

NEW JERSEY DIVISION OF INVESTMENT

Director's Report

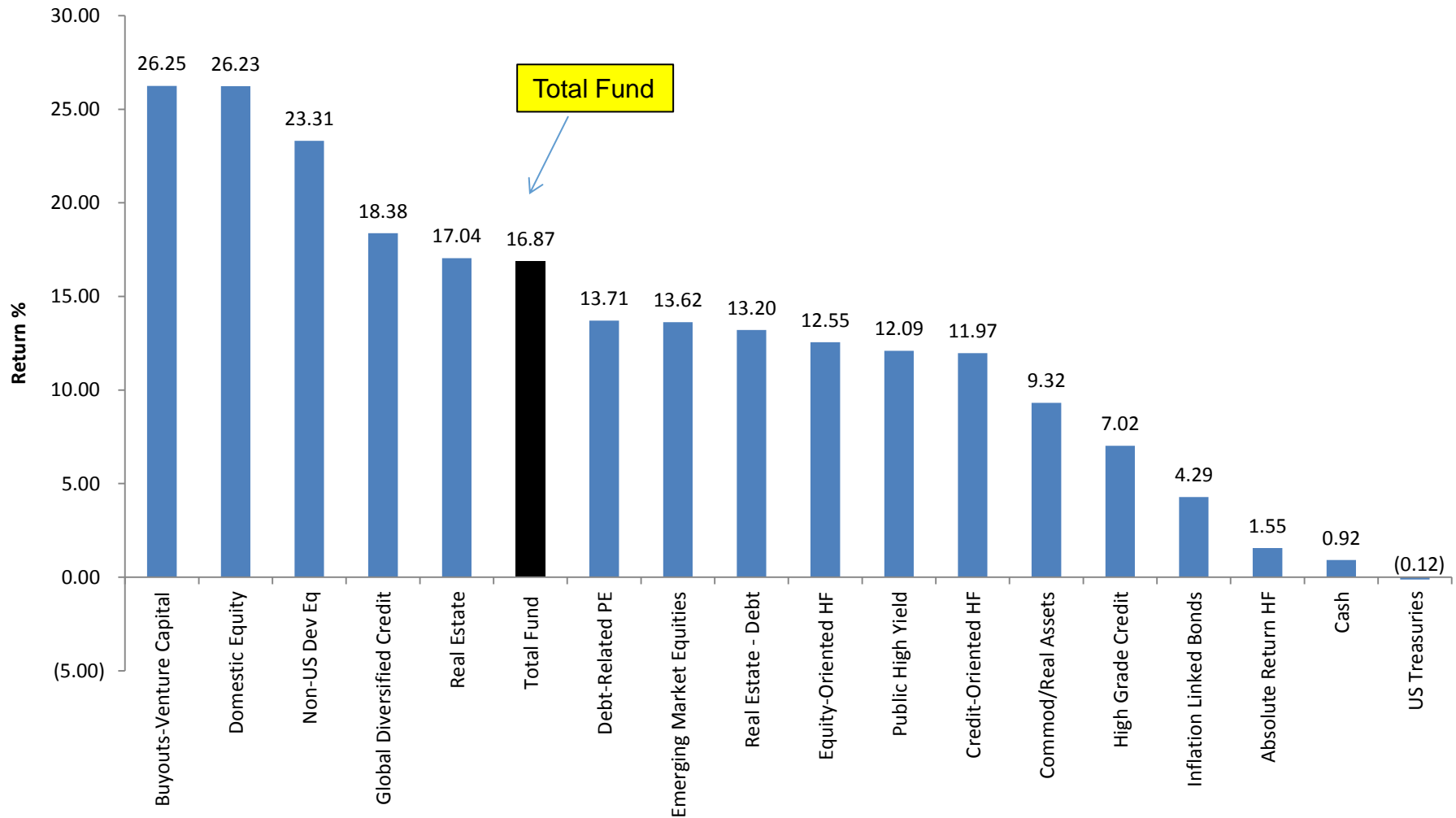
September 16, 2014

State Investment Council Meeting

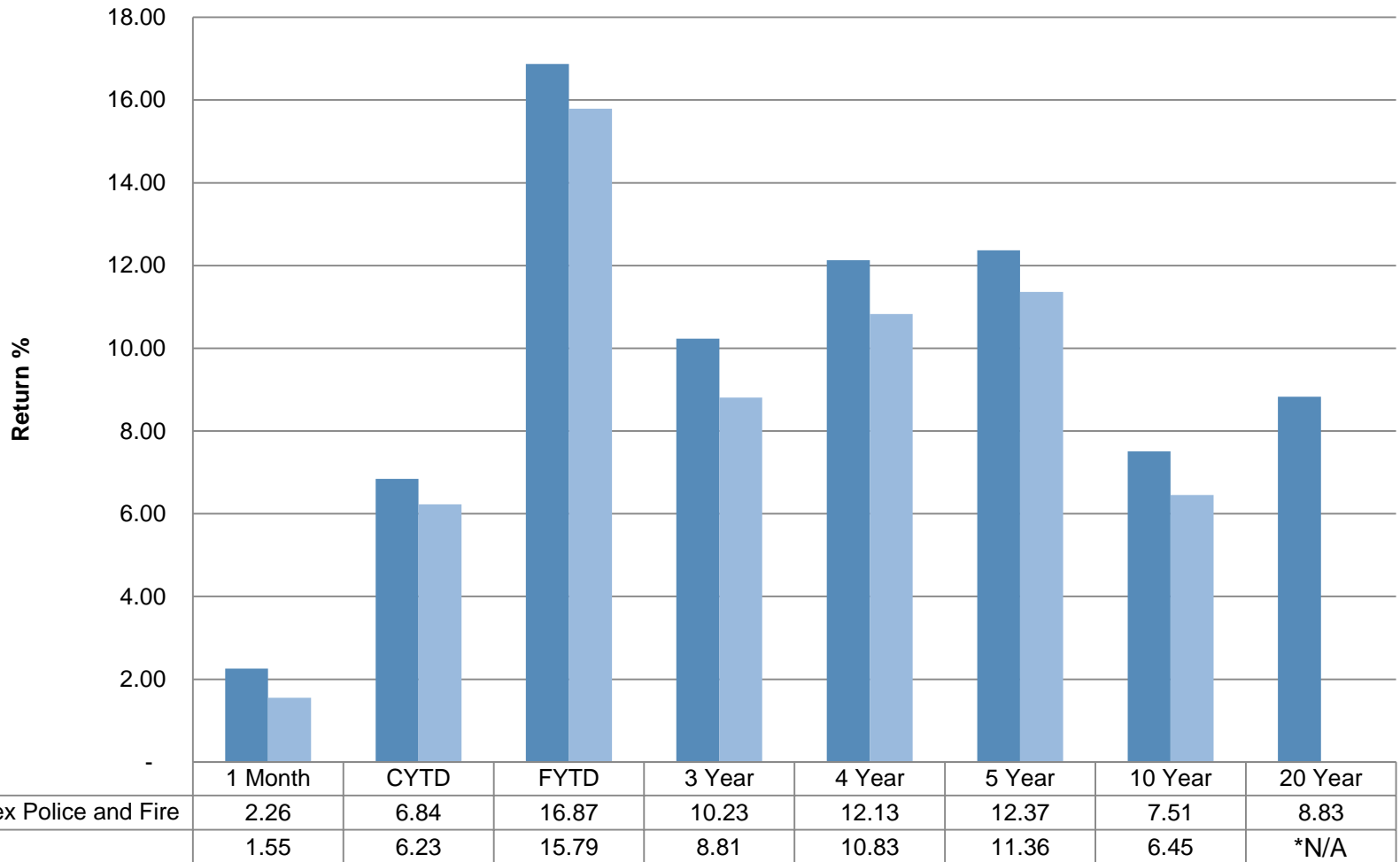
“The mission of the New Jersey Division of Investment is to achieve the best possible return at an acceptable level of risk using the highest fiduciary standards.”

Pension Fund Returns 16.9% for FY14

The Total Fund ex Police and Fire Mortgage Program returned 16.9% for the fiscal year ending June 30, 2014. This return includes final June 30, 2014 values for all investments. The chart below shows the fiscal year return for various asset classes.



Total Fund ex Police and Fire Performance as of June 30, 2014



- The Total Fund ex Police and Fire Mortgages returned 2.26% in June to bring the Fiscal Year to Date return to 16.87% and the Calendar Year return to 6.84%
- June was the fifth consecutive positive monthly return for the Fund. The Fund generated a positive return in 10 of 12 months for the fiscal year
- **The Fund is ahead of the benchmark for the Fiscal Year and for the 3, 4, 5 and 10 year return.**

*Benchmark return not available for 20-Year period

Pension Fund Attribution vs. Benchmark

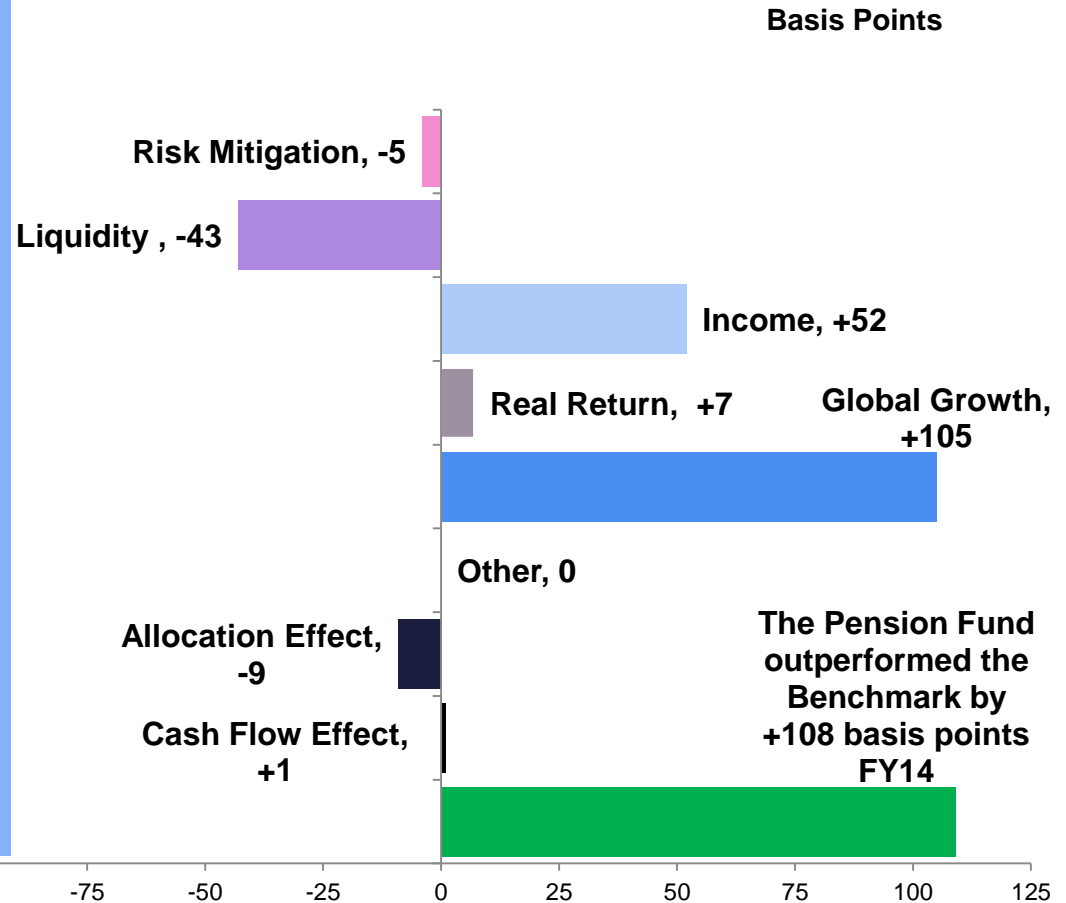
Fiscal Year ending June 30, 2014

For the fiscal year through June 2014 period, the Pension Fund outperformed the Benchmark by 1.08%: 16.87 % vs. 15.79%.

The primary driver of the outperformance throughout the fiscal year was the Fund's overweight allocation to the US Equity market, and secondly, positions in Investment Grade, High Yield Bonds, and Global Diversified Credit strategies, the returns of which reflected the overall strong performance of the Fixed Income asset class.

Primary detractors were in Liquidity, where the position in Treasuries and TIPs did not fully capture the strong performance resulting from both the capital flight to safety and investors' move to hedge against rising inflation expectations.

An overweight position in Liquidity (Cash) for the majority of the fiscal year was responsible for the negative Allocation Effect.



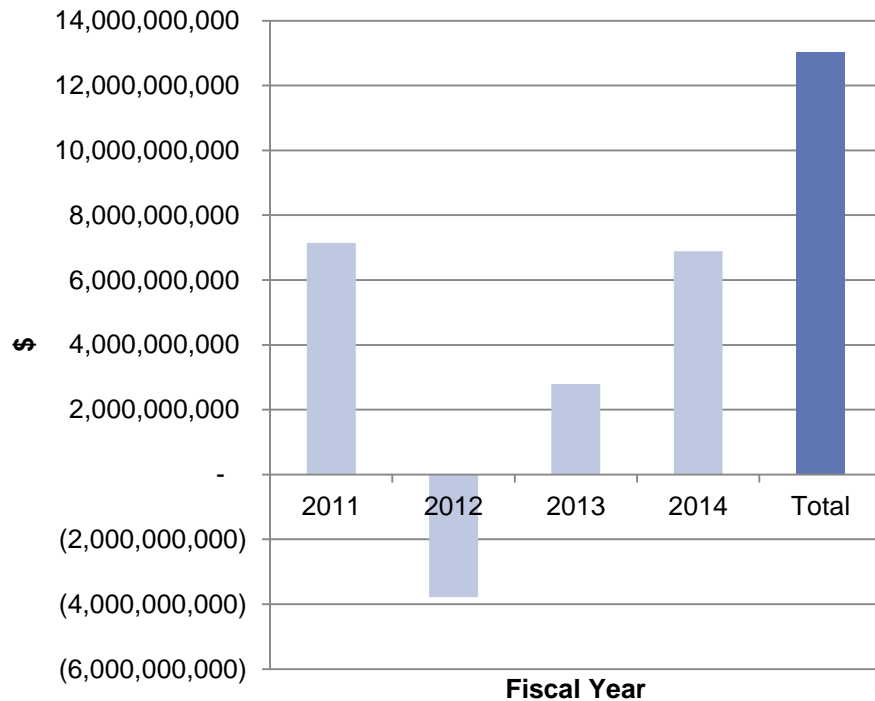
Allocation Effect indicates the effect of asset allocation bets, i.e. overweights or underweights vs. the target allocations. Cash Flow Effect reflects the impact of cash flows – i.e. money added to or taken from asset classes.

Value Added through Alpha Generation

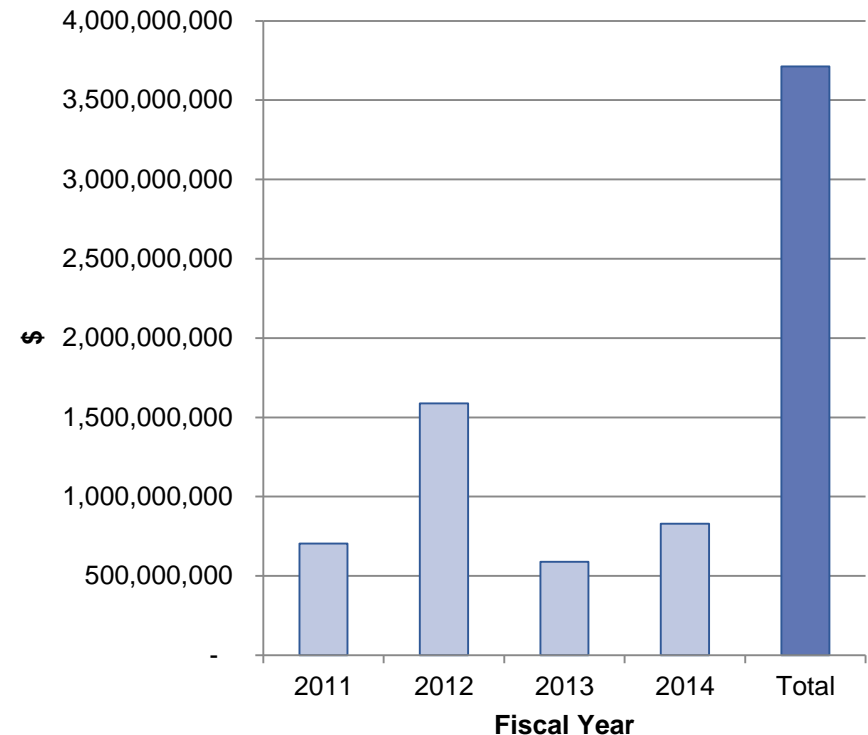
Over the last 4 fiscal years, outperformance of the assumption rate has generated over \$13 billion of additional value for the Pension System.

Over the last 4 fiscal years, outperformance of the Total Fund Policy Benchmark has generated an \$3.7 billion of additional value for the Pension System.

Value Added - Outperformance of Assumption Rate*



Value Added - Outperformance of the Benchmark*



* Based on average fund balances for each fiscal year

US Equity Portfolio Review Fiscal Year 2014

Consistent Track Record of Outperformance

The US Equity Portfolio has outperformed the benchmark in 9 of the last 10 fiscal years.

Over this 10 year period, the portfolio has outperformed by 117 bps on an annualized basis.

	<u>U.S. Portfolio*</u>	<u>S&P 1500 Benchmark</u>	<u>Relative Performance</u>
Fiscal Year 2014	+26.23%	+24.70%	+153 bps
Fiscal Year 2013	+21.89%	+21.13%	+76 bps
Fiscal Year 2012	+3.54%	+4.63%	-109 bps
Fiscal Year 2011	+33.40%	+31.65%	+106 bps
Fiscal Year 2010	+16.43%	+15.49%	+94 bps
Fiscal Year 2009	-23.86%	-26.08%	+222 bps
Fiscal Year 2008	-10.15%	-12.61%	+246 bps
Fiscal Year 2007	+20.56%	+20.53%	+83 bps
Fiscal Year 2006	+10.47%	+9.23%	+124 bps
Fiscal Year 2005	+7.49%	+7.27%	+22 bps
10 Year Annualized Return	9.26%	8.09%	+117 bps

* Equity only (excluding cash and hedges)

Top Ten Holdings in U.S. Equity Portfolio

(as of 6/30/2014)

<u>Company</u>	<u>Portfolio Weight</u>	<u>S&P 1500 Weight</u>	<u>Overweight/ Underweight</u>
Apple	3.48%	2.84%	+64 bps
Exxon Mobil	2.27%	2.19%	+8 bps
Microsoft	2.08%	1.59%	+49 bps
Wells Fargo	1.82%	1.28%	+54 bps
Google	1.76%	1.67%	+9 bps
General Electric	1.47%	1.34%	+13 bps
Johnson & Johnson	1.46%	1.50%	-4 bps
Merck	1.40%	0.86%	+54 bps
JP Morgan	1.27%	1.11%	+16 bps
Chevron	1.23%	1.26%	-3 bps

Successful Investments in Fiscal 2014 – U.S. Portfolio

<u>Company</u>	<u>Average Portfolio Weight</u>	<u>Average Benchmark Weight</u>	<u>Total Return</u>	<u>Relative Contribution</u>
Facebook	0.49%	0.27%	170.56%	+26 bps
United Rentals	0.38%	0.04%	109.84%	+21 bps
Apple	3.15%	2.65%	68.22%	+18 bps
Allergan	0.43%	0.19%	101.23%	+17 bps
AT&T	0.23%	1.01%	5.26%	+15 bps

Laggards in Fiscal 2014 – U.S. Portfolio

<u>Company</u>	<u>Average Portfolio Weight</u>	<u>Average Benchmark Weight</u>	<u>Total Return</u>	<u>Relative Contribution</u>
Schlumberger *	0.00%	0.66%	67.20%	-22 bps
Chart Industries	0.40%	0.00%	-12.07%	-15 bps
Triumph Group	0.35%	0.02%	-11.59%	-12 bps
Kansas City Southern	0.48%	0.07%	2.40%	-8 bps
KBR	0.16%	0.02%	-25.80%	-8 bps

* Schlumberger is on DOI's restricted list.

Sector Weights – U.S. Portfolio

Fiscal Year Changes

<u>Sector (as of 6/28/13)</u>	<u>Portfolio Weight</u>	<u>S&P 1500 Weight</u>	<u>Difference</u>	<u>Sector (as of 6/30/14)</u>	<u>Portfolio Weight</u>	<u>S&P 1500 Weight</u>	<u>Difference</u>
Industrials	11.96%	10.82%	+114 bps	Industrials	13.01%	11.23%	+178 bps
Health Care	13.48%	12.44%	+104 bps	Consumer Discretionary	13.56%	12.06%	+150 bps
Information Technology	18.19%	17.57%	+62 bps	Consumer Staples	9.49%	8.81%	+68 bps
Consumer Staples	10.12%	9.76%	+36 bps	Health Care	13.46%	12.94%	+52 bps
Consumer Discretionary	12.11%	12.28%	-17 bps	Financials	16.25%	16.74%	-49 bps
Materials	3.73%	3.75%	-2 bps	Materials	3.39%	3.95%	-56 bps
Utilities	2.83%	3.39%	-56 bps	Telecommunication Svcs	1.40%	2.18%	-78 bps
Financials	16.95%	17.52%	-57 bps	Energy	9.35%	10.18%	-83 bps
Energy	9.23%	9.92%	-69 bps	Information Technology	17.76%	18.61%	-85 bps
Telecommunication Svcs	1.42%	2.47%	-105 bps	Utilities	2.30%	3.27%	-97 bps

Industrials was the largest sector overweight at the beginning and the end of the fiscal year. Information Technology experienced the largest decline in relative sector weighting from a 62 bps overweight at the beginning of the year to a 85 bps underweight at year-end due to a decrease in semiconductor exposure, and the inclusion of Facebook in the benchmark. The Consumer Discretionary sector went from a 17 bps underweight to a 150 bps overweight on investments in media stocks based on discount valuations pending M&A deals closing.

Sector Contribution to U.S. Portfolio Performance

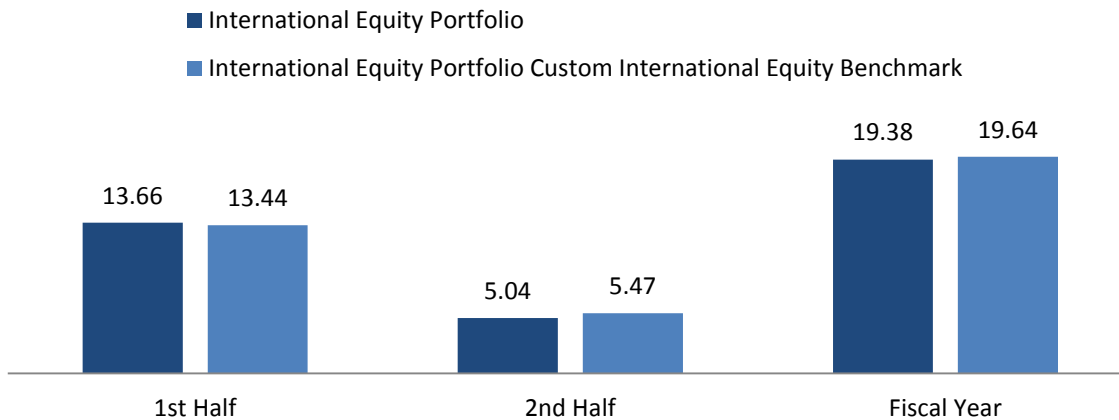
	Port.	Bench.	Total	Contrib.			
	Total	Total	Return	To Return	Allocation	Selection +	Total
	Return	Return	Difference	Difference	Effect	Interaction	Effect
Financials	21.31	18.95	2.36	0.32	0.03	0.37	0.40
Consumer Discretionary	23.46	20.54	2.92	0.34	-0.02	0.33	0.31
Information Technology	33.15	31.63	1.52	0.29	-0.01	0.26	0.26
Telecommunication Services	8.59	4.61	3.98	0.02	0.16	0.07	0.23
Health Care	30.38	29.43	0.95	0.41	0.15	0.07	0.22
Energy	30.82	29.50	1.33	-0.18	-0.01	0.10	0.09
Materials	31.98	31.58	0.40	0.01	-0.01	0.03	0.03
Industrials	28.23	28.91	-0.68	0.31	0.07	-0.05	0.01
Utilities	21.05	21.25	-0.20	-0.17	-0.02	-0.00	-0.02
Consumer Staples	14.83	15.91	-1.07	0.06	-0.05	-0.10	-0.14

Good stock selection in financials (+40 bps), consumer discretionary (+31 bps), and information technology (+26 bps) contributed to the overall portfolio outperformance of 153 bps relative to the benchmark.

International Equity Portfolio Review Fiscal Year 2014

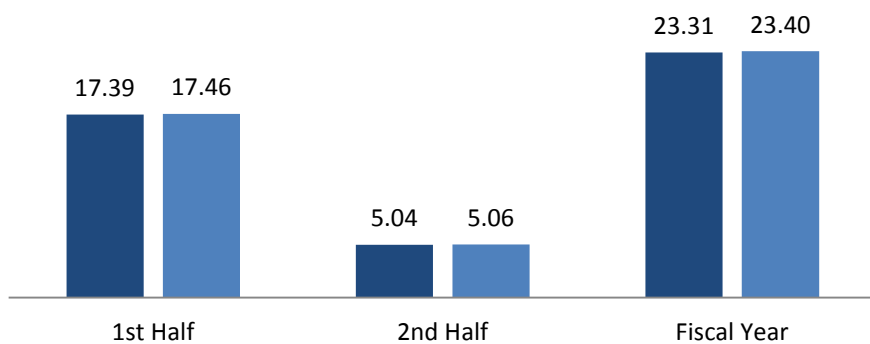
Fiscal Year 2014 Returns

International Equity (+ Hedges) Portfolio (\$15.2 Billion)



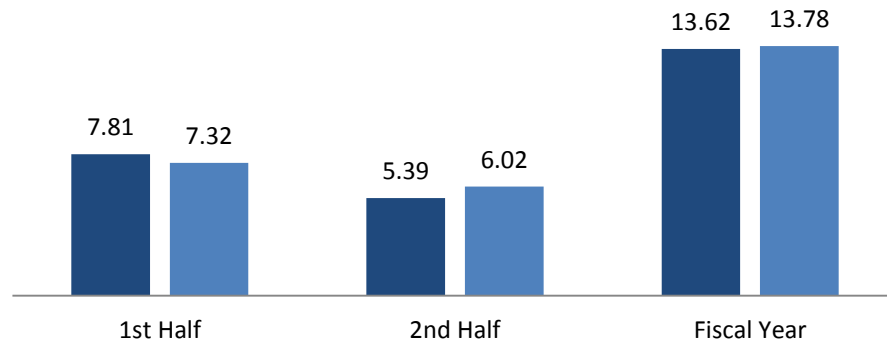
International Developed Market Portfolio*

- Int'l Developed Mkt Equity Portfolio
- Custom Developed Market Equity Benchmark



International Emerging Market Portfolio*

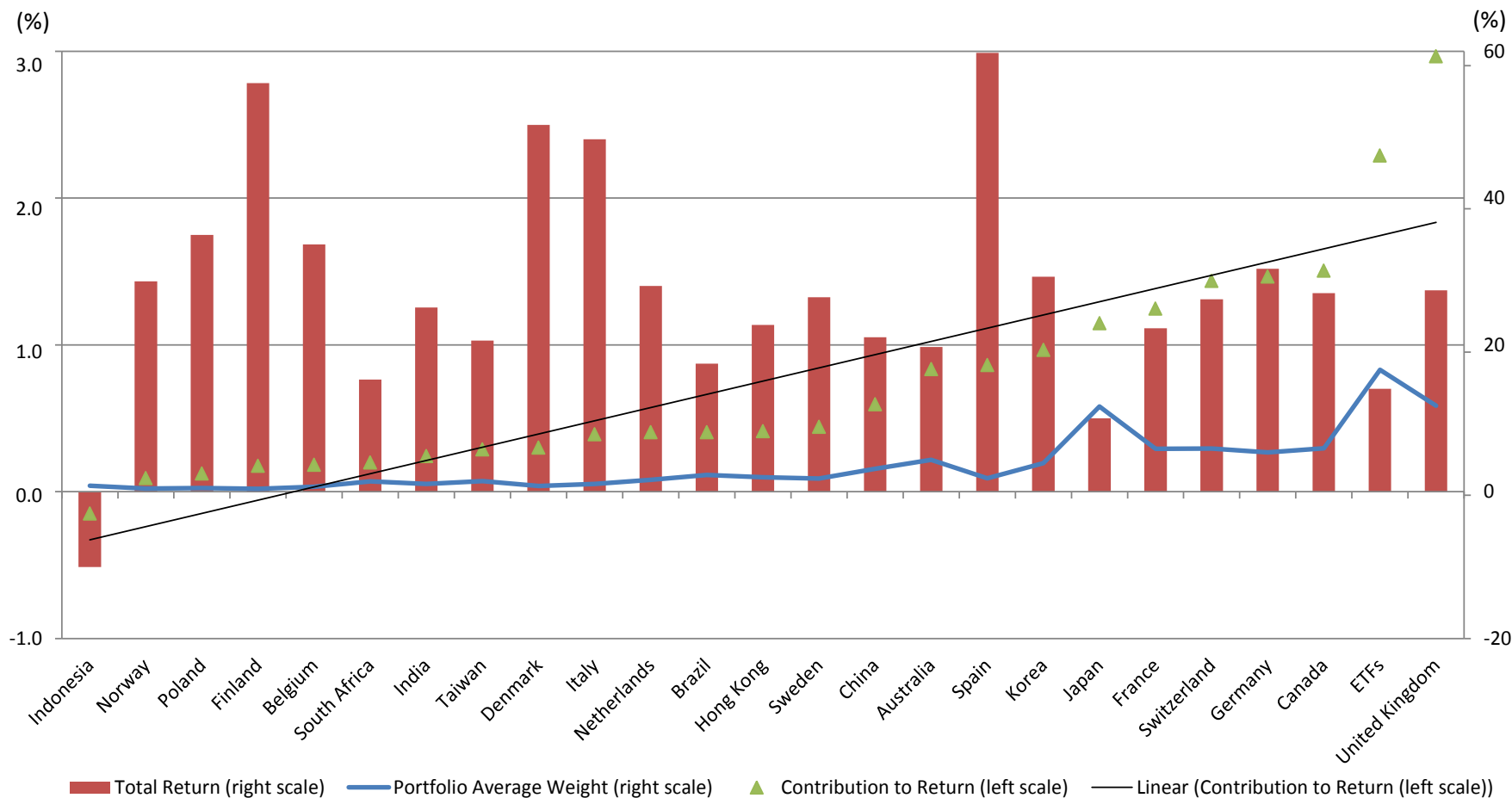
- Int'l Emerging Mkt Equity Portfolio
- Custom Emerging Market Equity Benchmark



* Equity only (excluding cash and hedges)

International Equity Portfolio Performance

Contribution to Return by Total Return and Average Weight



The chart above shows contribution to return (green triangles/left scale) as derived from total return (red bars/right scale) and portfolio average weight (blue trend line/right scale) on a country basis for the total International Equity Portfolio.

*Contribution to Return sorted to exclude countries with < 10 bps of impact.
Chart depicts 97% of portfolio performance and 50% of the Country participants.*

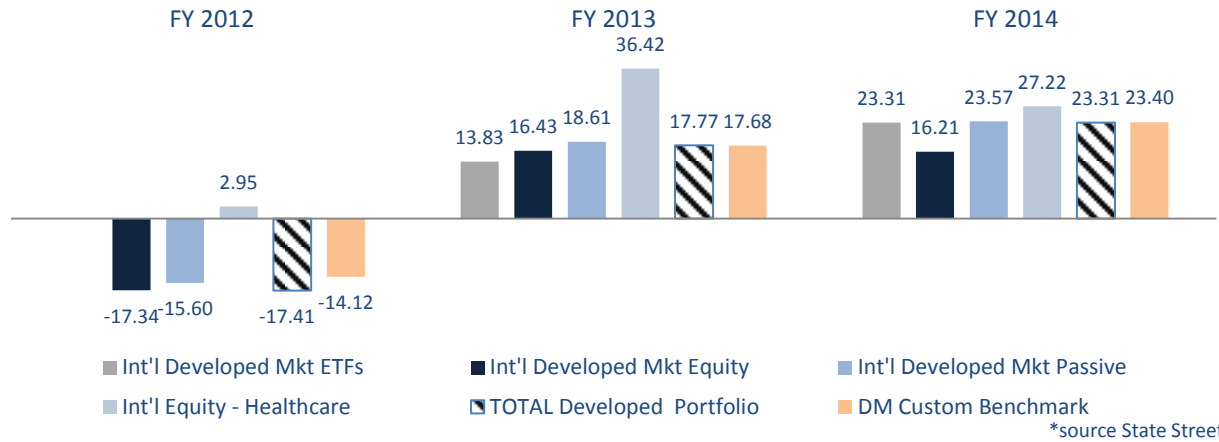
International Developed Market Equity Portfolio

15

Country Allocation as of June 30, 2014

	%Portfolio	% Benchmark
Africa/Mideast	0.46	0.49
Israel	0.46	0.49
Asia/Pacific Ex Japan	10.56	11.26
Australia	6.84	7.21
Hong Kong	2.47	2.59
New Zealand	0.01	0.13
Singapore	1.25	1.33
Europe	61.75	59.80
Austria	0.23	0.25
Belgium	1.08	1.13
Denmark	1.39	1.40
Finland	0.57	0.75
France	9.18	7.84
Germany	8.74	8.67
Greece	0.00	0.00
Ireland	0.27	0.28
Italy	2.04	1.96
Luxembourg	0.00	0.00
Netherlands	2.55	2.51
Norway	0.60	0.62
Portugal	0.24	0.17
Spain	3.22	3.35
Sweden	2.70	2.60
Switzerland	9.50	8.35
United Kingdom	19.42	19.94
Japan	17.95	18.55
North America	9.28	9.90
Canada	9.28	9.90
Total	100.00	100.00

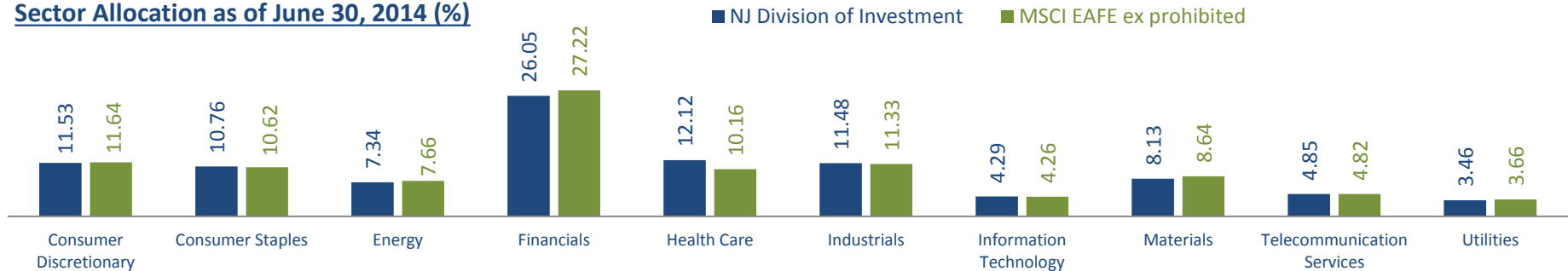
Developed Market Equity Portfolio Total Returns



10 Largest Equity Holdings as of June 30, 2014

Security	Country	Sector	% Portfolio
iShares MSCI EAFE ETF		Funds	5.52
Roche Holding Ltd Genusssch.	Switzerland	Health Care	1.73
Novartis AG	Switzerland	Health Care	1.58
Nestle S.A.	Switzerland	Consumer Staples	1.45
L OREAL PRIME DE FIDELITE COMMON STOCK	France	Consumer Staples	1.37
HSBC Holdings plc	United Kingdom	Financials	1.16
Bayer AG	Germany	Health Care	1.11
GlaxoSmithKline plc	United Kingdom	Health Care	1.02
Toyota Motor Corp.	Japan	Consumer Disc	0.96
Sanofi	France	Health Care	0.94
Total			16.84

Sector Allocation as of June 30, 2014 (%)



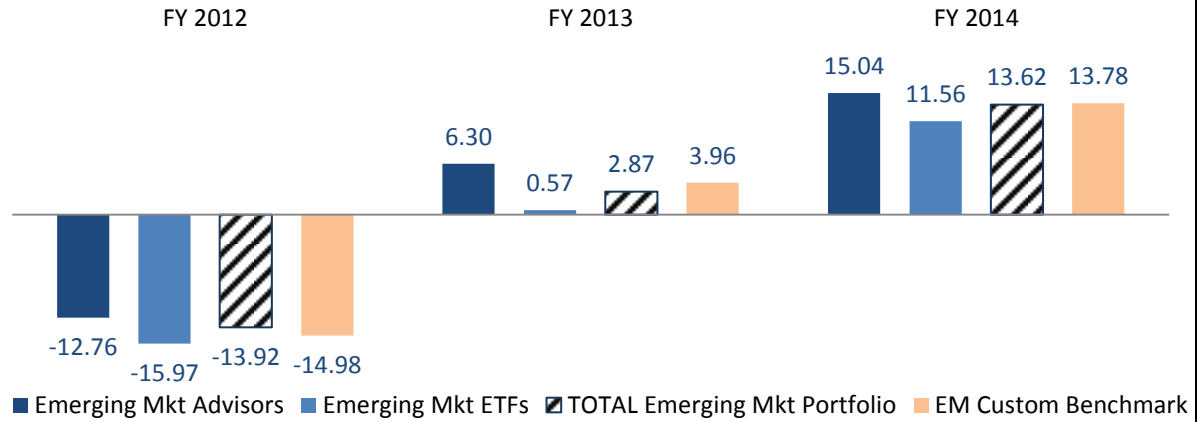
International Emerging Market Equity Portfolio

16

Country Allocation as of June 30, 2014

	% Portfolio	% Benchmark
Africa/Mideast	9.62	10.69
Egypt	0.31	0.20
Morocco	0.00	0.00
Nigeria	0.02	0.00
Qatar	0.12	0.42
South Africa	6.91	7.80
Turkey	2.12	1.77
United Arab Emirates	0.14	0.49
Asia/Pacific Ex Japan	60.17	62.23
China	15.83	17.52
India	6.58	6.56
Indonesia	3.35	2.56
Korea	18.15	15.91
Malaysia	2.31	3.94
Mongolia	0.07	0.00
Pakistan	0.42	0.00
Philippines	1.99	1.02
Taiwan	9.13	12.64
Thailand	2.33	2.07
Europe	10.29	7.33
Belgium	0.00	0.00
Cyprus	0.03	0.00
Czech Republic	1.17	0.25
Greece	0.77	0.81
Hungary	0.59	0.23
Poland	2.03	1.73
Russia	5.71	4.31
Latin America	19.92	19.75
Argentina	0.56	0.00
Brazil	11.50	11.32
Chile	0.54	1.58
Colombia	0.67	1.07
Mexico	5.67	5.32
Panama	0.35	0.00
Peru	0.62	0.45
Total	100.00	100.00

Emerging Market Equity Portfolio Total returns



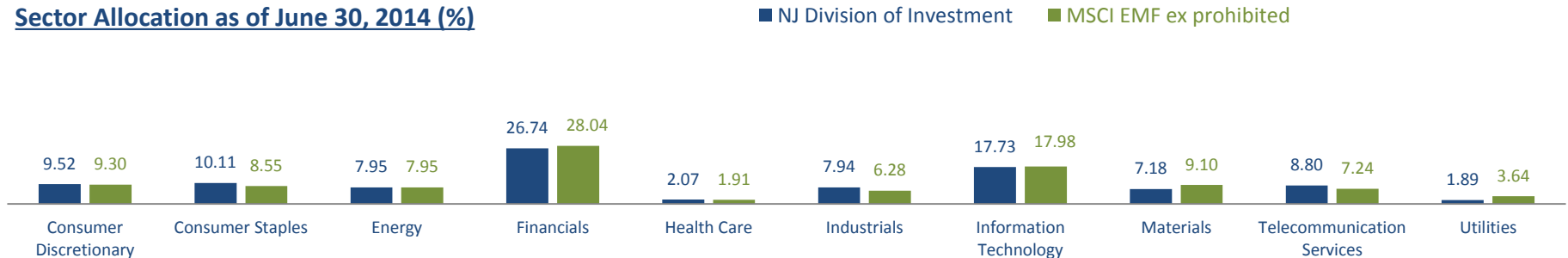
*source State Street

10 Largest Equity Holdings as of June 20, 2014

Security	Country	Sector	% Portfolio
iShares MSCI Emerging Markets ETF	United States	Funds	26.83
iShares Core MSCI Emerging Markets ETF	United States	Funds	3.35
iShares MSCI South Korea Capped ETF	Korea	Funds	2.70
Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR	Taiwan	Information Technology	2.31
Samsung Electronics Co., Ltd.	Korea	Information Technology	1.91
China Construction Bank Corporation Class H	China	Financials	1.51
SK Hynix Inc.	Korea	Information Technology	1.34
Shinhan Financial Group Co., Ltd.	Korea	Financials	1.15
Banco do Brasil S.A.	Brazil	Financials	1.15
Cielo S.A.	Brazil	Information Technology	0.96

43.20

Sector Allocation as of June 30, 2014 (%)



Fiscal Year 2014 International Equity Portfolio

International Portfolio: 19.38%

International Custom Benchmark: 19.64%

International Developed Market Portfolio: 23.31%
Custom Developed Market Equity Benchmark: 23.40%

International Emerging Market Portfolio: 13.62%
Custom Emerging Market Equity Benchmark: 13.78%

What Helped

- Underweight Emerging Markets / Overweight Developed Markets
- Overweight Health Care and Consumer Staples
- Stock selection in Energy, Financials, Materials, and Information Technology
- Allocation to Switzerland and positive performance in Korea, China, and Brazil
- EM advisors outperformed the Benchmark by 126 bps

Detracting Factors

- Geopolitical stresses in the second half of Fiscal 2014
- Underweight Taiwan, Korea, and China
- Stock selection in Chile, France, and South Africa
- Underweight Utilities and Materials
- Being overweight Industrials
- Emerging Market ETFs

Private Equity Portfolio Review Fiscal Year 2014

Private Equity Portfolio Review

Performance Since Inception in 2005:

- 1.38x* Net Multiple on Invested Capital
- 10.47%* Net IRR vs. 5.47% Public Market Equivalent

	FY 2014	3 Year	5 Year	Inception
	IRR%	IRR%	IRR%	IRR%
NJ Private Equity Portfolio	23.47%	14.45%	17.10%	10.47%
87% MSCI ACWI and 13% Barclays Agg	10.96%	5.97%	7.88%	5.47%

- The Private Equity (“PE”) portfolio consists of 98 specific fund commitments and 51 distinct relationships, totaling \$12.1 billion in commitments and a net asset value of approximately \$6.9 billion, with remaining uncalled capital totaling \$4.1 billion.
- During the fiscal year, the Division committed approximately \$1.48 billion to 9 investments.
- The portfolio has significantly outperformed the Public Market Equivalent benchmark since inception; and the portfolio has been net cash flow positive of the trailing four year period. Since inception, including the secondary sale proceeds, distributions have totaled \$6.0 billion.

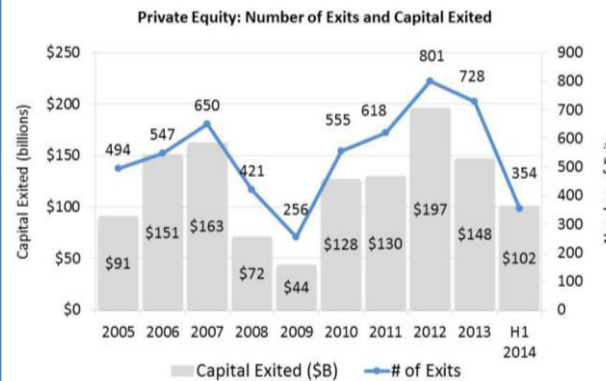
Private Equity Portfolio - Fiscal Year 2014 Review

- The Private Equity Portfolio’s estimated performance was +23.47%* IRR, or an estimated \$1.3 billion profit.
- Co-investments continued to perform well, and generated an estimated IRR of +41.60% IRR. Other contributors were Large Buyouts (+33.66% IRR) , Venture Capital (+25.37% IRR), International Buyouts (+21.4% IRR)
- The PE Program received approximately \$450 million in net cash flows (\$1.88 billion of distributions less \$1.43 billion of contributions). All sub-asset classes contributed to the positive cash-flow .
- Largest Distributions by sub-assets were from the Mid-Market (\$397.8M) and Large (\$380.2M) Buyout segments of the portfolio

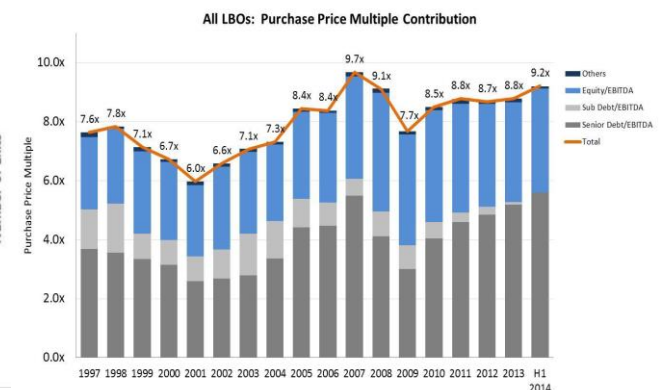
Market Commentary

Robust equity markets continue to allow PE firms to generate liquidity for investors. Corporate acquisition and secondary buyouts remain viable exit options given the conducive market environment—i.e. high levels of cash on corporate balance sheets, PE dry powder, and credit availability.

Buyout valuations continued their upward trend through the first half of the year. Since 1997, only 2007 (9.7x) has exhibited higher PPM valuations.



Source: Pitchbook

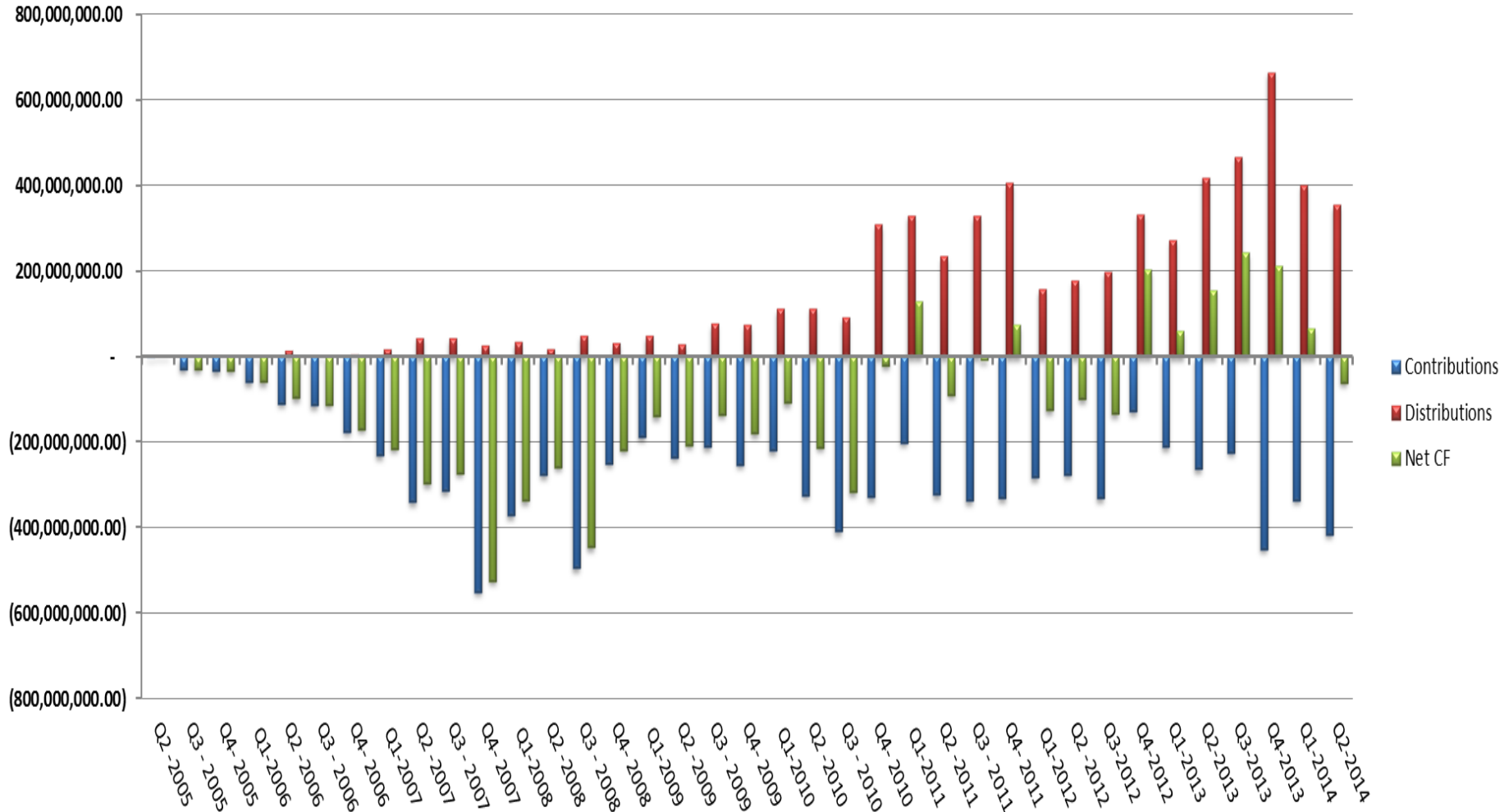


Source: S&P Capital IQ LCD 's Leveraged Buyout Review

*Estimated performance ending June 30, 2014 (provided by Strategic Investment Solutions, Inc.)

Over the trailing 4 year fiscal period, the Private Equity portfolio has been cash flow positive with \$5.1 billion in distributions and \$4.9 billion in contributions.

Private Equity Cash Flows Since Inception



Warburg Pincus: Two of the larger distributions were \$61.3M (combined proceeds from Warburg Pincus Funds IX and X) from the sale of Bausch & Lomb to Valeant. This generated a 2.5x gross return on invested capital. In addition, Neiman Marcus was sold to Ares Management and CPPIB in November 2013, the Plan received \$17M in proceeds for a 2.7x multiple in Warburg Pincus Fund VIII and IX.

Oak Hill Capital: Oak Hill Capital III sold The Hillman Companies generating a 2.2x return on invested capital and a 21% gross IRR. Proceeds of \$27.8 million were received in June 2014 with an original cost basis of \$13.7 million. The Division also received distributions of \$43 million at year end from the full exit of Local TV to the Tribune Company (Oak Hill Capital Funds II and III). The sale generated a 3.4x multiple on invested capital with a gross IRR is 27%.

Blackstone: Blackstone Funds V and VI distributed \$32 million to the Division during the year due to a number of exits including GeoSouthern, a midstream asset portfolio company in Blackstone V that sold to Devon Energy for a 5.1x multiple and a 74% IRR

Lindsay Goldberg: Lindsay Goldberg II had two notable exits that benefitted the Division to the tune of \$24 million from the sale of Ambulatory Services of America to U.S. Renal Care (2.1x, 16.4% gross IRR) and Bright Star to Softbank(2.1x, 12.7% gross IRR).

TPG: TPG Funds V and VI returned \$61 million in proceeds due to a number of dividends and exits –Armstrong (3.1x, 45% gross IRR), Northern Tier Energy (8.9x, 139% gross IRR), and Quintiles (2.7x, 21% gross IRR).

Vista: Vista III sold P2 and Zywave for proceeds of approximately \$37 million to the Division. P2 was sold to Advent for a 3.5x or 30.4% gross IRR return, and Zywave was sold to Aurora Capital for a 2.5x or 19% gross IRR.

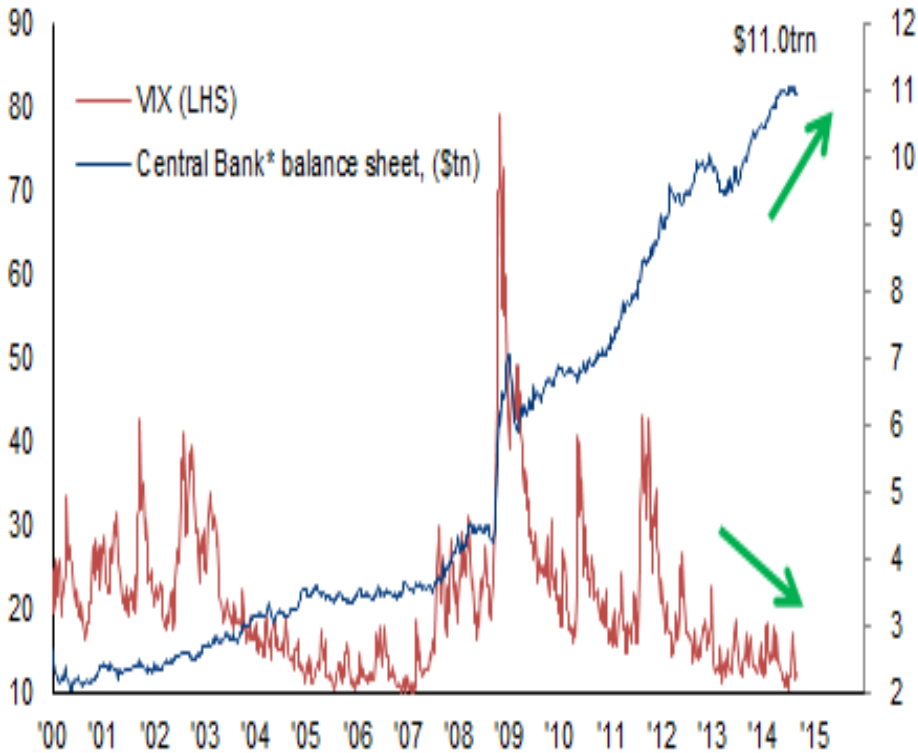
Onex: Onex Partners II sold shares of Allison Transmission throughout the year and made four distributions for a total of \$23 million or a total return of capital of 3.2x. Onex still holds a significant amount of shares in the company.

Current Market Update

From New Normal to New Neutral?

The Great Financial Crisis (GFC) of 2008 led central bankers to implement policies that resulted in an investment environment of enormous liquidity and low volatility which fuelled a global equity rally and record declines in bond yields. The Quantitative Easing Program is scheduled to come to an end in the US in October and expectations are for rate increases in 2015.

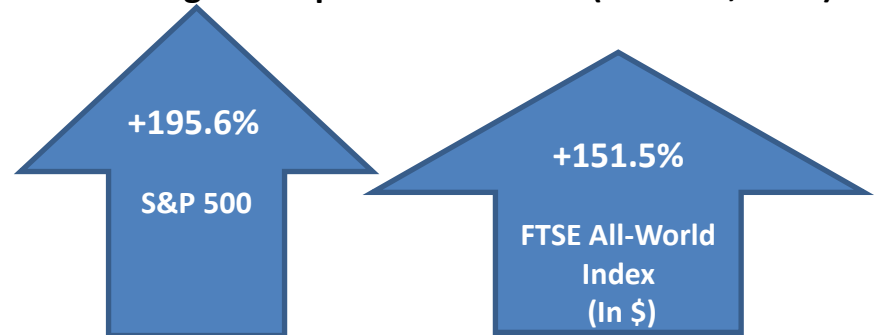
Maximum liquidity, Minimum volatility



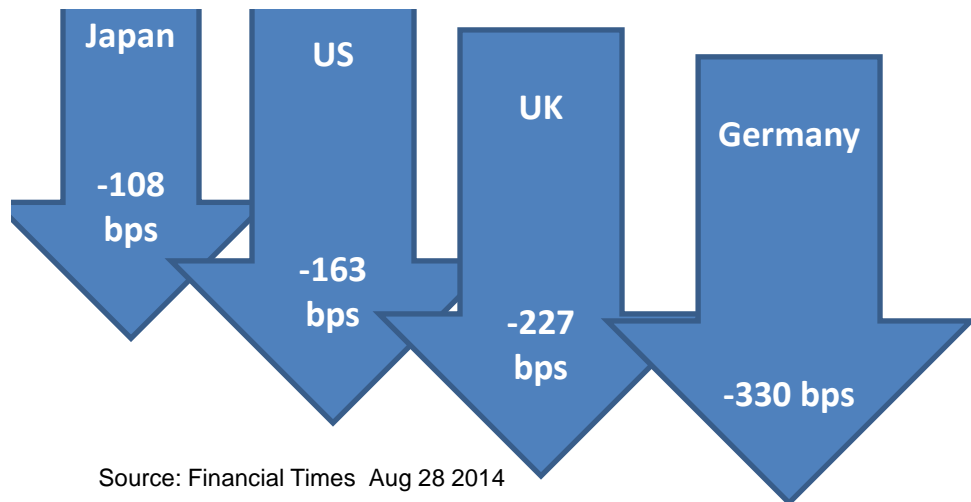
Source: Merrill Lynch – Central Banks: ECB+Fed+BoJ+BoE+SNB

Rising stock prices, Falling bond yields:

% Change since post-Lehman low (March 9, 2009)



Change in 10-year bond yields since post-Lehman high (Sept-Oct 2008)

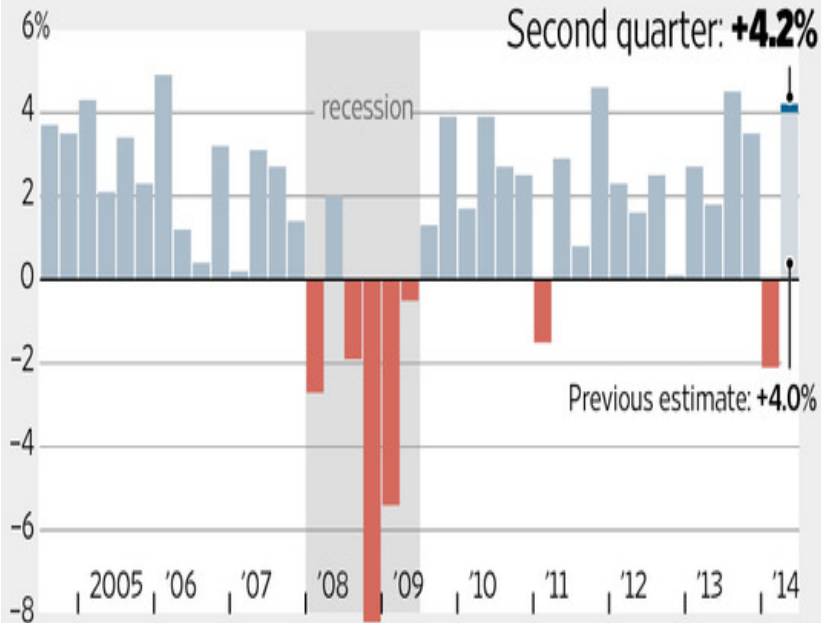


Source: Financial Times Aug 28 2014

Recent data has been favorable. The U.S. economy posted robust growth in the second quarter with GDP expanding at a revised rate of 4.2%. In addition, corporate earnings continue to impress: For 2Q, S&P 500 earnings rose at the second-fastest rate since 2011. This earnings growth of 7.7% compares to the mid-year forecasts of a 4.9% rise. All ten sectors are reporting or have reported higher earnings relative to a year ago.

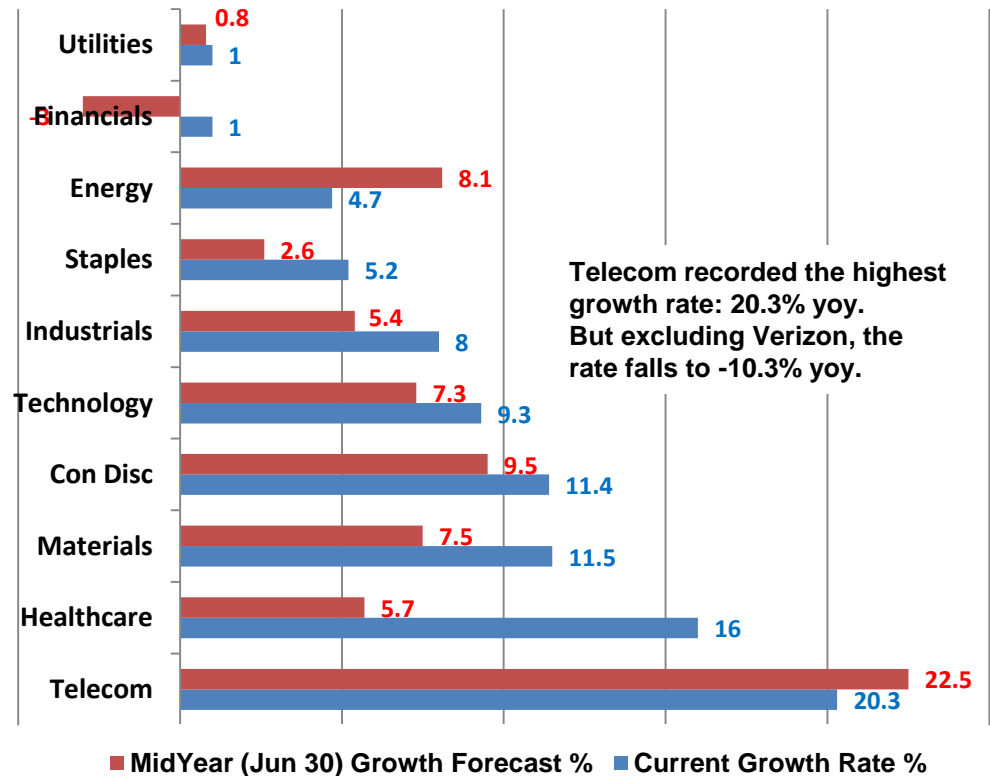
Growing a Little Faster

The latest revision shows a stronger spring rebound for the economy...
Change in inflation-adjusted GDP at a seasonally adjusted, annual rate



Source: Commerce Department via Federal Reserve Bank of St. Louis The Wall Street Journal

S&P 500 Sector 2Q Earnings Growth: Eight sectors saw an increase in growth rate due to upside earnings surprises, led by Healthcare. Energy and Telecom saw a fall due to negative earnings surprises and downward estimate revisions.

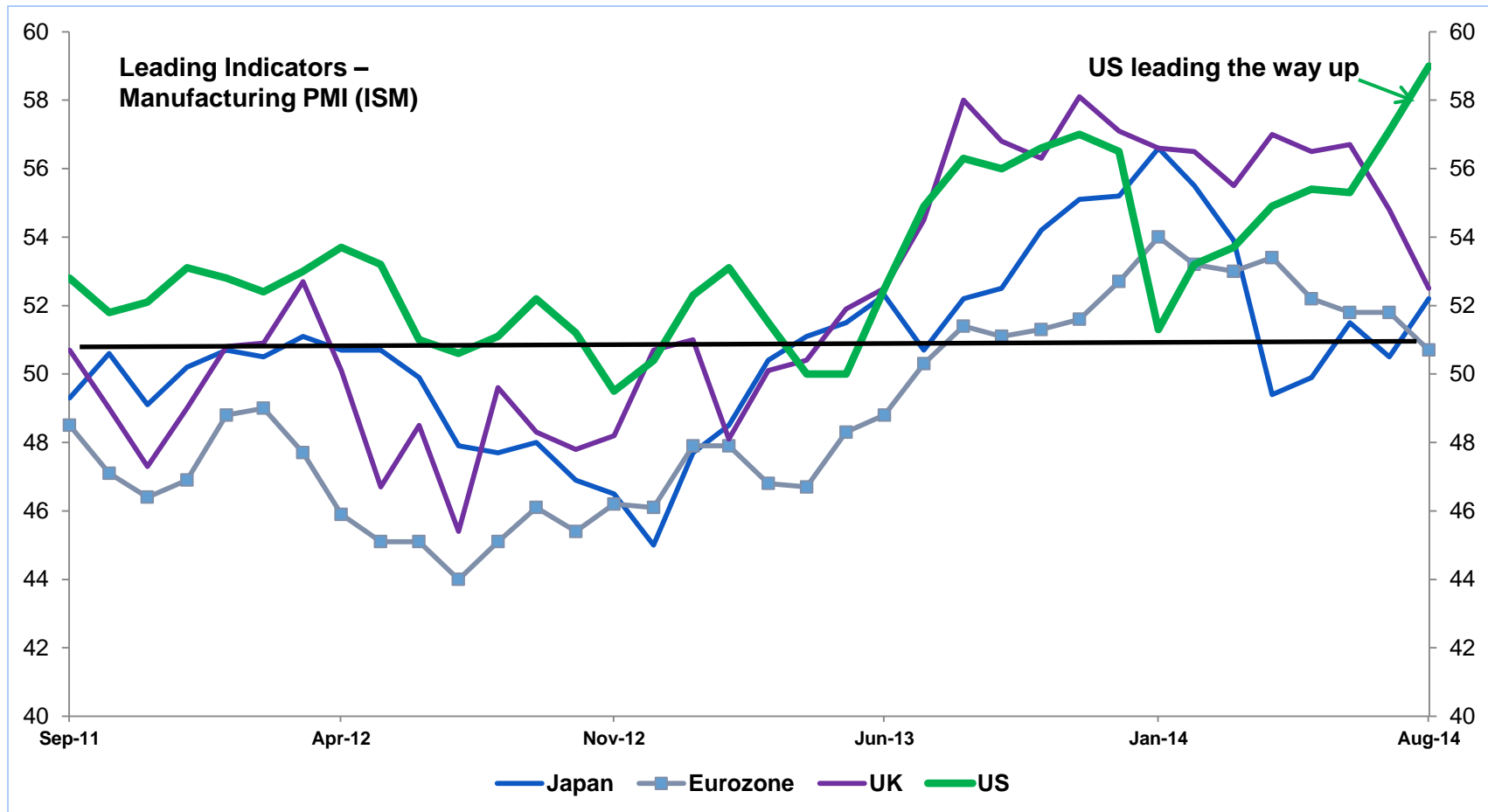


Telecom recorded the highest growth rate: 20.3% yoy. But excluding Verizon, the rate falls to -10.3% yoy.

Source:Factset

More Signs of a Strengthening US Economy

The ISM Manufacturing index for the US jumped to 59.0, the highest level since February 2011, and the second highest level for the index. Underlying components were fairly robust with production, new orders and export orders all registering strong gains. Elsewhere, recent data showed flattening economic activity in Asia and Europe, and confirmed 2Q GDP actually declined in Germany.

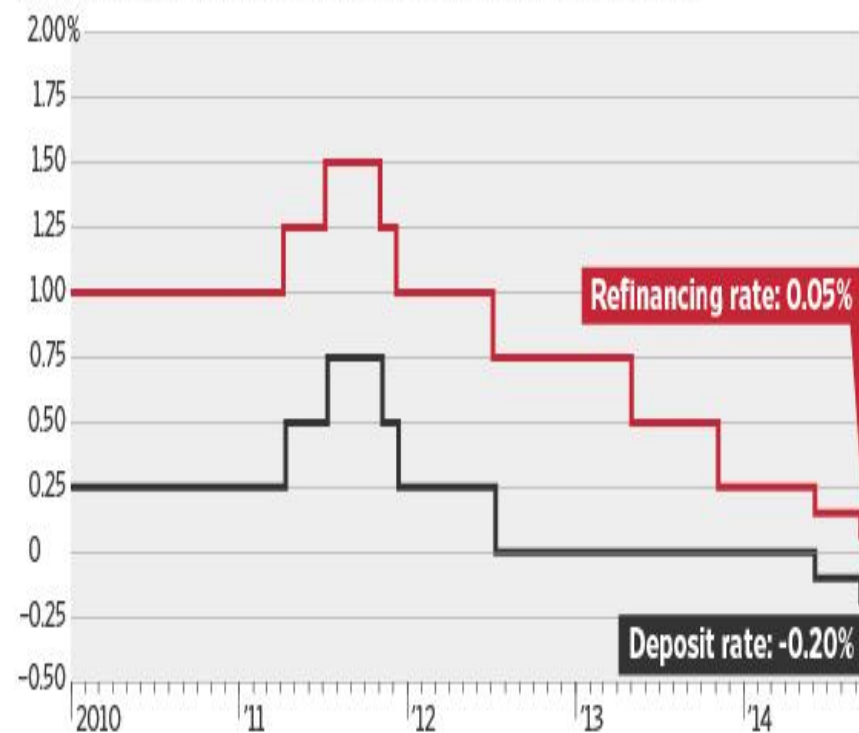


Passing of the QE Baton

As QE in the US is on pace to come to an end, on September 4th, 2014, the European Central Bank unexpectedly lowered all its interest rates and announced two new programs for buying asset-backed securities and covered bonds issued by Eurozone banks.

The European Central Bank Lowers Rates

The ECB unexpectedly lowered all interest-rate targets to fresh record lows and took its rate on bank deposits further into negative territory.

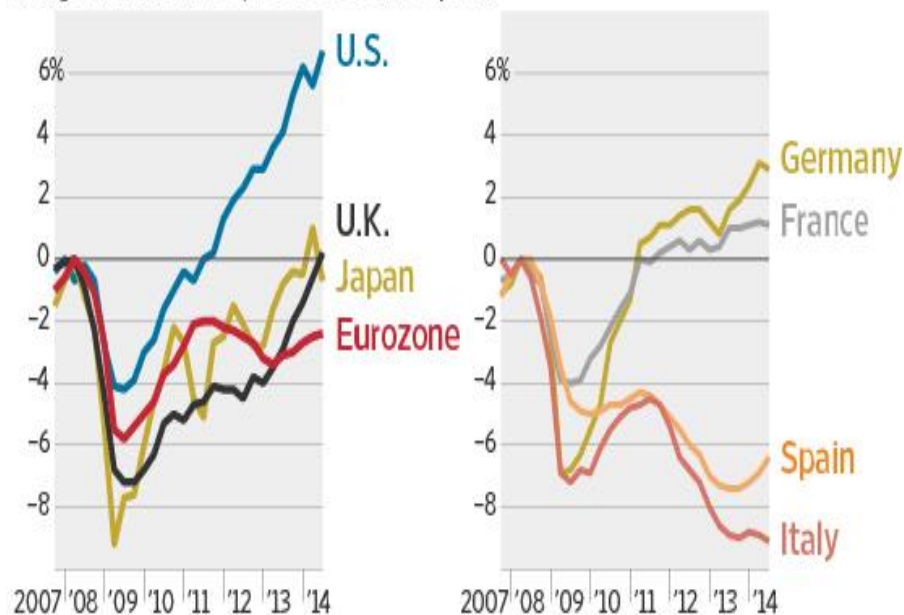


Source: ECB

The Wall Street Journal

Why the ECB Moved | Weak growth...

The eurozone remains the laggard among the advanced economies; change in inflation-adjusted GDP since peak



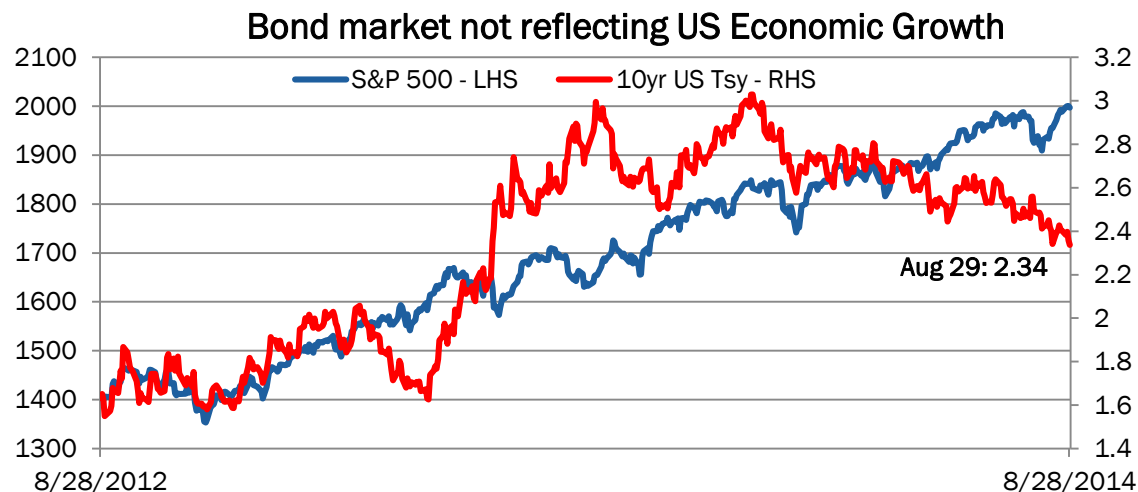
Sources: U.S. Commerce Department (U.S.); Office for National Statistics (U.K.); Eurostat (eurozone except Germany); Germany's national statistics office (Germany)

The Wall Street Journal

What Happened to the Great Rotation?

The expected “Great Rotation” of investors out of low yielding bonds and into stocks has yet to materialize. Despite the S&P 500 reaching record levels, the 10-yr US Treasury was yielding below 2.40% as of the end of August. *Year to date, bond flows are currently running just shy of 50% ahead of equity flows**.*

As the stage is set for potential rising rates in the US while the ECB is increasing the scope of its monetary policy and Japan remains accommodative, demand may remain high for US Treasuries, slowing the pace at which rates rise.



Currently, 45% of all global government bonds are yielding less than 1%.

10-Year	Yield %
Japan JGBs	0.49
German Bunds	0.89
US Treasurys	2.34

As of August 29, 2014

US Treasury 10-Year Bond Yield Historical View

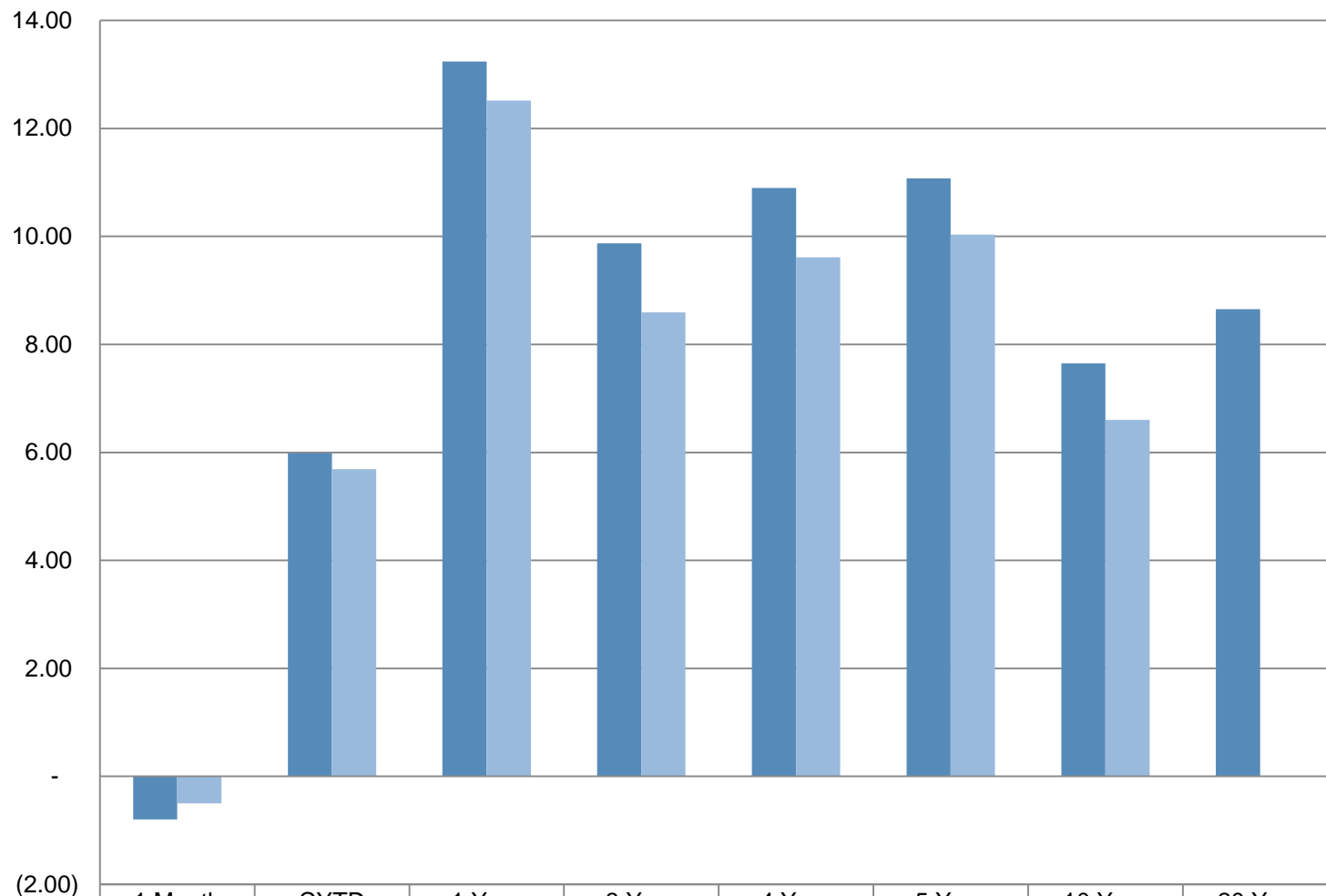


Sept 5, 2014: 2.44

Capital Markets Update (through August 31, 2014)

	Aug. 29, 2014	MTD %	FYTD %	CYTD %	1 Yr %	3Yrs %	5 Yrs %	10 Yrs %	
Domestic Equity	S&P 500	4.00	2.57	9.88	25.24	20.62	16.88	8.34	1
	Russell 2000	4.96	(1.39)	1.75	17.69	19.03	17.03	9.27	2
International Equity	MCSI EAFE	0.07	(1.86)	3.97	17.47	11.20	8.92	7.57	3
	MSCI EMF	2.76	4.26	10.44	18.95	1.40	5.14	9.86	4
Bond	Barclays Agg	1.10	0.85	4.80	5.66	2.92	4.49	4.73	5
	Barclays HY	1.59	0.24	5.71	10.59	10.65	12.28	8.72	6
	Barclays US Tips	0.71	0.69	7.02	6.42	2.08	5.37		7
Commodity	DJUBS Com	(1.05)	(5.98)	0.68	(3.80)	(7.73)	(0.12)	0.33	8

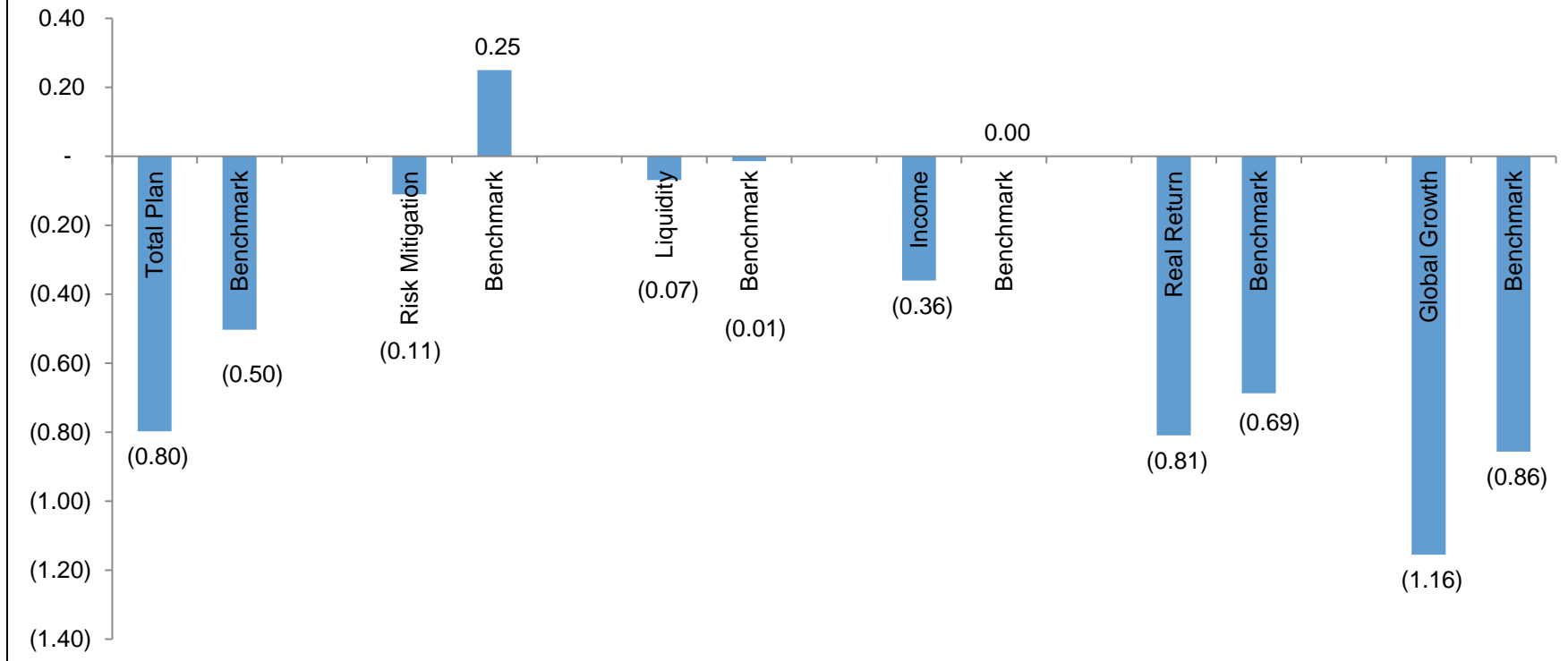
Total Fund ex Police and Fire Performance as of July 31, 2014



- The Total Fund ex Police and Fire Mortgages returned -0.80% in July to bring the Calendar Year return to 5.99%.
- **The Fund is ahead of the benchmark CYTD and for the 1, 3, 4, 5 and 10 year return.**

*Benchmark return not available for 20-Year period

FYTD Return as of July 31, 2014



Global Growth and Real Return drove negative performance for July. Within Global Growth, both US Equities and Developed Market Non-US Equities had challenging months, down 1.81% and 1.73%, respectively. The Emerging Markets portfolio was up for the month (+1.23%) but underperformed the benchmark. Within Real Return, Real Assets and Commodities struggled, down 2.29% as the broad commodity index was down close to 5% on the month.

NJDOI Updates July 1, 2014 through August 31, 2014

US Equity

- Net purchases of \$368 million for the period.
- Moved from small underweight at start of fiscal year to 94 bp overweight position on an unhedged basis as of end of August

Non-US Equity

- The Developed portfolio was a net seller of approximately \$627 million.
 - Moved from overweight at start of Fiscal Year to close to 50 bp underweight position
- The Emerging portfolio was net buyer of approximately \$56 million.
 - Allocations to the broad market iShares Emerging Markets ETF (EEM) and to the South Korea ETF were trimmed and re-distributed to specific country ETFs, including: Taiwan, China, Thailand, and Turkey.

Fixed Income

- Net buyers of \$166 million of Treasuries and TIPS
- Net sellers of \$278 million of Investment Grade Credit
- Net sellers of \$100 million of High Yield bonds
- Duration stands at 5.41 ex cash vs benchmark duration of 6.00. When factoring in cash, duration stands at 4.48

Alternatives

- The RFP process for the Division's Hedge Fund consultant has been completed and Cliffwater has been retained for the mandate. They have been awarded a three year contract with the option for two additional one year extensions. The new contract will result in a fee savings of \$375,000 per year over the life of the contract.
- On August 20, 2014, the Division received a distribution of \$24.3 million from Lindsay Goldberg II's completed sale of PetroLogistics L.P. PetroLogistics constructed, owns and operates the first and only on-purpose propylene plant in the United States. Including all previous realized proceeds, Lindsay Goldberg received total proceeds of \$1.6 billion on its \$393.8 million of capital invested. Including prior distributions, the investment will result in a gross 4.0x return for the Division in six years, representing over a 36% gross IRR on the Division's cost basis of approximately \$9.5 million.
- On August 19, 2014, KPS Fund III/IIIS announced the sale of Waupaca Foundry for \$1.4 billion. Waupaca Foundry, one of the world's largest independent iron foundries, produces gray, ductile and compacted graphite iron castings. The investment will result in an approximate gross 4.8x cash-on-cash return for the Division in only 28 months, representing over a 160% Gross IRR on the Division's cost basis of approximately \$0.5 million.

Asset Allocation with Hedges as of August 29th 2014

Line#	Asset Class	Long Term Target Range	Current Allocation	FY 2014 Target	FY 2015 Target	Over/Under Weight 2015 Target	Current Assets	Adjustments to Exposure based on Hedges	Total Net Exposure	FY 2015 Target (\$)	Over/Under Weight for 2015	Over/Under Weight (\$). vs. FY 2015 Target w/ Hedges	Line#
1	RISK MITIGATION	0-5%	4.10%	4.50%	4.00%	0.10%	3,242,961,498		3,242,961,498	3,162,638,380	80,323,118	80,323,118	1
2	Absolute Return HFs	0-5%	4.10%	4.50%	4.00%	0.10%	3,242,961,498		3,242,961,498	3,162,638,380	80,323,118	80,323,118	2
3	LIQUIDITY	2-15%	8.00%	9.50%	8.25%	-0.25%	6,325,012,475		6,116,699,975	6,522,941,659	(197,929,184)	(406,241,684)	3
4	Cash Equivalents	0-15%	4.29%	6.00%	5.00%	-0.71%	3,389,000,000		3,389,000,000	3,953,297,975	(564,297,975)	(564,297,975)	4
5	Short Term Cash Equiv	0.00%	0.50%	0.00%	0.00%	0.50%	395,024,615		395,024,615	0	395,024,615	395,024,615	5
6	TIPS	0-10%	2.17%	2.50%	1.50%	0.67%	1,714,305,468		1,714,305,468	1,185,989,392	528,316,076	528,316,076	6
7	US Treasuries	0-10%	1.05%	1.00%	1.75%	-0.70%	826,682,392	(208,312,500)	618,369,892	1,383,654,291	(556,971,899)	(765,284,399)	7
8	INCOME	20-40%	22.85%	24.20%	22.60%	-0.48%	18,069,861,305		18,069,861,305	17,868,906,847	200,954,458	200,954,458	8
9	Investment Grade Credit	8-23%	11.78%	11.20%	10.00%	1.78%	9,315,528,766		9,315,528,766	7,906,595,950	1,408,932,816	1,408,932,816	9
10	High Yield	0-8%	2.05%	5.50%	2.00%	0.05%	1,617,271,470		1,617,271,470	1,581,319,190	35,952,280	35,952,280	10
11	Global Diversified Credit	0-7%	2.78%	--	3.50%	-1.45%	2,198,332,603		2,198,332,603	2,767,308,582	(568,975,979)	(568,975,979)	11
12	Credit-Oriented HFs	0-6%	3.12%	3.75%	4.00%	-0.88%	2,466,347,269		2,466,347,269	3,162,638,380	(696,291,111)	(696,291,111)	12
13	Debt-Related PE	0-4%	1.03%	1.25%	1.00%	0.03%	818,013,536		818,013,536	790,659,595	27,353,941	27,353,941	13
14	Debt Related Real Estate	1-4%	0.96%	1.30%	1.00%	-0.04%	759,945,641		759,945,641	790,659,595	(30,713,954)	(30,713,954)	14
15	P&F Mortgage	--	1.13%	1.20%	1.10%	0.03%	894,422,020		894,422,020	869,725,554	24,696,466	24,696,466	15
16	REAL RETURN	3-12%	6.27%	5.70%	7.25%	-0.98%	4,955,456,741		4,934,042,236	5,732,282,064	(776,825,323)	(798,239,827)	16
17	Commodities	0-7%	1.21%	2.50%	1.00%	0.21%	956,578,848		956,578,848	790,659,595	165,919,253	165,919,253	17
18	Private Real Assets	0-7%	1.26%	--	2.00%	-0.74%	996,438,415	(21,414,505)	975,023,910	1,581,319,190	(584,880,775)	(606,295,280)	18
19	Equity Related Real Estate ¹	2-7%	3.80%	3.20%	4.25%	-0.45%	3,002,439,478		3,002,439,478	3,360,303,279	(357,863,801)	(357,863,801)	19
20	GLOBAL GROWTH	45-65%	58.35%	56.10%	57.90%	0.45%	46,137,029,353		45,958,041,473	45,779,190,549	357,838,804	178,850,923	20
21	US Equity	15-35%	28.19%	25.90%	27.25%	0.94%	22,290,534,723	(83,564,336)	22,206,970,387	21,545,473,963	745,060,760	661,496,424	21
22	Non-US Dev Market Eq	8-20%	11.58%	12.70%	12.00%	-0.42%	9,154,476,955		9,154,476,955	9,487,915,140	(333,438,185)	(333,438,185)	22
23	Emerging Market Eq	5-15%	6.85%	6.50%	6.40%	0.45%	5,414,495,737	(95,423,545)	5,319,072,192	5,060,221,408	354,274,329	258,850,784	23
24	Buyouts/Venture Cap ²	4-10%	7.95%	7.00%	8.25%	-0.30%	6,283,055,705		6,283,055,705	6,522,941,659	(239,885,954)	(239,885,954)	24
25	Equity-Oriented HFs	0-8%	3.79%	4.00%	4.00%	-0.21%	2,994,466,233		2,994,466,233	3,162,638,380	(168,172,147)	(168,172,147)	25
26	OPPORTUNISTIC PE	0.00%	0.18%	0.00%	0.00%	0.00%	141,264,377		141,264,377	0	141,264,377	141,264,377	26
27	OTHER	0.00%	0.25%	0.00%	0.00%	0.00%	194,373,749		194,373,749	0	194,373,749	194,373,749	27

1 Current assets do not include receivables of \$416 million related to Real Estate secondary sale

2 Current assets do not include receivables of \$43 million related to Private Equity secondary sale

Based on estimated values

New Jersey State Investment Council
Notifications

Alternative Investment Notifications

ValueAct Capital Partners II, LP- Changing of Terms

Background:

- In October 2011, the Division committed \$150 million to ValueAct Capital Partners II, LP, a concentrated activist fund. As of June 2014, the Division's investment has grown to \$249.8 million resulting in a 27.7% IRR. NJDOI's original investment was in the two-year share class, which had a 1.25% management fee, 8% preferred return, and a 20% carry. The initial term was extended for an additional one year through November 30, 2014.
- In March 2013, the Division committed \$200 million to Value-Act Co-Invest International L.P. as an opportunity to co-invest alongside other investment vehicles. NJDOI has yet to invest within this account.

Change of Terms:

- In March 2014, NJDOI was notified that the manager is changing their terms going forward. This will affect current investors when their lock-up expires or if they choose to invest additional capital. NJDOI's lock up will expire November 30, 2014,
- Under the new terms, the manager will no longer offer the two-year share class, with one, three, and five year options available.
- One-Year Class: Investors will keep their existing management fee terms, however; the preferred return will reduce from 8% to 6%. Investors would have annual liquidity.
- Three-Year Class: Management fees will increase from 1.25% to 1.50%. In addition, the preferred return will be reduced from 8% to 6%. Investors would be subject to a two-year hard lock and a one-year soft lock. The soft lock would be subject to a 10% penalty.
- Five-Year Class: Management fee would reduce to 1%, and the preferred return will remain 8%. Investors would be subject to a two-year hard lock and a three-year soft lock. The soft lock would be subject to a 10% penalty.

Recommendation:

The Division selected the one-year option. By doing so, the existing management fee structure would remain the same. While the preferred return will be reduced; the Division believes the increased liquidity outweighs the reduction.

Purpose of Notification:

The Division is notifying the IPC of this transaction under its Modification Procedures.

Alternative Investment Notifications

Change in Control of Management Company of Aether Real Assets

Background:

- In November 2013, the Division committed \$30 million to Aether Real Assets III, L.P. , and \$100 million to Aether Real Assets III, L.P. Surplus. Aether Investment Partners, LLC (“AIP”) serves as the investment manager for both funds, and is responsible for providing day-to-day management and administrative services to the fund.

Change in Ownership Structure:

- Northern Lights Capital Group (“Northern Lights”) entered into an agreement to combine its businesses with Treasury Group Limited (“Treasury Group”), a publicly-traded Australian firm listed on the Australian Stock Exchange (ticker: TRG) . Northern Lights and Treasury Group have announced that they will combine their businesses into a newly formed entity that is owned 39% by Northern Lights and 61% by Treasury Group.
- In connection with this transaction, Northern Lights has agreed to purchase AIP, making AIP a wholly-owned subsidiary of Northern Lights. Upon completion of the Northern Lights/Treasury Group transaction, AIP will be owned entirely by the newly formed, combined entity.
- We are informed that AIP staff will remain full-time employees of Aether under a long-term employment contract and will retain control over the key aspects of the day-to-day operations of the Aether funds.

Action by Division: The Division consented to the continuation of AIP as the investment manager of the Aether funds, following the change in control.

Conclusion:

The transaction should not affect the management of our investment in either Aether Real Assets III, L.P. or Aether Real Assets III, L.P. Surplus. The Division is notifying the IPC 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.”

General Catalyst Group VI, L.P. Secondary Sale

Transaction Summary

At the July 14, 2014 IPC meeting, NJDOI Staff outlined a plan to explore selling its limited partner interest in General Catalyst Group VI, L.P. (the “Fund”). Staff obtained prices from several prospective purchasers, of which Washington University offered the highest price for the interest. The buyer agreed to acquire NJDOI’s interest in the Fund at a 5% premium to its net asset value (NAV) as of March 31, 2014, adjusted for certain factors such as capital calls and distributions occurring after the March 31, 2014 cut-off date.

A Letter of Intent was executed by Washington University on August 5, 2014, and a Purchase and Sale Agreement was negotiated and executed as of September 2, 2014. The sale proceeds were received on September 5, 2014.

The Division did not use the services of an agent in this process.

Purchase Price Information

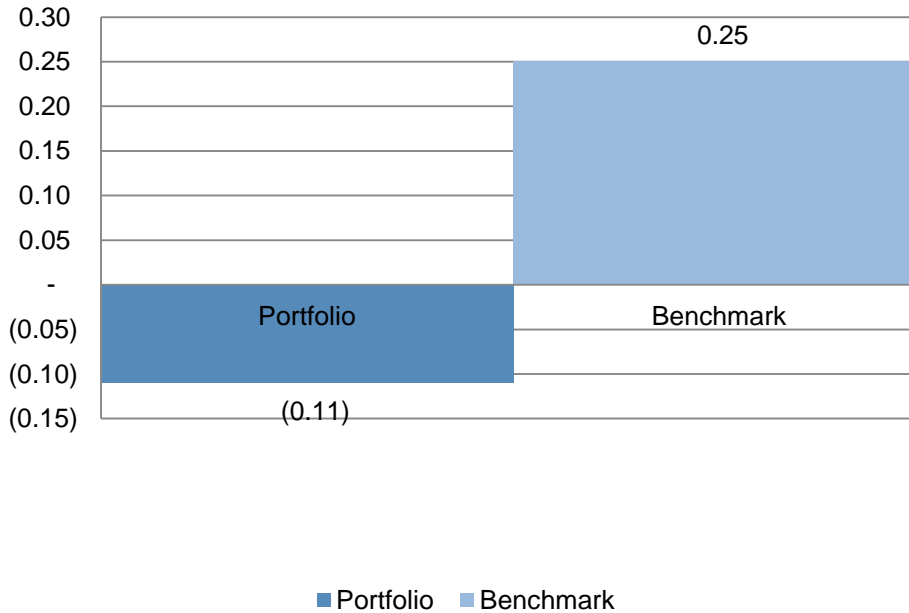
Inception Date	FUND	Sale Proceeds	NAV as of Cut off Date (3/31/14)	% of Commitment Sold	% of PE Portfolio	% of VC Portfolio	% of CPFE
January-12	General Catalyst Group VI, L.P.	\$ 14,120,161	\$ 12,742,451	100%	0.196%	5.347%	0.059%

Overall Performance of Fund Since Inception (including sale proceeds):

- 1.46x Net MOIC
- 37% Net IRR

Performance Appendix

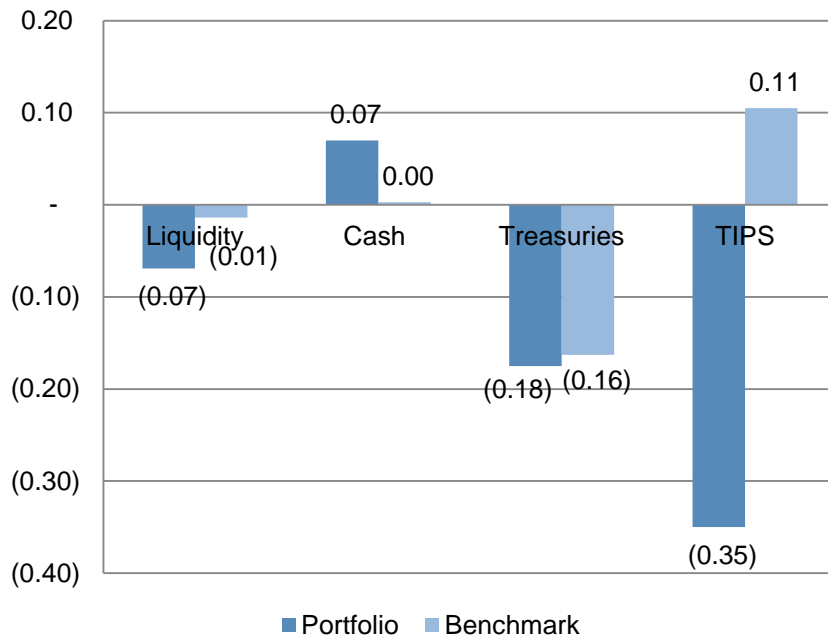
Risk Mitigation FYTD Performance as of July 31, 2014



Returns as of July 31, 2014	1 Month	CYTD	1 Year	2 Year	3 Year
Absolute Return Hedge Funds	(0.11)	1.55	1.44	4.30	3.32
1 M LIBOR + 400 Bps	0.34	2.38	4.12	4.14	4.18
<i>Difference</i>	<i>(0.45)</i>	<i>(0.83)</i>	<i>(2.69)</i>	<i>0.16</i>	<i>(0.86)</i>
Total Risk Mitigation	(0.11)	1.55	1.44	4.30	3.32
T-Bill + 300 BP	0.25	1.76	3.05	3.08	3.08
<i>Difference</i>	<i>(0.36)</i>	<i>(0.22)</i>	<i>(1.62)</i>	<i>1.22</i>	<i>0.24</i>

- The Risk Mitigation return is composed largely 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 1.55% Year to date and 1.44% 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.

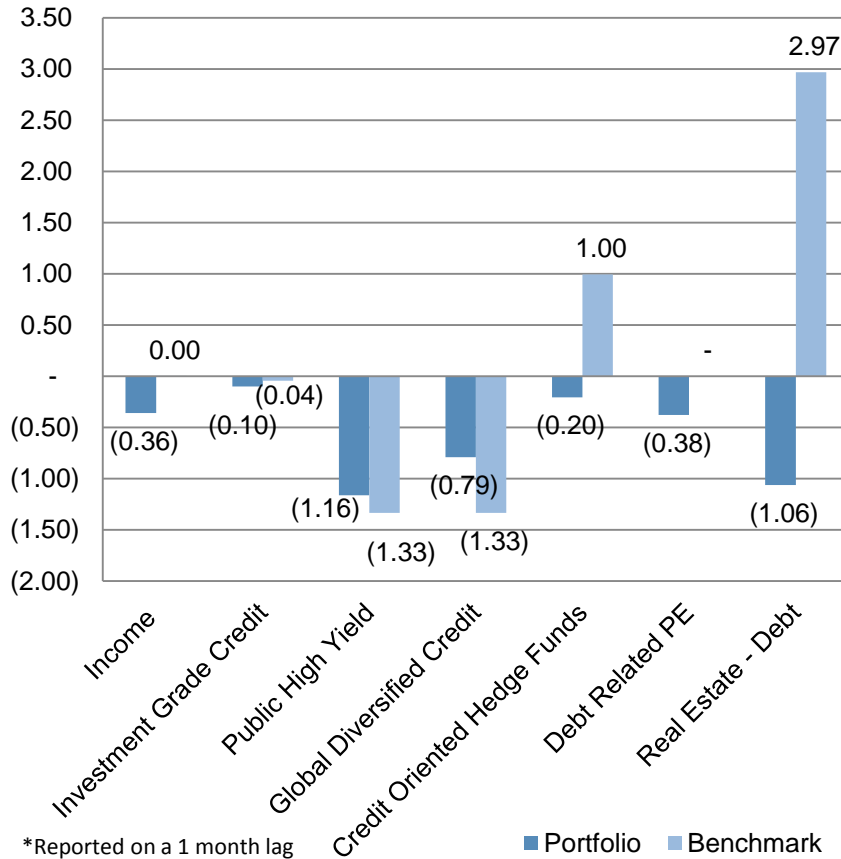
Liquidity FYTD Performance as of July 31, 2014



Returns as of July 31, 2014	1 Month	CYTD	1 Year	2 Year	3 Year
Cash Equivalents	0.07	0.39	0.92	1.53	1.71
91 day treasury bill	0.00	0.02	0.05	0.08	0.08
<i>Difference</i>	<i>0.06</i>	<i>0.37</i>	<i>0.87</i>	<i>1.45</i>	<i>1.63</i>
US Treasuries	(0.18)	0.30	0.09	(3.68)	4.70
Custom Benchmark	(0.16)	5.59	4.00	(1.21)	2.07
<i>Difference</i>	<i>(0.01)</i>	<i>(5.29)</i>	<i>(3.91)</i>	<i>(2.47)</i>	<i>2.63</i>
TIPS	(0.35)	3.78	3.00	(2.34)	3.23
Custom Tips Benchmark	0.11	11.51	6.99	(3.09)	1.69
<i>Difference</i>	<i>(0.46)</i>	<i>(7.73)</i>	<i>(3.99)</i>	<i>0.75</i>	<i>1.54</i>
Total Liquidity	(0.07)	0.76	0.63	(1.35)	3.18
Benchmark	(0.01)	7.36	4.65	(1.29)	1.14
<i>Difference</i>	<i>(0.06)</i>	<i>(6.60)</i>	<i>(4.02)</i>	<i>(0.07)</i>	<i>2.03</i>

- The Liquidity portfolio underperformed the benchmark in July as the TIPS segment trailed the benchmark as the portfolio had a shorter duration than the benchmark. The TIPS portfolio is ahead of the benchmark on a three year basis, as is the Cash and Treasury portfolios.
- Underperformance of the TIPS and Treasury portfolios are the cause of the underperformance of the Total Liquidity portfolio over the year.
- Over the past three years, the Liquidity portfolio is 203 bps ahead of the benchmark and all segments have outperformed.

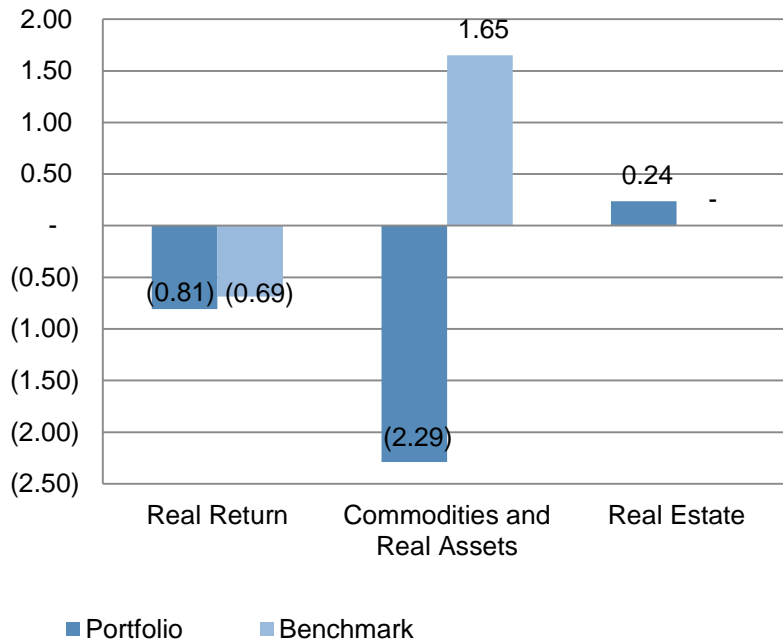
Income FYTD Performance as of July 31, 2014



Returns as of July 31, 2014	1 Month	CYTD	1 Year	2 Year	3 Year
Investment Grade Credit	(0.10)	6.18	6.60	1.88	6.10
Custom IGC Benchmark	(0.04)	4.18	5.22	1.08	4.23
<i>Difference</i>	<i>(0.06)</i>	<i>2.01</i>	<i>1.38</i>	<i>0.79</i>	<i>1.87</i>
Public High Yield	(1.16)	4.76	8.77	9.30	9.02
Barclays Corp High Yield (Daily)	(1.33)	4.05	8.19	8.84	8.58
<i>Difference</i>	<i>0.17</i>	<i>0.71</i>	<i>0.58</i>	<i>0.47</i>	<i>0.44</i>
Global Diversified Credit	(0.79)	11.48	17.44	18.03	12.52
Barclays Corp High Yield (Daily)	(1.33)	4.05	8.19	8.84	8.58
<i>Difference</i>	<i>0.54</i>	<i>7.43</i>	<i>9.25</i>	<i>9.20</i>	<i>3.94</i>
Credit-Oriented Hedge Funds	(0.20)	6.01	11.74	13.88	8.67
Custom Benchmark	1.00	6.35	11.85	12.77	8.46
<i>Difference</i>	<i>(1.20)</i>	<i>(0.35)</i>	<i>(0.11)</i>	<i>1.11</i>	<i>0.21</i>
Debt-Related Private Equity	(0.38)	8.58	13.23	17.93	13.64
Cambridge Assoc. PE Qtr Lag	-	9.95	18.90	15.96	15.96
<i>Difference</i>	<i>(0.38)</i>	<i>(1.38)</i>	<i>(5.67)</i>	<i>1.97</i>	<i>(2.32)</i>
Real Estate-Debt	(1.06)	6.06	11.86		
Barclays CMBS 2.0 Baa + 100 (Qtr lag)	2.97	12.26	2.47		
<i>Difference</i>	<i>(4.03)</i>	<i>(6.20)</i>	<i>9.40</i>		
Total Income	(0.36)	6.76	9.31	6.31	8.28
Benchmark	0.00	5.29	6.74	4.54	6.34
<i>Difference</i>	<i>(0.36)</i>	<i>1.47</i>	<i>2.58</i>	<i>1.77</i>	<i>1.95</i>

- The Income portfolio underperformed the benchmark in July by 36bps. The portfolio is ahead of the benchmark for the 1, 2, and 3 year periods.
- The Investment Grade Credit portfolio underperformed slightly in July but is well ahead for other periods.
- Both Public High Yield and Global Diversified Credit have outperformed over all periods. Over the past two years, the return of the Global Diversified Credit portfolio (18%) is more than double the return of the High Yield index.

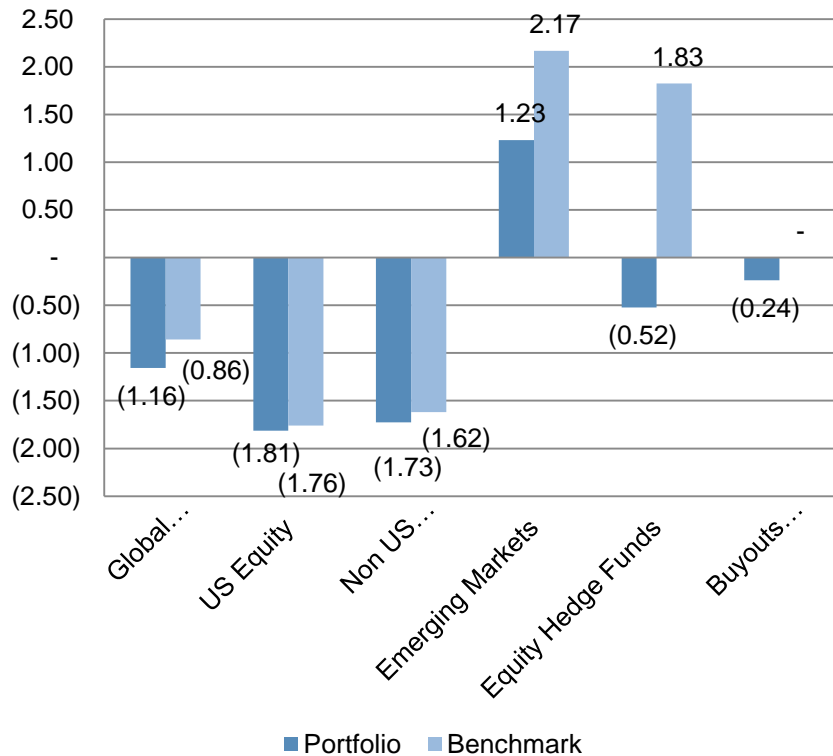
Real Return FYTD Performance as of July 31, 2014



Returns as of July 31, 2014	1 Month	CYTD	1 Year	2 Year	3 Year
Commodities & Real Assets	(2.29)	6.75	5.80	2.57	(1.83)
Custom Benchmark	(1.65)	6.27	10.81	6.61	1.02
<i>Difference</i>	<i>(0.64)</i>	<i>0.48</i>	<i>(5.01)</i>	<i>(4.04)</i>	<i>(2.85)</i>
Real Return Real Estate	0.24	11.81	16.95	15.23	12.89
NCREIF Property Index (Daily)	-	5.29	12.74	11.73	11.83
<i>Difference</i>	<i>0.24</i>	<i>6.52</i>	<i>4.22</i>	<i>3.50</i>	<i>1.06</i>
Total Real Return	(0.81)	9.70	12.20	10.27	8.19
<i>Benchmark</i>	<i>(0.69)</i>	<i>5.75</i>	<i>12.12</i>	<i>9.69</i>	<i>8.09</i>
<i>Difference</i>	<i>(0.12)</i>	<i>3.95</i>	<i>0.08</i>	<i>0.58</i>	<i>0.10</i>

- The Real Return portfolio underperformed by 12 bps but is ahead of the benchmark for the 1, 2, and 3 year periods.
- Commodities had a particularly difficult month, returning -4.17%, which pulled down the return of the Commodities & Real Assets portfolio for the month.
- The Real Estate portfolio continues to perform well and is ahead of the benchmark for all periods shown.

Global Growth FYTD Performance as of July 31, 2014



Returns as of July 31, 2014	1 Month	CYTD	1 Year	2 Year	3 Year
Domestic Equity	(1.81)	5.26	17.54	22.17	16.88
S&P 1500 Super Composite (Daily)	(1.76)	5.14	16.40	21.09	16.66
<i>Difference</i>	<i>(0.05)</i>	<i>0.12</i>	<i>1.14</i>	<i>1.08</i>	<i>0.22</i>
Non-US Dev Market Eq	(1.73)	3.22	15.42	19.00	6.25
NJDI ex Iran& Sudan EAFE + Canada	(1.62)	3.36	15.38	18.81	7.59
<i>Difference</i>	<i>(0.11)</i>	<i>(0.14)</i>	<i>0.04</i>	<i>0.19</i>	<i>(1.34)</i>
Emerging Market Eq	1.23	6.69	13.77	8.14	0.77
NJDI Iran + Sudan Free EM Index	2.17	8.32	15.30	8.85	1.06
<i>Difference</i>	<i>(0.94)</i>	<i>(1.63)</i>	<i>(1.53)</i>	<i>(0.71)</i>	<i>(0.29)</i>
Total Equity Oriented Hedge Funds*	(0.52)	4.38	11.96	13.95	8.69
Custom Benchmark	1.83	5.22	12.86	13.09	4.74
<i>Difference</i>	<i>(2.35)</i>	<i>(0.84)</i>	<i>(0.89)</i>	<i>0.87</i>	<i>3.95</i>
Buyouts-Venture Capital	(0.24)	16.91	25.81	20.17	14.95
Cambridge Associates PE 1 Qtr Lag	-	9.95	18.90	15.96	14.36
<i>Difference</i>	<i>(0.24)</i>	<i>6.96</i>	<i>6.90</i>	<i>4.21</i>	<i>0.59</i>
Total Global Growth	(1.16)	6.34	17.26	18.91	11.50
Benchmark	(0.86)	5.79	16.17	18.01	10.29
<i>Difference</i>	<i>(0.30)</i>	<i>0.55</i>	<i>1.09</i>	<i>0.90</i>	<i>1.21</i>

- The Global Growth portfolio underperformed the benchmark by 30 basis points in July as all segments of the public equity portfolio underperformed. The portfolio is ahead of the benchmark for all other periods.
- The Domestic Equity portfolio is ahead of the benchmark for the 1, 2, and 3 year periods, primarily due to strong stock selection.
- The Emerging Markets portfolio has underperformed for all periods shown as the outperformance by the advisors has partially offset the underperformance by the ETF.