returns reflect ten years ended 9/30/15

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

## Calendar Year 2015 Capital Markets Review: US Equity Sector Returns

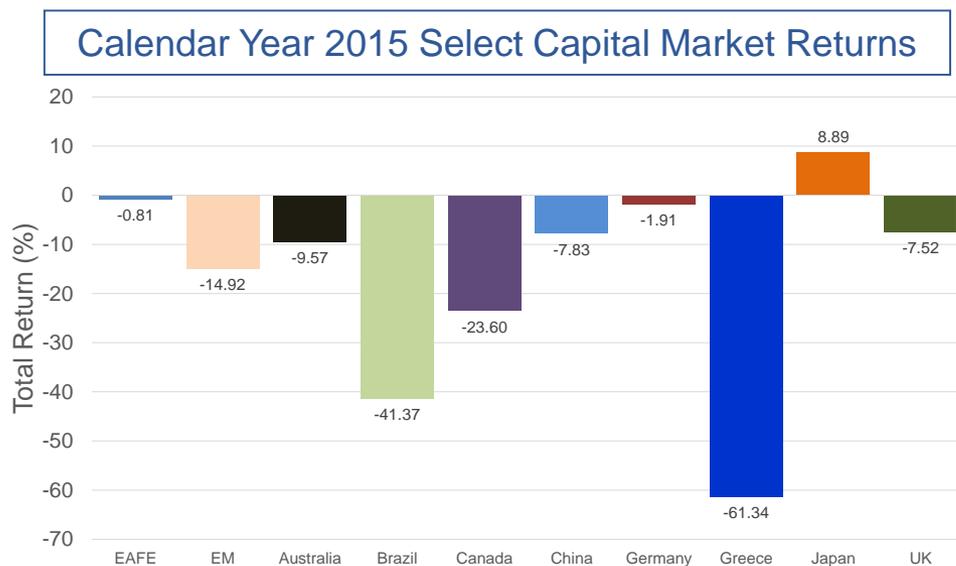


U.S. Equity returns were modestly positive (+0.47%) during CY15, as weak commodity prices pushed the Energy sector lower (-23.11%). Consumer Staples (+7.96%) and Healthcare (+7.14%) were the best performing sectors of the U.S. Equity market.

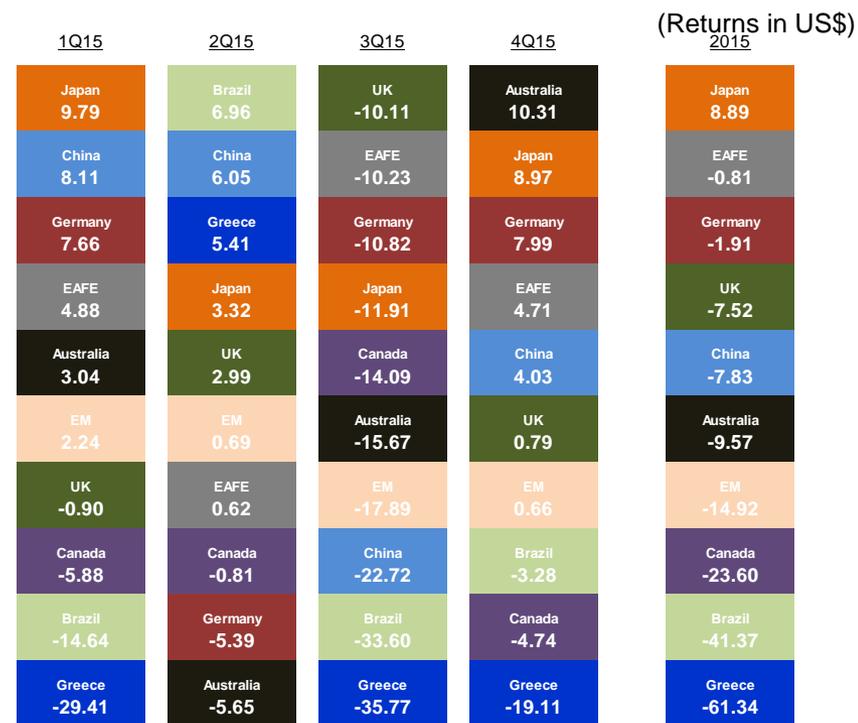
During the first half of 2015, Healthcare was the best performing sector of the U.S. Equity market, ahead of a challenging third quarter. All sectors of the U.S. Equity market realized negative returns during 3Q15. Consumer Staples was the best performing sector for CY15, driven largely by favorable returns during 4Q15. Energy lagged the entire calendar year.

During CY15, favorable Consumer Staples (+7.96%) and Healthcare (+7.14%) returns were offset by weakness in the Energy sector (-23.11%) as losses in commodities led to subpar returns in the broader U.S. Equity market.

## Calendar Year 2015 Capital Markets Review: International Equity Returns



International Equity returns were negative during CY15. Emerging Markets (-14.92%) underperformed Developed Markets (-0.81%) by 1,411 basis points. Brazil (-41.37%) underperformed in the midst of higher inflation, weak fiscal performance and government corruption scandals, while a third government financial bailout adversely impacted Greece (-61.34%)

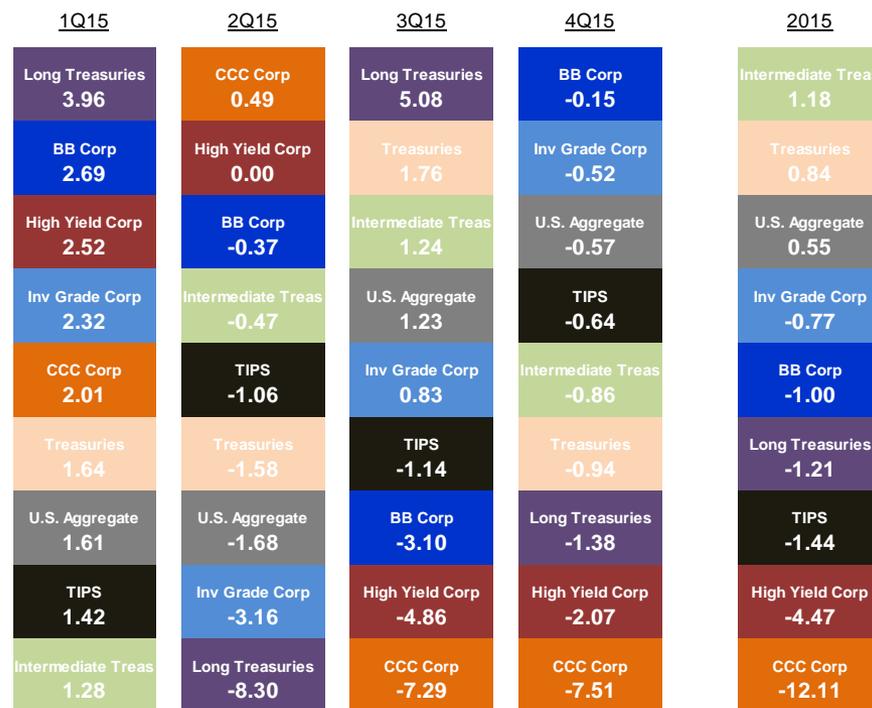
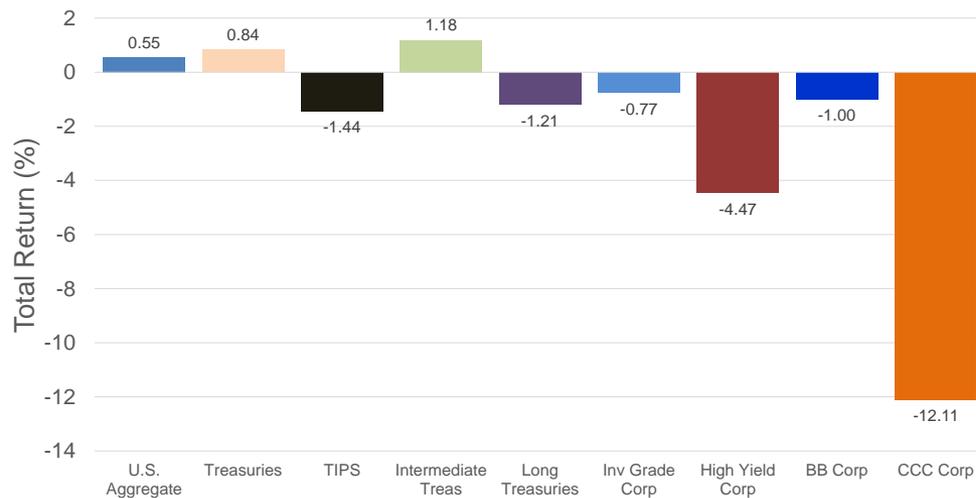


Japan outperformed throughout much of CY15 in response to accommodative monetary and fiscal policies. Canada underperformed throughout CY15 as returns were adversely impacted by weakness in the Energy sector.

During CY15, sharp declines within the Emerging Markets led to negative returns across the Int'l Equity marketplace. Developed Markets outperformed, supported in part by accommodative monetary policy. Weak commodity prices and numerous geopolitical events adversely impacted Int'l Equity returns.

## Calendar Year 2015 Capital Markets Review: Fixed Income Returns

### Calendar Year 2015 Select Capital Market Returns



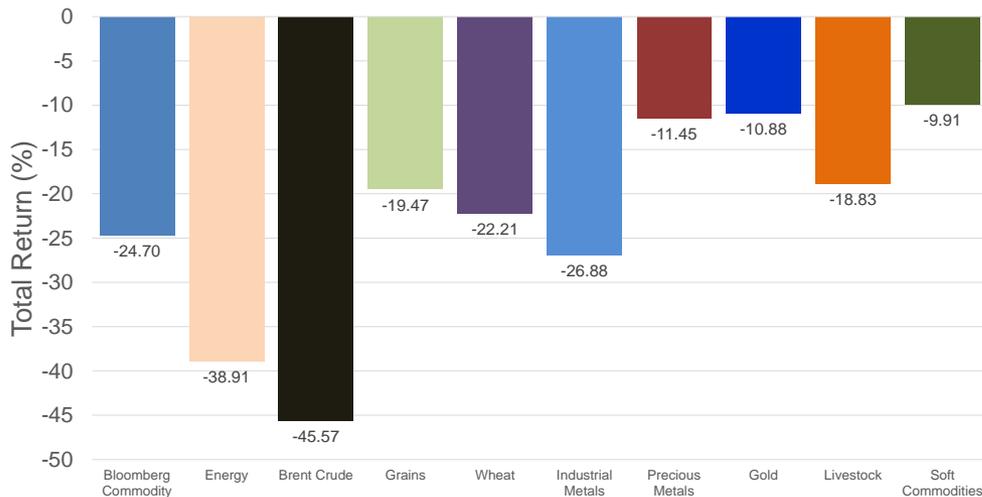
Fixed Income returns were marginally positive (+0.55%) during CY15. Shorter duration and higher quality securities outperformed. High Yield underperformed meaningfully (-4.47%), as the asset class was adversely impacted by its exposure to the Energy sector.

Credit spreads widened, particularly during 3Q15 and 4Q15, as CCC rated corporate bond valuations declined sharply. Underperformance of High Yield during the second half of the year coincided with a sharp decline in energy prices.

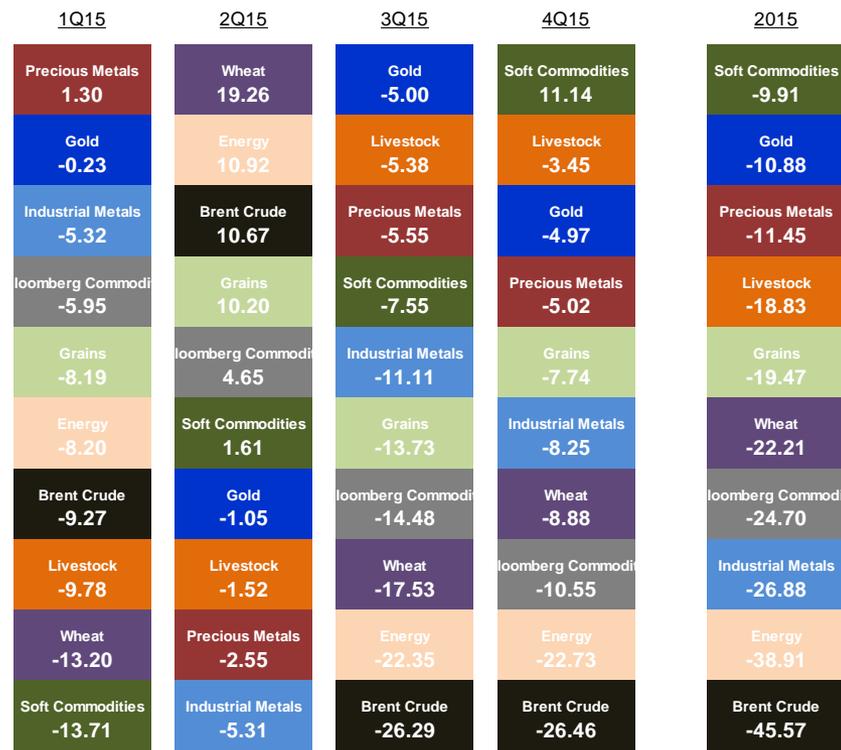
During CY15, wider credit spreads resulted in declining corporate bond valuations, particularly in the High Yield sector that was impacted by weak commodity prices and liquidity concerns. Shorter-duration bonds and U.S. Treasury securities managed to realize modest positive returns.

# Calendar Year 2015 Capital Markets Review: Commodities Returns

Calendar Year 2015 Select Capital Market Returns



All asset classes within Commodities realized negative returns during CY15, as the Bloomberg Commodities Index declined by -24.70%. Crude Oil (-45.57%) led the Energy Sector (-38.91%) lower.



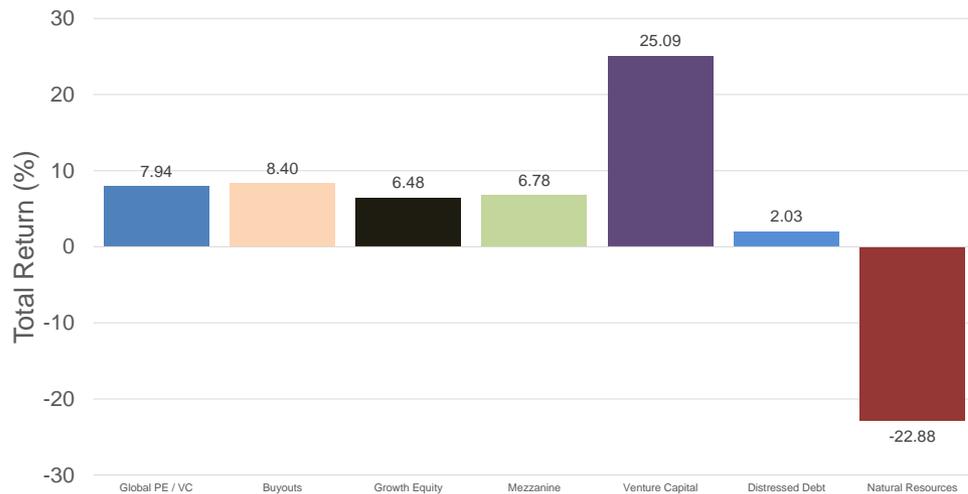
The best performing sectors within Commodities lost nearly 10% in CY15. During the second half of the year, Crude Oil lost more than half of its value.

CY15 marked the fifth straight year of negative returns for Commodities. The weak pricing environment for Commodities, most notably Crude Oil, adversely impacted returns across virtually all broader asset classes in CY15.

# Calendar Year 2015 Capital Markets Review: Private Equity Returns

LTM Ended Sept 30, 2015 Select Capital Market Returns (1)

(Returns in US\$)



During the LTM ended September 30, 2015, Global Private Equity (+7.94%) realized favorable returns, led by strong returns from Growth Equity (+6.48%), Venture Capital (+25.09%) and Buyout (+8.40%) as exit multiples remained high.

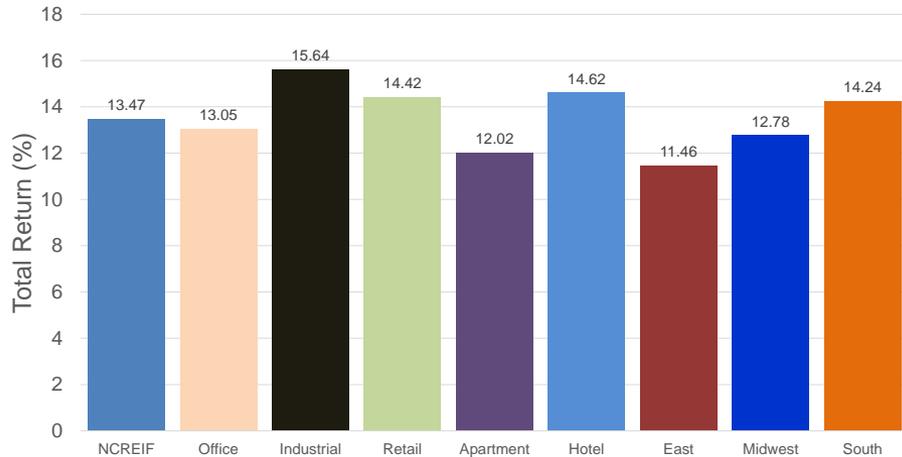
During 3Q15, returns slowed somewhat as public equity markets retreated and the IPO marketplace slowed. Weak commodity prices also impacted returns throughout the LTM period as Natural Resource-focused funds realized negative returns.

Global Private Equity performed well as LBO purchase price multiples further expanded. Natural Resources underperformed as declining energy prices and valuations impacted returns.

(1) CY15 Private Equity returns are presented with a one quarter lag  
Source: Cambridge Associates

## Calendar Year 2015 Capital Markets Review: Real Estate Returns

### LTM Ended Sept 30, 2015 Select Capital Market Returns (1)



During the LTM ended September 30, 2015, Real Estate (+13.47%) continued to realize strong returns as capitalization rates approach pre-crisis lows, and surpass all-time lows in certain sectors such as Central Business District Office and Apartment.

Demand was strongest in the major gateway cities including Boston, New York, Washington, DC, San Francisco, Los Angeles and Seattle. Fundamentals remain strong with positive net absorption and limited new supply in most property sectors, resulting in low vacancy, upward pressure on rental rates, and growth in Net Operating Income. Valuations have been supported by several large portfolio sales that have garnered portfolio premiums.

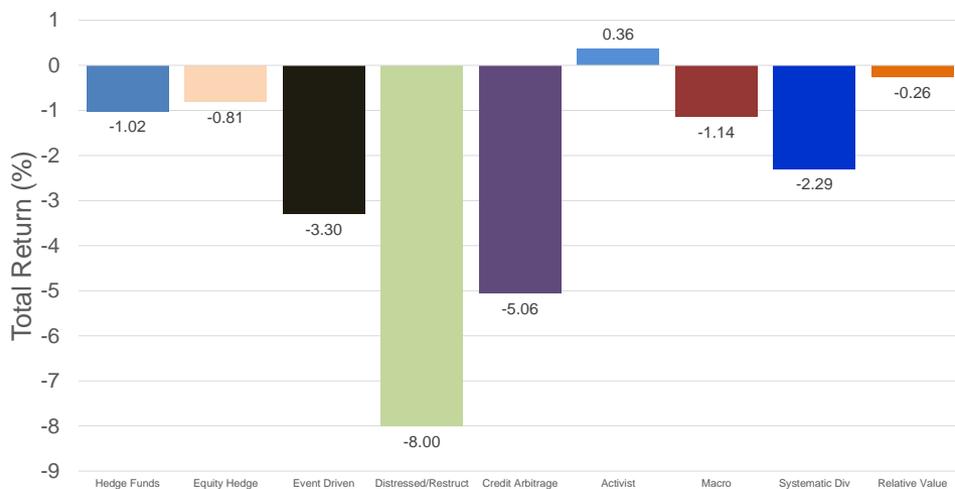
Real Estate benefited from a “search for yield” that continues to drive higher allocations, significant capital inflows, and record levels of capital on the sidelines waiting to be invested.

4Q14	1Q15	2Q15	3Q15	LTM
Hotel 4.31	Retail 4.93	Industrial 3.78	Industrial 3.67	Industrial 15.64
West 3.54	South 4.22	Hotel 3.54	West 3.59	West 15.18
Industrial 3.47	West 3.82	West 3.44	Hotel 3.52	Hotel 14.62
South 3.21	NCREIF 3.57	NCREIF 3.14	Retail 3.11	Retail 14.42
Office 3.09	Industrial 3.47	Office 3.11	NCREIF 3.09	South 14.24
NCREIF 3.07	Midwest 3.35	South 3.07	South 3.05	NCREIF 13.47
Midwest 2.98	Office 3.30	Midwest 2.98	Office 2.97	Office 13.05
Apartment 2.77	East 2.99	Apartment 2.98	Apartment 2.92	Midwest 12.78
Retail 2.69	Apartment 2.85	Retail 2.98	Midwest 2.90	Apartment 12.02
East 2.45	Hotel 2.52	East 2.92	East 2.64	East 11.46

(1) CY15 Real Estate returns are presented with a one quarter lag  
Source: National Council of Real Estate Investment Fiduciaries

## Calendar Year 2015 Capital Markets Review: Hedge Fund Returns

### Calendar Year 2015 Select Capital Market Returns<sup>(1)</sup>



During CY15, most hedge fund strategies realized negative returns. Activist strategies (+0.36%) outperformed, realizing modest positive returns. Distressed debt strategies (-8.00%) underperformed as weakness in the high yield market and energy sector adversely impacted returns.

Discretionary macro and systematic macro strategies realized volatile returns as strong market reversals and difficulty in tactical trading proved challenging throughout the year. Equity long/short strategies underperformed as managers generally took a more defensive stance and growth oriented companies dominated index returns.

During CY15, most hedge fund strategies realized negative returns as sharp market reversals limited tactical trading opportunities. The hedge fund sector was also adversely impacted by weak equity, credit and commodity markets throughout CY15.

(1) CY15, 3Q15 and 4Q15 Hedge Fund returns are preliminary as of January 21, 2016

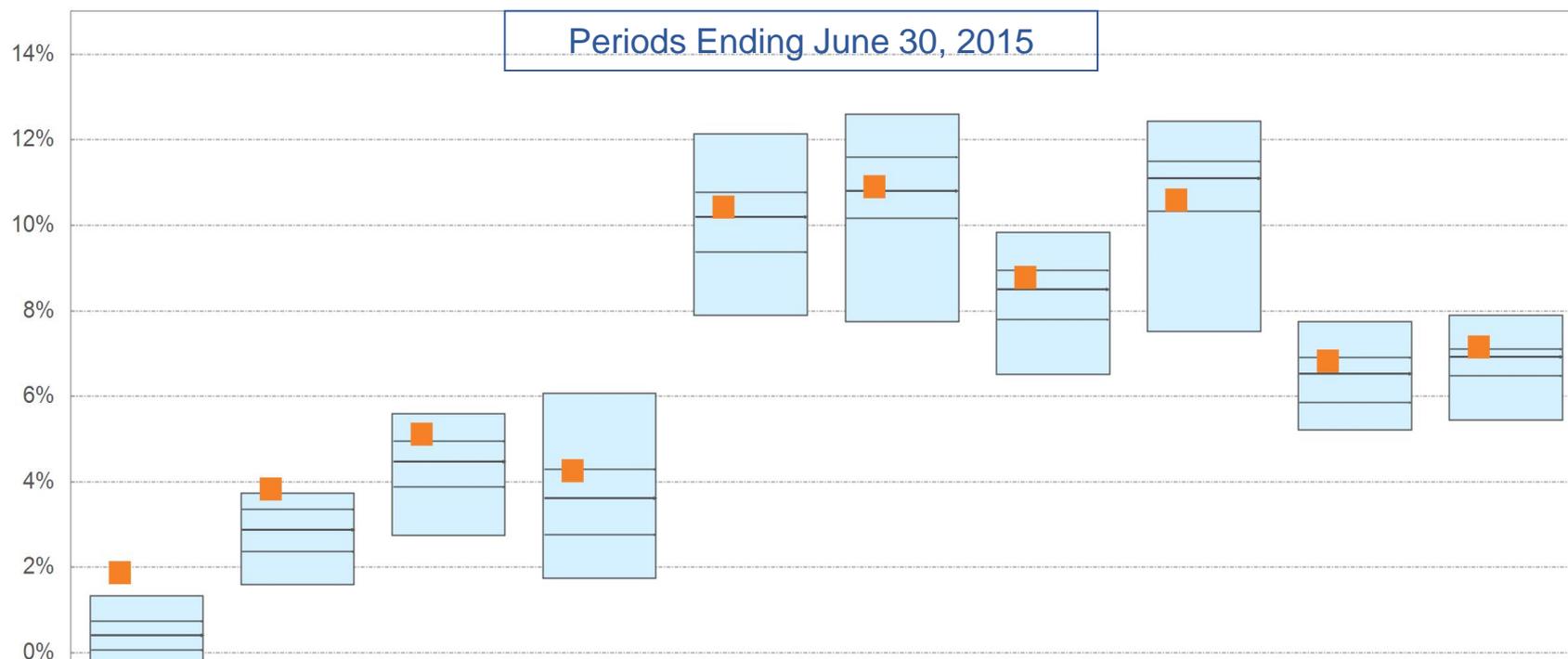
## NJ Pension Fund Annual Performance: Fiscal Year 2000-2015

	NJ Pension Fund <sup>(1)</sup>	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	-15.48%	-14.76%	-72
FY 2010	13.35%	13.51%	-16
FY 2011	18.03%	17.03%	100
FY 2012	2.52%	0.26%	226
FY 2013	11.78%	10.96%	82
FY 2014	16.87%	15.79%	108
FY 2015	4.16%	2.93%	123
<b>Cumulative Returns</b>	<b>133.71%</b>	<b>113.38%</b>	<b>2,033</b>
<b>Annualized Returns</b>	<b>5.45%</b>	<b>4.85%</b>	<b>60</b>

Since 2000, the NJ Pension Fund has outperformed its Policy Benchmark by 2,033 bps.

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

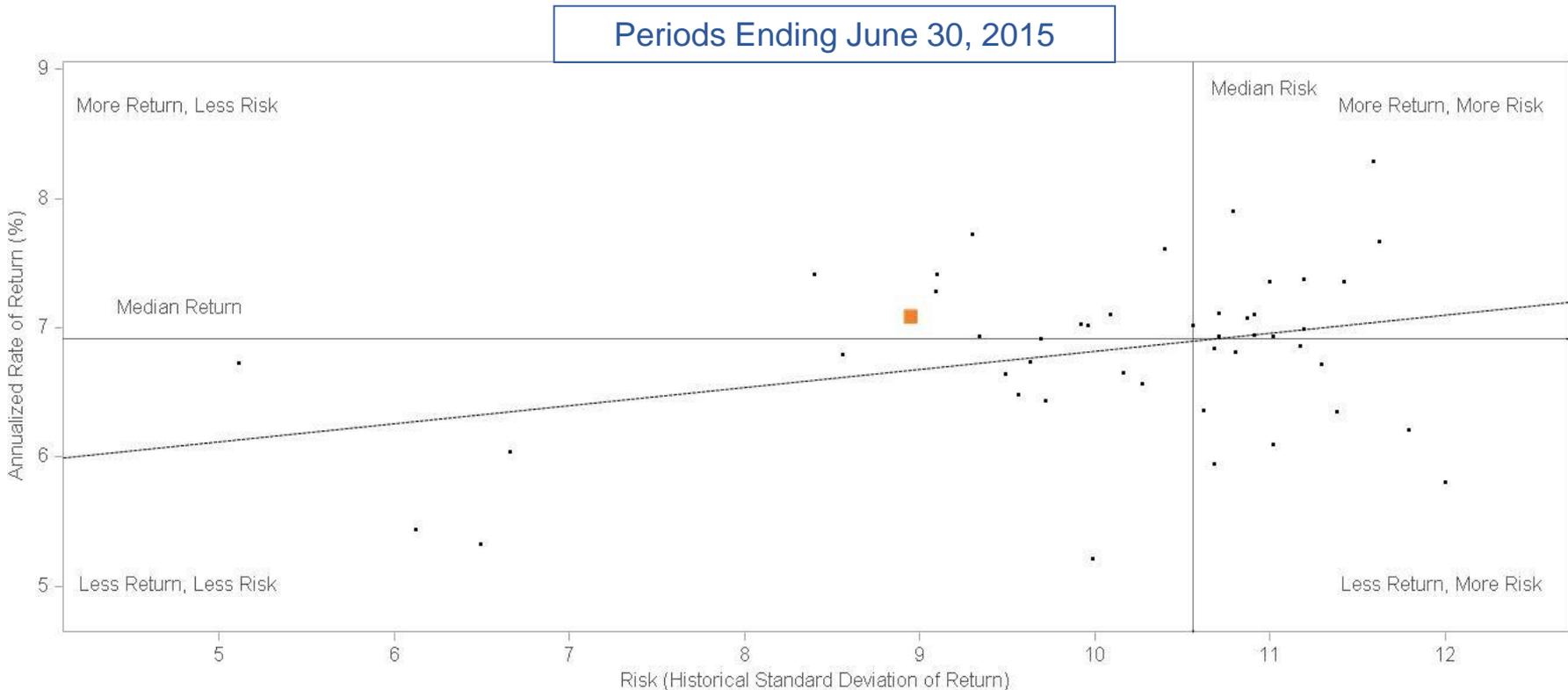
## NJ Pension Fund Performance Comparison versus Other Large Public Pension Funds



Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th	1.34	3.73	5.60	6.07	12.13	12.60	9.84	12.44	7.75	7.90
25th	0.74	3.35	4.95	4.30	10.77	11.59	8.95	11.50	6.90	7.10
50th	0.41	2.87	4.48	3.61	10.20	10.80	8.50	11.10	6.53	6.92
75th	0.07	2.36	3.88	2.77	9.37	10.17	7.79	10.33	5.85	6.48
95th	-0.28	1.59	2.74	1.74	7.90	7.74	6.52	7.52	5.22	5.44
No. Of Obs	51	51	51	51	51	51	51	49	47	46
NJ Pension Fund	1.77 (1)	3.74 (3)	5.02 (19)	4.16 (30)	10.33 (40)	10.81 (48)	8.68 (40)	10.49 (66)	6.73 (43)	7.05 (29)

The NJ Pension Fund ranked just outside of the top quartile for FY15. The Fund ranks better than the median for the 1-, 2-, 3-, 4-, 7-, and 10-year periods.

# NJ Pension Fund Risk-Adjusted Returns Comparison versus Other Large Public Pension Funds



Alpha: 5.42  
Beta: 0.14  
R-Squared: 0.1

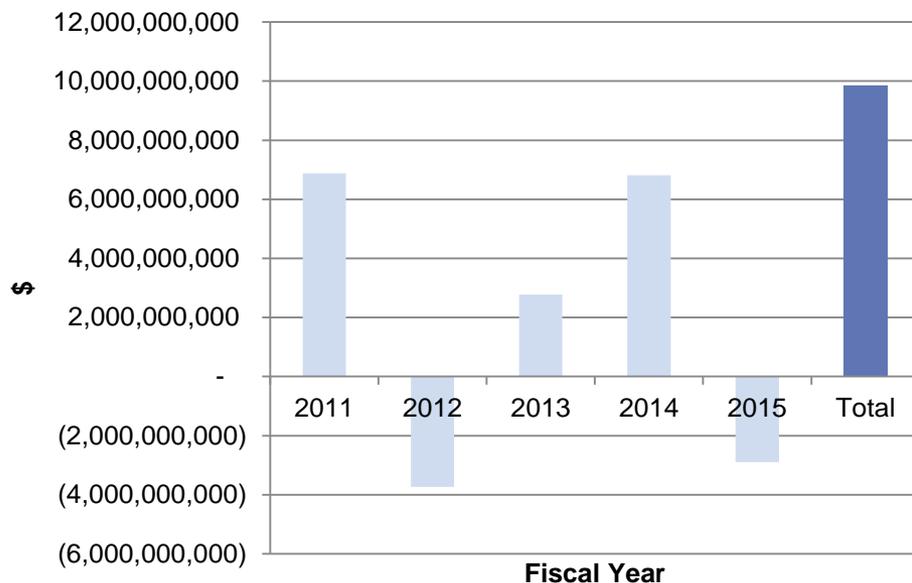
	Risk Value	Risk Rank	Return Value	Return Rank
NJ Pension Fund	8.98	85	7.05	31
Median	10.56		6.92	

For Risk Rank- 100 is best; 1 is worst  
For Return Rank- 1 is best; 100 is worst

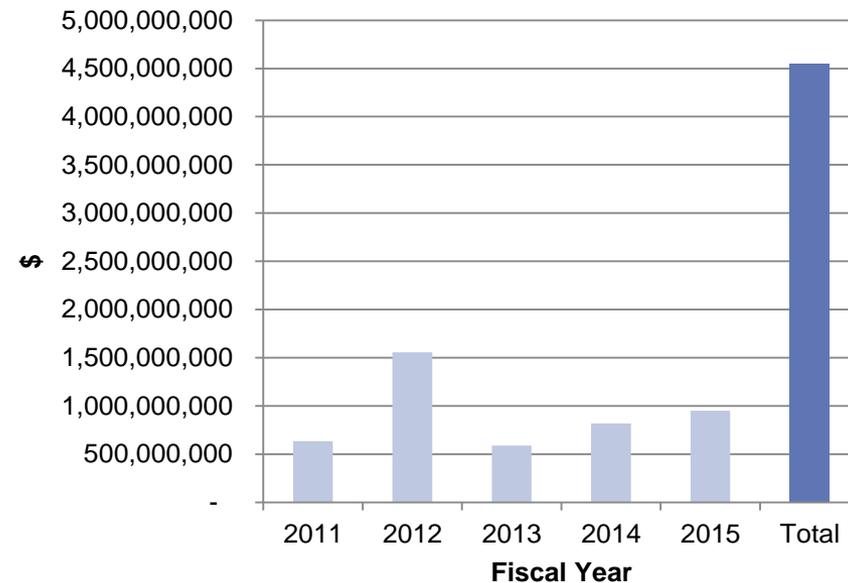
**Over the last 10 years, the NJ Pension Fund has generated returns better than 69% its peers while taking less risk than 85% of its peers**

## The NJ Pension Fund Value Added Through Alpha Generation

Value Added – FY Outperformance versus Assumption Rate



Value Added – FY Outperformance versus Total Fund Policy Benchmark

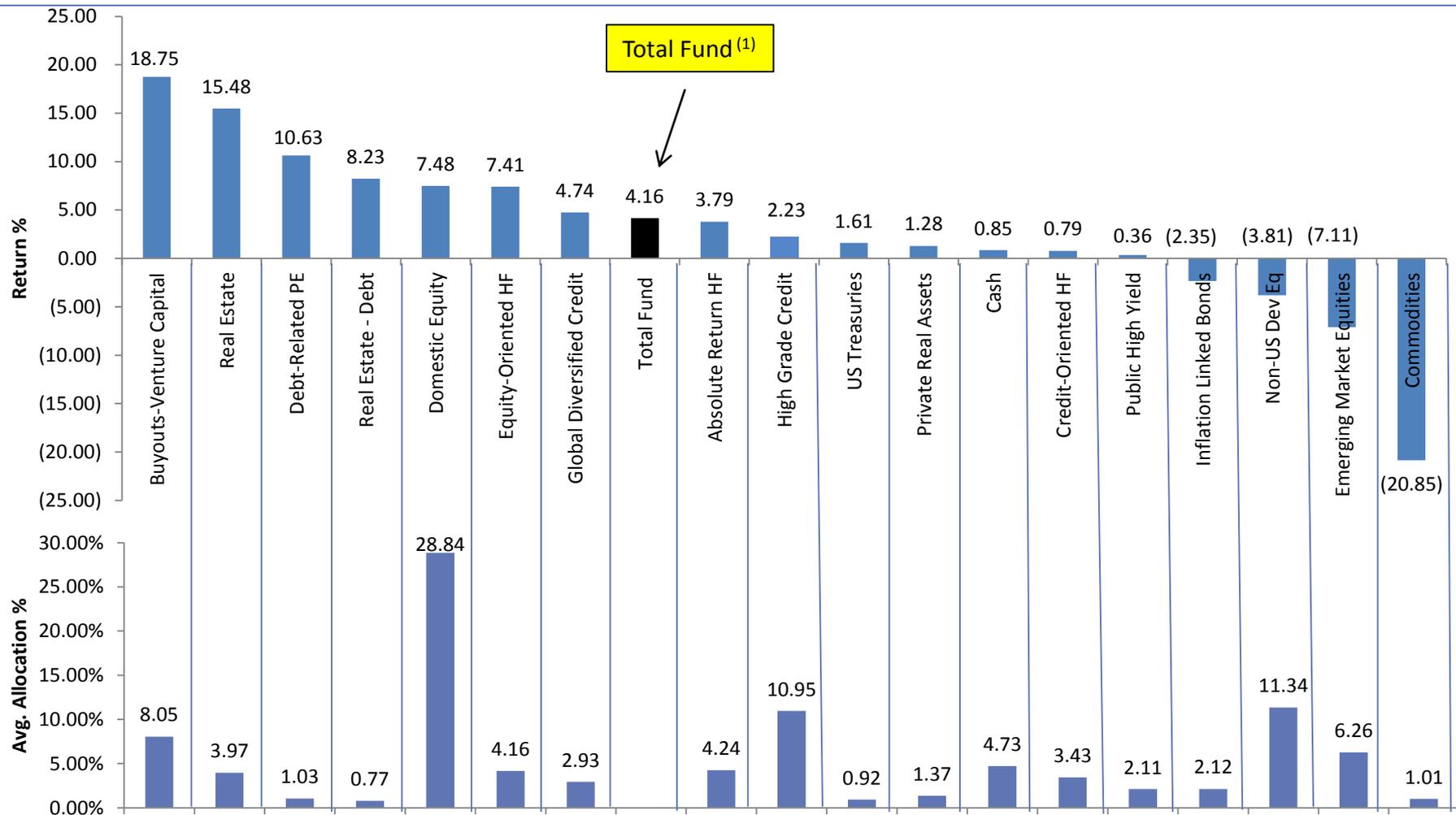


Over the last 5 fiscal years, outperformance versus the assumption rate has generated \$10 billion of additional value for the Pension System.

Over the last 5 fiscal years, outperformance versus the Total Fund Policy Benchmark has generated \$4.5 billion of additional value for the Pension System.

The NJ Pension Fund's ability to outperform its Policy Benchmark has been an important source of value added that has helped to improve the Fund's financial status.

## The NJ Pension Fund Fiscal Year 2015 Returns By Asset Class

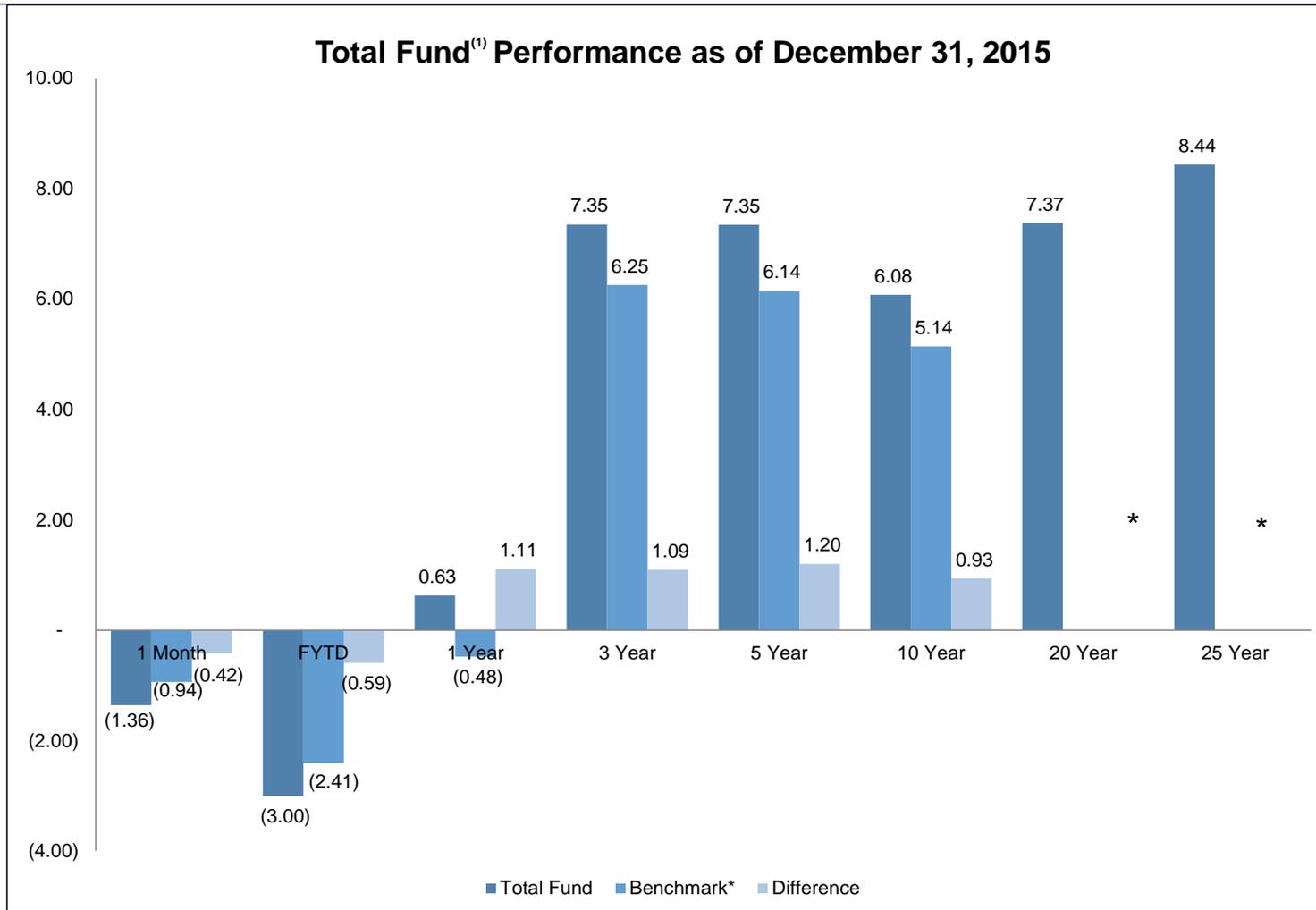


During FY15, the Pension Fund returned 4.16%.

Six of seven investment categories which outperformed the Total Fund Return are part of the Alternative Investment Program.

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

## Long-Term NJ Pension Fund Returns versus Policy Benchmark (periods ending December 31, 2015)



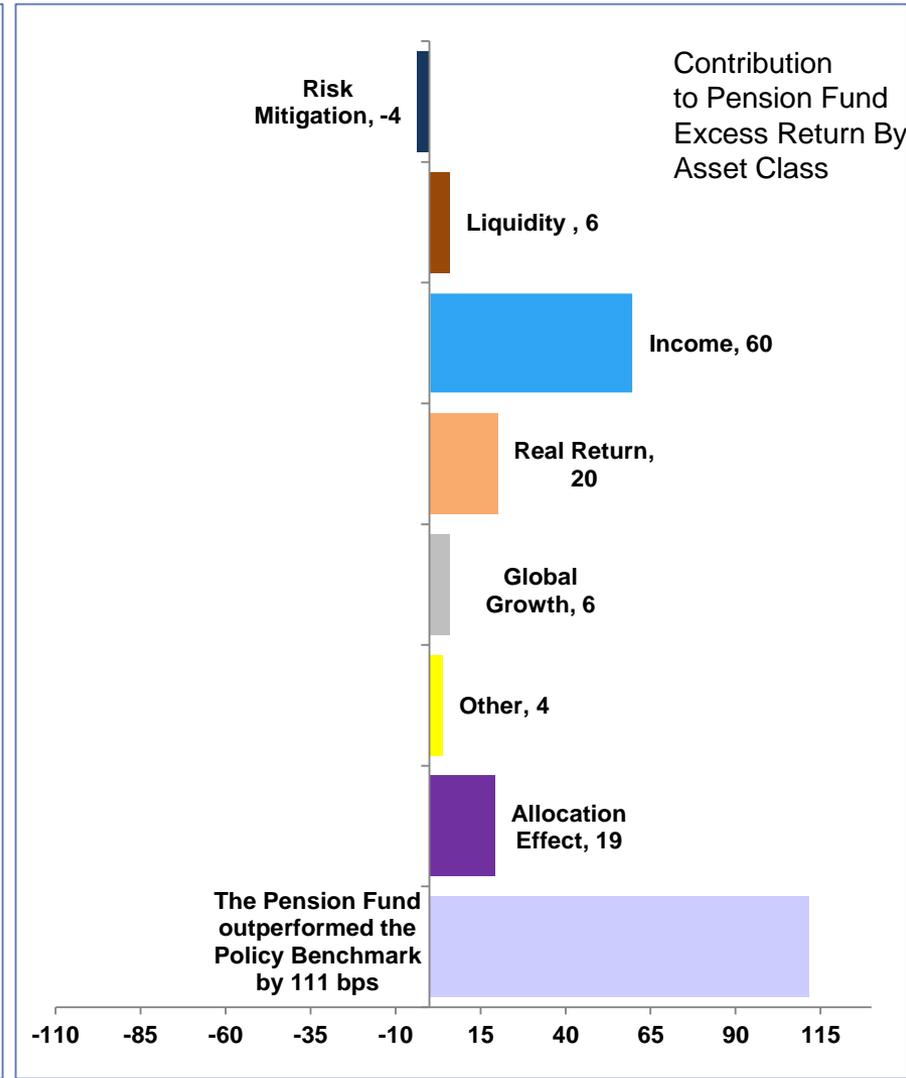
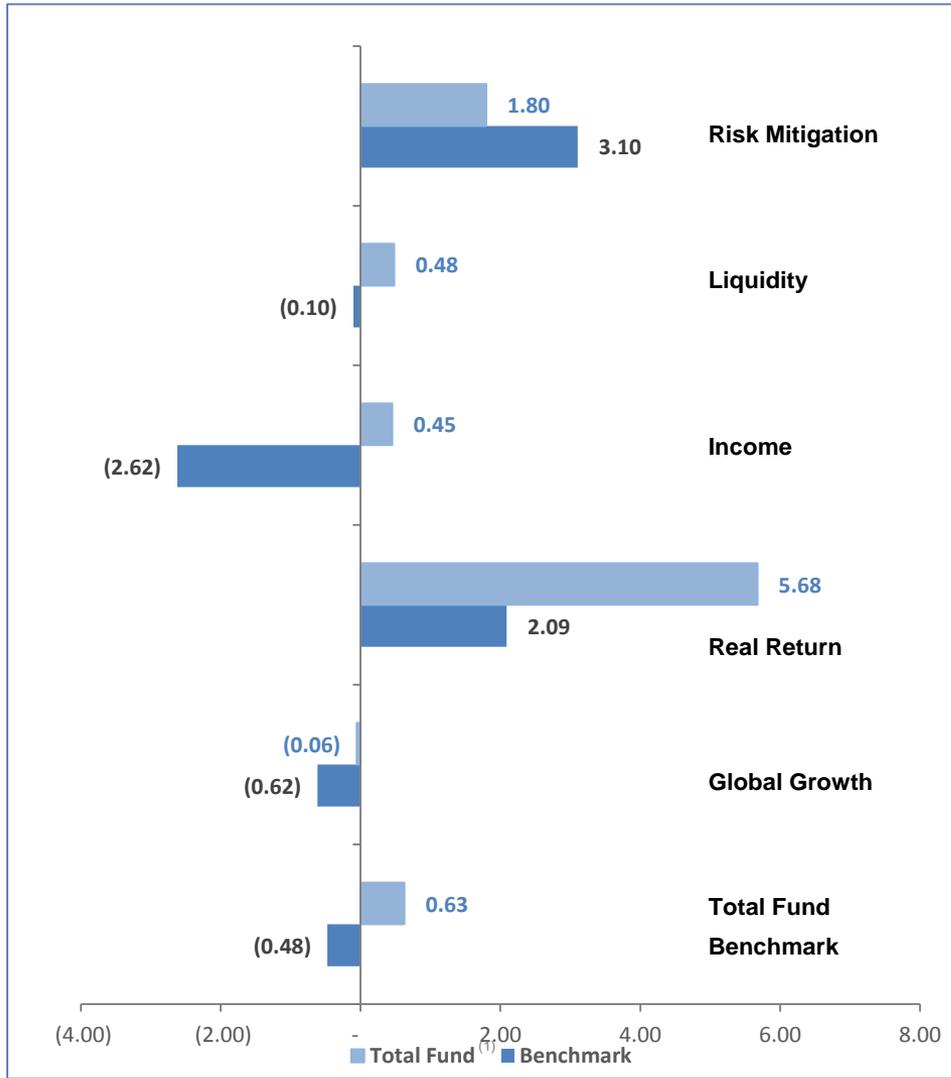
The NJ Pension Fund has significantly outperformed the benchmark for the 1 year (+111 bps), 3 year (+109 bps), 5 year (+120 bps), and 10 year (+93 bps) returns on an annualized basis.

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

\* Benchmark return not available for 20 and 25-Year period

Note: Based on preliminary values

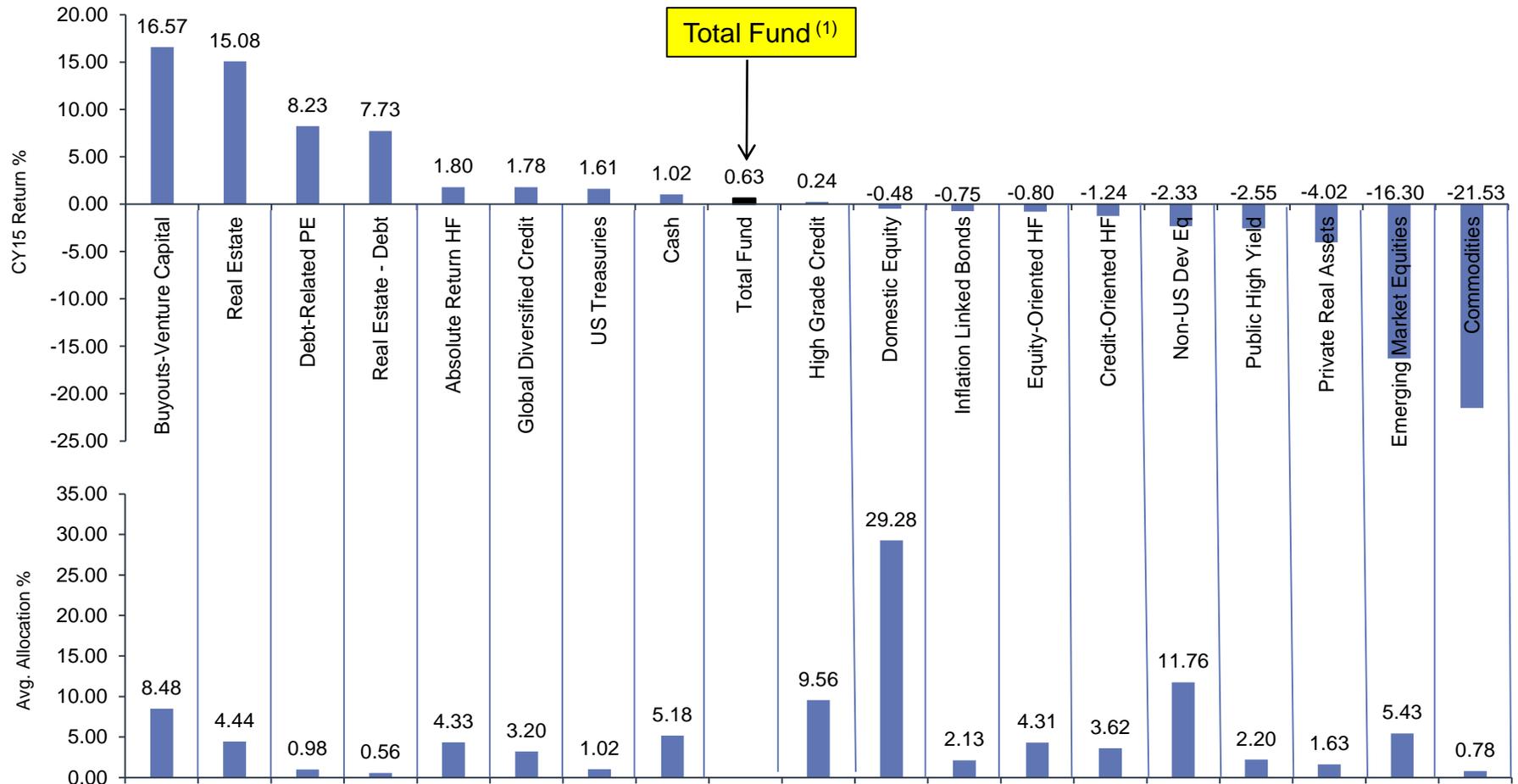
# Calendar Year 2015 Pension Fund Performance Attribution



Favorable relative returns (+111 bps) during CY 2015 are attributable to sector and security selection within respective asset classes, as well as tactical asset allocation

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

## The NJ Pension Fund Calendar Year 2015 Returns By Asset Class



During CY15, the Pension Fund returned 0.63%.

Six of eight investment categories which outperformed the Total Fund Return are part of the Alternative Investment Program.

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

# The NJ Alternative Investments Program Has Outperformed on an Absolute and Risk-Adjusted Basis

## NJ Alternative Investments Program Five Year Performance Track Record

(Periods Ending 12/31/15)

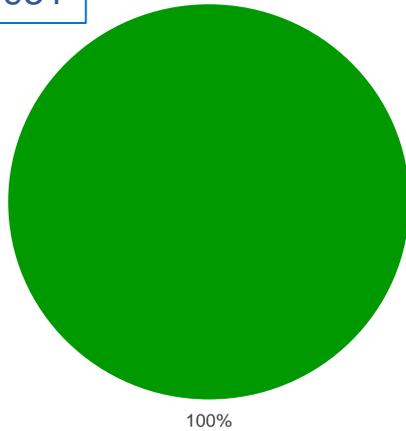
	NJ Alternative Investments Program	NJ Total Fund	NJ Total Fund excluding Alternative Investments Program	Broader Market Return <sup>(1)</sup> 70% Global Stocks / 30% Fixed Income	<u>Outperformance of NJ Alternative Investments Program</u> vs NJ Total Fund ex Alts (in basis points)	
	(A)		(B)	(C)	(A) - (B)	(A) - (C)
<u>Annualized Returns</u> (net of all fees)						
One Year	5.60%	0.63%	-1.88%	-1.29%	748	690
Two Years	8.46%	3.90%	1.73%	1.69%	673	677
Three Years	10.00%	7.35%	6.03%	5.91%	397	409
Four Years	9.93%	8.81%	8.08%	7.56%	185	237
Five Years	9.22%	7.35%	6.56%	5.43%	266	379
<u>Five Year Volatility</u>	4.76%	6.71%	8.34%	9.06%		
<u>Five Year Sharpe Ratio</u>	1.9	1.0	0.7	0.6		

The Alternative Investments Program (net of all fees) has outperformed the broader Pension Fund and a mix of broader global public markets over all trailing time periods shown above on both an absolute and risk-adjusted basis

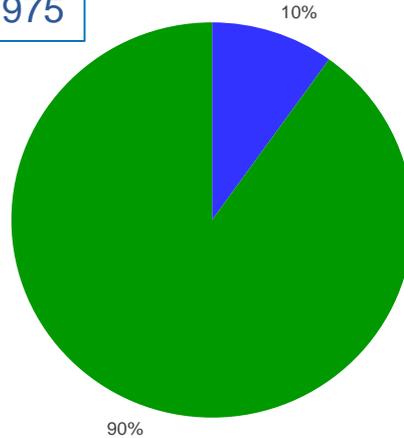
(1) Broader Market Return reflects performance of a portfolio comprised of 70% MSCI ACWI (net) and 30% Barclays Capital Aggregate Bond Index

# Pension Fund Asset Allocation: A Long-Term Perspective

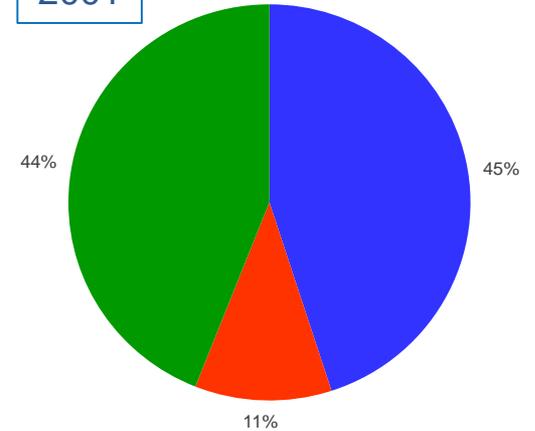
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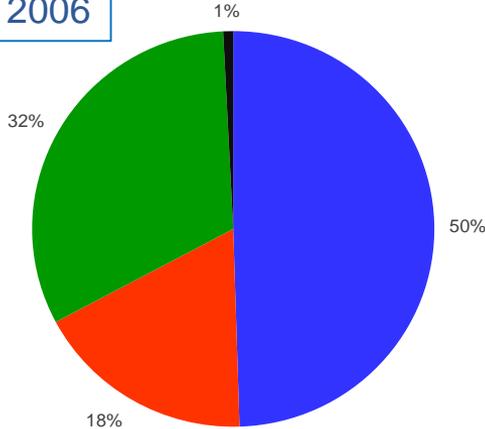
1975



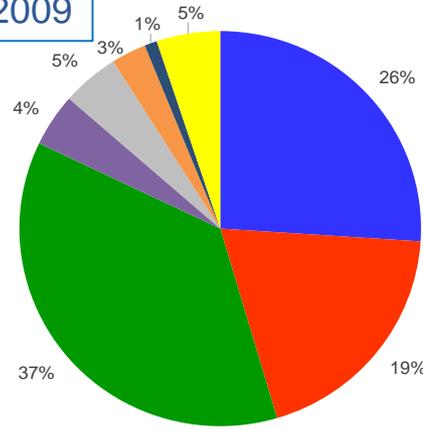
2001



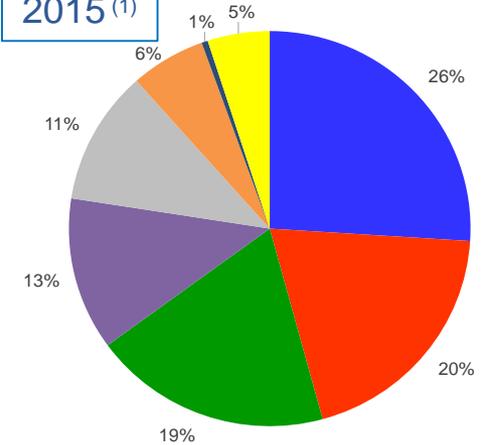
2006



2009



2015 (1)



■ Domestic Equity ■ International Equity ■ Fixed Income ■ Hedge Funds ■ Private Equity ■ Real Estate ■ Commodities ■ Cash ■ Alternative Investment Program

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) 2015 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
<b>RISK MITIGATION</b>	<b>2.00%</b>	<b>4.00%</b>	<b>4.50%</b>	<b>4.00%</b>	<b>5.00%</b>
Absolute Return HF's	2.00%	4.00%	4.50%	4.00%	5.00%
<b>LIQUIDITY</b>	<b>8.00%</b>	<b>6.50%</b>	<b>9.50%</b>	<b>8.25%</b>	<b>8.00%</b>
Cash Equivalents	2.00%	1.50%	6.00%	5.00%	5.00%
Short Term Cash Equiv	--	--	--	--	--
TIPS	3.50%	2.50%	2.50%	1.50%	1.50%
US Treasuries	2.50%	2.50%	1.00%	1.75%	1.50%
<b>INCOME</b>	<b>27.00%</b>	<b>26.00%</b>	<b>24.20%</b>	<b>22.60%</b>	<b>21.75%</b>
Investment Grade Credit	20.00%	13.00%	11.20%	10.00%	8.00%
High Yield	2.50%	6.00%	5.50%	2.00%	2.00%
Global Diversified Credit	--	--	--	3.50%	5.00%
Credit-Oriented HF's	3.00%	4.00%	3.75%	4.00%	3.75%
Debt-Related PE	1.50%	1.50%	1.25%	1.00%	1.00%
Debt Related Real Estate	--	--	1.30%	1.00%	0.80%
P&F Mortgage	--	1.50%	1.20%	1.10%	1.20%
<b>REAL RETURN</b>	<b>9.00%</b>	<b>9.50%</b>	<b>5.70%</b>	<b>7.25%</b>	<b>7.75%</b>
Commodities	4.00%	4.00%	2.50%	1.00%	0.50%
Private Real Assets	--	--	--	2.00%	2.00%
Equity Related Real Estate	5.00%	5.50%	3.20%	4.25%	5.25%
<b>GLOBAL GROWTH</b>	<b>54.00%</b>	<b>54.00%</b>	<b>56.10%</b>	<b>57.90%</b>	<b>57.50%</b>
US Equity	23.50%	23.80%	25.90%	27.25%	26.00%
Non-US Dev Market Eq	15.00%	12.50%	12.70%	12.00%	13.25%
Emerging Market Eq	5.00%	7.00%	6.50%	6.40%	6.50%
Buyouts/Venture Cap	5.50%	6.20%	7.00%	8.25%	8.00%
Equity-Oriented HF's	5.00%	4.50%	4.00%	4.00%	3.75%

The State Investment Council is responsible for determining the Fund's targeted asset allocation as part of the Annual Investment Plan (AIP) that is approved ahead of the start of each fiscal year. In recent years, modifications to the AIP 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.

## Division of Investment 2015 Year in Review

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### FY15 marked the fifth straight year of outperformance relative to the Policy Benchmark

- the cumulative outperformance over the five year period is 639 basis points (130 basis points, annualized)
- the cumulative outperformance over the five year period generated \$4.5 billion of additional value for the Pension Fund

### The Division selected a new Private Equity Investment Consultant and four Secondary Investment Consultants

- **TorreyCove was selected for the Primary Investment Consultant role and for Performance Measurement Services**
  - four Secondary Investment Consultants were selected to create a new pool of resources to review investment opportunities
  - each of the consultants brings sub-asset class expertise and experience with specialized investment structures which will complement Division staff and help create long-term portfolio value

### Within the Alternative Investment Program, 31 new or add-on commitments totaling \$4 billion were completed

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

### The Division has expanded its commitment to REITs within the Real Estate Allocation

- the increased allocation to REITs coincided with a higher targeted allocation to real estate at the same time that private market capitalization rates reached historic lows and REIT valuations appeared attractive
  - REITs have outperformed, adding value to the Pension Fund, and offer a lower cost internally managed alternative

### The Division has adopted enhancements to the Annual Investment Plan (AIP) process

- the Division utilizes a new methodology to determine capital market assumption inputs for asset allocation modelling
  - the enhancements result in a customized solution to meet the specific objectives of the Pension Fund
  - the entire AIP process incorporates the Division's investment team and its consultants to achieve more robust analysis

## 2016 Key Goals and Initiatives

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### Investment Policy Statement

- **The Division is developing a formal Investment Policy Statement (IPS) for the Council's consideration**
  - the purpose of the IPS would be to document the policies established by the SIC and to serve as a reference point for the management of the Pension Fund's assets
  - the IPS would summarize (but not replace) the Regs and would be the primary documentation that recognizes all SIC-approved policies and procedures that govern the oversight of the Director and the Division
  - the Division is conducting a review of all policies and procedures, with participation from staff, compliance, consultants, and legal, including the Attorney General's office

### Hedge Fund Re-Allocation Policy Initiative

- **The Division is developing a Hedge Fund Re-Allocation Policy for the Council's consideration**
  - the purpose of the Policy would be allow the Division to more efficiently re-allocate funds within the Hedge Fund portfolio to mitigate risk and to be more responsive to changing market conditions, ongoing due diligence insights, and timely investment opportunities
    - the timing of liquidity provisions, in conjunction with the reporting requirements, currently limits the Division's ability to efficiently manage the Hedge Fund portfolio

### Review of Alternative Investment Program

- **In its ongoing role as a fiduciary, the Division has asked its consultants to review the rationale for the Alternative Investment Program and to analyze the Program's experience to date (please see Agenda Item 3b)**
  - the Alternative Investment Program was instituted by the SIC in 2006, following significant losses realized in traditional asset class investments and upon the advise of third-party independent consultants
- **The Division is evaluating various approaches to ensure the costs associated with managing the Fund's assets are minimized while still meeting the Council's return and risk objectives. As part of this project, the Division is exploring:**
  - renegotiating certain existing fee arrangements to reduce costs
  - the use of new lower cost strategies (such as alternative beta and liquid alternatives)
  - the feasibility of bringing certain strategies currently managed externally in house
  - The use of new structures (i.e. managed accounts)