2021 ANNUAL REPORT

NEW JERSEY STATE INVESTMENT COUNCIL

FOR FISCAL YEAR 2021

TABLE OF CONTENTS

LETTER FROM THE CHAIR

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

January 26, 2022

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

As Chair of the State Investment Council, it is my pleasure to present the Fiscal Year 2021 Annual Report on behalf of the Council and the New Jersey Division of Investment.

As the world continued to struggle through another year of the COVID-19 pandemic, we witnessed our medical communities make remarkable progress in the effort to find solutions to the global health crisis. Newly developed vaccines played an important role not only in saving lives, but also in allowing global economies to move forward despite medical uncertainties.

Steps taken by central banks around the globe during Fiscal Year 2021 enabled both economies and equity markets to recover and grow. At the same time, fixed income markets faced a difficult environment with extremely low interest rates.

The Pension Fund returned +28.6% (net of fees) for Fiscal Year 2021, outperforming its benchmark and significantly exceeding the long-term assumed rate of return. All asset classes other than U.S. Treasuries were positive contributors, with several delivering stellar double digit returns. With strong performance from both public and private asset classes, the Pension Fund benefited from its allocations to domestic and international equities, private equity, real estate, real assets, and risk mitigation strategies. Given the low interest rate environment, it was not surprising to see fixed income allocations run against performance headwinds. In spite of this, the overall fixed income portfolio produced a slightly positive return, with the high-yield component of the fixed income portfolio generating significantly higher returns.

As of June 30, 2021, the net asset value of the Pension Fund was $95.7 billion, compared to $76.7 billion as of June 30, 2020. Strong returns accompanied by the state making above and beyond the full pension contribution for the first time in 25 years, enabled the Pension Fund to reach this level. A new asset allocation implemented during Fiscal Year 2020 was also a contributing factor in capturing upside performance and enabling the Pension Fund to end Fiscal Year 2021 in a stronger position.

The Division must be commended for its hard work under difficult circumstances in achieving the strong fiscal year results. I specifically acknowledge the Division's efforts to minimize fees and expenses in the alternative investment program, resulting in a $14 million decrease from Fiscal Year 2020.

Under the supervision of Acting Director Shoaib Khan, who replaced former Director Corey Amon towards the end of Fiscal Year 2021, the Division has also continued to make progress on several important initiatives discussed in my letter introducing last year's report. The Division has been working diligently to onboard investment technology procured during Fiscal Year 2021 and anticipates identifying other technological improvements to create greater efficiency and strengthen processes. As part of this effort to improve efficiency, the Division added Tisha Turner as its first Chief Operating Investment Officer. In addition to this hiring, the Division continues to integrate recently hired team members and is looking to add further talent to bolster staffing as needed and where possible.

The Division has also made progress in furthering diversity among its investment consultants, investment advisers, and alternative investment fund managers. Division staff has incorporated disclosures regarding staffing and ownership as part of its due diligence and evaluation process, with the objective of creating greater opportunities for Minority and Women-Owned Business Enterprises (MWBEs).

Finally, the Division has pressed ahead with implementing the Council's Environmental, Social and Governance (ESG) policy through greater integration and evaluation of the risks related to climate change and other ESG-related issues in its investment decision making process. The Division continues to seek more complete disclosure regarding these risks, thereby allowing for a better understanding of risk and a more robust dialogue with the Division's investment partners. To bolster these efforts and support transparency, the Division added its ESG policies, principles and practices, along with its proxy voting records, to its website.

As always, I remain thankful to my fellow Council members (including Leonard Carr, who joined us last February), the Treasurer's Office and the Governor's Office for all their support and commitment during another challenging year. The Governor's Office's continued commitment to funding the State contribution to the Pension Fund is especially appreciated.

On a closing note, while we continue to grapple with challenges related to COVID-19, new economic challenges have emerged on the horizon. As we look forward, we will need to navigate equity markets fraught with rich valuations, rising inflation, and constantly changing central bank and governmental policies throughout the world. That being said, we remain steadfast in our commitment to the Pension Fund's beneficiaries, and we are confident that the Division is well-positioned to carry out its mission of achieving the best possible returns at an acceptable level of risk using the highest fiduciary standards.

Respectfully,

Deepak D. Raj

Deepak D. Raj, Chair

INTRODUCTION TO THE COUNCIL AND N.J. DIVISION OF INVESTMENT

DIVISION STAFF[1]

Acting Director:
Shoaib Khan

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.nj.gov/treasury/doinvest under the State Investment Council tab.

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COUNCIL MEMBERSHIP:

Council Chair:
Deepak D. Raj
Founder, Raj Associates

Council Vice-Chair:
Adam Liebtag
New Jersey State AFL-CIO Nominee

Council Members:
Theodore R. Aronson
Partner – AJO Vista

Wasseem Boraie
Principal, Boraie Development LLC

Thomas Bruno, Jr.
Public Employees' Retirement System Designee

Leonard J. Carr
Managing Director, PDT Partners, LLC

Michael Cleary
New Jersey State AFL-CIO Nominee

Vaughn E. Crowe
Managing Partner, Newark Venture Partners

Andrew Michael Greaney
State Troopers Fraternal Association Nominee

James E. Hanson II
CEO, Hampshire Real Estate Company

Timothy McGuckin
New Jersey Education Association Nominee

Samir Pandiri
President, Broadridge International

Eric E. Richard
Senate President and Assembly Speaker Joint Nominee

Jerome M. St. John, J.A.D. (retired)
Retired Judges Association of New Jersey, designated by Chief Justice of the New Jersey Supreme Court

Edward Yarusinsky
Teachers' Pension and Annuity Fund Designee

[1] Division Director Corey Amon resigned effective June 4, 2021. Deputy Director Shoaib Khan currently serves as Acting Director.

COUNCIL MEMBERSHIP

The Council is comprised of sixteen (16) members pursuant to N.J.S.A. 52:18A-83[1]. Nine members are appointed by the Governor for five-year terms and are drawn traditionally from the professional 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 the four members are appointed for five-year terms from nominees submitted by the New Jersey State AFL-CIO. One of the four members is appointed for a three-year term from nominees submitted by the New Jersey Education Association. The fourth member 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, finance or actuarial science or by actual employment in those fields.

Two members, representing the Public Employees' Retirement System (PERS), and the Teachers' Pension and Annuity Fund (TPAF), are designated from members of the respective pension system's board of trustees and serve three-year terms. One member is designated by the Chief Justice of the New Jersey Supreme Court from members of the Retired Judges Association of New Jersey and serves a three-year term.

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

THE DIVISION OF INVESTMENT

The Division, under the Council's supervision, is the 24th largest U.S. pension fund manager[2]. The Pension Fund supports the retirement plans of over 800,000 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 47% of the members are still working and contributing to the pension plans while 44% are retired. The remaining 9% represent inactive members who are not currently contributing to the pension plans. Pension Fund assets are primarily managed through three common trust funds ("Common Pension Funds"): Common Pension Fund A, Common Pension Fund D and Common Pension Fund E. Common Pension Fund A and Common Pension Fund E invest in alternative investment funds, while Common Pension Fund D invests in public securities. Common Pension Fund A invests assets of the Judicial Retirement System, the Public Employees' Retirement System, the State Police Retirement System, and the Teachers' Pension and Annuity Fund, while Common Pension Fund D and Common Pension Fund E invest assets of those four funds plus Police & Firemen's Retirement System assets.

The net asset value of the Pension Fund assets managed by the Division was $95.7 billion as of June 30, 2021 (unaudited) compared to $76.7 billion as of June 30, 2020. The Pension Fund investment return[3] for Fiscal Year 2021 was 28.63% (net of all fees) and approximately $11.8 billion was paid to plan beneficiaries. The Pension Fund received contributions of $4.7 billion from the State (including net lottery proceeds and receivables of $1.1 million), $2.3 billion from local employers, and $2.2 billion from employees.

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 Plan (a 457 plan).

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[1] As of December 31, 2021, there were 15 Council members, with 1 vacant position.
[2] Measured by assets as of September 30, 2020. Reported by P&I on February 10, 2021.
[3] Pension Fund returns cited throughout this Annual Report exclude the Police and Fire Mortgage Program. The mortgages are considered a receivable under GASB 72. All investment returns are reported net of all fees.

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 investment, reinvestment, 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 qualified candidates submitted by the Council.

On July 3, 2018, the Governor signed P.L. 2018, c. 55 (the "PFRS Act") which, among other changes, transferred certain investment authority and duties relating to the assets of the Police and Firemen's Retirement System ("PFRS") to a newly constituted PFRS Board of Trustees (the "PFRS Board"). The Division continues to work with the PFRS Board and PFRS staff to implement the provisions of the PFRS Act.

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 investment, reinvestment, sale or exchange transactions (N.J.S.A. 52:18A-91).

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. After the public comment period, each proposal is returned to the Council for adoption, along with any comments received. The Council readopted its regulations in 2021, with amendments to streamline the rules in the aggregate and further strengthen certain investment guidelines. The amended and readopted regulations were published in the New Jersey Register and became effective on November 1, 2021. The regulations may be found in the New Jersey Administrative Code (N.J.A.C. 17:16), and are available for viewing online at http://www.lexisnexis.com/njoal.

COUNCIL ORGANIZATIONAL CHANGES DURING FISCAL YEAR 2021

The Council underwent the following organizational changes during Fiscal Year 2021:

- The Council re-elected Deepak Raj as Chair and Adam Liebtag as Vice-Chair for one-year terms.
- Leonard Carr was appointed to the Council on February 19, 2021.
- The Council established a new Governance and Operations Committee on March 24, 2021 to study, investigate, report and make recommendations with respect to matters of Council governance and operations of the Division, including staffing and procurement.

LEGISLATIVE UPDATE

PROHIBITED INVESTMENTS

The Division maintains a list of companies ineligible for investment under three State laws: a Sudan divestiture law (P.L. 2005, c. 162), an Iran divestiture law (P.L. 2007, c. 250), and a law requiring divestment of companies boycotting Israel (P.L. 2016, c. 24). The Division uses an independent research firm to assist it in complying with the provisions of the statutes. Reports are filed with the Legislature in accordance with each of the statutes.

Divestitures pose three primary fiscal challenges to the Pension Fund: 1) the requirement of the identification and sale of holdings on a timetable that may not consider market conditions; 2) the impact on risk and return for the Pension Fund; and 3) the reduction of the investment universe available to the Pension Fund. Collectively, the divestiture laws reduced the market capitalization of the investable universe as of June 30, 2021 by approximately 2.23% for the international developed markets and 2.56% for the international emerging markets relative to their 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." "MacBride Principles" refers 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.

DIRECTOR'S SALARY

In June 2021, the Legislature enacted P.L. 2021, c. 138, removing the legislative cap on the salary of the Director of the Division and instead authorizing the State Treasurer to determine such salary.

NET ASSETS UNDER MANAGEMENT

NET ASSETS IN MILLIONS ($)	June 30, 2021	June 30, 2020
PENSION FUND[1]	95,713	76,717
The Pension Fund includes pension assets contributed by participants, Lottery contributions, and State and local employers for participants in seven statewide retirement plans		
Public Employees' Retirement System	34,436	27,582
Police & Firemen's Retirement System	32,269	26,034
Teachers' Pension & Annuity Fund	26,675	21,248
State Police Retirement System	2,141	1,706
Judicial Retirement System	187	141
Prison Officers' Pension Fund	4	5
Consolidated Police & Firemen's Pension Fund	1	1

*Total may not equal sum of components due to rounding

CASH MANAGEMENT FUND[2]	29,799	18,480
This fund includes the cash balances of State government funds and other non-state government entities (counties, municipalities, school districts and the agencies or authorities created by any of these).		

SUPPLEMENTAL ANNUITY COLLECTIVE TRUST	312	226
This fund includes voluntary investments by employees for retirement income separate from, and in addition to, their basic pension plan		

[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. Year over year change in net assets is impacted by a variety of factors including performance, plan funding and plan design.
[2] The total for the Cash Management Fund includes $6 billion on June 30, 2021 ($5 billion on June 30, 2020) 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.
**The Division managed a separate account totaling approximately $6.2 billion on behalf of the State of New Jersey as of June 30, 2021.

NJBEST FUND

The Division manages a portion of the State's tax-advantaged 529 college savings program. On June 30, 2021, the Division-managed portion of this fund had a market value of $183 million compared with $210 million on June 30, 2020. The year-over-year decline in market value is attributable to net redemptions.

DEFERRED COMPENSATION PLAN

The Division manages several funds that are included in the New Jersey State Employees Deferred Compensation Plan. Prudential Retirement, a business of Prudential Financial, serves as the third-party administrator for this plan. The Division manages the Equity Fund and Small Capitalization Equity Fund. As of June 30, 2021, these funds had a combined market value of $785 million compared with $549 million as of June 30, 2020. The year-over-year increase in market value is primarily attributable to market performance.

TRUSTEES FOR THE SUPPORT OF PUBLIC SCHOOLS 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. As of June 30, 2021, the portfolio had a market value of $159 million compared with $160 million as of June 30, 2020.

20-YEAR PENSION FUND FINANCIAL SUMMARY

FISCAL YEAR	NET ASSETS ($ billions)	RATE OF RETURN % (net of fees)	GROSS PENSION PAYMENTS ($ billions)
2021	95.7	28.63	12.0
2020	76.7	1.21	11.7
2019	80.0	6.27	11.2
2018	78.2	9.06	10.8
2017	76.0	13.07	10.4
5-YEAR ANNUALIZED RETURN		**11.27**	
2016	72.9	(0.93)	10.0
2015	79.0	4.09	9.6
2014	81.2	16.79	9.1
2013	74.4	11.72	8.7
2012	70.1	2.47	8.3
10-YEAR ANNUALIZED RETURN		**8.93**	
2011	73.7	17.97	7.7
2010	66.8	13.34	7.0
2009	62.9	(15.49)	6.6
2008	78.6	(2.61)	6.1
2007	82.5	17.14	5.6
15-YEAR ANNUALIZED RETURN		**7.68**	
2006	73.1	9.79	5.2
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
20-YEAR ANNUALIZED RETURN		**7.05**	

During Fiscal Year 2021, net transfers of approximately $3.87 billion were made from the Common Pension Funds to the following pension plans: $4.37 million to the Judicial Retirement System, $810.2 million to the Police & Firemen's Retirement System, $1,395.86 million to the Public Employees' Retirement System, $58.6 million to the State Police Retirement System and $1,596.97 million to the Teachers' Pension & Annuity Fund. Included within the transfers are contributions totaling $1,164.0 million to the investment account of Common Pension Fund L in accordance with the Lottery Enterprise Contribution Act (P.L. 2017, c. 98) on behalf of the following pension plans: $13.97 million for the Police & Firemen's Retirement System, $244.67 million for the Public Employees' Retirement System, and $905.36 million for the Teachers' Pension & Annuity Fund. Net transfers are the difference between total contributions to the pensions plans and liabilities (primarily benefit payments) paid by the pension plans.

PENSION FUND ASSET ALLOCATION

The Council reviews, approves, and adopts an investment plan that includes a targeted asset allocation, as well as allowable ranges for asset classes. The Council's key objective in setting the targeted asset allocation is to provide for a well-diversified portfolio designed to achieve the best possible return at an acceptable level of risk utilizing the highest fiduciary standards.

ACTUAL ALLOCATION AS OF JUNE 30, 2021 VS. TARGETED ASSET ALLOCATION

	Actual Allocation %	Target %	Difference %	Allocation ($ millions)
U.S. Equity	27.27	27.0	0.27	26,100.25
Non-U.S. Developed Markets Equity	13.23	13.5	(0.27)	12,662.86
Emerging Markets Equity	5.84	5.5	0.34	5,588.24
Equity Oriented Hedge Funds	0.01	0.0	0.01	12.63
Private Equity	11.99	13.0	(1.01)	11,478.15
GLOBAL GROWTH	58.34	59.0	(0.66)	55,842.13
Real Estate	5.62	8.0	(2.38)	5,375.84
Real Assets	2.20	3.0	(0.80)	2,101.22
REAL RETURN	7.82	11.0	(3.18)	7,477.06
High Yield	2.22	2.0	0.22	2,122.47
Private Credit	6.43	8.0	(1.57)	6,154.21
Investment Grade Credit	7.81	8.0	(0.19)	7,471.74
INCOME	16.46	18.0	(1.54)	5,748.42
Cash Equivalents	6.25	4.0	2.25	5,986.33
U.S. Treasuries	6.10	5.0	1.10	5,836.70
Risk Mitigation Strategies	2.87	3.0	(0.13)	2,745.47
DEFENSIVE	15.22	12.0	3.22	14,568.50
Opportunistic Private Equity	0.61	0.0	0.61	582.91
Other	0.23	0.0	0.23	222.33
Police & Fire Retirement System Mortgage Program[1]	1.33	0.0	1.33	1,272.11
TOTAL PENSION FUND	100	100	0	95,713.43

Total may not equal sum of components due to rounding

[1] For financial reporting, the Police & Fire Mortgage Program is considered a receivable under GASB 72. Only the Police & Firemen's Retirement System has exposure to the program.

As part of a periodic review process, the Council adopted a new investment plan including a new targeted asset allocation and allowable ranges for asset classes during its July 2020 meeting. The new investment plan became effective on October 1, 2020.

The new investment plan included modest adjustments to prior targeted allocations in order to reflect a changing opportunity set. Consistent with the new investment plan, during Fiscal Year 2021, greater effort was expended to increase allocations to private market assets while seeking to reduce allocations to public U.S. and Emerging Market Equity. Also in line with new targeted allocations, exposure to Investment Grade Credit was reduced during the year.

Actual allocations as of June 30, 2021 as compared to actual allocations as of the same date in 2020 reflect an increase of 0.94% to Private Equity and 0.88% to High Yield. During the same time frame, there was a reduction of 1.08% to Investment Grade Credit, 0.55% to Emerging Markets Equity, 0.49% to Cash Equivalents and 0.10% to U.S. Equity. Allocation to Real Assets remained unchanged, while Real Estate saw a reduction of 0.64%.

Actual allocations as of June 30, 2021 as compared to target allocations highlight continuing underweight exposure to private market assets. More specifically, Real Estate allocation was below its targeted allocation by 2.38%, Private Credit by 1.57%, Private Equity by 1.01% and Real Assets by 0.80%. Recognizing that implementing meaningful changes to any long-term asset allocation plan takes time, it should be noted that several factors determine actual allocations. In order to allow portfolios to capture changing opportunity sets while dispersing risk over time, the Division seeks vintage diversification for portfolios consisting of private market assets. Additionally, several new investments have been vetted and approved and are awaiting legal closings. Lastly, in many private market asset classes, including private equity, private credit, real estate and real assets, it is industry practice for capital to be called and deployed over a period of several years after commitments being made. As such, actual allocations may not necessarily reflect new capital commitments until capital is called.

As of June 30, 2021, allocation to Cash Equivalents was overweight by 2.25% while U.S. Treasuries were overweight by 1.10% as compared to targeted allocations. The rationale for the overweight positioning was partly due to the Pension Fund being fully invested in public equities at a time when valuations may be quite rich. Both allocations were reduced after fiscal year end.

Looking ahead, the Division's continues to strive towards increasing allocations to private market asset classes while seeking to align other asset classes to be consistent with targeted asset allocations.

TARGETED ASSET ALLOCATION AND ALLOWABLE RANGES (effective October 1, 2020)

Asset Class	Target %	Allowable Ranges[1]
U.S. Equity	27.0%	22-32%
Non-U.S. Developed Market Equity	13.5%	11-16%
Emerging Market Equity	5.5%	3-8%
Private Equity	13.0%	10-16%
GLOBAL GROWTH	59.0%	
Real Estate	8.0%	5-11%
Real Assets	3.0%	1-5%
REAL RETURN	11.0%	
High Yield	2.0%	1–5%
Private Credit	8.0%	5-11%
Investment Grade Credit	8.0%	5-11%
INCOME	18.0%	
Cash Equivalents	4.0%	3-7%
US Treasuries	5.0%	3-8%
Risk Mitigation Strategies	3.0%	1-6%
DEFENSIVE	12.0%	

[1] Investments are subject to limitations as set forth in the Council Regulations

MARKET OVERVIEW FOR FISCAL YEAR 2021

During Fiscal Year 2021, the global economic and financial markets continued to recover from the tumult experienced in the spring of 2020. U.S. equities outpaced the rise of the broader global market, as the largest implementation of fiscal and monetary stimulus in U.S. history helped to accelerate growth and further expand the re-opening of the economy. For the twelve months ending June 30, 2021, the MSCI USA Index returned +42.50% versus +39.26% for the global market gauge, the MSCI All Country World Index.

The strong returns of the major holdings within the technology sector allowed the U.S. market to outperform Non-U.S. Developed Markets equities by +8.90%, with the MSCI EAFE + Canada Index advancing +33.60% for the fiscal year period.

U.S. equities narrowly outperformed the Emerging Markets by +1.60%. Although buffeted by rising inflation levels and interest rates, and the uncertainty over China's regulatory and economic policy actions, the MSCI Emerging Markets Index returned an impressive +40.90% for the fiscal year period.

Fixed income investments had variable performance, depending on the duration and credit quality of the underlying securities. The Bloomberg Barclays US Aggregate Bond Index, a broad measure of the U.S. fixed income market, was -0.33% during Fiscal Year 2021. Within fixed income, U.S. Treasuries underperformed due to their longer duration and the rising interest rate environment. The Bloomberg Barclays U.S. Credit Index, a broad measure of investment grade (IG) corporate bonds returned +2.99% while the Bloomberg High Yield Index returned +15.37%. Both investment grade and high yield bonds performed well as a result of credit spread compression as credit markets continued their recovery, post COVID-19.

The Cambridge Associates Private Equity and Venture Capital Index was up +61.27% during Fiscal Year 2021, its best performance since 2000, and second best since inception in 1981. Fiscal Year 2021 marked the 12th consecutive year of positive gains for the asset class, which has been up every year since the global financial crisis. Gains in Fiscal Year 2021 were broad-based across strategies, sizes and geographies. Venture Capital was the top performing strategy, up +82.18%, while Buyouts, which make up around two-thirds of the Index, was the laggard, up +51.66%. The United States (approximately 63% of the Index), and Europe (approximately 21% of the Index), were also the top two performers by geography, up +65.97% and +61.52% respectively.

The Cambridge Associates Private Credit Index was up +22.01% during Fiscal Year 2021. Below investment grade and non-rated credits were initially slower to bounce back from the severe dislocations that occurred in March and April of 2020, but eventually rebounded as the broader credit markets healed. Private Credit also benefited from financial and structural leverage as markets rose and, owing to their generally low durations, avoided the challenges faced by traditional fixed income as rates rose.

Real Estate marked its twelfth consecutive fiscal year of positive returns, demonstrating the resiliency of assets that produce stable, long-term income. The NCREIF Open End Diversified Core Equity (ODCE) index, a broad measure of the private real estate market, generated a +1.47% return. Demonstrating the benefits of property diversification, the income and appreciation from industrial and multifamily assets more than offset the severe impact of the COVID-19 pandemic on hotel and retail properties. The industrial sector, which comprises nearly one-quarter of ODCE, has been the best performing property type in the index since the Global Financial Crisis as companies streamline their logistics and distribution networks to satisfy both business and consumer demand. This trend accelerated during the pandemic as consumers migrated to online retail. Returns in the office sector, which comprises nearly one-third of the index, remained positive as income offset declines in valuations.

The Cambridge Associates Natural Resources/Infrastructure Index returned +11.07% YTD as of June 30, 2021, its best performance since 2017. Gains for the first half of calendar year 2021 were broad-based across strategies and geographies. In the first half of calendar year 2021, the Upstream Energy & Royalties component of the Cambridge Associates Natural Resources Index was the top performing strategy, returning +21.31%, while Private Equity Energy, which makes up nearly half of the Index, returned +18.55%. The United States (approximately 63% of the Index) was the top performer by geography, returning +15.52% in the first half of calendar year 2021. Although a market-accepted common benchmark for private Infrastructure is currently lacking, Infrastructure continued to display return resiliency and outperformance across underlying sectors and geographies, with the digital infrastructure and renewables/energy transition/sustainability underlying sectors being areas of immense activity.

PENSION FUND RETURN VS. BENCHMARK

	Annualized Returns (%)					
	FY21	3 Years	5 Years	10 Years	20 Years	25 Years
Pension Fund	28.63	11.43	11.27	8.93	7.05	8.01
Pension Fund Benchmark[1]	26.28	12.08	11.6	8.69	6.71	*

[1]Benchmark is a weighted composite of index returns in each asset class
*Benchmark return not available for 25 year period

- During Fiscal Year 2021, the Pension Fund returned +28.63% versus a benchmark of +26.28%. The outperformance of +2.35% as compared to the benchmark was with a backdrop of strong performance in major equity markets, in addition to several other asset classes also performing well during the year.

- The Pension Fund benefited through positive performance in all asset classes except one (U.S. Treasuries) and experienced strong double digit returns from several asset classes. Private Equity was the best performing asset class returning +47.89%, closely followed by U.S. Equity, Emerging Markets Equity and Developed Markets Equity returning +44.31%, +43.55% and +34.13%, respectively.

- The remaining private market assets classes also delivered stellar performance with Real Assets returning +29.96%, followed by Private Credit, Real Estate and Risk Mitigation delivering +23.53%, +21.21% and +13.27%, respectively.

- The overall Fixed Income portfolio returned +0.90% with its components of High Yield, Investment Grade Credit and U.S. Treasuries returning +15.84%, +0.67% and -3.43%, respectively.

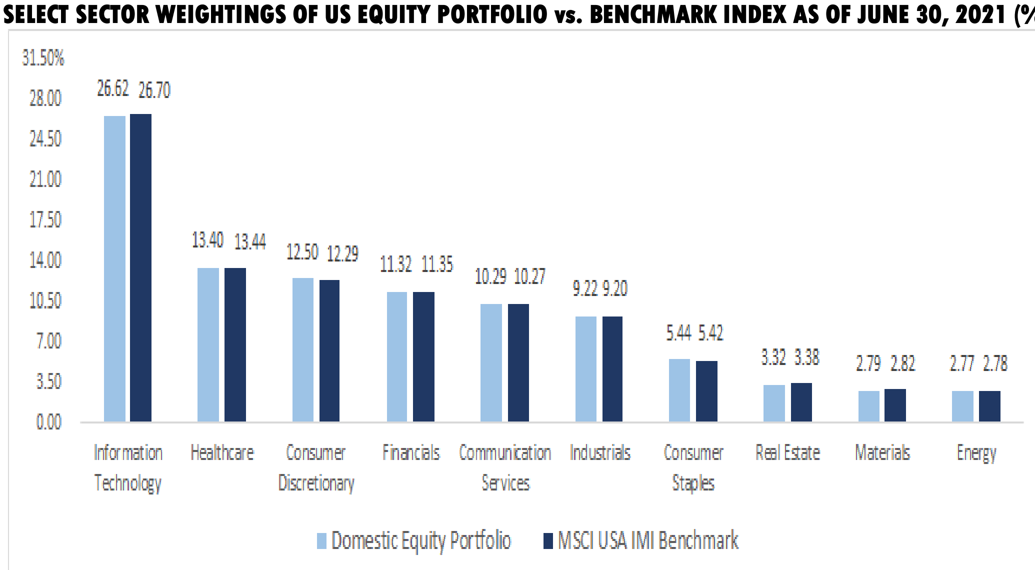
- Asset class performance relative to their respective benchmarks was strong with only four asset classes delivering performance below their benchmark and only slightly below at that.

U.S. EQUITY HIGHLIGHTS OF FISCAL YEAR 2021

	Annualized Returns (%)			
	FY21	3 Years	5 Years	10 Years
U.S. Equity Only (Ex Cash and hedges)	44.31	18.17	17.39	14.15
Policy Benchmark	44.43	19.12	17.97	14.91

- During Fiscal Year 2021, the U.S. Equity Portfolio returned +44.31% versus +44.43% for the MSCI USA IMI benchmark index.
- For the fiscal year, the strong absolute returns of the passively managed U.S. Equity Portfolio reflect a risk-on market sentiment, fueled by re-opening expectations, global economic progress and the massive fiscal and monetary response to the pandemic.
- A sharp change in market dynamics occurred early in the second-half of the fiscal year, fueled by highly targeted trading of certain securities. This turbulent period was the source of the U.S. Equity Portfolio's slight underperformance, as the ensuing market dislocations adversely impacted returns. Once market volatility subsided, the Portfolio resumed performing in-line with the benchmark.
- Consistent with the passive strategy, the U.S. Equity portfolio remained broadly diversified by economic sector, with over 1,600 publicly traded stocks as of June 30, 2021.

SELECT SECTOR WEIGHTINGS OF US EQUITY PORTFOLIO vs. BENCHMARK INDEX AS OF JUNE 30, 2021 (%)



The top 10 holdings (including related receivables) in the U.S. Equity portfolio represent 23.35% of the total U.S. Equity Portfolio.

TOP HOLDINGS IN U.S. EQUITY PORTFOLIO AS OF JUNE 30, 2021

Security Name	% of Portfolio
APPLE INC	5.20
MICROSOFT CORP	4.39
AMAZON.COM INC	3.33
ALPHABET INC CLASS C	3.28
FACEBOOK INC CLASS A	1.89
TESLA INC	1.18
NVIDIA CORP	1.12
JPMORGAN CHASE & CO	1.08
JOHNSON & JOHNSON	0.98
VISA INC CLASS A	0.90

INTERNATIONAL EQUITY HIGHLIGHTS OF FISCAL YEAR 2021

	Annualized Returns (%)			
	FY21	3 Years	5 Years	10 Years
International Equity with Cash, Hedges, Miscellaneous	37.54	10.15	11.46	5.02
Custom International Equity Markets Benchmark[1]	36.07	9.65	11.40	5.42
MSCI All Country World Index (ex U.S.)	35.72	9.38	11.08	5.45
Developed Markets Equity	34.13	9.18	10.88	5.74
Custom International Developed Markets Benchmark[1]	33.34	8.51	10.30	5.74
Emerging Markets Equity	43.55	11.90	12.62	4.05
Custom International Emerging Markets Benchmark[1]	40.98	11.47	13.17	4.63

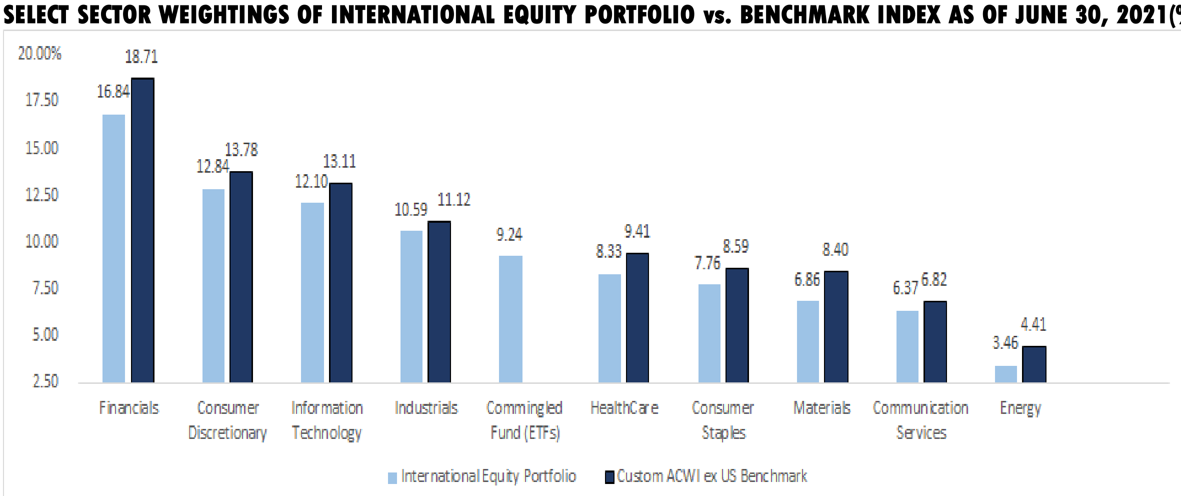
[1] Source: MSCI. Each benchmark is a custom index calculated by MSCI for, and as requested by the Division, based on screening criteria defined by the Division. These benchmarks exclude those securities deemed ineligible for investment under the State statutes governing investments in Iran, Sudan and companies that boycott Israel. 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 representationswith 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 theforegoing, 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 investments in approximately 2,700 publicly traded stocks across more than 50 countries in both the Developed Markets (DM) and Emerging Markets (EM). The DM portfolio is primarily managed passively, but includes allocations to actively managed small cap equities, as well as opportunistic Exchange Traded Fund (ETF) positions. The EM portfolio includes both passively and actively managed strategies, in addition to opportunistic ETF positions.

- During Fiscal Year 2021, the International Equity Portfolio returned +37.54% versus +36.07% for the benchmark index. The DM portfolio outperformed its benchmark by +0.79%, returning +34.13% versus +33.34% for its respective index, driven largely by favorable security selection within the actively managed small cap equity portfolio.

- The EM portfolio returned +43.55% versus +40.98% for the benchmark index. Strategy, style diversification, and security selection amongst active external advisers were the primary drivers of relative returns as each style portfolio outperformed both its respective style benchmark and the broader benchmark index.

SELECT SECTOR WEIGHTINGS OF INTERNATIONAL EQUITY PORTFOLIO vs. BENCHMARK INDEX AS OF JUNE 30, 2021(%)



The top 10 holdings (including related receivables) in the International Equity portfolio represent 15.71% of the portfolio.

TOP HOLDINGS IN INTERNATIONAL EQUITY PORTFOLIO AS OF JUNE 30, 2021

Security Name	% of Portfolio
ISHARES CORE MSCI EAFE ETF	3.90
TAIWAN SEMICONDUCTOR SP ADR	1.76
ISHARES MSCI TAIWAN ETF	1.71
ISHARES MSCI INDIA ETF	1.64
TENCENT HOLDINGS LTD	1.55
SAMSUNG ELECTRONICS CO LTD	1.30
NESTLE SA REG	1.15
ALIBABA GROUP HOLDING LTD	0.95
ASML HOLDING NV	0.91
ROCHE HOLDING AG GENUSSCHEIN	0.84

FIXED INCOME HIGHLIGHTS OF FISCAL YEAR 2021

	Annualized Returns (%)			
	FY21	3 Years	5 Years	10 Years
Fixed Income	0.90	6.47	4.15	*
Fixed Income Blended Benchmark	1.34	6.22	4.12	*
U.S. Treasuries	(3.43)	4.48	1.95	3.14
Custom Government Benchmark	(3.22)	4.66	2.23	2.68
Investment Grade Credit	0.67	6.97	4.12	5.15
Custom Investment Grade Credit Benchmark	0.99	6.70	4.02	4.37
High Yield	15.84	7.01	7.20	*
Custom High Yield Benchmark	15.34	7.42	7.47	*

*Benchmark return not available for 10 year period

- The Fixed Income portfolio is comprised of the U.S. Treasuries portfolio, the Investment Grade (IG) Credit portfolio, and the Public High Yield (HY) portfolio. The IG and HY portfolios are broadly diversified across economic sectors.

- During the fiscal year, the Fixed Income Portfolio returned +0.90% versus +1.34% for the benchmark. The key drivers of relative returns were the slight underperformance of the Investment Grade Credit as well as the U.S. Treasury portfolios coupled with an overweight allocation to the Treasury portfolio versus the blended benchmark.

- The U.S. Treasury and Investment Grade Credit portfolios both underperformed for the year due to being negatively impacted by the steepening of the treasury yield curve and the longer duration of both portfolios compared to their benchmark. Both portfolios still exhibit strong long-term performance.

- Public High Yield benefited via higher quality positioning as this segment of the market outperformed meaningfully in the first half of the fiscal year.

PRIVATE EQUITY HIGHLIGHTS OF FISCAL YEAR 2021

	Annualized Returns (%)			
	FY21	3 Years	5 Years	10 Years
Private Equity	47.89	17.97	16.95	15.45
Custom Cambridge Associates Blended Benchmark[1]	48.43	19.16	18.50	14.91

[1]Reported on a one-quarter lag. Effective October 1, 2019, the benchmark is Cambridge Associates Buyouts, Growth, Distressed for Control, Subordinated Debt and Credit Custom Benchmark.

- As of June 30, 2021, the Private Equity portfolio had a current market value of $11.5 billion and consisted of 127 commingled funds or separate account vehicles. The Division committed a total of $725 million to seven new Private Equity partnerships during Fiscal Year 2021, with Common Pension Fund E investing in six and Common Pension Fund A investing in one.

- The Private Equity portfolio is broadly diversified across strategy, sector, vintage year, manager, and geography. Private equity investment agreements specify the investment horizon, with a wide range of possible time periods. The typical investment horizon identified in private equity investment agreements is 10 to 12 years.

- During Fiscal Year 2021, the Private Equity portfolio returned +47.89%, underperforming the Custom Cambridge Associates Blended Benchmark by -0.54%. Key factors impacting relative returns included differences in vintage year exposure, an overweight to distressed, and an underweight to healthcare. Additionally, there are also timing and calculation methodology differences contributing to differences between the Private Equity portfolio and the Custom Cambridge Associates Blended Benchmark.

- As of June 30, 2021, the Total Value Multiple for the existing investments in the Private Equity portfolio was 1.69x. The Total Value Multiple measures the portfolio's current market value plus distributions, divided by contributions. The current value of the existing investments in the Private Equity portfolio plus all distributions received from existing investments through June 30, 2021, exceeds contributions from existing investments by $11.6 billion.

- The Private Equity portfolio continues to generate significant distributions. During Fiscal Year 2021, the Private Equity portfolio was net cash flow positive by $808 million, with distributions of $1.97 billion versus contributions of $1.17 billion. Since June 30, 2012, the Private Equity portfolio has been net cash flow positive every fiscal year, generating total net cash flow over the nine-year period of $4.84 billion.

PRIVATE CREDIT HIGHLIGHTS OF FISCAL YEAR 2021

	Annualized Returns (%)		
	FY21	3 Years	5 Years
Private Credit[1]	23.53	7.99	9.93
Custom Benchmark[2]	16.10	8.18	8.46

[1] Effective October 1, 2019, certain legacy hedge funds are included in the performance of Private Credit
[2] Reported on a one-month lag. Effective October 1, 2019, the Custom Benchmark is the Bloomberg Barclays U.S. Corporate High Yield Index plus 100 bps compounded monthly.

- As of June 30, 2021, the Private Credit portfolio had a market value of $6.2 billion and consisted of investments in 19 core private credit commingled funds or separate account vehicles and related GP equity stakes (together the "Private Credit Funds"), a portfolio of legacy hedge fund strategies, as well as a publicly traded Business Development Company ("BDC"). The BDC is generally comprised of direct lending investments. Common Pension Fund A committed €100 million to one new Private Credit Fund during Fiscal Year 2021.

- The Private Credit portfolio is diversified across strategy, sector, vintage year, manager, and geography. Private Credit investment agreements specify the investment horizon, with a wide range of possible time horizons and liquidation periods. The typical investment horizon identified in private credit investment agreements is 5 to 10 years.

- During Fiscal Year 2021, the Private Credit portfolio returned +23.53%, outperforming the Custom Benchmark by +7.43%. The Private Credit portfolio rebounded from the mark-to-market losses experienced during the prior fiscal year, benefiting from deploying significant dry powder during the depths of the COVID-induced credit dislocation. The GP equity stakes were also a notable contributor, while the legacy hedge funds once again lagged.

- As of June 30, 2021, the Total Value Multiple for the Private Credit Funds, which represent over 86% of total Private Credit market value, was 1.50x. The Total Value Multiple measures the portfolio's current market value plus distributions, divided by contributions. The current value of the Private Credit Funds plus all distributions received through June 30, 2021, exceeds contributions by $3.1 billion.

- During Fiscal Year 2021, the Private Credit portfolio was net cash flow positive by $675 million, with distributions of $922 million versus contributions of $248 million. Since October 1, 2019 (when certain legacy hedge funds were added to the Private Credit portfolio), the Private Credit portfolio is net cash flow negative by $10.4 million, primarily owing to the significant dry powder that was deployed during the depths of the COVID-induced credit dislocation.

REAL ESTATE HIGHLIGHTS OF FISCAL YEAR 2021

	Annualized Returns (%)		
	FY21	3 Years	5 Years
Real Estate	21.21	8.36	9.28
Real Estate Index[1]	1.47	3.96	5.26

[1] Reported on a one-quarter lag. The index is the NCREIF Open End Diversified Core Equity (ODCE).

- As of June 30, 2021, the Real Estate portfolio had a market value of $5.4 billion and consisted of equity and debt-related investments across 57 commingled funds or separate account vehicles, as well as investments in publicly traded Real Estate Investment Trusts (REITs). During Fiscal Year 2021, Common Pension Fund E committed $250 million to two new Real Estate partnerships.

- The Real Estate portfolio is diversified across strategy, sector, vintage year, manager, and geography within private, closed and open-end limited partnership vehicles. Real estate investment agreements specify the investment horizon, with a wide range of possible time periods. The typical investment horizon identified in real estate investment agreements is 10 to 12 years.

- During Fiscal Year 2021, the Real Estate portfolio returned +21.21%, outperforming the NCREIF ODCE benchmark by +19.47%. The portfolio's investment in non-core strategies and public REITs were the key drivers of relative returns. The Real Estate portfolio is predominantly comprised of non-core strategy investments, while the benchmark is comprised of core strategy funds.

- As of June 30, 2021, the Total Value Multiple (TVM) for the private Real Estate Portfolio was 1.50x. The TVM measures the portfolio's current market value plus distributions, divided by contributions. The current value of the remaining Real Estate investments plus all distributions received to date exceeds contributions by $3.5 billion.

- The limited partnerships in the Real Estate portfolio continue to generate significant distributions. During Fiscal Year 2021, this portion of the portfolio was net cash flow positive by $430 million, with distributions of $788 million versus contributions of $358 million. Since the start of Fiscal Year 2013, the Real Estate portfolio is net cash flow positive by $2.11 billion.

REAL ASSETS HIGHLIGHTS OF FISCAL YEAR 2021

	Annualized Returns (%)		
	FY21	3 Years	5 Years
Real Assets	29.97	1.74	4.51
Custom Cambridge Associates Real Asset Benchmark[1]	18.80	(1.58)	4.20

[1] Reported on a one-quarter lag. Effective October 1, 2019, the benchmark is a custom blend of the Cambridge Associates Natural Resources and Cambridge Associates Infrastructure Indexes.

- As of June 30, 2021, the Real Assets portfolio had a market value of $2.1 billion and consisted of debt and equity investments consummated via 18 commingled funds, co-investments and programmatic separate accounts. The portfolio also included publicly traded Master Limited Partnerships ("MLPs") with a market value of $205.71 million. During Fiscal Year 2021, Common Pension Fund E committed and closed $100 million to one new commingled fund.

- The Real Assets portfolio is diversified across strategy, sector, vintage year, manager, and geography. However, as of June 30, 2021 the portfolio was concentrated in the conventional energy and upstream metals & mining strategies/sectors. Investment agreements specify the investment horizon, with a wide range of possible time periods. The typical investment horizon identified in real assets investment agreements is 10 to 12 years.

- During Fiscal Year 2021, the Real Assets portfolio returned +29.96%, outperforming the custom Cambridge Associates benchmark by +11.2% and outperforming the benchmark over all historical annualized time horizons. During Fiscal Year 2021, key drivers of relative returns were a pandemic-driven short-term recovery in commodity prices and the portfolio's investment in Infrastructure. Additionally, there were timing and calculation methodology differences contributing to differences between the portfolio and the custom benchmark.

- As of June 30, 2021, the Total Value Multiple (TVM) for the private Real Assets portfolio was 1.26x. This statistic excludes MLPs. The TVM measures the portfolio's current market value plus distributions, divided by contributions. The value of the remaining Real Assets investments plus all distributions received during the fiscal year exceeds fiscal year contributions by $2.2 billion.

- The Real Assets portfolio continued to generate distributions. During Fiscal Year 2021, the portfolio was net cash flow positive by $79.64 million, with distributions of $290.22 million versus contributions of $210.55 million. These statistics exclude MLPs.

RISK MITIGATION STRATEGIES HIGHLIGHTS OF FISCAL YEAR 2021

	Annualized Returns (%)		
	FY21	3 Years	5 Years
Risk Mitigation Strategies	13.27	6.55	5.39
T-Bill + 300 BPS	3.15	4.42	4.25

- As of June 30, 2021, the Risk Mitigation Strategies (RMS) portfolio had a market value of $2.7 billion and consisted of investments in 12 limited partnerships. During Fiscal Year 2021, Common Pension Fund E made a $100 million commitment to one new reinsurance separately managed account.

- The Risk Mitigation Strategies portfolio is comprised of limited partnership vehicles with a range of subscription terms. The RMS portfolio is intended to provide downside protection against equity market drawdowns, liquidity in the event of a drawdown, and returns with low or negative correlation to equities. The RMS portfolio includes various investment strategies, including discretionary macro, systematic macro, relative value, and market neutral strategies.

- During Fiscal Year 2021, the RMS portfolio returned +13.27% versus +3.15% for the benchmark index. RMS portfolio's strong performance was reflected across all strategies as dislocations resulting from the COVID-19 pandemic led to enhanced alpha opportunities. The RMS portfolio delivered high alpha during the fiscal year of approximately +4.70% which is above long-term expectations but in line with other post dislocation periods.

- Key factors impacting relative performance included substantial returns from one of the portfolio's market neutral managers who was able to capitalize on the opportunity set in volatility focused strategies, discretionary macro and event strategies. In addition, the portfolio benefited from strong returns driven by one of the systematic macro funds which was able to take advantage of sustained trends in equites and commodities. Favorable performance from several of the higher equity beta managers in the Fund of Funds portfolio also added value.

- During Fiscal Year 2021, the portfolio redeemed approximately $94 million from the RMS portfolio as the portfolio continues to receive proceeds from legacy and non-core fund relationships as part of its redemption and rebalancing program.

CASH MANAGEMENT FUND

	Annual Returns (%)[1]		
	FY21	3 Years	5 Years
Cash Mgt. Fund – State Participants	0.12	1.33	1.19
Cash Mgt. Fund – Non-State Participants	0.06	1.27	1.13
91 Day U.S. Treasury Bills (Daily)	0.09	1.34	1.17

[1] Returns represent the annual rate for the period based on the average daily rate of return.

- The Cash Management Fund (CMF) is the Local Government Investment Pool (LGIP) utilized by the Pension Fund, the State of New Jersey and local towns, municipalities, school districts, agencies, and authorities for its cash management needs. Participation is voluntary. As of June 30, 2021, the net asset value of the Cash Management Fund was $29.9 billion.

- The CMF primarily invests in U.S. Treasury and Agency obligations, highly-rated commercial paper and short-term corporate obligations, other highly-rated government debt, and certificates of deposit.

- The CMF's yield continued to decline in Fiscal Year 2021 as short-term interest rates reached record lows in the midst of a global pandemic, the resultant economic shock, and extraordinary monetary policies and government interventions intended to stabilize the credit markets.

- The Non-State Participants' return is reduced by an Administrative Expense Fund Fee (0.05% per year) and a Reserve Fund Fee (0.01% per year). The Administrative Expense Fund Fee is used to reimburse the State of New Jersey for administrative and custodial fees of the CMF. The Reserve Fund fees are reinvested and participate in the CMF. The Administrative Fund Fee has been temporarily reduced from 0.05% to 0.01% effective June 21, 2021.

CASH MANAGEMENT FUND PORTFOLIO[1] DETAIL AS OF JUNE 30, 2021

	Percentage	($ millions)
US TREASURY NOTES	28.87%	8,622.54
COMMERCIAL PAPER	26.55%	7,929.26
US TREASURY BILLS	22.98%	6,864.83
CERTIFICATES OF DEPOSIT	17.89%	5,344.81
GOVERNMENT AGENCY	3.24%	968.17
CORPORATE BONDS	0.47%	141.41
STATE STREET STIF	0.00%	0.03
TOTAL	100.00%	29,871.05

Total may not equal sum of components due to rounding

[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 expenses associated with investing the assets. The Division strives to minimize costs, with the key objective to realize attractive risk-adjusted net returns. The Division continues to utilize internal resources to minimize costs, with the Pension Fund representing one of the highest percentages of internally managed plans amongst public pension funds.

The Division utilizes external advisers and fund managers for strategies that require greater resources than are currently available internally. Most of the fees and expenses within the Pension Fund are incurred by the $26.5 billion Alternative Investment Program (AIP) that includes private equity funds, real estate funds, real asset funds, opportunistic funds, hedge funds, and private credit funds. The Division paid $308.4 million in management fees and expenses in Fiscal Year 2021 to fund managers within the AIP.

While more costly, the AIP provides important investment benefits for the Pension Fund, including an expected long-term performance advantage (net of fees) on both an absolute and risk-adjusted basis, enhanced portfolio diversification, and better downside protection. Moreover, certain strategies within the AIP provide exposure to rapidly growing segments of the global market which are not investable in the public market.

The Division paid an additional $26.4 million to advisers with respect to its emerging market equity, international small cap equity and high-yield fixed income portfolios in Fiscal Year 2021. Investments in these portfolios totaled $7.7 billion as of June 30, 2021.

Operating expenses for staff compensation, overhead and equipment were $13.4 million for the fiscal year and represent approximately 3.8% of fees and expenses or 0.01% of $127.1 billion in total assets under management.

Fees for consulting services, custodial banking, and legal services were $7.6 million for the fiscal year and represent approximately 2.1% of fees and expenses or 0.01% of $127.1 billion in total assets under management.

In total, costs to manage the portfolios were $355.7 million, or 0.28% of $127.1 billion in total assets under management. The following chart summarizes total fees and expenses for Fiscal Year 2021.

Fees & Expenses[1]	Fiscal Year Ended June 30, 2021 ($ millions)
Private Equity Funds	112.3
Global Diversified Credit Funds	86.8
Real Estate Funds	48.2
Hedge Funds	29.3
Real Asset Funds	25.8
Opportunistic Funds	6.0
SUBTOTAL	308.4
High-Yield, Small Cap and Emerging Market Advisers	26.4
Division Operations	13.4
Custodial Banking Fees	3.2
Consulting Fees	3.0
Legal Fees	1.3
TOTAL	355.7

Total may not equal sum of components due to rounding

[1] Alternative Investment Program fees and expenses are based on information provided by the manager.

PERFORMANCE ALLOCATIONS

The Council also provides detailed information regarding the performance allocation earned by the fund managers within the AIP. By way of background, 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. Typically, a private equity limited partner (e.g., the Common Pension Fund) must receive a net minimum return, also known as a hurdle rate or preferred rate, before the fund manager can collect a performance allocation. Other requirements may include prior repayment of contributed capital, management fees, and other expenses to limited partners. The Division is committed to negotiating preferential terms that incentivize strong performance, provide the Division with meaningful governance rights, and ensure alignment of interests.

Total performance allocation may exceed the average hurdle rate of the funds within an asset class (e.g., private equity) since a fund within a given asset class may realize strong returns and, therefore, earn carried interest at the same time another fund within the same asset class may realize negative returns that reduce total asset class profits. There may also be timing mismatches between the crystallization and payment of performance allocation. For example, certain portions of performance allocation paid during Fiscal Year 2021 may have crystallized during Fiscal Year 2020. Similarly, certain portions of performance allocation that were realized during Fiscal Year 2021 may have crystallized at the close of calendar year 2020, following a longer-term period of generally strong investment returns.

The table below summarizes the performance allocation for the AIP for Fiscal Year 2021.

	Performance Allocation		
	Amount ($ Millions)	As % of Assets	As % of Gross Profit
Private Equity	308.3	3.20%	7.30%
Real Estate	52.0	1.33%	6.96%
Real Assets	23.6	1.40%	5.16%
Opportunistic	2.9	0.60%	1.74%
Hedge Funds	50.5	1.60%	11.35%
Global Diversified Credit	169.0	3.10%	11.87%
TOTAL	606.3	2.50%	8.12%

For Fiscal Year 2021, the AIP earned a net return of 29.22% and generated $6.553 billion of net profits. The AIP has been a significant driver of favorable returns for the total Pension Fund over longer term periods. For the ten years ended June 30, 2021, the AIP has returned 8.93%, in line with the Total Pension Fund.

The table below summarizes the net returns and profits for the AIP for Fiscal Year 2021.

	Estimated Average Gross Assets ($ Millions)	Estimated Gross Profit (Loss) ($ Millions)	Estimated Net Profit (Loss) ($ Millions)	FY21 Net Return
Private Equity	9,626.4	4,223.8	3,803.1	47.89%
Real Estate	3,897.7	747.5	647.3	21.21%
Real Assets	1,682.0	457.4	407.9	29.97%
Opportunistic	489.6	169.7	160.7	37.52%
Hedge Funds	3,151.0	444.8	365.0	12.54%
Global Diversified Credit	5,445.8	1,424.6	1,168.8	24.45%
TOTAL	24,292.5	7,467.8	6,552.8	29.22%

Total may not equal sum of components due to rounding

Performance allocations were $366.6 million higher in Fiscal Year 2021 versus Fiscal Year 2020 primarily due to increases in performance allocations across all asset classes, particularly Private Equity and Global Diversified Credit. Fees and expenses within the AIP were $14 million lower in Fiscal Year 2021 versus Fiscal Year 2020, driven by reductions in Private Equity and Real Estate fees.

The table below summarizes year-over-year changes in AIP fees and expenses, performance allocation, and estimated net profits.

	FY21	FY20	Year over Year Change*
Fees and Expenses	355.7	369.7	(14.0)
Performance Allocation	606.4	239.8	366.6
Estimated Net Profit (Loss)	6,552.9	(506.8)	7,059.7

*May not equal difference of components due to rounding

REPORTING STANDARDS AND COMPARISONS TO OTHER FUNDS

Public pension funds do not have a uniform standard for the reporting of investment fees and expenses, including performance allocations. As a result, comparisons to other public funds may not be meaningful because other funds may not provide comparable disclosure. For example, the Council includes performance allocation in this report, whereas other public funds may not include performance allocation in similar reports. Accordingly, it is possible that the Council reports more types of costs and, therefore, *higher* costs than other funds, while the Pension Fund may actually incur *lower* costs than those same funds.

ADDITIONAL INFORMATION REGARDING ALTERNATIVE INVESTMENT PROGRAM FEES AND EXPENSES

The Division and the Council are both committed to demonstrating industry leadership in transparency. As part of this commitment, the Council also includes a report of fees and expenses, along with performance allocation and returns over the past five fiscal years, in Appendix 1 of this Annual Report.

In accordance with N.J.S.A. 52:18A-91(b), the Council is also including a schedule of the percentage and amount of fees, expenses and performance allocations that were paid to AIP fund managers in connection with commitments made from January 1, 2018 through June 30, 2021 in Appendix 2 of this Annual Report.

COMMISSIONS

The Division incurred broker/dealer commission costs totaling $0.5 million for Fiscal Year 2021.

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.

APPENDIX 1: FIVE YEAR COST COMPARISON

	Fiscal Year Ended June 30, 2021	Fiscal Year Ended June 30, 2020	Fiscal Year Ended June 30, 2019	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017
Fees and Expenses:					
Hedge Funds	$29,276,827	33,669,770	53,588,989	59,513,685	99,974,409
Private Equity Funds	112,312,874	122,523,036	113,064,371	134,088,404	135,822,473
Real Estate Funds	48,172,669	66,423,957	57,870,196	56,459,596	67,920,674
Real Asset Funds	25,828,658	31,335,637	31,496,895	29,980,413	33,901,880
Opportunistic Funds	5,970,979	5,775,580	11,770,080	10,765,042	6,082,764
Global Diversified Credit Funds	86,806,864	72,894,329	66,167,004	72,338,858	48,538,827
Division Operations and Internal Management[1,2]	47,352,620	37,108,258	38,333,573	50,831,884	45,578,113
Total Fees and Expenses:	355,721,490	369,730,567	372,291,108	413,977,881	437,819,141
Performance Allocation:					
Hedge Funds	50,463,416	32,538,336	28,913,464	35,961,645	66,331,578
Private Equity Funds	308,324,811	113,469,221	155,890,534	145,675,005	90,228,372
Real Estate Funds	52,013,106	40,496,797	20,247,890	39,998,435	72,966,276
Real Asset Funds	23,615,777	11,446,670	946,262	7,974,099	1,632,938
Opportunistic Funds	2,946,274	-	-	-	-
Global Diversified Credit Funds	169,035,022	41,806,274	42,613,549	38,302,254	42,642,060
Total Performance Allocation:	606,398,405	239,757,298	248,611,700	267,911,438	273,801,224
Total Fees, Expenses and Performance Allocation:	$962,119,896	$609,487,864	$620,902,808	$681,889,319	$711,620,365

[1]Includes costs related to external investment advisers for international small cap, emerging markets equity and high yield, as well as Division operations, consulting fees, legal fees, and custodial banking fees.
[2]International small cap, emerging markets and high yield assets managed with the support of external investment advisers are considered internally managed.

APPENDIX 2: ALTERNATIVE INVESTMENT DISCLOSURES PURSUANT TO N.J.S.A. 52:18A-91(b)

The table below includes the terms of the commitments made by Common Pension Fund A and Common Pension Fund E from January 1, 2018 to June 30, 2021 and the amounts of fees and expenses paid for Fiscal Year 2021.

Investment	Commitment ($ Millions)	Annual Management Fee %	Performance Fee/ Carried Interest %	Fees and Expenses Paid	Performance Fees Paid
Aether Real Assets SONJ Fund, L.P Executed March 2018	$135	Years 1-5: 0.60% Years 6-12: 85% of prior year's fee Years 13-15: 0.1%	4.475% carried interest subject to 7% return.	$2,207,428	$0
Aermont IV Executed October 2018 (1)	$116	1.50% of aggregate commitments stepping down to 1.7% of net invested capital during the post investment period.	20% carried interest subject to 9% return.	$3,019,528	$0
Ardian IV (2) Executed March 2020	$142	1.5% of total commitments during the investment period; 1.5% of total cost post investment period.	20% carried interest subject to a 8% return	$546,002	$0
ABF VII New Jersey S.L.P. (2) Executed July 2020	$58	No management fee	No Performance Fee/No Carried Interest	$234,874	$0
Altaris Health Partners V Executed July 2020	$100	2% during the commitment period; thereafter 2.0% of an amount equal to the Limited Partner's share of the aggregate capital invested in portfolio investments upon expiration of the Investment Period.	20% carried interest subject to a 8% return.	$205,829	$0
Blueprint Cap I, LP Executed May 2018	$300	0.30% on the first $225 million; 0.25% on the next $100 million, 0.20% thereafter.	No Performance Fee/No Carried Interest	$2,813,275	$211,519
Brookfield V Executed April 2019	$100	1.675 % during the commitment period; 1.425% in the post commitment period.	20% carried interest subject to a 8% return	$1,970,249	$1,913,772
CVC VIII (3) Executed June 2020	$116	During investment period: 1.425% of Total Commitment. After investment period: 1.25% of unreturned cost.	20% carried interest subject to a 8% return	$0	$0
CVC Credit Partners EU DL II Co-Invest (3) Executed May 2021	$118	0.35% on Net Invested Capital.	No Performance Fee/No Carried Interest	$997,980	$0
Divco West Fund V I-A Executed August 2020	$100	1.25% on Un-contributed Capital during the commitment period. 1.5% on invested capital after the commitment	20% carried interest subject to a 7% preferred return.	$2,237,307	$0

Investment	Commitment ($ Millions)	Annual Management Fee %	Performance Fee/ Carried Interest %	Fees and Expenses Paid	Performance Fees Paid
		period.			
Exeter Core Industrial Club Fund III Executed June 2019	$100	0.90% on invested capital	15% carried interest subject to 8% return.	$251,760	$0
Hellman & Friedman Capital Partners X Executed May 2021	$125	1.5% of committed capital in aggregate (0.375% management fee and 1.125% Management Profits Interest) stepping down upon the earlier of the end of the commitment period or activation of a subsequent fund to 1.25% of Remaining Cost of investments for the first two years; 1.00% for the following two years; and 0.75% thereafter.	20% carried interest	$408,798	$0
Homestead III Executed April 2019	$100	1.5% on committed during investment period (or until successor fund is raised, if earlier), thereafter, 1.5% on invested capital.	15% carried interest subject to 6% compound IRR.	$1,539,711	$0
IPI Partners II-A Executed March 2021	$150	1.425% on committed and invested capital	20% carried interest subject to a 7% return.	$3,269,847	$0
JLL Partners Fund VIII Executed February 2019	$200	2.0% of commitments during the Investment Period; thereafter, 1.5% of actively invested capital.	20% carried interest subject to 8% return.	$3,621,302	$0
KSL Capital Partners V Executed February 2019	$100	1.75% on committed capital during the investment period;1.25% on invested capital post investment period	20% carried interest subject to 8% return.	$1,919,406	$580,821
Magenta Fund Ltd Executed April 2021	$100	0.85% on invested capital.	No Performance Fee/No Carried Interest	$198,321	$0
MBK Partners Fund V Executed December 2019	$100	1.75% on commitments during the commitment period, thereafter, 1.5% on unreturned capital (including any Partnership borrowings).	20% carried interest subject to 8% return.	$678,590	$0
NB/NJ Custom Fund III Executed April 2018	$200	0.10% on commitment during the investment period; 0.30% on actively invested capital	10% carried interest subject to 8% return. 15% carried interest subject to 15% return.	$761,091	$0
Owl Rock Technology Corporation and Owl Rock Technology Finance Limited Executed November 2018	$100	Prior to Exchange Listing: 0.90% of gross assets above 200% asset coverage, plus 1.50% of unfunded capital commitments. After Exchange Listing: 1.50% of gross assets above 200% asset coverage, plus	17.5% prior to Exchange Listing subject to a 6% hurdle; 17.5% after Exchange Listing subject to a 6% hurdle.	$4,446,203	$1,043,787

Investment	Commitment ($ Millions)	Annual Management Fee %	Performance Fee/ Carried Interest %	Fees and Expenses Paid	Performance Fees Paid
		1.0% of gross assets below 200% asset coverage.			
Silver Lake Partners VI, L.P Executed September 2020	$100	1.5% on committed capital during the investment period. 1.0% on invested capital after the investment period.	20% carried interest subject to a 8% hurdle.	$1,881,207	$0
Stellex Capital Partners II, L.P Executed September 2020	$125	1.75% on committed capital during the investment period; 1.75% on invested capital thereafter.	20% carried interest subject to a 8% hurdle.	$1,628,923	$0
Stonepeak Global Renewables Fund Executed January 2021	$100	1% of capital commitments during investment period; thereafter, 1% of net asset value.	10% carried interest subject to a 6% hurdle.	$1,720,450	$0
Strategic Value Special Situations Fund V L.P. Executed April 2021	$125	0.725% on commitment during the investment period until 50% of the capital has been called. Thereafter, 1.45% of commitments.	20% carried interest subject to a 8% hurdle.	$248,365	$0
Sycamore Partners III, L.P Executed January 2018	$150	2% per annum of commitments during the investment period, thereafter, 2% per annum of invested capital.	20% carried interest subject to 8% return.	$3,827,140	$0
The Rise Fund II Executed March 2019	$125	1.75% of capital commitments during the commitment period; following the commitment period 1.25% on actively invested capital. During any extension, 0.50% on actively invested capital.	20% carried interest subject to 8% return.	$3,122,147	$0
TPG Growth V, L.P Executed September 2020	$100	1.75% during the commitment period, 1.25% thereafter. 0.5% during any extensions	20% carried interest subject to 8% return.	$1,962,752	$0
TPG Real Estate Partners III LP Executed May 2018	$100	1.5% on first $50 million of invested capital; 1.25% on next $150 million. The management fee on committed but un-invested equity during the Commitment Period is 0.80% of the blended rate on invested equity.	20% carried interest subject to 8% net return.	$1,475,226	$0
TSG 8 Executed December 2018	$100	2.0% of commitments during the Investment Period; thereafter, 2.0% of the cost basis of the remaining investments	20% carried interest subject to 8% return; 25% carried interest subject to a 15% return and 2.0x TVM	$2,263,076	$0
Vista Equity Partners VII Executed August 2018	$300	1.5% of commitments during the Investment Period; thereafter, 1.5% of net invested capital.	20% carried interest subject to 8% net return.	$4,713,740	$7,997

Investment	Commitment ($ Millions)	Annual Management Fee %	Performance Fee/ Carried Interest %	Fees and Expenses Paid	Performance Fees Paid
Vista Foundation Fund IV Executed February 2020	$100	2% of capital commitments during the Investment Period. 2% of the cost basis of investments, reduced by dispositions and permanent write downs.	20% until cumulative distributions represent a 2.5X multiple. 25% if cumulative distributions equal 2.5X; if the cumulative distributions represent a multiple greater than 2.5X but less than 3.0X, the percentage equal to the product of such multiple (rounded to the nearest tenth) multiplied by 10. 30% if such cumulative distributions represent a multiple of 3.0X or greater. 8% Hurdle Rate.	$2,198,852	$0
Warburg Pincus China Southeast Asia II Executed June 2019	$90	1.4% on commitments during the investment term; 1.4% on cost of investments from years 6-8; 1.25% on cost of investments from years 8-10; 1.% on cost of investments thereafter.	20% carried interest.	$941,000	$0
Total	$4,075		$57,310,379	$3,757,896	

(1) Euro 100 Million Commitment converted at 6/30/2021
(2) Euro 125 Million Commitment converted at 6/30/2021
(3) Euro 100 Million Commitment converted at 6/30/2021