

NEW JERSEY DIVISION OF INVESTMENT

Director's Report

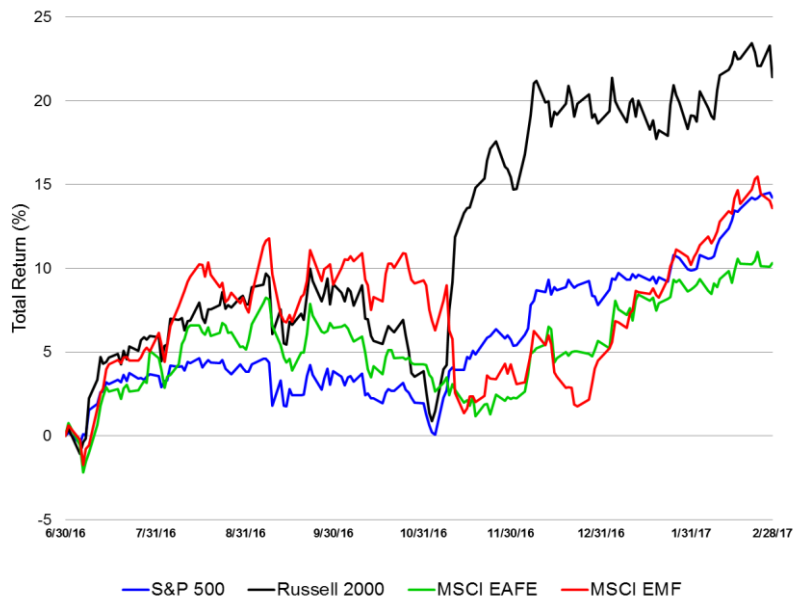
March 29, 2017

State Investment Council Meeting

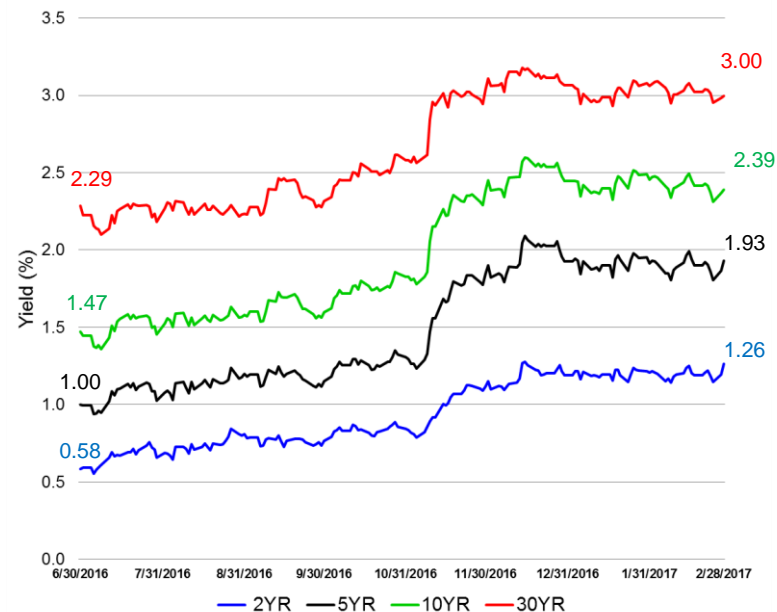
“The mission of the New Jersey Division of Investment is to achieve the best possible return at an acceptable level of risk using the highest fiduciary standards.”

Capital Markets Update (through February 28, 2017)

Fiscal Year 2016 Equity Market Returns

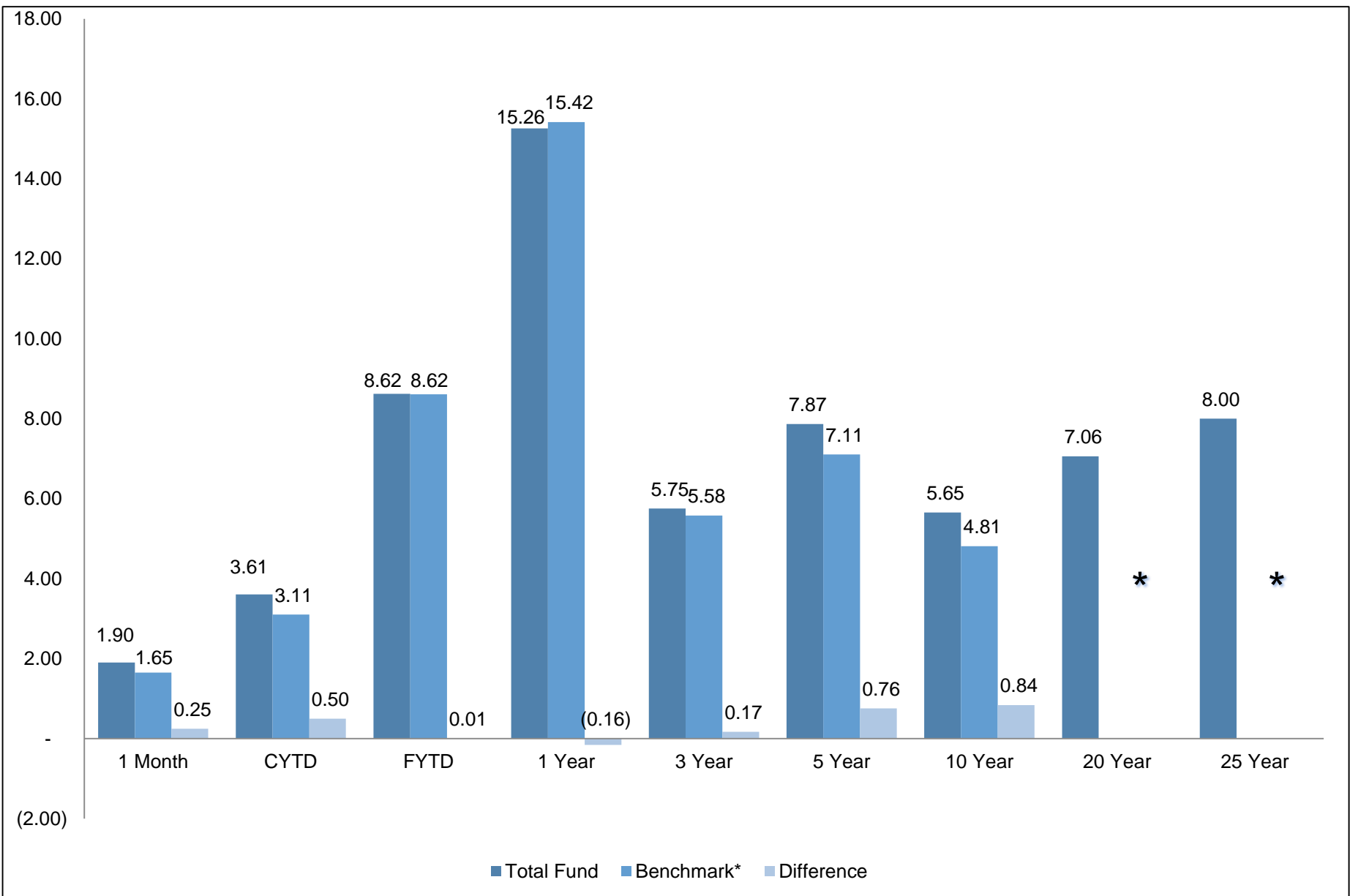


Fiscal Year 2016 U.S. Treasury Yields



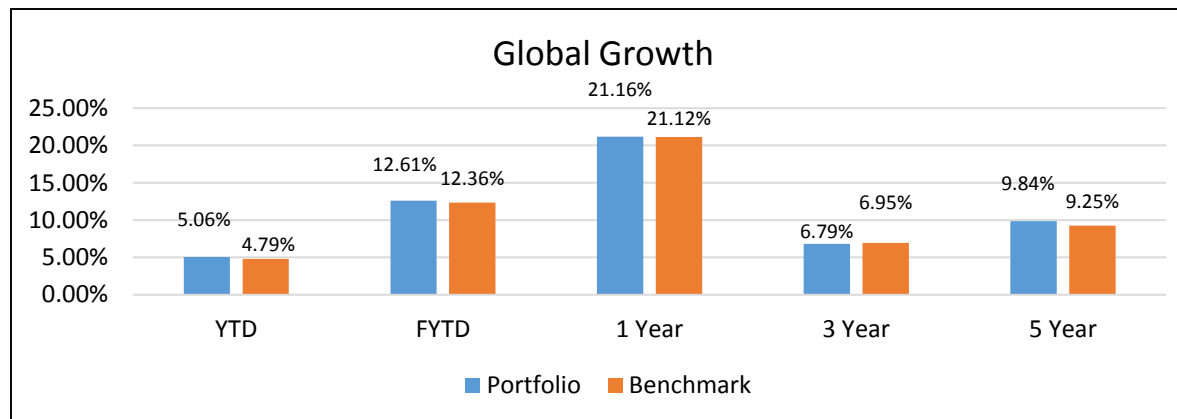
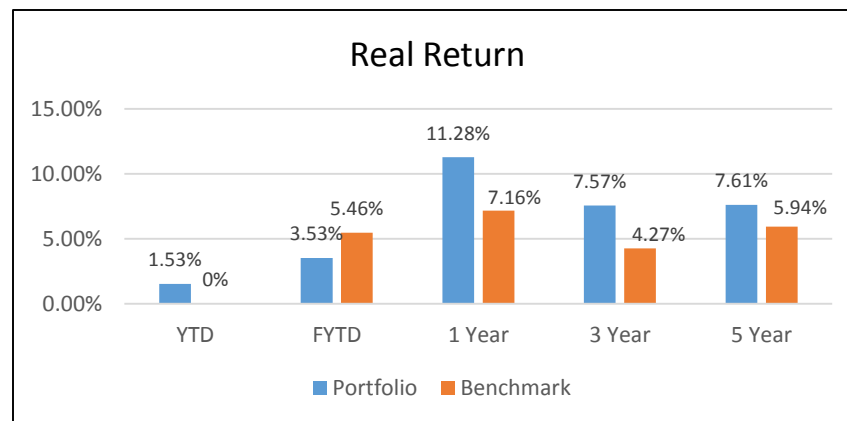
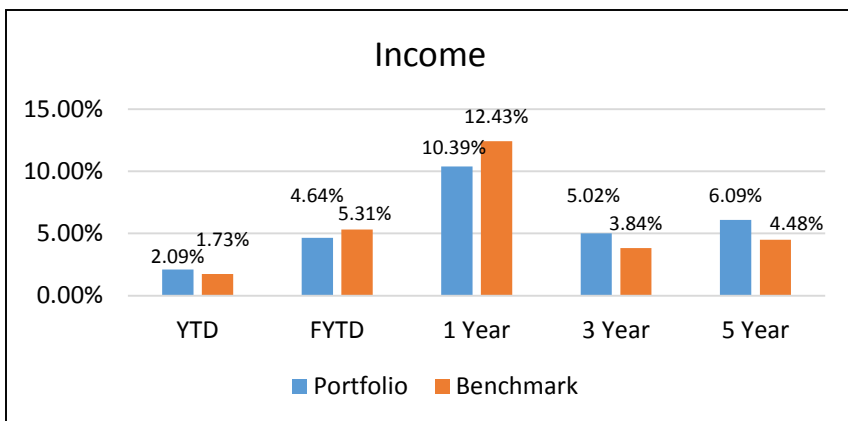
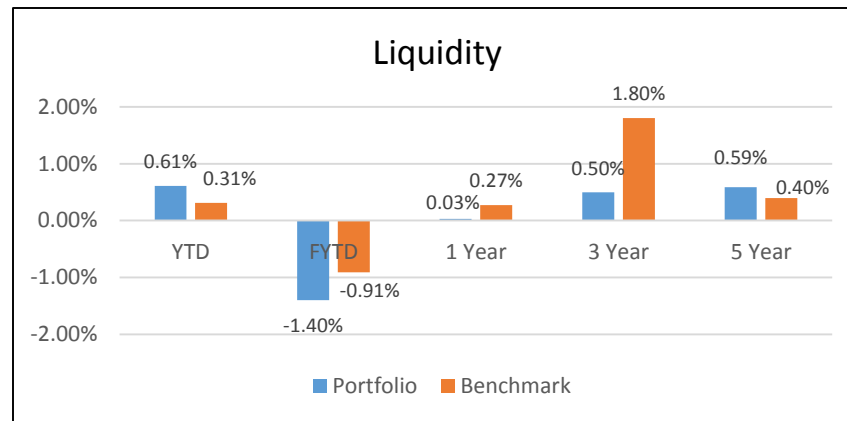
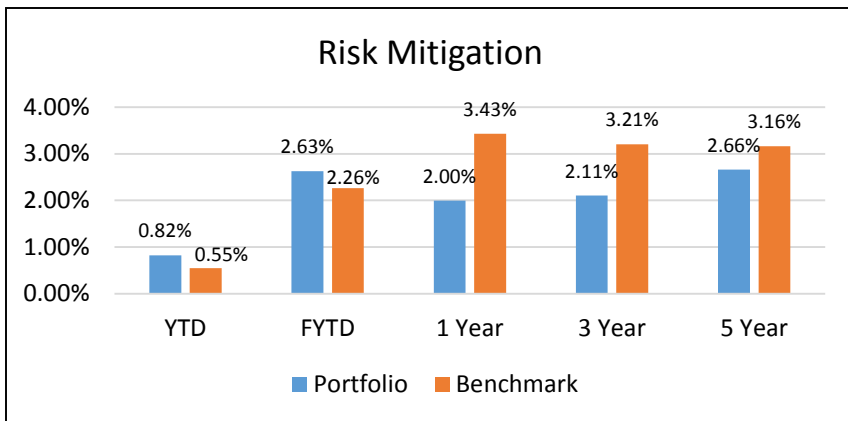
	February 28, 2017	MTD %	CYTD%	FYTD %	1 Yr %	3 Yrs %	5 Yrs %	10 Yrs %	
Domestic Equity	S&P 500	3.97	5.94	14.22	24.97	10.63	14.00	7.62	1
	Russell 2000	1.93	2.33	21.42	36.08	6.92	12.89	7.21	2
International Equity	MSCI EAFE	1.43	4.37	10.30	15.75	(0.62)	5.16	1.03	3
	MSCI EMF	3.06	8.70	13.58	29.46	1.35	(0.37)	2.86	4
Bond	Barclays Agg	0.67	0.87	(1.68)	1.42	2.64	2.24	4.28	5
	Barclays HY	1.46	2.93	10.55	21.83	4.72	6.84	7.49	6
	Barclays US Tips	0.47	1.31	(0.17)	3.36	1.89	0.77	4.27	7
Commodity	Bloomberg	0.17	0.26	(1.24)	15.53	(13.16)	(9.93)	(6.46)	8
Real Estate	Bloomberg REIT	4.10	4.31	0.34	18.49	11.48	11.77	4.82	9
Hedge Funds	HFRI Composite Index*	1.02	2.23	6.54	10.73	2.68	3.97	3.40	10

*Preliminary



(1) Pension Fund return excludes Police and Fire Mortgage Program

*Benchmark return not available for 20 and 25-Year period



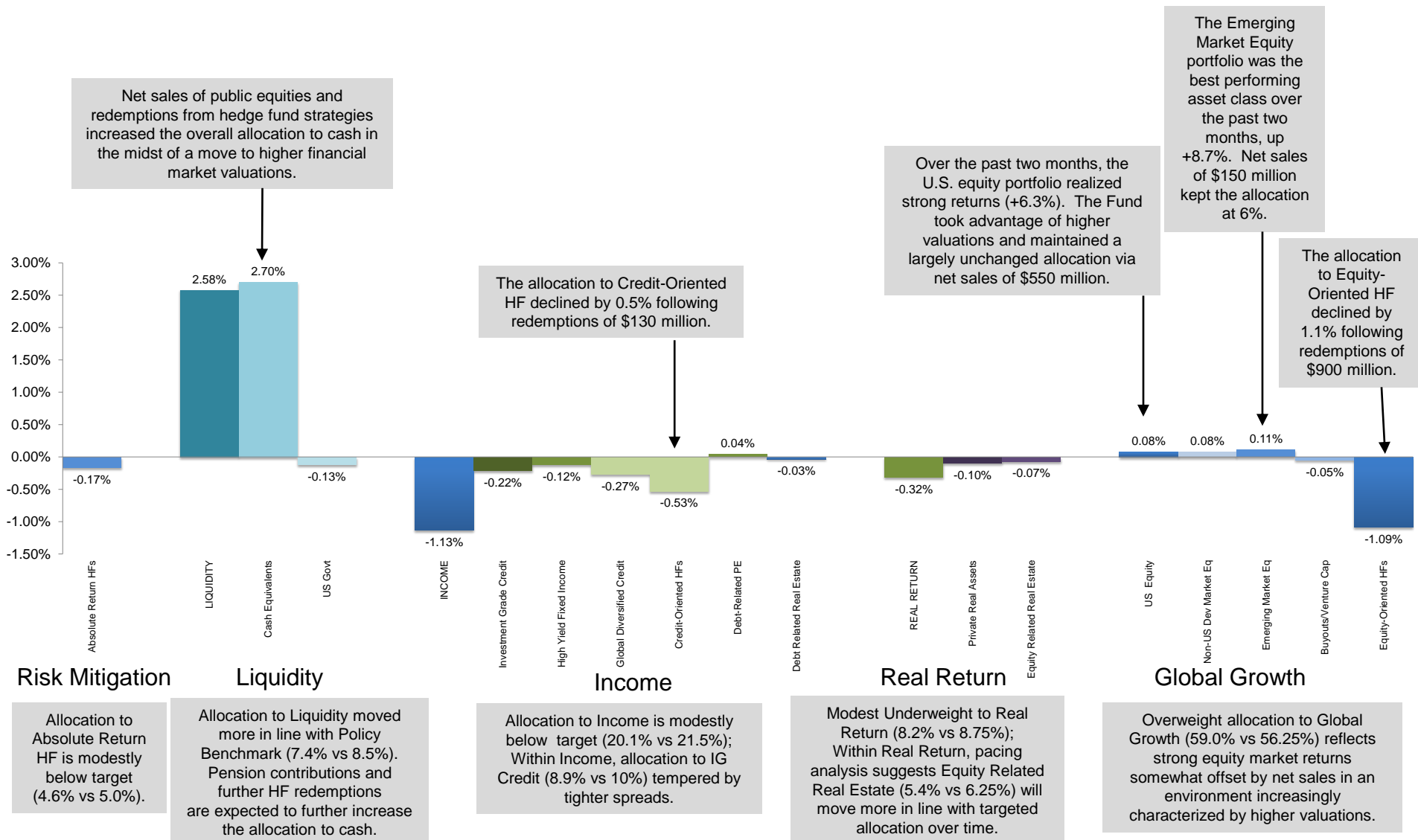
Asset Class	ASSET ALLOCATION ⁽¹⁾				PERFORMANCE (for periods ending February 28, 2017) ⁽²⁾								Long Term CMA
	As of February 28, 2017				Calendar YTD		FYTD		Trailing Twelve Months		Trailing Three Years		
	Mkt Value	Actual (%)	Target (%)	Difference	NJ	Bench	NJ	Bench	NJ	Bench	NJ	Bench	
RISK MITIGATION													
Absolute Return HF's	3,091	4.32%	5.00%	-0.68%	0.82%	0.55%	2.63%	2.26%	2.00%	3.43%	2.11%	3.21%	5.39%
Risk Mitigation Hedging	191	0.27%	0.00%	0.27%									
TOTAL RISK MITIGATION	3,282	4.58%	5.00%	-0.42%	0.82%	0.55%	2.63%	2.26%	2.00%	3.43%	2.11%	3.21%	
LIQUIDITY													
Cash Eqv	2,945	4.11%	5.50%	-1.39%	0.21%	0.09%	0.77%	0.27%	1.29%	0.39%	1.04%	0.16%	1.00%
Short Term	606	0.85%	0.00%	0.85%	0.26%	0.09%	0.75%	0.27%	1.57%	0.39%	0.58%	0.16%	
TIPS	454	0.63%	0.00%	0.63%	1.58%	0.72%	-1.02%	-2.73%	1.97%	0.88%	0.80%	2.10%	
US Treasuries	1,306	1.82%	3.00%	-1.18%	0.94%	0.72%	-5.30%	-3.42%	-3.43%	-1.24%	0.78%	2.46%	1.73%
TOTAL LIQUIDITY	5,311	7.41%	8.50%	-1.09%	0.61%	0.31%	-1.40%	-0.91%	0.03%	0.27%	0.50%	1.80%	
INCOME													
Investment Grade Credit	6,397	8.93%	10.00%	-1.07%	1.14%	1.15%	-0.84%	-0.89%	4.14%	5.15%	3.53%	3.16%	3.54%
Public High Yield	1,592	2.22%	2.50%	-0.28%	3.10%	2.93%	10.30%	10.55%	19.42%	21.83%	5.06%	4.73%	6.49%
Global Diversified Credit	3,218	4.49%	5.00%	-0.51%	3.22%	2.93%	11.06%	10.55%	17.96%	21.83%	9.37%	4.73%	6.80%
Credit-Oriented HF's	2,073	2.89%	1.00%	1.89%	3.19%	3.81%	9.20%	11.83%	14.94%	18.87%	4.27%	2.68%	6.38%
Debt-Related PE	705	0.98%	2.00%	-1.02%	0.84%	0.37%	5.09%	13.49%	8.40%	15.51%	7.18%	7.37%	9.29%
Debt Related Real Estate	438	0.61%	1.00%	-0.39%	0.50%	-3.35%	-2.18%	1.02%	-0.15%	1.59%	3.83%	6.41%	6.00%
TOTAL INCOME	14,422	20.13%	21.50%	-1.37%	2.09%	1.73%	4.64%	5.31%	10.39%	12.43%	5.02%	3.84%	
REAL RETURN													
Commodities	263	0.37%	0.00%	0.37%	3.28%	0.35%	-0.32%	-0.97%	13.65%	15.96%			4.28%
Private Real Assets	1,755	2.45%	2.50%	-0.05%	-0.31%	0.00%	6.46%	11.40%	9.04%	-0.78%			9.56%
Equity Related Real Estate	3,869	5.40%	6.25%	-0.85%	2.24%	0.00%	2.69%	3.77%	11.70%	9.08%	12.64%	11.42%	8.09%
TOTAL REAL RETURN	5,887	8.22%	8.75%	-0.53%	1.53%	0.00%	3.53%	5.46%	11.28%	7.16%	7.57%	4.27%	
GLOBAL GROWTH													
US Equity	21,759	30.38%	30.00%	0.38%	6.28%	5.66%	16.59%	14.61%	27.62%	25.77%	9.36%	10.51%	6.80%
Non-US Dev Market Eq	7,846	10.95%	11.50%	-0.55%	4.57%	4.26%	9.52%	10.34%	16.06%	16.55%	-0.39%	-0.53%	7.28%
Emerging Market Eq	4,370	6.10%	6.50%	-0.40%	8.67%	8.84%	13.06%	13.54%	29.66%	29.38%	0.76%	1.60%	8.60%
Buyouts/Venture Cap	6,820	9.52%	8.25%	1.27%	0.26%	0.00%	4.26%	6.58%	8.99%	7.35%	15.38%	10.31%	10.08%
Equity-Oriented HF's	1,470	2.05%	0.00%	2.05%	2.49%	2.50%	11.03%	9.06%	8.79%	14.61%	1.82%	4.70%	7.79%
TOTAL GLOBAL GROWTH	42,265	59.00%	56.25%	2.75%	5.06%	4.79%	12.61%	12.36%	21.16%	21.12%	6.79%	6.95%	
OTHER													
OPPORTUNISTIC PE	288	0.40%			2.58%		5.60%		6.42%				
OTHER	178	0.25%											
TOTAL FUND ⁽³⁾	71,633	100.00%			3.61%	3.11%	8.62%	8.62%	15.26%	15.42%	5.75%	5.58%	
				S&P 500	5.94%		14.22%		24.97%		10.63%		
				Russell 2000	2.33%		21.42%		36.08%		6.92%		
				MSCI EAFE	4.37%		10.30%		15.75%		-0.62%		
				MSCI EMF	8.70%		13.58%		29.46%		1.35%		
				Barclays Agg	0.87%		-1.68%		1.42%		2.64%		
				Barclays HY	2.93%		10.55%		21.83%		4.72%		
				Bloomberg Commodities	0.26%		-1.24%		15.53%		-13.16%		
				Bloomberg REIT	4.31%		0.34%		18.49%		11.48%		
				HFRI	2.23%		6.54%		10.73%		2.68%		

¹ Current assets are based on preliminary values and do not include receivables of \$308 million primarily related to Real Estate secondary sale

² Unaudited and based on preliminary market values

³ Total Fund Performance excludes Police & Fire Mortgage Program

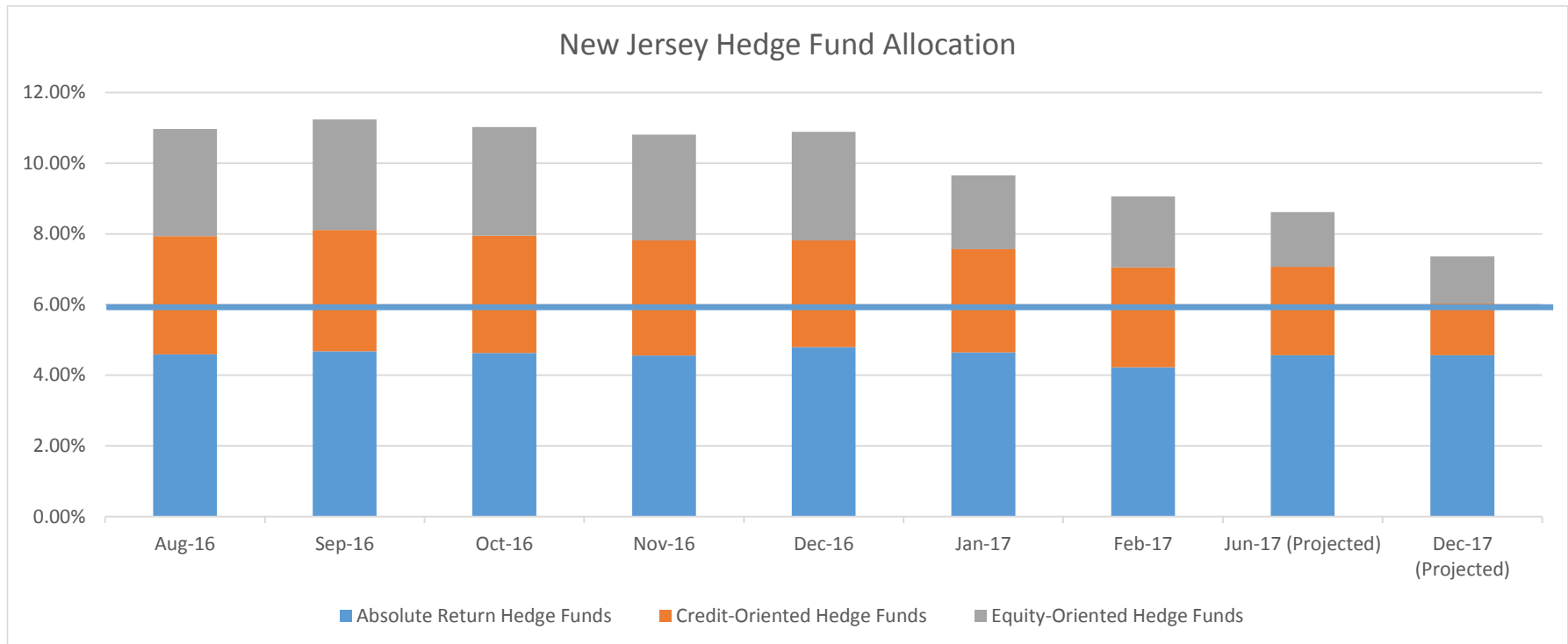
Pension Fund Update: Change in Sector Allocation from December 31, 2016 – February 28, 2017



The increased cash position resulted primarily from \$1 billion in hedge fund redemptions, as well as net sales within global equities as valuations expanded.

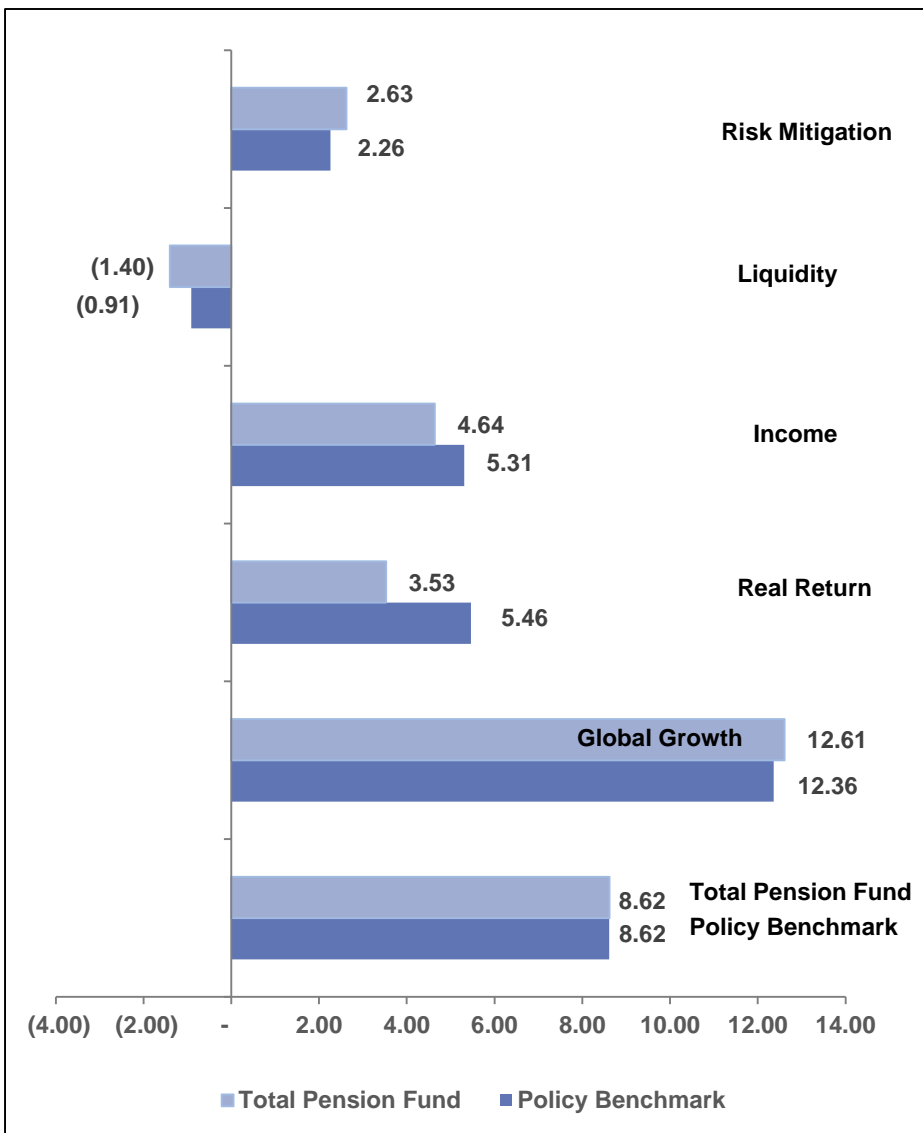
Hedge Fund Redemption Update

The chart below shows the progress to date towards the target allocation of 6% to hedge fund strategies. The allocation has been reduced from 11.2% in September 2016 to 9% as of the end of February 2017. Based on projected cash flows, the allocation is expected to be 8.6% by the end the fiscal year and 7.4% by the end of the calendar year.

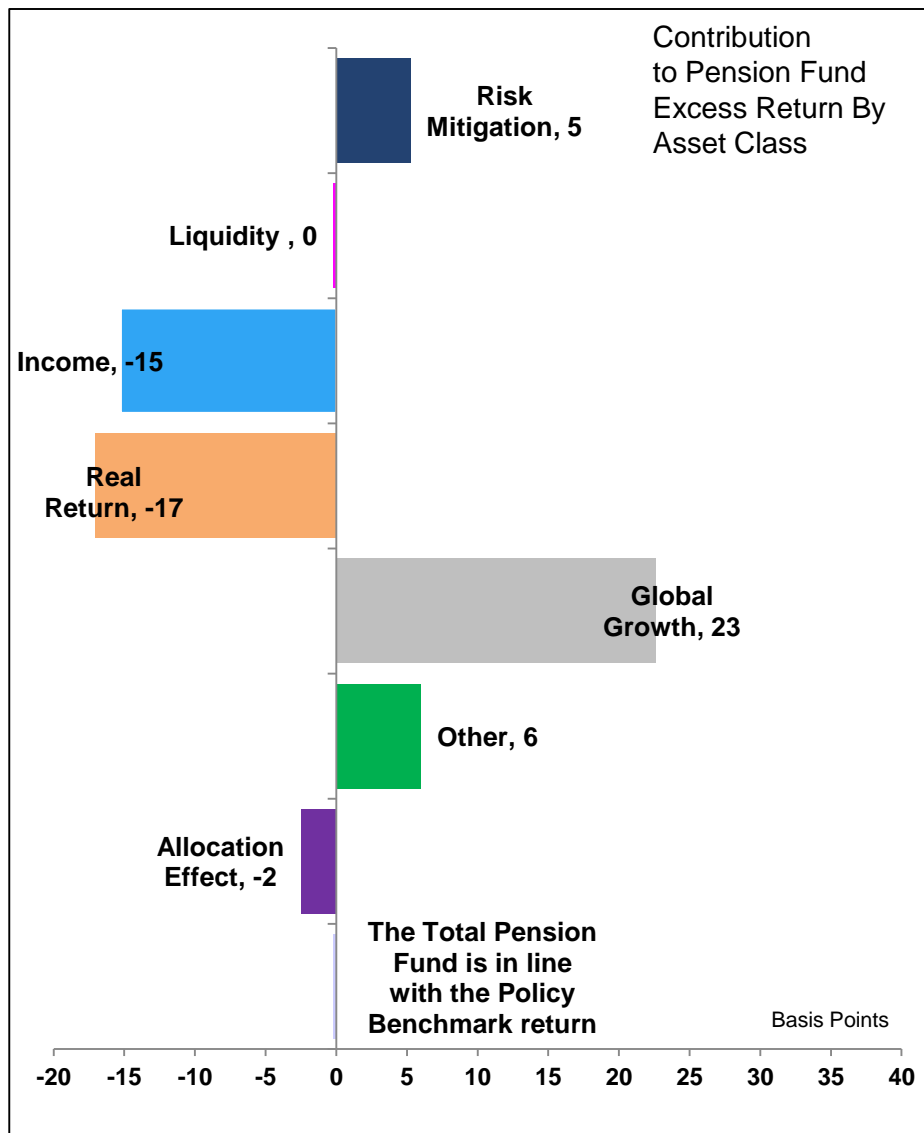


* Jun-17 and Dec-17 projections are based on expected cash flows and do not take into account future performance for hedge funds or the Total Fund

Performance by Asset Class Fiscal Year to Date through February 28th, 2017



Pension Fund Attribution vs. Benchmark Fiscal Year through February 28th, 2017



Allocation Effect indicates the effect of asset allocation overweights or underweights vs. the target allocations

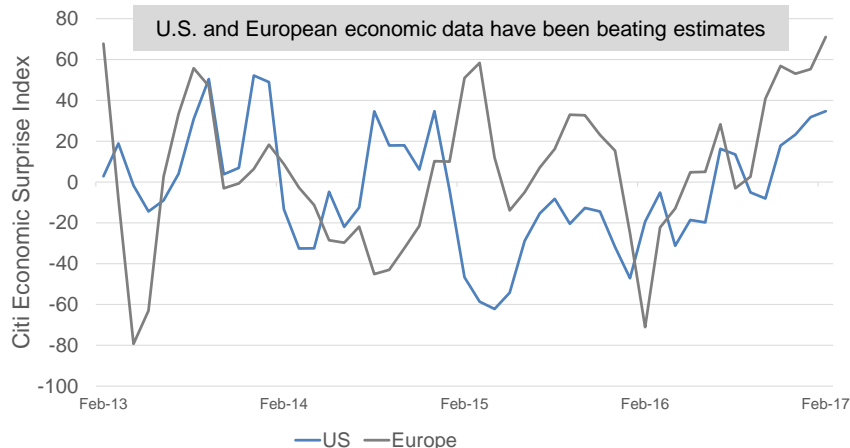
Global Equity Markets Have Performed Well Since the U.S. Elections

	U.S. Elections thru YE 16	YTD thru Mar 23	Total Returns since U.S. Elections
Total Returns (%) in US\$	Nov 7, 2016 – Dec 31, 2016	Dec 31, 2016 – Mar 23, 2017	Nov 7, 2016 – Mar 23, 2017
Global Equities (ACWI)	3.32	6.46	10.00
U.S. Large Cap (S&P 500)	5.42	5.29	11.00
U.S. Small Cap (Russell 2000)	14.13	-0.01	14.13
Non-U.S. Developed Mkts (EAFE)	2.44	6.96	9.56
Emerging Markets (MSCI EM)	-3.31	12.49	8.77
U.S. Fixed Income (U.S. Aggregate)	-2.26	0.64	-1.63
Commodities (Bloomberg Commodities Index)	4.40	-3.34	0.91
U.S. Dollar (Bloomberg Trade-Weighted)	5.65	-3.70	1.74

Since the U.S. elections, equities have outperformed fixed income, U.S. equities have outperformed non-U.S. equities, small caps have outperformed large caps, and developed markets have outperformed emerging markets. While returns have remained favorable during the first quarter of 2017, global equities have outperformed U.S. equities, large caps have outperformed small caps, and emerging markets have outperformed developed markets.

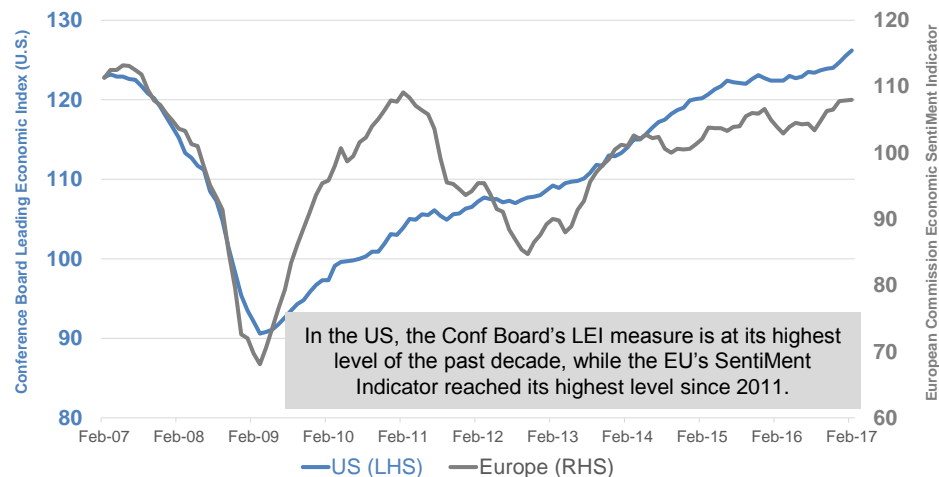
Financial Market Returns Have Been Supported By More Favorable Economic Data and Sentiment

Economic Data Has Surprised to the Upside

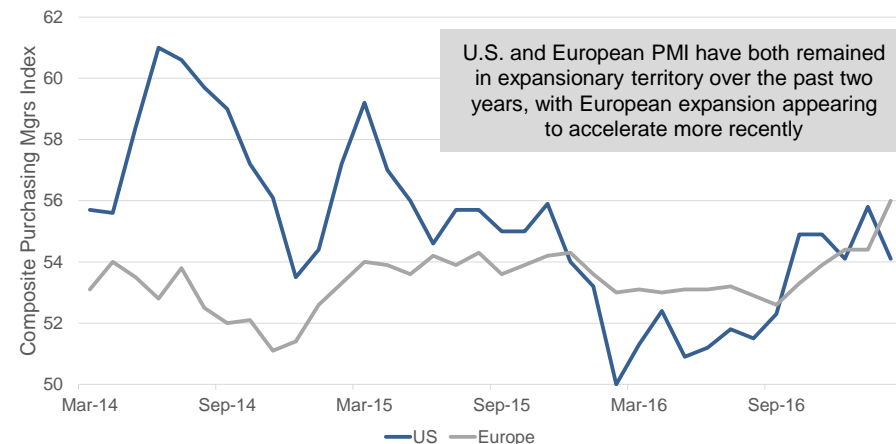


Stronger than expected economic data and improving consumer and business sentiment have buoyed year-to-date global equity returns of 7%. The Economic Surprise Index and PMI Surveys suggest the near-term economic momentum in Europe is somewhat stronger relative to the U.S., albeit from a lower base. In the meantime, the Conference Board's Leading Economic Indicators (LEI) Index reached its highest level in more than a decade in the U.S. in February.

Leading Economic Indicators Have Improved



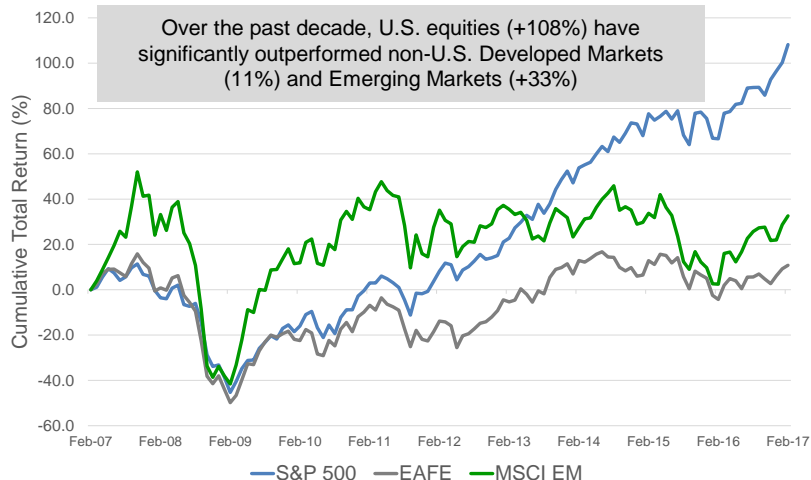
PMI Suggests Further Economic Expansion



Better than expected economic data and more favorable trends in measures of consumer and business sentiment have led to strong global equity market returns

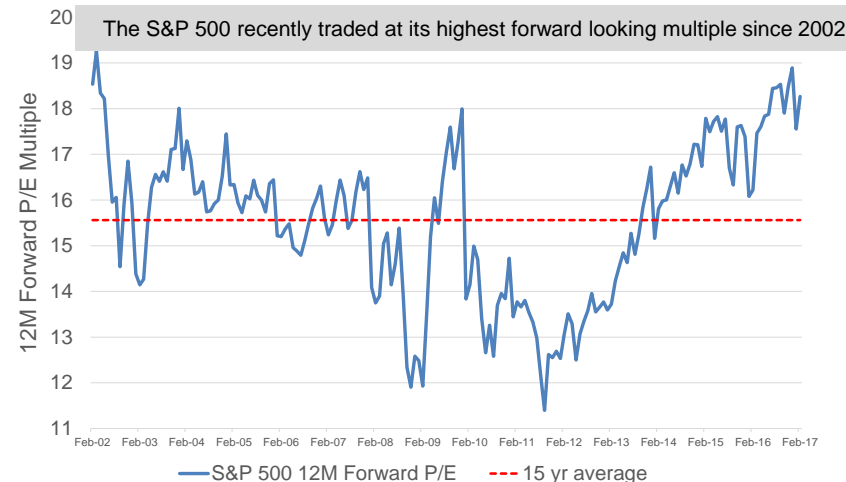
Global Equity Returns and Valuations

U.S. Equities Have Outperformed Non-U.S. Equities

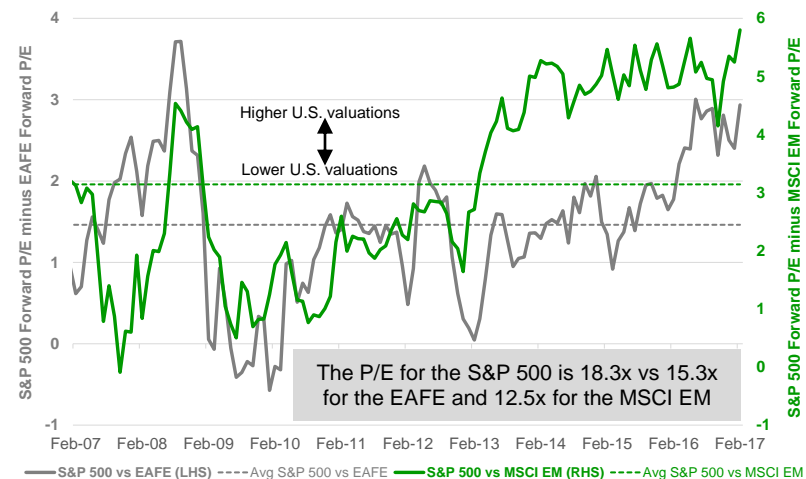


While recent strong returns for the S&P 500 have been driven by multiple expansion, investors may also be anticipating reflationary policies that would accelerate earnings growth. Notwithstanding favorable 2017 year-to-date returns for non-U.S. equities, valuations remain lower relative to U.S. equities. More favorable economic data and sentiment may be somewhat tempered by heightened geopolitical risk ahead of key elections and the formal process to begin Brexit.

U.S. Equity Valuations Appear High in Historical Context

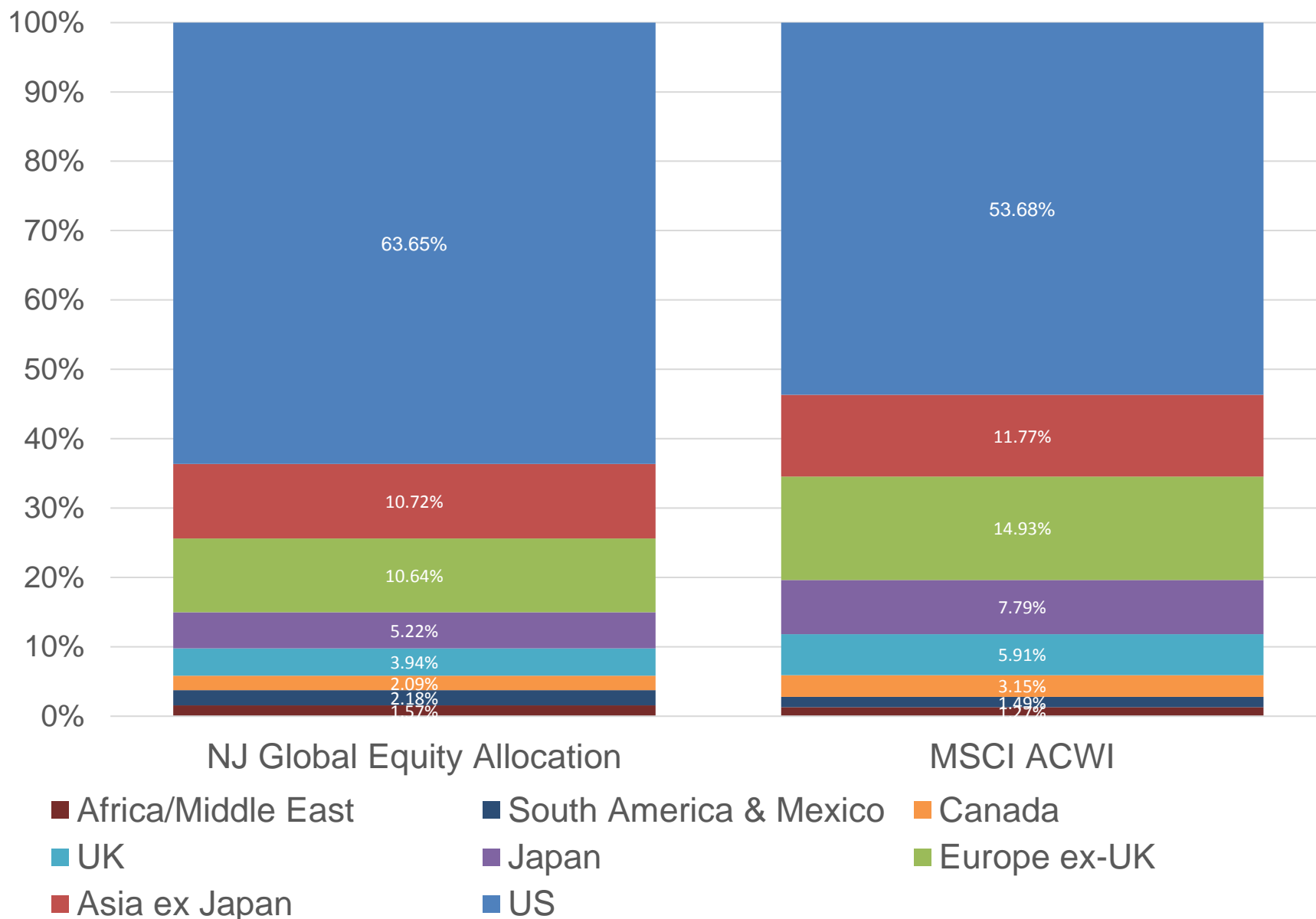


U.S. Equity Valuations Are Higher vs Non-U.S. Equities



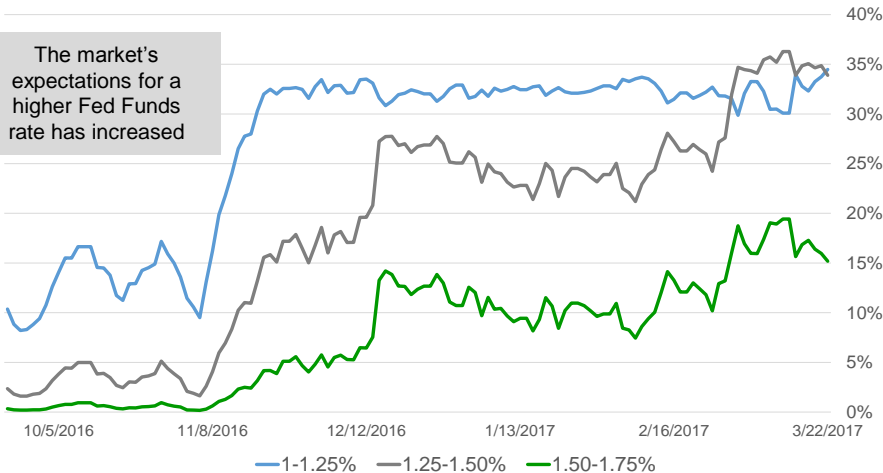
U.S. equities have meaningfully outperformed the global equity market over the past decade. Valuations for U.S. equities are now higher versus non-U.S. equities on an historical basis.

NJ Global Equity Allocation as of February 28, 2017

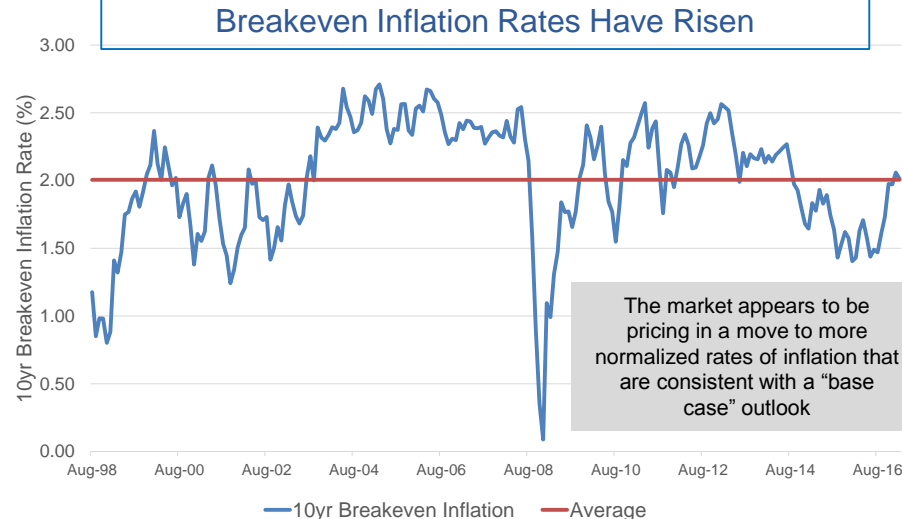


The Outlook for U.S. Monetary Policy and Inflation

Implied Probabilities for Targeted Fed Funds Rate December 13, 2017 Meeting

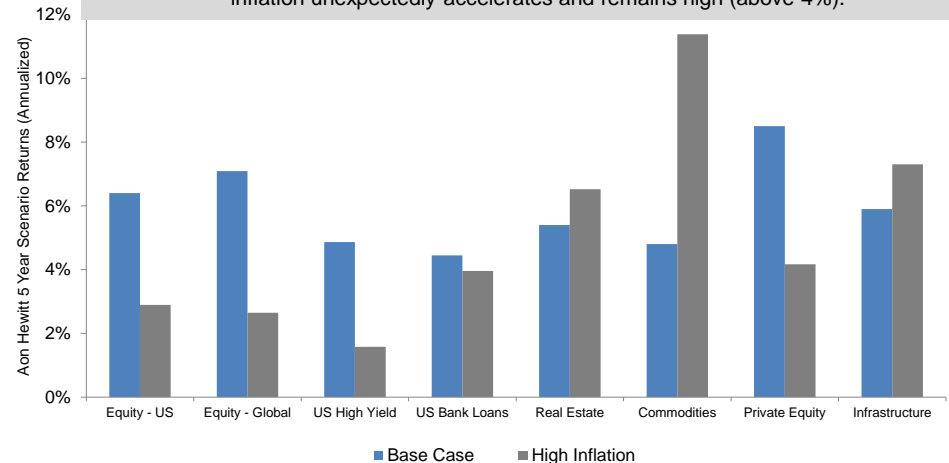


Following the Fed's March 15th decision to tighten monetary policy, markets have consolidated around the Fed's own expectations for an additional one or two rate increases for the rest of the year. Tighter monetary policy coincides with more normalized market expectations for inflation that is also in line with the Fed's own targeted inflation rate. While this "base case" outlook for inflation is expected to be a constructive backdrop for financial markets, if inflation further accelerates and remains elevated financial market returns would likely be adversely impacted.



Select Asset Class Five Year Scenario Returns

Aon Hewitt's projected returns suggest a less favorable financial market environment if inflation unexpectedly accelerates and remains high (above 4%).



The Fed is expected to maintain a gradual approach towards more normalized monetary policy, provided inflation remains in line with longer-term objectives. Higher than expected inflation could prove detrimental to financial market returns.

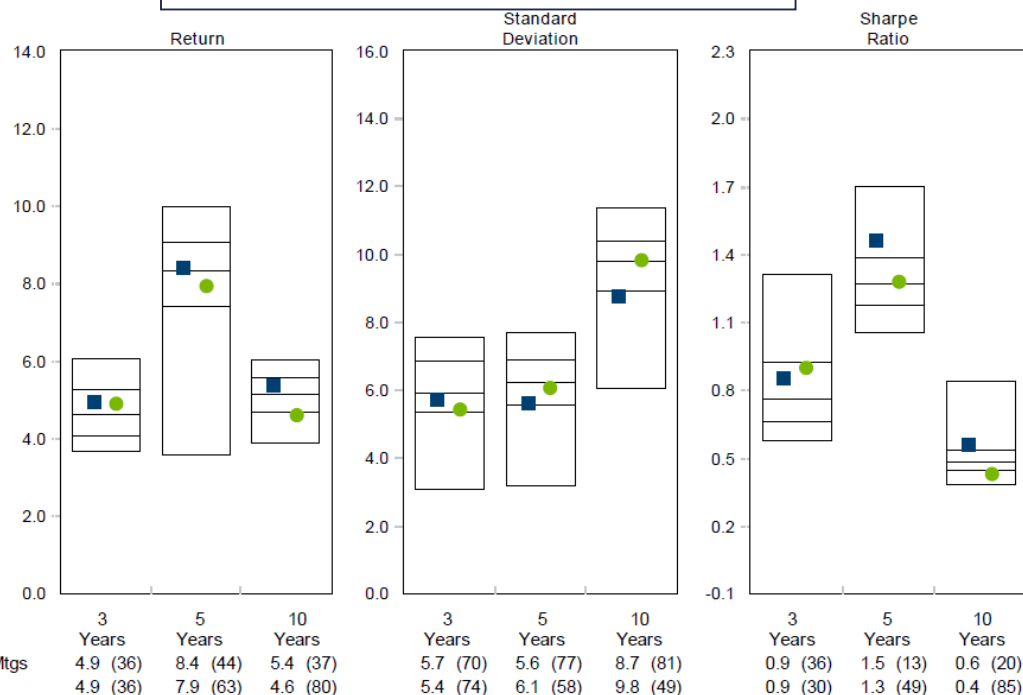
Noteworthy Developments

NJDOI Staff Departure: Meghna Desai, Portfolio Manager, Alternative Investments has resigned from her position effective March 17, 2017. Meghna directly managed a number of the Division's most important relationships and was responsible for conceptualizing and structuring a number of innovative transactions in the last several years. Upon the departure of Jason MacDonald, Head of Alternative Investments, Meghna took on additional responsibilities in managing the portfolio and the team. This marks the third significant departure from the alternative investment team in the last 8 months following the resignations of Jason MacDonald and Lou Kish. Samantha Rosenstock is now the interim head of Alternative Investments.

Police and Fire Pension Bill: Senate Bill 3040, introduced in February, would transfer investment authority over PFRS assets from the Division to the PFRS Board of Trustees, among other changes. The bill was approved by the Senate and by the Assembly.

NJ Pension Fund Performance Comparison versus Peers

Periods Ending December 31, 2016



Parentheses contain percentile rankings.

All Public Plans > \$1B – Total Fund: A Universe comprised of Total Fund portfolio returns, gross of fees, of public defined benefit plans > \$1B calculated and provided by BNY Mellon Performance & Risk Analytics and Investment Metrics
NJDOI Net of Fee Performance Source: State Street



The Fund's net returns ranked above the median peer universe of gross returns for the three, five and ten year periods ended December 31, 2016.

The Fund's risk-adjusted returns ranked in the top quartile for the five and ten year periods.

Alternative Investment Notifications

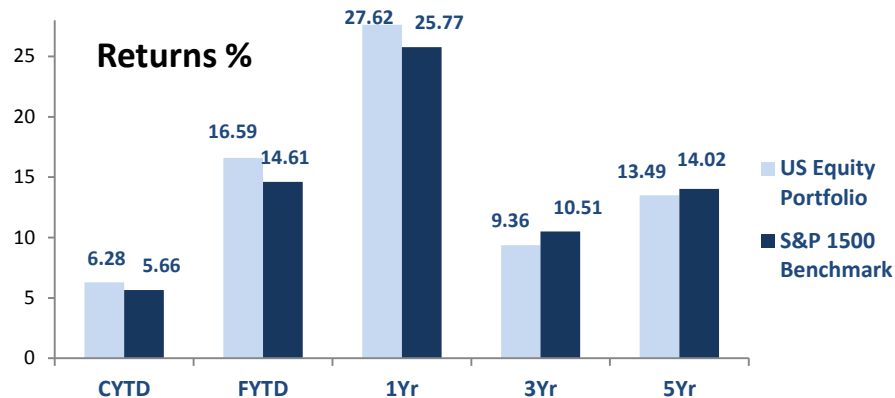
EQT Infrastructure III, L.P.

A proposed investment in this Fund was presented to the Council at its November 2016 meeting. At that meeting, Staff noted that it would be working with representatives of the Division of Law and outside counsel to negotiate legal documents governing the investment. After extensive negotiations, the Division and the Fund were unable to reach agreement on the terms of the legal documents, and the Division did not participate in the Fund's February closing. The Division continues to seek attractive investment opportunities in this asset class.

Purpose of Notification: The Division is notifying the SIC of this modification under its Modification Procedures.

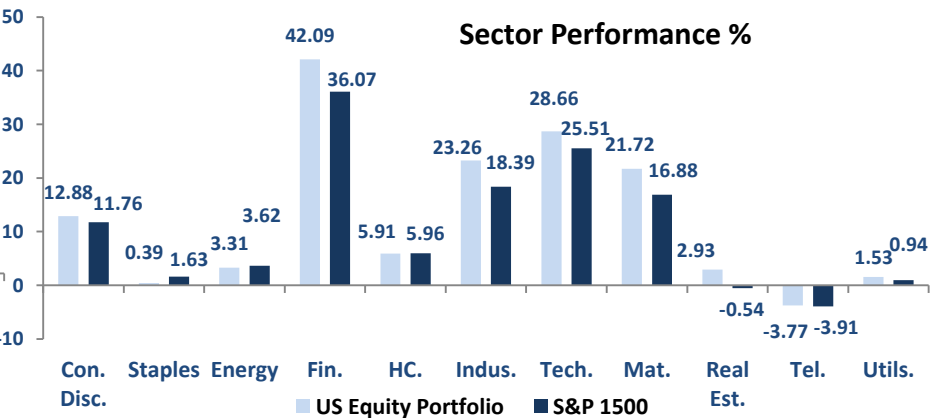
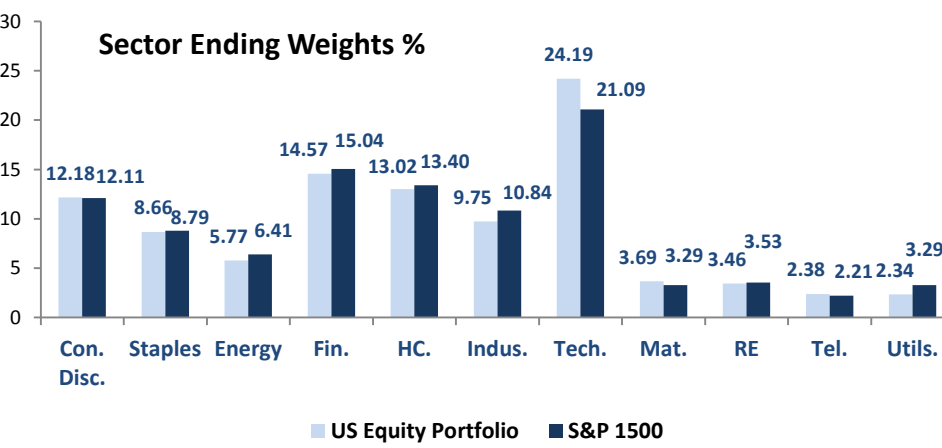
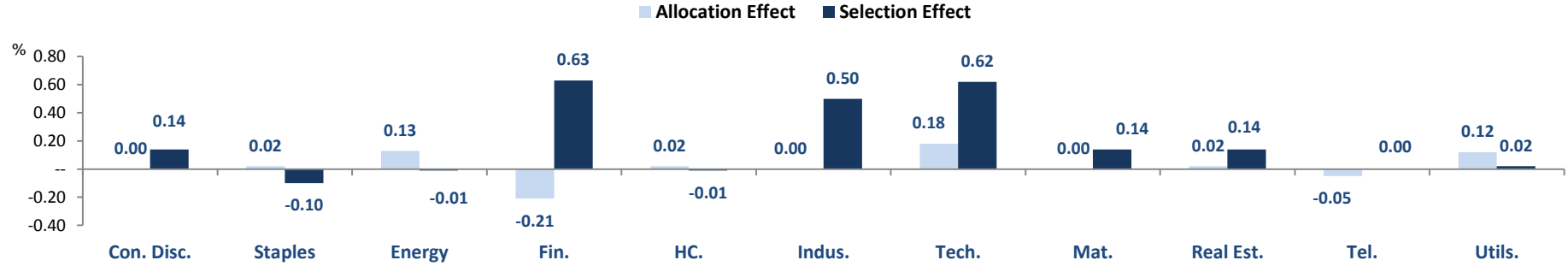
Performance Appendix

The 16.59% return for the US equities portfolio outpaced the S&P 1500 benchmark by 198 basis points during the Fiscal 2017 year-to-date time period. US equity markets continued to rally as President Trump took office on optimism for economic and earnings reflation predicated on corporate tax reform, deregulation, and increased infrastructure spending. Improving economic data led to speculation that the Federal Reserve would raise interest rates during the March FOMC meeting. Therefore, financials continued their outperformance, increasing 23.39% since the election, and 36.07% fiscal year-to-date. Telecom services, real estate and utilities were the laggards on higher interest rate expectations. Stock selection for the fund was strongest among financials and information technology securities, while consumer staples lagged the benchmark.



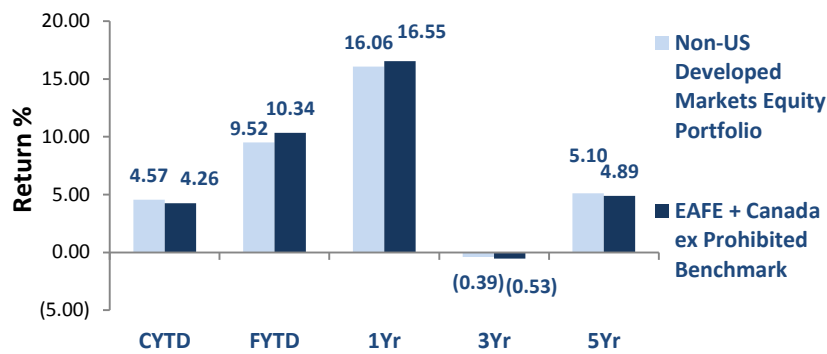
Portfolio Sector Attribution FYTD% - Breakdown of Excess Return:

Portfolio Return:	+16.59%	Benchmark Return:	+14.61%	Excess Return:	+1.98%
-------------------	---------	-------------------	---------	----------------	--------

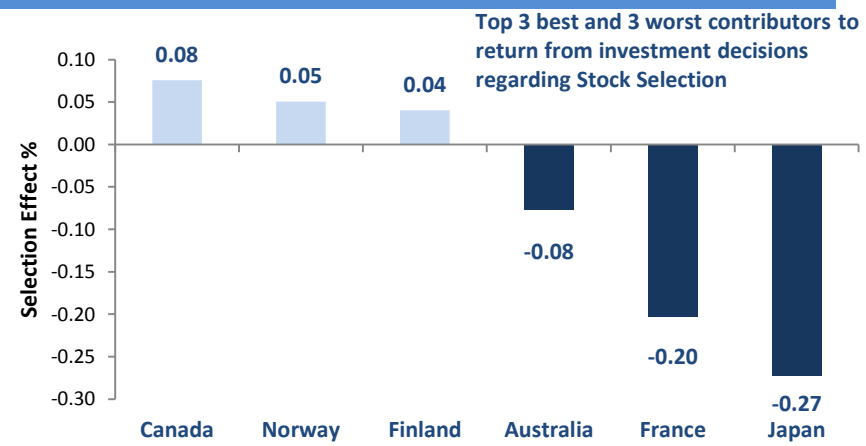
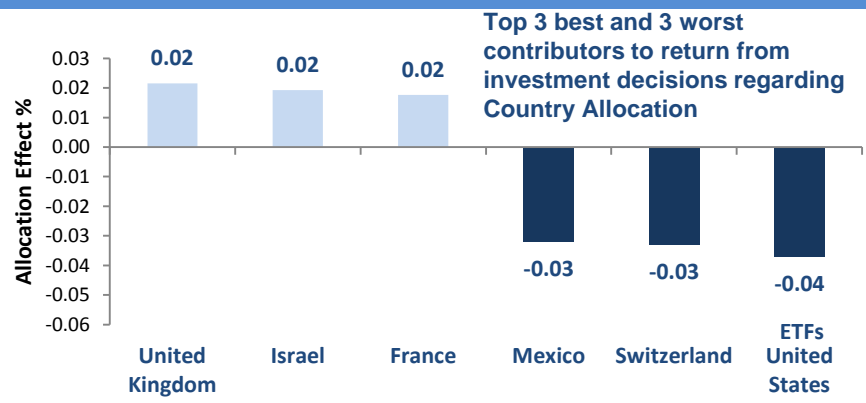
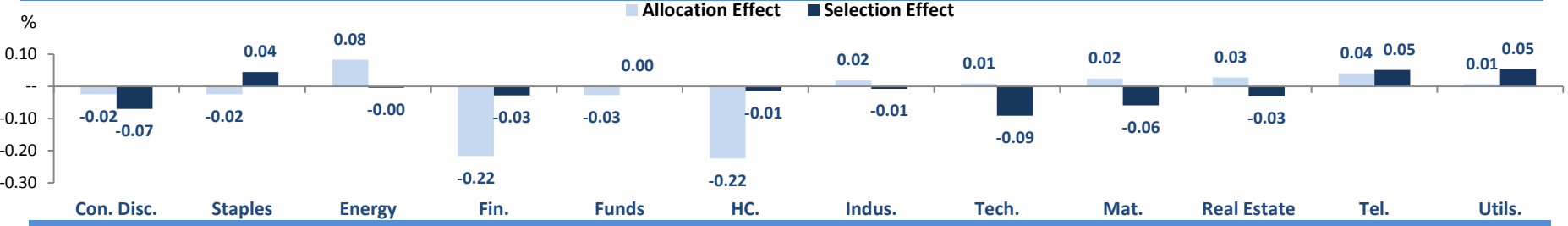


Source: State Street, Factset

For the fiscal year through February 28th, the Non-US Developed Markets Equity Portfolio returned 9.52% versus the Benchmark return of 10.34%. Over this time period, the markets experienced a recovery from the Brexit-related sell-off, the surprise US presidential election outcome, and rising European political risk following the unexpected resignation of the Italian PM. In addition, the Federal Reserve raised interest rates for a second time in a decade. But the optimism for renewed global growth stemming from the proposed fiscal policies of the new US Administration spurred a strong rally in markets and a move toward a risk-on sentiment. Portfolio performance benefitted from stock selection in Canada and Norway, which offset the negative impact of both French selection and Japanese selection effect, which was the worst among countries (primarily from Healthcare exposure). From a Sector perspective, positioning was the dominant impact on return - the underweight allocation to Telecom along with good stock selection, and the underweight in Energy added the most to performance. Detracting the most was the overweight allocation to Health Care and the underweight to Financials.

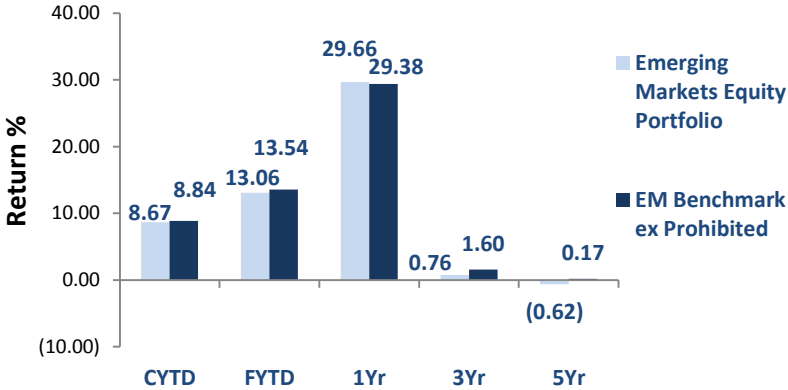


Portfolio Sector Attribution FYTD% - Breakdown of Excess Return: Portfolio Return: +9.52% Benchmark Return: +10.34% Excess Return: -0.82%

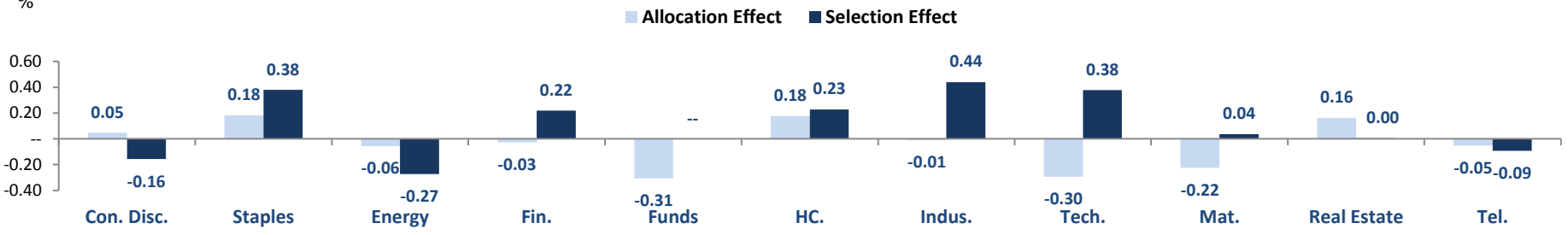


Source: State Street, Factset

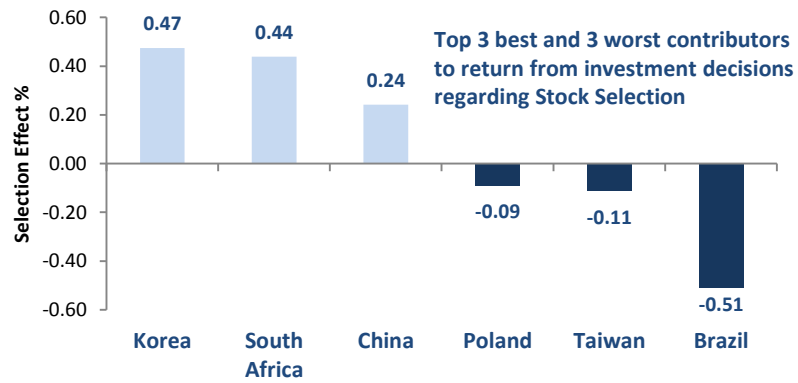
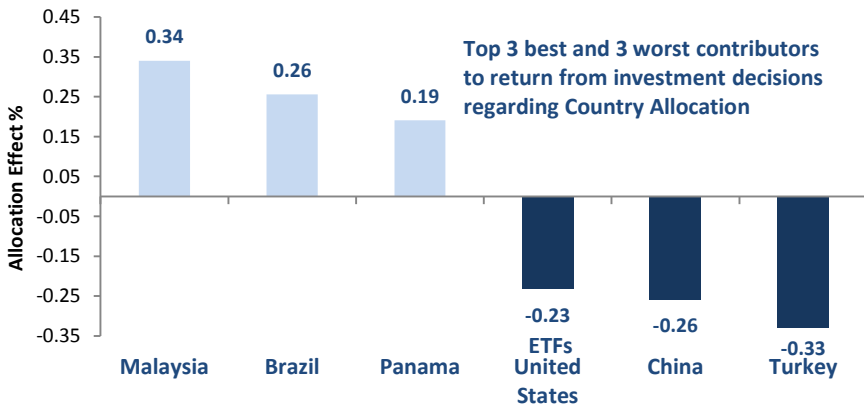
For the fiscal year through February 28th, the Emerging Markets Equity portfolio returned 13.06% versus the Custom Benchmark return of 13.54%. Emerging Markets equities outperformed Developed Markets equities over the time period (13.6% vs. 10.3%) primarily as a risk-on sentiment took hold led by strengthening commodity prices as concerns regarding China’s economic and currency stability eased and global growth prospects began to improve. Despite a few major events - a failed coup in Turkey, two impeachments (the presidents of Korea and Brazil), and the surprise outcome of the US presidential elections (possible trade wars/protectionism) – the EM markets proved resilient. The portfolio benefitted from strong stock selection overall - especially in Korea and South Africa - but despite an overweight position in top performer Brazil, poor stock selection (the worst detractor from portfolio return) offset the positive allocation effect. Regarding sectors, the underweight in Staples and stock selection had the largest positive impact followed by stock selection in Industrials. An overweight position in underperforming Turkey and an underweight allocation to China were among the largest detractors from return in addition to certain Fund positions and the underweight position and stock selection in Energy.



Portfolio Sector Attribution FYTD% - Breakdown of Excess Return:	Portfolio Return: +13.06%	Benchmark Return: +13.54%	Excess Return: 0.48%
---	----------------------------------	----------------------------------	-----------------------------

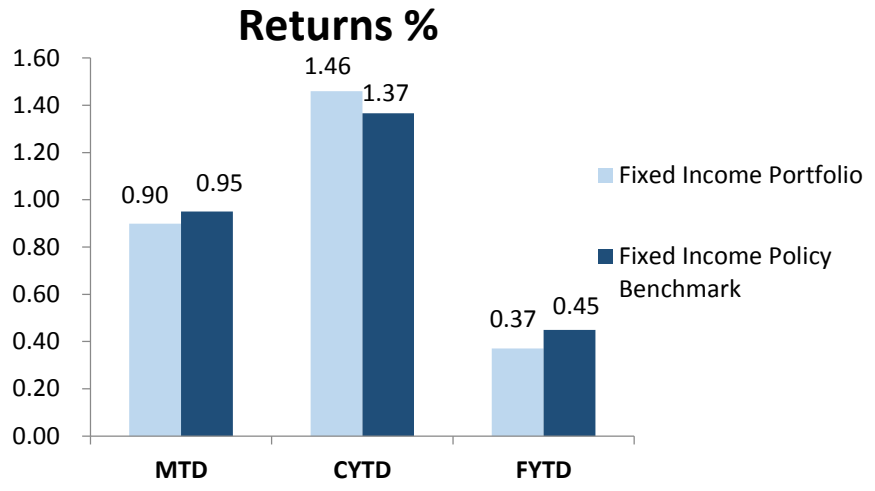


Top 3 best and 3 worst contributors to return from investment decisions regarding Country Allocation

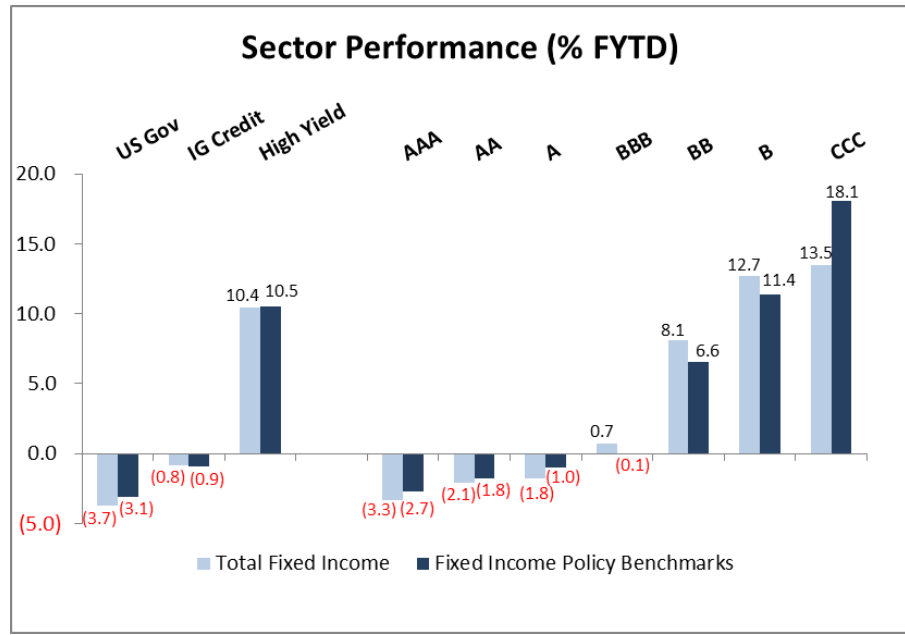
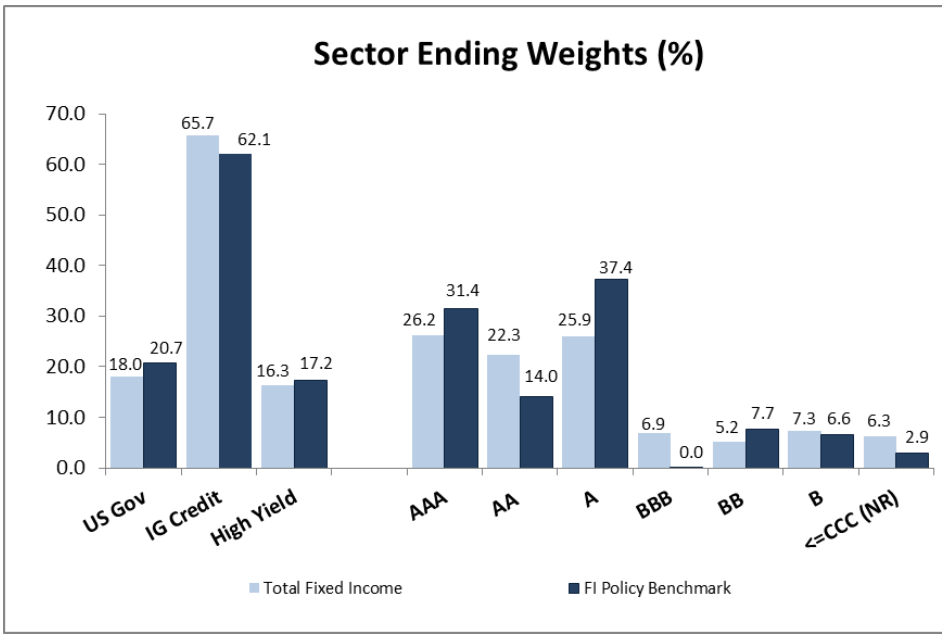


Source: State Street, Factset

For F17 year-to-date performance, the US Fixed Income portfolio returned 0.37% versus the benchmark return of 0.45%. Relative returns were adversely impacted by under allocating to higher risk asset classes and higher beta securities within IG Credit and High Yield. Through February 28th, the Barclays High Yield Index, Custom IG Credit and US Government Benchmarks returned 10.55%, -0.89% and -3.08%, respectively. The portfolio’s defensive positioning to these sectors led to underperformance as credit spreads tightened. This was partially offset by a short duration profile as interest rates have risen since the start of the fiscal year. Fiscal-year-to-date, TIPS have outperformed nominal Treasuries by approximately 325 basis points. The Portfolio’s overweight allocation to TIPS has helped temper relative underperformance versus the composite index.



Portfolio Sector Attribution – Weights and Performance



Source: State Street and FactSet