

NEW JERSEY DIVISION OF INVESTMENT

ANNUAL MEETING

State Investment Council

January 26, 2022

“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.”

Background: The New Jersey State Investment Council

New Jersey State Investment Council (the “Council”)

- **The Council is responsible for the formulation of policies that govern the investment of funds by the Division of Investment consistent with the fiduciary duties set forth by statute**
 - The Council provides fiduciary oversight for the assets managed by the Division
 - The Pension Fund, with \$95.7 billion in assets, comprises the bulk of assets managed by the Division
 - Pursuant to P.L. 2018, c. 55, the authority to direct investment policy of the Police and Firemen’s Retirement System (“PFRS”) was transferred from the Council to the Board of Trustees of PFRS
 - The Council retains its oversight responsibility for the non-PFRS portion of the Pension Fund
- **The Council is NOT responsible for:**
 - Funding Policy (plan contributions)
 - Benefits Policy (plan design)
 - Actuarial Activities (setting actuarial expected return)

Background: The State of New Jersey Division of Investment

New Jersey Division of Investment (the “Division”)

Division of Investment Assets Under Management

Assets as of 6/30/21 (\$ millions)	
Pension Fund ⁽¹⁾	\$95,713
Cash Management Fund (CMF)	29,799
Deferred Compensation Plan funds (DCP)	785
NJBEST Funds (NJBEST)	183
Supplemental Annuity Collective Trust (SACT)	312
Trustees for the Support of Public Schools Fund (TSPSF)	159
Total ⁽²⁾	\$120,873

Division of Investment “At a Glance”

- 24th largest U.S. pension fund manager ⁽³⁾
- 54 active employees with a \$9.5 million personnel budget ⁽⁴⁾
- During Fiscal Year 2021, the Division traded:
 - 479 million shares of stock worth \$10.3 billion
 - \$10.5 billion in fixed income securities ⁽⁵⁾
 - \$1.8 billion in foreign currency transactions
- During Fiscal Year 2021, the Pension Fund earned:
 - \$ 870 million in stock dividends
 - \$ 361 million in bond interest

Note: All figures are as of June 30, 2021 unless otherwise noted.

(1) Throughout this presentation, Pension Fund totals include PFRS assets.

(2) The total excludes \$6 billion held in CMF which is included in the totals for the Pension Fund, the DCP, NJBEST, SACT, and TSPSF. Additionally, the Division held \$6.2 billion in a separate account on behalf of the State of New Jersey.

(3) Measured by assets as of September 30, 2020. Reported by P&I on February 10, 2021

(4) As of December 31, 2021

(5) The total trades in fixed income securities include only the Pension Fund

Division of Investment Update: 2021 Year in Review

The Division nimbly transitioned to and from an office work environment in response to the COVID-19 pandemic

- The Division successfully implemented a robust disaster recovery plan and transitioned from a complete work from home environment to a hybrid schedule to full time in the office and back to hybrid, based on changing circumstances
- The team expects to once again return to the office full time beginning on January 31, 2022

The Division moved private market investments closer to target allocations

- With new asset allocation targets approved by the Council the previous year, the Division continued to gradually increase private market asset allocations

The Division continued to build out its Environmental, Social, and Governance (ESG) efforts

- The Division expanded its ESG efforts, engaging with corporations and filing shareholder proposals focused on climate, diversity and governance issues
- The Division adopted principles and practices regarding climate change to serve as a climate action plan to implement the Council's ESG Policy

The Division continued its efforts to expand participation by minority and women-owned business enterprises (MWBES)

- The Division incorporated enhanced disclosures regarding staffing and ownership as part of its due diligence and evaluation process, with the objective of creating greater opportunities for MWBES
- The Division engaged with other public pension plans, institutional investors and asset managers to explore different methods to expand diversity among its investment consultants, investment advisers, and alternative investment fund managers

The Division expanded its senior investment team

- The Division welcomed Tisha Turner as its Chief Operating Investment Officer and Jeffrey Zion as Senior Performance Analyst

NJ Pension Fund Annual Performance: Fiscal Years 2002-2021

	NJ Pension Fund ⁽¹⁾	Policy Benchmark	Variance (in bps)
FY 2002	-8.61%	-7.25%	-136
FY 2003	3.31%	3.47%	-16
FY 2004	14.16%	14.44%	-28
FY 2005	8.77%	8.07%	70
FY 2006	9.79%	8.13%	166
FY 2007	17.14%	16.49%	65
FY 2008	-2.61%	-6.00%	339
FY 2009	-15.49%	-14.76%	-73
FY 2010	13.34%	13.51%	-17
FY 2011	17.97%	17.13%	84
FY 2012	2.47%	0.26%	221
FY 2013	11.72%	10.96%	76
FY 2014	16.79%	15.79%	100
FY 2015	4.09%	2.93%	116
FY 2016	-0.93%	0.23%	-116
FY 2017	13.07%	13.14%	-7
FY 2018	9.06%	8.65%	41
FY 2019	6.27%	7.07%	-80
FY 2020	1.21%	4.13%	-292
FY 2021 ⁽²⁾	28.63%	26.28%	235
5 Year Annualized Returns	11.27%	11.60%	-33
10 Year Annualized Returns	8.93%	8.69%	24
20 Year Annualized Returns	7.05%	6.71%	34

(1) Throughout this presentation, NJ Pension Fund returns exclude Police and Fire Mortgage program assets

(2) Throughout this presentation, returns are preliminary, unaudited, and net of fees. Certain asset class returns, including private equity, real assets, real estate, and private credit do not include up-to-date valuations and benchmark returns for these asset classes are calculated on a lagged basis. This results in performance comparisons that may be less meaningful.

Long-Term Capital Market Returns

	Annualized Returns for Periods Ending December 31, 2021 (%)				
	One Year	Three Years	Five Years	Ten Years	Fifteen Years
Global Equity Indices					
MSCI ALL Country World Index	18.54	20.36	14.39	11.84	7.05
US Equity Indices					
MSCI USA	26.97	26.56	18.74	16.63	10.79
Russell 3000	25.64	25.75	17.94	16.28	10.57
Russell 1000	26.43	26.17	18.40	16.52	10.72
Russell 2000	14.78	19.97	11.99	13.21	8.67
Russell Growth	25.84	33.17	24.54	19.37	13.44
Russell Value	25.33	17.61	10.97	12.87	7.46
Non-US Equity Indices					
MSCI EAFE	11.26	13.53	9.54	8.02	3.60
MSCI EAFE + Canada	13.19	14.68	10.23	8.44	4.29
MSCI Emerging Markets	-2.54	10.93	9.87	5.48	4.45
Private Equity Index					
Cambridge Global PE and VC Index ⁽¹⁾	53.64	26.92	22.79	17.51	13.81

(1) Cambridge Global PE and VC Index returns are presented with a three-month lag and are calculated on an IRR basis.

Source: Bloomberg and Cambridge Associates

Long-Term Capital Market Returns

	Annualized Returns for Periods Ending December 31, 2021 (%)				
	One Year	Three Years	Five Years	Ten Years	Fifteen Years
Fixed Income Indices					
Bloomberg Barclays U.S. Aggregate	-1.54	4.79	3.57	2.90	4.08
Bloomberg Barclays U.S. Treasury	-2.32	4.07	3.07	2.13	3.67
Bloomberg Barclays U.S. Credit	-1.08	7.16	5.05	4.44	5.22
Bloomberg Barclays U.S. Credit (A or better)	-1.68	6.25	4.46	3.97	4.70
Bloomberg Barclays U.S. Credit (Baa)	-0.40	8.27	5.77	5.07	6.02
Bloomberg Barclays U.S. High Yield	5.28	8.83	6.29	6.82	7.06
S&P/LSTA Leveraged Loan Index	5.20	5.63	4.27	4.69	4.51
Cliffwater BDC Index	49.34	29.31	18.20	14.28	9.07
Real Estate Indices					
NCREIF ODCE Index ⁽¹⁾	13.64	6.13	6.56	8.92	5.55
NCREIF Property Index ⁽¹⁾	12.15	6.72	6.84	8.99	7.10
Bloomberg U.S. REIT Index	40.94	19.34	12.08	12.04	7.29
Real Assets & Commodities Indices					
Bloomberg Commodities Index	27.05	8.93	2.53	-3.43	-3.39
Alerian MLP Index	39.85	1.97	-2.79	-0.30	4.24

(1) NCREIF ODCE and Property Index returns are presented with a three-month lag

Source: Bloomberg, State St and National Council of Real Estate Investment Fiduciaries

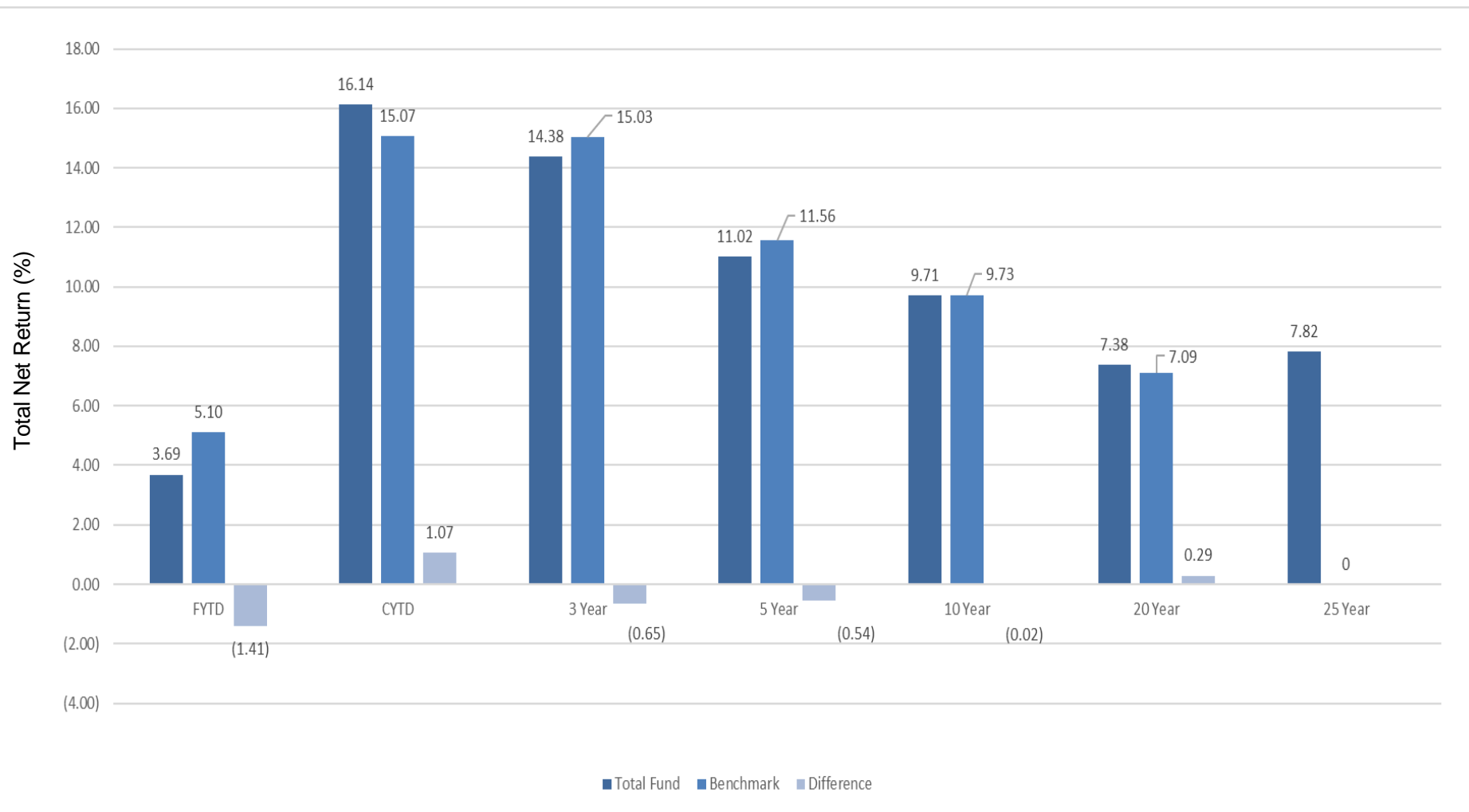
Ten Year Periodic Table of Returns⁽¹⁾

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2012-2021</u>
Emerging Markets 18.22	Russell 3000 33.57	Private Equity 17.63	Real Estate 13.86	High Yield 17.13	Emerging Markets 37.28	Private Equity 17.91	Russell 3000 31.01	Russell 3000 20.88	Private Equity 53.64	Private Equity 17.51
Russell 3000 16.42	EAFE & Canada 21.02	Russell 3000 12.55	Private Equity 11.48	Russell 3000 12.72	EAFE & Canada 24.21	Real Estate 7.71	EAFE & Canada 22.49	Private Equity 20.37	Commodities 27.05	Russell 3000 16.28
EAFE & Canada 16.41	Private Equity 16.70	Real Estate 11.36	Treasuries 0.84	Commodities 11.40	Russell 3000 21.12	Treasuries 0.86	Emerging Markets 18.42	Emerging Markets 18.31	Russell 3000 25.66	Real Estate 8.92
High Yield 15.81	Real Estate 11.97	Corporates 7.53	Russell 3000 0.47	Emerging Markets 11.19	Private Equity 16.97	High Yield -2.08	High Yield 14.32	Corporates 9.35	EAFE & Canada 12.62	EAFE & Canada 7.83
Private Equity 12.20	High Yield 7.44	Treasuries 5.05	Corporates -0.77	Private Equity 9.46	High Yield 7.50	Corporates -2.11	Corporates 13.80	Treasuries 8.00	Real Estate 13.64	High Yield 6.82
Real Estate 10.47	Corporates -2.01	High Yield 2.45	EAFE & Canada -3.04	Real Estate 9.08	Real Estate 6.70	Russell 3000 -5.25	Private Equity 10.44	EAFE & Canada 7.59	High Yield 5.28	Emerging Markets 5.48
Corporates 9.37	Emerging Markets -2.60	Emerging Markets -2.19	High Yield -4.47	Corporates 5.63	Corporates 6.18	Commodities -12.99	Treasuries 6.86	High Yield 7.11	Corporates -1.04	Corporates 4.69
Treasuries 1.99	Treasuries -2.75	EAFE & Canada -4.32	Emerging Markets -14.92	EAFE & Canada 2.75	Treasuries 2.31	EAFE & Canada -14.09	Commodities 5.44	Real Estate 0.52	Treasuries -2.32	Treasuries 2.13
Commodities -1.14	Commodities -9.58	Commodities -17.04	Commodities -24.70	Treasuries 1.04	Commodities 0.75	Emerging Markets -14.57	Real Estate 4.64	Commodities -3.50	Emerging Markets -2.54	Commodities -3.43

Over the past ten years, Private Equity, U.S. Equities, and Real Estate were the three best performing asset classes. The wide variation of returns amongst asset classes in each of the past ten years reinforces the important role of diversification in asset allocation.

(1) Private Equity and Real Estate returns are presented with a three-month lag. Private Equity returns are calculated using an IRR methodology.
Source: Bloomberg, Cambridge Associates, and National Council of Real Estate Investment Fiduciaries

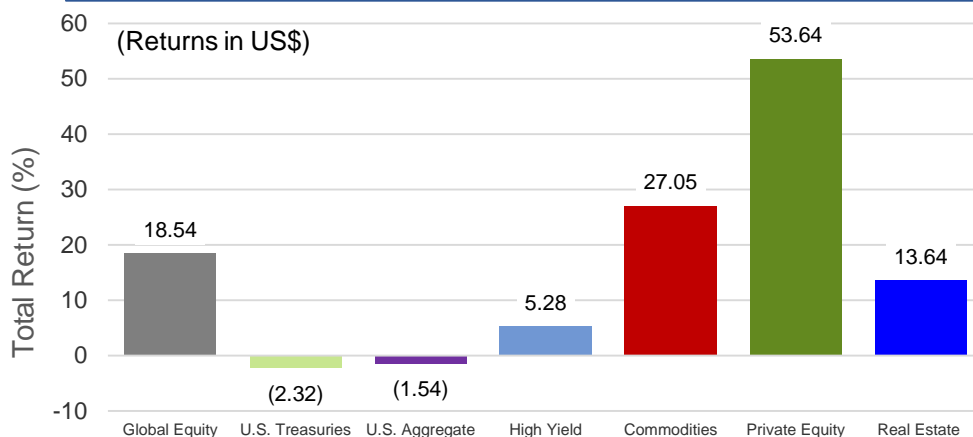
Long-Term NJ Pension Fund Returns⁽¹⁾ versus Policy Benchmark (as of December 31, 2021)



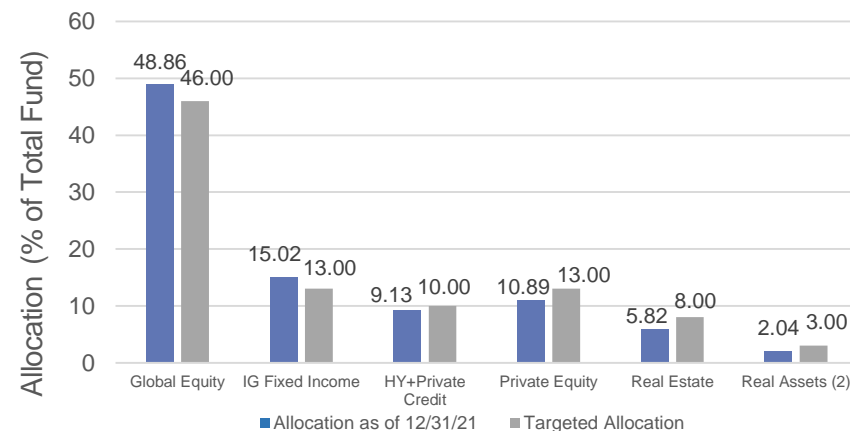
* Benchmark return not available for 25-Year period

2021 Capital Markets Review: Asset Class Returns

2021 Select Asset Class Returns (1)



2021 Pension Fund Asset Allocation



The recovery of the financial markets from the spring 2020 global economic lockdown continued into 2021. The extraordinary levels of fiscal and monetary stimulus bolstered the re-opening of the global economy, which fueled the strong returns realized by Real Estate (+13.64%), Commodities (+27.05%) and Global Equity (+18.54%). Fixed Income returns, notably U.S. Treasuries (-2.32%) and U.S. Aggregate (-1.54%), did not fare well in such a risk-on environment.

During 2021, the tactical decision to align the allocation of certain asset classes to their respective target allocations was implemented.

Such adjustments involved raising the allocation levels of Global Equity, Investment Grade, High Yield and Private Credit. The increase in allocation levels represented a proposed \$3.3 billion in new investments.

Optimism regarding a strengthening global economy and management of the pandemic provided support for equities and cyclical, inflation-sensitive commodities and real estate to realize significant gains. The strong performance of many asset classes continued to raise uncertainty over valuations and long-term expected returns.

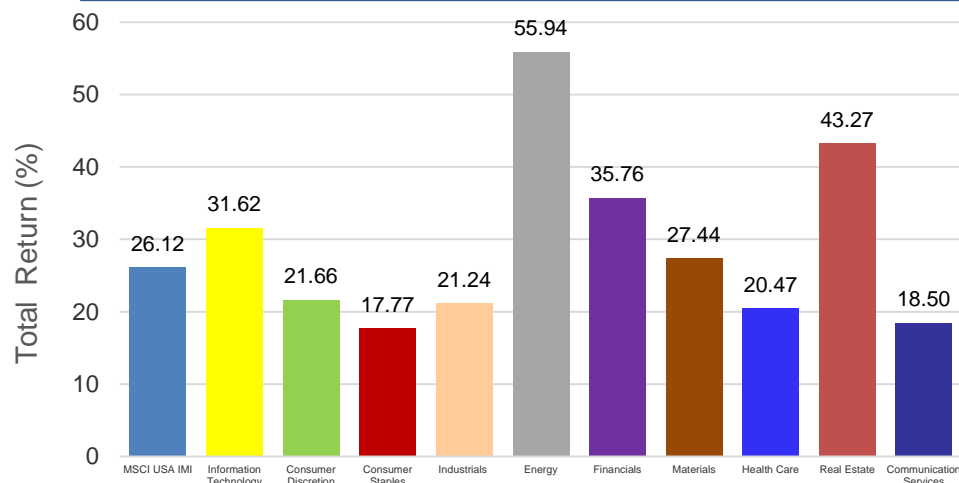
(1) Private Equity (PE) and Real Estate (RE) returns reflect a three-month lag.

(2) Real Assets comprised of a number of sub-strategies plus commodities.

Source: Bloomberg, Cambridge Associates, National Council of Real Estate Investment Fiduciaries, State Street

2021 Capital Markets Review: U.S. Equity Returns

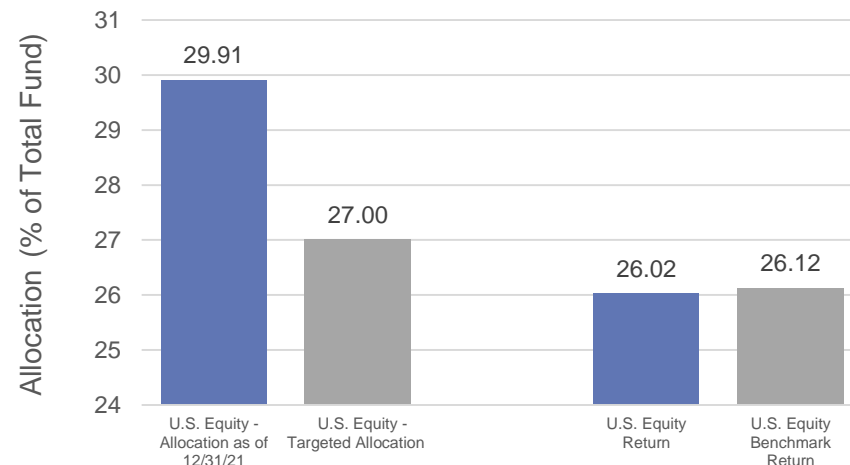
2021 U.S. Equity Selected Sector Returns



U.S. Equity advanced for a third straight year, recording double-digit gains and record highs.

An improved economic outlook spurred the strong returns of the sector leaders which drove market performance: cyclical and inflation-sensitive Energy (+55.94%) and Real Estate (+43.27%). Growth stocks again outperformed value stocks over the past year (+27.59% vs +25.12%).

2021 U.S. Equity Asset Allocation and Returns



During 2021, the tactical decision to align the U.S. Equity allocation with the Policy allocation was implemented.

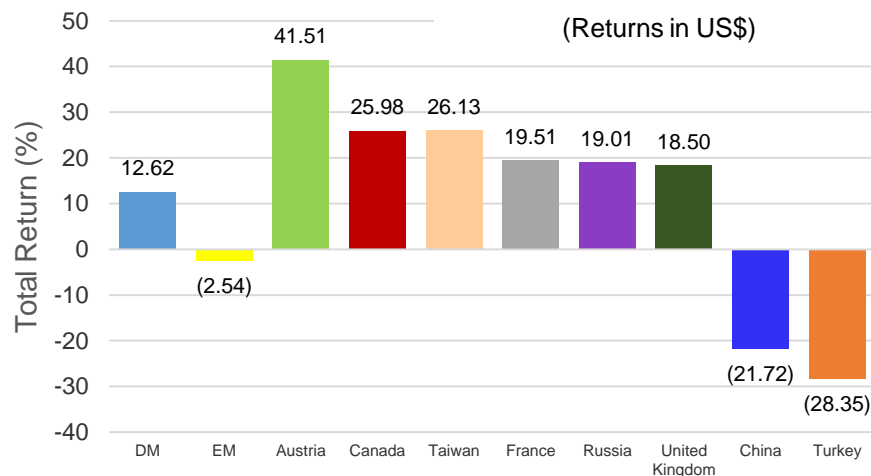
The allocation increase represented approximately \$1 billion in new investment.

The strong returns of the U.S. market is reflected in the allocation level rising to 29.91% vs. 27% allocation by the end of December 2021.

U.S. Equity experienced another exceptional year in performance, as stronger economic and earnings growth lifted markets to record highs in 2021. While returns in 2020 were driven by price-to-earnings multiple expansion, returns in 2021 reflected better fundamentals in the form of robust earnings.

2021 Capital Markets Review: International Equity Returns

2021 Select International Equity Market Returns

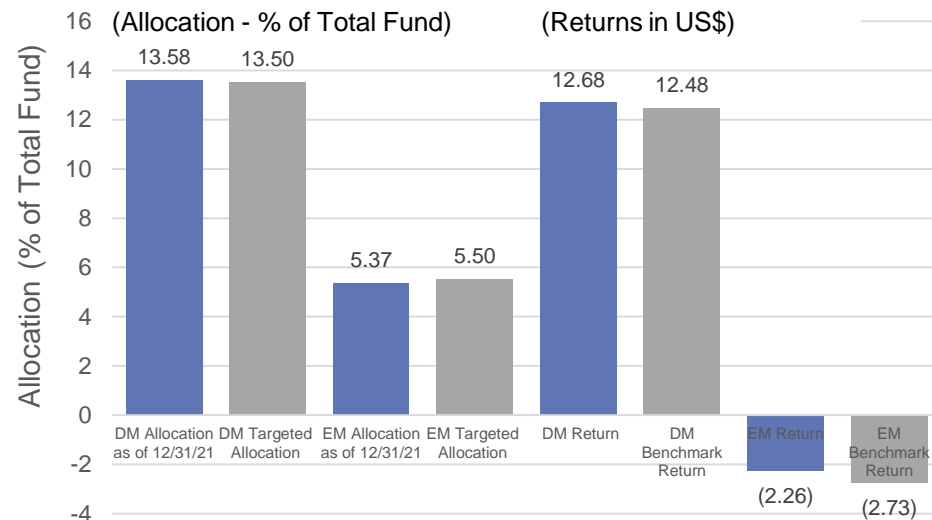


During 2021, Non-US Developed Market (DM) Equities (+12.62%) significantly outperformed Emerging Market (EM) Equities (-2.54%), as tighter industry regulations in China, a stronger US dollar, and pandemic-related restrictions in many EM countries slowed the pace of economic recovery.

Among the worst performers in the Emerging Markets were China (-21.72%), and Turkey (-28.35%), where financial turmoil adversely affected returns.

During 2021, Non-US Developed Markets significantly outperformed Emerging Market Equities amid heightened risks associated with China's economic policies, political disruptions, and perceived adverse global trade trends.

2021 International Equity Asset Allocation and Returns

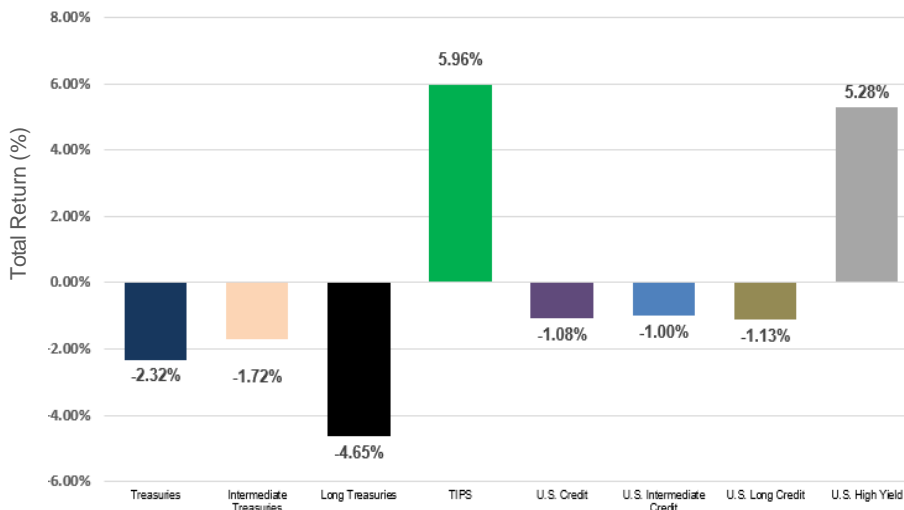


During 2021, the tactical decision to raise the allocation levels of DM and EM to align with their respective higher targeted allocation levels was implemented.

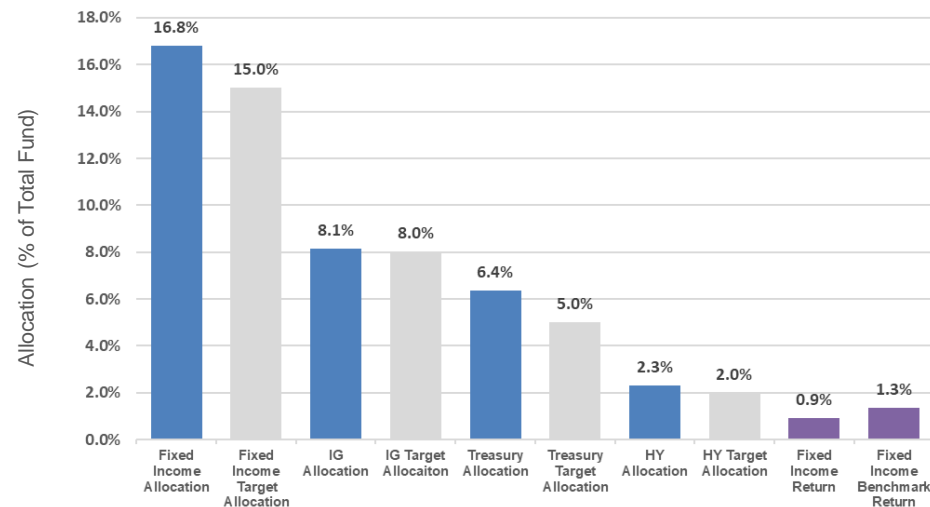
The adjustment of the DM allocation involved an increase to the non-benchmark Small Cap allocation. As of December 31, 2021, the allocations for both DM and EM were broadly in line.

2021 Capital Markets Review: Fixed Income Returns

2021 Select Fixed Income Returns



2021 Pension Fund Asset Allocation and Returns



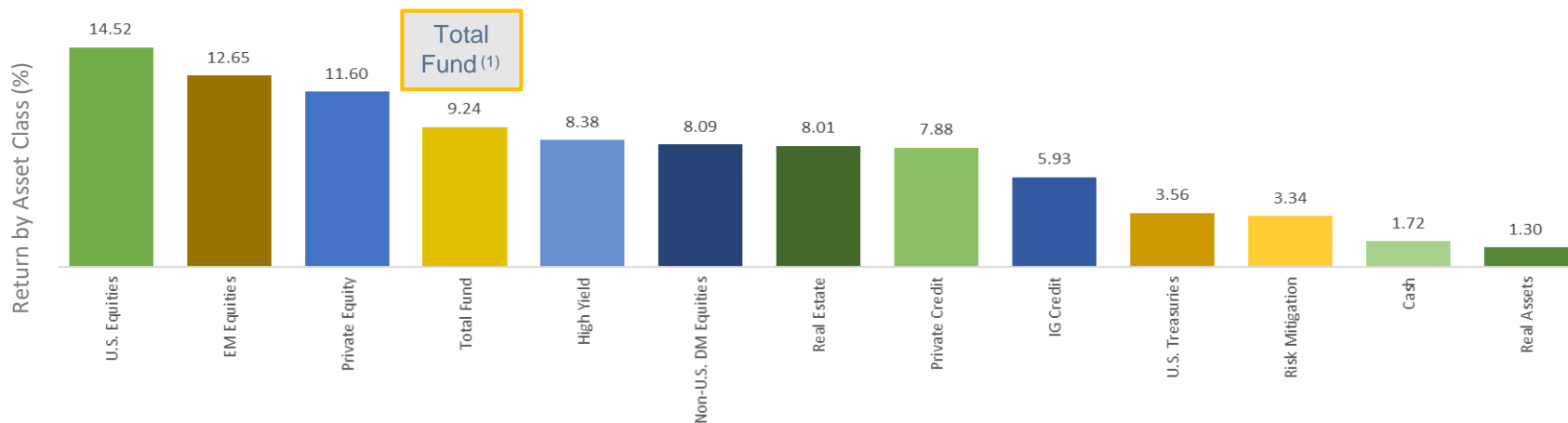
Fixed Income realized mostly negative returns as interest rates rose and the curve twisted during 2021. High Yield (HY) performed well as spreads tightened while Investment Grade (IG) suffered from tight spreads and longer duration while Treasury Inflation notes benefited from a surging CPI.

Fixed Income slightly underperformed the benchmark during a difficult 2021. The overall Fixed Income allocation was above target due to significant cash flows into the Pension Fund coupled with the investable liquidity available in the US Treasury market.

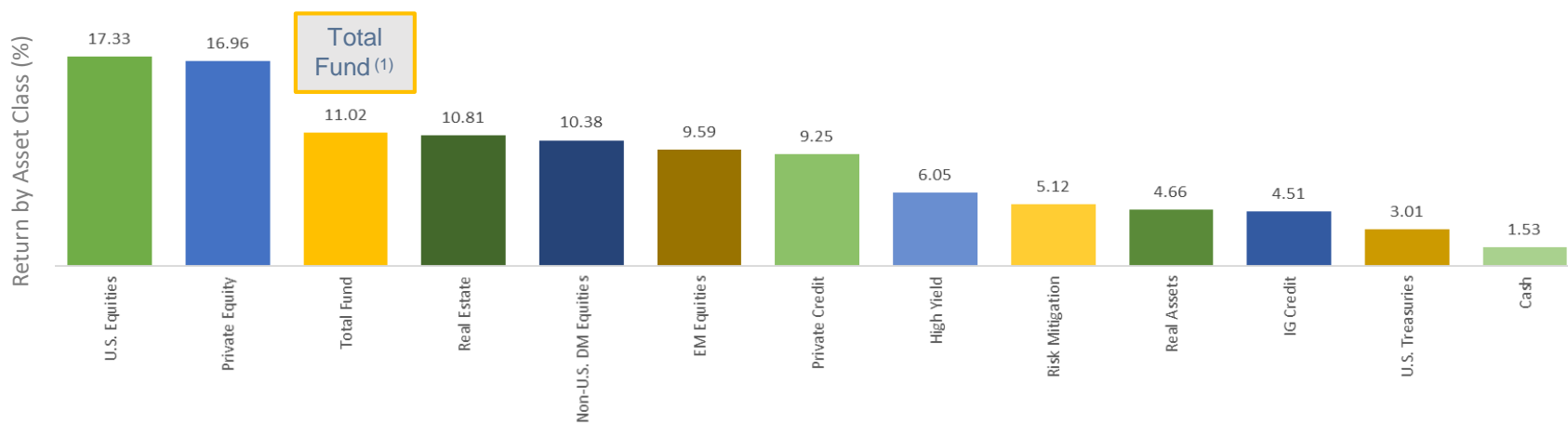
During 2021, the Fixed Income market struggled to price in numerous cross currents, including rising inflation, a stronger economy, intermittent economic struggles with the pandemic, and a Federal Reserve acknowledging the need to reduce/eliminate emergency liquidity measures.

Pension Fund Five Year Net Returns⁽¹⁾ By Asset Class

Annualized Net Total Returns (%) for Five Years Ended December 31, 2020

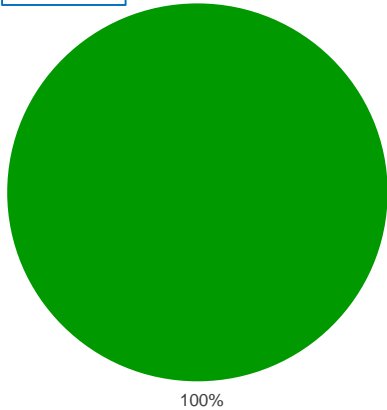


Annualized Net Total Returns (%) for Five Years Ended December 31, 2021

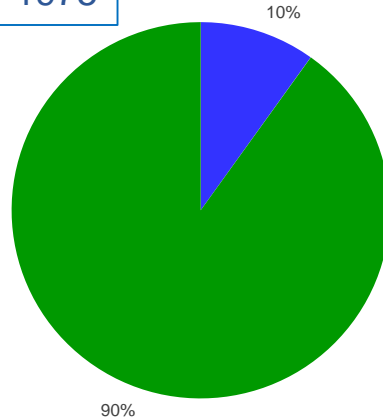


Pension Fund Asset Allocation: A Long-Term Perspective

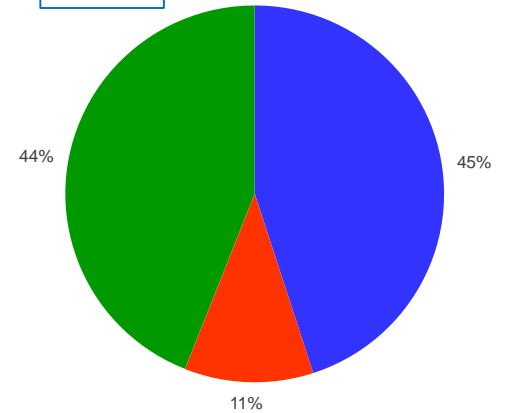
1951



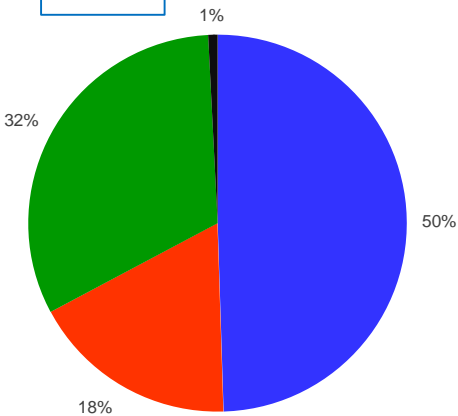
1975



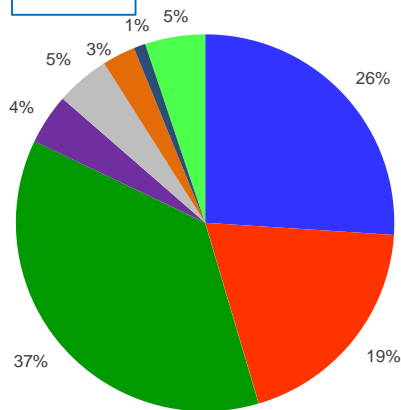
2001



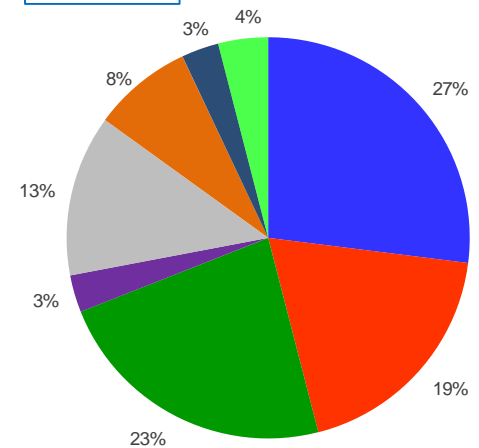
2006



2009



2022 (1)



■ U.S. Equity ■ Int'l Equity ■ Fixed Income ■ Risk Mitigation ■ Private Equity ■ Real Estate ■ Real Assets ■ Cash ■ Alternatives

The well-diversified NJ Pension Fund asset allocation has evolved over a period of decades from a portfolio comprised solely of fixed income securities.

(1) 2022 reflects the Council's current targeted asset allocation that took effect on October 1, 2020

Note: Totals may not equal 100% due to rounding

Recent Trends in the Pension Fund's Targeted Asset Allocation⁽¹⁾

Asset Class	FY 2015 Target ⁽²⁾	FY 2016 Target ⁽³⁾	FY 2017 Target	FY 2018 Target	FY 2019 Target	FY 2020 Target	FY 2021 Target
GLOBAL GROWTH	54.90%	54.75%	58.25%	58.25%	58.25%	59.00%	59.00%
U.S. Equity	27.25%	26.00%	30.00%	30.00%	30.00%	28.00%	27.00%
Non-US DM Equity	12.00%	13.25%	11.50%	11.50%	11.50%	12.50%	13.50%
Emerging Market Equity	6.40%	6.50%	6.50%	6.50%	6.50%	6.50%	5.50%
Private Equity	9.25%	9.00%	10.25%	10.25%	10.25%	12.00%	13.00%
INCOME	19.50%	18.75%	18.50%	18.50%	18.50%	18.00%	18.00%
Investment Grade Credit	10.00%	8.00%	10.00%	10.00%	10.00%	10.00%	8.00%
High Yield	2.00%	2.00%	2.50%	2.50%	2.50%	2.00%	2.00%
Private Credit	7.50%	8.75%	6.00%	6.00%	6.00%	6.00%	8.00%
REAL RETURN	8.25%	8.55%	9.75%	9.75%	9.75%	10.00%	11.00%
Real Estate	5.25%	6.05%	7.25%	7.25%	7.25%	7.50%	8.00%
Real Assets	3.00%	2.50%	2.50%	2.50%	2.50%	2.50%	3.00%
DEFENSIVE	12.25%	13.00%	13.50%	13.50%	13.50%	13.00%	12.00%
Cash Equivalents	5.00%	5.00%	5.50%	5.50%	5.50%	5.00%	4.00%
U.S. Treasuries	3.25%	3.00%	3.00%	3.00%	3.00%	5.00%	5.00%
Risk Mitigation Strategies	4.00%	5.00%	5.00%	5.00%	5.00%	3.00%	3.00%

(1) Prior year targeted allocations have been restated to be consistent with the current asset allocation plan categories approved by the Council. Global Diversified Credit and Credit-Oriented Hedge Funds were combined into Private Credit. Buyouts/Venture Cap and Debt-Related Private Equity were combined into Private Equity. Equity-Related Real Estate and Debt-Related Real Estate were combined into Real Estate.

(2) FY 2015 target excludes a 4.0% allocation to Equity-Oriented Hedge Funds and a 1.1% allocation to the PFRS mortgage program.

(3) FY 2016 target excludes a 3.75% allocation to Equity-Oriented Hedge Funds and a 1.2% allocation to the PFRS mortgage program.

Division of Investment Update: 2022 Key Goals and Initiatives

The Division will conduct reviews in order to evaluate and consider changes in the global economic environment

- Asset/liability study to be conducted during the year
- Asset allocation work underway to review and evaluate if any changes are warranted

The Division will continue to enhance its operations by further strengthening its team and by moving forward on plans to build out its technology infrastructure

- The Division anticipates several additional hires during 2022 that will strengthen its investment operations
- The Division anticipates continued implementation of new technology in 2022

The Division will continue its efforts to increase participation by minority-owned and women-owned business enterprises (MWBEs) in the investment process

- The Division will explore and seek additional paths to expanding opportunities for MWBEs within its investment program
- The Division will conduct further outreach and measurement of its efforts to reinforce the Division's commitment to diversity

The Division will continue to expand its corporate engagement initiative and ESG integration efforts

- The Division will continue to engage with its public market investments in order to reduce ESG-related risk, including risks related to climate change, through the use of correspondence and shareholder proposals
- The Division will continue to engage with its private market partners to ensure ESG considerations are appropriately integrated in the funds in which the Pension Fund invests