

New Jersey Division of Investment

Director's Report

March 19, 2014

State Investment Council Meeting

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

Market Updates

Monthly Change in Nonfarm Payrolls

in thousands



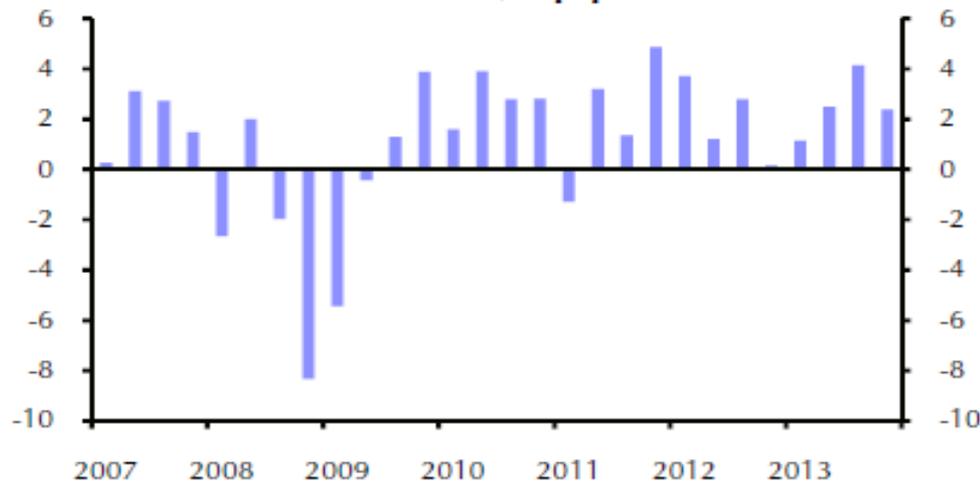
Source: Labor Department

The Wall Street Journal

US non-farm payrolls increased 175,000 in February, despite challenging weather. The unemployment rate rose to 6.7% from 6.6% as the labor “participation rate,” the share of the population that’s working or looking for work, held constant 63% (1978 lows).

Q4 GDP was revised down from 3.2% to 2.3%, reflecting smaller contributions from consumption, exports, and inventories. The Federal Government shutdown resulted in a drop in public spending.

Chart 1: Real GDP (%q/q Annualised)



Source: Capital Economics

5 Year Anniversary of Bull Market

On March 6, 2014, the S&P hit an all time intra-day high of 1,881, exactly five years after hitting an intraday low of 667 on March 6, 2009. The MSCI World Index also recently closed at an all-time high, exceeding the pre-recession peak in October 2007. Some interesting stats on the bull market:

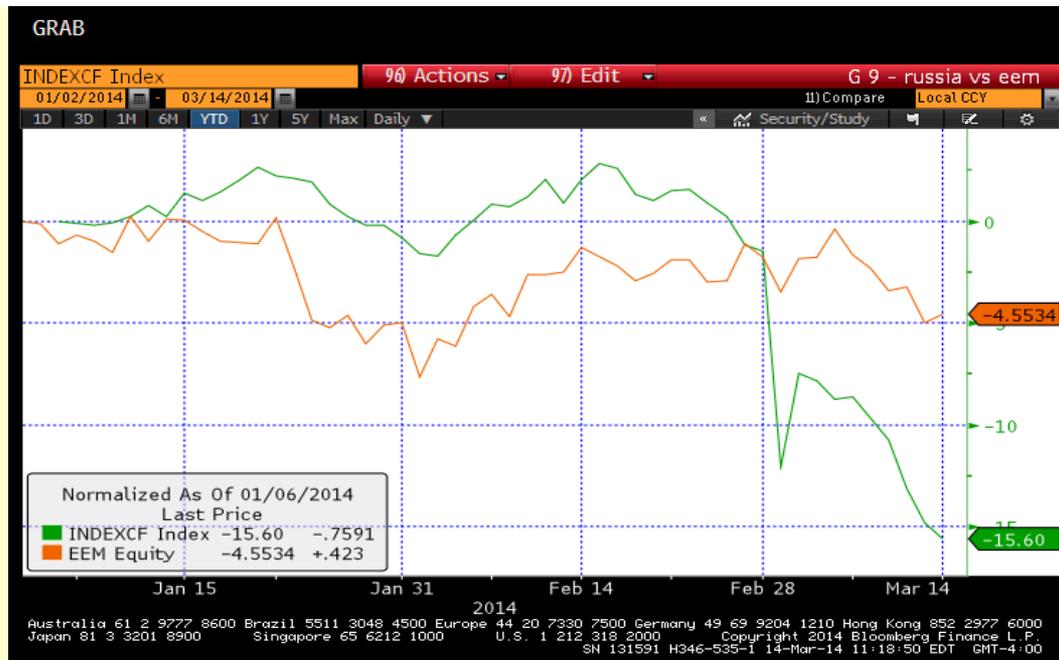
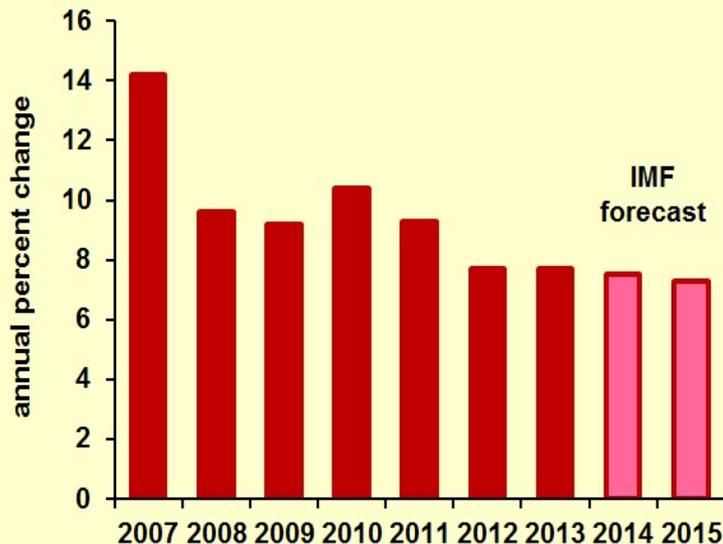
- 151.3%:** The *Dow Jones Industrial Average's* gains over the past five years, one of only six bull markets in history that have lasted this long.
- 782%:** *American Express Co.'s* gain since March 2009, the biggest rally among the 30 Dow components. *Walt Disney Co.* is second, up **427%**, and *Home Depot Inc.* rounds out the top three, up **352%**.
- 47%:** *Exxon Mobil Corp* rally through the past five years, the worst-performing blue chip among components that spent all five years in the Dow.
- 177.6%:** The S&P 500's gain over the past five years.
- 15.4:** The S&P 500's forward price-to-earnings ratio, up from **10.3** at the bear-market bottom.
- 324.4%:** The S&P 500 *consumer discretionary sector's* rally, the top performer among the index's 10 large-cap sectors. *Financials* is second best, up **259%**, and *industrials* is third, up **242%**.
- 68%:** The rally for the S&P's *telecommunications sector*, the worst performing large-cap sector.
- 241.8%:** The technology-heavy *Nasdaq Composite's* rally since the March 2009 bottom.
- 538.2%:** *Apple Inc.* rally over the past five years.
- 250.6%:** The gains for the *Russell 2000 index* of small-capitalization stocks off the bear-market low.
- 6.7%:** The current *unemployment rate*, as per Friday's jobs report. By comparison, the unemployment rate was **8.7%** in March 2009.

Global Developments

Concerns continue to mount regarding a potential slowdown in growth in **China** as recent trade, industrial and retail data has been below expectations. The country announced an economic growth target of 7.5 percent last week, the weakest since 1990, and had its first onshore bond default after a solar-panel maker failed to make an interest payment. China's Yuan tumbled by the most on record (-1.3% in February) amid speculation that the central bank will widen the currency's trading band.

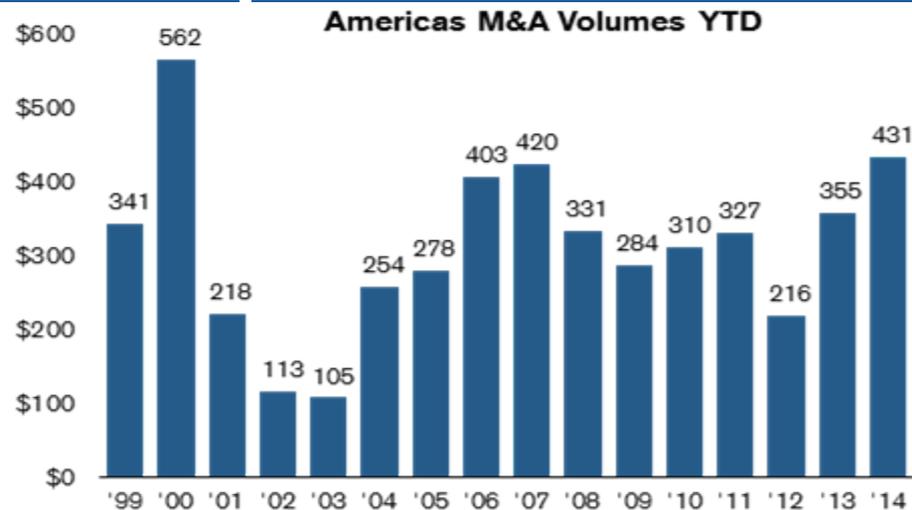
Tensions continue to mount between **Russia** and the U.S. over the situation in **Ukraine**. The U.S. has warned Russia that there will be consequences if they continue with plans to annex the Crimea region of the Ukraine. The country's central bank raised interest rates to 7% from 5.5% in an attempt to stabilize markets and offset a 10% decline in the Ruble. The Russian stock market is down 17% on the year and 14% since the start of the conflict with the Ukraine.

China GDP Growth



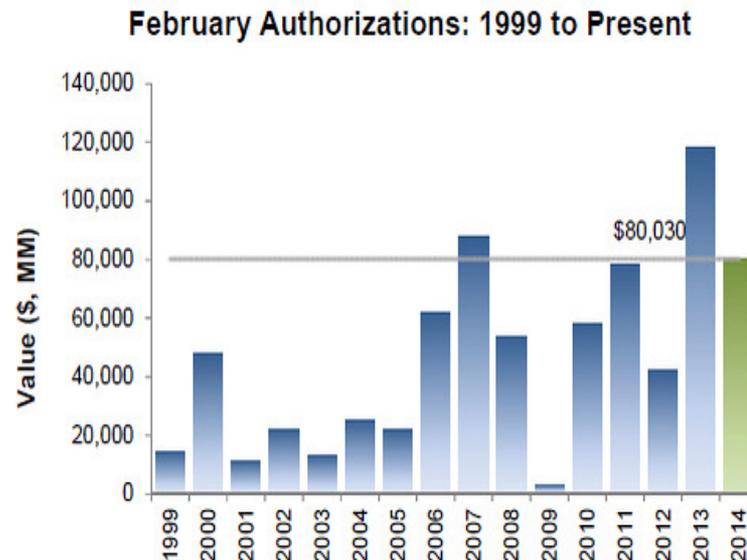
Capital Markets Update

Global M&A activity has been strong YTD in 2014, driven by large cash reserves on balance sheets, low interest rates, and less global economic uncertainty. The chart to the right shows M&A activity YTD through March 11 of each year. Activity for 2014 is at highest level since 2000 for this point in the year. Some of the largest transactions so far this year are Comcast's Acquisition of Time Warner (\$45bn), Actavis' acquisition of Forest Laboratories (\$25 bn), and Facebook's acquisition of WhatsApp (\$19 bn).



Source: Dealogic as of 3/11/14. ■ M&A Vol \$bn

Share buyback also continue to be strong. U.S. companies authorized \$80 billion in stock buybacks last month, a 32% drop from last year's record-setting amount but still the third-strongest February on record. Interestingly, at the end of last year, 5,008 stocks traded on U.S. exchanges, down 44% from a peak of 8,884 in 1997. Similarly, there were only 3,776 stocks in the Wilshire 5000 stock index, which also peaked in 1997, with 7,459 stocks. What's more, the number of outstanding shares of stock available to be bought or sold has shrunk by nearly 10% since the end of 2010.

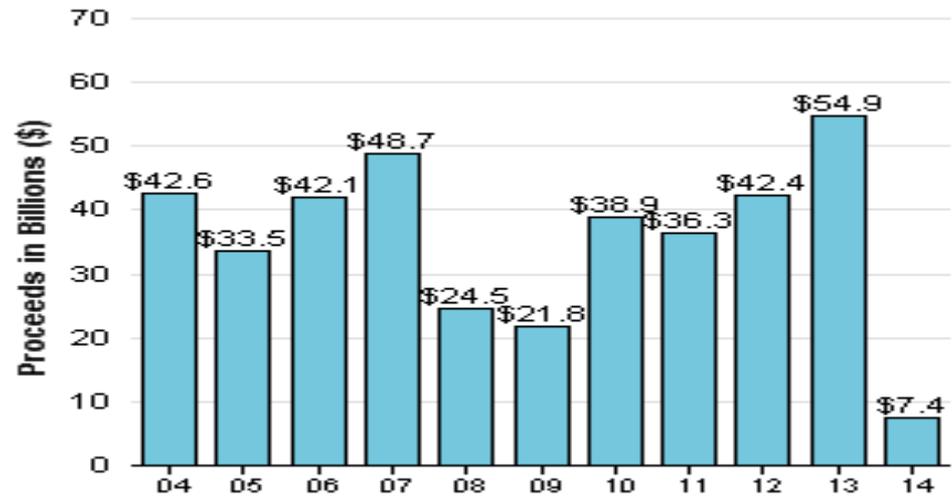


Source: Birinyi Associates

Capital Markets Update

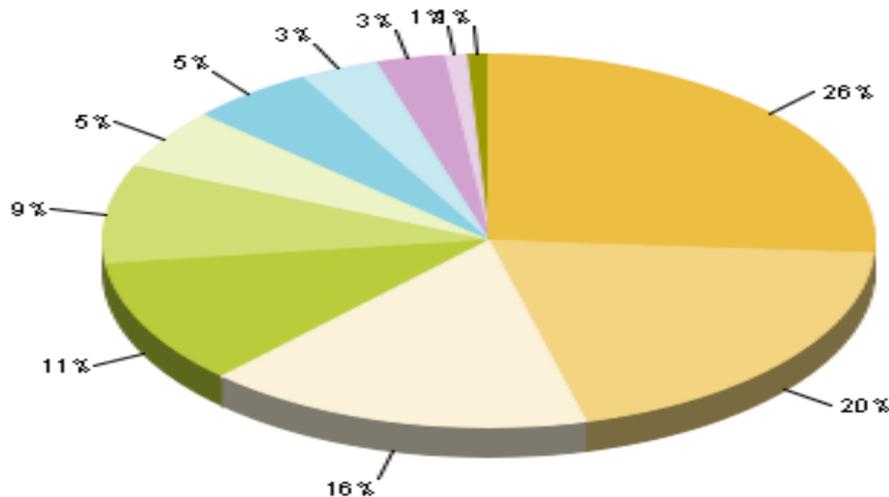
The US IPO market is off to a fast start in 2014. Through March 13th, \$7.4 billion had been raised, 24% ahead of the pace in 2013. Over the last 12 months, Healthcare IPOs have been the most prevalent (23 deals; \$1.5 billion in proceeds), while Energy deals have raised the most money (6 deals; \$2.3 billion raised). The three largest IPOs to date have been Santander (\$2bn), Rice Energy (\$1.1bn), and EP Energy (\$704mn).

IPO Volume - By Year



Source: www.RenaissanceCapital.com

Health Care IPOs are the Most Popular in the Last 12 Months



Source: www.RenaissanceCapital.com

Capital Markets Update (through February 28, 2014)

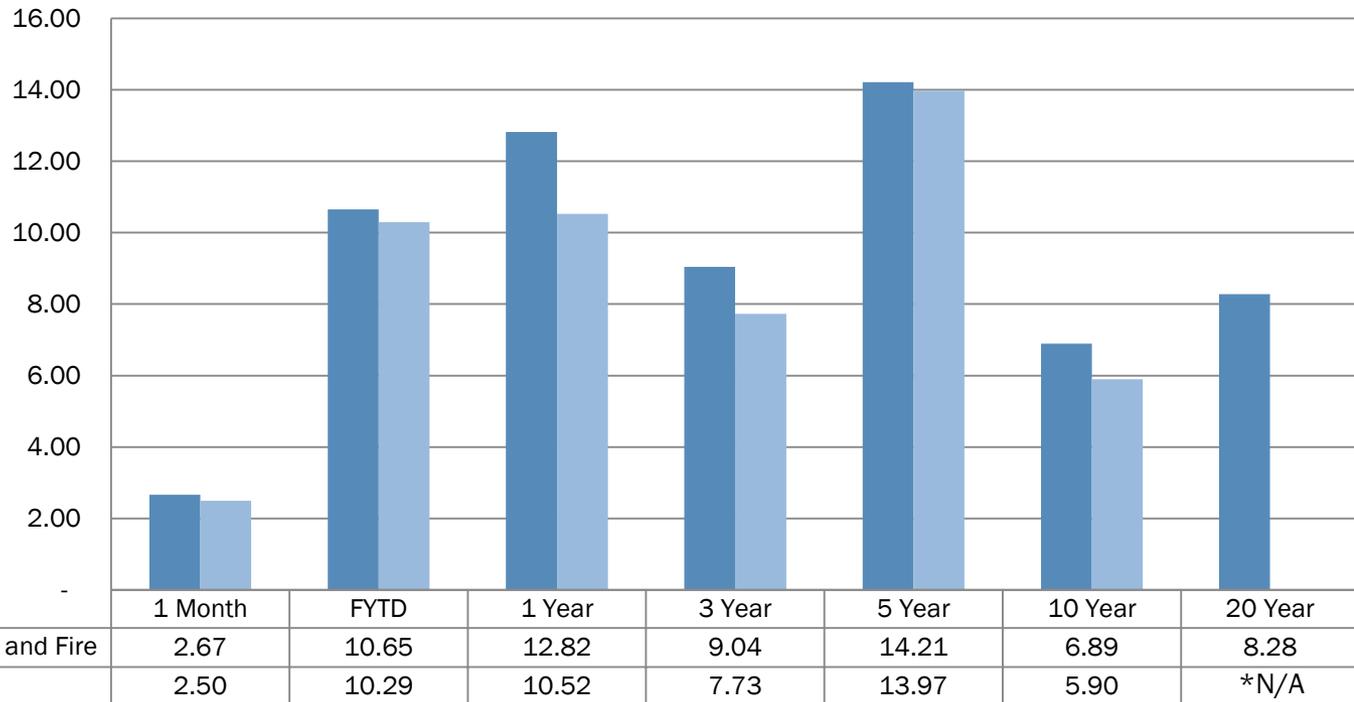
Equity Market Returns

10 Year Treasury Yield



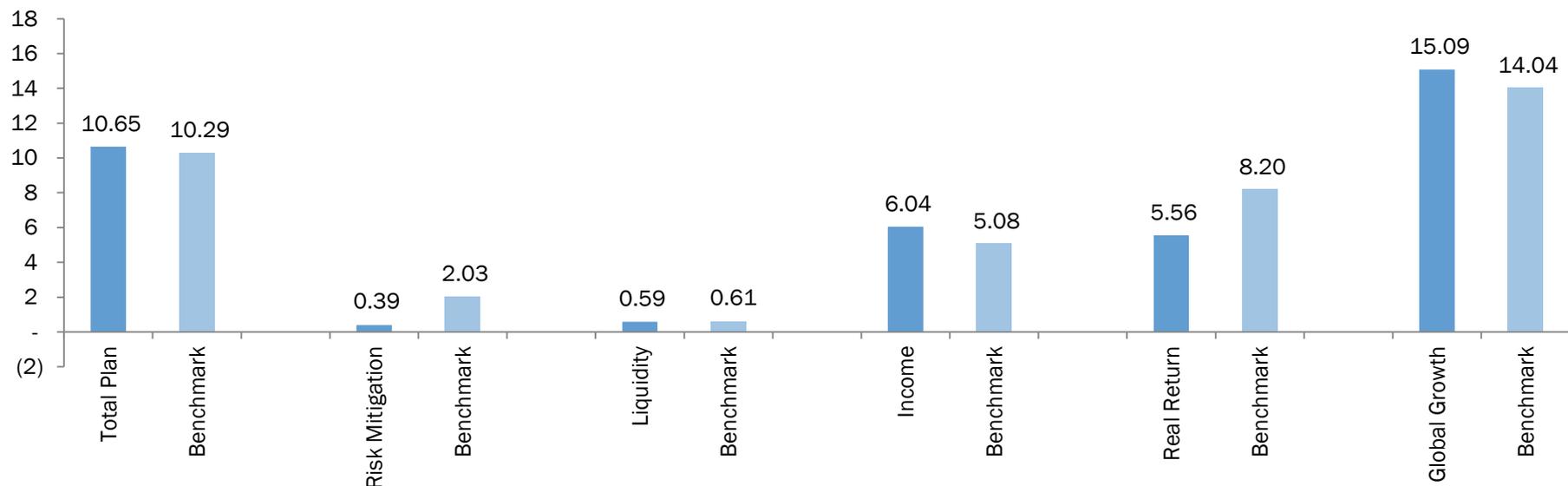
	Feb. 28, 2014	MTD %	CYTD %	FYTD %	1 Yr %	3Yrs %	5 Yrs %	10 Yrs %	
Domestic Equity	S&P 500	4.57	0.96	17.41	25.36	14.33	22.96	7.16	1
	Russell 2000	4.71	1.81	21.99	31.56	14.41	26.58	8.68	2
International Equity	MCSI EAFE	5.56	1.31	19.48	19.28	6.63	17.58	6.65	3
	MSCI EMF	3.31	(3.40)	4.05	(6.01)	(1.99)	16.86	9.9	4
Bond	Barclays Agg	0.53	2.02	2.47	0.16	3.84	5.14	4.57	5
	Barclays HY	2.02	2.73	8.85	8.38	9.03	18.94	8.74	6
	Barclays US Tips	0.65	3.62	1.40	(7.68)	5.14	6.77	N/A	7
Commodity	DJUBS Com	6.24	6.55	7.68	(1.84)	(6.86)	4.90	0.69	8

Total Fund ex Police and Fire Mortgage Performance as of Feb. 28, 2014



- The Total Fund ex Police and Fire returned 2.67% in February to bring the Fiscal Year to Date return to 10.65% and the Calendar Year return to 12.82%.
- The Fund has outperformed the benchmark by 36 basis points FYTD and by 230 basis points over the trailing one-year period.
- The Fund is ahead of the benchmark for all periods shown.

Fiscal Year to Date Return as of February 28, 2014



Asset Class (thru Feb. 28, 2014)	Jan %	Feb%	CYTD %	FYTD %	1-Year	2-Year
Risk Mitigation	0.89	(0.38)	0.50	0.39	3.01	3.50
Liquidity	0.23	0.08	0.31	0.59	(2.49)	0.74
Income	1.69	1.47	3.18	6.04	5.45	7.75
Real Return	0.00	2.62	2.62	5.56	7.89	7.89
Global Growth	(3.14)	3.82	0.56	15.09	19.13	14.65
Total Pension Fund ex P&F Mort.	(1.47)	2.67	1.16	10.65	12.82	11.17
Total Policy Benchmark	(1.29)	2.50	1.18	10.29	10.52	9.44
Out/(Under) Performance	(0.18)	0.17	(0.02)	0.36	2.30	1.73
Current Market Value	\$76.5 Billion					

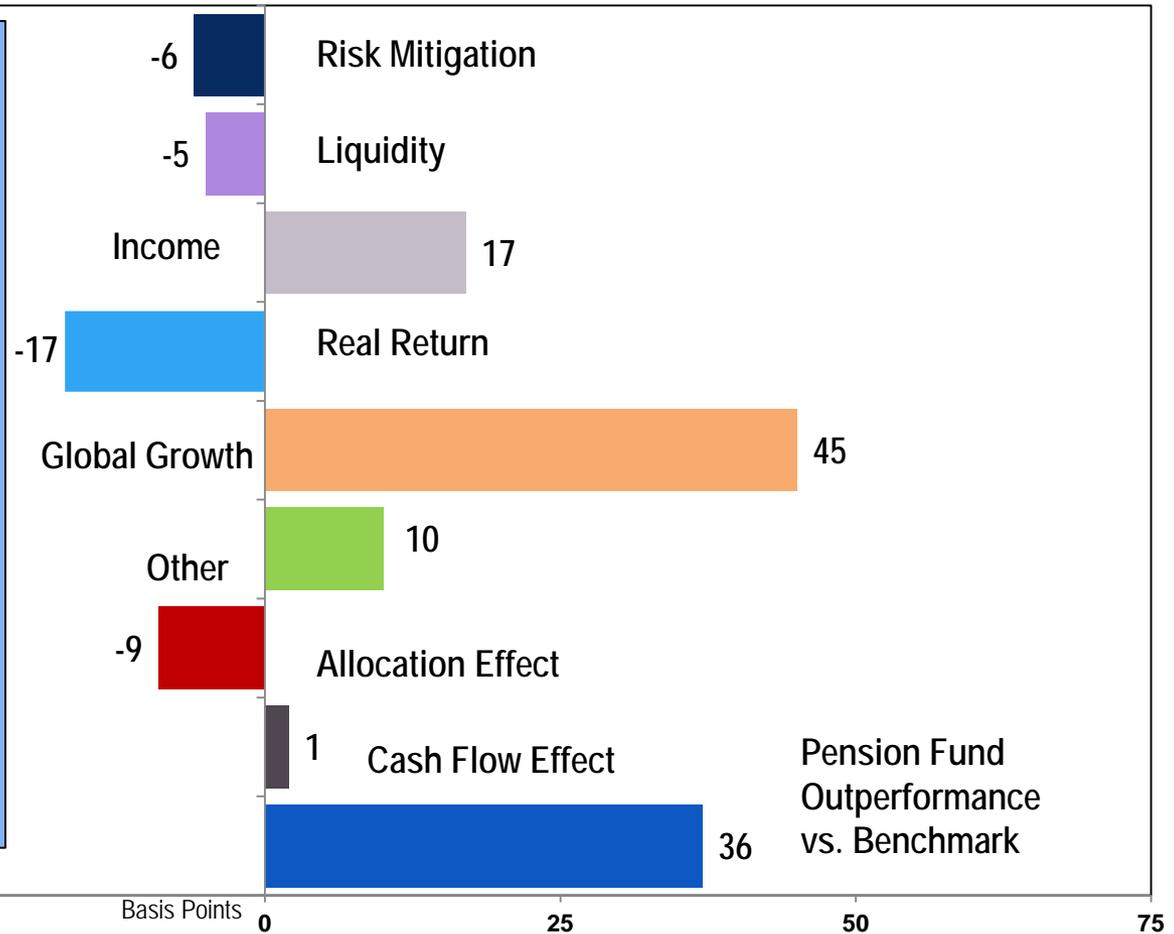
Pension Fund Attribution vs. Benchmark

Fiscal Year through February 2014

FYTD through February 2014 period, the Pension Fund outperformed the benchmark by 36 basis points.

The primary driver of performance was the Fund's overweight allocation to US Equity, which had a strong rally in 2013. The Fund was also correctly positioned in High Grade Income as these bonds did not fare well during 2013.

Performance detractors included disappointing returns for Commodities in Real Return, as well as in US Treasuries and TIPS in Liquidity, which, along with the cash position, caused the negative Allocation Effect.



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.

Fiscal Year to Date Performance Attribution Commentary

Positive Attribution

US Equities

- The US equity portfolio has outperformed by approximately 125 bps FYTD. Outperformance has been driven by the Multi-Sector portfolio, which has outperformed by approximately 351 bps. An overweight to, and strong stock selection within, IT was the largest driver of performance. Specifically, Facebook and Apple were the top two contributors to relative performance FYTD.

Developed Market Equity

- Developed Non-US portfolio has outperformed slightly (+9 bps) FYTD as the passive portfolio has performed in line with benchmark while healthcare portfolio has added value (up approximately 28% FYTD)

US TIPS

- The TIPS portfolio has outperformed by 134 bps FYTD as the portfolio's short duration has benefited performance in the second half of CY 2013.

Investment Grade Credit

- The Investment Grade Credit portfolio has outperformed by 36 bps FYTD due to longer duration. An allocation to Build America Bonds also added value while an underweight to Financials detracted.

Negative Attribution

US Treasuries

- The Treasury portfolio has underperformed by 142 bps FYTD as the portfolio's short duration has negatively impacted performance in the last two months, erasing the positive relative performance from the first half of the fiscal year.

Emerging Market Equity

- Emerging Market portfolio has underperformed by approximately 43 bps FYTD as outperformance by the advisors has partially offset the underperformance by ETFs

Division of Investment Updates

- ❑ Maintained elevated cash position. Net sellers of approximately:
 - ❑ \$450 million of US Equities
 - ❑ \$200 million of Developed Non-US
 - ❑ \$325 million of Emerging Markets
 - ❑ \$260 million of long term(10+years) High Grade bonds
- ❑ Increased equity hedge (S&P 500, Russell 2000, and Emerging Markets)
- ❑ Decreased exposure to broad-based EM ETFs and increased exposure to country specific ETFs
- ❑ Reduced duration from 5.76 year on January 16th to 5.50 years on February 26 vs. Benchmark duration of 5.83
- ❑ Purchased \$100 million of the 1st U.S. Treasury Floating Rate Note (2Yr Maturity; Libor +4.5 bps) for short term portfolio

March 11, 2014 Asset Allocation

Line #	Asset Class	Long Term Target Range	Current Allocation	FY 2014 Target	Over/Under Weight 2014 Target	Current Assets	Adjustments to Exposure based on Hedges	Total Net Exposure	FY 2014 Target (\$)	Over/Under Weight for 2014	Over/Under Weight (\$) vs. FY 2014 Target w/ Hedges	Line #
1	RISK MITIGATION	0-5%	4.17%	4.50%	-0.33%	3,171,587,797		3,171,587,797	3,425,077,654	(253,489,857)	(253,489,857)	1
2	Absolute Return HFs	0-5%	4.17%	4.50%	-0.33%	3,171,587,797		3,171,587,797	3,425,077,654	(253,489,857)	(253,489,857)	2
3	LIQUIDITY	2-15%	8.38%	9.50%	-1.12%	6,377,418,533		5,976,731,033	7,230,719,493	(853,300,960)	(1,253,988,460)	3
4	Cash Equivalents/ Short Term	0-15%	5.69%	6.00%	-0.31%	4,331,714,128		4,331,714,128	4,566,770,206	(235,056,078)	(235,056,078)	4
6	TIPS	0-10%	2.03%	2.50%	-0.47%	1,544,164,656		1,544,164,656	1,902,820,919	(358,656,263)	(358,656,263)	6
7	US Treasuries	0-10%	0.66%	1.00%	-0.34%	501,539,749	(400,687,500)	100,852,249	761,128,368	(259,588,619)	(660,276,119)	7
8	INCOME	20-40%	22.83%	24.20%	-1.37%	17,379,782,634		17,375,205,943	18,419,306,497	(1,039,523,863)	(1,044,100,555)	8
9	Investment Grade Credit	8-23%	11.50%	11.20%	0.30%	8,749,789,292		8,749,789,292	8,524,637,718	225,151,574	225,151,574	9
10	High Yield Fixed Income	0-10%	5.12%	5.50%	-0.38%	3,900,305,594	(4,576,691)	3,895,728,903	4,186,206,022	(285,900,428)	(290,477,120)	10
11	Credit-Oriented HFs	0-6%	3.04%	3.75%	-0.71%	2,316,200,639		2,316,200,639	2,854,231,379	(538,030,740)	(538,030,740)	11
12	Debt-Related PE	0-4%	1.06%	1.25%	-0.19%	803,069,872		803,069,872	951,410,460	(148,340,588)	(148,340,588)	12
13	Debt Related Real Estate	1-4%	0.97%	1.30%	-0.33%	736,157,418		736,157,418	989,466,878	(253,309,460)	(253,309,460)	13
14	P&F Mortgage	--	1.15%	1.20%	-0.05%	874,259,819		874,259,819	913,354,041	(39,094,222)	(39,094,222)	14
15	REAL RETURN	3-12%	6.01%	5.70%	0.31%	4,573,544,298		4,563,780,990	4,338,431,696	235,112,602	225,349,294	15
16	Commodities/RA	2-7%	2.57%	2.50%	0.07%	1,959,423,814	(9,763,308)	1,949,660,506	1,902,820,919	56,602,895	46,839,586	16
17	Equity Related Real Estate ¹	2-7%	3.43%	3.20%	0.23%	2,614,120,484		2,614,120,484	2,435,610,777	178,509,707	178,509,707	17
18	GLOBAL GROWTH	45-65%	58.52%	56.10%	2.42%	44,539,514,234		44,068,755,376	42,699,301,426	1,840,212,808	1,369,453,951	18
19	US Equity	15-35%	27.75%	25.90%	1.85%	21,122,010,578	(281,778,376)	20,840,232,202	19,713,224,722	1,408,785,856	1,127,007,479	19
20	Non-US Dev Market Eq	8-20%	13.06%	12.70%	0.36%	9,942,488,001	(39,590,515)	9,902,897,486	9,666,330,269	276,157,732	236,567,217	20
21	Emerging Market Eq	5-15%	6.51%	6.50%	0.01%	4,954,413,911	(149,389,967)	4,805,023,944	4,947,334,390	7,079,521	(142,310,445)	21
22	Equity-Oriented HFs	0-8%	3.97%	4.00%	-0.03%	3,024,018,361		3,024,018,361	3,044,513,471	(20,495,110)	(20,495,110)	22
23	Buyouts/Venture Cap ²	4-10%	7.22%	7.00%	0.22%	5,496,583,383		5,496,583,383	5,327,898,574	168,684,809	168,684,809	23
24	OTHER	0.00%	0.09%	0.00%	0.09%	70,989,270		70,989,270	0	70,989,270	70,989,270	24

Based on Estimated Values

¹ Current assets do not include receivables of \$410 million primarily related to Real Estate secondary sale

² Current assets do not include receivables of \$53 million primarily related to Private Equity secondary sale

State Investment Council

Notifications

Alternative Investment Notifications

Rock Creek Group's Ownership Stake Sale to Wells Fargo Asset Management ("WFIG")

History:

The Division initially invested \$150 million in September 2006 in RC Woodley Park, LP, a fund managed by the Rock Creek Group, in order to provide instant diversification to an early hedge fund program.

To date, the Division has contributed \$750 million to RC Woodley Park, LP, which has invested across a diverse group of hedge fund managers (i.e.. Long/Short Equity, Commodities, and Emerging Managers)

Ownership Sale:

- In 2012 Wells Fargo, through its Affiliated Managers Division, acquired a 35 percent minority ownership stake in the Rock Creek Group with options to increase that share over time.
- Wells Fargo has exercised its option, and will increase its ownership interest in the Rock Creek Group to a 65 percent majority stake.
- The transaction is anticipated to close on April 1, 2014

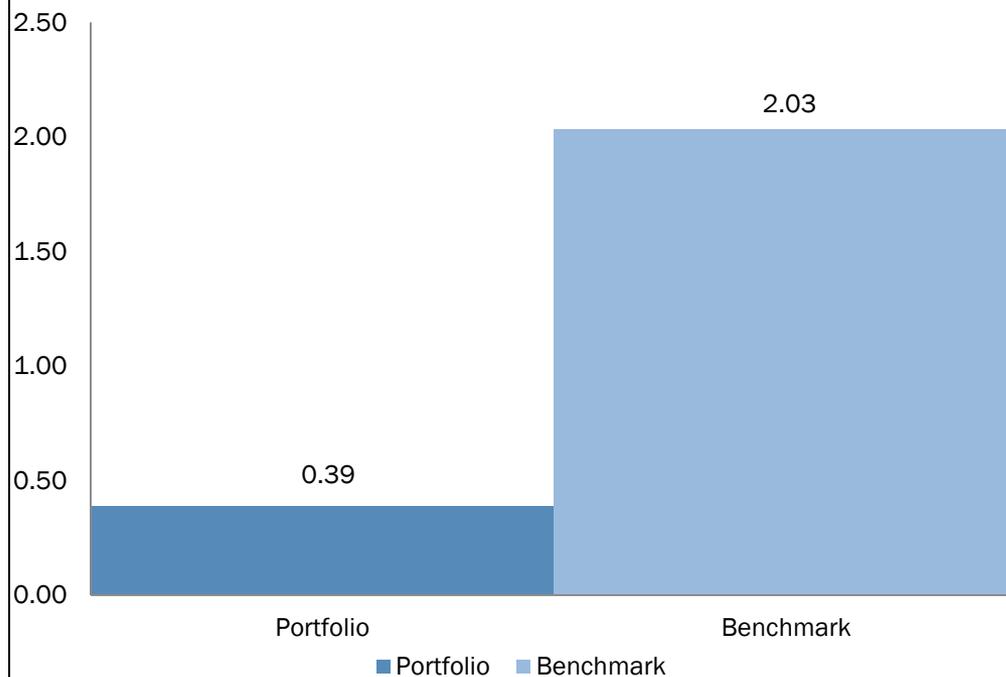
Proposed Action:

Purpose:

Since the transaction will not affect the management of our investment in RC Woodley Park, LP, the Division intends to consent to the transaction. The Division is notifying the SIC of this transaction under its Modification Procedures, which require notice of any "change in, or change of control of, the general partner or investment manager of a fund".

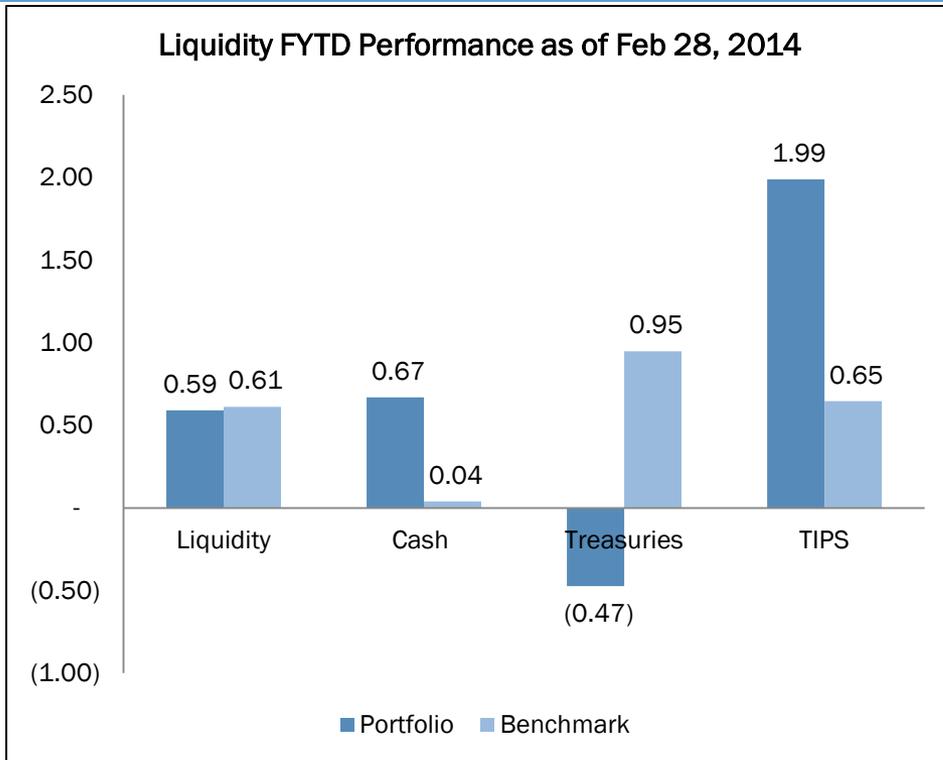
Performance Appendix

Risk Mitigation FYTD Performance as of Feb 28, 2014



Returns as of Feb 28, 2014	1 Month	CYTD	FYTD	1 Year	2 Year
Absolute Return Hedge Funds	(0.38)	0.50	0.39	3.01	3.50
1 M LIBOR + 400 Bps	0.34	0.67	2.73	4.13	4.17
<i>Difference</i>	<i>(0.72)</i>	<i>(0.17)</i>	<i>(2.34)</i>	<i>(1.13)</i>	<i>(0.67)</i>

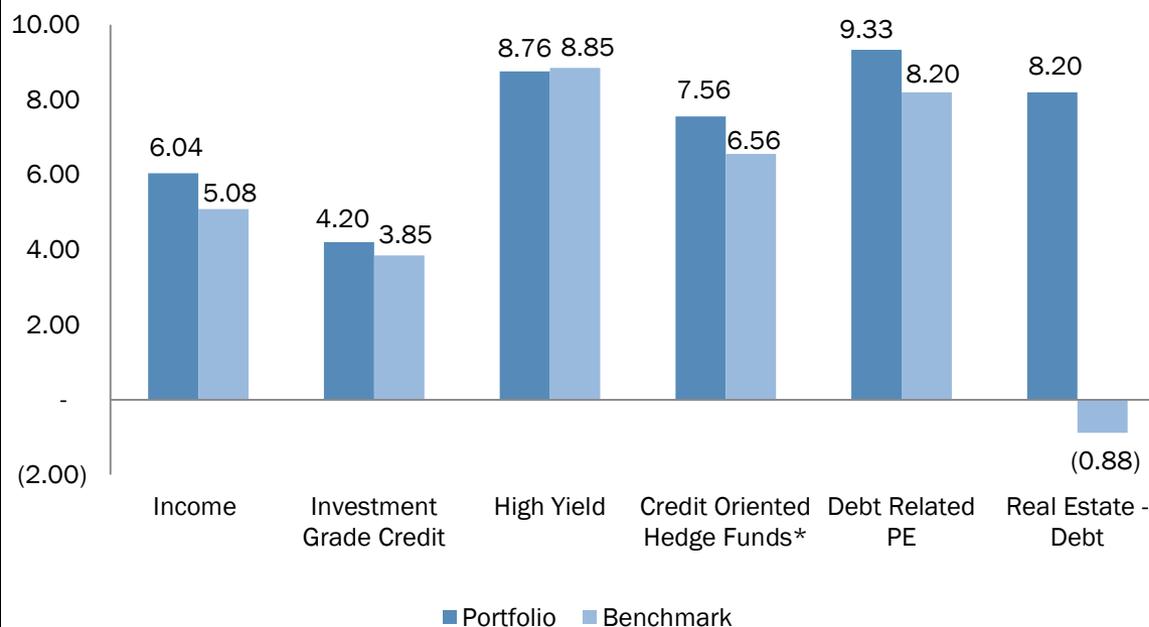
- The Risk Mitigation return is composed of the returns of the Absolute Return Hedge Funds. The returns are generally reported on a one month lag for direct funds and one to two months for fund of funds.
- The Absolute Return Hedge Funds as a group have returned 0.39% FYTD and 3.00% over the past one year period in what has been a challenging environment for macro oriented managers. CTA funds and multi-strategy funds have outperformed discretionary macro funds over these periods.



Returns as of Feb 28, 2014	1 Month	CYTD	FYTD	1 Year	2 Year
Cash Equivalents	0.05	0.09	0.67	1.94	2.16
91 day treasury bill	0.00	0.01	0.04	0.08	0.10
<i>Difference</i>	<i>0.05</i>	<i>0.08</i>	<i>0.63</i>	<i>1.86</i>	<i>2.06</i>
US Treasuries	0.04	0.12	(0.47)	(5.09)	(0.01)
Custom Benchmark	0.46	3.20	0.95	(2.16)	(0.59)
<i>Difference</i>	<i>(0.42)</i>	<i>(3.09)</i>	<i>(1.42)</i>	<i>(2.93)</i>	<i>0.58</i>
TIPS	0.41	1.86	1.99	(5.71)	0.82
Custom TIPS Benchmark	0.65	4.69	0.65	(10.36)	(3.28)
<i>Difference</i>	<i>(0.23)</i>	<i>(2.84)</i>	<i>1.34</i>	<i>4.65</i>	<i>4.10</i>

- The Liquidity portfolio has underperformed the benchmark by 2 basis points FYTD and is ahead of the benchmark by 230 bps on a trailing one year basis.
- A recent overweight to cash has been a drag on performance
- Both the Treasuries and TIPS portfolios were hurt recently from having a shorter duration than the benchmark, although in the case of the TIPS portfolio, it has still been beneficial FYTD.

Income FYTD Performance as of Feb 28, 2014



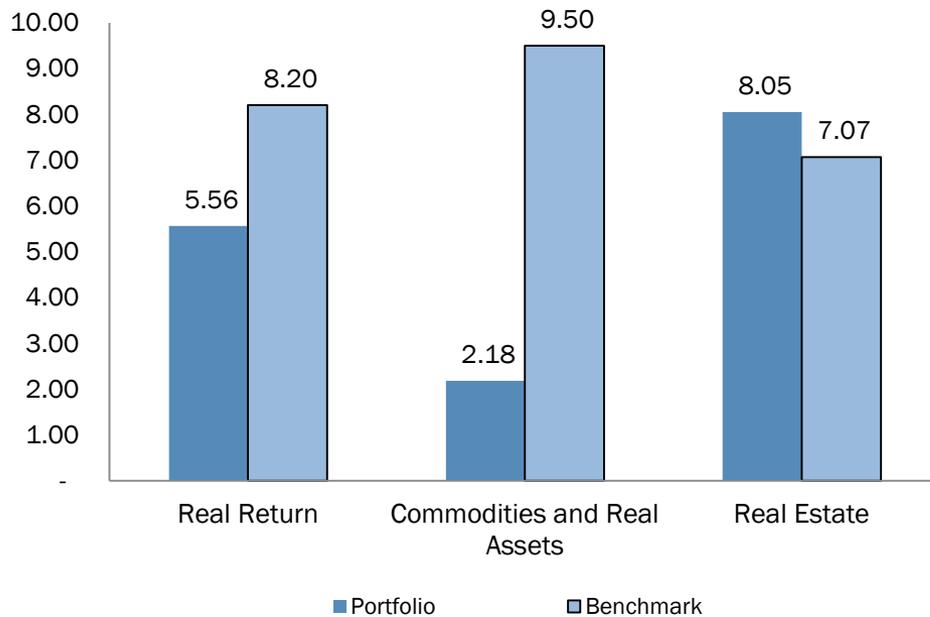
*Reported on a 1 month lag

Returns as of Feb 28, 2014	1 Month	CYTD	FYTD	1 Year	2 Year
Investment Grade Credit	0.84	3.49	4.20	0.21	3.57
Custom IGC Benchmark	0.82	2.13	3.85	(0.85)	2.71
<i>Difference</i>	0.02	1.36	0.36	1.06	0.86
High Yield	2.26	3.04	8.76	11.08	15.78
Barclays Corp High Yield	2.02	2.74	8.85	8.38	10.09
<i>Difference</i>	0.24	0.30	(0.09)	2.70	5.69
Credit-Oriented Hedge Funds	1.14	2.04	7.56	14.54	13.91
Custom Benchmark	0.68	1.90	6.56	11.48	11.26
<i>Difference</i>	0.46	0.14	1.00	3.06	2.65
Debt-Related Private Equity	4.62	4.79	9.33	25.75	21.80
Cambridge Assoc. PE Qtr Lag	-	-	8.20	16.98	16.40
<i>Difference</i>	4.62	4.79	1.13	8.77	5.40
Real Estate - Debt	2.46	2.46	8.20		
Barclays CMBS 2.0 Baa + 100 (Qtr lag)	(0.26)	3.74	(0.88)		
<i>Difference</i>	2.72	(1.28)	9.08		

- The Income portfolio has outperformed the benchmark by 96 basis points FYTD, 322 bps over the trailing year, and 231 bps over the trailing 2 years.
- The Investment Grade Credit portfolio has outperformed the benchmark FYTD due to longer duration and an overweight to certain municipal bonds.
- Both traditional high yield and alternative high yield portfolios have performed well FYTD, up in excess of 8%. Over the trailing one and two year periods, alternative high yield allocations have driven the outperformance.
- Outperformance for the Credit Oriented Hedge Fund portfolio has been driven by managers with higher net exposure and those with exposure to structured products.
- The Cambridge PE Index used for the Debt Related PE portfolio was not available at the time of this printing.

*Reported on a one month lag

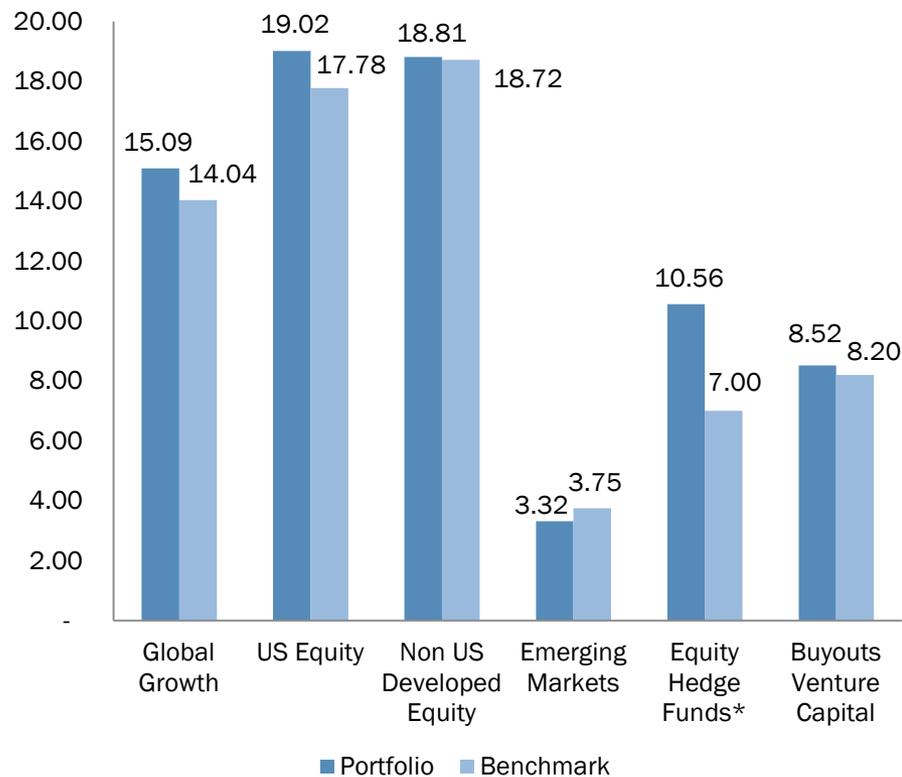
Real Return FYTD Performance as of Feb 28, 2014



Returns as of Feb 28, 2014	1 Month	CYTD	FYTD	1 Year	2 Year
Commodities & Real Assets	2.05	2.11	2.18	(3.50)	(2.88)
Custom Benchmark	3.61	5.60	9.50	6.99	2.77
<i>Difference</i>	<i>(1.56)</i>	<i>(3.49)</i>	<i>(7.32)</i>	<i>(10.49)</i>	<i>(5.65)</i>
Real Return Real Estate	3.03	2.98	8.05	15.26	13.78
NCREIF Property Index (Daily)	-	-	7.07	12.97	11.75
<i>Difference</i>	3.03	2.98	0.99	2.29	2.03

- The Real Return portfolio underperformed by 264 basis points FYTD, however, since the bulk of the portfolio is reported on a lag, the Division believes the performance of the portfolio is understated.
- The underperformance of the Commodities and Real Assets portfolio has been primarily driven by private Real Asset investments which have underperformed traditional public commodity indices, at least partially due to the lag in reporting.
- The Global REIT and the Core REIT portfolios are up 9% and 14%, respectively FYTD.

Global Growth FYTD Performance as of Feb 28, 2014



Returns as of Feb 28, 2014	1 Month	CYTD	FYTD	1 Year	2 Year
Domestic Equity	4.29	1.08	19.02	27.37	19.97
S&P 1500 Super Composite (Daily)	4.60	1.08	17.78	25.72	19.50
<i>Difference</i>	<i>(0.31)</i>	<i>0.00</i>	<i>1.24</i>	<i>1.65</i>	<i>0.47</i>
Non-US Dev Market Eq	5.39	1.21	18.81	18.82	13.89
NJDI ex Iran& Sudan EAFE + Canada	5.30	1.07	18.72	17.98	13.57
<i>Difference</i>	<i>0.09</i>	<i>0.14</i>	<i>0.09</i>	<i>0.83</i>	<i>0.33</i>
Emerging Market Eq	3.50	(4.16)	3.32	(6.32)	(2.29)
NJDI Iran + Sudan Free EM Index	3.45	(3.33)	3.75	(6.15)	(1.93)
<i>Difference</i>	<i>0.05</i>	<i>(0.84)</i>	<i>(0.43)</i>	<i>(0.17)</i>	<i>(0.36)</i>
Total Equity Oriented Hedge Funds*	1.47	3.08	10.56	16.68	14.45
Custom Benchmark	(1.03)	0.47	7.00	12.06	8.76
<i>Difference</i>	<i>2.50</i>	<i>2.60</i>	<i>3.57</i>	<i>4.62</i>	<i>5.69</i>
Buyouts-Venture Capital	0.88	0.73	8.52	19.42	15.41
Cambridge Associates PE 1 Qtr Lag	-	-	8.20	16.98	16.40
<i>Difference</i>	<i>0.88</i>	<i>0.73</i>	<i>0.32</i>	<i>2.44</i>	<i>(0.99)</i>

- The Global Growth portfolio has outperformed the benchmark 105 basis points FYTD. The Fund's overweight to Global Growth, in particular US and Developed non-US equity, has positively impacted total fund performance FYTD.
- The Domestic Equity portfolio is ahead of the benchmark by 124 basis points FYTD primarily due to strong stock selection.
- The Developed Market Non US equity portfolio is ahead of the benchmark by 9 basis points FYTD and 83 bps on a trailing one-year basis. The total Developed Non US Equity portfolio is ahead of the benchmark by over 60 basis points on a trailing one year basis. The dedicated healthcare portfolio is up 38% over the trailing year.
- The Emerging Markets portfolio has underperformed by 43 bps FYTD as the outperformance by the advisors has partially offset the underperformance by the ETF.
- Equity Hedge Funds are well ahead of the benchmark FYTD as long-biased, activists, and healthcare focused funds have had a particularly strong period of performance
- The Cambridge PE Index was not available at the time of this printing.

*Reported on a one month lag