

New Jersey Division of Investment

Annual Meeting State Investment Council March 19, 2014

“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.”

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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 \$74.4 billion in pension related assets on behalf of over 767,000* participants. Approximately 54% are still working and contributing to the pension while 38% 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: \$11.4 billion*
- Supplemental Annuity Collective Trust: \$180 million*
- A portion of NJBEST Fund: \$412 million*
- Deferred Compensation Program \$526 million*

Division of Investment Overview

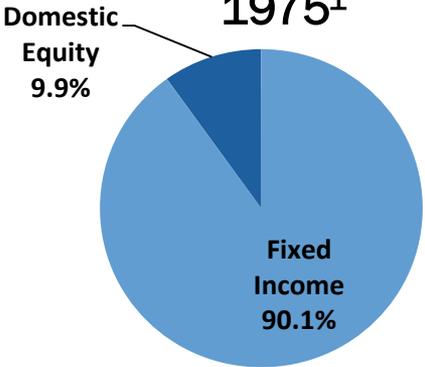
- The New Jersey Division of Investment (NJDOI) was created by the New Jersey Legislature (P.L. 1950, c.270) in 1950
- NJDOI's Ranking based on assets as of 12-31-2012 among Pension Funds according to *Pension and Investments*:
 - 36th Largest Globally; 16th Largest in the US; 12th Largest US Public Pension Fund
- NJDOI has 65 active employees (includes part-time) with an approximate \$8.6 million personnel budget
- In Fiscal Year 2013, NJDOI:
 - Traded Over 1.5 billion shares of US and International equities with a value of approximately \$35 billion
 - Executed \$8.5 billion of foreign currency transactions
 - Collected over \$20 million in premium from covered call writing
 - Traded \$16 billion in Fixed Income securities
 - Received approximately \$900 million in dividends and \$718 million in bond interest income

NJDOI Asset Allocation Has Evolved

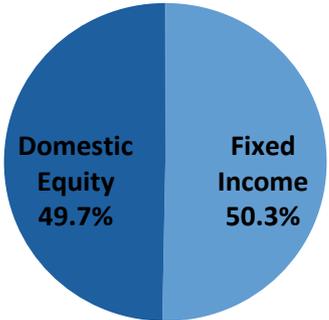
1951¹



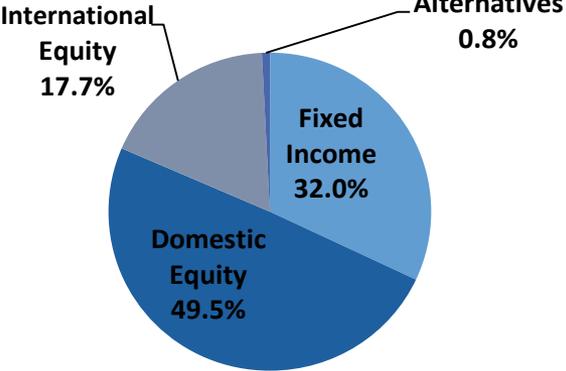
1975¹



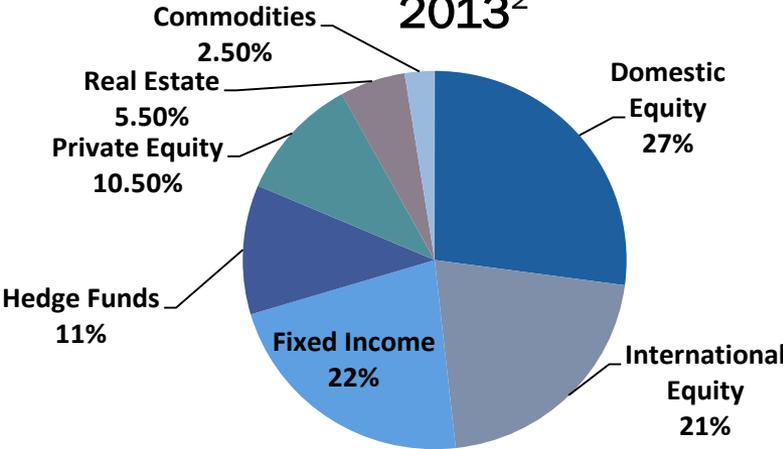
1992¹



2006¹



2013²



¹ Based on Actual Allocations

² Based on Target Allocations

Diversification Works!

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	4Q13	10-yrs. '04 - '13 Cum.	10-yrs. '04 - '13 Ann.	Standard Deviation
REITs 31.6%	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%	S&P 500 10.5%	MSCI EME 197.7%	MSCI EME 11.5%	21.74
MSCI EME 26.0%	DJ UBS Cmdty 21.4%	MSCI EME 32.6%	DJ UBS 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%	Russell 2000 8.7%	Russell 2000 138.3%	Russell 2000 9.1%	26.86
MSCI EAFE 20.7%	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%	MSCI EAFE 5.7%	REITs 128.5%	REITs 8.6%	37.02
Russell 2000 18.3%	REITs 12.2%	Russell 2000 18.4%	Market Neutral 9.3%	Asset Alloc. -24.0%	Russell 2000 27.2%	DJ UBS Cmdty 16.8%	S&P 500 2.1%	Russell 2000 16.3%	Asset Alloc. 14.9%	Asset Alloc. 4.6%	S&P 500 104.3%	S&P 500 7.4%	20.73
Asset Alloc. 12.5%	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 7.9%	Market Neutral 3.8%	MSCI EAFE 104.1%	MSCI EAFE 7.4%	19.81
S&P 500 10.9%	Market Neutral 6.1%	Asset Alloc. 15.2%	Barclays Agg 7.0%	DJ UBS Cmdty -35.6%	Asset Alloc. 22.2%	Asset Alloc. 12.5%	Asset Alloc. -0.6%	Asset Alloc. 11.3%	REITs 2.9%	MSCI EME 1.9%	Asset Alloc. 100.1%	Asset Alloc. 7.2%	
DJ UBS Cmdty 9.1%	S&P 500 4.9%	Market Neutral 11.2%	S&P 500 5.5%	S&P 500 -37.0%	DJ UBS Cmdty 18.9%	MSCI EAFE 8.2%	Russell 2000 -4.2%	Barclays Agg 4.2%	Cash 0.0%	Cash 0.0%	Market Neutral 62.7%	Market Neutral 5.0%	2.84
Market Neutral 6.5%	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%	Barclays Agg -0.1%	Barclays Agg 56.0%	Barclays Agg 4.5%	3.78
Barclays Agg 4.3%	Cash 3.0%	Barclays Agg 4.3%	Russell 2000 -1.6%	MSCI EAFE -43.1%	Market Neutral 4.1%	Cash 0.1%	DJ UBS Cmdty -13.3%	Cash 0.1%	MSCI EME -2.3%	REITs -0.2%	Cash 17.1%	Cash 1.6%	0.19
Cash 1.2%	Barclays Agg 2.4%	DJ UBS Cmdty 2.1%	REITs -15.7%	MSCI EME -53.2%	Cash 0.1%	Market Neutral -0.8%	MSCI EME -18.2%	DJ UBS Cmdty -1.1%	DJ UBS Cmdty -9.5%	DJ UBS Cmdty -1.1%	DJ UBS Cmdty 9.0%	DJ UBS Cmdty 0.9%	18.89

Source: Russell, MSCI, Dow Jones, 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 EMI, 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 DJ UBS 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 12/31/13, except for the CS/Tremont Equity Market Neutral Index, which reflects data through 11/30/13. "10-yrs" returns represent period of 1/1/04 – 12/31/13 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 12/31/13.

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	(2.70)	(6.00)	3.30
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

The Fund has outperformed the benchmark in each of the last three fiscal years, adding approximately \$2.8 billion of incremental value.

New Jersey Top Performer Since Global Financial Crisis

Since the onset of the Global Financial Crisis in mid-2007, New Jersey is the best performing US Public Pension Fund among a peer group of large similarly funded plans

	NJDOI	Texas Teachers	Florida SBA	Ohio Teachers	Connecticut	South Carolina	Virginia	Mass PRIM	CalSTRS	Maryland	CalPERS
Approximate Assets (billions)	74	112	162	68	24	27	59	54	166	40	264
FY 2013	11.78%	10.21%	13.12%	13.70%	11.49%	10.00%	11.80%	12.70%	13.80%	10.60%	12.50%
FY 2012	2.52%	2.70%	0.29%	2.34%	-0.90%	0.40%	1.40%	-0.08%	1.84%	0.36%	1.00%
FY 2011	18.03%	22.20%	22.09%	22.59%	20.75%	18.30%	19.10%	22.30%	23.10%	20.04%	20.90%
FY 2010	13.35%	15.60%	14.03%	13.54%	12.88%	13.80%	14.10%	12.82%	12.20%	14.03%	11.60%
FY 2009	-15.48%	-21.90%	-19.03%	-21.66%	-17.37%	-19.30%	-21.10%	-23.87%	-25.03%	-20.01%	-23.40%
FY 2008	-2.70%	-2.10%	-4.42%	-5.44%	-4.71%	-2.56%	-4.40%	-1.81%	-3.69%	-5.40%	-4.90%
6-Yr Annualized	3.94%	3.41%	3.40%	3.08%	2.88%	2.64%	2.53%	2.53%	2.44%	2.35%	1.86%

Returns obtained from Public Fund Annual Reports and Popular Press

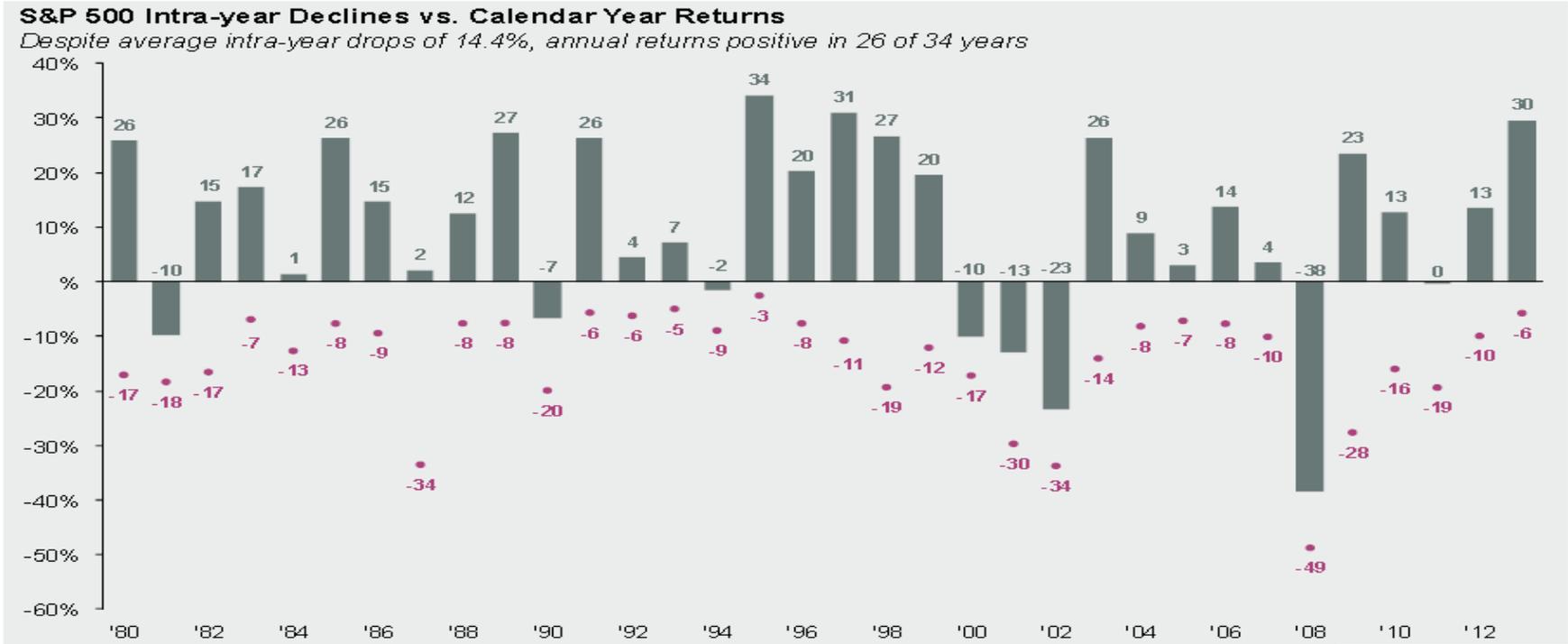
Calendar Year 2013 Market and Pension Fund Performance Review

Capital Market Performance as of 12/31/2013

Global Equity Indices	Style	1 Year	3 Years	5 Years	10 Years
MSCI All Country World Index	Global Equity	22.80%	9.73%	14.92%	7.17%
US Equity Indices					
	Style	1 Year	3 Years	5 Years	10 Years
S&P 1500	Broad US Equity	32.80%	16.22%	18.38%	7.77%
Russell 3000	Broad US Equity	33.55%	16.24%	18.71%	7.88%
Russell 1000	Large Cap Equity	33.11%	16.30%	18.59%	7.78%
Russell Mid Cap	Mid Cap Equity	34.76%	15.88%	22.36%	10.22%
Russell 2000	Small Cap Equity	38.82%	15.67%	20.08%	9.07%
DJW US REIT Index	REITS	1.22%	9.04%	16.36%	8.22%
Non- US Indices					
		1 Year	3 Years	5 Years	10 Years
MSCI EAFE	Developed Non-US Equity	22.78%	8.17%	12.44%	6.91%
MSCI Emerging Markets	Emerging Non-US Equity	-2.60%	-2.06%	14.79%	11.17%
US Fixed Income Indices					
		1 Year	3 Years	5 Years	10 Years
ML 3-month T-Bill	Cash	0.07%	0.10%	0.12%	1.68%
Barclays US Aggregate	Core Bonds	-2.02%	3.26%	4.44%	4.55%
ML US Government/Credit	Core Bonds	-2.67%	3.57%	4.47%	4.50%
ML US Corporate Master	Corporate Bonds	-1.46%	5.35%	8.93%	5.31%
Barclays Mrtg Back Securities	Mortgages	-1.41%	2.42%	3.69%	4.61%
Merrill Lynch High Yield Master II	High Yield Bonds	7.42%	9.03%	18.65%	8.46%

Calendar 2013 – High Equity Returns with Low Volatility

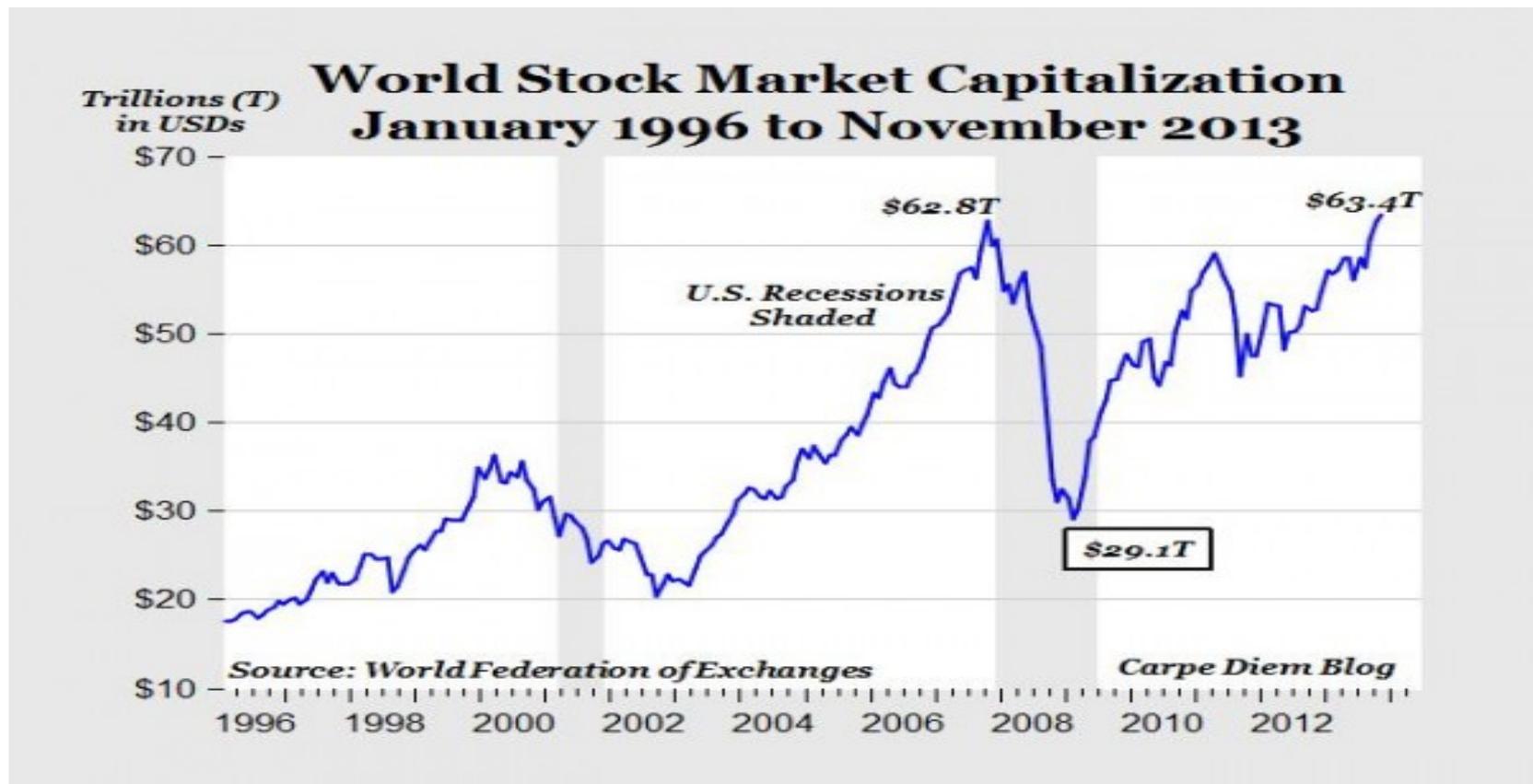
- The bars represent year-end returns since 1980, while the purple dot shows how low the market went each year
- The -6% low point for 2013 was the smallest annual pullback since 1995



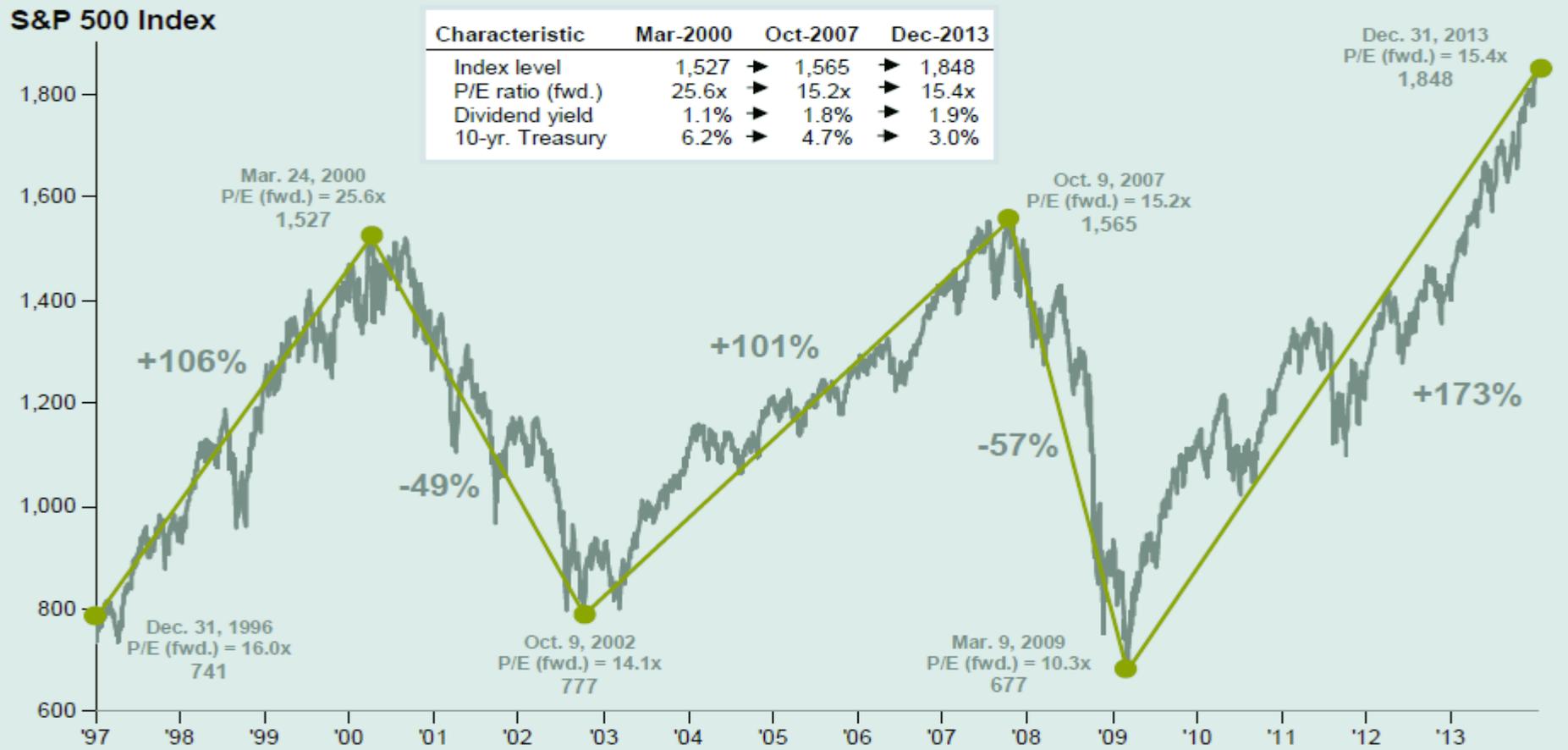
Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management.
 Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2013.
 Guide to the Markets – U.S.
 Data are as of 12/31/13.

Global Stock Market Cap Passes Pre-Crisis Level

Global equity value reached a new all-time record high in November 2013 and exceeded the previous all-time record monthly high of \$62.8 trillion in October 2007



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.

High Yield was Only Fixed Income Sector with Positive Return in CY13

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	4Q13	10-yrs. '04 - '13 Cum.	'13 Ann.
EMD 11.9%	EMD 12.3%	High Yield 11.8%	TIPS 11.6%	Treas. 13.7%	High Yield 58.2%	High Yield 15.1%	TIPS 13.6%	EMD 17.9%	High Yield 7.4%	High Yield 3.6%	High Yield 128.6%	High Yield 8.6%
High Yield 11.1%	Asset Alloc. 3.5%	EMD 10.0%	Treas. 9.0%	MBS 8.3%	EMD 34.2%	EMD 12.8%	Muni 12.3%	High Yield 15.8%	MBS -1.4%	EMD 1.2%	EMD 126.9%	EMD 8.5%
TIPS 8.5%	TIPS 2.8%	MBS 5.2%	Barclays Agg 7.0%	Barclays Agg 5.2%	Corp. 18.7%	Corp. 9.0%	Treas. 9.8%	Corp. 9.8%	Corp. -1.5%	Corp. 1.1%	Asset Alloc. 72.3%	Asset Alloc. 5.6%
Asset Alloc. 6.2%	Treas. 2.8%	Asset Alloc. 5.1%	MBS 6.9%	Muni 1.5%	Asset Alloc. 15.3%	Asset Alloc. 7.8%	Asset Alloc. 9.1%	Asset Alloc. 7.7%	Asset Alloc. -2.0%	Asset Alloc. 0.3%	Corp. 68.1%	Corp. 5.3%
Corp. 5.4%	Muni 2.7%	Muni 4.7%	Asset Alloc. 6.4%	Asset Alloc. -0.8%	TIPS 11.4%	Barclays Agg 6.5%	Corp. 8.1%	TIPS 7.0%	Barclays Agg -2.0%	Muni -0.1%	TIPS 60.6%	TIPS 4.8%
MBS 4.7%	High Yield 2.7%	Barclays Agg 4.3%	EMD 5.2%	TIPS -2.4%	Muni 9.9%	TIPS 6.3%	Barclays Agg 7.8%	Muni 5.7%	Muni -2.2%	Barclays Agg -0.1%	Muni 57.5%	Muni 4.6%
Barclays Agg 4.3%	MBS 2.6%	Corp. 4.3%	Corp. 4.6%	Corp. -4.9%	Barclays Agg 5.9%	Treas. 5.9%	EMD 7.0%	Barclays Agg 4.2%	Treas. -2.7%	MBS -0.4%	MBS 57.0%	MBS 4.6%
Muni 4.1%	Barclays Agg 2.4%	Treas. 3.1%	Muni 4.3%	EMD -14.7%	MBS 5.9%	MBS 5.4%	MBS 6.2%	MBS 2.6%	EMD -4.1%	Treas. -0.8%	Barclays Agg 56.0%	Barclays Agg 4.5%
Treas. 3.5%	Corp. 1.7%	TIPS 0.4%	High Yield 1.9%	High Yield -26.2%	Treas. -3.6%	Muni 4.0%	High Yield 5.0%	Treas. 2.0%	TIPS -8.6%	TIPS -2.0%	Treas. 51.3%	Treas. 4.2%

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 and are represented by: Barclays Capital U.S. Aggregate Index; MBS: Fixed Rate MBS Index; Corporate: U.S. Corporates; Municipals: Muni Bond 10-Year Index; Emerging Debt: Emerging Markets USD Index; High Yield: Corporate High Yield Index; Treasuries: Barclays Capital U.S. Treasury; TIPS: Barclays Capital TIPS. The "Asset Allocation" portfolio assumes the following weights:

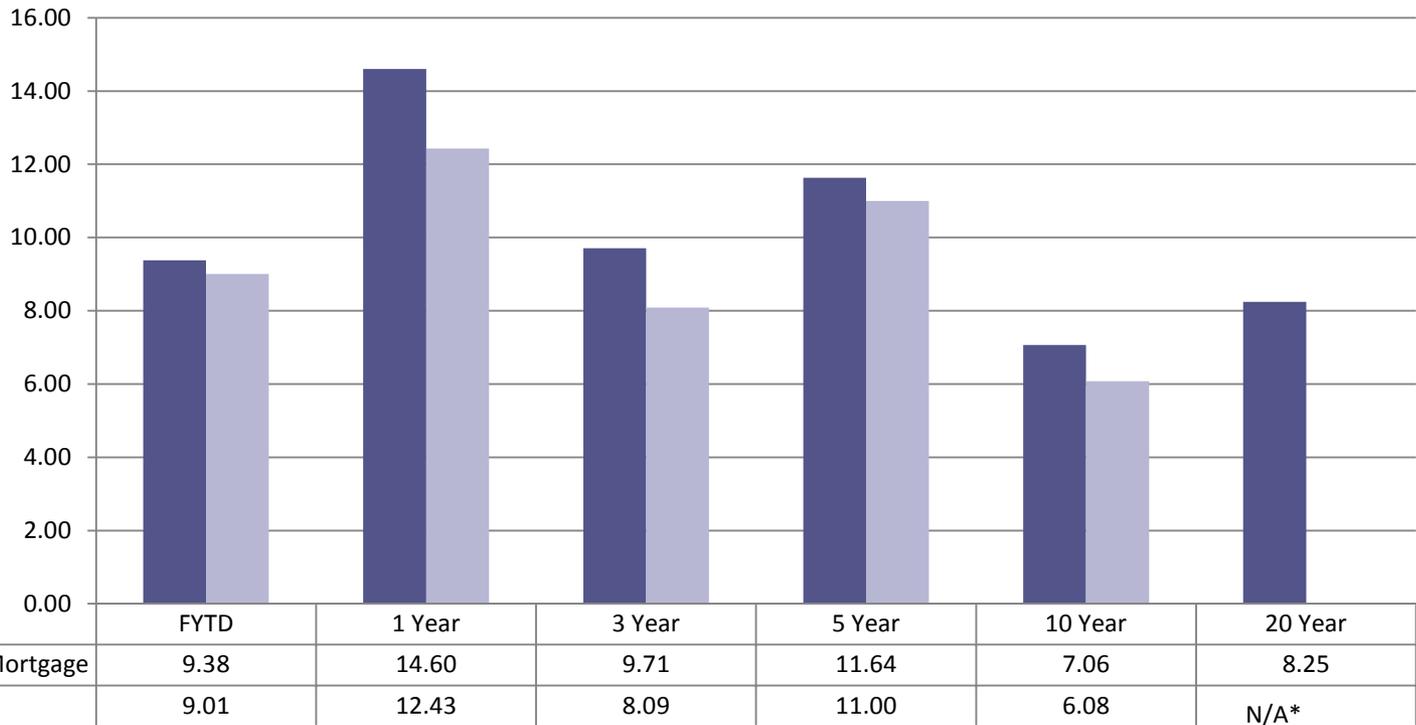
10% in MBS, 20% in Corporate, 15% in Municipals, 10% in Emerging Debt, 10% in High Yield, 25% in Treasuries, 10% in TIPS.

Asset allocation portfolio assumes annual rebalancing. Guide to the Markets – U.S.

Data are as of 12/31/13.

Strong Relative and Absolute Performance for CY 2013

Total Fund Performance as of December 31, 2013

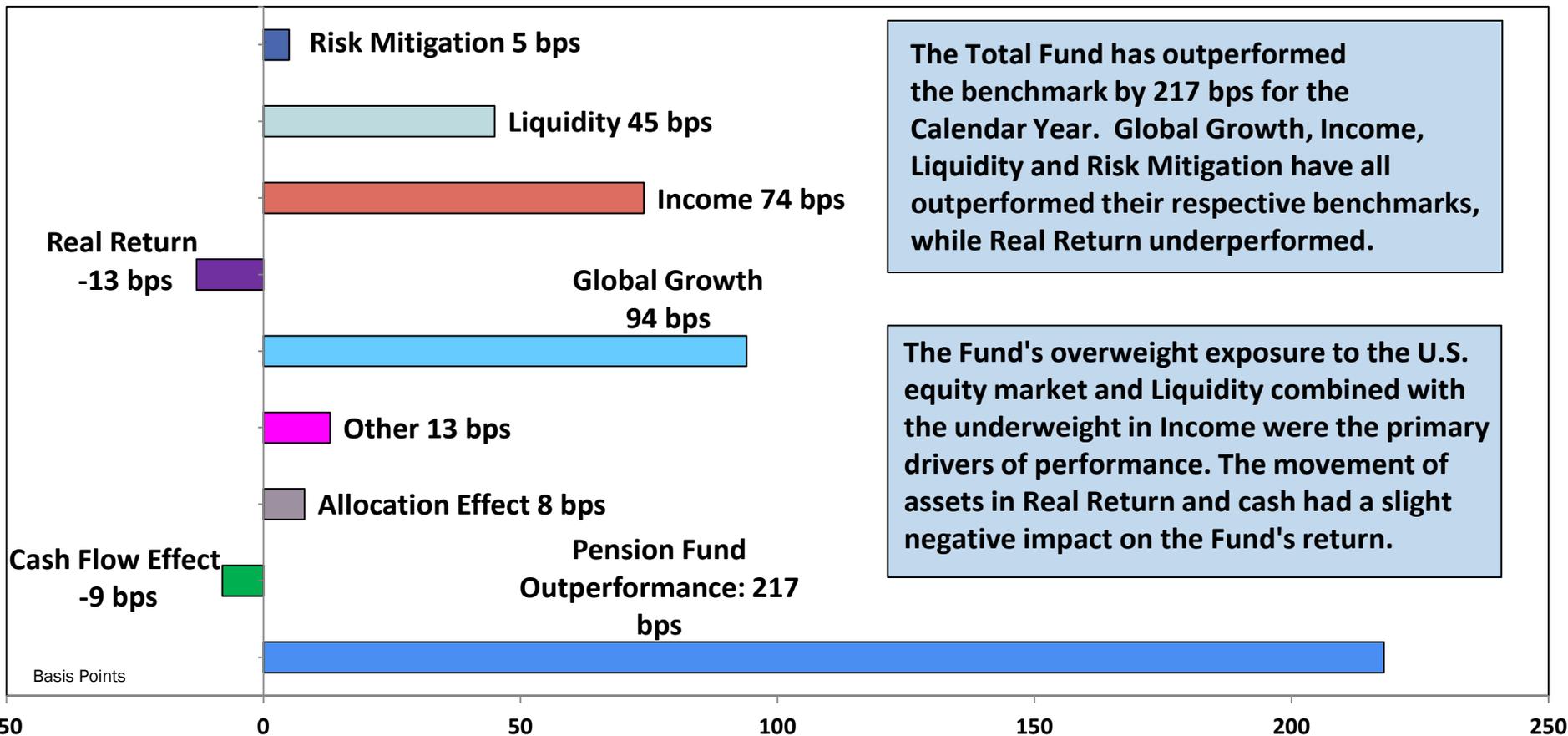


- The Total Fund ex Police and Fire returned 1.25% in December to bring the Fiscal Year to Date return to 9.38% and the Calendar Year return to 14.60%.
- The Fund has outperformed the benchmark by 38 basis points fiscal year to date and by 217 bps for the calendar year.
- The Fund is ahead of the benchmark for all periods shown.

*Benchmark return not available for 20-Year period

Pension Fund Attribution vs. Benchmark

Calendar Year 2013



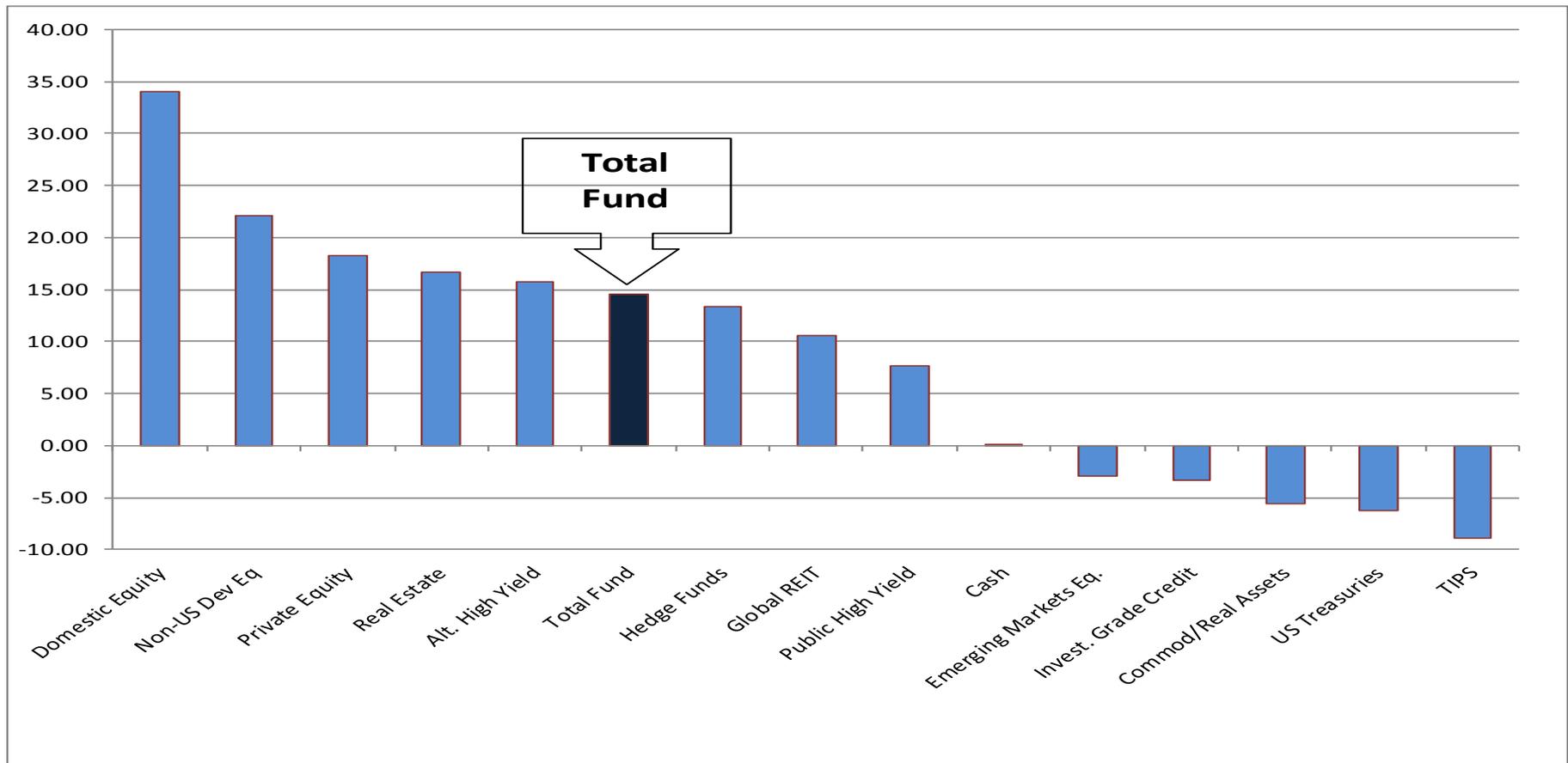
The Total Fund has outperformed the benchmark by 217 bps for the Calendar Year. Global Growth, Income, Liquidity and Risk Mitigation have all outperformed their respective benchmarks, while Real Return underperformed.

The Fund's overweight exposure to the U.S. equity market and Liquidity combined with the underweight in Income were the primary drivers of performance. The movement of assets in Real Return and cash had a slight negative impact on the Fund's return.

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.

Developed Market Equities Lead in CY13 while Government Bonds Lag

Fund Returns by Investment Type – Calendar Year 2013



2013 Accomplishments

- **Internal Management Alpha Generation:** The Division generated meaningful alpha in a number of areas including: Domestic Equity (+121 bps), TIPS (+736 bps), Developed Non-US Equity (+60 bps), and Global REITs (+621 bps)
- **Asset Allocation Decisions:** A number of asset allocation decisions made by the Council and the Division added value to the fund. Most notably were decisions to decrease investment grade fixed income exposure and increase equity exposure.
- **Duration Management:** The decision to, and execution of, a reduction in duration added value
- **Geographic Diversification within Alternatives Portfolio:** Consistent with one of the 2013 initiatives, a number of new investments were made in 2013 that improved the portfolio's geographic diversification. Examples include:
 - Real Estate: Blackstone Real Estate Asia, Perella Weinberg Real Estate II, M&G Real Estate Debt Funds, Prologis
 - Private Equity: CVC Capital, Siguler Guff/NJ Developing Markets
 - Hedge Funds: Iguazu
- **Innovative Investment Structures:** In 2013, NJDOI continued its initiative to structure investment vehicles that include strong alignment of interest, below market fees, and meaningful governance rights. Examples in 2013 included:
 - Chatham: 75 basis points management fee, 3% preferred return, carry calculated over a two year period unlike annually for a typical hedge fund investment
 - BREP Asia: 76 basis points management fee, 65% catch-up. In total, NJDOI will save approximately \$11.5 million in asset management fees and up to \$5.3 million in incentive fees compared to standard Fund terms
 - KPS IV: 1% management fee, 30% carry. The fee structure allows the Division to save a significant amount of fees and further incentivizes the manager to create value
 - Siguler Guff: 50 basis points on invested capital during the investment period, 30 basis points thereafter, 10% carry and a veto right on all investments
- **Real Estate Secondary Sale:** The Division has nearly completed its sale of 25 limited partnership interests with a net asset value of \$925 million that began in March 2013. The Division was able to sell this portfolio for par on net asset value basis
- **Council Regulations:** Completed work towards the Regulations re-adoption and combination of Common Pension Funds which will streamline and simplify investment decisions and fund management while providing strong risk controls

Blackstone Separate Account Update

New Jersey's Strategic Partnership with Blackstone was formed in January 2012 as a platform to pursue time-sensitive and/or opportunistic ideas across asset classes and geographies that are attractive on a risk/return basis but outside the scope of existing Blackstone investment vehicles. The Division committed up to \$1.5 billion to three distinct strategies:

Account name	NJDOI Commitment*	Total Value/NAV	Inception Date	Strategy	IRR	Multiple on Invested Capital (MOIC)
Tactical Opportunities	\$750**	\$490 ³	Jan-12	invests opportunistically across asset classes, capital structures, and geographies	21.7% ¹	1.18x ¹
GSO Energy Partners	\$500**	\$241 ³	Mar-12	invests in various energy sub-sectors and across the capital structure	18.5% ¹	1.17x ¹
GSO Credit Alpha A	\$400 ²	\$488 ³	Mar-12	invests in the "best ideas" generated across GSO's platform, primarily comprised of opportunistic long and short investments in both public and private non-investment grade corporate credit	30.7% ¹	1.37x ¹

(1) net returns, inception to date, as of Dec. 31, 2013

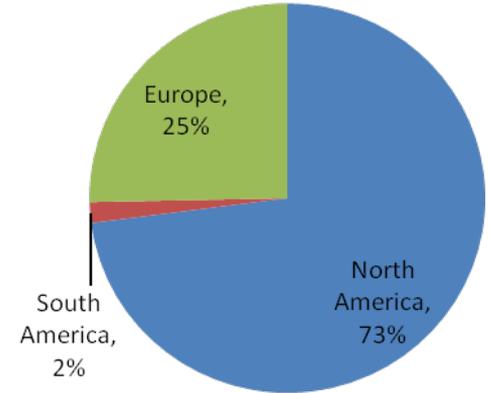
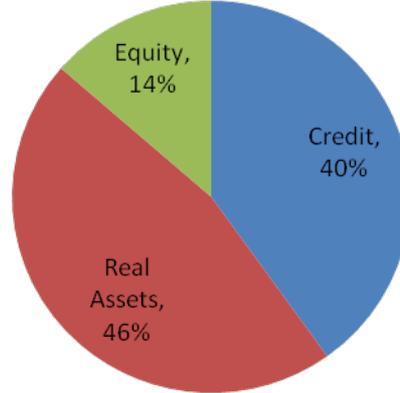
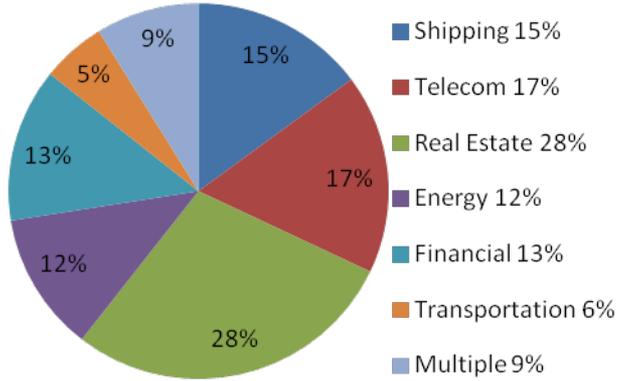
(2) An initial commitment of \$250 mm was made in March 2012. An additional commitment of \$150 mm was made in mid-2013; this \$150 million is designated for GSO's landbanking strategy

(3) As of Dec. 31, 2013

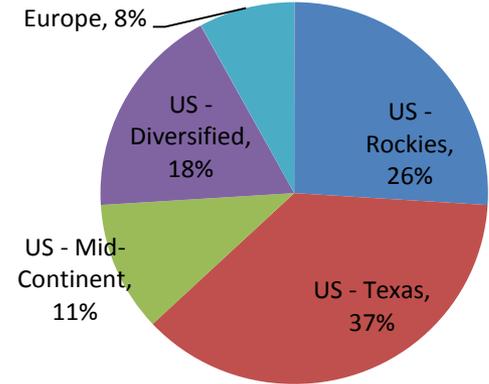
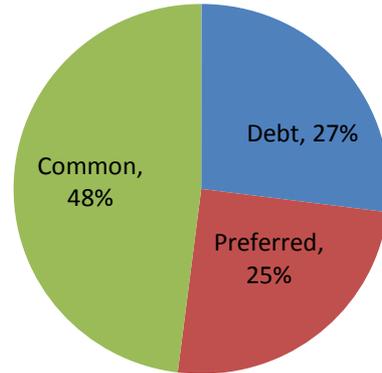
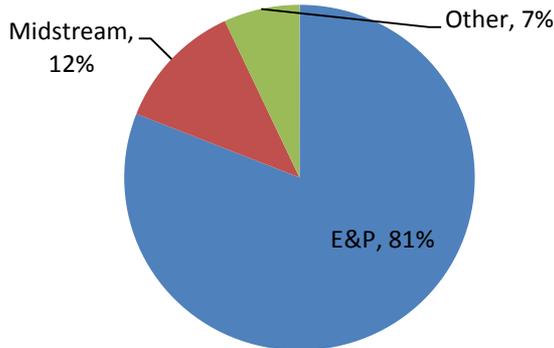
*\$, mm; ** \$250 mm can be moved from the GSO Energy account to Tactical Opportunities

Committed to over 65 investments across BX separate accounts

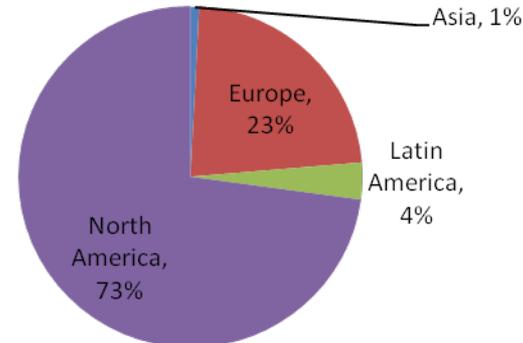
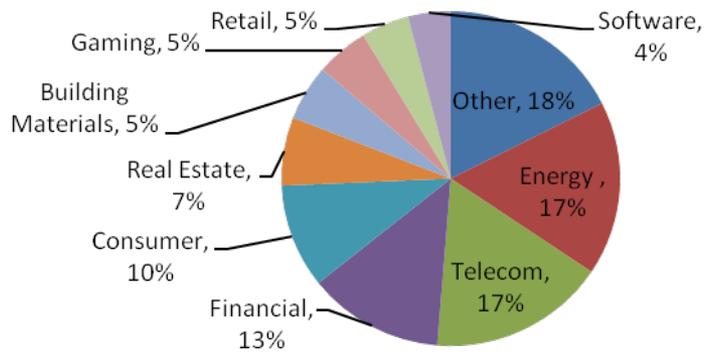
Tactical Opportunities



GSO Energy



GSO Credit Partners A



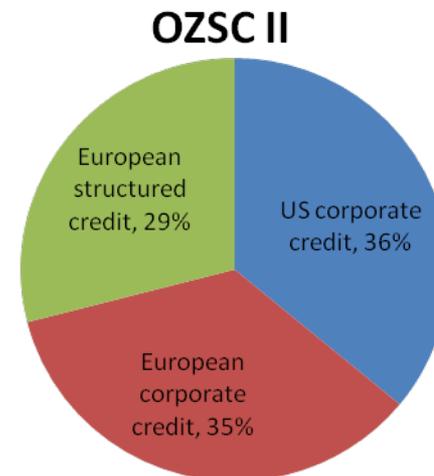
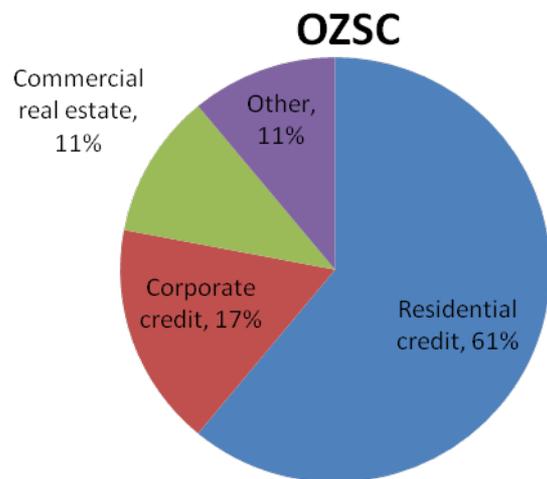
Och-Ziff Investment Update

New Jersey's Strategic Partnership with Och-Ziff was formed in late 2012, although the Division's relationship began with a \$300 million investment in OZSC I in 2010, which was later increased by \$200 million in March 2011. Given the Division's history and excellent working relationship with the firm, and the firm's positive performance, the Division entered into a larger partnership with the firm that consisted of \$600 million of new money to be invested in the following strategies: accounts to take advantage of structured credit and other public credit investments in the US & Europe (OZSC I & II), Private Credit (OZNJ Private Opportunities), Real Estate (OZNJ Real Estate Opportunities) and Real Assets (OZNJ Real Asset Opportunities).

Account name	NAV	Inception Date	Strategy	IRR	Multiple on Invested Capital (MOIC)
OZSC I	\$975 ²	Apr-10	invests in US structured credit	19.75% ¹	1.77x ¹
OZSC II	\$257 ²	Mar-13	invests in US and European corporate and European Structured credit	9.75% ¹	1.05x ¹
OZ Private Opportunities	\$145 ²	Mar-13	invests in private credit, including corporate mezzanine lending, distressed for control strategies, real estate financing, tailored capital solutions, and portfolio sales of credit assets	6.28% ¹	1.02x ¹

(1) net returns, inception to date, as of Dec. 31, 2013; (2) \$, millions, as of 12/31/13

Exposure by risk category



Asset Class Review: Public Equity

```
graph TD; A((Global Equities  
$37.3B)) --> B((International  
$15.7B)); A --> C((Domestic  
$21.6B));
```

Global
Equities
\$37.3B

International
\$15.7B

Domestic
\$21.6B

Global Equity Portfolio Management Team

Brian Arena, Investment Officer, 27 years with the Division. Oversees the Equity Portfolio. Industry responsibilities include entertainment, media, and internet.

Vincent Benedetti, 6 years with the Division. Industry responsibilities include technology and automotive.

Elizabeth Carr, 39 years with the Division. Industry responsibilities include energy, natural gas and electric utilities.

Kathy Jassem, 6 years with the Division. Industry responsibilities include real estate and retail.

Jeff Lebowitz, CFA, 18 years with the Division. Industry responsibilities include banks, insurance and financial services.

Thomas Montalto, 32 years with the Division. Industry responsibilities include consumer staples.

George Mykytyn, CFA, 2 years with the Division. Industry responsibilities include telecommunication services, publishing and education services.

Edward Pittman, CFA, 20 years with the Division. Industry responsibilities include health care.

Vitaly Smirnov, 14 years with the Division. Industry responsibilities include industrials and materials.

Carmen Nazario, 5 years with the Division. Technical assistant.

Karen Paardecamp, Portfolio Manager, 5 years with the Division (39 years in the industry). Oversees the International Equity Portfolio – Developed, Emerging and Frontier Markets.

Todd Rowohl, New to the Division (16 years in the industry). Responsibilities include review of reporting and performance analysis, special projects, and investment analysis

Jefferson Cooper, 2 years with the Division. Technical assistance and report generation.

Dan Ginsburg, 3 years with the Division. Technical analysis and special projects assistance.

U.S. Equity Portfolio

Investment Approach:

- Active management
- Long-term investment horizon
- Identify developing industry trends
- Fundamental research
- Target high quality companies
- Security selection based on valuation criteria
- Diversified portfolio to control risk

Calendar 2013 Performance

<u>U.S. Portfolio</u>	<u>S&P 1500 Index</u>	<u>Difference</u>
+34.01%	+32.80%	+121 bps

Consistent Track Record of Outperformance

	<u>U.S. Portfolio</u>	<u>S&P 1500 Benchmark</u>	<u>Relative Performance</u>
Fiscal Year 2014 (as of 12.31.13)	+17.75%	+16.52%	1.23%
Fiscal Year 2013	+21.89%	+21.13%	0.76%
Fiscal Year 2012	+3.54%	+4.63%	-1.09%
Fiscal Year 2011	+33.40%	+31.65%	1.75%
Fiscal Year 2010	+15.76%	+15.49%	0.27%
Fiscal Year 2009	-24.99%	-26.08%	1.09%
Fiscal Year 2008	-10.85%	-12.61%	1.76%
Fiscal Year 2007	+21.39%	+20.53%	0.86%
Fiscal Year 2006	+10.44%	+9.23%	1.21%
Fiscal Year 2005	+7.50%	+7.27%	0.23%

Top Ten Equity Holdings and Sector Weights

U.S. Equity Portfolio

(as of 12/31/2013)

<u>Company</u>	<u>Portfolio Weight</u>	<u>S&P 1500 Weight</u>	<u>Overweight/ Underweight</u>
Apple	3.20%	2.70%	0.50%
Exxon Mobil	2.38%	2.36%	0.02%
Microsoft	1.87%	1.52%	0.35%
Wells Fargo	1.75%	1.16%	0.59%
Google	1.72%	1.68%	0.04%
JP Morgan	1.38%	1.17%	0.21%
Johnson & Johnson	1.32%	1.38%	-0.06%
Merck	1.31%	0.78%	0.53%
Pfizer	1.29%	1.06%	0.23%
Procter & Gamble	1.20%	1.18%	0.02%

<u>Sector</u>	<u>Average Portfolio Weight</u>	<u>Average S&P 1500 Weight</u>	<u>Average Weight Difference</u>
Consumer Discretionary	12.07%	12.27%	-0.20%
Consumer Staples	10.11%	9.70%	0.41%
Energy	9.35%	10.02%	-0.67%
Financials	16.75%	17.00%	-0.25%
Health Care	13.25%	12.38%	0.87%
Industrials	11.79%	11.04%	0.75%
Information Technology	18.06%	17.81%	0.25%
Materials	4.13%	3.85%	0.28%
Telecommunication Svcs	1.35%	2.44%	-1.09%
Utilities	3.14%	3.44%	-0.30%

Successful Investments in CY2013 – U.S. Portfolio

<u>Company</u>	<u>Average Portfolio Weight</u>	<u>Average Benchmark Weight</u>	<u>Total Return</u>	<u>Relative Contribution</u>
Ameriprise Financial	0.47%	0.10%	88.29%	+15 bps
Facebook	0.25%	0.04%	105.30%	+14 bps
AT&T	0.57%	1.16%	9.76%	+13 bps
Prudential Financial	0.55%	0.20%	77.13%	+12 bps
Lincoln National	0.28%	0.06%	102.16%	+10 bps

Laggards in CY2013 – U.S. Portfolio

<u>Company</u>	<u>Average Portfolio Weight</u>	<u>Average Benchmark Weight</u>	<u>Total Return</u>	<u>Relative Contribution</u>
Apple	3.33%	2.64%	8.06%	-47 bps
Cliffs Natural Resources	0.15%	0.02%	-29.33%	-21 bps
McDermott International	0.22%	0.00%	-16.88%	-12 bps
Hewlett-Packard	0.20%	0.26%	101.11%	-12 bps
priceline.com	0.00%	0.27%	87.37%	-11 bps

International
\$ 15.7B

Developed
Markets

66%

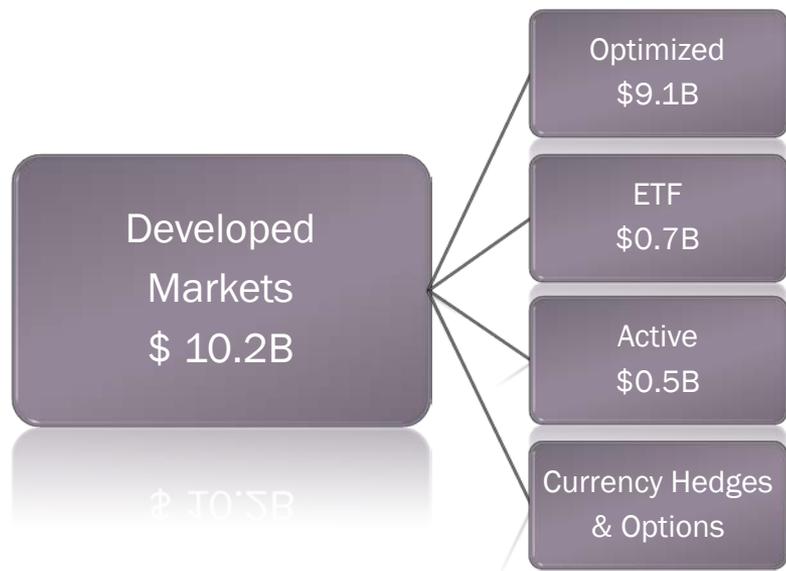
\$10.2B

Emerging
Markets

34%

\$5.5B

International Equity Portfolio Strategy



- The Optimized portfolio manages risk by minimizing volatility. It is tilted toward large cap positions and defensive sectors with a predicted tracking error objective of under 23 bps
- The ETF portfolio allows for efficient access to broad or specific market exposures
- The Active portfolio is managed internally and aims to maximize returns within individual names followed by DOI staff



- The Active portfolio utilizes segregated accounts that employ various strategies recommended by outside Advisers, allowing for diversification of risk
- The ETF portfolio allows for efficient access to broad or specific market exposures

International Equity Region and Sector Weights

Calendar Year 2013

	Portfolio Average Weight	Benchmark Average Weight	Overweight/Underweight		Portfolio Average Weight	Benchmark Average Weight	Overweight/Underweight
Africa/Mideast	4.12	3.60	0.52	Consumer Discretionary	10.53	10.29	0.24
Asia/Pacific Ex Japan	28.17	31.24	-3.07	Consumer Staples	11.32	10.57	0.76
Europe	41.50	38.67	2.84	Energy	6.95	7.29	-0.34
Japan	12.76	12.48	0.28	Financials	26.28	27.80	-1.52
Latin America	7.09	7.81	-0.71	Health Care	8.18	6.83	1.36
Canada	6.33	6.21	0.12	Industrials	10.02	9.46	0.57
				Information Technology	8.50	8.23	0.27
				Materials	8.95	9.83	-0.87
				Telecommunication Services	6.31	6.13	0.18
				Utilities	2.92	3.57	-0.65

Calendar Year 2013 Equity Performance

International Portfolio: 12.50%

International Custom Benchmark: 12.24%

Total Emerging Return: -2.94%

Emerging International Benchmark: -2.38%

Total Developed Return: 22.12%

Developed International Benchmark: 21.52%

What Worked

- Underweight Emerging Markets / Overweight Developed Markets
- Optimization of Developed Market Portfolio
- Low Volatility ETF selection in the Q1 & Q2
- Use of Currency Hedges
- Overweight Health Care and underweight Materials, Energy, & Consumer Discretionary
- Stock selection in Switzerland & Russia
- Underweight allocation in Brazil

What Did Not Work

- Emerging Markets General Market ETFs
- Underweight Korea & Mexico and overweight Turkey
- Underweight in Industrials, Consumer Staples, & Telecommunications
- Stock selection in Malaysia, Canada, & Taiwan

Asset Class Review: Fixed Income

Fixed Income Portfolio Management Team

Timothy Patton, Senior Portfolio Manager, 30 years with the Division. Oversees all fixed income trading, co-manage Investment Grade, U.S. Treasuries, TIPS, & Short Term Cash Equivalent portfolios.

Philip Pagliaro, Senior Portfolio Manager, MBA, CFA, 6 years with the Division, 20+ years in the industry. Co-manage Investment Grade, U.S. Treasuries, TIPS, & Short Term Cash Equivalent portfolios.

Kevin McGrath, Investment Risk Manager, MBA, 3 years with the Division, 18 years in the industry. Manages the High Yield portfolios and monitors all outside High Yield Advisers.

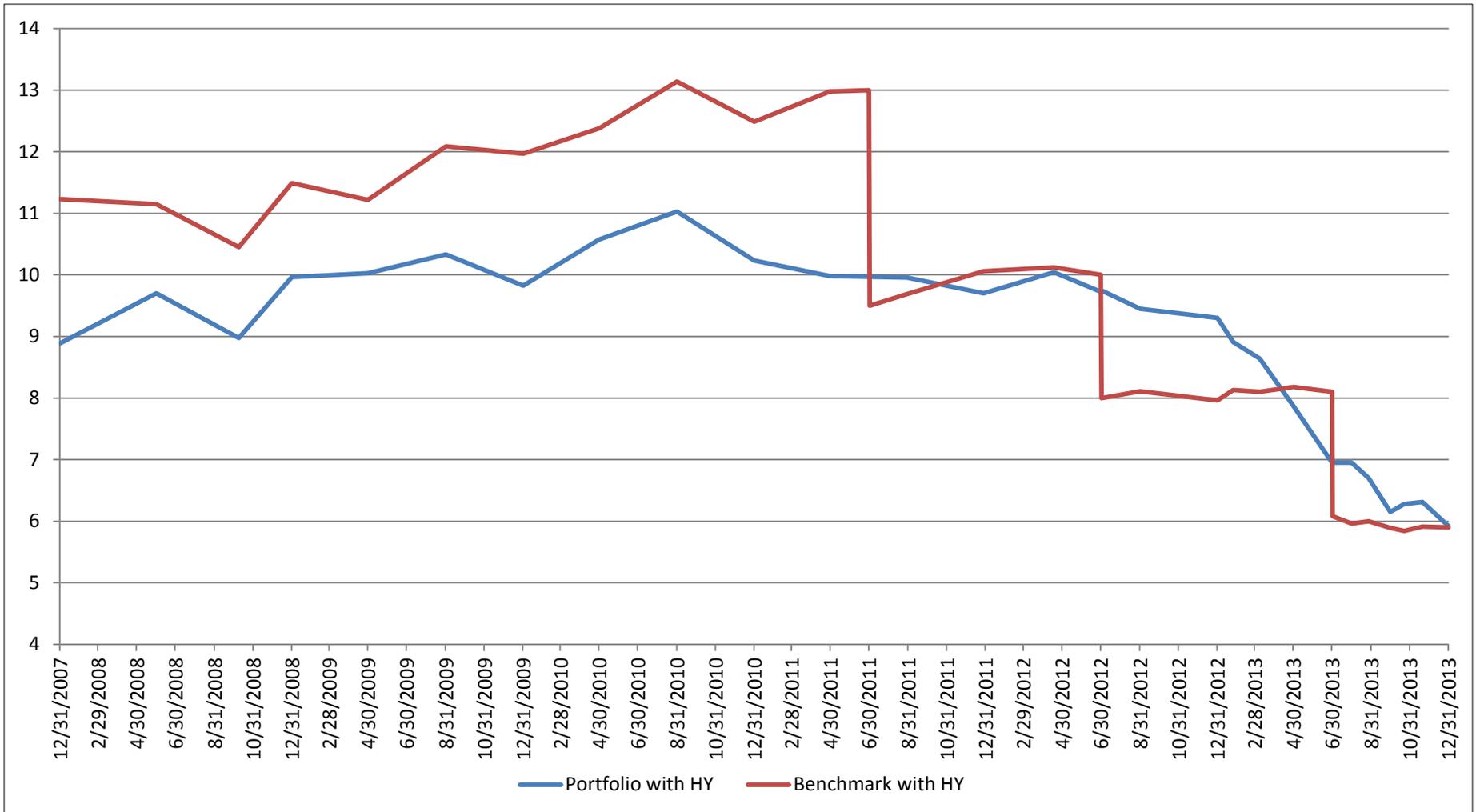
Sarah Khan, Trader, MBA, 2 years with the Division. Responsible for Money Market Trading, trading for State Authorities that use the Division's resources, and coordinating settlements.

Jeffrey Warshauer, Fixed Income Analyst, CFA, new to the Division, 8 years in the industry. Investment Grade and High Yield generalist.

Yield of 10 Year US Treasury – 2013



Fixed Income Portfolio Duration vs. Benchmark



Change in Allocations within Fixed Income 2013 vs. 2012

	12/31/2013	12/31/2012	Difference
	(\$ in millions)	(\$ in millions)	(\$ in millions)
Domestic Fixed Income Portfolio with Hedges	15,423	17,850	(2,427)
Investment Grade Credit	8,632	11,616	(2,984)
Tips	1,574	1,766	(192)
US Treasuries	501	1,228	(727)
Public High Yield	1,844	1,252	592
Alternative High Yield	1,780	1,666	114
Hedges	38	19	19
Cash	1,054	303	751

Yield of Domestic US Tips vs. UK Linkers



Fixed Income Portfolio as of December 2013

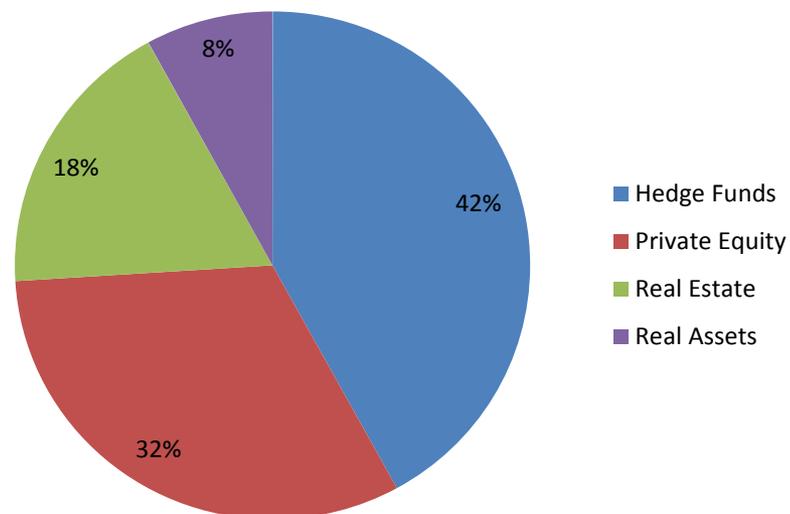
				Yield to	Yield to				
	% of Assets	Market Value	Duration	Worst	Maturity	Coupon	Rating *	Avg Life	OAS
Total Fixed Income Portfolio		12,550,011,183	5.92	3.47	3.58	4.60	A+	8.86	153
All Investment Grade	85.31%	10,706,594,984	6.82	3.05	3.06	4.038	AA-	9.50	107
Tips	12.54%	1,573,939,915	5.70	-0.02	-0.02	0.307	AAA	5.66	15
Investment Grade	68.78%	8,631,614,889	7.34	3.77	3.79	5.01	A+	10.67	130
US Treas	3.99%	501,040,180	1.49	0.23	0.23	0.375	AAA	1.49	0
All High Yield	14.69%	1,843,416,199	4.38	5.89	6.57	7.477	B+	5.07	414
Benchmarks									
Investment Grade Benchmark	75%		6.67	2.23	2.24	3.75	A+	8.68	78
High Yield Benchmark	25%		4.06	5.64	6.36	7.35	B+	6.36	382
Combined	100%		5.90	3.11	3.30	4.68	A-	7.95	155
							* Bloomberg Composite Rating		

**Asset Class Review:
Private Equity
Real Estate
Hedge Funds**

Pension Fund Alternative Investment Portfolio

Alternatives Portfolio Asset Allocation		
Asset Class	Long-Term Target Range	Current Allocation*
Private Equity		
Debt-Related PE	0 - 4%	1.11%
Buyout/VC	<u>4 -10%</u>	<u>7.01%</u>
Total		8.12%
Real Estate		
Debt-Related RE	1 -4%	0.98%
Equity-Related RE	<u>2 -7%</u>	<u>3.34%</u>
Total		4.32%
Hedge Funds		
Absolute Return	0 -5%	3.08%
Credit-Oriented	0 -6%	3.15%
Equity-Oriented	<u>0 -8%</u>	<u>4.11%</u>
Total		10.34%
Real Assets	2 -7%	2.49%
TOTAL		25.27%

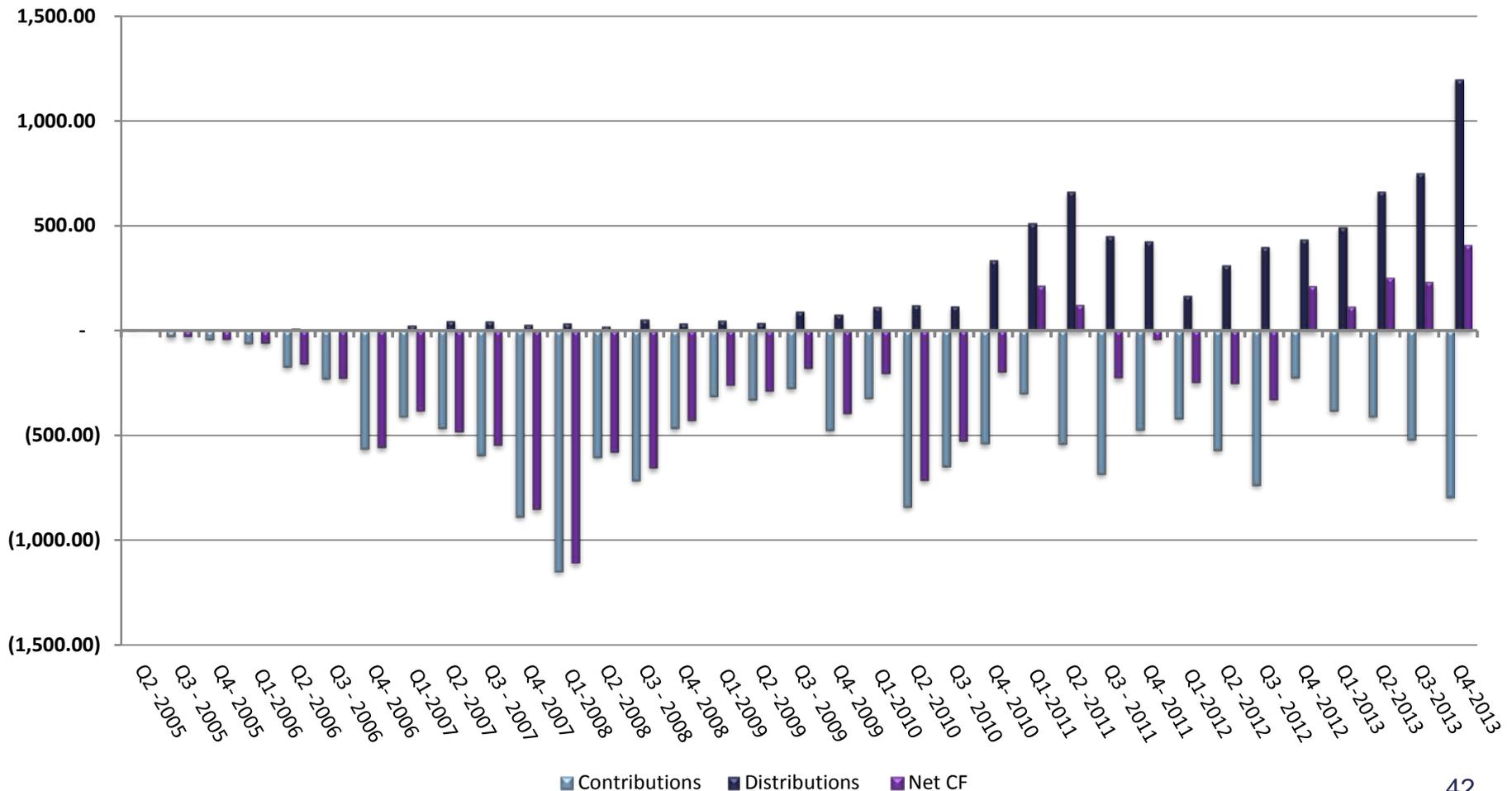
Pension Fund Alternatives Portfolio by Asset Type



*As of 12/31/13

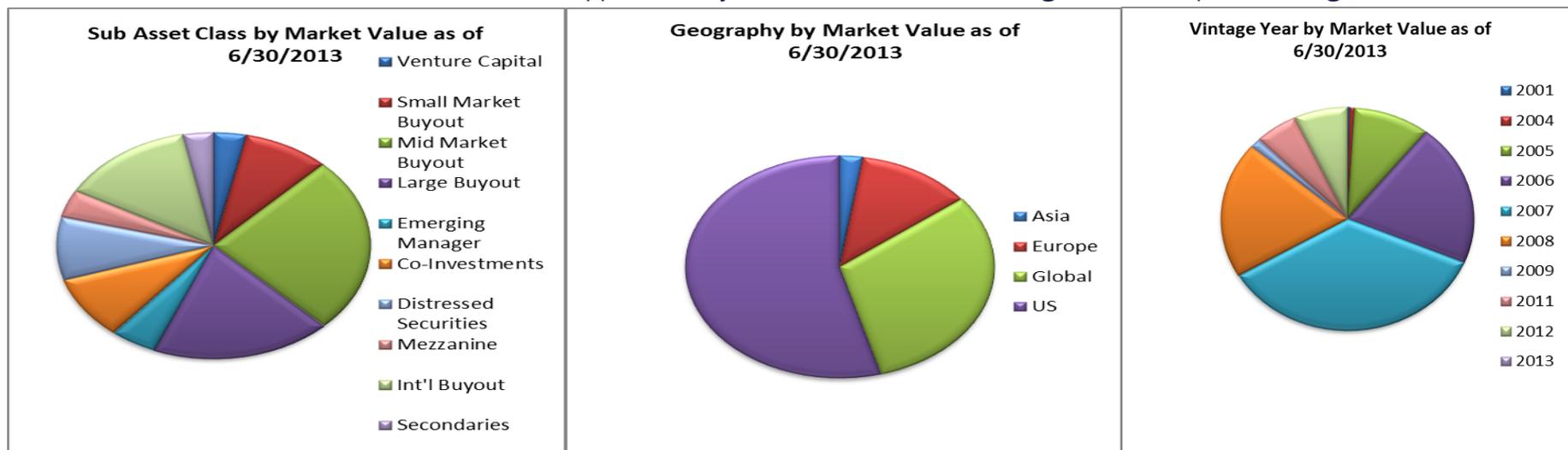
Net Cash Flows Have Turned Positive Driven by Private Equity

Alternative Investment (ex. Hedge Funds) Cash Flows Since Inception



Private Equity Portfolio Overview

- Performance since inception in 2005:
 - 1.30x Net Multiple on Invested Capital
 - 8.86% Net IRR
- The portfolio consists of 92 specific fund commitments & 49 distinct manager relationships, totaling \$11.5 billion in commitments and a net asset value of approximately \$6.1 billion, with remaining uncalled capital totaling \$4.3 billion.



Notable Exits 2013:

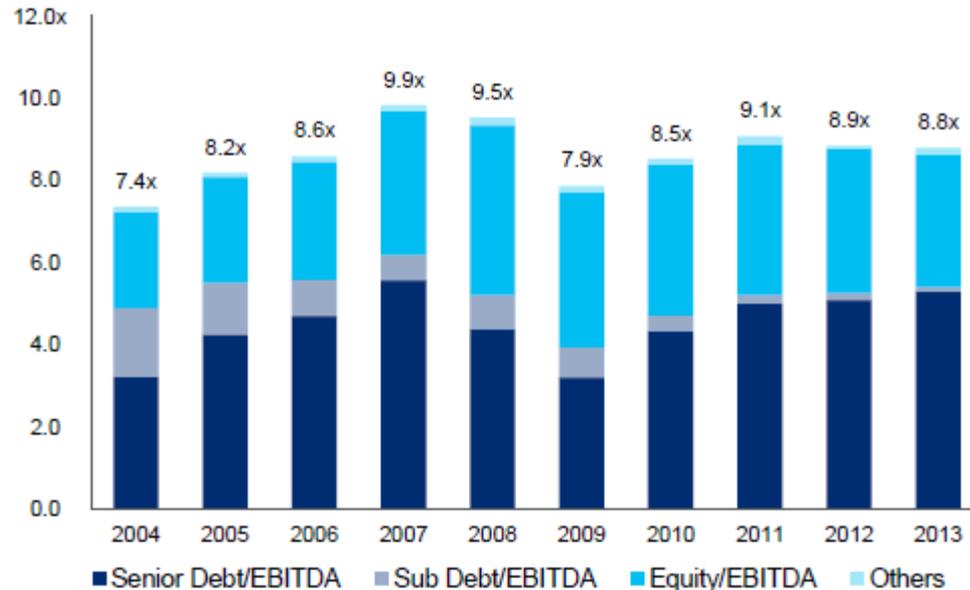
- **Bausch & Lomb (“B&L”):** Warburg Pincus sold B&L, a leading global developer, manufacturer and marketer of ophthalmic products, including contact lenses, contact lens care solutions, cataract surgical products and ophthalmic pharmaceuticals, for 2.5x multiple on invested capital. Through its investments in Warburg Pincus Funds IX and X and a separate co-investment the Division received close to a **\$50 million gain from the sale**.
- **Veeva (NYSE: VEEV):** Veeva is a cloud-based business solutions development company. Through one of the Division’s separate account vehicles with Fairview Capital, the Division committed \$9.5 million to a venture capital fund which invested in Veeva. The company went public in October, and as a result the Division’s small stake in the company resulted in an **unrealized gain of approximately \$42 million**.

Private Equity Market Commentary

Current Market Conditions:

- Over the past year, the Private Equity market has been marked by the following:
 - Increased Fundraising, Higher Valuations, Accommodative Credit and Strong Exit Activity
 - Underpinning these factors have been two forces: Strong Equity Markets & Low Interest Rates

LBO Purchase Price Multiple



Source: Citigroup Global Markets, Inc., S&P LCD News

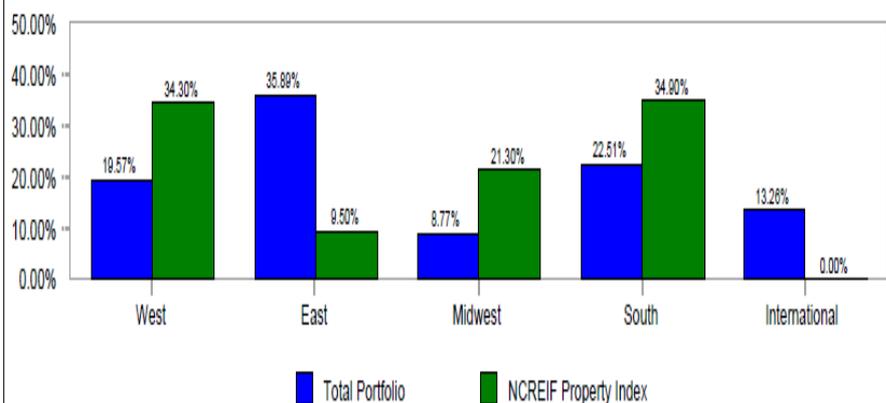
Outlook:

- Current market conditions, although exuberant, are still subdued compared to the '07 – '08 time period
- The Division is mindful of these factors and is continuously monitoring market trends and movements
- As always, it is most important to continue investing with the highest-quality partners and in the best risk-adjusted opportunities
- Private Equity has outperformed most other asset classes over time

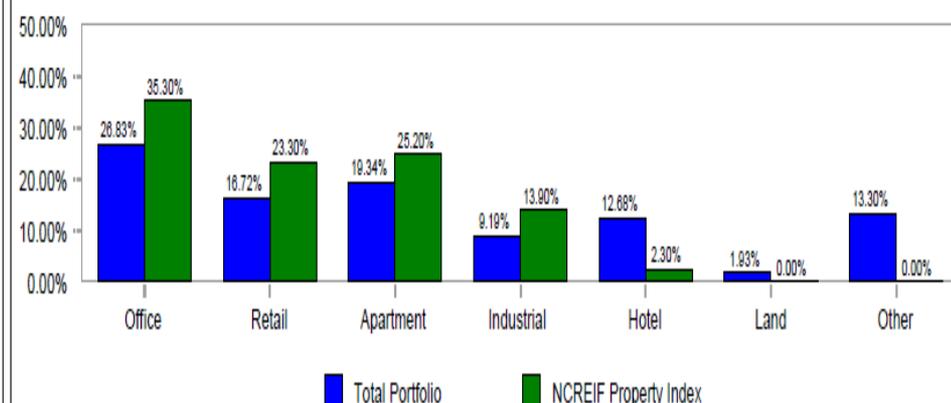
Real Estate Portfolio Overview

- Performance since inception in 2005:
 - 1.21x Net Multiple on Invested Capital
 - 5.65% Net IRR
- The portfolio consists of 33 specific fund commitments & 23 distinct manager relationships, totaling \$4.4 billion in commitments and \$2.8 billion in net asset value.

Geographic Diversification Chart



Property Type Diversification Chart



Net IRR since NJ Investment Date
thru 9/30/13

Top Performers

RECAP III	84.58%
Lone Star VII	58.90%
Blackstone VII	31.03%
Wheelock Street RE Fund	24.90%
Lone Star RE II	22.06%

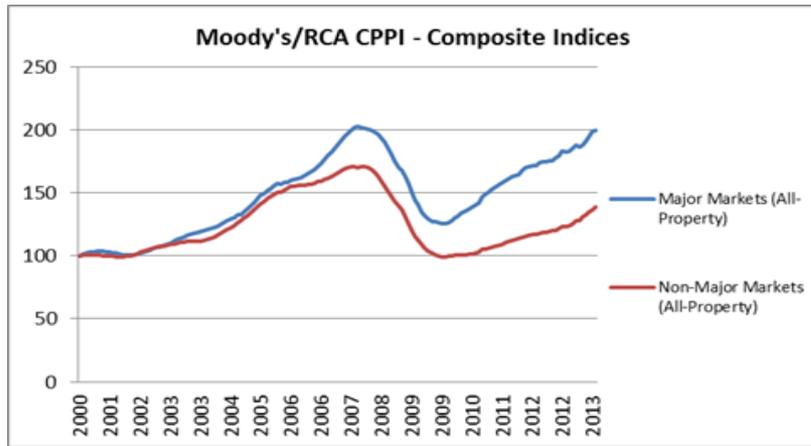
Significant Distribution Total (CY2013)

Lone Star VII	\$268.3M
Carlyle V	\$36.3M
Warburg Pincus I	\$27.1M
ARA Asia Dragon	\$26.0M
Lone Star RE II	\$23.7M

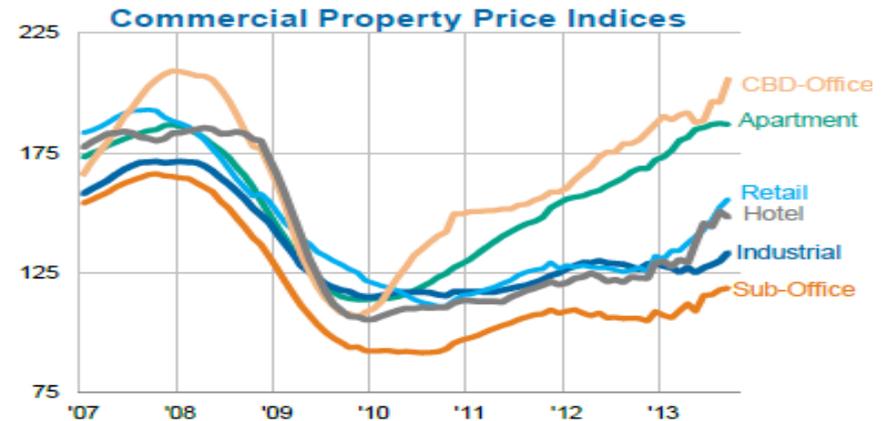
Real Estate Market Themes and Opportunities

Mispricing in Secondary Markets

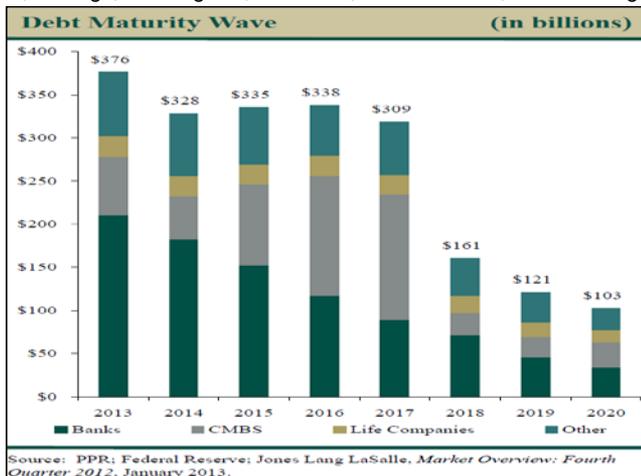
- “Major” US markets (e.g., New York, San Francisco) have recovered to pre-crisis levels. Opportunity to take advantage of potential mispricing in “non-major” markets that are slowly rebounding.
- Lack of new supply and steady economic recovery led to improvement in fundamentals, particularly in the CBD-Office and Multifamily sectors.



Source: Real Capital Analytics (November 2013). Tracking repeat transactions greater than \$2.5 million in gross asset value. “Major” markets are defined as Boston, Chicago, Los Angeles, New York, San Francisco, and Washington, D.C.



Source: Real Capital Analytics (November 2013)



Source: PPR; Federal Reserve; Jones Lang LaSalle, Market Overview: Fourth Quarter 2012, January 2013.

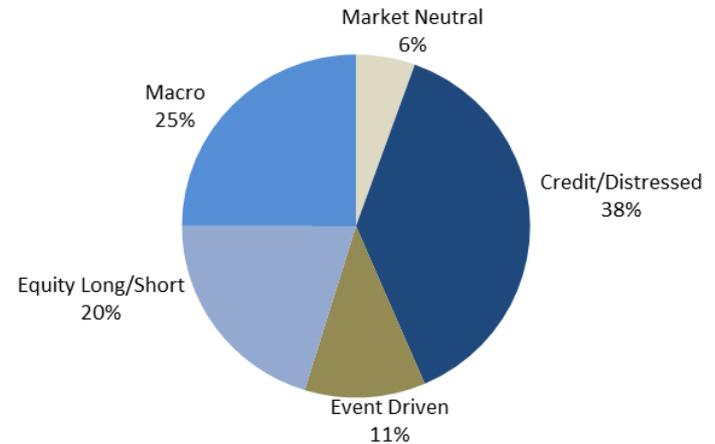
- Real estate debt issuances in 2013 totaled \$250 billion and represented less than half of the peak in 2007 (\$516 billion)
- Increasing amount of loan maturities in 2015-2017 (corresponding with the lending boom in 2005-2007 period) will provide opportunity to recapitalize operators with limited equity in their projects

Hedge Fund Portfolio Overview

- Portfolio Inception: April 2006
- Portfolio Value: \$9.98 billion (including Global Diversified Credit)
- Positions: 32 Managers and 4 Hedge Fund of Funds (HFOFs)
- Direct Allocations*: 75%
- Largest direct allocation: \$1.49 billion
- Average direct allocation: \$173 million
- Geographical allocation: 62% N. America, 23% Europe, 6% EM and 9% Asia
- Performance since inception: Portfolio annual return +5.87% vs. HFRI FOF Index +1.87%

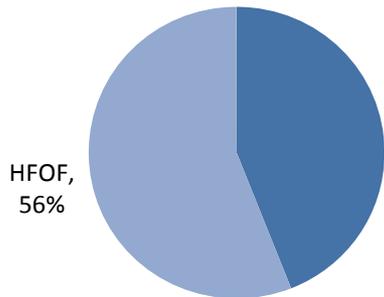
Strategy Look-Through Allocation

As of 12/31/2013

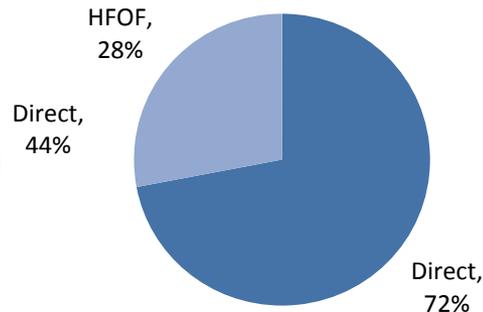


Direct vs. Hedge Fund of Funds Allocation

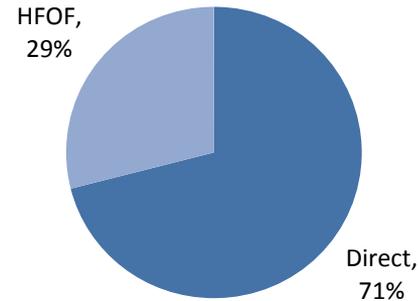
As of 12/31/2006



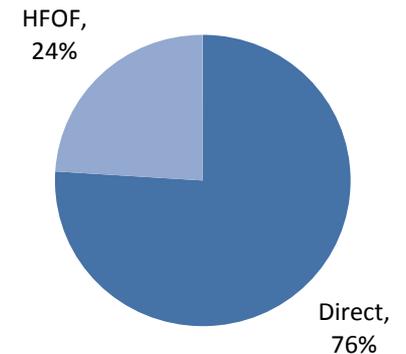
As of 12/31/2008



As of 12/31/2010



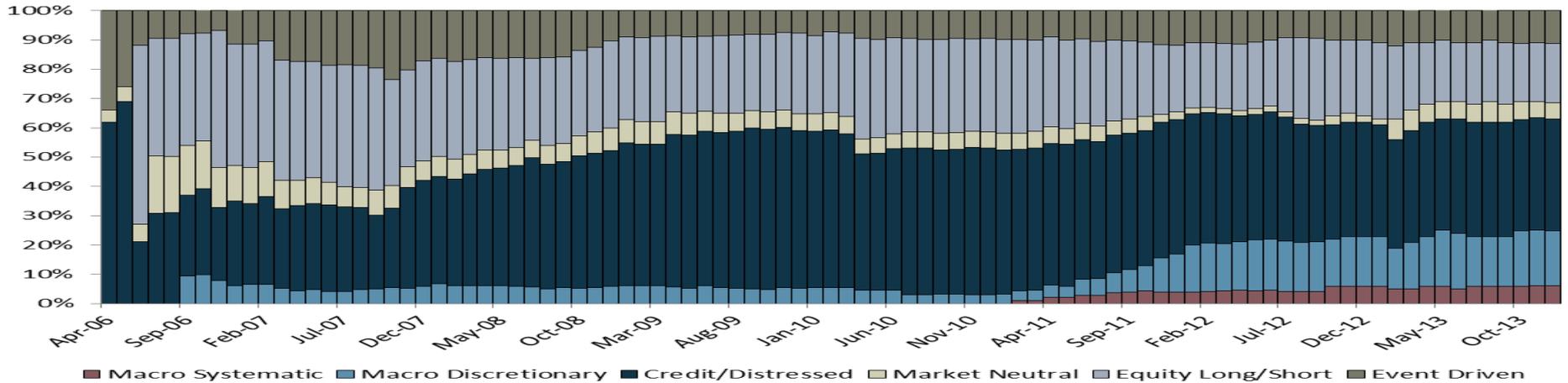
As of 12/31/2013



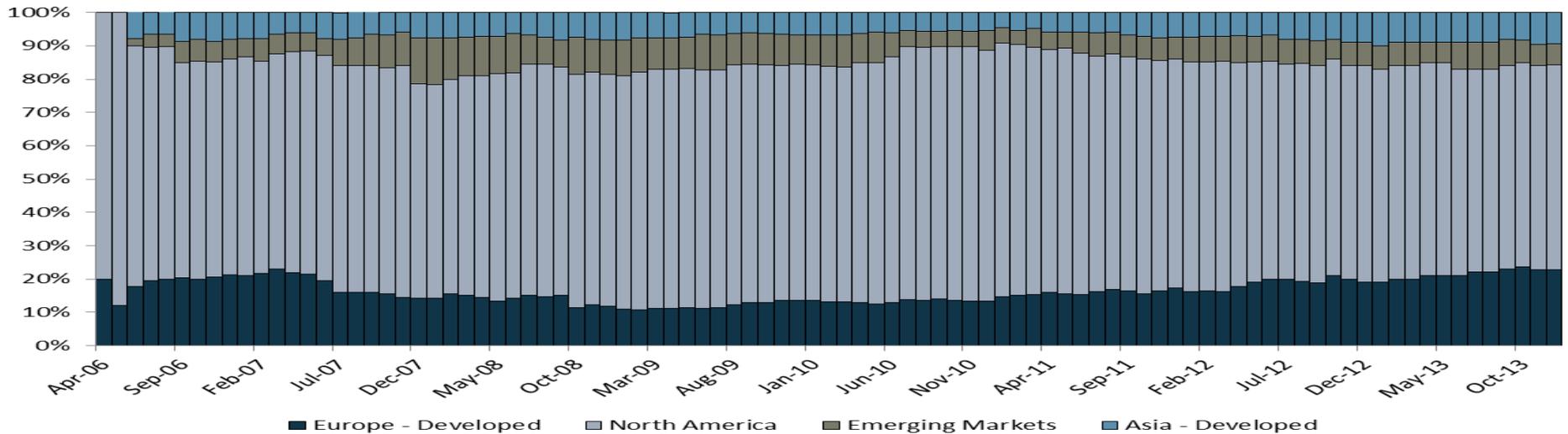
*Pension Fund is invested directly into a commingled or customized vehicle.

Hedge Fund Strategy and Regional Breakdown

Strategy Breakdown



Regional Breakdown



2013 Hedge Fund Portfolio Performance Review

- Portfolio benefited from its underweight to discretionary and systematic macro strategies
- Portfolio benefited from overweight to credit and equity oriented strategies including activism and structured credit.
- The portfolio benefited from superior manager selection as most direct managers outperformed their peer category.
- Emphasis on direct investments and aggressive fee negotiations show in a modest return environment.

	1 Year (%) 2013	3 Years (%)	5 Years (%)	Since Inception (%)
NJDOI Hedge Fund Portfolio	13.05	7.58	13.50	5.87
HFRI Fund of Funds Index	8.79	2.43	4.84	1.87

Select Manager Contributions – Last 12 Months

- Over the last 12 months, only one direct hedge fund relationship has generated negative results.

Top Performers (2013)	1 Year (%) *	Bottom Performers (2013)	1 Year(%)*
ValueAct	33.63	Blue Crest	-1.56
Omega Advisors	32.04	Cadian	0.21
GSO Credit	28.91	Brevan Howard	2.03
Third Point	24.84	Claren Road	5.78
Wellington Bay Pond	21.50	Regiment	7.63
HFRI Fund Weighted Index	9.24	LIBOR +3%	3.24

Equity-Oriented Hedge Fund Portfolio Performance

Equity-oriented Portfolio was a significant driver of total portfolio returns in 2013. Activist allocations were timely while long biased and higher net managers were winners.

	1 Year (%) 2013*	3 Years (%)	Since Inception (%)
NJDOI Equity-Oriented Portfolio	17.46	8.16	6.20
HFRI Equity Hedge Index	14.44	4.04	3.60

Credit-Oriented Hedge Fund Portfolio Performance

Credit spreads tightened throughout the year while liquidations, post re-org securities and structured credit were strong drivers. Long-biased managers were performance leaders while lower beta managers still performed well.

	1 Year (%) 2013*	3 Years (%)	Since Inception (%)
NJDOI Credit-Oriented Portfolio	12.83	7.10	6.35
Barclays High Yield Index	7.46	9.32	8.97

Risk Mitigation/Absolute Return Hedge Fund Portfolio Performance

It was a difficult year for macro (-0.40%) and CTA/systematic (-1.18%) managers. The overall portfolio benefited from being underweight macro strategies and good manager selection was a positive contributor as well.

	1 Year (%) 2013*	3 Years (%)	Since Inception (%)
NJDOI Absolute Return Portfolio	5.80	4.08	2.58
HFRI Macro Index	-0.22	-1.50	3.51

2014 NJDOI Initiatives

2014 NJDOI Initiatives

- Actively Managed Global Equities
 - Utilize the Division's proven capabilities with regard to actively managing US equities to increase active management of Non-US equities in 2014
 - Complete selection process for new advisers in Developing Markets (Emerging & Frontier) and International Small Cap
 - Explore alternative global benchmark(s)
- Risk Management
 - Study risk management systems and programs with the ultimate goal of procuring a portfolio wide risk management platform
- Currencies
 - Increase focus on currencies from both the perspective of hedging non-US dollar exposure when appropriate and in terms of how currency movements will impact asset classes
- Real Assets
 - Restructure portfolio to take advantage of opportunities in market and decrease exposure to broad commodity related indices
- Real Estate
 - Structure a Real Estate vehicle to review real estate co-investment deal flow and make commitments to smaller funds, which will reduce costs, enhance returns, and allow the Division to evaluate a broader set of investment opportunities
- Alignment of Interest
 - Remain committed to negotiating preferential terms that incentivize strong performance and provide the Division with meaningful governance rights