2015 ANNUAL REPORT

NEW JERSEY STATE INVESTMENT COUNCIL

FOR FISCAL AND CALENDAR YEAR 2015

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[1] Fiscal Year 2015 is the period July 1, 2014 to June 30, 2015. Calendar Year 2015 is the Period January 1, 2015 to December 31, 2015

New Jersey State Investment Council
50 West State Street, 9th Floor
P.O. Box 290
Trenton, New Jersey 08625

January 27, 2016

To the Honorable: the Governor, the Legislature, the State Treasurer and the Citizens of New Jersey:

The good news is that the staff of the Division of Investment continues to do an excellent job as the Pension Fund outperformed its benchmark this past fiscal year by 1.23%. That performance added over $950 million in value to overall fund assets, which totaled $79 billion at year-end. The bad news is that the public markets did not offer great returns, and we face statutory and other practical limits on investing elsewhere.

Our return for the past fiscal year was 4.16%. Our benchmark, which is composed of indices that reflect our asset allocation, returned 2.93%.

Now for comparative frames of reference. The median return for large public pension funds was 3.61%. Our returns were better than the returns of 70% of our peers. In the same period, the Princeton University endowment returned 12.7%. However, it had only 10% of the endowment's money in U.S. stocks and 3% in fixed income. Virtually everything Princeton does is in alternative investments, in which markets are less efficient, providing an opportunity for experts to capture out-sized returns.

It is also true that the S&P 500 Index returned 7.4% for the fiscal year. So that begs the question: why do we not simply invest much more heavily in stocks? The answer is because stocks are among the most volatile asset classes, and there have been entire decades during which stock returns have been terrible. Even so, domestic stocks are our single largest allocation. But putting too many of your eggs in one basket is never a good strategy, and it is all the more important to limit downside volatility for a public pension which is underfunded. Investing heavily in stocks in great years is very appealing, as long as you know in advance which years those will be.

Contrary to the belief of some, the other investments are not all "hedges"; rather, they are simply direct investments in other asset classes that hold great promise. For example, some of our best returns have come from real estate. This and other asset classes require very specialized expertise. Or, as I have tried to explain to some, the N.Y. Yankees could have saved a lot of money up front by hiring me as their shortstop instead of Derek Jeter – but the overall result would not have been as good.

We have done our best to be open and transparent about both our overall strategy and our individual investments. A watchdog agency in Washington, D.C., the Center for Economic and Policy Research, cited our efforts in transparency as a model all other funds should strive to achieve. There are certain terms in the investment world that are generally interchangeable (example: stocks or equities); we will do our best to be consistent in their use going forward to make it easier still to understand our reporting. Our website is quite comprehensive.

We on the State Investment Council are quite aware that the pension situation is precarious due to two decades of underfunding. Our role is strictly on the investment side. We take our responsibility to the beneficiaries very seriously, and are doing our best to seek the highest possible returns consistent with a prudent level of risk. And we welcome questions and comments – either during our public meetings or in written correspondence.

Yours sincerely,

Tom Byrne

Brendan Thomas Byrne, Jr.
Chairman

INTRODUCTION TO THE COUNCIL AND DIVISION

DIVISION STAFF

Director:
Christopher McDonough
Deputy Director:
Corey Amon

THE STATE INVESTMENT COUNCIL

The State Investment Council (the "Council") was created by the New Jersey Legislature in 1950 to formulate policies governing the investment of funds by the Director of the Division of Investment (the "Division"), as well as to consult with the Director with respect to the work of the Division.

The Council conducts meetings to discuss major investment policy issues, review Pension Fund performance and accept comments from members of the public. Other investment programs and returns are reviewed annually or when needed.

Council meetings are open to the public. Agendas, meeting times and locations are available on the Division's website, www.state.nj.us/treasury/doinvest under the State Investment Council tab.

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COUNCIL MEMBERSHIP AT DECEMBER 31, 2015:

Council Chairman:
Brendan Thomas Byrne, Jr. (1)
President, Byrne Asset Management LLC

Council Vice-Chairman:
Adam Liebtag(1)
New Jersey State AFL-CIO Nominee

Council Members:
Marty Barrett
Police and Firemen's Retirement System Designee

Michael Cleary(1)
New Jersey State AFL-CIO Nominee

Charles Dolan(1)
Director of Business, AFScott

Andrew Michael Greaney(1)
State Troopers Fraternal Association Nominee

James E. Hanson II (1)
CEO, Hampshire Real Estate Company

Guy Haselmann(1)
Director, Capital Markets Strategy, Scotiabank

Benjamin "Max" Hurst
Public Employees Retirement System Designee

James L. Joyner
Teachers Pension and Annuity Fund Designee

Timothy McGuckin(1)
New Jersey Education Association Nominee

Jeffrey Oram(1)
Executive Managing Director, Colliers International

Mitchell Shivers(1)
Former Principal Deputy Assistant Secretary of Defense for Asian & Pacific Security Affairs
Former Managing Director, Merrill Lynch

(1) *Appointed by the Governor*

COUNCIL MEMBERSHIP

The Council is comprised of sixteen (16) members pursuant to N.J.S.A. 52:18A-83. Nine members are appointed by the Governor for five year terms, and are drawn traditionally from the investment community. Of those nine appointments, eight are made with the advice and consent of the State Senate. One appointment is made from nominees submitted jointly by the President of the Senate and Speaker of the Assembly. The statute requires that at least seven of the nine gubernatorial appointments shall be qualified by training and experience in the direct management, analysis, supervision or investment of assets, which training and experience shall have been acquired through academic training or through actual employment in those fields.

Four members are appointed by the Governor from nominees submitted by various employee organizations. Two of these four are appointed for five year terms from nominees submitted by the New Jersey State AFL-CIO, with at least one of such two appointed members being a member of a union representing police officers or firefighters. One of these four members is appointed for a three year term from nominees submitted by the New Jersey Education Association. The last of these four members is appointed by the Governor for a three year term from nominees submitted by the State Troopers Fraternal Association. The statute requires that these four appointments shall be qualified by training, experience or long-term interest in the direct management, analysis, supervision or investment of assets and this training, experience or long-term interest shall have been supplemented by academic training in the fields of economics, business, law, financial or actuarial science or by actual employment in those fields.

Three members, representing the Public Employees' Retirement System (PERS), Teachers' Pension and Annuity Fund (TPAF) and Police and Firemen's Retirement System (PFRS), are designated from members of the respective pension system's board of trustees and serve three year terms.

All members serve until reappointed or until a successor is named and has qualified.

THE DIVISION OF INVESTMENT

The Division, under the Council's supervision, is the 33rd largest pension fund manager globally [(1)] and the 17th largest among U.S. public and corporate pension fund managers [(2)]. The Pension Fund supports the retirement plans of approximately 779,000 members in 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 & Annuity Fund (collectively referred to in this report as the "Pension Fund"). Approximately 51% of the members are still working and contributing to the pension plans while 40% are retired. The remaining 9% reflects the number of active noncontributing members. Pension Fund assets are primarily managed through common trust funds ("Common Pension Funds"). The net asset value of the Pension Fund assets managed by the Division was $79 billion as of June 30, 2015. The investment return for Fiscal Year 2015 excluding the Police and Fire Mortgages was 4.16% and approximately $9.6 billion was paid to plan beneficiaries.

The Division also manages the State of New Jersey Cash Management Fund, Supplemental Annuity Collective Trust (a 403b plan), a portion of the NJBEST Fund (a 529 college savings plan) as well as several funds under the New Jersey State Employees Deferred Compensation Program (a 457 plan).

(1) *Measured by assets as of 12/31/14. Reported by P&I and TowerWatson.com in "P&I/ TW 300 analysis." https://www.towerswatson.com/en-US/Insights/IC-Types/Survey-Research-Results/2015/09/The-worlds-300-largest-pension-funds-year-end-2014. Page 39*

(2) *Measured by assets as of 9/30/15. Reported by P&I February 8, 2016.*

STATUTORY AUTHORITY AND HISTORY OF THE DIVISION

The Division was created in 1950 by the New Jersey Legislature (P.L. 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 a State Investment Council to formulate policies that govern the methods, practices or procedures for investments, reinvestments, sale or exchange transactions to be followed by the Director of the Division. The statute vests investment authority in the Director of the Division, who is appointed by the State Treasurer from a list of candidates certified as qualified and submitted by the Council.

INVESTMENT PARAMETERS

All investments 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."

The mission of the Division is to achieve the best possible return at an acceptable level of risk utilizing the highest fiduciary standards.

COUNCIL REGULATIONS AND STRUCTURE

In addition to investment guidelines established by law, the Council is authorized by statute to establish investment policies that govern the methods, practices or procedures for investments, reinvestments, sale or exchange transactions (P.L. 1950, c.270).

All proposed regulations and amendments are filed upon approval of the Council with the Office of Administrative Law for publication in *The New Jersey Register*, followed by a 60-day public comment period. Following the public comment period, each proposal is returned to the Council for adoption, along with any comments received. The adopted regulations of the Council are published in the New Jersey Administrative Code (N.J.A.C. 17:16), and are available for viewing online at http://www.lexisnexis.com/njoal. There were no proposals or amendments during fiscal or calendar 2015.

COUNCIL ORGANIZATIONAL CHANGES DURING CALENDAR YEAR 2015

The Council underwent the following organizational changes between January 1, 2015 and December 31, 2015:

- The Council elected Brendan Thomas Byrne, Jr as Council Chair and Adam Liebtag as Council Vice Chair on March 25, 2015 to serve until the annual election.
- The Council re-elected Brendan Thomas Byrne, Jr as Council Chair and Adam Liebtag, as Council Vice-Chair, each for a one year term on September 23, 2015.

LEGISLATIVE UPDATE

PROHIBITED INVESTMENTS

The Division maintains a list of international companies ineligible for investment under two State laws: a Sudan divestiture law adopted in 2005 (P.L. 2005, C. 162), and an Iran divestiture law adopted in 2007 (P.L. 2007, C. 250). The Division utilizes an independent research firm to assist it in complying with the provisions of the statutes.

Divestitures pose three primary fiscal challenges to the Pension Fund: they require the identification and sale of holdings on a timetable that does not consider market conditions, they impact risk and return for the Pension Fund, and they permanently reduce the investment universe available to the Pension Fund. Together, the Sudan and Iran divestiture laws reduced the investment universe at June 30, 2015 by approximately 2% in international developed markets and 3% in international emerging markets, relative to its respective benchmarks.

NORTHERN IRELAND REPORT

The Division has been required since 1987 (P.L. 1987, c.177) to report annually to the Legislature regarding the adherence of U.S. companies and their subsidiaries doing business in Northern Ireland, in which the assets of any state pension or annuity fund are invested, to the “MacBride Principles,” a name given to a body of employment laws aimed at reducing employment discrimination in Northern Ireland. The report is filed each year by January 15th in accordance with the statute.

NET ASSETS UNDER MANAGEMENT

	NET ASSETS IN MILLIONS June 30, 2015	June 30, 2014
PENSION FUND (1) The Pension Fund includes pension assets contributed by participants and by state and local employers for currently working and/or retired participants in seven statewide retirement plans.	**$79,001**	**$81,220**
Teachers' Pension & Annuity Fund	25,651	27,323
Public Employees' Retirement System	27,319	27,815
Police & Firemen's Retirement System	23,941	23,900
State Police Retirement System	1,867	1,937
Judicial Retirement System	214	234
Prison Officers' Pension Fund	7	7
Consolidated Police & Firemen's Pension Fund	2	3
Note: Total may not equal sum of components due to rounding		
CASH MANAGEMENT FUND(2) This fund includes the cash balances of state government funds and "other-than-state" government entities (counties, municipalities, school districts and the agencies or authorities created by any of these).	**$11,875**	**$11,635**
SUPPLEMENTAL ANNUITY COLLECTIVE TRUST This fund includes voluntary investments by employees for retirement income separate from, and in addition to, their basic pension plan.	**$212**	**$210**

(1) The net assets of the Pension fund include the net assets managed by the Division through the Common Pension Funds and exclude certain direct assets and liabilities of the seven underlying pension plans.

(2) The total for the Cash Management Fund includes $4 billion on June 30, 2015 ($5 billion on June 30, 2014) held for and included in the totals for the Pension Fund, the Supplemental Annuity Collective Trust, Trustees for the Support of Public Schools Fund, the NJBEST Fund and Deferred Compensation Program.

NJBEST FUND

The Division manages some of the contributions of New Jersey residents for the state's tax-advantaged 529 college savings program. On June 30, 2015, the Division-managed portion of this fund had a market value of $415 million compared with $435 million on June 30, 2014.

DEFERRED COMPENSATION PROGRAM

The Division manages some of the assets contributed by employees into the New Jersey State Employees Deferred Compensation Program. Prudential Retirement, a business of Prudential Financial, serves as the third-party administrator for this plan. Funds managed by the Division include contributions to the Equity Fund and Small Capitalization Equity Fund, and prior to August 2014, the Bond (Fixed Income) Fund and Money Market (Cash Management) Fund. On June 30, 2015, these funds had a combined market value of $541 million compared with $591 million on June 30, 2014.

TRUSTEES FOR THE SUPPORT OF PUBLIC SCHOOL FUND

The Division manages the fund reserve required to support the rating of school bonds issued for the maintenance and support of the State's public schools. On June 30, 2015, the portfolio had a market value of $143 million compared with $141 million on June 30, 2014.

20 YEAR PENSION FUND FINANCIAL SUMMARY

FISCAL YEAR	NET ASSETS(1) ($BILLIONS)	RATE OF RETURN(2) (%)	GROSS PENSION PAYMENTS ($BILLIONS)
2015	79.0	4.16	9.6
2014	81.2	16.87	9.1
2013	74.4	11.78	8.7
2012	70.1	2.52	8.3
2011	73.7	18.03	7.7
5 YEAR ANNUALIZED RETURN		10.49	
2010	66.8	13.35	7.0
2009	62.9	(15.48)	6.6
2008	78.6	(2.61)	6.1
2007	82.5	17.14	5.6
2006	73.1	9.79	5.2
10 YEAR ANNUALIZED RETURN		7.05	
2005	69.8	8.77	4.8
2004	67.8	14.16	4.4
2003	62.6	3.31	4.1
2002	63.3	(8.61)	3.6
2001	72.2	(9.80)	3.2
15 YEAR ANNUALIZED RETURN		5.03	
2000	82.6	11.86	2.9
1999	76.2	16.27	2.7
1998	67.3	22.70	2.5
1997	56.6	22.09	2.3
1996	45.6	16.13	2.1
20 YEAR ANNUALIZED RETURN		8.08	

(1) *Includes the net assets of the Common Pension Funds managed by the Division.*
(2) *Returns exclude Police and Fire Mortgages*

During Fiscal Year 2015, net transfers of $4.6 billion were made from the Common Funds to the following pension plans: $13.5 million to the Judicial Retirement System, $719.4 million to the Police & Firemen's Retirement System, $1.4 billion to the Public Employees' Retirement System, $110.6 million to the State Police Retirement System and $2.4 billion to the Teachers' Pension & Annuity Fund.

PENSION FUND ASSET ALLOCATION

Asset allocation policies for the Pension Fund are adopted and revised by the Council as conditions warrant. The Council formally adopts an annual investment plan which includes long term ranges and annual target allocations for each asset class and asset category. Eligible investments are governed by the "whole plan" or "whole portfolio" principle, which permits a broad spectrum of investments to ensure diversity, and optimize expected risk/return tradeoffs on the investments as a whole.

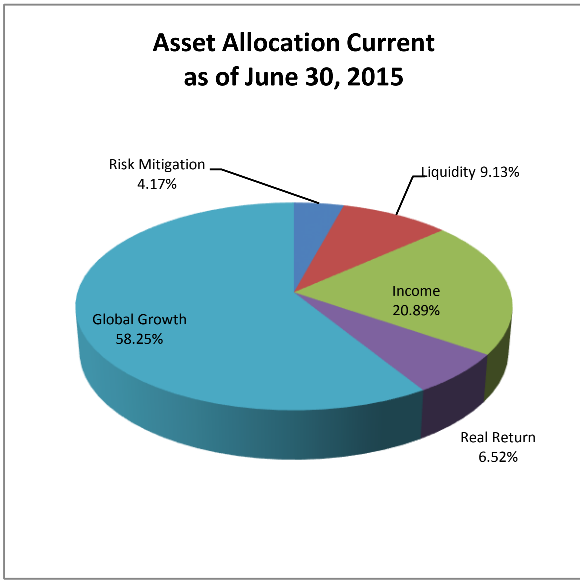
In June 2014, the Council adopted an Annual Investment Plan for Fiscal Year 2015. Based on market conditions, the Council concluded that a relatively conservative allocation was still warranted and the proposed asset class allocations were largely similar to the prior year. Within the Total Income Asset Class, the Investment Grade Credit and High Yield allocations were decreased due to the potential negative impact of rising rates, tight high yield spreads and increasing leverage. Increases in Global Diversified Credit and Credit Oriented Hedge Funds partially offset the decrease in traditional public credit. The allocation to Risk Mitigation strategies was increased in anticipation of higher volatility in various markets. The cash target was reduced from 6% to 5%.

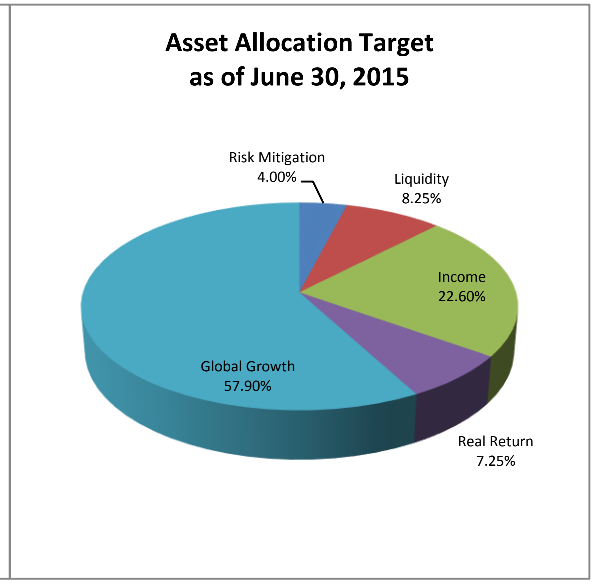
ACTUAL ALLOCATION AS OF JUNE 30, 2015 VS. FISCAL YEAR 2015 INVESTMENT PLAN TARGET

	Actual Allocation %	Target %	Difference %	Allocation ($ in millions)
Absolute Return/Risk Mitigation	4.17%	4.00%	0.17%	3,296.02
Risk Mitigation	**4.17%**	**4.00%**	**0.17%**	**3,296.02**
Cash Equivalents [1]	4.82%	5.00%	(0.18%)	3,804.60
Short Term Cash Equivalents	1.01%	0.00%	1.01%	796.05
TIPS	2.14%	1.50%	0.64%	1,691.02
US Treasuries	1.17%	1.75%	(0.58%)	924.82
Total Liquidity	**9.13%**	**8.25%**	**0.88%**	**7,216.49**
Investment Grade Credit	9.67%	10.00%	(0.33%)	7,640.29
Public High Yield	2.08%	2.00%	0.08%	1,646.08
Global Diversified Credit	2.92%	3.50%	(0.58%)	2,304.49
Credit Oriented Hedge Funds	3.64%	4.00%	(0.36%)	2,872.83
Debt Related Private Equity	0.98%	1.00%	(0.02%)	774.56
Debt Related Real Estate	0.51%	1.00%	(0.49%)	405.02
Police and Fire Mortgage Program	1.09%	1.10%	(0.01%)	860.93
Total Income	**20.89%**	**22.60%**	**(1.71%)**	**16,504.20**
Commodities	0.76%	1.00%	(0.24%)	598.06
Private Real Assets	1.57%	2.00%	(0.43%)	1,242.03
Equity Related Real Estate	4.19%	4.25%	(0.06%)	3,308.59
Total Real Return	**6.52%**	**7.25%**	**(0.73%)**	**5,148.68**
US Equity	28.25%	27.25%	1.00%	22,318.31
Non-US Developed Markets Equity	11.46%	12.00%	(0.54%)	9,051.22
Emerging Markets Equity	5.62%	6.40%	(0.78%)	4,443.45
Equity Oriented Hedge Funds	4.44%	4.00%	0.44%	3,506.48
Buyout/Venture Capital Funds	8.48%	8.25%	0.23%	6,698.55
Total Global Growth	**58.25%**	**57.90%**	**0.35%**	**46,018.01**
Opportunistic Private Equity	**0.26%**	**0.00%**	**0.26%**	203.31
Other Cash and Receivables	**0.78%**	**0.00%**	**0.78%**	614.14
Total Pension Fund	**100.00%**	**100.00%**	**0.00%**	**79,000.85**

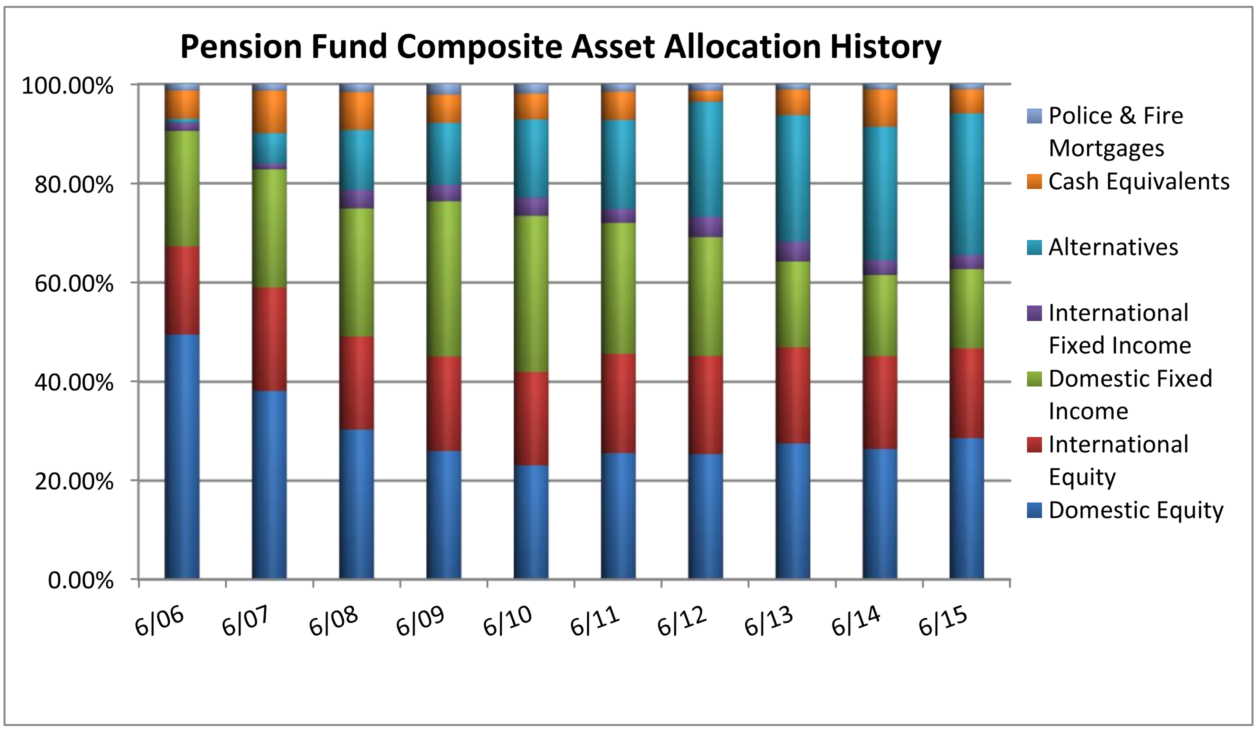
[1] The cash aggregate comprises the two common pension fund cash accounts, in addition to the seven plan cash accounts.

Totals may not equal sum of components due to rounding





PENSION FUND COMPOSITE ASSET ALLOCATION TEN YEAR HISTORY



MARKET OVERVIEW FOR FISCAL YEAR 2015

During Fiscal Year 2015, alternative asset classes, led by real estate and private equity, outperformed global stocks and fixed income. Weak commodity markets and a strong U.S. dollar mirrored each other and were byproducts of a slowing global economic outlook, heightened "event" risk, and highly accommodative global monetary policy that broadly diverged from U.S. Federal Reserve policy following the conclusion of quantitative easing in October 2014.

For the trailing twelve months ended June 30, 2015, global stock returns were modestly positive as the MSCI ACWI Index returned 0.71%. There was a wide dispersion of returns across various geographic, industry, and style sectors within the global equity marketplace. U.S. stocks, as measured by the S&P 1500, returned 7.29% versus (4.22%) for the MSCI EAFE Index, a measure of non-U.S. developed market returns, and (5.12%) for emerging market stocks. The strength of the U.S. dollar (up nearly 18% versus a trade-weighted basket of currencies), magnified U.S. equity returns versus international equities. In fact, 17 of the 21 countries comprising the EAFE realized positive local currency returns, while 14 of the 21 countries realized negative U.S. dollar returns.

The stronger U.S. dollar partially reflected divergent monetary policy paths as investors anticipated higher U.S. interest rates at the same time the European Central Bank and the Bank of Japan both embarked upon more accommodative monetary policy and quantitative easing. Highly accommodative policy, in turn, generally supported strong performance, as Germany, 11.15%, and Japan, 30.83%, realized favorable local currency returns. Key underperformers included peripheral Europe as Greece, (47.96%), and Portugal, (22.33%), suffered large negative returns in the midst of protracted Greek debt restructuring negotiations that heightened contagion fears.

Emerging market stocks were adversely impacted by an economic slowdown in China, weak commodity prices, geopolitical risks in Russia/Ukraine and the Middle East. In this environment, Brazil, (28.98%), and Russia, (27.61%), underperformed in conjunction with a sharp drop in oil. Investable markets in China, 24.62%, proved resilient, realizing outsized returns as monetary stimulus and increased use of leverage drove prices higher.

Within U.S. equities, sector selection played an important role throughout Fiscal Year 2015 as there was a wide disparity of returns amongst various sectors. The same best and worst performers were persistent throughout much of 2015 with 50 percentage points separating the best performing sector, Healthcare, 26.57%, and the worst performing sector, Energy, (24.56%).

For the trailing twelve months ended June 30, 2015, the end of the Federal Reserve's quantitative easing program, along with expectations for less accommodative monetary policy and higher targeted interest rates were reflected in subpar fixed income returns. The Barclays Capital U.S. Aggregate Bond Index realized modest returns, 1.88%, in a low interest rate environment. Treasuries, 2.31%, outperformed Investment Grade, 0.93%, and High Yield corporate bonds, (0.40%), with the strongest performance realized by Long Treasuries, 6.33%, as global economic growth concerns and a flight to safety in the midst of market uncertainty contributed to returns. Lower rated securities underperformed, with high yield returns adversely impacted by the weak energy sector.

The Bloomberg Commodities Index (23.72%) experienced poor returns, adversely impacted by a strong dollar and a weaker global economic outlook, particularly slowing demand from Europe and China. Of the 22 commodities comprising the broader Bloomberg Index, only two, Wheat and Live Cattle, realized positive returns. Crude oil had strongly negative returns (49.32%) as production remained high while demand softened, with a decline of 40% during the December 2014 quarter alone largely in response to OPEC's decision to maintain its level of production. While still realizing negative returns, gold (11.72%) outperformed most other commodities on a relative value basis as the impact of the strong dollar was partially offset by a flight to quality in the midst of heightened geopolitical risk and longer-term concerns related to a global move to increase monetary policy accommodation.

For the trailing twelve months ended June 30, 2015, Hedge Funds exhibited varying returns across strategies. The HFRI Fund Weighted Composite Index returned 2.26% for the period. The environment for corporate restructurings and M&A supported by high levels of balance sheet cash provided opportunities for activist funds, which was the best performing strategy as the HFRI Event Driven Activist Index increased 9.29%. Favorable currency and commodity strategies led to strong returns for Systematic Diversified strategies at 8.68%. In contrast, the HFRI Event Driven Distressed/Restructuring Index (5.89%) performed poorly as riskier credits were adversely impacted by lower energy prices and higher default rates.

The Cambridge Associates Global Private Equity Index returned 8.44% and exhibited favorable returns across most asset classes as exit multiples rose. Performance was solid across most Cambridge private equity sub-indices, with Venture Capital, 22.51%, leading the way, supported by favorable valuations and continued expansion in the number of companies financed. Growth Equity, 10.74%, and Buyouts, 7.54%, also benefited from low interest rates, rising valuations and strong exit markets. Natural Resources (6.93%) realized negative returns, largely as a result of energy-related investments, representing the only major underperformer within private equity markets.

Real estate yields remained attractive relative to other asset classes, leading to continued strong capital inflows and yield compression across property types and geographic regions. During Fiscal Year 2015, Real Estate realized strong returns with the NACREIF Property Index rising 12.70%, as capitalization rates moved lower across all major property classes and geographical regions. Demand was strongest in major coastal markets, particularly in tech-driven markets in the West (e.g., San Francisco Bay Area, Silicon Valley, Seattle, and Denver), up 14.40%. Fundamentals remained strong, with positive new absorption and limited new supply in most property sectors. Strong returns in the Industrial market, up 14.20%, were driven by increasing rental rates and high valuations paid for several large portfolios.

TOTAL PENSION FUND RETURN VS BENCHMARK

	Annualized Returns (%)				
	FY15	3 Years	5 Years	10 Years	20 Years
Total Pension Fund	4.14	10.71	10.38		
Total Pension Fund excluding Police and Fire Mortgages	4.16	10.81	10.49	7.05	8.08
Total Fund Benchmark[1]	*2.93*	*9.76*	*9.20*	*5.93*	*N/A*

[1] Benchmark is a weighted composite of index returns in each asset class

- The Total Pension Fund excluding Police and Fire Mortgages outperformed the Total Fund Benchmark by 123 basis points for Fiscal Year 2015. Four of the five asset classes, Risk Mitigation, Income, Real Return and Global Growth, outperformed their respective benchmarks for the fiscal year, while the Liquidity asset class trailed its benchmark.

- This was the fifth consecutive fiscal year the Pension Fund has outperformed the benchmark (Fiscal Year 2011 by 100 basis points, Fiscal Year 2012 by 226 basis points, Fiscal Year 2013 by 82 basis points, Fiscal Year 2014 by 108 basis points and Fiscal Year 2015 by 123 basis points). Over the five year period the Pension Fund has outperformed the benchmark by 129 basis points on an annualized basis, adding incremental value of approximately $4.5 billion to the Pension Fund.

- The Pension Fund has outperformed the benchmark on a trailing one, three, five, and ten-year basis.

DOMESTIC EQUITY HIGHLIGHTS OF FISCAL YEAR 2015

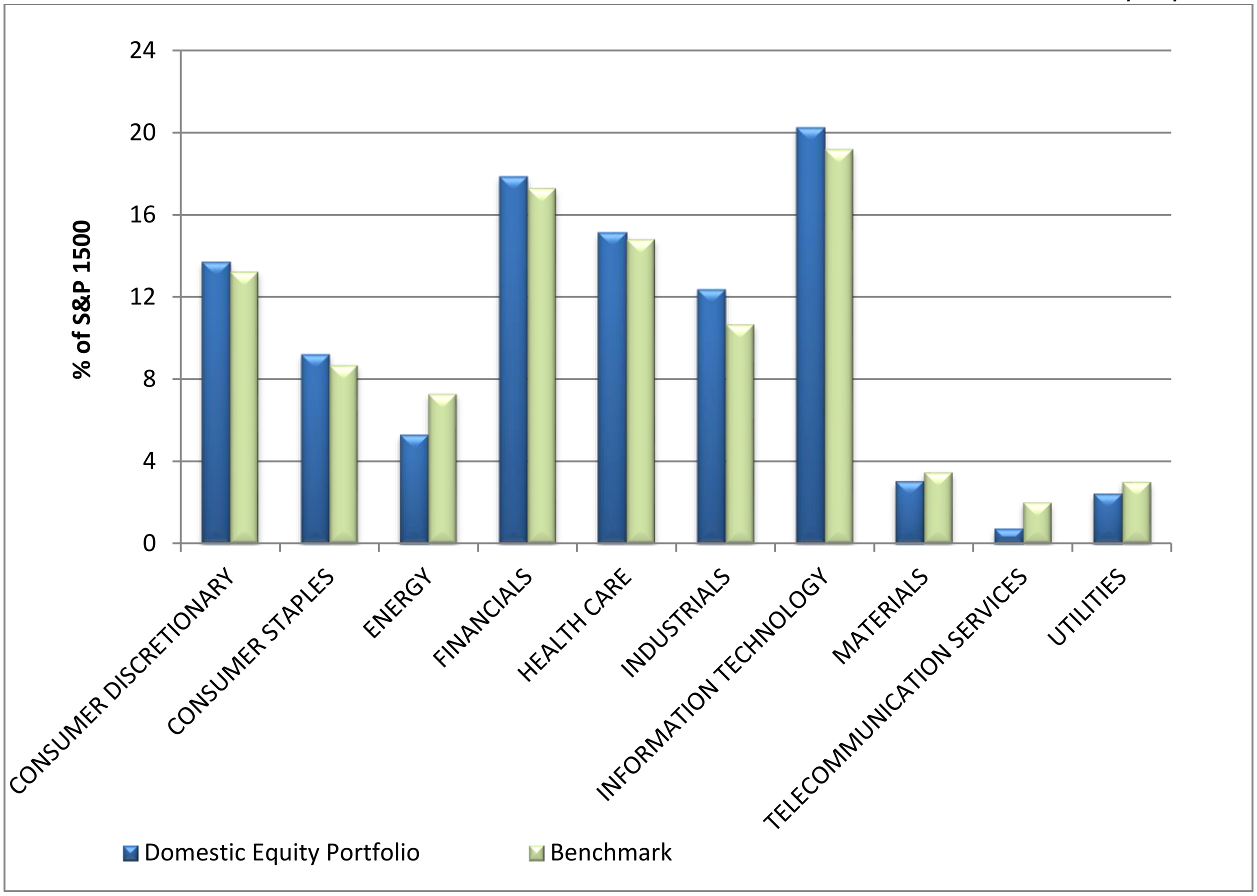
	Annualized Returns (%)			
	FY15	3 Years	5 Years	10 Years
Domestic Equity with Cash, Hedges, Miscellaneous	7.48	17.91	17.60	9.08
Domestic Equity Only (Ex Cash and hedges)	7.48	18.26	17.96	9.25
S&P 1500 Composite	7.31	17.47	17.43	8.10

- The Domestic Equity portfolio is broadly diversified by economic sector with over 800 publicly traded stocks. While exposure to most sectors is comparable to that of the overall market, the Division will overweight and underweight securities and industries in the portfolio in an effort to outperform the benchmark.

- The Domestic Equity portfolio has outperformed its benchmark index in ten of the past eleven fiscal years. Over the past 11-year period, the U.S. stock portfolio has outperformed its benchmark by 107 basis points on an annualized basis.

- Stocks in the Domestic Equity portfolio gained 7.48% for Fiscal Year 2015, exceeding the 7.31% return of the S&P 1500 Index by 17 basis points. Key drivers included favorable sector selection, as well as strong stock selection within the technology, consumer staples and healthcare sectors. The portfolio returns also benefitted from an overweight allocation to the consumer discretionary sector as the fundamental backdrop for spending improved and an underweight allocation to the energy sector in a weak pricing environment. Favorable returns were partially offset by an overweight allocation to the industrial sector as it underperformed the broader equity market, as well as security selection within the energy and industrial sectors.

SECTOR WEIGHTING OF DOMESTIC EQUITY PORTFOLIO IN COMPARISON TO S&P 1500 AS OF 6/30/15



- The top ten holdings in the Domestic Equity portfolio represent 19.04% of the total portfolio. Apple Inc. continues to be the largest holding. The top ten holdings are similar to those at the end of Fiscal Year 2014, with Walt Disney Co. and Pfizer Inc. replacing Exxon Mobil Corp. and Chevron Corp.

TOP HOLDINGS IN DOMESTIC EQUITY PORTFOLIO AS OF JUNE 30, 2015

Company	% of Portfolio
APPLE INC	**4.27**
MICROSOFT CORP	**2.28**
WALT DISNEY CO	**2.20**
WELLS FARGO CO	**1.71**
GOOGLE INC	**1.59**
JP MORGAN CHASE CO	**1.54**
JOHNSON & JOHNSON	**1.41**
GENERAL ELECTRIC CO	**1.41**
MERCK & CO	**1.34**
PFIZER INC	**1.29**

INTERNATIONAL EQUITY HIGHLIGHTS OF FISCAL YEAR 2015

	Annualized Returns (%)			
	FY15	3 Years	5 Years	10 Years
International Equity with Cash, Hedges, Miscellaneous	(4.56)	8.44	5.97	4.50
Custom International Equity Markets Benchmark [(1)]	(4.54)	8.80		
MSCI All Country World Index (ex U.S.)	(5.26)	9.44	7.76	5.54
Developed Markets Equity	(3.81)	11.79	7.95	
Custom International Developed Markets Benchmark [(1)]	(4.69)	11.44		
MSCI EAFE Index	(4.22)	11.97	9.54	
Emerging Markets Equity	(7.11)	2.78	3.65	
Custom International Emerging Markets Benchmark[(1)]	(4.54)	4.13		
MSCI Emerging Markets Index	(5.12)	3.71	3.68	

[(1)] Source: MSCI. The MSCI data is comprised of a custom index calculated by MSCI for, and as requested by the Division. These benchmarks exclude those securities deemed ineligible for investment under the State statutes governing investments in Iran and Sudan. The MSCI data is for internal use only and may not be redistributed or used in connection with creating or offering any securities, financial products or indices. Neither MSCI nor any other third party involved in or related to compiling, computing or creating the MSCI data (the MSCI Parties") makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and the MSCI Parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to such data. Without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

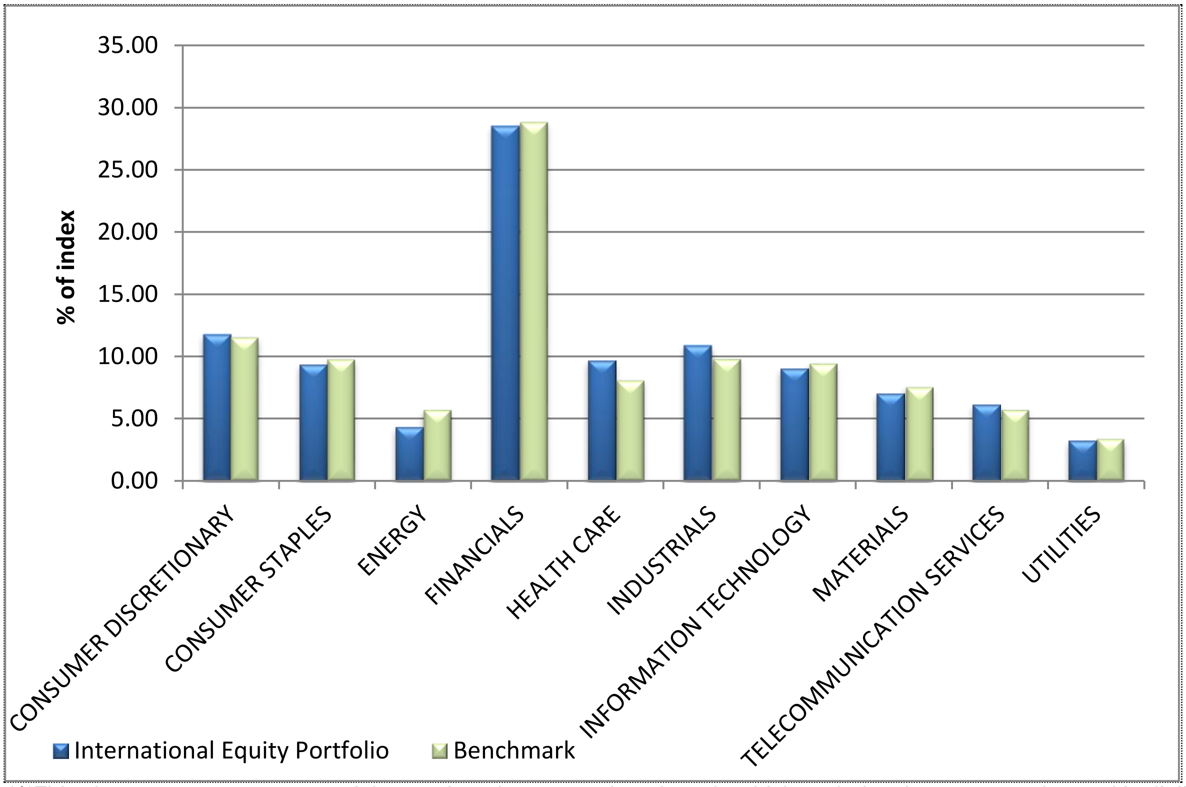
- The International Equity portfolio is broadly diversified with exposure to approximately 45 countries and investments in over 800 publicly traded non-U.S. stocks. The International Equity portfolio includes both developed market equities and emerging market equities. The developed market portfolio is a composite of ETFs, a passively managed optimized portfolio, and an actively managed portfolio. The emerging market portfolio is a composite of ETFs and an actively managed portfolio of individual securities. At fiscal year-end, approximately 35% of the total international equity portfolio was actively managed.

- The International Equity Portfolio performed in line with its benchmark for Fiscal Year 2015, returning (4.56%) against a custom benchmark return of (4.54%). Favorable relative returns in the developed markets portfolio, aided by currency hedges, partially offset underperformance in the emerging markets portfolio.

- The developed market equity portfolio returned (3.81%) for Fiscal Year 2015, outperforming its custom benchmark return of (4.69%) by 88 basis points. The outperformance was primarily driven by strategic sector and country allocations. The portfolio benefitted from an underweight exposure to the energy sector which under performed in an environment of declining oil prices. An underweight allocation to the financial sector also benefitted relative returns as weakening fundamentals due to slow economic growth adversely impacted returns. Country selection added value as strategies were implemented to capitalize on divergent central bank monetary policies.

- The emerging markets equity portfolio returned (7.11%), underperforming its custom benchmark return of (4.54%) by 257 basis points. Rising geopolitical risk, the collapse in commodity prices, as well as uncertainty over the implications of a strengthening U.S. dollar and an anticipated increase in U.S. interest rates all contributed to a challenging investing environment for emerging markets. The underperformance of the emerging market equity portfolio is primarily attributable to an increased sector exposure in a struggling Brazilian market, financial and telecom sector stock selection in the Russian market, and an underweight position to China, which was the best performing emerging market country.

SECTOR WEIGHTING OF INTERNATIONAL EQUITY PORTFOLIO IN COMPARISON TO CUSTOM INTERNATIONAL EQUITY MARKETS INDEX AS OF JUNE 30, 2015(1)



(1)This chart represents sector weights against the custom benchmark, which excludes those names deemed ineligible for investment under the State's Sudan and Iran Divestment laws.

- The top ten holdings in the International Equity portfolio represent 16.7% of the portfolio with the top ETFs representing 13.4% of the portfolio. Several individual securities, L'Oreal Prime De FIdelite, Taiwan Semiconductor SP and Bayer AG, have been replaced in the top ten holdings by ETFs.

TOP HOLDINGS IN INTERNATIONAL EQUITY PORTFOLIO AS OF JUNE 30, 2015

Company	% of Portfolio
VANGUARD FTSE EMERGING MARKETS	**3.75**
ISHARES MSCI EMERGING MARKETS	**2.65**
ISHARES MSCI EAFE ETF	**2.00**
WISDOMTREE JAPAN HEDGED EQUITY	**1.41**
ISHARES CORE MSCI EMERGING MARKETS	**1.39**
WISDOMTREE EUROPE HEDGED EQUITY	**1.32**
NOVARTIS AG	**1.21**
ROCHE HOLDING AG	**1.15**
NESTLE SA	**0.96**
ISHARES MSCI EMERGING MARKETS	**0.88**

FIXED INCOME HIGHLIGHTS OF FISCAL YEAR 2015

	Annualized Returns (%)			
	FY15	3 Years	5 Years	10 Years
Fixed Income with Cash, Hedges, Miscellaneous	1.80	3.69	6.49	6.83
Fixed Income Blended Benchmark(1)	0.52	2.90	5.55	5.56
Investment Grade	1.53	2.17	5.66	6.28
Investment Grade Blended Benchmark(2)	0.83	1.60	6.16	5.86
High Grade	2.23	3.07	5.81	
Custom Investment Grade Credit Benchmark(3)	0.93	2.25	4.45	
U.S. Treasuries	1.61	(1.14)		
Custom US Treasuries Benchmark(4)	2.31	0.59		
TIPS	(2.35)	(1.13)	4.06	
Custom TIPS Benchmark(5)	(1.68)	(1.44)	2.98	
High Yield	2.88	10.70	11.44	
Barclays Corp High Yield Index	(0.40)	6.81	8.61	

(1) Fixed Income Blended Benchmark from 7/1/14 forward is a blend of the following Barclays Indices: 8% TIPS, 9% Treasury, 56% Credit, 28% Corporate High Yield. From 7/1/13 to 6/30/14 it was: 11% TIPS 10yr+, 3% Treasury, 1% Treasury Long, 8% Credit, 4% Credit Long, 48% Credit Intermediate, and 25% Corporate High Yield. From 7/1/12 to 6/30/13 it was a blend of the following Barclays Indices: 10% TIPS 10yr+, 7% Treasury, 4% Treasury Long, 36% Credit, 18% Credit Long and 25% Corporate High Yield. From 7/1/11 to 6/30/12 it was a 50/50 blend of Barclays Government/Credit Long and the Barclays Government/Credit. Prior to 7/1/11 it was 100% Barclays Government/Credit Long.

(2) Investment Grade Blended Benchmark from 7/1/14 forward is a blend of the following Barclays Indices: 10% TIPS, 12% Treasury, 77% Credit. From 7/1/13 to 6/30/14 it was 16% TIPS 10yr+, 4% Treasury, 2% Treasury Long, 10% Credit, 54% Credit Long, and 63% Credit Intermediate. From 7/1/12 to 6/30/13 it was a blend of the following Barclays Indices: 14% TIPS 10yr+, 9% Treasury, 5% Treasury Long, 48% Credit, 24% Credit Long. Prior to 7/1/12 it was 100% Barclays Government/Credit Long.

(3) Custom Investment Grade Credit Benchmark from 7/1/14 forward is the Barclays Credit Index. From 7/1/13 to 6/30/14 it was a blend of the following Barclays Indices: 13% Credit, 6% Credit Long, and 81% Credit Intermediate. From 7/1/2012 to 6/30/2013 it was a blend of the following Barclays Indices: 67% Credit, 33% Credit Long. From 7/1/2010 to 6/30/2012 it was 100% Barclays Credit.

(4) Custom US Treasuries Benchmark from 7/1/14 forward is the Barclays US Aggregate Government - Treasury Index. From 7/1/12 to 6/30/14 it was a blend of the following Barclays Indices: 67% US Aggregate Government - Treasury, and 33% Treasury Long. From 7/1/11 to 6/30/12 it was 100% Barclays US Aggregate Government – Treasury.

(5) Custom TIPS Benchmark from 7/1/14 forward is the Barclays US Inflation Linked Bond Index. From 7/1/12 to 6/30/14 it was the Barclays US Treasury Inf Notes (TIPS) 10+Y. From 7/1/10 to 6/30/12 it was the Barclays US Infl-Linked Bond Index.

- The Fixed Income portfolio is broadly diversified with investments in U.S. Treasuries, TIPS, investment grade corporate bonds and high yield securities. The portfolio includes investments in over 1,700 securities and 11 global diversified credit funds.

- The Fixed Income portfolio returned 1.80% for Fiscal Year 2015, outperforming its blended custom benchmark of 0.52% by 128 basis points. The key drivers were favorable returns within the global diversified credit portfolio and strong relative returns for the high grade credit and high yield corporate bond portfolios. Favorable returns were partially offset by the below target weighting and duration to U.S. Treasuries, as long-dated Treasuries outperformed in a declining yield environment.

- The Fixed Income portfolio has outperformed its benchmark index in eight of the last ten fiscal years, realizing outperformance of 127 basis points (annualized) over the same horizon. Over the past six years, the target allocation to the Fixed Income portfolio has been cut approximately in half, from 39% to 18%. Based on an average portfolio value of $19.1 billion, the 127 basis points of outperformance over the past decade is equivalent to approximately $2.4 billion of additional value for the Pension Fund.

- The Investment Grade portfolio returned 1.53% for Fiscal Year 2015, outperforming its blended benchmark return of 0.83% by 70 basis points. The High Grade portfolio returned 2.23% against a benchmark of 0.93% as the portfolio favored higher quality securities that outperformed as lower rated credit spreads widened. The U.S. Treasury portfolio returned 1.61% against a custom benchmark of 2.31%. While longer-dated U.S. Treasuries outperformed in a very low interest rate environment, the portfolio invested in intermediate term U.S. Treasury securities in order to provide liquidity for the overall Pension Fund. The TIPS portfolio returned (2.35%) against a custom benchmark of (1.68%) due to the portfolio's relatively short duration profile.

- The High Yield portfolio returned 2.88% against its benchmark of (0.40%) in Fiscal Year 2015. The Global Diversified Credit portfolio returned 4.74% against its benchmark of (0.40%) as the portfolio continued to benefit from exposure to structured credit and middle market lending strategies. The public high yield portfolio returned 0.36% against its benchmark of (0.40%), benefitting from an underweight position in energy-related issuers whose bonds underperformed as credit fundamentals weakened in the midst of a significant decline in oil.

ALTERNATIVE INVESTMENTS

PRIVATE EQUITY HIGHLIGHTS OF FISCAL YEAR 2015

	Annualized Returns (%)		
	FY15	3 Years	5 Years
Private Equity	17.71	18.84	16.45
Cambridge Associates Benchmark(1)	10.55	14.42	15.25

(1) Reported on a one quarter lag

- The Private Equity portfolio is broadly diversified with investments in buy-out, venture capital and debt strategies through the Pension Fund's interests in private equity fund limited partnerships and co-investment opportunities. At June 30, 2015 the Pension Fund was invested in approximately 102 limited partnerships and co-investments.

- The overall Private Equity portfolio returned 17.71% for the fiscal year, outperforming the benchmark by 716 basis points. The buyouts and venture capital portfolio was the best performing segment of the entire Pension Fund for the second year in a row, returning 18.75% for the fiscal year.

- The Total Value Multiple for the overall Private Equity Portfolio increased from 1.38x to 1.45x from June 30, 2014 to June 30, 2015. Also for the second consecutive fiscal year, all segments within the Private Equity portfolio saw increases in Total Value Multiple.

- The Pension Fund committed $650 million to 5 new private equity partnerships in Fiscal Year 2015.

- The Pension Fund contributed $1.2 billion to various Private Equity portfolio funds and received distributions totaling $2.1 billion from funds in the portfolio during the fiscal year. In Fiscal Years 2014 and 2013, the Pension Fund contributed $1.4 billion and $1.1 billion, respectively, to various Private Equity portfolio funds and received distributions of $1.9 billion and $1.5 billion, respectively, from funds in the portfolio. Over the trailing five years, the Private Equity portfolio has been cash flow positive with $7.6 billion in distributions and $6.2 billion in contributions.

REAL ESTATE HIGHLIGHTS OF FISCAL YEAR 2015

	Annualized Returns (%)		
	FY15	3 Years	5 Years
Real Estate	12.92	13.43	13.19
NCREIF(ODCE) (1)	12.40	11.95	12.91

(1) Reported on a one quarter lag

- At June 30, 2015, the Real Estate portfolio consists of approximately 42 limited partnerships which invest in opportunities both in the U.S. and abroad, as well as investments in publicly traded REIT securities.

- The Real Estate portfolio returned 12.92% for the fiscal year, outperforming the benchmark by 52 basis points. Fiscal Year 2015 was the fifth consecutive year that the Real Estate portfolio produced a positive overall return, driven primarily by non-core strategies that capitalize on positive fundamentals and macro-economic trends.

- The Total Value Multiple for the private investments in the Real Estate portfolio increased from 1.31x to 1.38x from June 30, 2014 to June 30, 2015.

- The Pension Fund committed $459 million to 5 real estate partnerships in Fiscal Year 2015.

- The Pension Fund contributed $696 million to various Real Estate portfolio funds and received distributions totaling $1.3 billion from funds in the portfolio during the fiscal year. In Fiscal Years 2014 and 2013, the Pension Fund contributed $800 million and $536 million, respectively, to various Real Estate portfolio funds and received distributions of $983 million and $544 million, respectively, from funds in the portfolio.

HEDGE FUND HIGHLIGHTS OF FISCAL YEAR 2015

	Annualized Returns (%)		
	FY15	3 Years	5 Years
Hedge Funds	4.21	9.05	7.21
HFRI Fund of Funds Composite[1]	6.10	6.52	4.14

[1] Reported on a one month lag.

- The Hedge Fund portfolio is broadly diversified in 44 hedge funds and fund of funds at June 30, 2015 which employ diversified strategies including absolute return, credit, distressed, equity long/short, event driven and global macro.
- The Hedge Fund portfolio returned 4.21% and underperformed the HFRI Fund of Funds Composite by 189 basis points for the fiscal year. The equity oriented and absolute strategy hedge funds were the best performing segments of the Hedge Fund portfolio for the fiscal year, returning 7.41% and 3.79%, respectively. This performance was partially offset by the credit oriented hedge funds which returned 0.79% for the fiscal year.
- During Fiscal Year 2015, the Pension Fund committed $450 million to four strategies in the Hedge Fund portfolio. During the same period, the Pension Fund redeemed $275 million from six funds.

COMMODITIES/REAL ASSET HIGHLIGHTS OF FISCAL YEAR 2015

	Annualized Returns (%)		
	FY15	3 Years	5 Years
Real Assets/Commodities	(10.47)	(0.88)	2.47
Bloomberg Commodity Index Total Return	(23.71)	(8.76)	(3.91)

- At June 30, 2015, the Commodities/Real Asset portfolio is invested in 9 funds with diversified strategies and in publicly traded securities and ETFs.
- The Commodities/Real Asset portfolio returned (10.47%) and outperformed the Bloomberg Commodity Index by 132 basis points for the fiscal year. Although the portfolio outperformed the benchmark, commodities was a challenging space for investors in Fiscal Year 2015. Most commodities exhibited poor performance due to headwinds including slowing global demand and a strong U.S. dollar. The Fund has maintained minimal exposure to commodities in recent years, with the asset class representing 0.76% of total net assets as of June 30, 2015.
- During Fiscal Year 2015, the Pension Fund committed $230 million to two investments in the real asset portfolio.

SUMMARY OF CALENDAR YEAR 2015

Returns for Calendar Year 2015 (Unaudited)	CY15	Benchmark
Total Pension Fund	0.64	(0.76)
Total Pension Fund excluding Police and Fire Mortgages	0.63	(0.76)
Domestic Equity with Cash, Hedges, Miscellaneous	(0.45)	1.01
International Equity with Cash, Hedges, Miscellaneous	(6.63)	(6.89)
Developed Markets Equity	(2.33)	(2.93)
Emerging Markets Equity	(16.30)	(14.72)
Fixed Income with Cash, Hedges, Miscellaneous	0.12	(2.48)
Investment Grade	0.20	(0.72)
High Grade Credit	0.24	(0.77)
US Treasuries	1.61	0.84
Tips	(0.75)	(1.72)
High Yield	0.05	(4.47)
Alternative Investments	6.00	
Private Equity[(2)]	15.63	5.92
Real Estate[(2)]	12.82	13.86
Hedge Funds[(2)]	(0.03)	0.54
Real Assets/Commodities	(10.20)	(24.66)
Cash Equivalents	1.02	0.05

[(1)] Benchmark is a weighted composite of index returns in each asset class.
[(2)] Performance based on most recent values available

- The net asset value of the Pension Fund was $71.7 billion at December 31, 2015.

- The Total Pension Fund excluding Police and Fire Mortgages outperformed the Total Fund Benchmark by 140 basis point for Calendar Year 2015.

- The Domestic Equity portfolio returned (0.45%) compared with an increase of 1.01% for the S&P 1500 Index. The equity markets faced a number of headwinds in 2015: significantly weaker commodity prices, led by a 60% plunge in oil prices, an unexpected devaluation of the Chinese Yuan and increasing concerns of slower growth in China, and a stronger dollar which impacted revenues and earnings for U.S. multinationals. Meanwhile, the U.S. labor market continued its recovery, which led the Federal Reserve to raise rates by 25 basis points for the first time in 9 years. Given this backdrop, more than half of the industry sectors produced negative returns for the year. Despite an underweight to the energy sector, the overall portfolio proved to be closely correlated to oil prices. The biggest drag on relative performance was the industrials sector with the significant decline in commodity prices negatively impacting performance. The portfolio did benefit from positive stock selection in the information technology sector.

- The International Equity portfolio returned (6.63%), outperforming its benchmark by 26 basis points. The developed markets equity portfolio outperformed its benchmark by 60 basis points, returning (2.33%). The outperformance was driven by an underweight to Canada and other commodity exporting countries, as well as to Switzerland and France. From a sector perspective, the decision to underweight energy related stocks produced the largest positive contribution to return of 62 basis points while the underweight in financials, specifically banks in Europe, produced the second best contribution to the return for the portfolio. Emerging markets continued to struggle during Calendar Year 2015 as China's slowing economy and monetary policy "surprises" roiled the markets and uncertainty over world central bank policies contributed to market uncertainty and volatility. The emerging market equity portfolio underperformed its benchmark by 158 basis points, returning (16.30%). Positive contributions to performance came from underweight positions in China, Taiwan and South Africa. The major detractors to performance were the underweight in India, and overweights in Thailand and Argentina.

- The Fixed Income portfolio outperformed the blended custom benchmark by 260 basis points. All segments of the portfolio outperformed their respective benchmarks. The High Yield portfolio returned 0.05%, outperforming the Barclays High Yield Index by 452 basis points. The dramatic outperformance in High Yield was driven primarily by the Global Diversified Credit portfolio. The Investment Grade portfolio outperformed its index by 92 basis points as each segment of the portfolio outperformed its respective benchmark.

- Private Equity was the best performing segment of the entire investment portfolio, net of all fees, as investments benefited from an attractive exit environment allowing funds to sell companies at attractive valuations. Real Estate had a strong year on an absolute basis as residential and commercial real estate values continue to rebound from the lows of the financial crisis. The Hedge Fund portfolio underperformed the benchmark as both credit oriented and equity oriented funds struggled to produce positive returns for the year. The Real Assets and Commodities portfolio was negatively impacted by declining commodity prices, in particular oil. Private Real Asset strategies generally outperformed those tied to the performance of the major commodities indices.

CASH MANAGEMENT FUND

	Returns (1) (%)		
	FY15	3 Years	5 Years
Cash Mgt. Fund – State Participants	0.13	0.13	0.17
Cash Mgt. Fund – Non-State Participants	0.06	0.06	0.08
U.S. Treasury Bills (3 month)	0.02	0.04	0.04

(1) Returns represent the annual rate for the period based on the average daily rate of return.

- The State of New Jersey Cash Management Fund has consistently beaten its benchmark over the trailing five year period. The Federal Reserve's continuing policy of maintaining lower short term interest rates has contributed to relatively flat returns for participants in recent years.

- The net assets of the Cash Management Fund of $11.9 billion increased by $240 million or 2% during the fiscal year primarily due to net participant contributions, which are at the discretion of the participants.

CASH MANAGEMENT PORTFOLIO (1) DETAIL AS OF JUNE 30, 2015

	Percentage	June 30, 2015 (000'S)
US TREASURY NOTES	42.93%	$5,096,484
COMMERCIAL PAPER	38.53%	4,574,013
CERTIFICATES OF DEPOSIT	12.35%	1,465,914
GOVT OF CANADA COMMERICAL PAPER	2.27%	269,979
SHORT TERM INVESTMENT FUND	2.02%	239,665
CORPORATE BONDS	1.17%	138,713
GOVERNMENT AGENCY OBLIGATIONS	0.73%	86,150
TOTAL	100.00%	$11,870,918

(1)Excludes receivables and payables

COSTS OF MANAGEMENT

All investment returns for the Pension Fund and the various asset classes are reported net of external fees and costs associated with investing the assets. The Division strives to minimize cost while at the same time investing the assets in a manner which will generate attractive risk adjusted returns. Where appropriate, the Division manages assets internally. As of June 30, 2015, approximately 72% of the net assets of $88 billion of all funds under Division management are managed by in-house staff at very low cost. When the Division believes it is in the best interest of Plan participants, it utilizes the services of external fund managers for strategies in which the Division does not possess the resources or expertise.

The Council is committed to being, and has been recognized as, an industry leader in transparency. As part of this commitment, the Council has expanded the information provided with regard to fees and expenses and performance allocation this year to include information at the fund-of-fund manager level, as well as for the underlying funds, in situations where fund-of-fund structures are used. This is a change from prior years.

There is no standard for the reporting of investment fees and expenses, including performance allocations. As a result, comparisons to other pension funds may not be meaningful. Similarly, as a result of the introduction of an expanded format for Fiscal Year 2015, as well as certain changes in methodology, comparisons to prior Council reports are not meaningful.

In total, costs to manage the portfolios were $415.6 million or 0.47% of assets under management for the fiscal year.

The Division paid $373 million in management fees and expenses in Fiscal Year 2015 to the alternative investment, opportunistic and global diversified credit fund managers of $24.6 billion of assets on June 30, 2015. The Division paid an additional $26.7 million to the advisers of a portion of its emerging market equity and high-yield fixed income portfolios in Fiscal Year 2015. Investments in these portfolios totaled $4.3 billion on June 30, 2015.

Operating expenses for staff compensation, overhead and equipment were $11 million for the fiscal year, and represent about 2.4% of fees and expenses. Remaining expenses, which include fees for consulting services, custodial banking and legal services, are included in the chart below.

	Fiscal Year Ended June 30, 2015
Fees & Expenses[1]:	
Hedge Funds	$141.7
Private Equity Funds	126.6
Real Estate Funds	47.8
Real Asset Funds	21.9
Opportunistic Funds	3.8
Global Diversified Credit Funds	31.3
High-Yield and Emerging Market Advisers	26.7
Division Operations	11.0
Consulting Fees	2.3
Legal Fees	1.4
Custodial Banking Fees	1.2
Total	**$415.6 million**
Total net assets under management	**$88.1 billion**
Cost as a percentage of assets under management	0.47%
Cost per each $100 under management	**47 cents**

Total does not equal sum of components due to rounding

PERFORMANCE ALLOCATIONS

Investment fund managers may earn a performance allocation or share of the investment profits, also known as carried interest, if certain conditions and objectives are met. When negotiating investment agreements, the Division is committed to negotiating preferential terms that incentivize strong performance, provide the Division with meaningful governance rights, and ensure the alignment of interests. While there is no standard for reporting performance allocations among public funds, as part of its effort to be fully transparent, the Council includes in its annual report information about the performance allocation earned by the managers of the funds in which the Division invests.

In Fiscal Year 2015, alternative investments, in particular Private Equity and Real Estate, were the primary drivers of the Pension Fund's performance. In total, these investments, including global diversified credit and opportunistic, returned 7.89% on a net basis, in line with the actuarial assumption rate of 7.90%. In aggregate, these investments generated $2.5 billion of estimated gross profits and $1.8 billion of net profits for the Pension Fund. The Alternative Investment portfolio, including global diversified credit and opportunistic, outperformed the non-Alternative Investment portfolio by 559 basis points for the year. Each segment of the portfolio, with the exception of Real Assets, outperformed the Total Fund return of 4.16%. Based on this strong performance, the fund managers of the alternative investment, opportunistic and global diversified credit funds received $328.4 million of performance allocations for the fiscal year.

[1] For Hedge, Private Equity, Real Estate, Real Asset, Opportunistic and Global Diversified Credit Funds fees and expenses are based on information provided by the manager. Where a fund-of-funds structure is utilized, the fees and expenses are captured at both the fund-of-fund manager level, as well as for the underlying funds.

The table below summarizes the returns, profit, fees and expenses, and profit allocation for the alternative investment and global diversified credit categories for Fiscal Year 2015[1]. It should be noted that in aggregate, the management fees and profit allocations of 1.47% and 12.99%, respectively, were significantly below the frequently quoted industry standard of 2% management fee and 20% performance allocation/carried interest.

($ in millions)

					Fees & Expenses		Profit Allocation		
	Estimated Average Gross Assets	Estimated Gross Profit	Estimated Net Profit	FY15 Net Return	Amount	As % of Assets	Amount	As % of Assets	As % of Profit
Private Equity	$ 7,241.1	$ 1,310.7	$ 1,058.5	17.71%	$ 126.6	1.75%	$ 125.7	1.74%	9.59%
Real Estate	4,130.6	570.5	472.5	12.92%	47.8	1.16%	50.3	1.22%	8.82%
Real Assets [2]	1,797.8	(195.4)	(221.0)	(10.47%)	21.9	1.22%	3.6	0.20%	N/A
Opportunistic [3]	162.7	19.6	15.8	11.42%	3.8	2.31%	0.0	0.00%	N/A
Hedge Funds	9,535.8	659.7	389.8	4.21%	141.7	1.49%	128.2	1.34%	19.43%
Global Diversified Credit	2,423.4	162.1	110.2	4.74%	31.3	1.29%	20.6	0.85%	12.71%
Total	$ 25,291.5	$ 2,527.1	$ 1,825.8	7.89%	$ 373.0	1.47%	$ 328.4	1.30%	12.99%

COMMISSIONS

The Division incurred broker/dealer commission costs totaling $14.2 million for Fiscal Year 2015. The brokerage commission total includes $3.9 million in “soft dollar” commissions used to procure systems and services critical to the Division’s trading and research.

The Division purchases and sells certain investments with no involvement by a broker/dealer, including commercial paper, certificates of deposit, foreign currency transactions and investments in alternative investment funds by transacting directly with the issuer, partnership or fund; as a result, no direct commissions are paid.

[1] For Hedge, Private Equity, Real Estate, Real Asset, Opportunistic and Global Diversified Credit Funds, fees and expenses and profit allocation are based on information provided by the manager. Where a fund-of-funds structure is utilized, the fees and expenses are captured at both the fund-of-fund manager level, as well as for the underlying funds. Profit Allocation is reported on a “paid” basis, i.e. based on what the fund manager actually received during the fiscal year.

[2] While overall performance for the Real Asset portfolio was negative for the fiscal year, certain managers earned profit allocation due to realizations and positive performance.

[3] The management fees and expenses for Opportunistic Investments was above 2% of assets for the fiscal year due to organizational expenses paid related to a new account.