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# INVESTMENT SECTION

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CHRIS CHRISTIE  
*Governor*

State of New Jersey  
DEPARTMENT OF THE TREASURY  
DIVISION OF PENSIONS AND BENEFITS  
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ANDREW P. SIDAMON-ERISTOFF  
*State Treasurer*

KIM GUADAGNO  
*Lt. Governor*

FLORENCE J. SHEPPARD  
*Acting Director*

June 30, 2013

The Division of Investment ("Division"), under the jurisdiction of the State Investment Council (the "Council"), is responsible for the investment management of the assets of seven public pension systems: The Consolidated Police & Firemen's Pension Fund, the Judicial Retirement System, the Police & Firemen's Retirement System, the Prison Officers Pension Fund, the Public Employees' Retirement System, the State Police Retirement System, and the Teachers' Pension and Annuity Fund (collectively referred to as the "Pension Fund").

The Division was created in 1950 by the New Jersey Legislature (P.O. 1950, c.270) to centralize all functions relating to the purchase, sale or exchange of securities for the State's diverse funds under experienced and professional management. The statute also established the Council to formulate investment procedures and policies to be followed by the Director. The statute vests investment authority in the Director, who is appointed by the State Treasurer from candidates nominated by the Council. New and amended regulations adopted by the Council after public comments are filed with the Office of Administrative Law and reported in the *New Jersey Register*.

The Council is comprised of 16 members, appointed to fixed terms. Nine members are appointed by the Governor for staggered five-year terms, and are drawn traditionally from the corporate investment community. Eight of these nine hold appointments subject to the advice and consent of the Senate, and one appointee is selected by the Governor from nominees submitted jointly by the President of the Senate and Speaker of the Assembly. Two members are appointed by the Governor for five-year terms from nominees submitted by the New Jersey State AFL-CIO, with at least one appointed member being a member of a union representing police officers or firefighters. Two members are appointed by the Governor for three year terms from nominees submitted by the New Jersey Education Association and the State Troopers Fraternal Organization. Three members are designated to the Council for three-year terms by the respective pension system's board of trustees for the Public Employees' Retirement System, the Police & Firemen's Retirement System Board, and the Teachers' Pension and Annuity Fund. State law requires that no Council member shall hold any office, position or employment with any political party, and none can benefit from the transactions of the Division.

All investments by the Director must conform to the heightened "prudent person" standard set by the New Jersey Legislature (P.L. 1997, c.26). This standard requires the Director "to manage and invest the portfolio solely in the interests of the beneficiaries of the portfolio and for the exclusive purpose of providing financial benefits to the beneficiaries of the portfolio."

To the best of our knowledge, performance is calculated using the time-weighted return based on the modified Dietz method.

Christopher McDonough  
Acting Director, Division of Investment

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# INVESTMENTS

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## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

### State Investment Council Key Regulations Pertaining to Pension Fund Assets (at June 30, 2013)

- Public equity investments are limited to no more than 70 percent of the portfolio, including both domestic and international equities.
- Investments in international securities are limited to 30 percent of the portfolio, including both international equities and fixed income obligations.
- The market value of securities of companies in emerging markets is limited to 50 percent of the percentage derived by (1) dividing the total market capitalization of companies included in the MSCI Emerging Market Index by (2) the total market capitalization of the companies included in the MSCI All-Country World Ex-United States Index of the total market value of the assets held by Common Pension Fund D.
- The currency exposure on international investments may be hedged through currency transactions.
- Unlimited investment is permitted in securities issued by the U.S. Government and designated agencies.
- Investment in domestic and international corporate obligations, non-convertible preferred stocks of U.S. Corporations, and collateralized notes and mortgages are subject to a minimum rating requirement of Baa3 by Moody's, BBB- by Standard & Poor's, and BBB- by Fitch Ratings. Investment in mortgage backed passthrough securities are subject to a minimum rating requirement of A3 by Moody's, A- by Standard & Poor's, and A- by Fitch Ratings. Up to eight percent of the pension assets may be invested in these securities not meeting the minimum rating requirements.
- Up to 3 percent of the domestic equity portfolio may consist of debt in lieu of common stock, regardless of the credit rating of the issuing company.
- Investments in international government and agency obligations are limited to direct debt obligations of a sovereign government or its political subdivisions, debt obligations of agencies of a sovereign government which are unconditionally guaranteed as to principal and interest by the sovereign government's full faith and credit, and debt obligations of international agencies that are directly backed by the collective credit of multiple sovereign governments.
- Investments in fixed income securities such as municipal bonds, commercial paper, repurchase agreements, and certificates of deposit are all permitted by specific regulations which specify high credit standards and conservative investment limits.
- Subject to limitations established by the State Investment Council, futures contracts, certain options contracts and exchange-traded funds may be utilized in the management of the portfolios.
- The Council regulations contain limits on (1) the percentage of the portfolio that can be invested in any one security and (2) the percentage of the outstanding amount of any one security that can be owned by the portfolio. These limits help to insure that the portfolio is adequately diversified and that competitive market pricing is obtained.
- Investments in alternative investments are limited to no more than 38% of the portfolio in the aggregate, with individual category limitations for private equity (12%), real estate (9%), real assets (7%), and hedge funds (15%).

#### Proxy Voting

- Proxy voting policy addresses key issues.
- The Division seeks to vote all proxies received, unless shares are out on loan. Under certain circumstances, the Division may restrict shares from being loaned, or recall loaned shares in order to preserve the right to vote on proxy issues.

# INVESTMENTS

## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

### Rate of Return

	2013	Annualized	
		3-Year	5-Year
<b>Total Pension Fund<sup>(1)</sup></b>	<b>11.78%</b>	<b>10.59%</b>	<b>5.32%</b>
<b>Equity Segment</b>			
<b>Common Pension Fund A (Domestic Equities)</b>	<b>21.56</b>	<b>18.59</b>	<b>8.13</b>
<i>S&amp;P 1500 Index</i>	<i>21.13</i>	<i>18.60</i>	<i>7.27</i>
<b>Common Pension Fund D (International Equities)</b>	<b>11.90</b>	<b>5.46</b>	<b>(1.28)</b>
<i>MSCI All World Country Index (ex US)-net</i>	<i>13.63</i>	<i>7.99</i>	<i>(0.80)</i>
<b>Fixed Income Segment</b>			
<b>Common Pension Fund B (Domestic Fixed Income)</b>	<b>1.73</b>	<b>7.70</b>	<b>9.24</b>
<i>Common Pension Fund B Blended Benchmark</i>	<i>0.87</i>	<i>6.64</i>	<i>8.28</i>
<b>Alternative Investments Segment</b>			
<b>Common Pension Fund E</b>	<b>11.63</b>	<b>10.12</b>	<b>1.50</b>
Hedge Funds	12.58	7.13	1.66
<i>HFRI Fund of Funds Composite<sup>(2)</sup></i>	<i>8.41</i>	<i>3.18</i>	<i>(0.51)</i>
Private Equity	14.86	13.59	6.18
<i>Cambridge Private Equity Index<sup>(3)</sup></i>	<i>12.85</i>	<i>15.09</i>	<i>7.46</i>
Real Estate	13.17	12.94	(3.66)
<i>NCREIF Property Index</i>	<i>10.73</i>	<i>13.14</i>	<i>2.79</i>
Real Assets/Commodities	(0.88)	4.77	(9.01)
<i>DJUBS TR Index</i>	<i>(8.01)</i>	<i>(0.26)</i>	<i>(11.61)</i>

Note: Performance is calculated using the time-weighted return based on the modified Dietz method.

<sup>(1)</sup> Excludes performance on Police and Fire Mortgages.

<sup>(2)</sup> Index is reported on one month lag.

<sup>(3)</sup> Index is reported on one quarter lag.

# INVESTMENTS

## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

### Pension Fund Asset Allocation June 30, 2013

	Actual %	Target %	Difference %	Allocation \$
Absolute Return/Risk Mitigation	2.83	4.00	(1.17)	2,017.56
<b>Risk Mitigation</b>	<b>2.83</b>	<b>4.00</b>	<b>(1.17)</b>	<b>2,107.56</b>
Cash Equivalents <sup>(1)</sup>	4.57	1.50	3.07	3,404.25
TIPS	2.39	2.50	(0.11)	1,782.93
US Treasuries	0.44	2.50	(2.06)	328.31
<b>Total Liquidity</b>	<b>7.41</b>	<b>6.50</b>	<b>0.91</b>	<b>5,515.49</b>
Investment Grade Credit	13.59	13.00	0.59	10,120.23
High Yield Fixed Income	4.87	6.00	(1.13)	3,623.46
Credit Oriented Hedge Funds	2.90	4.00	(1.10)	2,156.32
Debt Related Private Equity	1.08	1.50	(0.42)	806.02
Police and Fire Mortgage Program <sup>(2)</sup>	1.13	1.50	(0.37)	838.80
<b>Total Income</b>	<b>23.57</b>	<b>26.00</b>	<b>(2.43)</b>	<b>17,544.82</b>
Commodities and Other Real Assets	2.53	4.00	(1.47)	1,886.55
Real Estate	5.05	5.50	(0.45)	3,762.52
<b>Total Real Return</b>	<b>7.59</b>	<b>9.50</b>	<b>(1.91)</b>	<b>5,649.07</b>
US Equity	27.54	23.80	3.74	20,504.23
Non-US Developed Markets Equity	12.52	12.50	0.02	9,317.45
Emerging Markets Equity	6.87	7.00	(0.13)	5,117.14
Equity Oriented Hedge Funds	4.11	4.50	(0.39)	3,062.74
Buyouts/Venture Capital	6.99	6.20	0.79	5,200.67
<b>Total Global Growth</b>	<b>58.03</b>	<b>54.00</b>	<b>4.03</b>	<b>43,202.24</b>
Other Cash and Recievables	0.57	0.00	0.57	426.71
<b>Total Pension Fund</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>	<b>74,445.89</b>

<sup>(1)</sup> The cash aggregate comprises the four common fund and seven plan cash accounts.

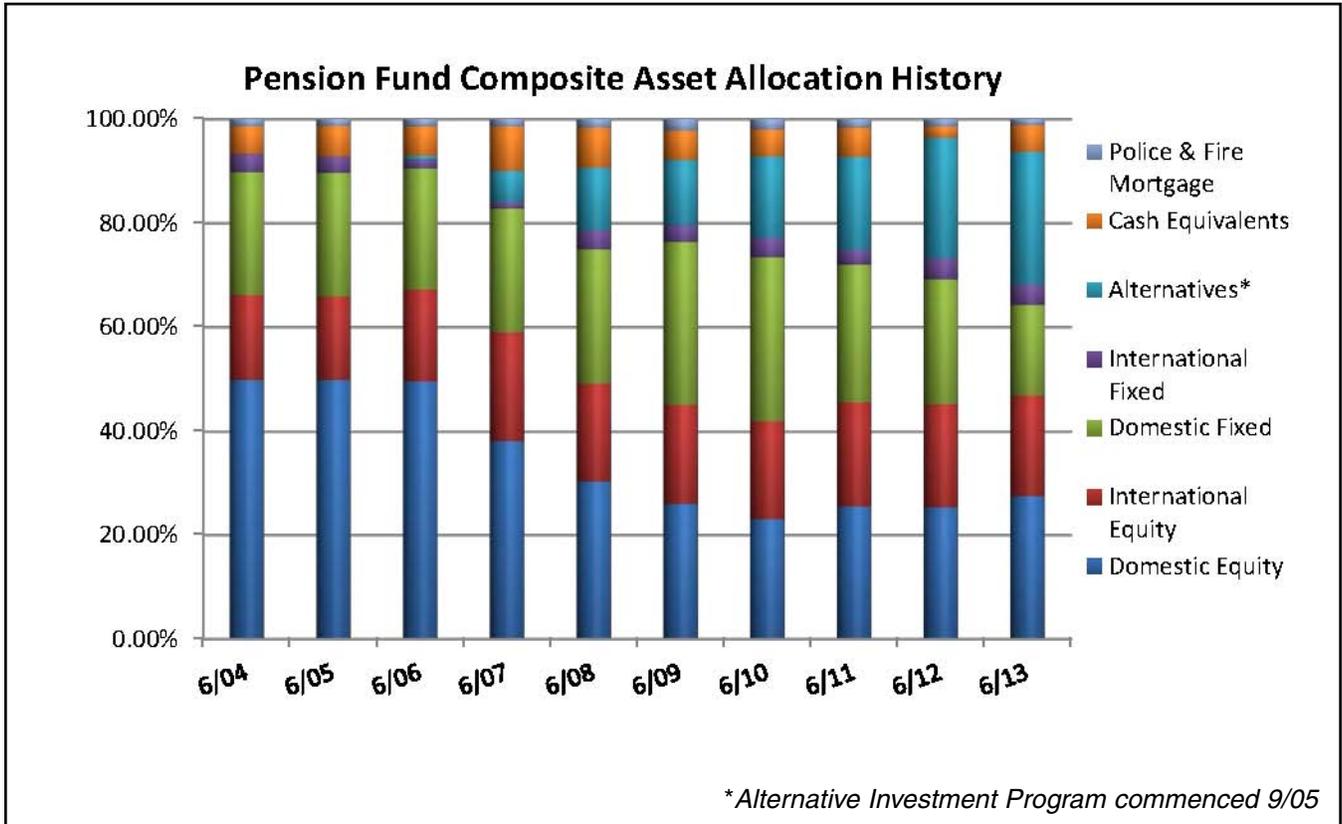
<sup>(2)</sup> Police & Fire Mortgage Program are private mortgages that cannot be sold.

Totals may not equal sum of components due to rounding.



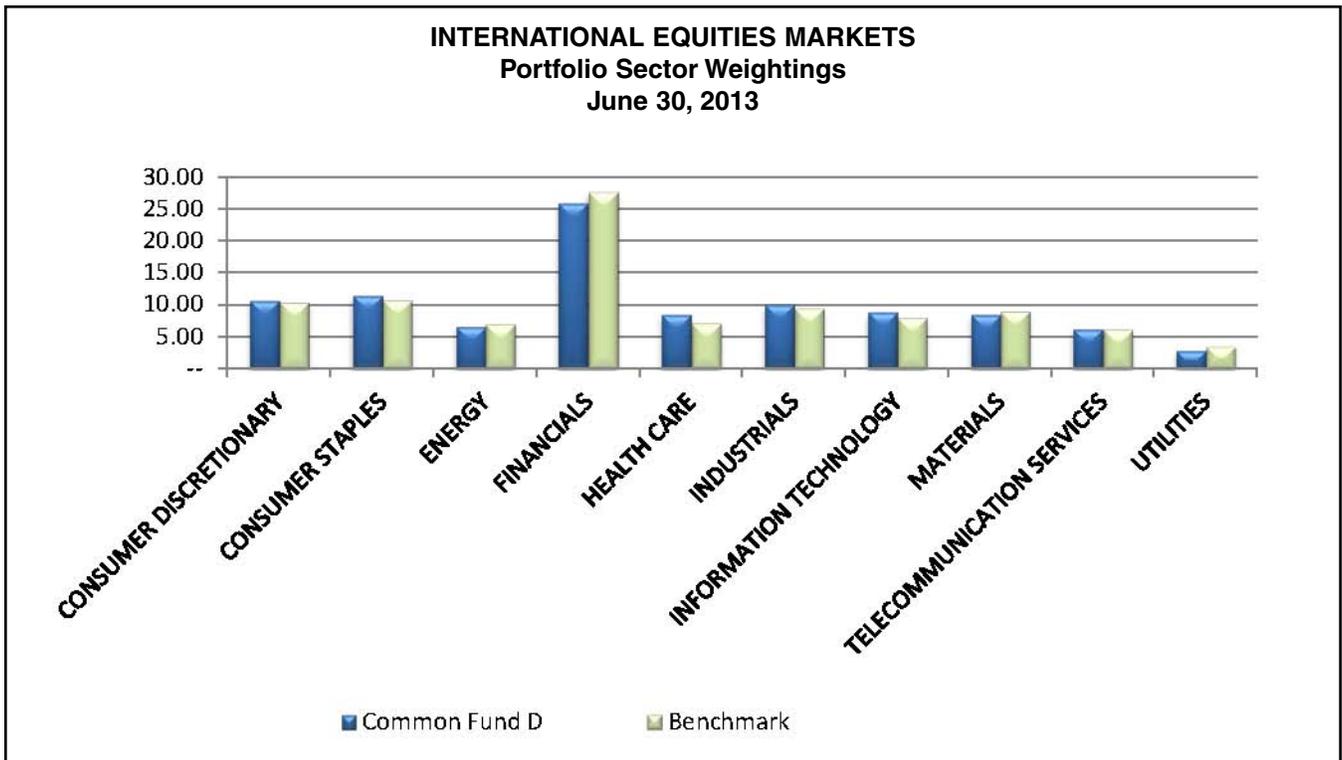
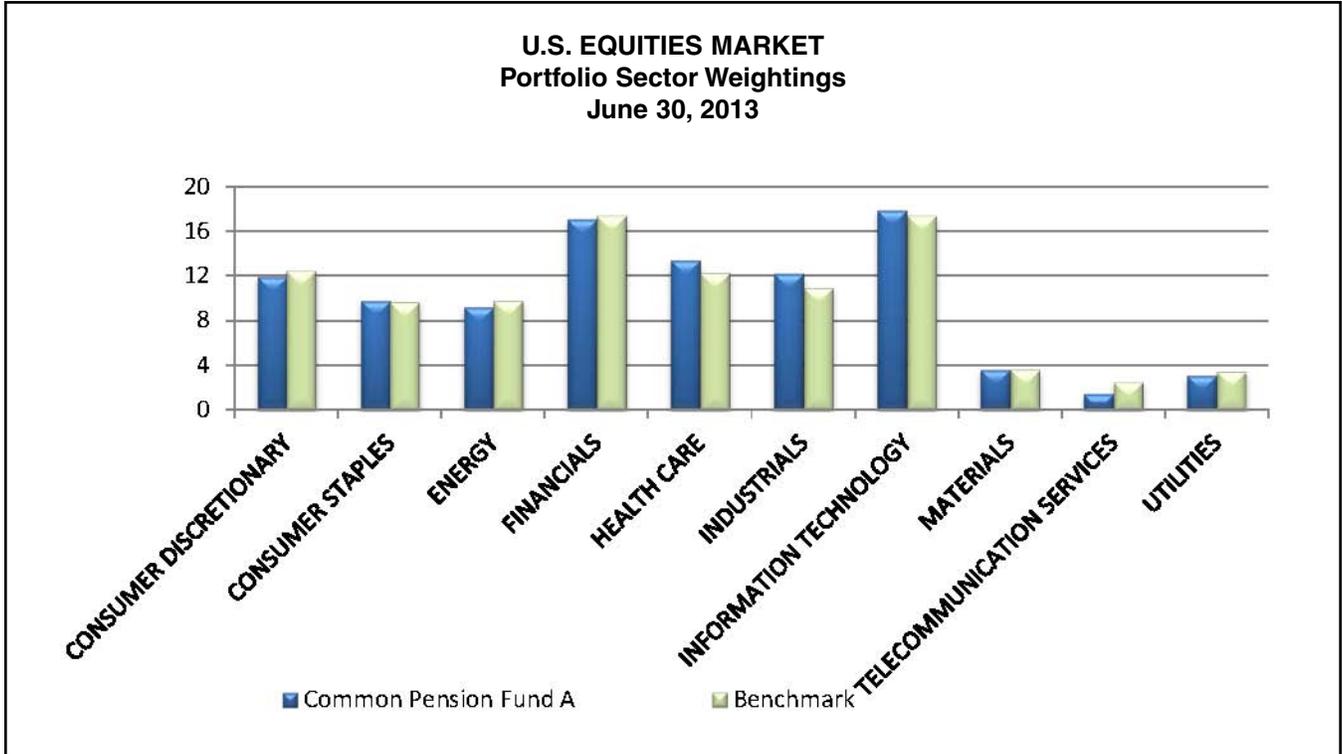
# INVESTMENTS

## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS



# INVESTMENTS

## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS



# INVESTMENTS

## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

### LIST OF THE LARGEST ASSETS HELD

#### Largest Domestic Stock Holdings (By Fair Value)

June 30, 2013

Shares	Stock	Fair Value (USD)
1,414,000	Apple Inc.	\$560,057,120
5,300,000	Exxon Mobil Corp.	478,855,000
11,650,000	Microsoft Corp.	402,274,500
9,259,890	Wells Fargo & Co.	382,155,660
6,105,000	J.P. Morgan Chase & Co.	322,282,950
364,000	Google Inc.	320,454,680
6,570,000	Merck & Co. Inc.	305,176,500
3,674,945	Procter & Gamble Co.	282,934,016
3,250,000	Johnson & Johnson	279,045,000
9,463,112	Pfizer Inc.	265,061,767

#### Largest Domestic Bond Holdings (By Fair Value)

June 30, 2013

Par	Bonds	Coupon	Due	Fair Value (USD)
502,985,000	US Treasury Tips	0.125%	4/15/2018	\$515,952,456
500,000,000	US Treasury Bonds	0.250	6/30/2015	500,195,500
478,534,000	US Treasury Tips	0.125	1/15/2023	463,990,873
230,357,250	US Treasury Tips	0.125	4/15/2017	236,350,224
217,919,100	US Treasury Tips	1.125	1/15/2021	223,054,235
165,000,000	US Treasury Strips	0.000	8/15/2025	114,690,015
98,494,000	AT+T Inc	6.500	9/1/2037	111,750,997
89,000,000	Aid Israel	5.500	4/26/2024	108,144,879
80,000,000	Nabors Industries Inc.	9.250	1/15/2019	99,258,160
100,000,000	EMC Corp.	1.875	6/1/2018	98,850,300

A complete listing of the portfolio is available on the Division of Investment's Web site at [www.state.nj.us/treasury/doinvest](http://www.state.nj.us/treasury/doinvest).

# INVESTMENTS

## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

### Largest International Stock Holdings (By Fair Value) June 30, 2013

Shares	Stock	Fair Value (USD)
29,222,500	Vanguard FTSE Emerging Markets	\$1,133,248,550
22,954,600	IShares MSCI Emerging Markets	885,358,922
746,219	Roche Holding AG	185,342,139
2,550,000	IShares MSCI Emerging Markets	145,630,500
2,016,908	Nestle SA	132,058,818
2,200,000	IShares MSCI EAFE ETF	126,236,000
752,177	L'Oreal Prime De Fidelite	123,436,731
4,761,385	Glaxosmithkline PLC	119,011,877
11,092,504	HSBC Holdings PLC	114,739,715
97,495	Samsung Electronics Co. LTD	114,564,415

### Largest International Bond Holdings (By Fair Value) June 30, 2013

Par	Bonds	Coupon	Due	Fair Value (USD)
84,913,500	TSY 1 7/8% 2022 I/L GILT	1.875	11/22/2022	\$157,533,896
140,000,000	Province of British Columbia	2.650	9/22/2021	139,374,200
99,000,000	Province of Quebec	7.500	9/15/2029	135,990,855
69,000,000	Hydro Quebec	8.500	12/1/2029	102,041,685
75,000,000	Province of Ontario	4.400	4/14/2020	83,160,300
90,000,000	Province of British Columbia	2.000	10/23/2022	82,746,000
87,000,000	Province of Manitoba	2.100	9/6/2022	80,831,700
60,000,000	Province of Manitoba	9.625	12/1/2018	80,811,480
75,000,000	Province of Ontario	1.650	9/27/2019	71,647,500
51,000,000	Devon Financing Co. LLC	7.875	9/30/2031	66,037,860

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# INVESTMENTS

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STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS

Commission on Global Securities

Fiscal Year 2013

<b>Brokers</b>	<b>Shares<sup>(1)</sup></b>	<b>Total Commissions<sup>(1)</sup></b>	<b>Commissions per Share</b>
J.P. Morgan Securities LLC	59,342,229	\$1,744,900	\$0.029
Instinet, LLC	72,414,994	1,736,808	0.024
Credit Suisse Securities LLC	76,314,897	1,502,890	0.020
Morgan Stanley & Co., LLC	606,364,458	1,064,300	0.002
Citigroup Global Markets Inc.	35,524,576	973,216	0.027
Deutsche Bank AG	76,444,907	657,038	0.009
Goldman, Sachs & Co.	41,285,921	638,507	0.015
Capital Institutional Services, Inc.	18,206,675	564,943	0.031
UBS Securities LLC	17,409,458	561,197	0.032
Sanford C. Bernstein & Co., LLC	23,960,846	484,068	0.020

<sup>(1)</sup> Excludes options written on approximately 92.9 million shares with total commissions of \$871,000.

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Web site at [www.state.nj.us/treasury/doinvest](http://www.state.nj.us/treasury/doinvest).

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# INVESTMENTS

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STATE OF NEW JERSEY  
DIVISION OF PENSIONS AND BENEFITS

Schedule of Fees  
Year ending June 30, 2013

(000's)	Net Assets under Management	Fees	Basis Points
Investment Advisers' fees:			
Fixed Income advisers	\$ 1,425,987	\$ 4,504	
Emerging Market advisers	2,782,998	16,095	
	<u>\$ 4,208,985</u>	<u>20,599</u>	<u>48.941</u>
Alternative investment and global diversified credit funds	<u>\$ 20,297,063</u>	<u>378,061</u>	<u>186.264</u>
Other investment service fees:			
Custodian		119	
Security Lending Fees		2,721	
Investment consultants		2,759	
		<u>5,599</u>	
Total	<u>\$ 74,446,450</u>	<u>\$ 404,259</u>	<u>54.302</u>