NEW JERSEY DIVISION OF INVESTMENT

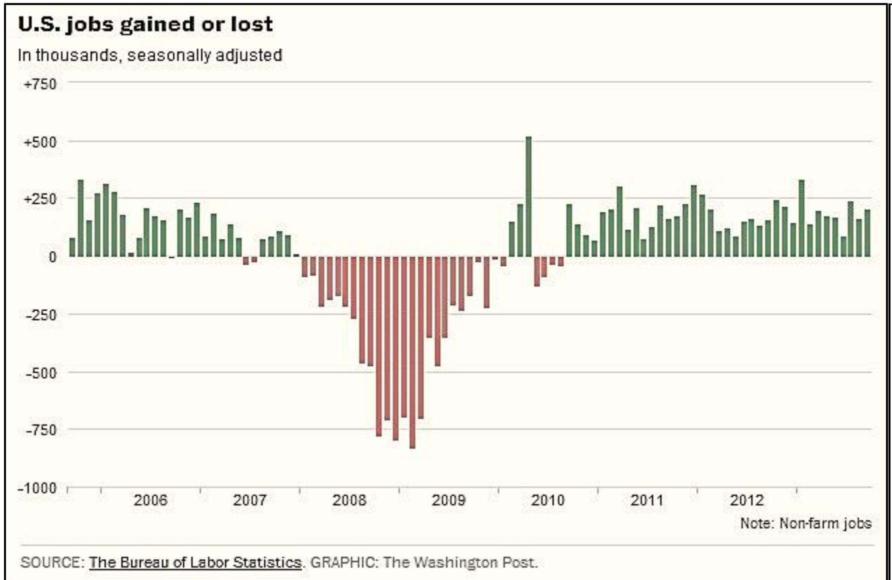
Director’s Report

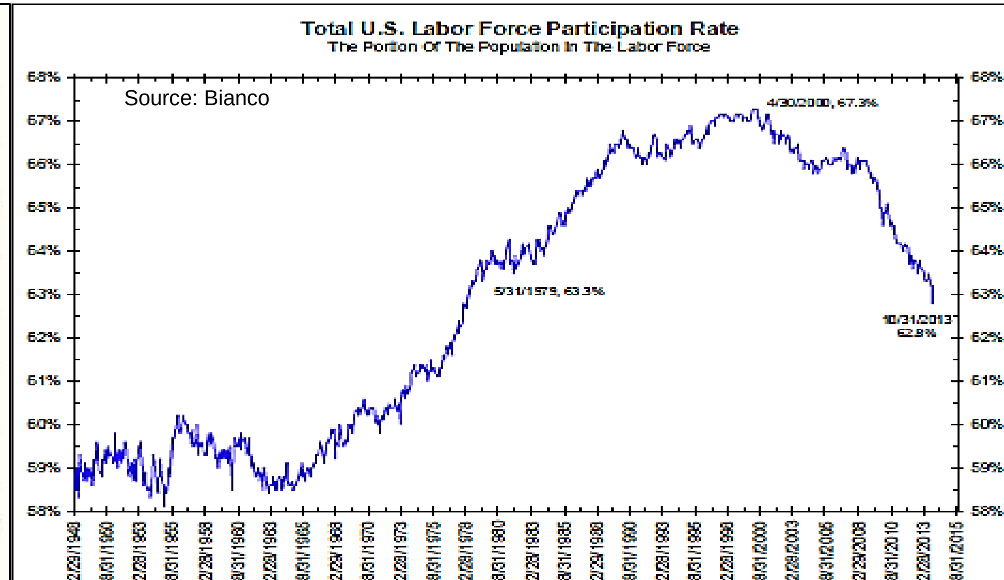
November 21, 2013

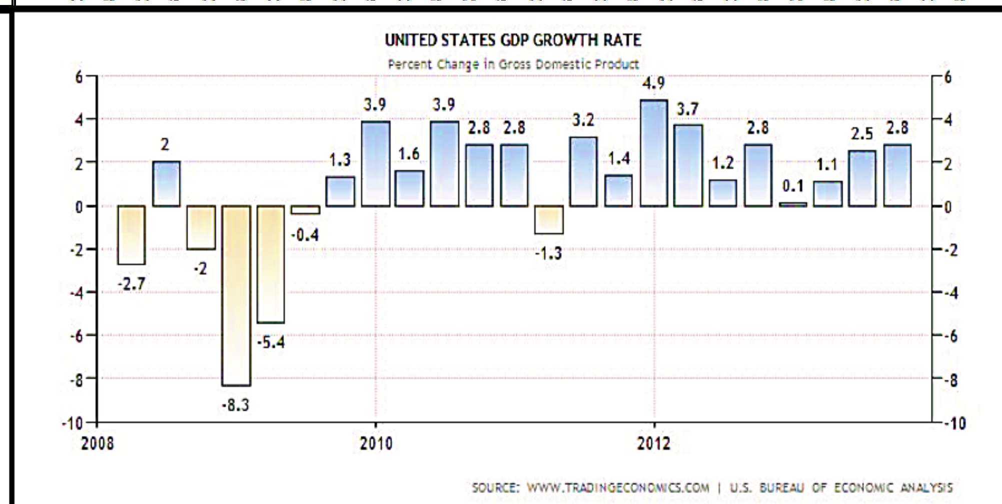
State Investment Council Meeting

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

The Federal Reserve decided to continue its bond buying program at its September meeting, citing that while the economy and labor market were improving, they wanted to see more progress before adjusting the purchase pace. Post that decision, October U.S. payrolls soared by 204,000, nearly double the expected amount, which once again prompted talk of Fed tapering. In addition, September payrolls were slightly revised upwards to 163,000 from 148,000. However, the U.S. "participation rate," the share of the population that's working or looking for work, now stands near a three-decade low. Also contributing to speculation regarding the timing of tapering was third quarter GDP, which came in at an annualized rate of 2.8%, ahead of median forecasts.

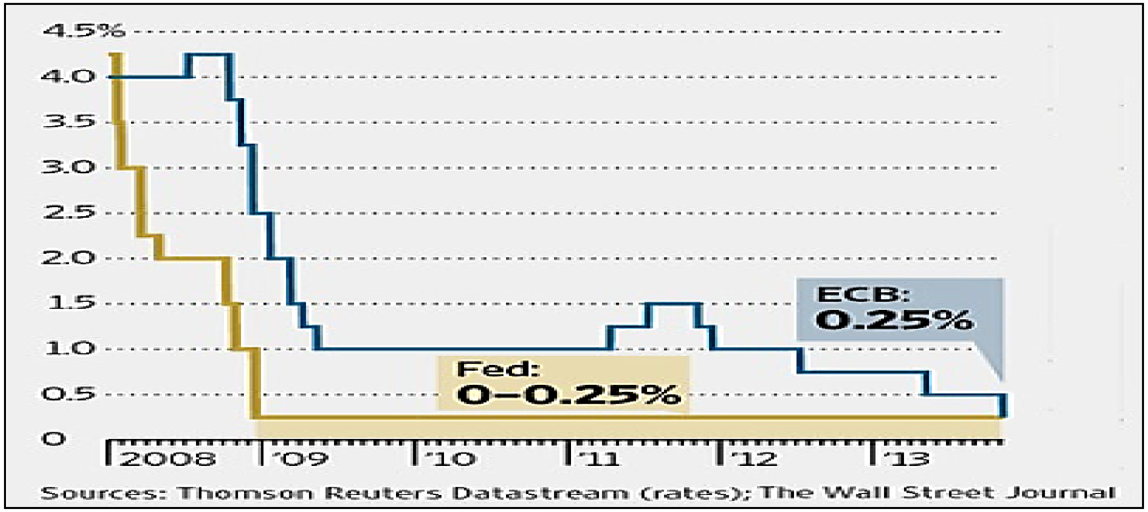




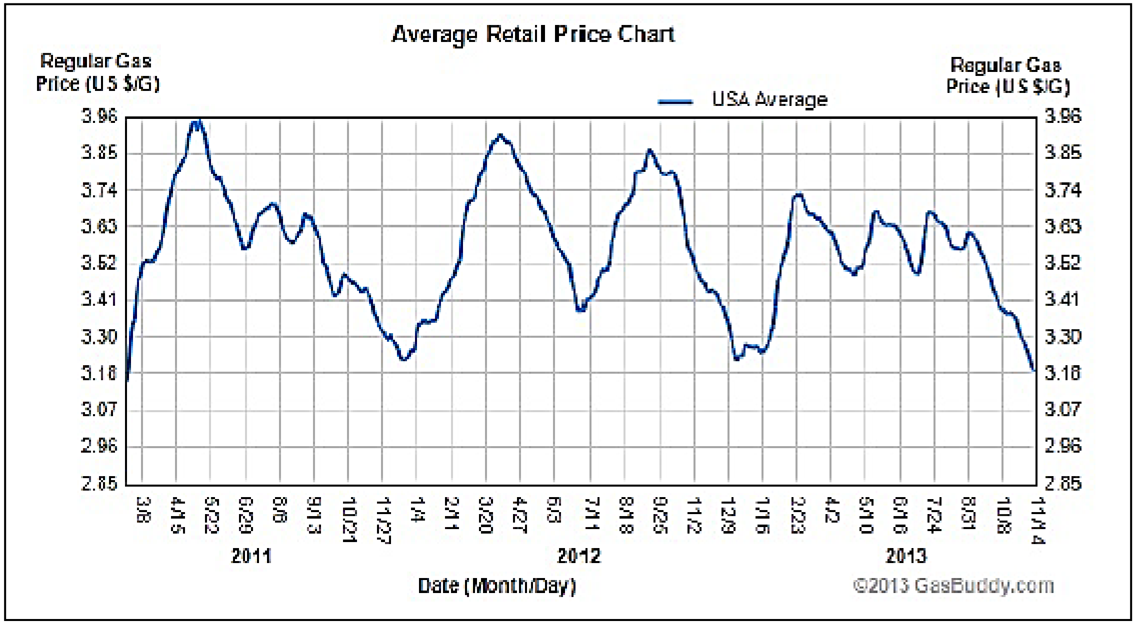


Market Updates – Sept. 1 through November 15

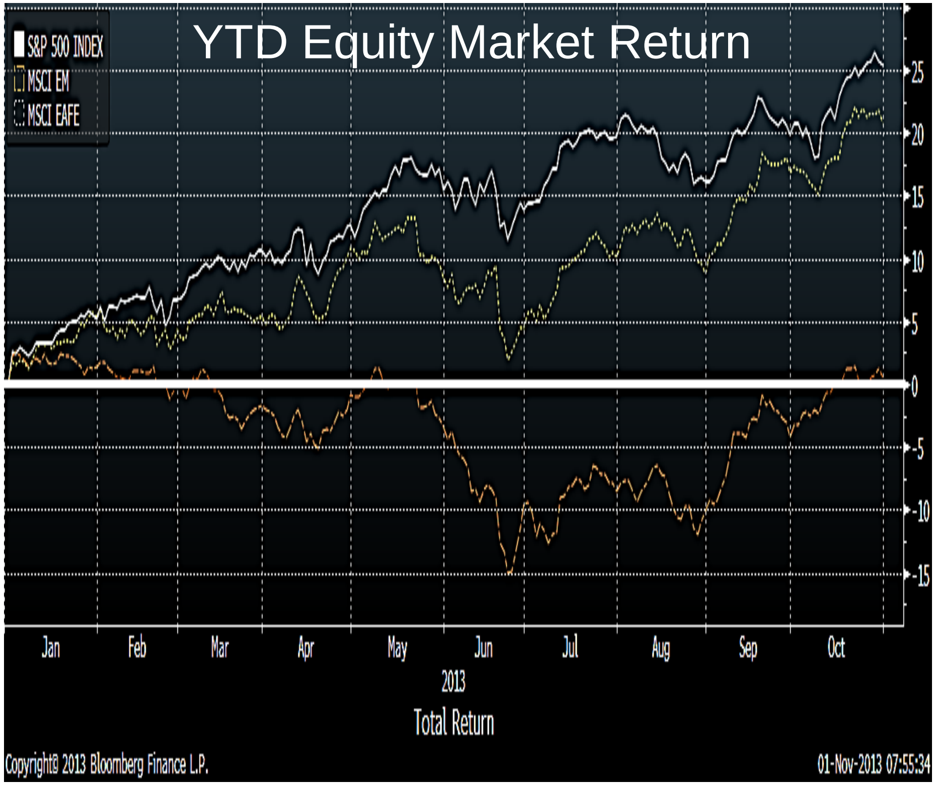
On Nov. 7th the European Central Bank unexpectedly cut its main interest rate to a record low of 0.25%, shocking markets, sinking the Euro, and signaling a more activist approach from the ECB.

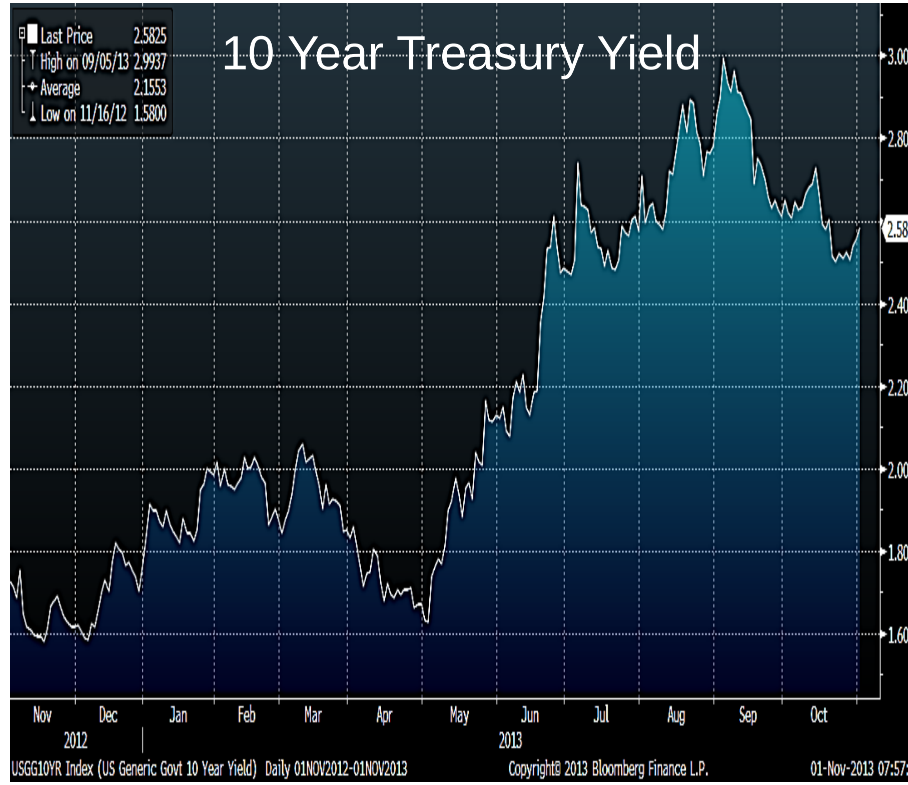


Gas prices are at lowest level in almost 33 months. The national average price for a gallon of regular gasoline stood at $3.18 on Tuesday, November 12th, which is the lowest since Feb. 22, 2011. AAA expects prices to fall “close to” $3 per gallon by the end of the year based on abundant supplies, declining demand, and lower oil costs.



Capital Markets Update as of October 31, 2013

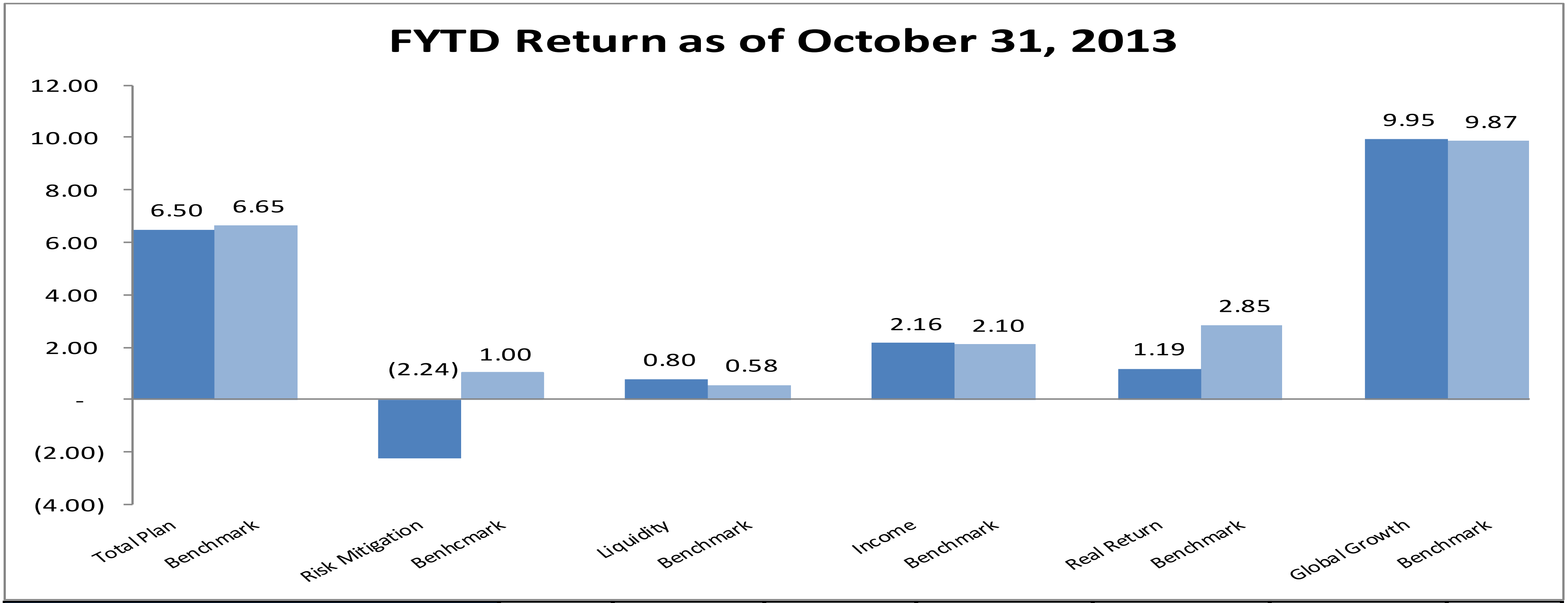




	Oct. 31, 2013	MTD %	FYTD %	CYTD %	1 Yr %	3Yrs %	5 Yrs %	10 Yrs %	
Domestic Equity	S&P 500	4.60	10.08	25.30	27.17	16.50	15.15	7.46	1
	Russell 2000	2.51	12.98	30.89	36.31	17.65	17.01	9.01	2
International Equity	MCSI EAFE	3.36	15.32	20.05	26.88	8.36	11.99	7.61	3
	MSCI EMF	4.86	10.91	0.29	6.53	0.30	15.39	12.38	4
Bond	Barclays Agg	0.81	1.39	(1.09)	(1.07)	3.03	6.10	4.78	5
	Barclays HY	2.51	4.85	6.34	8.88	9.16	18.12	8.92	6
	Barclays US Tips	0.64	1.47	(8.00)	(8.42)	4.03	7.89		7
Commodity	DJUBS Com	(1.48)	0.63	(9.91)	(12.21)	(5.19)	(0.94)	1.57	8

Source: Cliffwater

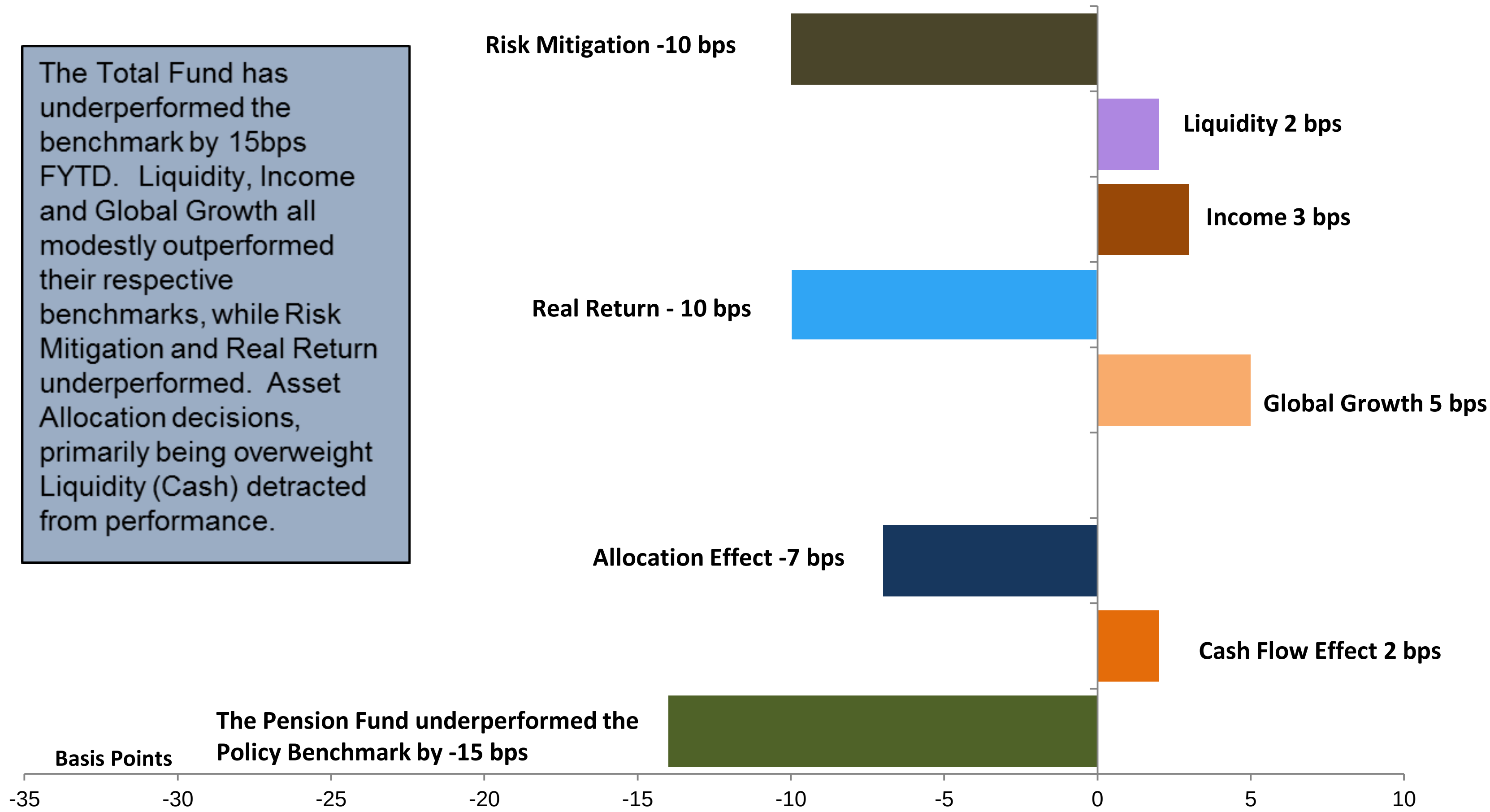
Performance Update as of October 31, 2013



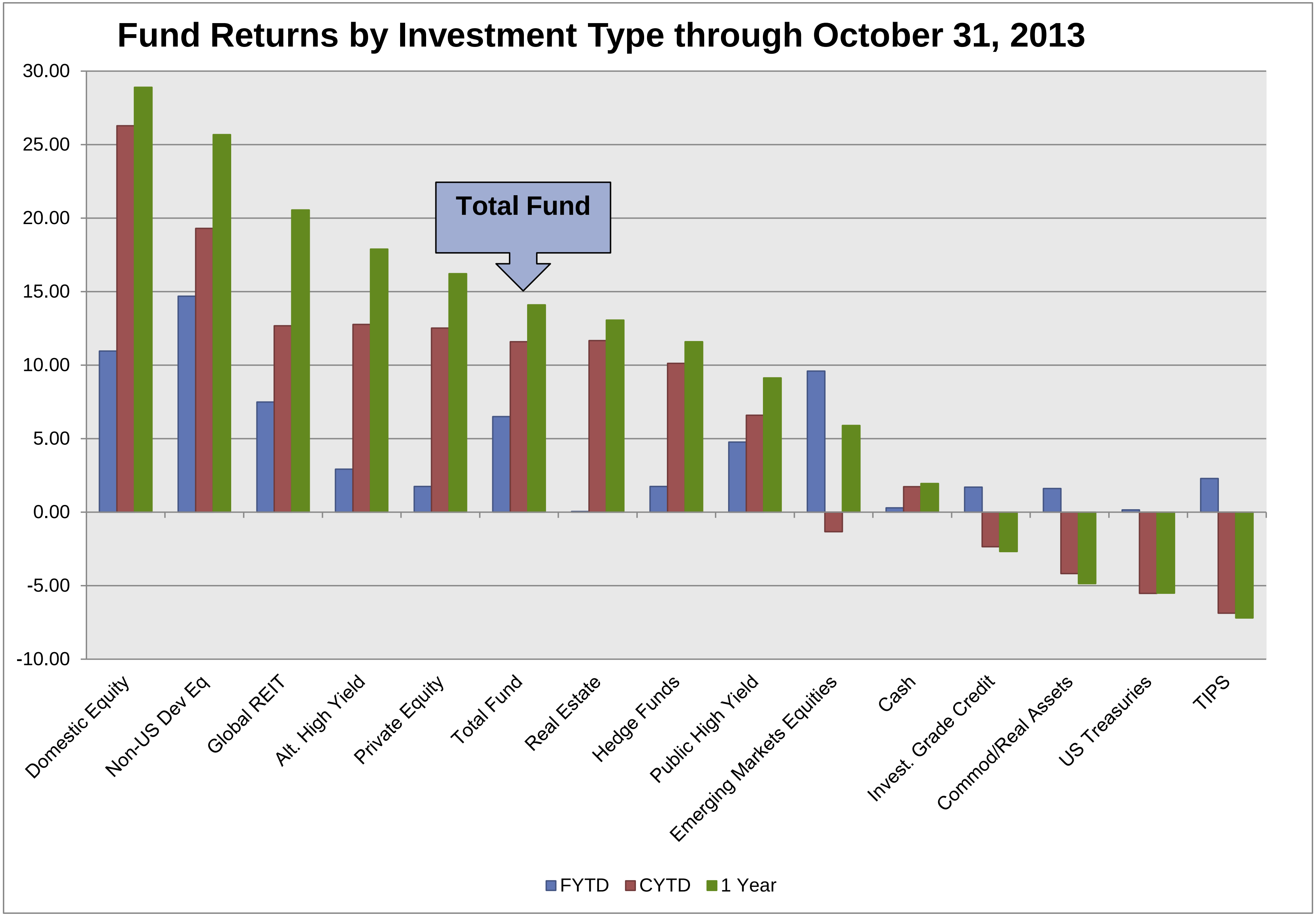
Asset Class (thru Oct. 31, 2013)	Sept %	Oct%	FYTD %	CYTD %	1-Year	2-Year	No.
Risk Mitigation	(0.53)	(0.52)	(2.24)	2.82	2.99	1.98	1
Liquidity	0.79	0.20	0.80	(3.12)	(3.05)	2.03	2
Income	0.82	1.38	2.16	2.54	3.32	7.08	3
Real Return	0.25	0.38	1.19	6.00	6.67	7.01	4
Global Growth	4.07	3.74	9.95	18.37	22.66	16.25	5
Total Pension Fund ex P&F Mort.	2.65	2.59	6.50	11.59	14.10	11.96	6
Total Policy Benchmark	2.62	2.62	6.65	10.00	12.46	10.54	7
Estimated Market Value		$76.7 Billion					8

Pension Fund Attribution vs. Benchmark
Fiscal Year to Date through October 31, 2013

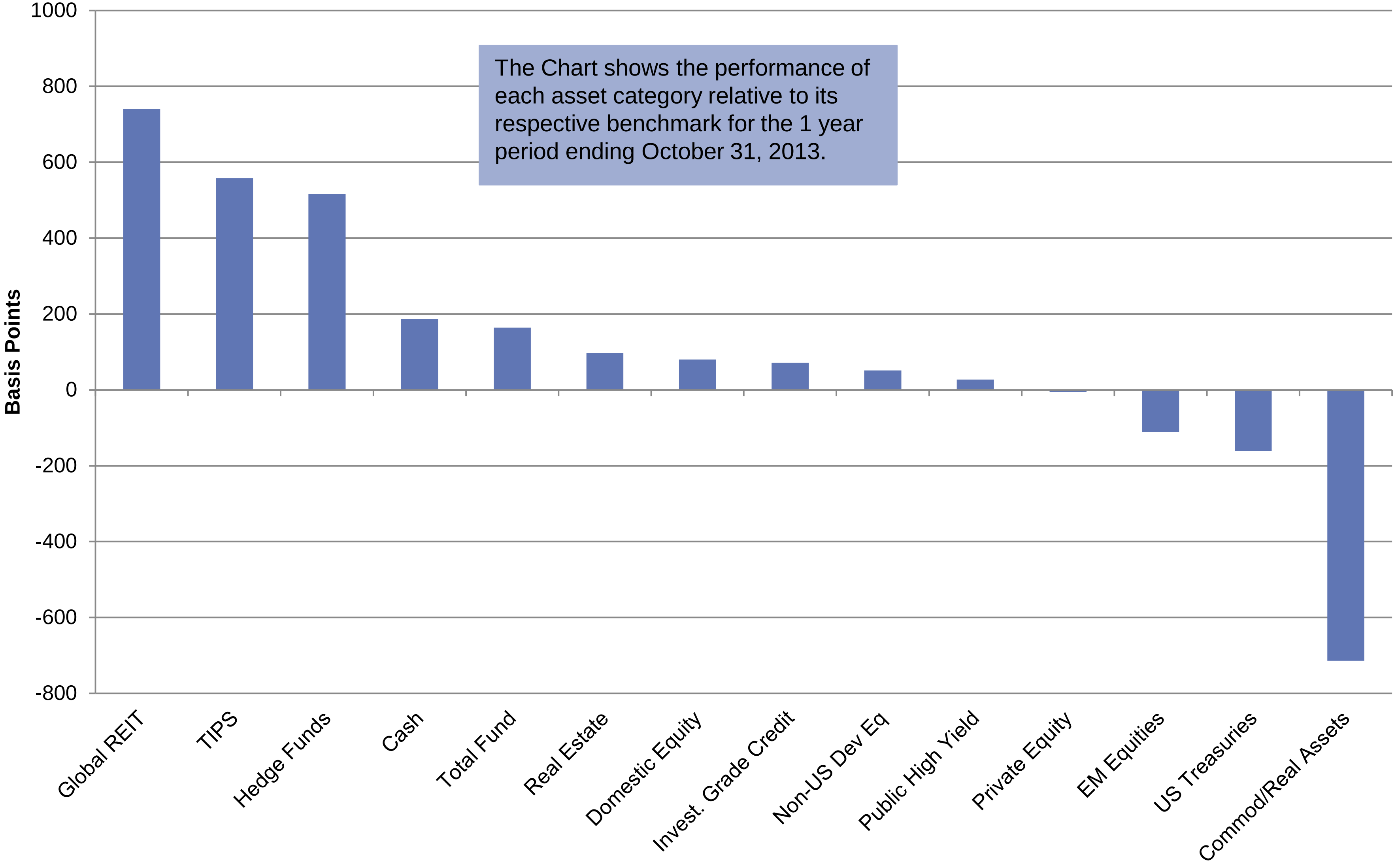
The Total Fund has underperformed the benchmark by 15bps FYTD. Liquidity, Income and Global Growth all modestly outperformed their respective benchmarks, while Risk Mitigation and Real Return underperformed. Asset Allocation decisions, primarily being overweight Liquidity (Cash) detracted from performance.



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


Fund Returns by Investment Type through October 31, 2013
Total Fund
30.00
25.00
20.00
15.00
10.00
5.00
0.00
-5.00
-10.00
Domestic Equity
Non-US Dev Eq
Global REIT
Alt. High Yield
Private Equity
Total Fund
Real Estate
Hedge Funds
Public High Yield
Emerging Markets Equities
Cash
Invest. Grade Credit
Commod/Real Assets
US Treasuries
TIPS
FYTD
CYTD
1 Year

Relative 1 Year Performance
As of October 31, 2013



Division of Investment Updates

- Maintained overweight to US equities; however, was net seller of approximately $1 billion based on strong performance.
- Decreased Investment Grade Credit exposure by approximately $300 million. The Fund's overweight to Investment Grade Credit relative to target allocation is at its lowest level since the target allocation was reduced significantly at the start of Fiscal Year 2013.
- Within Investment Grade, corporations are taking advantage of lower rates to issue paper. In the last month, Proctor & Gamble, Coca-Cola, and Colgate completed large issues. All deals were well oversubscribed. NJDOI has taken advantage of the opportunity with high quality issuers to purchase some short to intermediate corporate debt with minimal effect on duration.
- Within High Yield, added bank loan exposure in place of bonds in order to increase exposure to floating rate instruments.
- Fixed Income portfolio duration stands at 6.44 as of October 31, down from 6.59 as of last SIC (September 19, 2013).

Asset Allocation with Hedges as of November 13, 2013

Line #	Asset Class	Long Term Target Range	Current Allocation	FY 2013 Target	FY 2014 Target	Over/Under Weight 2014 Target	Current Assets	Adjustments to Exposure based on Hedges	Total Net Exposure	FY 2014 Target ($)	Over/Under Weight for 2014	Over/Under Weight ($) vs. FY 2014 Target w/ Hedges	Line #
1	**RISK MITIGATION**	**0-5%**	**2.89%**	**4.0%**	**3.50%**	**-0.61%**	**2,182,078,960**		**2,182,078,960**	**2,646,187,699**	**(464,108,739)**	**(464,108,739)**	1
2	Absolute Return HFs	0-5%	2.89%	4.0%	3.50%	-0.61%	2,182,078,960		2,182,078,960	2,646,187,699	(464,108,739)	(464,108,739)	2
3	**LIQUIDITY**	**2-15%**	**6.05%**	**6.5%**	**4.50%**	**1.55%**	**4,571,581,921**		**4,306,331,921**	**3,402,241,327**	**1,169,340,594**	**904,090,594**	3
4	Cash Equivalents	0-15%	2.80%	1.5%	1.00%	1.80%	2,115,000,000		2,115,000,000	756,053,628	1,358,946,372	1,358,946,372	4
5	TIPS	0-10%	2.28%	2.5%	2.50%	-0.22%	1,724,293,020		1,724,293,020	1,890,134,071	(165,841,051)	(165,841,051)	5
6	US Treasuries	0-10%	0.97%	2.5%	1.00%	-0.03%	732,288,901	(265,250,000)	467,038,901	756,053,628	(23,764,727)	(289,014,727)	6
7	**INCOME**	**20-40%**	**24.05%**	**26.0%**	**26.30%**	**-2.25%**	**18,184,347,490**		**18,184,347,490**	**19,884,210,423**	**(1,699,862,933)**	**(1,699,862,933)**	7
8	Investment Grade Credit	8-23%	12.43%	13.0%	12.10%	0.33%	9,400,565,428		9,400,565,428	9,148,248,902	252,316,526	252,316,526	8
9	High Yield Fixed Income	0-10%	5.34%	6.0%	5.50%	-0.16%	4,034,652,267		4,034,652,267	4,158,294,955	(123,642,688)	(123,642,688)	9
10	Credit-Oriented HFs	0-6%	2.97%	4.0%	3.50%	-0.53%	2,243,131,086		2,243,131,086	2,646,187,699	(403,056,613)	(403,056,613)	10
11	Debt-Related PE	0-4%	1.12%	1.5%	2.00%	-0.88%	843,526,330		843,526,330	1,512,107,257	(668,580,927)	(668,580,927)	11
12	Debt Related Real Estate	1-4%	1.10%	0.0%	2.00%	-0.90%	834,346,389		834,346,389	1,512,107,257	(677,760,868)	(677,760,868)	12
13	P&F Mortgage	--	1.10%	1.5%	1.20%	-0.10%	828,125,990		828,125,990	907,264,354	(79,138,364)	(79,138,364)	13
14	**REAL RETURN**	**3-12%**	**6.01%**	**9.5%**	**6.00%**	**0.01%**	**4,547,020,789**		**4,545,322,885**	**4,536,321,770**	**10,699,019**	**9,001,115**	14
15	Commodities/RA	2-7%	2.40%	4.0%	2.50%	-0.10%	1,815,193,207	(1,697,904)	1,813,495,303	1,890,134,071	(74,940,864)	(76,638,768)	15
16	Equity Related Real Estate [1]	2-7%	3.61%	5.5%	3.50%	0.11%	2,731,827,582		2,731,827,582	2,646,187,699	85,639,883	85,639,883	16
17	**GLOBAL GROWTH**	**45-65%**	**60.74%**	**54.0%**	**59.70%**	**1.04%**	**45,924,144,046**		**45,530,627,265**	**45,136,401,607**	**787,742,439**	**394,225,658**	17
18	US Equity	15-35%	28.74%	23.8%	26.50%	2.24%	21,727,882,114	(276,940,904)	21,450,941,210	20,035,421,149	1,692,460,965	1,415,520,061	18
19	Non-US Dev Market Eq	8-20%	13.76%	12.5%	12.70%	1.06%	10,405,040,373	(104,399,239)	10,300,641,134	9,601,881,079	803,159,294	698,760,055	19
20	Emerging Market Eq	5-15%	7.42%	7.0%	8.00%	-0.58%	5,610,955,637	(12,176,637)	5,598,779,000	6,048,429,026	(437,473,389)	(449,650,026)	20
21	Equity-Oriented HFs	0-8%	4.04%	4.5%	4.00%	0.04%	3,055,914,639		3,055,914,639	3,024,214,513	31,700,126	31,700,126	21
22	Buyouts/Venture Cap [2]	4-10%	6.78%	6.2%	8.50%	-1.72%	5,124,351,283		5,124,351,283	6,426,455,840	(1,302,104,557)	(1,302,104,557)	22
23	**OTHER**	**0.00%**	**0.26%**	0.0%	**0.00%**	**0.26%**	**196,189,620**		**196,189,620**	**0**	**196,189,620**	**196,189,620**	23

[1] Current assets do not include receivables of $280 million primarily related to Real Estate secondary sale

[2] Current assets do not include receivables of $199 million primarily related to Private Equity secondary sale

Based on estimated values

State Investment Council

Notifications

Credit Suisse's Customized Fund Investment Group ("CFIG") sale to Grosvenor

History:

- From November 2005 through 2008, the New Jersey Division of Investment (the "Division") committed $650 million to CSFB/NJDI Investment Fund, which targets U.S. small market buyout funds.
- Beginning in April 2007, the Division committed $200 million to CSFB/NJDI Emerging Opportunities Fund, which targets managers in their first, second, or third fund raise within buyout or venture capital.
- The investment adviser for the two investment funds is Credit Suisse's Customized Fund Investment Group ("CFIG").
- Both funds have completed their investment periods.

CFIG Sale:

On July 31, 2013, Credit Suisse entered into a sale agreement for their Customized Fund Investment Group ("CFIG") with Grosvenor Capital Management, L.P. ("Grosvenor"). After the sale is complete, the General Partner for the two investment funds will be controlled by Grosvenor, and a new Grosvenor entity will act as investment adviser for the funds.

Grosvenor is one of the largest discretionary allocators to hedge funds, with approximately $23 billion in AUM. The combination of CFIG and Grosvenor will create one of the world's largest independent alternative asset management firms, with approximately $40 billion in AUM and 400 employees.

The Grosvenor and CFIG investment platforms will continue to operate independently, and the day-to-day management of client relationship will not change. It is expected that CFIG's current team will remain substantially in place following the transaction.

Proposed Action:

Given that the transaction is not expected to affect the management of the two funds, the Division intends to consent to the transaction. The Division is notifying the SIC of this transaction under its Modification Procedures, which require notice of any "change in, or change of control of, the general partner or investment manager of a fund".

Additional Alternative Investment Notification

Aether: At the September 2013 State Investment Council meeting, the Division presented a proposed $100 million investment in Aether Real Assets Surplus, L.P. (the "Surplus Fund"), a separate account that would act as an overage account for Aether Real Assets III, L.P. Subsequently, Aether proposed to increase the size of the Surplus Fund to up to $250 million and to permit other investors to invest in the Surplus Fund. This modification would have no effect on the strategy of the Division's proposed $100 million commitment amount, but it should decrease the Division's pro rata share of the Surplus Fund's organizational costs, which have a cap of $100,000.

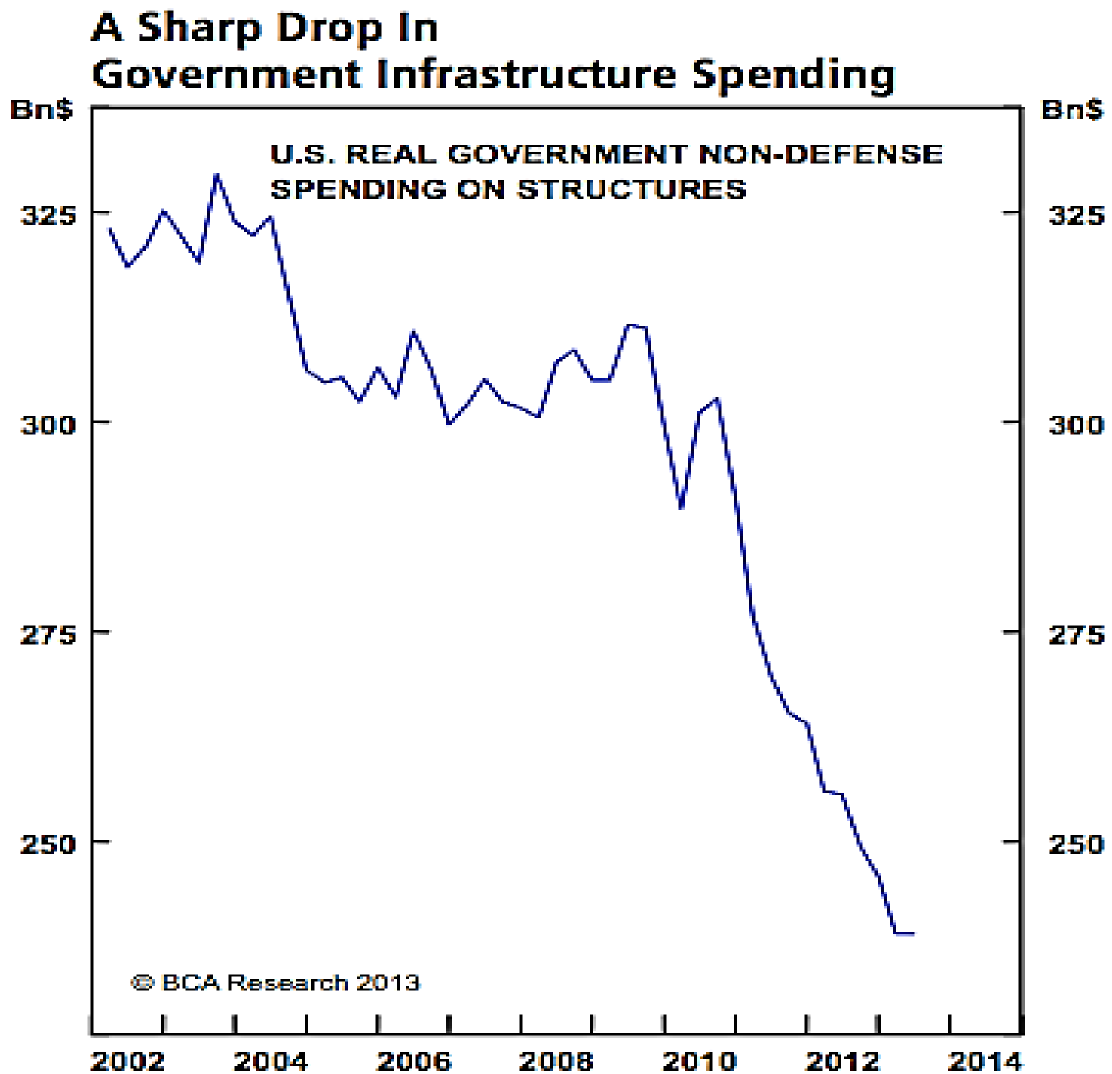
Purpose of Notification:

The Division is notifying the SIC of this activity under its Modification Procedures.

Interesting Charts

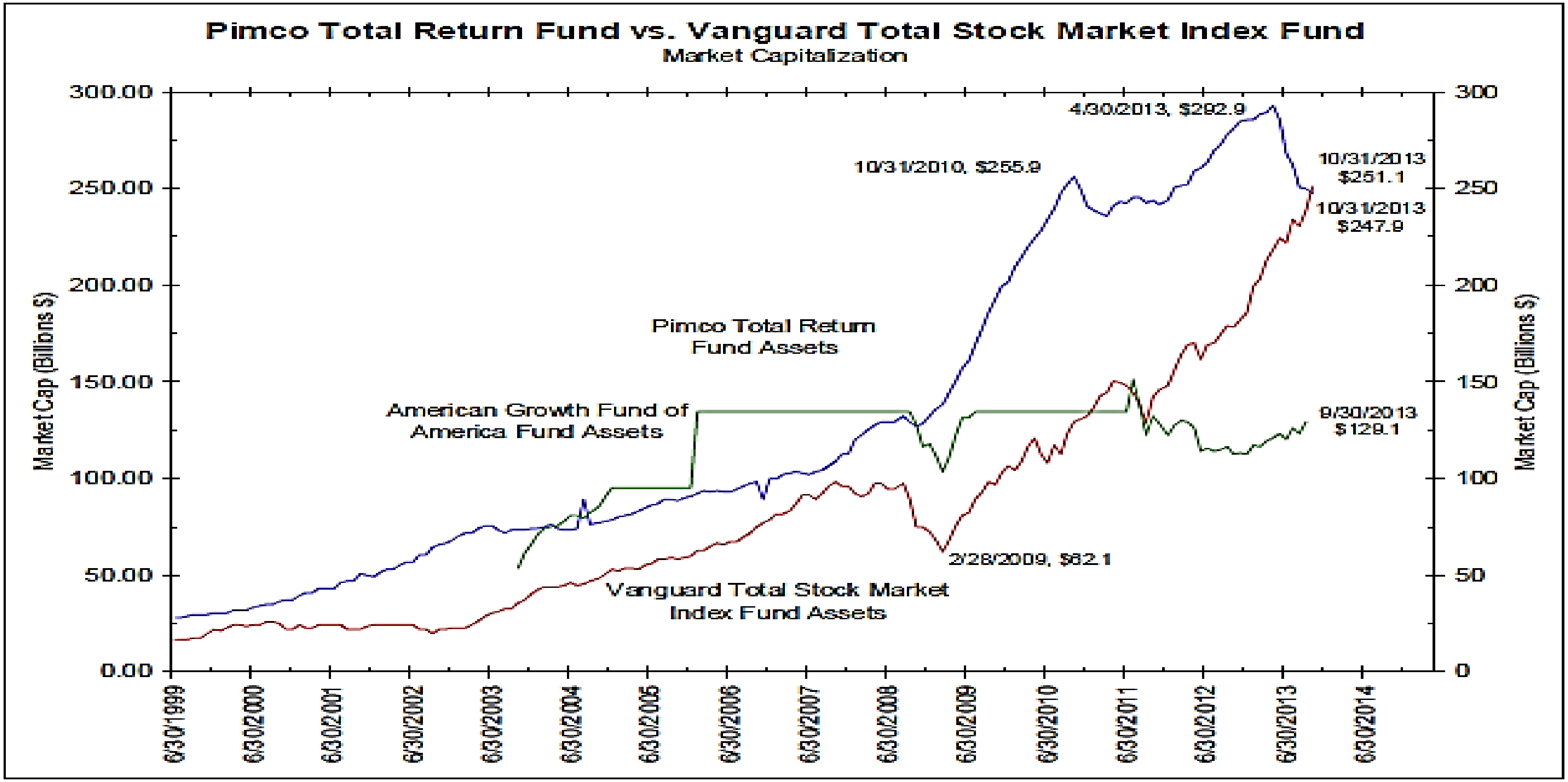
In the five and ten years ended 2012, real government non-defense investment in structures declined at annualized rates of 3.3% and 2.4%, respectively. This includes state and local governments because they account for three-quarters of government non-defense capital spending, heavily financed by federal grants.

The sharp decline in infrastructure spending is not due to a lack of need — the American Society of Civil Engineers gave the nation's infrastructure a D+ on its 2013 report card .



The World's Largest Mutual Fund

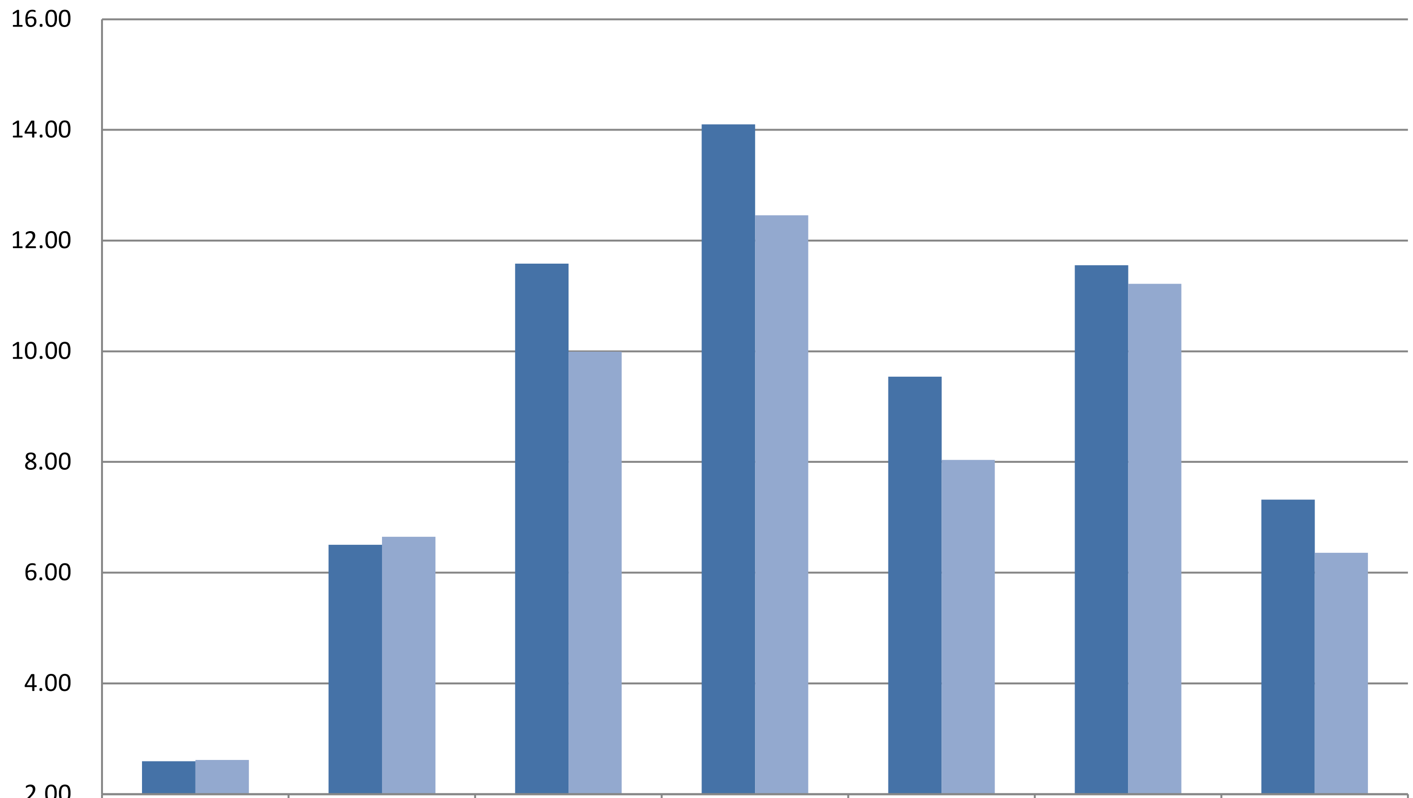
Through the 1990s until 2001, the largest mutual fund was the Fidelity Magellan Fund. The American Growth Fund then became the largest until 2008, when the Pimco Total Return Fund took over. Recently the Vanguard Total Stock Market Index Fund has become the largest with assets $ billion251



Source: Bianco Research

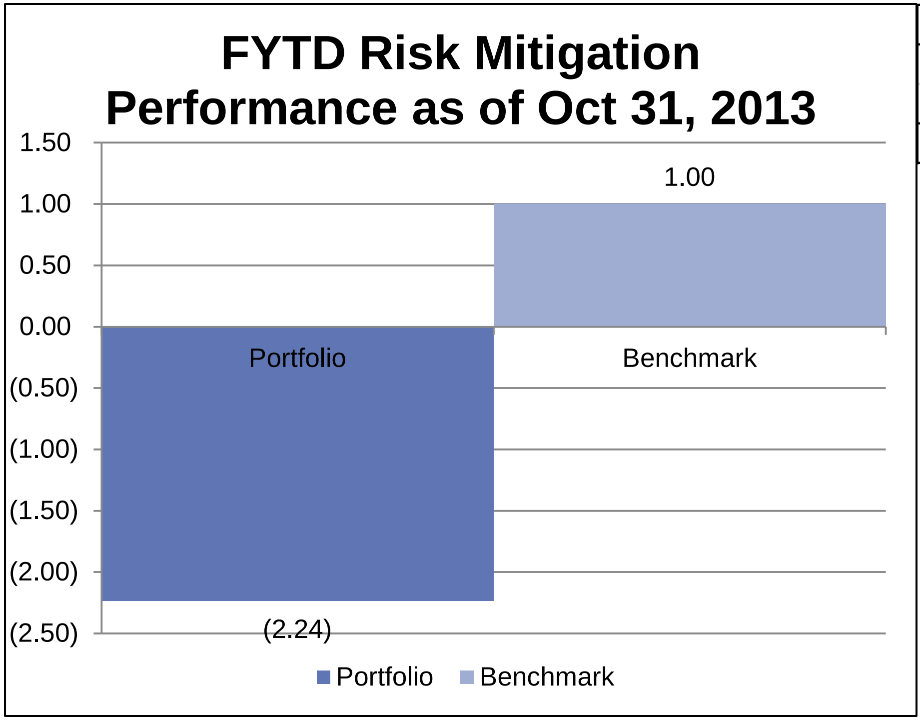
Performance Appendix

Total Fund ex Police and Fire Mortgages as of 10/31/2013



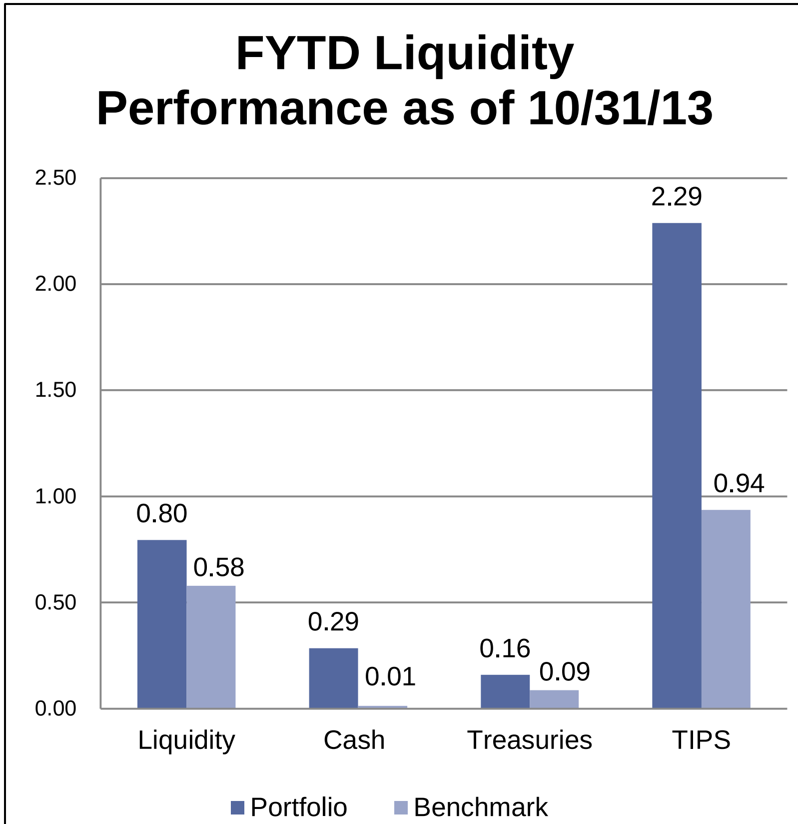
	1 Month	FYTD	CYTD	1 Year	3 Year	5 Year	10 Year
Total Fund ex Police & Fire Mortgage	2.59	6.50	11.59	14.10	9.54	11.56	7.32
Benchmark	2.62	6.65	10.00	12.46	8.04	11.22	6.36

- The Total Fund ex Police and Fire Mortgages returned 2.59% in October to bring the Fiscal Year-to-Date return to 6.50% and the Calendar Year-to-Date return to 11.59%.
- The Fund is ahead of the benchmark calendar year-to-date and for 1-, 2-, 3-, 5- and 10-year periods.



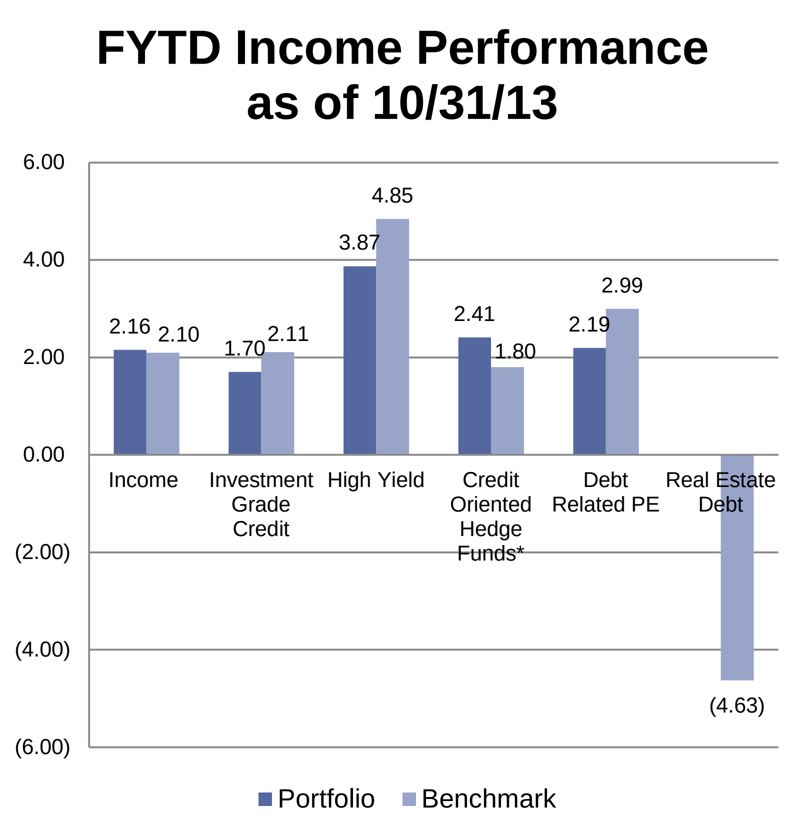
Returns as of Oct 31, 2013	1 Month	FYTD	CYTD	1 Year	2 Year
Absolute Return Hedge Funds	(0.52)	(2.24)	2.82	2.99	1.98
1M LIBOR + 400 BPS	0.34	1.36	3.44	4.14	4.20
Difference	(0.86)	(3.60)	(0.62)	(1.15)	(2.21)

- The Risk Mitigation return is composed largely of the returns of Absolute Return Hedge Funds. The returns are generally reported on a one month lag for direct funds and one to two months for fund of funds.
- The Absolute Return Hedge Funds as a group have returned -2.24% FYTD and 2.82% CYTD in what has been a challenging environment for macro-oriented and CTA managers. While the return is below the LIBOR Plus 400 bps benchmark, the portfolio has outperformed the HFRI Macro Index CYTD and for 1 year.
- The Fund's underweight to the Risk Mitigation category against the target allocation has positively contributed to performance FYTD.



Rates as of Oct 31, 2013	1 Month	FYTD	CYTD	1 Year	2 Year
Cash Equivalents	0.04	0.29	1.73	1.95	2.14
91 Day Treasury Bill (Daily)	(0.00)	0.01	0.05	0.09	0.08
Difference	0.04	0.28	1.68	1.87	2.06
US Treasuries	0.37	0.16	(5.52)	(5.51)	2.14
Custom US Treasuries Benchmark	0.76	0.09	(3.90)	(4.06)	(0.32)
Difference	(0.39)	0.07	(1.61)	(1.46)	2.46
TIPS	0.55	2.29	(6.87)	(7.19)	2.58
Custom TIPS Benchmark	0.79	0.94	(12.01)	(12.78)	(1.77)
Difference	(0.25)	1.35	5.14	5.58	4.35

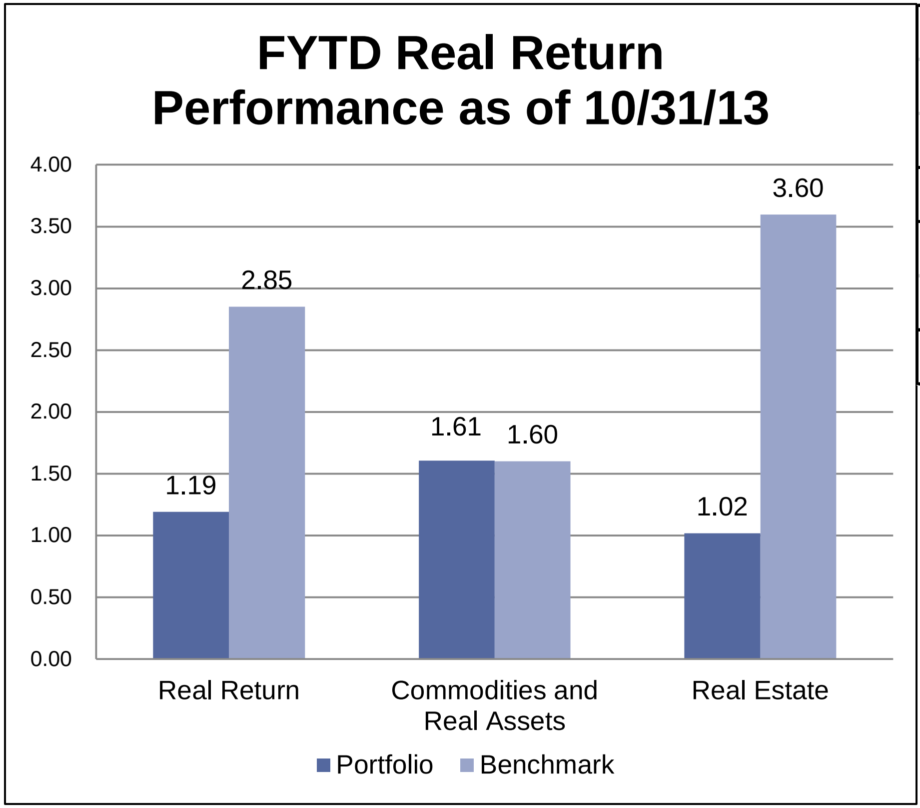
- The Liquidity portfolio has outperformed the benchmark by 22 basis points FYTD as all three components of the portfolio have exceeded their respective benchmarks.
- An underweight to Treasuries relative to the target allocation has helped performance as Cash has outperformed. However, an underweight to TIPS has been a detraction FYTD.
- Relative performance for TIPS has benefited from having a shorter duration than the benchmark.



Returns as of Oct 31, 2013	**1 Month**	**FYTD**	**CYTD**	**1 Year**	**2 Year**
Investment Grade Credit	1.23	1.70	(2.35)	(2.68)	3.74
Custom Investment Grade Credit	1.19	2.11	(3.06)	(3.38)	3.41
Difference	0.04	(0.41)	0.71	0.71	0.33
High Yield	2.01	3.87	9.64	13.53	15.29
Barclays Corp High Yield (Daily)	2.51	4.85	6.33	8.87	11.22
Difference	(0.49)	(0.97)	3.31	4.66	4.07
Credit-Oriented Hedge Funds*	1.33	2.41	12.91	15.35	11.73
Custom Credit HF Benchmark	1.07	1.80	10.82	12.53	11.15
Difference	0.25	0.61	2.09	2.82	0.58
Debt-Related Private Equity	1.66	2.19	18.62	24.20	15.56
Cambridge PE 1 Qtr Lag	-	2.99	11.35	16.28	11.08
Difference	1.66	(0.80)	7.27	7.91	4.48
Real Estate Debt	0.07	0.25			
Barclays CMBS 2.0 Baa + 100 bps **	2.70	(4.63)			
Difference	(2.62)	4.88			

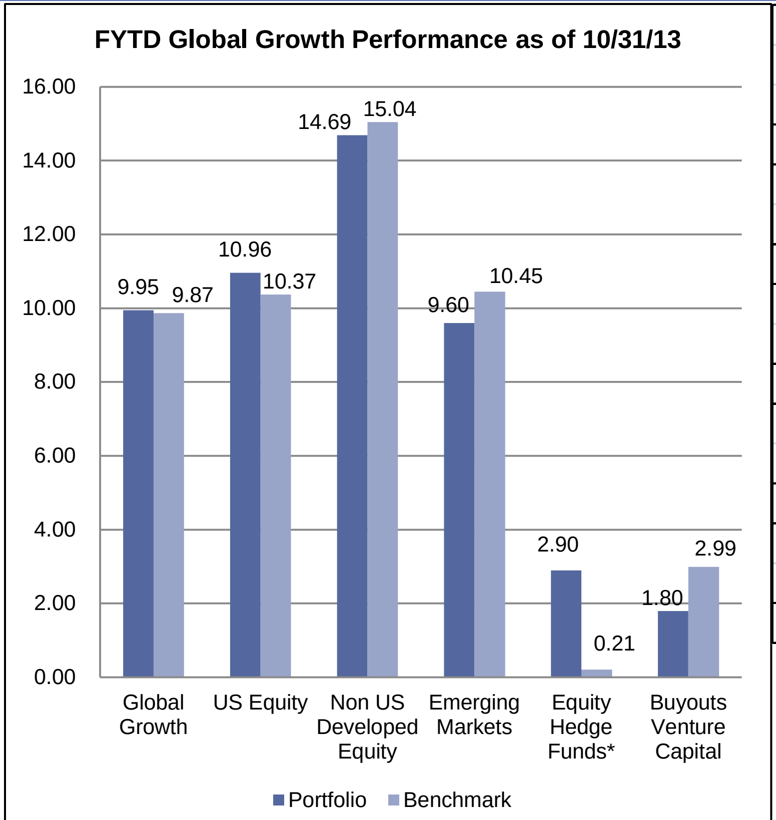
- The Income portfolio has outperformed by 6 basis points FYTD
- The Investment Grade Credit portfolio has underperformed the benchmark FYTD as the portfolio has lower-beta, higher quality securities. The portfolio is ahead of the benchmark CYTD and for the one and two year periods.
- The High Yield portfolio has performed well over the last 2 years, as alternative High Yield strategies are up over 19% for this period.
- Credit Oriented Hedge Funds have also been additive over the last year as managers with distressed and structured credit exposure have been the best performers.

*Reported on a one month lag.
** Reported on a one quarter lag



Returns as of Oct 31, 2013	1 Month	FYTD	CYTD	1 Year	2 Year
Commodities & Reasl Assets	0.93	1.61	(4.10)	(4.85)	(2.02)
Custom Commodities and RA Benchmark	1.11	1.60	3.07	2.28	1.85
Difference	(0.18)	0.01	(7.17)	(7.14)	(3.86)
Real Estate	0.03	1.02	12.10	13.77	11.47
NCREIF Property Index	-	3.60	9.31	12.09	11.54
Difference	0.03	(2.58)	2.79	1.69	(0.08)

- The Real Return portfolio underperformed by 166 basis points FYTD; however, since the bulk of the portfolio is reported on a lag, the Division believes the performance of the portfolio is understated.
- Recent performance of the Real Estate Portfolio has been strong relative to the benchmark based on valuation increases.



Returns as of Oct 31, 2013	1 Month	FYTD	CYTD	1 Year	2 Year
Domestic Equity	4.69	10.96	26.29	28.89	22.08
S&P 1500 Super Composite (Daily)	4.49	10.37	25.79	28.10	21.32
Difference	0.20	0.59	0.49	0.80	0.76
Non-US Dev Market Equity	3.36	14.69	19.31	25.68	14.79
NJDI Iran + Sudan Free EAFE + Canada	3.41	15.04	19.03	25.18	14.45
Difference	(0.05)	(0.36)	0.28	0.51	0.35
Emerging Market Equity	4.33	9.60	(1.32)	5.90	5.30
NJDI Iran + Sudan Free EM Index	4.84	10.45	0.46	7.02	5.39
Difference	(0.50)	(0.85)	(1.79)	(1.11)	(0.09)
Total Equity Oriented Hedge Funds*	2.16	2.90	13.67	15.91	12.69
Custom Equity HF Benchmark	1.35	0.21	6.30	6.44	4.67
Difference	0.81	2.69	7.37	9.47	8.02
Buyouts-Venture Capital	0.88	1.80	12.36	16.04	11.14
Cambridge Associates PE 1 Qtr Lag	-	2.99	11.35	16.28	11.08
Difference	0.88	(1.19)	1.01	(0.24)	0.05

- The Global Growth portfolio has outperformed the benchmark by 8 basis points FYTD and is ahead by 82 basis points year to date.
- The Fund's overweight to Global Growth relative to the target weight, in particular US and Developed Non-US equity, has positively impacted Total Fund performance FYTD as publicly traded equities have been the best performing segment of the portfolio.
- The Domestic Equity portfolio is now ahead of the benchmark by 59 basis points FYTD, while the Developed Market Non-US equity portfolio trails by 36 basis points FYTD.
- The Emerging Markets portfolio trails the benchmark by 85 basis points FYTD as the Adviser portfolios have underperformed by 18 basis points while the ETF portfolio underperformed by 165 basis points. The Adviser portfolio has outperformed by nearly 200 bps over the past two years.
- The Equity Oriented hedge fund portfolio has performed well relative to hedge fund benchmark over the past year, up over 14%, more than 800 bps above the index, as the managers with higher net equity exposure have done exceptionally well. Overall

*Reported on a one month lag