

NEW JERSEY DIVISION OF INVESTMENT

ANNUAL MEETING

State Investment Council

January 29, 2015

“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.”

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.”

The New Jersey State Investment Council is responsible for formulating and establishing policies which govern the investment of assets by the Director of the Division of Investment consistent with the fiduciary duties as set forth by statute. The State Investment Council provides fiduciary oversight for approximately \$81.2 billion in pension related assets on behalf of over 773,000* participants. Approximately 53% are still working and contributing to the pension while 39% are retired, while the remaining are active, non-contributing members.

The State Investment Council does not have responsibility for:

- Funding Policy (plan contributions)
- Benefits Policy (plan design)
- Actuarial Activities (setting actuarial expected return)

In addition to managing the assets of the various State Pension Systems, NJDOI also manages:

- Cash Management Fund: \$11.6 billion*
- Supplemental Annuity Collective Trust: \$210 million*
- A portion of NJBEST Fund: \$435 million*
- Two Equity Portfolios within the Deferred Compensation Program: \$591 million*

*Approximately as of 6/30/2014

Division of Investment Overview

- The New Jersey Division of Investment (NJDOI) was created by the New Jersey Legislature (P.L. 1950, c.270) in 1950
- NJDOI's Ranking based on assets as of 12-31-2013 among Pension Funds according to *Pension and Investments*:
 - 34th Largest Globally; 16th Largest in the US; 12th Largest US Public Pension Fund
- NJDOI has 65 active employees (includes part-time) with an approximate \$8.5 million personnel budget
- In Fiscal Year 2014, NJDOI:
 - Traded Over 1.1 billion shares of US and International equities with a value of approximately \$31 billion
 - Executed \$5.5 billion of foreign currency transactions
 - Collected over \$25 million in premium from covered call writing
 - Traded \$12.4 billion in Fixed Income securities
 - Received approximately \$978 million in dividends and \$559 million in bond interest income

Capital Market Performance as of 12/31/2014

Global Equity Indices	Style	1 Year	3 Years	5 Years	10 Years
MSCI All Country World Index	Global Equity	4.16%	14.10%	9.17%	6.09%
US Equity Indices	Style	1 Year	3 Years	5 Years	10 Years
S&P Composite 1500	Broad US Equity	13.08%	20.38%	15.62%	7.89%
Russell 3000 Index	Broad US Equity	12.56%	20.51%	15.63%	7.94%
Russell 1000 Index	Large Cap Equity	13.24%	20.62%	15.64%	7.96%
Russell Midcap Index	Mid Cap Equity	13.22%	21.40%	17.19%	9.56%
Russell 2000 Index	Small Cap Equity	4.89%	19.21%	15.55%	7.77%
Dow Jones U.S. Select REIT	REITS	32.00%	16.10%	16.99%	8.13%
Non-US Indices	Style	1 Year	3 Years	5 Years	10 Years
MSCI EAFE Index	Developed Non-US Equity	-4.20%	11.82%	6.04%	5.18%
MSCI Emerging Markets Index	Emerging Non-US Equity	-2.11%	4.32%	2.09%	8.78%
U.S. Fixed Income Indices	Style	1 Year	3 Years	5 Years	10 Years
BofA Merrill Lynch 3 Month US T-Bill	Cash	0.04%	0.07%	0.09%	1.54%
Barclays Aggregate Index	Core Bonds	5.97%	2.66%	4.45%	4.71%
BofA Merrill Lynch Gov Corp Master	Core Bonds	6.48%	2.89%	4.79%	4.73%
ML US Corporate Master Investment Grade	Corporate Bonds	7.51%	5.35%	6.60%	5.52%
Barclays U.S. Mortgage Backed Securities	Mortgages	6.08%	2.37%	3.73%	4.75%
BofA Merrill Lynch High Yield Master II	High Yield Bonds	2.50%	8.37%	8.88%	7.61%

Source: HEK and Bloomberg

Municipal Bonds, Dollar Denominated Emerging Market Debt and Mortgage Back Securities Led Fixed Income in 2014 while Non-Dollar and High Yield Issues Lagged

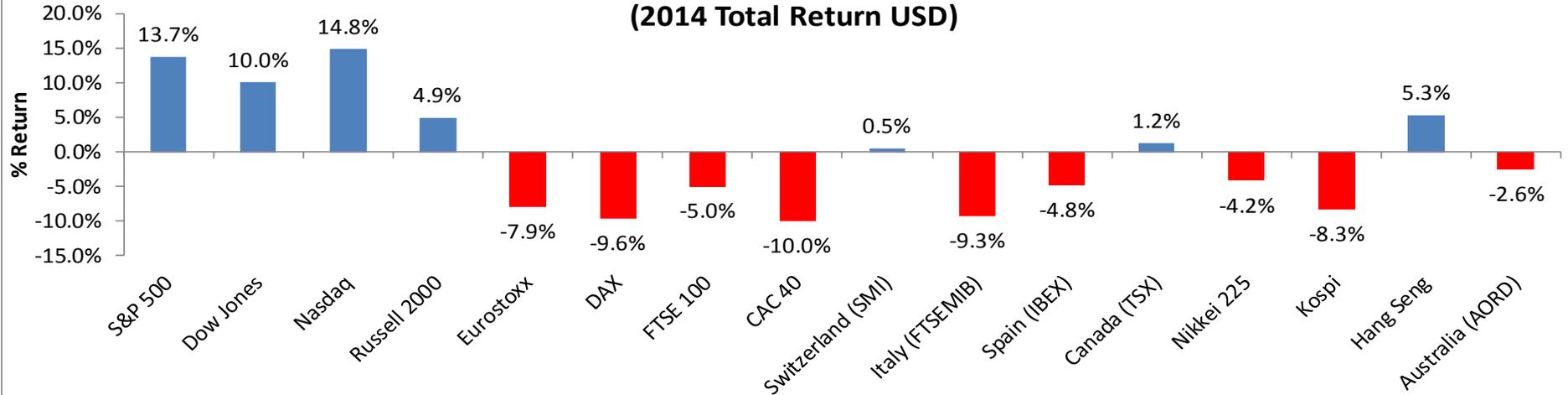
2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	4Q14	10-yrs. '05 - '14 Cum.	Ann.
EMD USD 10.2%	EMD LCL 15.2%	EMD LCL 18.1%	Treas. 13.7%	Gbl. HY 59.4%	EMD LCL 15.7%	TIPS 13.6%	Gbl. HY 19.6%	Gbl. HY 7.3%	Muni 8.7%	Treas. 1.9%	Gbl. HY 115.3%	Gbl. HY 8.0%
EMD LCL 6.3%	Gbl. HY 13.7%	TIPS 11.6%	Gbl. Sov. 9.4%	EMD USD 29.8%	Gbl. HY 14.8%	Muni 12.3%	EMD USD 17.4%	Gbl. Corp. 1.8%	EMD USD 7.4%	Barclays Agg 1.8%	EMD USD 111.5%	EMD USD 7.8%
Gbl. HY 3.6%	EMD USD 9.9%	Gbl. Sov. 10.9%	MBS 8.3%	Gbl. Corp. 23.7%	EMD USD 12.2%	Treas. 9.8%	EMD LCL 16.8%	Asset Alloc. -1.3%	MBS 6.1%	MBS 1.8%	EMD LCL 90.4%	EMD LCL 6.7%
TIPS 2.8%	Gbl. Corp. 8.3%	Treas. 9.0%	Barclays Agg 5.2%	EMD LCL 22.0%	Asset Alloc. 7.5%	Barclays Agg 7.8%	Gbl. Corp. 12.5%	MBS -1.4%	Barclays Agg 6.0%	Muni 1.4%	Asset Alloc. 67.4%	Asset Alloc. 5.3%
Treas. 2.8%	Gbl. Sov. 7.3%	Asset Alloc. 7.2%	Muni 1.5%	Asset Alloc. 16.2%	Gbl. Corp. 7.0%	EMD USD 7.3%	Asset Alloc. 8.3%	Barclays Agg -2.0%	Treas. 5.1%	Asset Alloc. 0.1%	Muni 64.4%	Muni 5.1%
Muni 2.7%	Asset Alloc. 6.9%	Barclays Agg 7.0%	Asset Alloc. -1.5%	TIPS 11.4%	Barclays Agg 6.5%	Asset Alloc. 6.9%	TIPS 7.0%	Muni -2.2%	Asset Alloc. 3.9%	TIPS 0.0%	Gbl. Corp. 60.5%	Gbl. Corp. 4.8%
MBS 2.6%	MBS 5.2%	MBS 6.9%	TIPS -2.4%	Muni 9.9%	TIPS 6.3%	MBS 6.2%	Muni 5.7%	Treas. -2.7%	TIPS 3.6%	Gbl. Corp. -0.3%	MBS 59.0%	MBS 4.7%
Barclays Agg 2.4%	Muni 4.7%	EMD USD 6.2%	EMD LCL -5.2%	Barclays Agg 5.9%	Gbl. Sov. 6.1%	Gbl. Sov. 5.2%	Barclays Agg 4.2%	Gbl. Sov. -4.9%	Gbl. Corp. 2.5%	EMD USD -0.6%	Barclays Agg 58.4%	Barclays Agg 4.7%
Asset Alloc. 1.7%	Barclays Agg 4.3%	Gbl. Corp. 6.1%	Gbl. Corp. -11.2%	MBS 5.9%	Treas. 5.9%	Gbl. Corp. 4.0%	MBS 2.6%	EMD USD -5.3%	Gbl. HY 0.0%	Gbl. HY -2.5%	Treas. 53.5%	Treas. 4.4%
Gbl. Corp. -2.7%	Treas. 3.1%	Muni 4.3%	EMD USD -12.0%	Gbl. Sov. 4.3%	MBS 5.4%	Gbl. HY 3.1%	Treas. 2.0%	TIPS -8.6%	Gbl. Sov. -2.8%	Gbl. Sov. -3.1%	TIPS 53.4%	TIPS 4.4%
Gbl. Sov. -8.8%	TIPS 0.4%	Gbl. HY 3.2%	Gbl. HY -26.9%	Treas. -3.6%	Muni 4.0%	EMD LCL -1.8%	Gbl. Sov. 1.8%	EMD LCL -9.0%	EMD LCL -5.7%	EMD LCL -5.7%	Gbl. Sov. 30.3%	Gbl. Sov. 2.7%

Source: Barclays Capital, FactSet, J.P. Morgan Asset Management. Past performance is not indicative of future returns. Fixed income sectors shown above are provided by Barclays Capital unless otherwise noted and are represented by Broad Market: Barclays Capital U.S. Aggregate Index; MBS: Fixed Rate MBS Index; Corporate: Gbl. Corporates; Municipals: Muni Bond 10-Year Index; Emerging Debt USD: J.P. Morgan EMBIG Diversified Index; Emerging Debt LCL: J.P. Morgan EM Global Index; Gbl. High Yield: Global Corporate High Yield Index; Treasuries: Barclays Capital; U.S. Treasury; TIPS: Barclays Capital TIPS; Gbl. Sovereigns: Global Treasury ex U.S.. The "Asset Allocation" portfolio assumes the following weights: 20% in MBS, 20% in Gbl. Corporate, 15% in Municipals, 5% in Emerging Debt USD, 5% in Emerging Debt LCL, 10% in Gbl. High Yield, 15% in Treasuries, 5% in TIPS, 5% in Gbl. Sovereigns. Asset allocation portfolio assumes annual rebalancing.

Guide to the Markets – U.S. Data are as of 12/31/14.

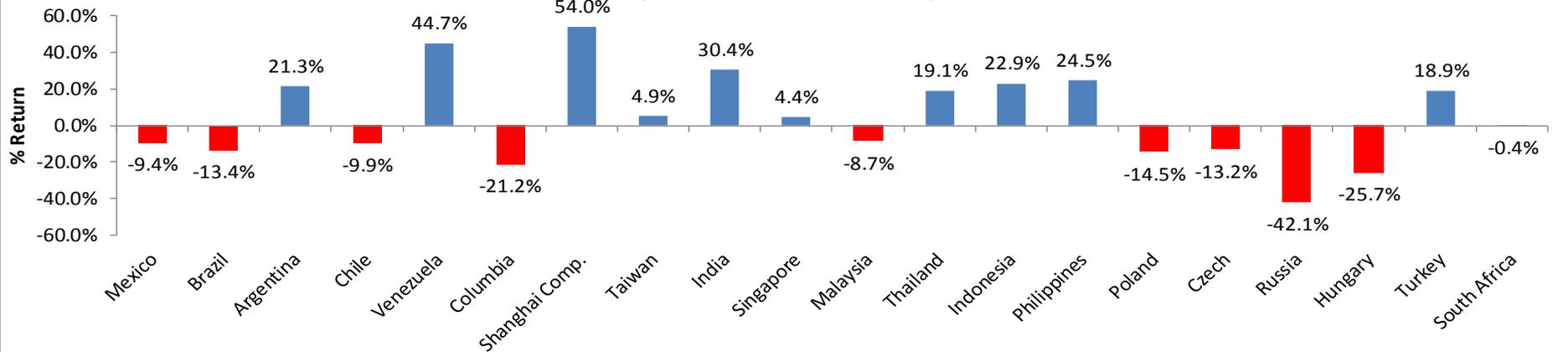
US Outpaced Other Developed Markets

Developed Markets Equity Performance By Index (2014 Total Return USD)



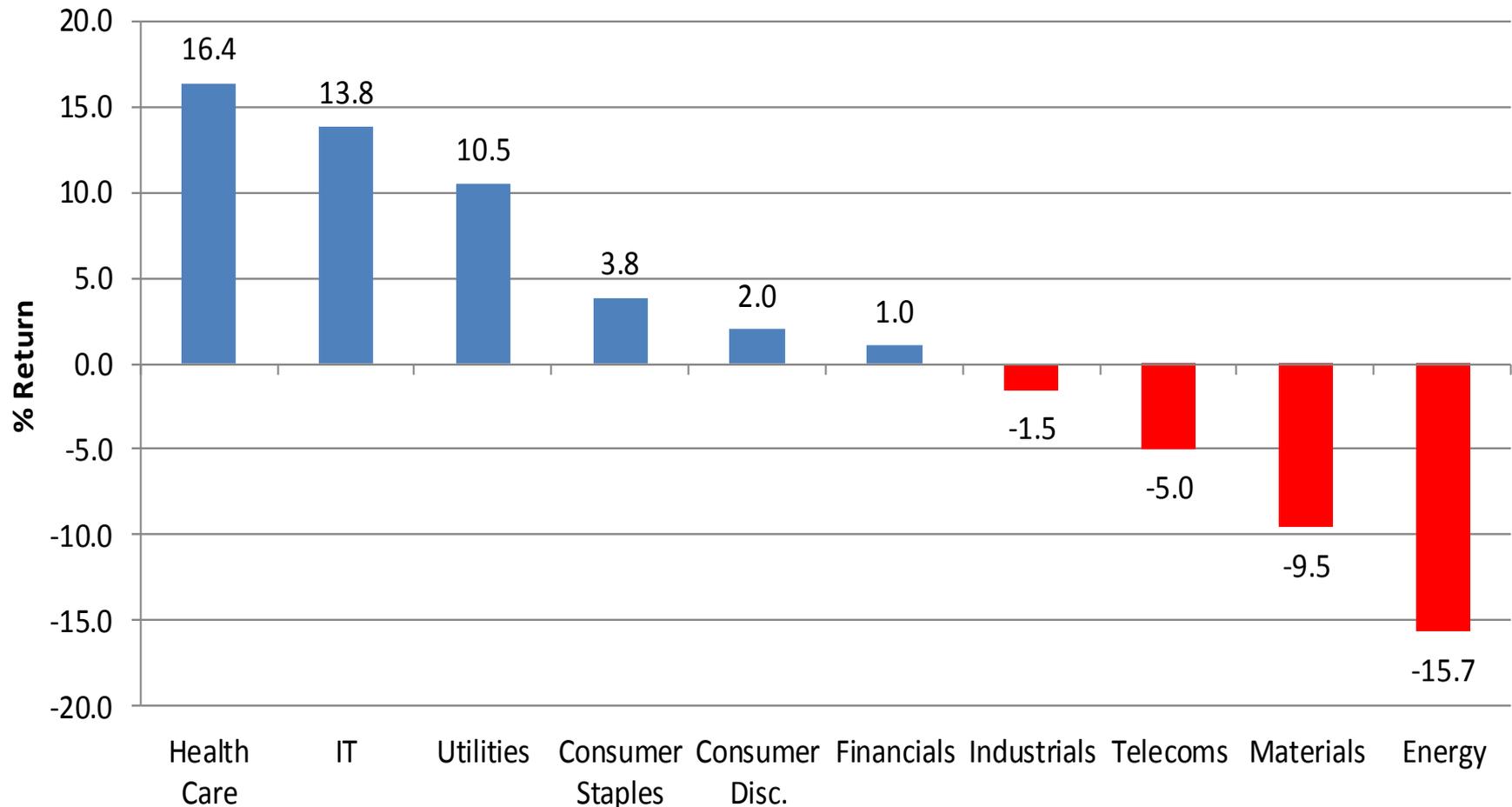
Wide Dispersion of Returns in Emerging Markets

Emerging Markets Equity Performance By Country (2014 Total Return USD)

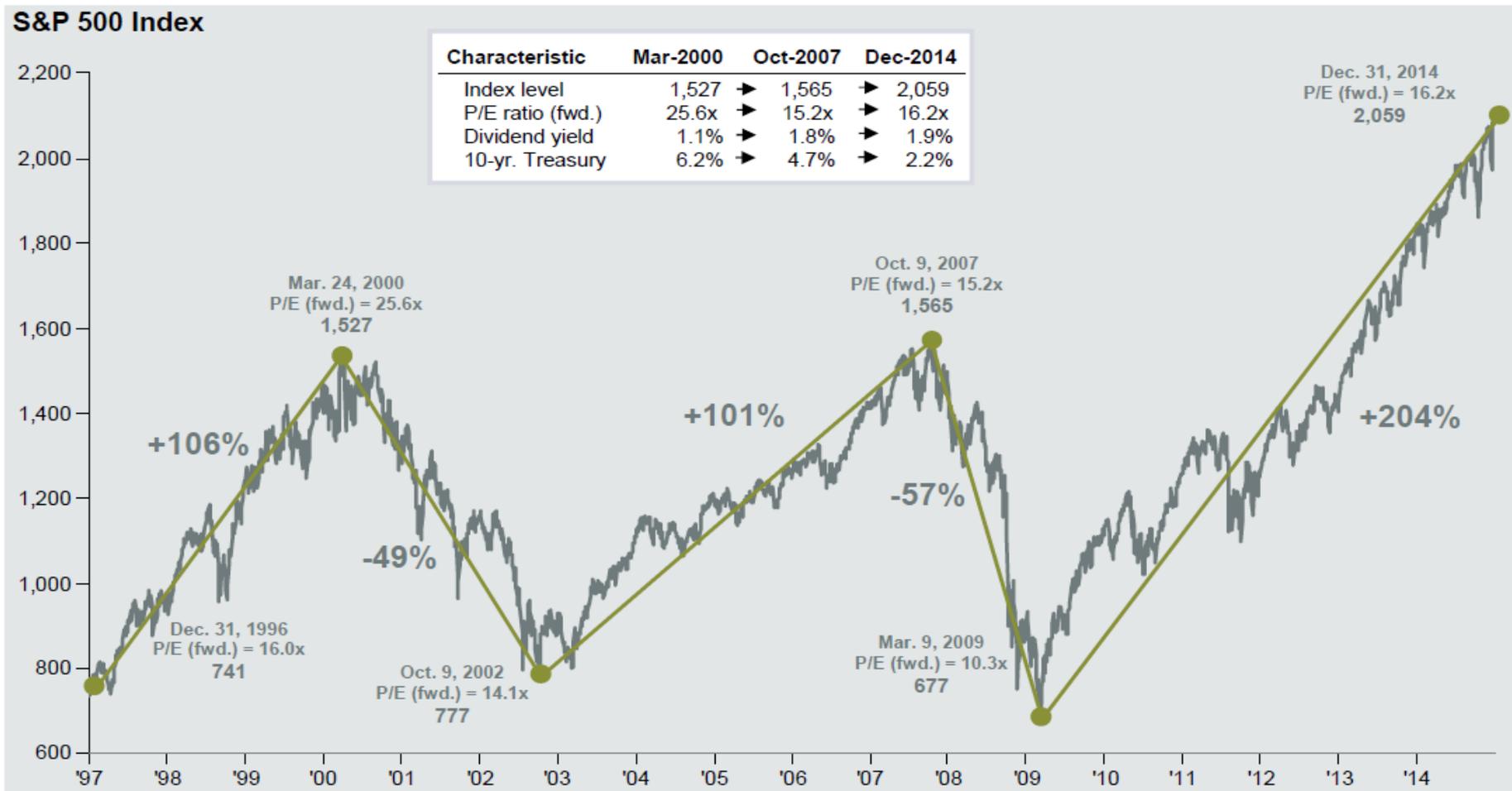


Healthcare and IT Led; Energy and Materials Lagged

Global Equity Sector Returns - CY14



S&P 500 Index at Inflection Points



Source: Standard & Poor's, First Call, Compustat, FactSet, J.P. Morgan Asset Management.

Dividend yield is calculated as the annualized dividend rate divided by price, as provided by Compustat. Forward Price to Earnings Ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.

Guide to the Markets – U.S. Data are as of 12/31/14.

Stock Market Since 1900

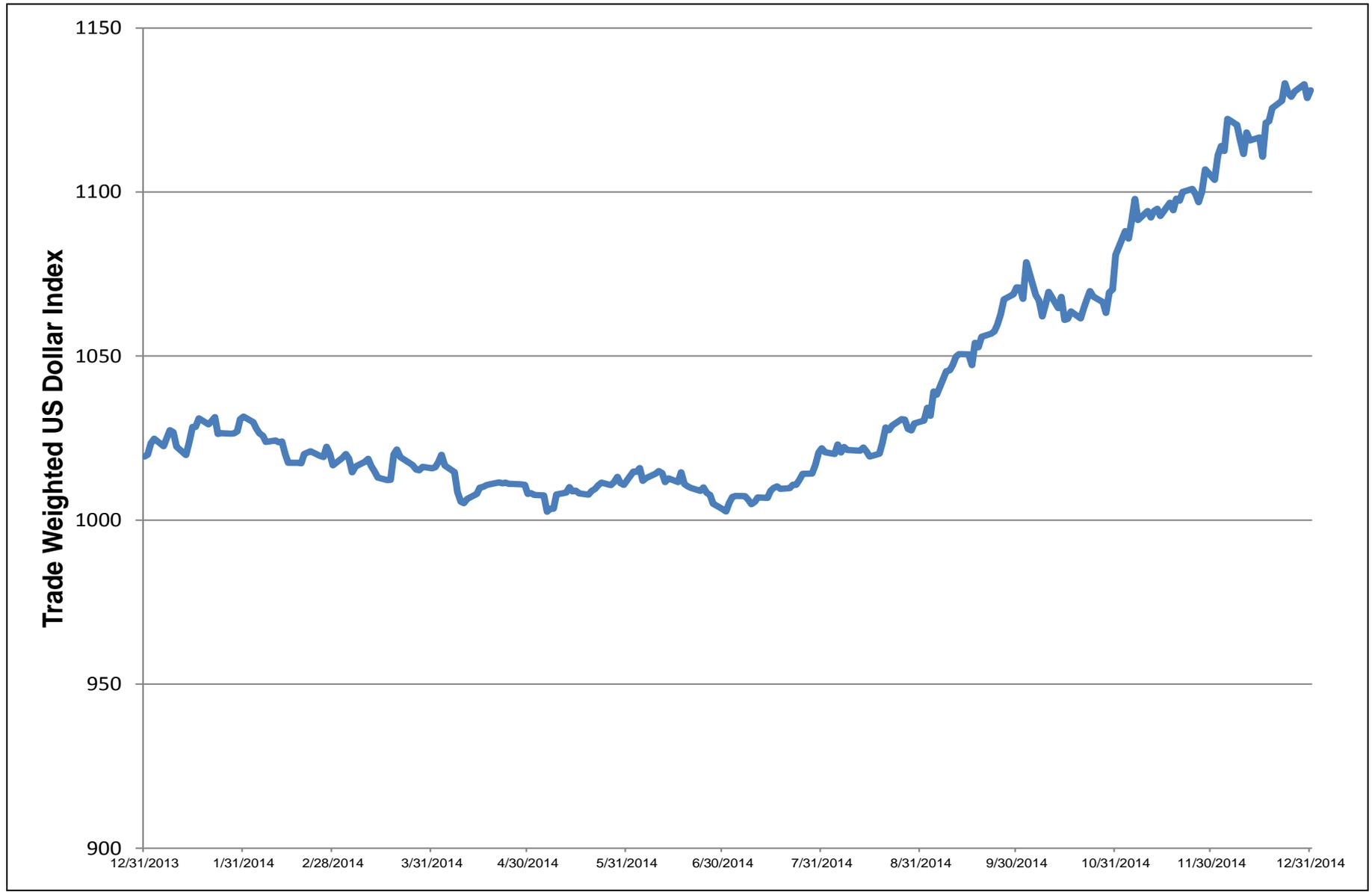


Source: Robert Shiller, FactSet, J.P. Morgan Asset Management.
 Data shown in log scale to best illustrate long-term index patterns.
 Past performance is not indicative of future returns. Chart is for illustrative purposes only.

Guide to the Markets – U.S.

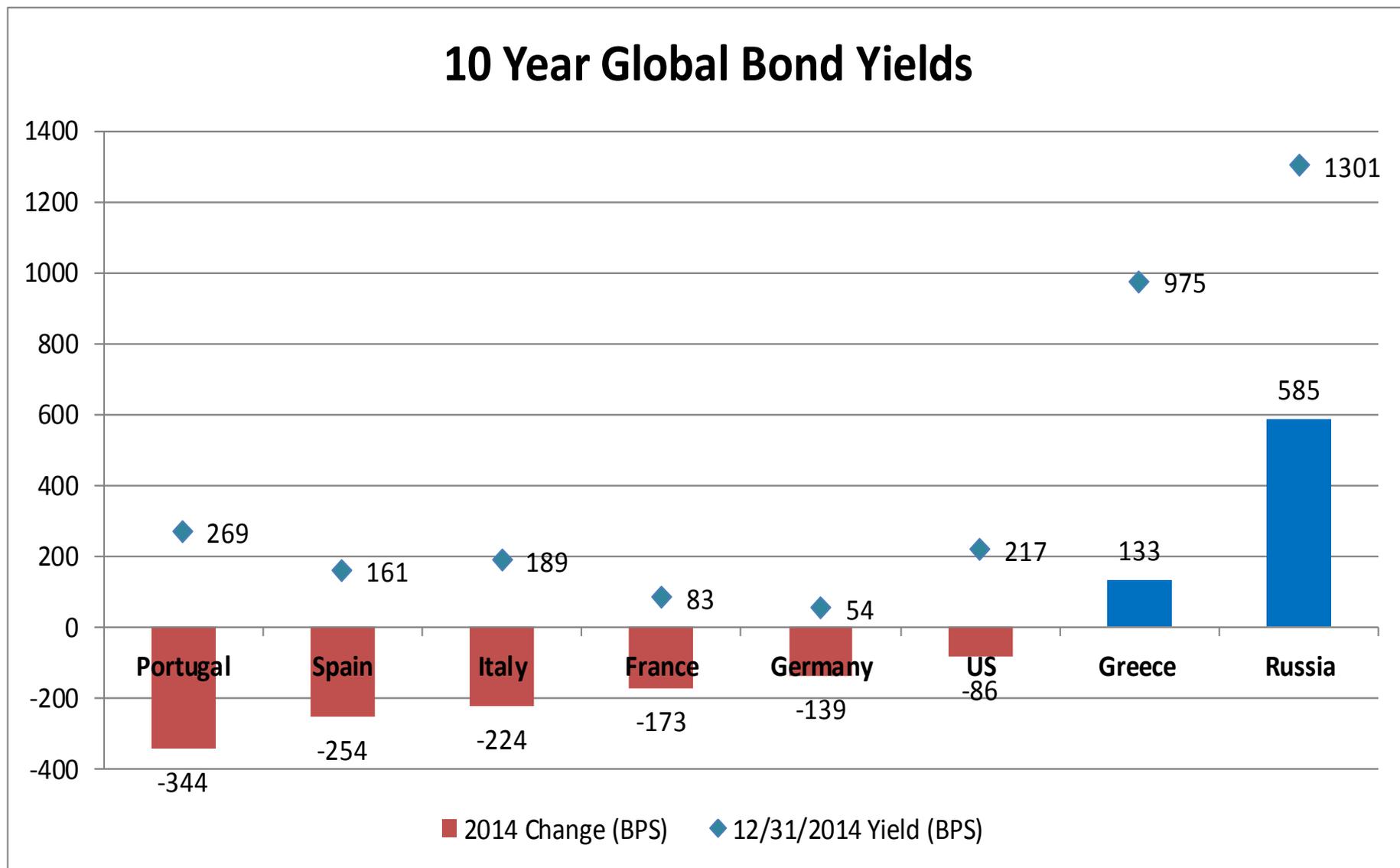
Data are as of 12/31/14.

The US Dollar Appreciated Against Most Currencies in 2014



Source: Bloomberg

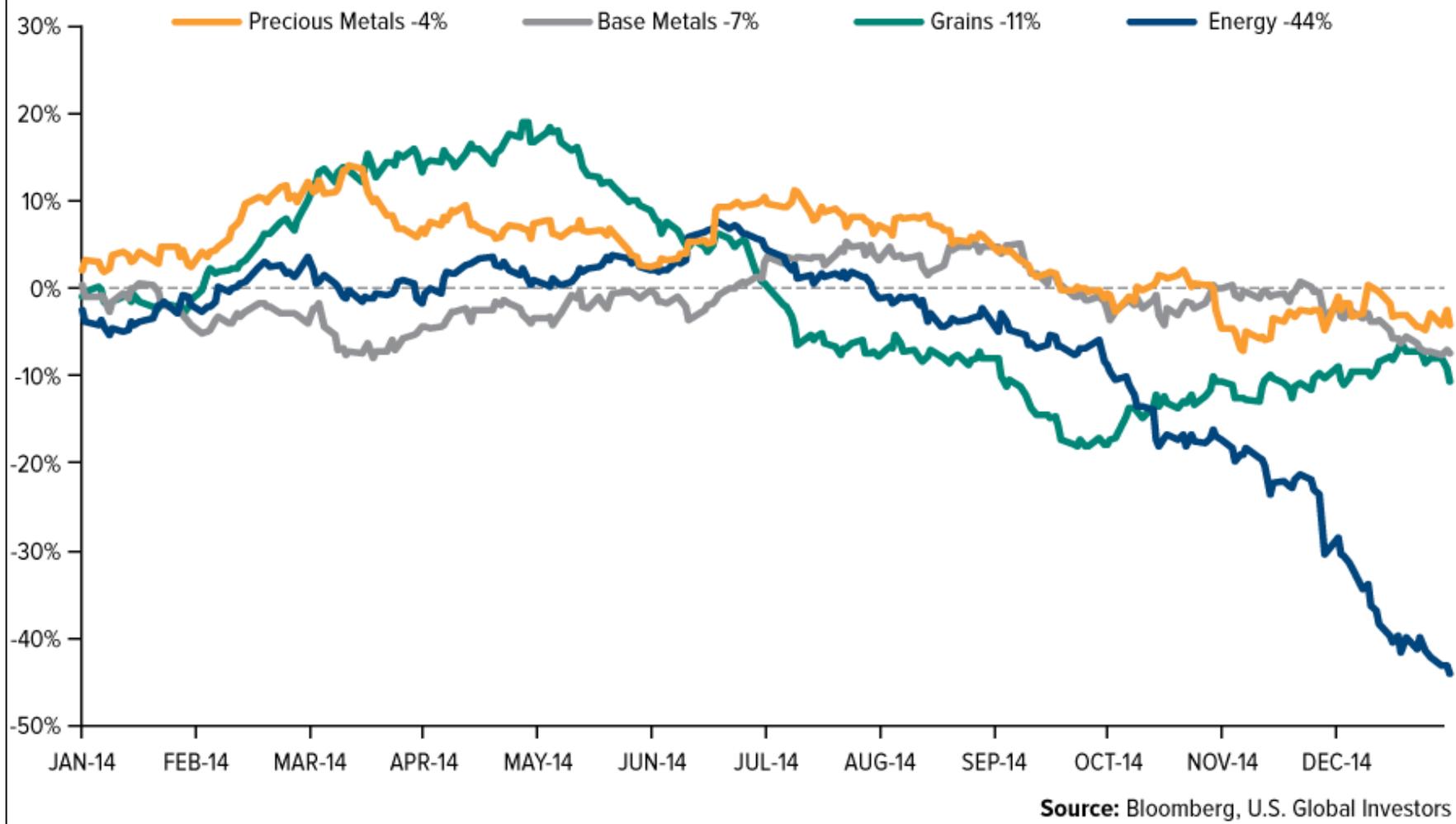
Government Bond Yields Declined In 2014 with the Exception of Countries Experiencing Turmoil



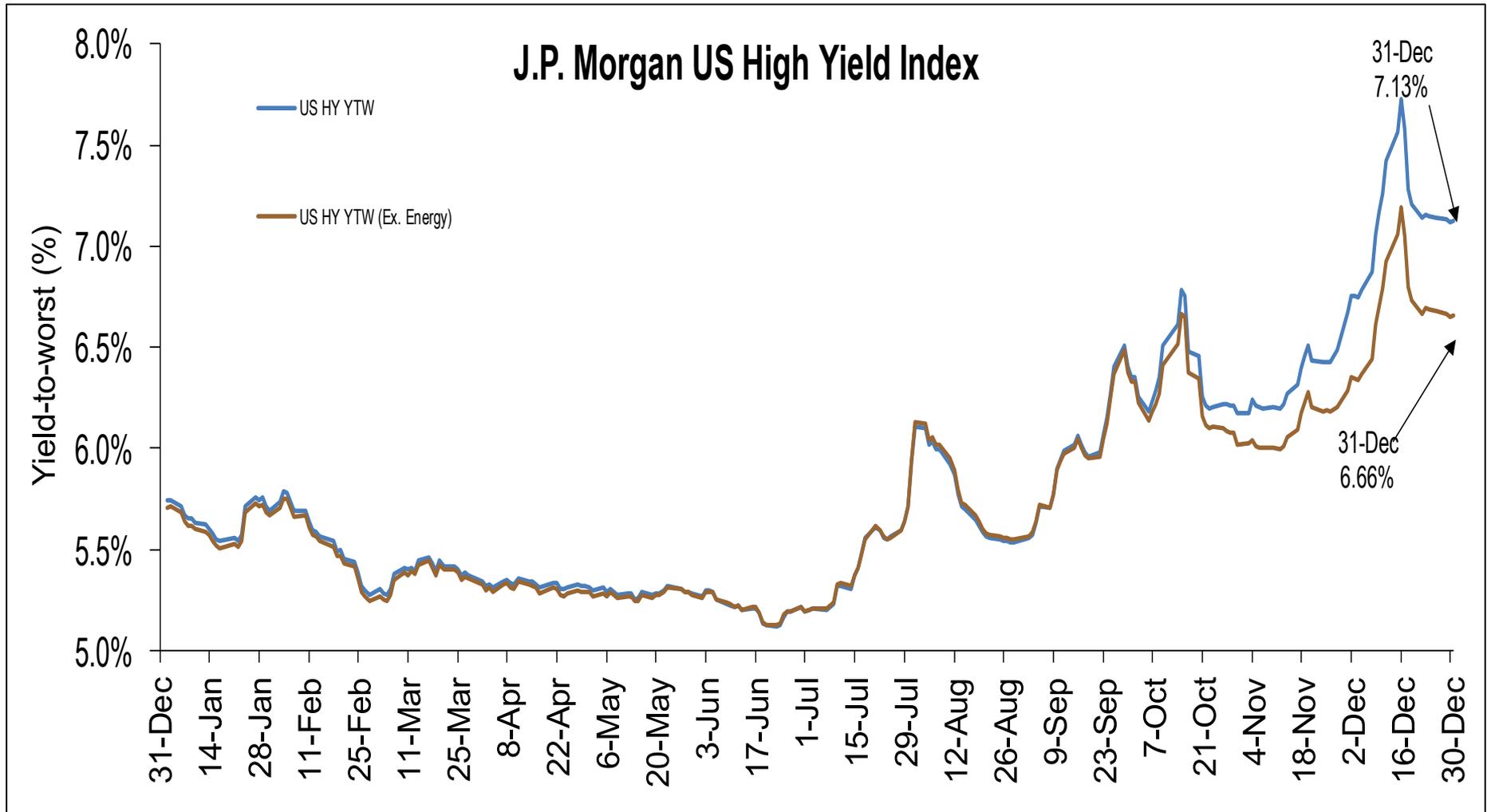
Energy, and Oil in particular, Led Commodities Lower

Energy Had Largest Price Declines in 2014

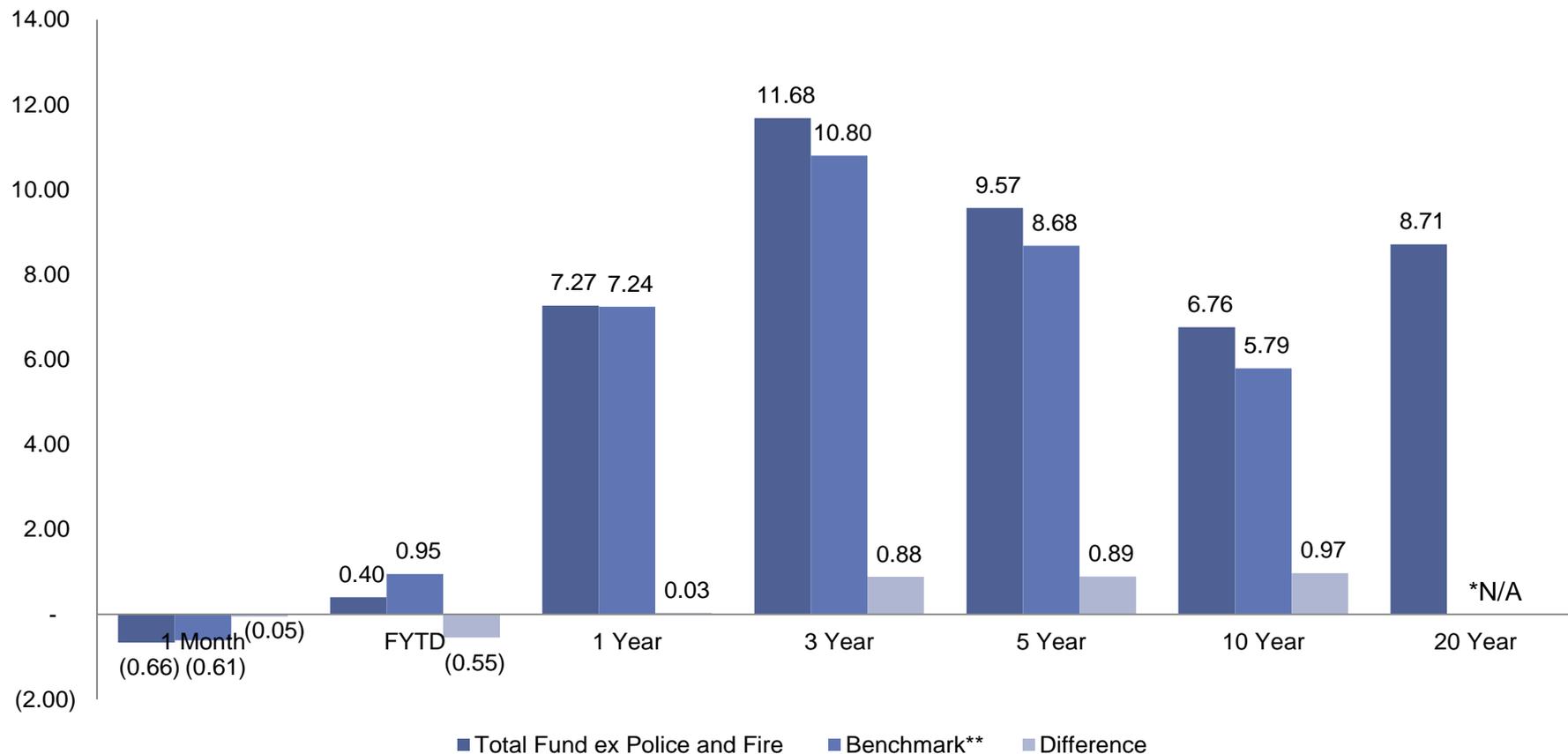
Components of the S&P Goldman Sachs Commodity Index



Oil Selloff Leads to Higher Yields on Below Investment Grade Bonds



Total Fund ex Police and Fire Performance as of December 31, 2014



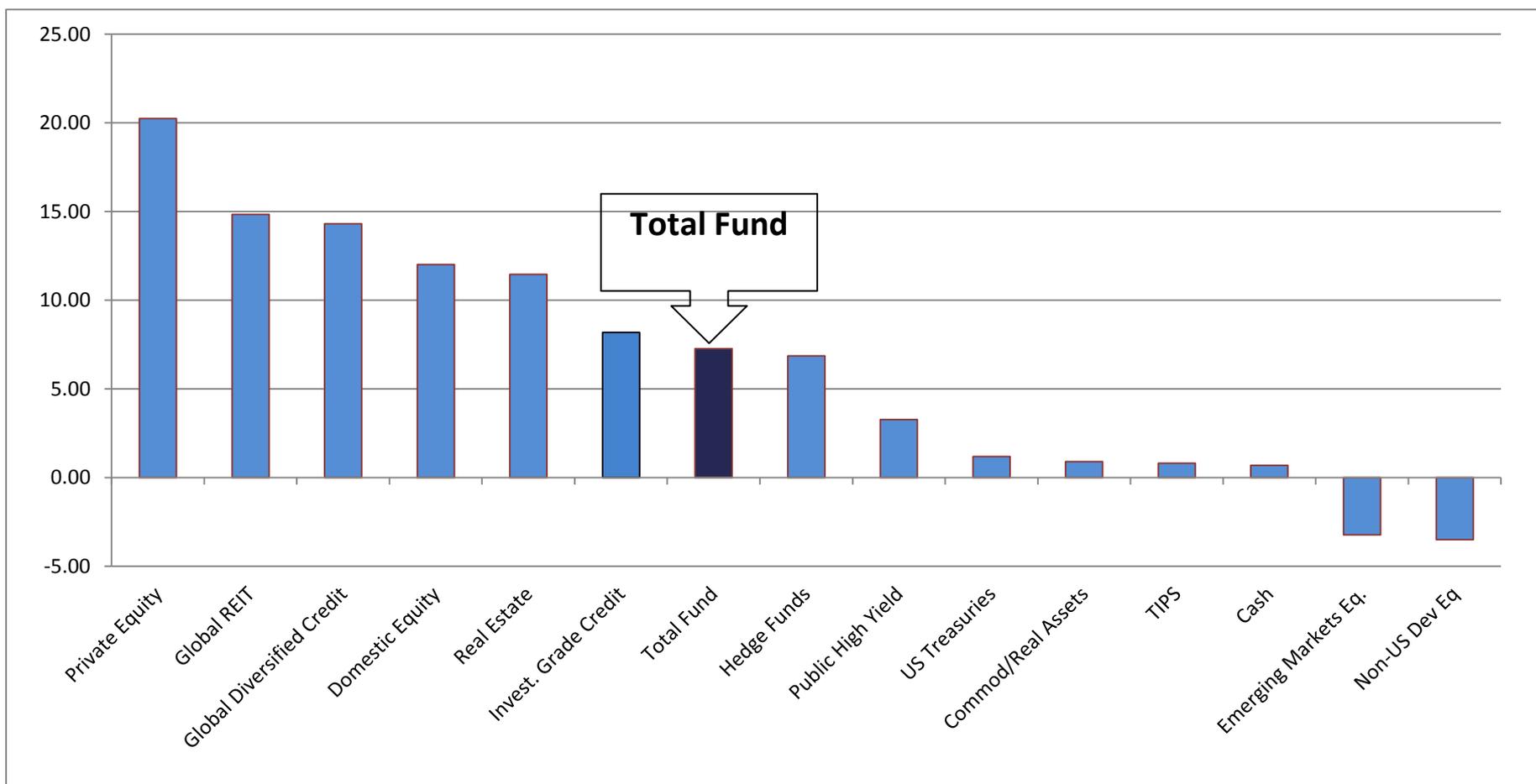
- The Total Fund ex Police and Fire Mortgages returned 7.27% for Calendar Year 2014, outperforming the benchmark by 3 bps.
- **The Fund is significantly ahead of the benchmark for the 3 year (+88 bps), 5 year (+89 bps), and 10 year (+97 bps) returns.**
- Year end assets for the Fund were \$76.8 billion

* Benchmark return not available for 20-Year period

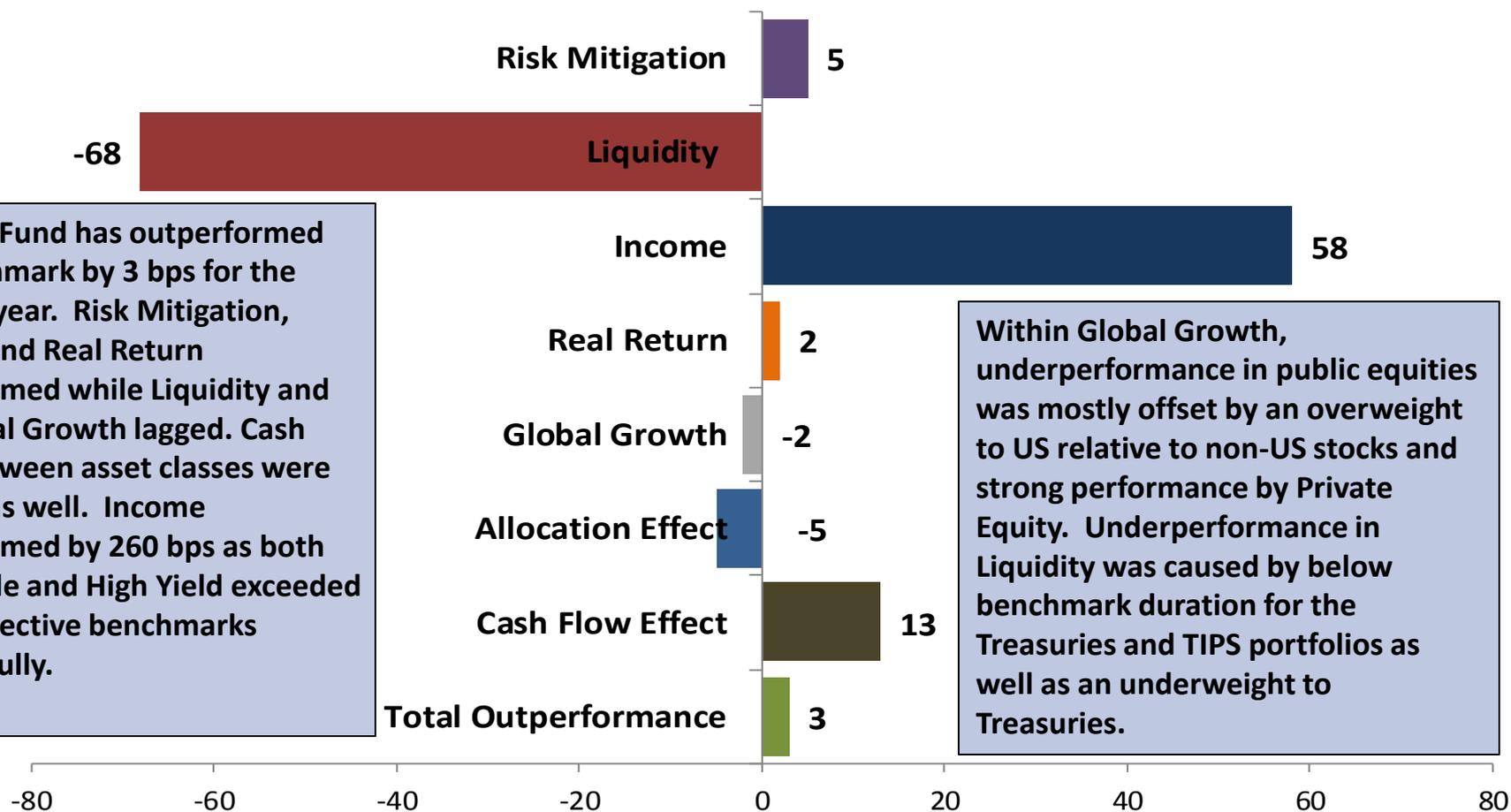
** Benchmarks are estimated

Private Equity was the Best Performing Asset Class for CY14 while Non-US Equities, Commodities, and Government Bonds Lagged

Fund Returns by Investment Type – Calendar Year 2014



Pension Fund Attribution vs. Benchmark Calendar Year 2014



The Total Fund has outperformed the benchmark by 3 bps for the calendar year. Risk Mitigation, Income, and Real Return outperformed while Liquidity and Global Growth lagged. Cash Flows between asset classes were additive as well. Income outperformed by 260 bps as both High Grade and High Yield exceeded their respective benchmarks meaningfully.

Within Global Growth, underperformance in public equities was mostly offset by an overweight to US relative to non-US stocks and strong performance by Private Equity. Underperformance in Liquidity was caused by below benchmark duration for the Treasuries and TIPS portfolios as well as an underweight to Treasuries.

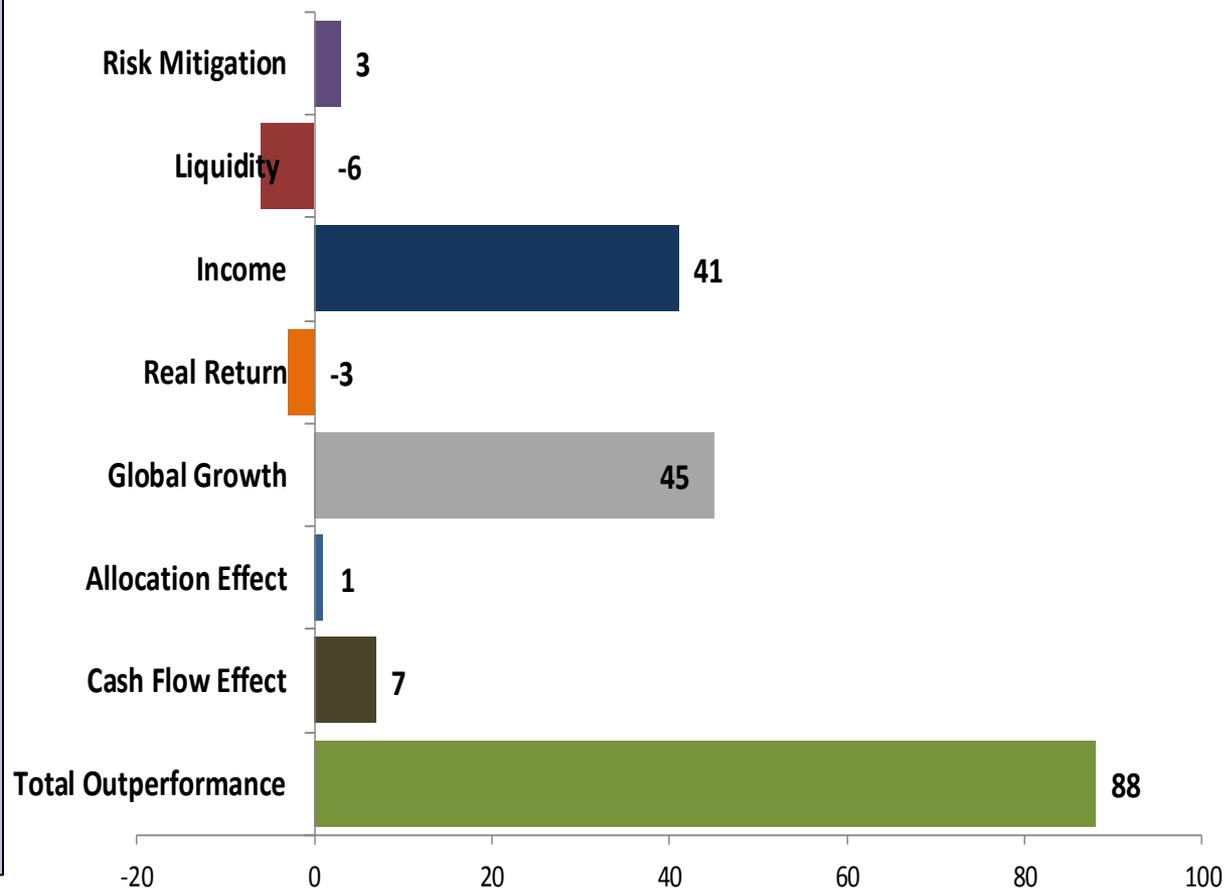
Allocation Effect indicates the effect of asset allocation bets, i.e. overweights or underweights vs. the target allocations. Cash Flow Effect reflects the impact of cash flows – i.e. money added to or taken from asset classes.

Pension Fund Attribution vs. Benchmark

Trailing Three Years

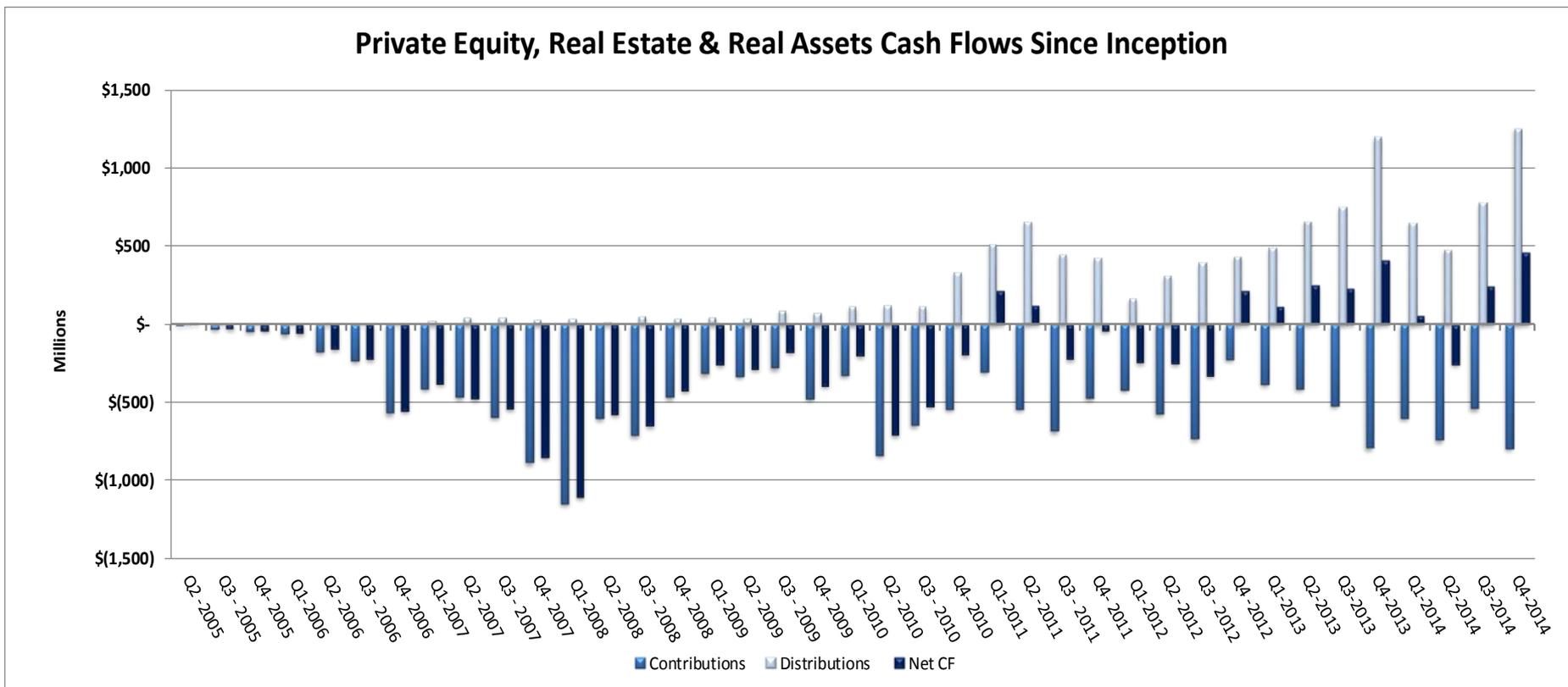
The Total Fund has outperformed the benchmark by 88 bps, annualized, for the trailing three years. Risk Mitigation, Income, and Global Growth outperformed while Liquidity and Real Return lagged. Cash Flows between asset classes and asset allocation decisions both had small positive impacts.

The positive contribution from Global Growth was primarily driven by strong relative returns from US Equity, Private Equity, and Hedge Funds. Within Income strong performance by Global Diversified Credit Funds (+17.6%) drove the positive contribution, while outperformance in High Grade Credit and Public High Yield also contributed.



Allocation Effect indicates the effect of asset allocation bets, i.e. overweights or underweights vs. the target allocations. Cash Flow Effect reflects the impact of cash flows – i.e. money added to or taken from asset classes.

Net Cash Flows for Alternatives Have Turned Positive Driven by Private Equity



The combined Private Equity, Real Estate, and Private Real Asset portfolio was net cash flow positive for the second consecutive year. After generating positive cash flow of \$1 billion in 2013, the portfolio was **net cash flow positive by \$506 million in 2014**. Both the private equity and real estate portfolios have been cash flow positive in each of the past two calendar year. In 2014, **Private Equity alone had distributions of \$1.8 billion**, the most in the history of the program.

New Jersey Division of Investment

- ❑ Focuses on Diversification
- ❑ Strives to Minimize Costs
- ❑ Is a Long Term Investor

Diversification Works: A Properly Diversified Portfolio can Mitigate the Effects of Volatility

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	4Q14	10-ysrs. '05 - '14 Cum.	10-ysrs. '05 - '14 Ann.	Standard Deviation
MSCI EME 34.5%	REITs 35.1%	MSCI EME 39.8%	Barclays Agg 5.2%	MSCI EME 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Russell 2000 38.8%	REITs 28.0%	REITs 12.9%	MSCI EME 132.0%	MSCI EME 8.8%	21.49
Bberg Cmdty 21.4%	MSCI EME 32.6%	Bberg Cmdty 16.2%	Cash 1.8%	MSCI EAFE 32.5%	Russell 2000 26.9%	Barclays Agg 7.8%	MSCI EME 18.6%	S&P 500 32.4%	S&P 500 13.7%	Russell 2000 9.7%	REITs 122.3%	REITs 8.3%	36.75
MSCI EAFE 14.0%	MSCI EAFE 26.9%	MSCI EAFE 11.6%	Market Neutral 1.1%	REITs 28.0%	MSCI EME 19.2%	Market Neutral 4.5%	MSCI EAFE 17.9%	MSCI EAFE 23.3%	Barclays Agg 6.0%	S&P 500 4.9%	Russell 2000 111.3%	Russell 2000 7.8%	26.75
REITs 12.2%	Russell 2000 18.4%	Market Neutral 9.3%	Asset Alloc. -24.0%	Russell 2000 27.2%	Bberg Cmdty 16.8%	S&P 500 2.1%	Russell 2000 16.3%	Asset Alloc. 15.0%	Asset Alloc. 5.2%	Asset Alloc. 2.0%	S&P 500 109.5%	S&P 500 7.7%	20.74
Asset Alloc. 8.3%	S&P 500 15.8%	Asset Alloc. 7.4%	Russell 2000 -33.8%	S&P 500 26.5%	S&P 500 15.1%	Cash 0.1%	S&P 500 16.0%	Market Neutral 9.3%	Russell 2000 4.9%	Barclays Agg 1.8%	Asset Alloc. 91.7%	Asset Alloc. 6.7%	
Market Neutral 6.1%	Asset Alloc. 15.2%	Barclays Agg 7.0%	Bberg Cmdty -35.6%	Asset Alloc. 22.2%	Asset Alloc. 12.5%	Asset Alloc. -0.6%	Asset Alloc. 11.3%	REITs 2.9%	Cash 0.0%	Market Neutral 1.0%	MSCI EAFE 61.5%	MSCI EAFE 4.9%	21.49
S&P 500 4.9%	Market Neutral 11.2%	S&P 500 5.5%	S&P 500 -37.0%	Bberg Cmdty 18.9%	MSCI EAFE 8.2%	Russell 2000 -4.2%	Barclays Agg 4.2%	Cash 0.0%	Market Neutral -0.5%	Cash 0.0%	Barclays Agg 58.4%	Barclays Agg 4.7%	3.68
Russell 2000 4.6%	Cash 4.8%	Cash 4.8%	REITs -37.7%	Barclays Agg 5.9%	Barclays Agg 6.5%	MSCI EAFE -11.7%	Market Neutral 0.9%	Barclays Agg -2.0%	MSCI EME -1.8%	MSCI EAFE -3.5%	Market Neutral 54.0%	Market Neutral 4.4%	2.78
Cash 3.0%	Barclays Agg 4.3%	Russell 2000 -1.6%	MSCI EAFE -43.1%	Market Neutral 4.1%	Cash 0.1%	Bberg Cmdty -13.3%	Cash 0.1%	MSCI EME -2.3%	MSCI EAFE -4.5%	MSCI EME -4.4%	Cash 15.7%	Cash 1.5%	0.19
Barclays Agg 2.4%	Bberg Cmdty 2.1%	REITs -15.7%	MSCI EME -53.2%	Cash 0.1%	Market Neutral -0.8%	MSCI EME -18.2%	Bberg Cmdty -1.1%	Bberg Cmdty -9.5%	Bberg Cmdty -17.0%	Bberg Cmdty -12.1%	Bberg Cmdty -17.1%	Bberg Cmdty -1.9%	18.41

Source: Russell, MSCI, Bloomberg, Standard & Poor's, Credit Suisse, Barclays Capital, NAREIT, FactSet, J.P. Morgan Asset Management.

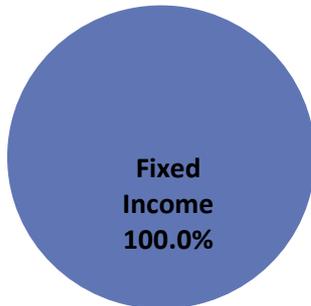
The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Barclays Capital Aggregate, 5% in the Barclays 1-3m Treasury, 5% in the CS/Tremont Equity Market Neutral Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. All data represents total return for stated period.

Past performance is not indicative of future returns. Data are as of 12/31/14, except for the CS/Tremont Equity Market Neutral Index, which reflects data through 11/30/14. "10-ysrs" returns represent period of 12/31/04 – 12/31/14 showing both cumulative (Cum.) and annualized (Ann.) over the period. Please see disclosure page at end for index definitions. *Market Neutral returns include estimates found in disclosures.

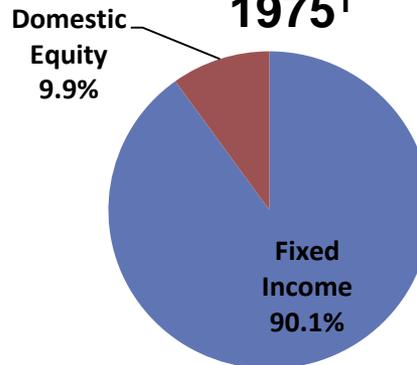
Guide to the Markets – U.S. Data are as of 12/31/14.

NJDOJ Asset Allocation Has Evolved

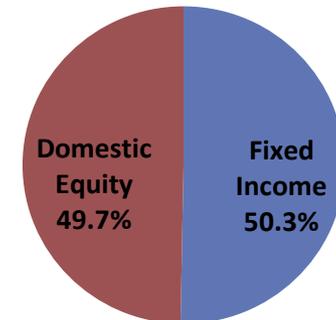
1951¹



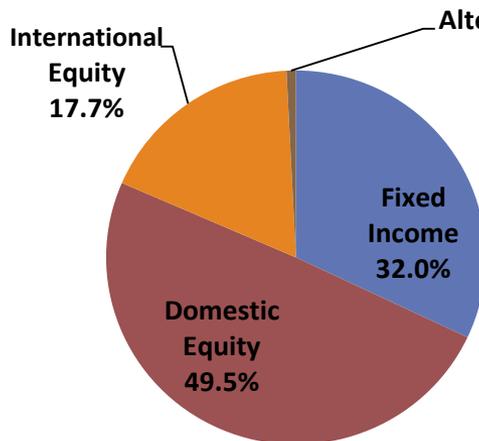
1975¹



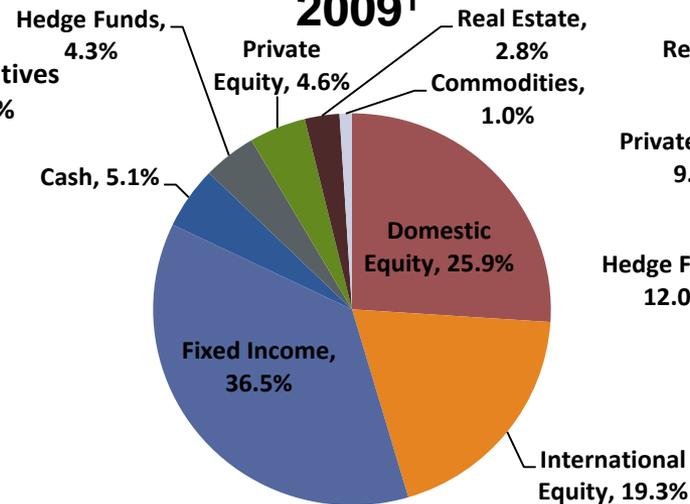
1992¹



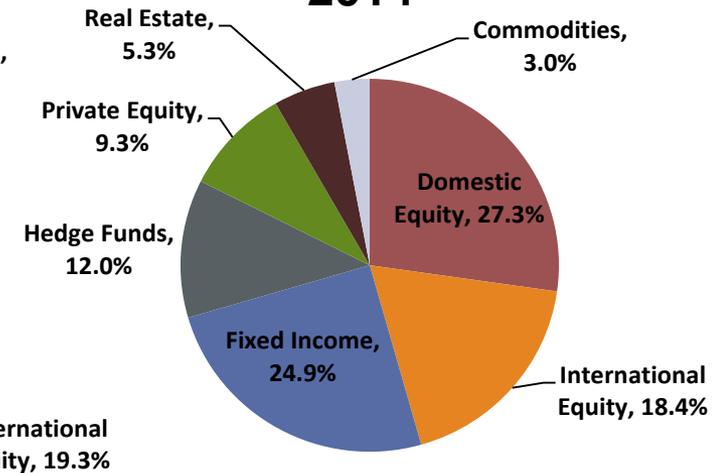
2006¹



2009¹



2014²



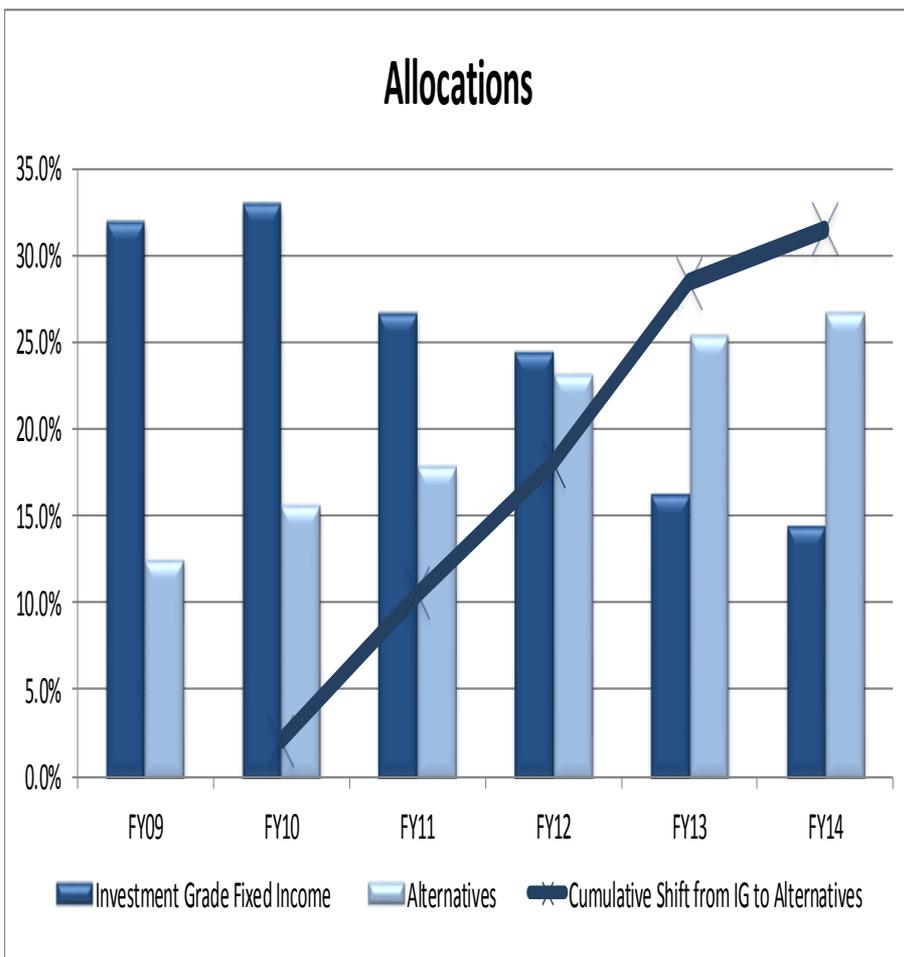
¹ Based on Actual Allocations

² Based on Target Allocations

Impact of Shift in Asset Allocation from Fixed Income to Alternative Investments

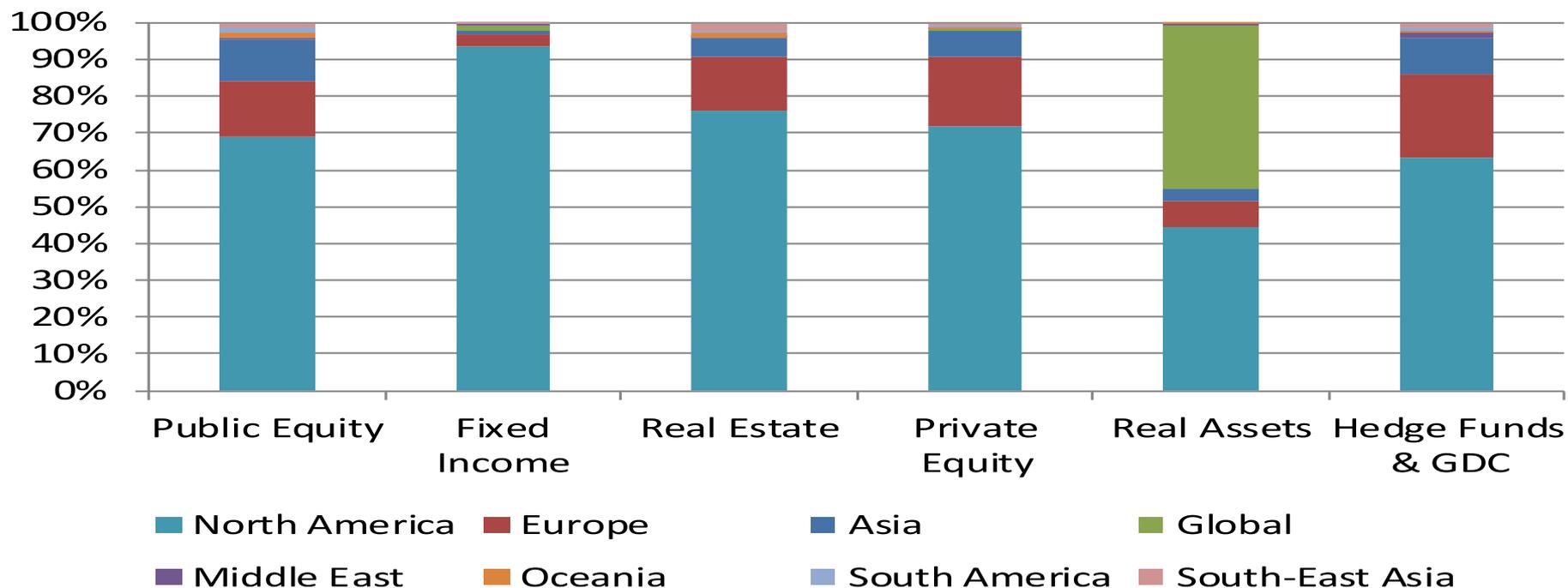
Since the beginning of Fiscal Year 2010, the asset allocation of the Fund has shifted out of investment grade fixed income securities (IG) and into alternative investments

- Over the past five years, the NJDOI has reduced its overall allocation to IG by 17.4% of the overall Plan (from 32.0% to 14.6%) and increased its overall allocation to alternatives by 14.1% (from 12.6% to 26.7%)
- Over the same horizon, the alternatives portfolio has outperformed IG by more than 2.3% (annualized)



	<u>Total Return</u>		
	<i>Investment Grade Fixed Income (IG)</i>	<i>Alternatives</i>	<i>Impact of Δ Allocation (\$ millions)</i>
FY10	15.7%	9.1%	(44.0)
FY11	5.3%	17.7%	524.3
FY12	17.3%	1.6%	(1,651.5)
FY13	-1.1%	11.6%	2,077.1
FY14	6.2%	14.9%	1,928.1
Five Years Ended June 30, 2014 (cumulative)	50.1%	67.3%	2,834.0
Five Years Ended June 30, 2014 (annualized)	8.5%	10.8%	

Geographic Breakdown of Pension Fund by Asset Class



- The Hedge Fund/Global Diversified Credit portfolio is the most diversified in terms of exposure to Non-US assets
- The Division has made a number of commitments to Non-US focused Real Estate funds in the last several years which will increase the geographic diversification of that portfolio going forward
- The 40% allocation to Global in Real Assets primarily accounts for commodity futures and options

Approximate

Oceania- Australia and New Zealand; South-East Asia- Vietnam, Singapore, Malaysia

NJDOI Works to Keep Costs Low

Total Cost as Percentage of Assets – In Basis Points ¹		
	NJ	Similarly-sized US Public Funds ²
Administrative Expenses	1.4 bps	4.6 bps
Investment Expenses	30.2 bps	39.7 bps
Total Expenses	31.6bps	44.3 bps

¹ 12 Months ending June 30, 2014

² Source: R.V. Kuhns. State of New Jersey Pension Fund. Public Fund Universe Analysis.

New Jersey's costs are approximately 25% below those of our peers. Based on fiscal year end assets of \$81 billion, NJDOI costs are over **\$100 million less** than those of a plan of the same size with costs equal to the peer average.

One way NJDOI keeps cost low is by managing a significant portion of the assets internally. Approximately 65% of all assets are managed in house by a small but dedicated team. Internal assets under management equate to **\$2.8 billion per investment professional.**

NJDOI Works to Keep Costs Low

	Approximate NJDOI Fees (FY 2014)	Estimated Fees based on Standard Terms	NJDOI Total Fee Savings
Private Equity	0.99%	1.60%	0.61%
Real Estate	0.93%	1.30%	0.37%
Hedge Funds	1.00%	1.45%	0.45%
Real Assets	0.72%	1.40%	0.68%
Total	0.96%	1.45%	0.49%

NJDOI also works hard to ensure those assets which are entrusted to external partners are managed in the most cost effective manner possible. To that end, NJDOI has aggressively negotiated terms and governance rights across all alternative investments, resulting in significant fee savings. **NJ's management fee savings for FY 2014 are estimated at over \$100 million versus industry standard terms**

Pension Fund Fiscal Year Performance Since 2000

Fiscal Year Ending	Total Fund ex Police & Fire Mortgage %	Total Policy Benchmark %	Over/(Under) Performance %
June 30, 2000	11.86	8.41	3.45
June 30, 2001	(9.80)	(6.71)	(3.09)
June 30, 2002	(8.61)	(7.25)	(1.36)
June 30, 2003	3.31	3.47	(0.16)
June 30, 2004	14.16	14.44	(0.28)
June 30, 2005	8.77	8.07	0.70
June 30, 2006	9.79	8.13	1.66
June 30, 2007	17.14	16.49	0.65
June 30, 2008	(2.61)	(6.00)	3.39
June 30, 2009	(15.48)	(14.76)	(0.72)
June 30, 2010	13.35	13.51	(0.16)
June 30, 2011	18.03	17.03	1.00
June 30, 2012	2.52	0.26	2.26
June 30, 2013	11.78	10.96	0.82
June 30, 2014	16.87	15.79	1.08

The Fund has outperformed the benchmark in each of the last four fiscal years, adding approximately \$3.7 billion of additional value

New Jersey Top Performer Since Global Financial Crisis

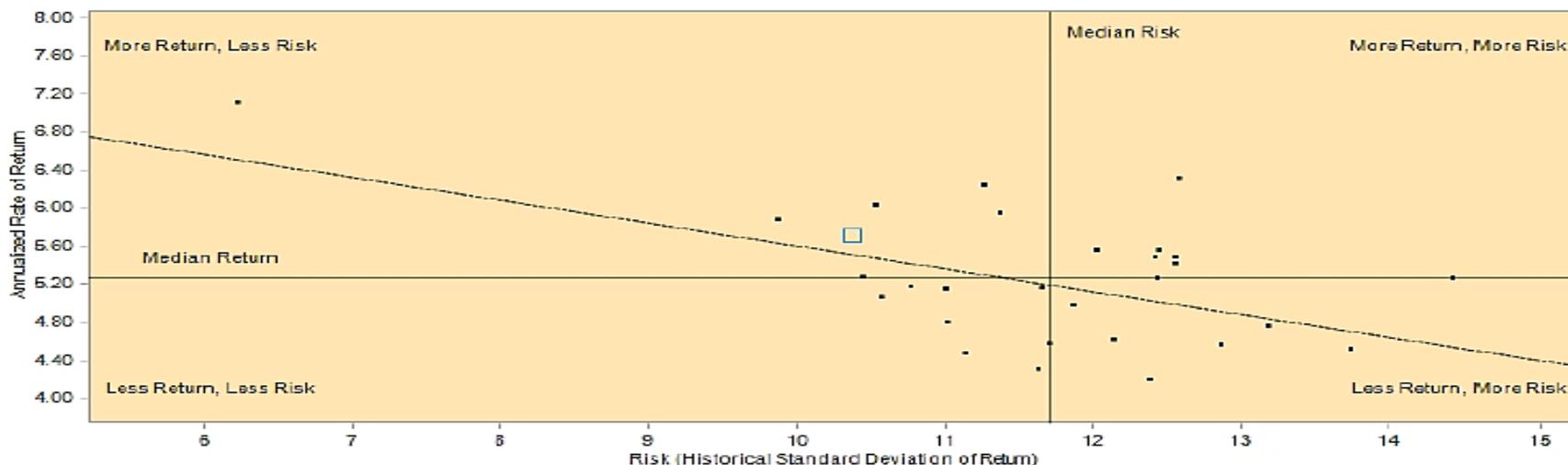
Since the onset of the Global Financial Crisis in mid-2007, New Jersey is one of the best performing US Public Pension Fund

	NJDOI	Florida SBA	Texas Teachers	Ohio Teachers	Connecticut	CalSTRS	Mass PRIM	South Carolina	Virginia	CalPERS	Maryland
Approximate Assets as of 6/30/14 (Billions)	81.2	149.1	130.2	74.8	26.7	189.1	60.7	29.8	66.1	300.9	45.4
FY 2014	16.87%	17.40%	16.30%	16.80%	15.70%	18.66%	17.60%	15.29%	15.70%	18.40%	14.37%
FY 2013	11.78%	13.12%	10.20%	13.66%	11.64%	13.80%	12.73%	10.00%	11.80%	13.20%	10.60%
FY 2012	2.52%	0.29%	2.70%	2.34%	-0.90%	1.84%	-0.08%	0.40%	1.40%	0.10%	0.36%
FY 2011	18.03%	22.09%	22.20%	22.59%	20.75%	23.10%	22.30%	18.30%	19.10%	21.70%	20.04%
FY 2010	13.35%	14.03%	15.60%	13.54%	12.88%	12.20%	12.82%	13.80%	14.10%	13.30%	14.03%
FY 2009	-15.48%	-19.03%	-21.90%	-21.66%	-17.37%	-25.03%	-23.87%	-19.30%	-21.10%	-24.00%	-20.01%
FY 2008	-2.61%	-4.42%	-2.10%	-5.44%	-4.71%	-3.69%	-1.81%	-2.56%	-4.40%	-5.10%	-5.40%
7-Yr Annualized	5.71%	5.30%	5.15%	4.93%	4.64%	4.62%	4.56%	4.36%	4.32%	4.21%	3.99%

New Jersey Division of Investments

Risk vs Total Returns of Master Trusts - Public : Plans > \$25 Billion

7 Years Ending June 30, 2014



Alpha: 8
Beta: -0.24
R-Squared: 0.27

	Risk Value	Risk Rank	Return Value	Return Rank
□ Total Pension Fund ex Police	10.38	91	5.71	21
Median	11.70		5.26	

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

Further evidence that NJ's diversified risk adverse approach has been successful: Over the last market cycle, **New Jersey has generated returns better than 79 percent of its peers while taking less risk than 91% of its peers**

2014 Accomplishments

- **Internal Management Alpha Generation:** The Division generated meaningful alpha in a number of areas including: High Grade Credit (+216 bps), High Yield (39 bps), Commodities (+562), Developed International Equity (+60 bps)
- **Asset Allocation Decisions:** The decision to be overweight domestic equity had a positive impact on performance as did actions to reduce exposure to commodities
- **Enhanced Internal Management of International Equity Portfolio:** Implemented enhancements to the optimized International Equity portfolio which led to 78 bps of outperformance; utilized country specific ETFs in developed and emerging portfolios in place of broad based ETFs which also had a positive impact on performance
- **Currency Management:** Increased focused on currency hedging led to gains of approximately \$36 million for the year
- **Innovative Investment Structures:** NJ's Alternatives Program committed to a total of 21 investments in CY 2014, and negotiated preferential terms in approximately half of them, generating meaningful fee savings and improved governance rights
- **Merger of Common Pension Funds:** Completed Merger of Common Pension Funds which provides a streamlined administrative framework supporting investment decisions
- **Major procurement efforts:** Completed (or nearing completion) RFP processes for Cash Management Fund Custodian, Emerging Market and International Small Cap Equity Advisors, and Hedge Fund Consultant
- **Internal Investment Committee:** Implemented an internal investment committee for alternative investments which has led to improved communication among the staff and better decision making
- **Reopened DOI Managed DCP Equity Funds:** DOI Large and Small Cap Equity funds are now open to new contributions with the DCP providing plan participants with a low cost active equity investment option

2015 NJDOI Initiatives

- **Technology Upgrade/Procurements**
 - Complete review of current technology and develop plan for upgrades where necessary
 - Continue evaluation of total fund risk management system
- **Improve Geographic Diversification**
 - Implement funding of Developing Markets and International Small Cap advisors to improve the geographic diversification
 - Improve geographic diversification of alternatives program, particularly real estate and private equity
 - Explore geographic diversification within fixed income portfolio
- **Continue Focus on Alignment of Interests**
 - Negotiate terms on alternative investments that align the interest of the investment manager with the Division with a particular focus on existing and new hedge fund relationships
- **More Actively Manage Hedge Fund Program**
 - Reduce number of hedge fund of funds relationships
 - Develop procedures for actively managing allocations among direct managers
- **Expand Covered Call Writing Program**
 - Expand covered call writing program to individual securities for income generation and risk management
- **Continue restructuring of Commodities/Real Assets portfolio**
 - Increase exposure to Private Real Asset strategies
- **Improve Reporting**
 - Improve portfolio level reporting for internal use, Investment Policy Committee, and State Investment Council
- **Transition Cash Management Fund Custodian**
 - As part of transition, upgrade best practices and online capabilities for both DOI staff and participants
- **Complete RFP process for Global Custodian**
 - Ensure DOI is receiving high level service at a reasonable cost. As part of process consolidate the number of custodial relationships