

# New Jersey Division of Investment

Director's Report

January 17, 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.”*

# Updates Since Last SIC through December 31, 2012

Asset Class	Nov. %	Dec. %	FYTD %	CYTD%
Risk Mitigation	(0.09)	0.26	0.77	2.69
Liquidity	0.68	(0.60)	2.20	4.09
Income	0.82	(0.06)	5.08	10.89
Real Return	(0.15)	0.77	3.15	7.90
Global Growth	1.40	2.19	8.80	16.85
Total Pension Fund ex Police and Fire	0.99	1.25	6.69	13.32
FY2013 Total Policy Benchmark	0.78	1.30	7.44	12.66
FY2012 Total Policy Benchmark	n/a	n/a	7.08	12.28
Current Assets	<b><u>\$71 billion</u></b>			

	Dec 31, 2012	MTD %	FYTD %	CYTD %	3Yrs %	5 Yrs %	10 Yrs %
Domestic Equity	S&P 500	0.91	5.95	16.00	10.86	1.66	7.10
	Russell 2000	3.56	7.20	16.35	12.24	3.55	9.75
International Equity	MCSI EAFE	3.21	14.05	17.90	4.03	(3.21)	8.69
	MSCI EMF	4.90	13.94	18.63	4.98	(0.61)	16.87
Bond	Barclays Agg*	(0.14)	1.82	4.23	6.12	5.96	5.19
	Barclays HY*	1.58	7.97	15.81	21.99	10.33	10.62
	Barclays US Tips*	(0.65)	2.83	6.98	8.90	7.04	6.65
Commodity	DJUBS Com	(2.61)	2.75	(1.06)	0.07	(5.17)	4.09

Vanguard mutual funds are used as proxies. Three, five and ten year returns are compound annualized return. DOI FYTD returns are likely understated due to lag in reporting for some investments. As of this printing Dec 31 2012 figures were preliminary and subject to change.

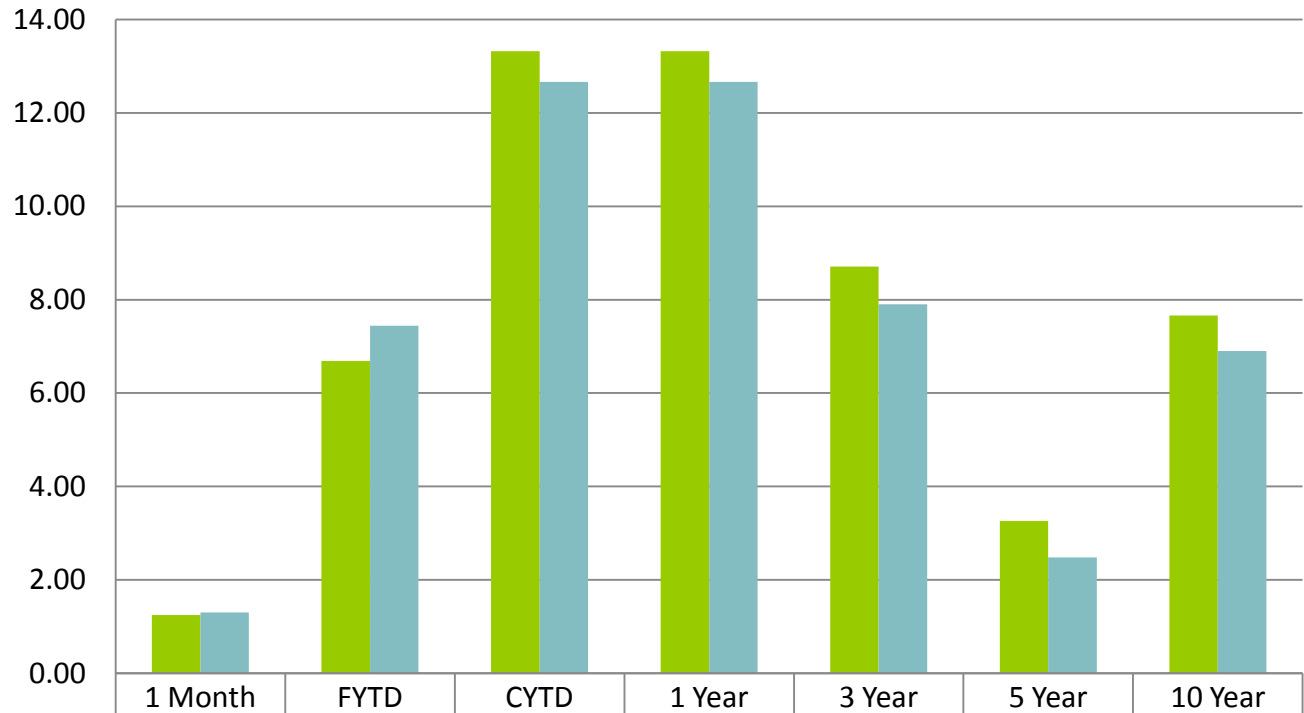
# December 31<sup>th</sup> 2012 Asset Allocation

As of December 31, 2012

Asset Class	Sub-Category	Current Allocation	Lower Limit	FY 2013 Target	Long Term Target	Upper Limit	Over/Under Weight	Current Assets	FY 2013 Target \$	Over/Under Weight \$	No
RISK MITIGATION	Absolute Return HF's	2.3%	0.0%	4.0%	3.5%	4.5%	-1.74%	1,604,230,281	2,838,021,197	(1,233,790,916)	1
		2.3%		4.0%	3.5%		-1.74%	1,604,230,281	2,838,021,197	(1,233,790,916)	2
LIQUIDITY	Cash Equivalents	6.6%	1.0%	6.5%	3.7%	9.5%	0.13%	4,701,844,853	4,611,784,445	90,060,408	3
	TIPS	2.4%		1.5%	2.0%		0.91%	1,707,500,000	1,064,257,949	643,242,051	4
	US Treasuries	2.5%		2.5%	2.8%		-0.01%	1,766,070,854	1,773,763,248	(7,692,394)	5
		1.7%		2.5%	1.7%		-0.77%	1,228,273,999	1,773,763,248	(545,489,249)	6
INCOME		25.7%	22.0%	26.0%	28.0%	32.0%	-0.34%	18,206,623,140	18,447,137,781	(240,514,641)	7
	Investment Grade Credit	16.4%		13.0%	20.5%		3.37%	11,616,245,640	9,223,568,891	2,392,676,749	8
	High Yield Fixed Income	4.1%		6.0%	2.5%		-1.89%	2,918,881,584	4,257,031,796	(1,338,150,212)	9
	Credit-Oriented HF's	2.7%		4.0%	3.5%		-1.26%	1,945,317,045	2,838,021,197	(892,704,152)	10
	Debt-Related PE	1.1%		1.5%	1.6%		-0.39%	787,302,310	1,064,257,949	(276,955,639)	11
	P&F Mortgage	1.3%		1.5%	0.0%		-0.18%	938,876,561	1,064,257,949	(125,381,388)	12
REAL RETURN		7.9%	7.5%	9.5%	14.1%	17.5%	-1.60%	5,603,830,448	6,740,300,343	(1,136,469,895)	13
	Commodities/RA	3.0%		4.0%	4.2%		-1.03%	2,110,316,278	2,838,021,197	(727,704,919)	14
	Real Estate	4.9%		5.5%	7.1%		-0.58%	3,493,514,170	3,902,279,146	(408,764,976)	15
GLOBAL GROWTH		57.3%	49.0%	54.0%	50.6%	59.0%	3.29%	40,645,081,924	38,313,286,162	2,331,795,762	16
	US Equity	25.3%		23.8%	18.3%		1.54%	17,977,812,086	16,886,226,123	1,091,585,963	17
	Non-US Dev Market Eq	13.2%		12.5%	14.2%		0.68%	9,349,457,710	8,868,816,241	480,641,469	18
	Emerging Market Eq	7.6%		7.0%	4.8%		0.57%	5,372,380,167	4,966,537,095	405,843,072	19
	Equity-Oriented HF's	3.9%		4.5%	7.0%		-0.55%	2,800,867,842	3,192,773,847	(391,906,005)	20
	Buyouts/Venture Cap	7.3%		6.2%	6.3%		1.05%	5,144,564,119	4,398,932,856	745,631,263	21
OTHER	Other Assets	0.3%		0.0%	0.0%		0.27%	188,919,283	0	188,919,283	22
Total								70,950,529,929			

Based on estimated values

## Total Fund ex Police and Fire Performance as of Dec 31, 2012



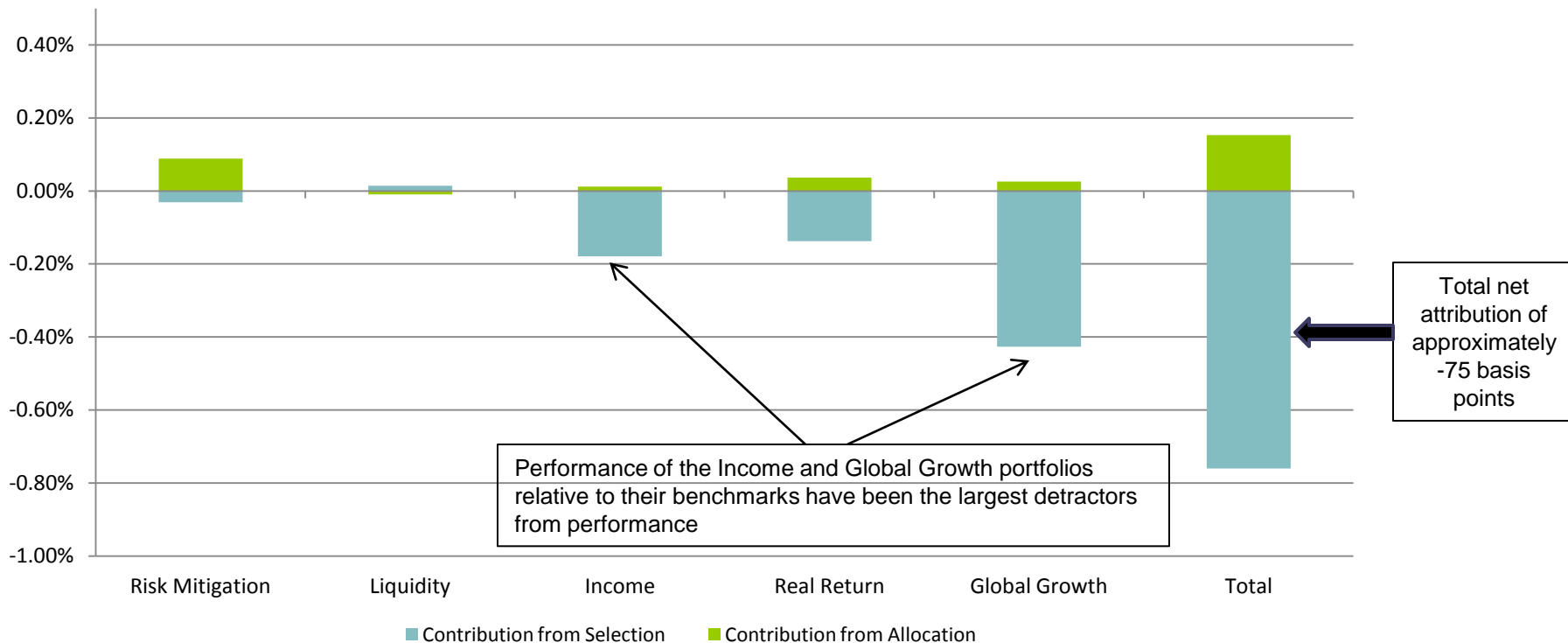
■ Total Fund ex Police and Fire	1.25	6.69	13.32	13.32	8.71	3.26	7.66
■ Benchmark	1.30	7.44	12.66	12.66	7.90	2.48	6.90

- The Total Fund ex Police and Fire returned 1.25% in December to bring the Fiscal Year to Date return to 6.69% and the Calendar Year return to 13.32%.
- The Fund has underperformed the benchmark by 75 basis points for the fiscal year, but is ahead of the benchmark by 66 basis points calendar year and is ahead for all other periods.
- As further discussed in the following pages, some of the underperformance FYTD is attributable to a reporting lag .

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## Fiscal Year to Date Attribution as of December 31, 2012

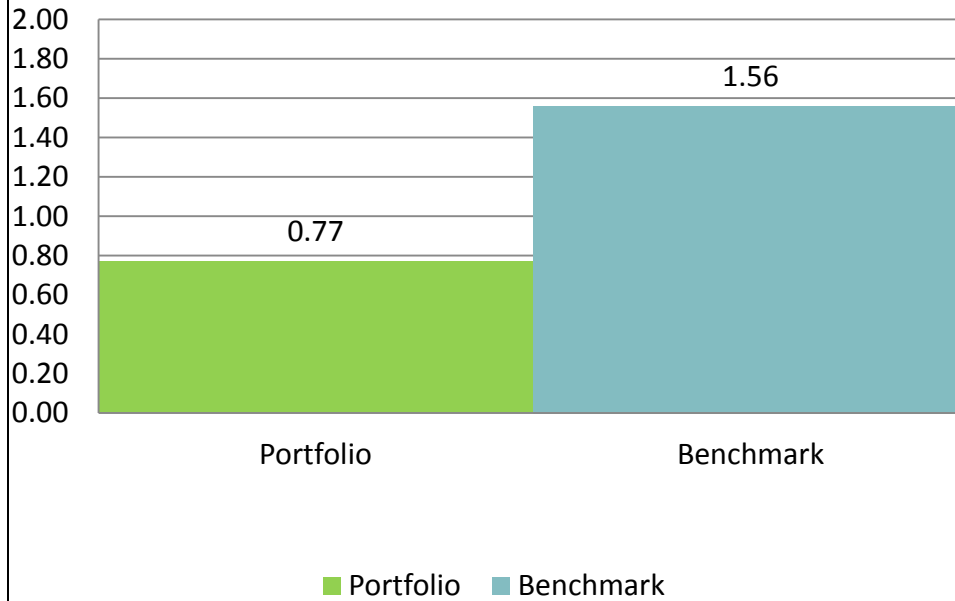
Contribution from Asset Allocation was positive for all asset classes except Liquidity with an overweight to Global Growth and an underweight to Risk Mitigation being the largest contributors.



It is important to note that approximately 18% of the assets in the Global Growth portfolio, 22% of the assets in the Income portfolio, and nearly 90% of the assets in the Real Return portfolio are reported on a lag. Given the strong performance of risk markets for the first six months of the fiscal year, we believe the performance of these three categories is understated.

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### Risk Mitigation FYTD Performance as of Dec 31, 2012

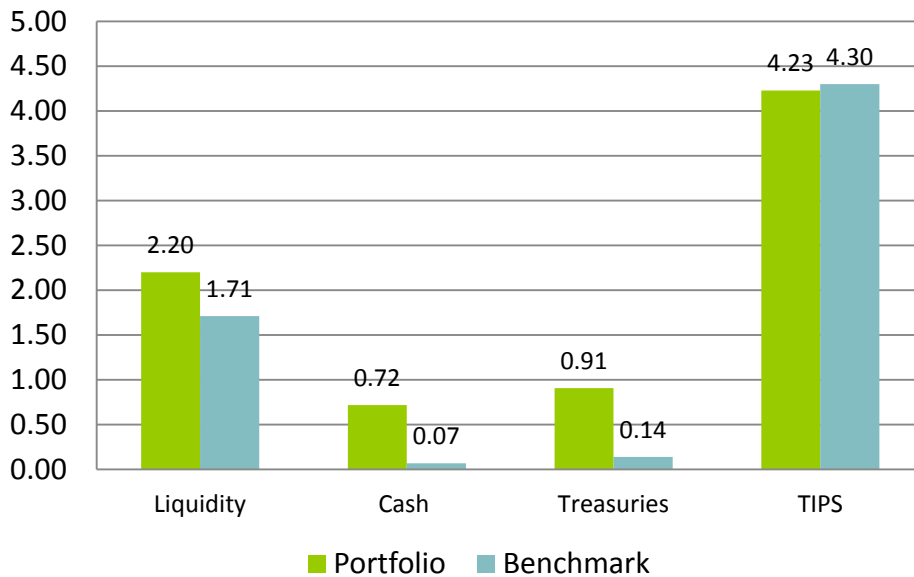


Returns as of Dec 31, 2012	1 Month	3 Months	FYTD	CYTD	1 Year
Absolute Return Hedge Funds	0.26	(0.13)	0.77	2.69	2.69
Fund of Fund Lag	0.44	1.04	2.23	3.02	3.02
<i>Difference</i>	<i>(0.18)</i>	<i>(1.16)</i>	<i>(1.46)</i>	<i>(0.33)</i>	<i>(0.33)</i>

- The Risk Mitigation return is composed of the returns of the 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 0.77% FYTD and 2.69% CYTD in what has been a challenging environment for macro oriented managers.

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### Liquidity FYTD Performance as of Dec 31, 2012

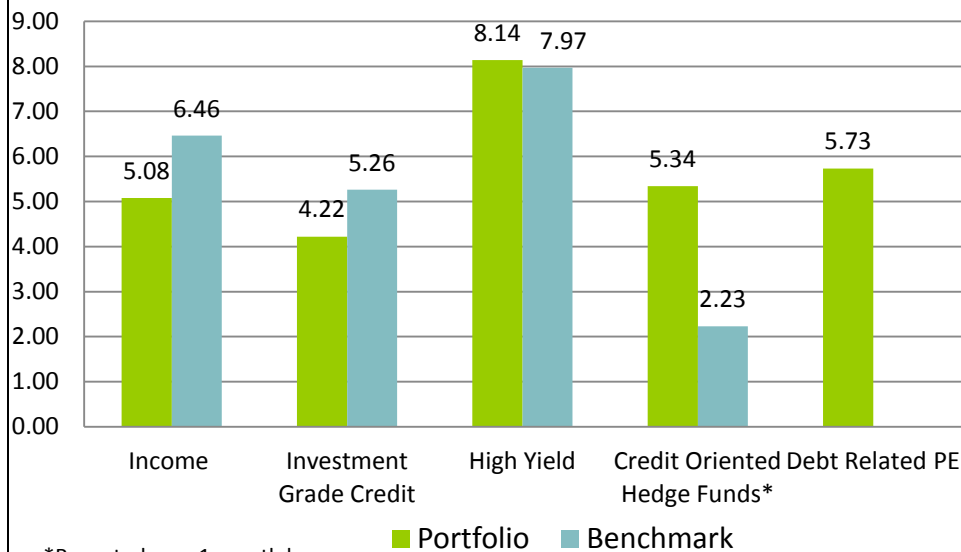


Returns as of Dec 31, 2012	1 Month	3 Months	FYTD	CYTD	1 Year
Cash Equivalents	0.13	0.33	0.72	2.33	2.33
91 day treasury bill	0.02	0.04	0.07	0.11	0.11
<i>Difference</i>	<i>0.12</i>	<i>0.29</i>	<i>0.65</i>	<i>2.21</i>	<i>2.21</i>
US Treasuries	(1.45)	(0.05)	0.91	5.21	5.21
Custom Benchmark	(0.94)	(0.31)	0.14	1.65	1.65
<i>Difference</i>	<i>(0.51)</i>	<i>0.26</i>	<i>0.77</i>	<i>3.56</i>	<i>3.56</i>
TIPS	(0.88)	1.15	4.23	11.52	11.52
Custom Tips Benchmark	(1.34)	1.22	4.30	8.71	8.71
<i>Difference</i>	<i>0.46</i>	<i>(0.07)</i>	<i>(0.07)</i>	<i>2.80</i>	<i>2.80</i>

- The Liquidity portfolio has outperformed the benchmark by 49 basis points FYTD as cash and Treasuries have outperformed their respective benchmark while the TIPS portfolio has performed in line with the benchmark.
- An overweight to cash and an underweight to TIPS detracted from performance FYTD as Treasuries and TIPS both outperformed cash for the period.
- Over a trailing one-year period, all segments of the portfolio are well ahead of their respective benchmarks. The Treasuries and TIPS portfolios have benefited from having a longer duration than the benchmark.

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### Income FYTD Performance as of Dec 31, 2012



Returns as of Dec 31, 2012	1 Month	3 Months	FYTD	CYTD	1 Year
Investment Grade Credit	(0.52)	0.80	4.22	8.74	8.74
Custom IGC Benchmark	(0.19)	1.11	5.26	10.04	10.04
<i>Difference</i>	<i>(0.33)</i>	<i>(0.31)</i>	<i>(1.04)</i>	<i>(1.30)</i>	<i>(1.30)</i>
High Yield	1.12	4.35	8.14	19.84	19.84
Barclays Corp High Yield (Daily)	1.58	3.29	7.97	15.81	15.81
<i>Difference</i>	<i>(0.46)</i>	<i>1.07</i>	<i>0.17</i>	<i>4.03</i>	<i>4.03</i>
Credit-Oriented Hedge Funds	0.89	2.89	5.34	13.16	13.16
Fund of Fund Lag	0.44	1.04	2.23	3.02	3.02
<i>Difference</i>	<i>0.45</i>	<i>1.86</i>	<i>3.11</i>	<i>10.15</i>	<i>10.15</i>
Debt-Related Private Equity	0.59	5.79	5.73	16.36	16.36
Cambridge Assoc. PE Qtr Lag					
<i>Difference</i>					

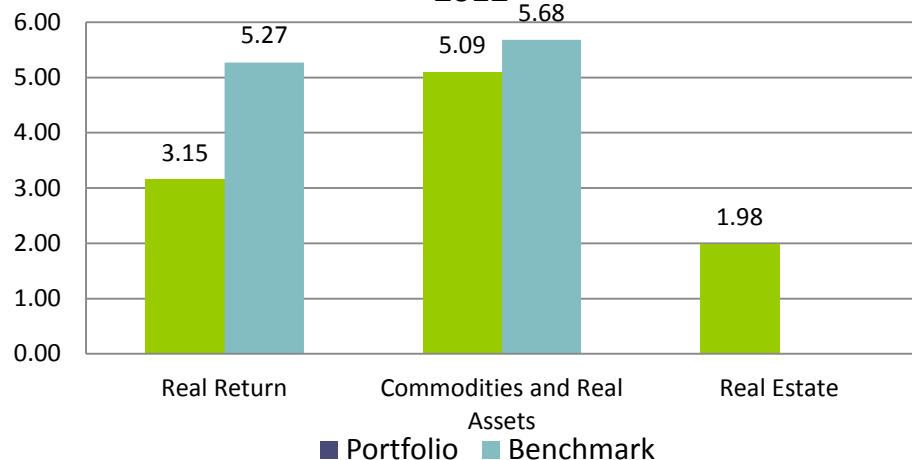
- The Income portfolio has underperformed by 138 basis points FYTD. It is important to note that 22% of the assets in this portfolio are reported on a lag. The high yield, credit oriented hedge fund and debt related PE portfolios are all effected by this lag and we believe the return shown for all is negatively impacted by this.
- We have reduced the overweight to the Income portfolio by approximately \$2.5 billion through the end of December. The Investment Grade Credit portfolio has underperformed the benchmark FYTD as we have lower-beta, higher quality securities in the portfolio and very minimal exposure to the financial sector. This positioning has caused us to underperform in what has been a risk on environment.
- Both traditional high yield and alternative high yield portfolios have performed well FYTD, up in excess of 8%.
- The Cambridge PE Index was not available at the time of this printing.

\* Reported on a one month lag

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### Real Return FYTD Performance as of Dec 31, 2012

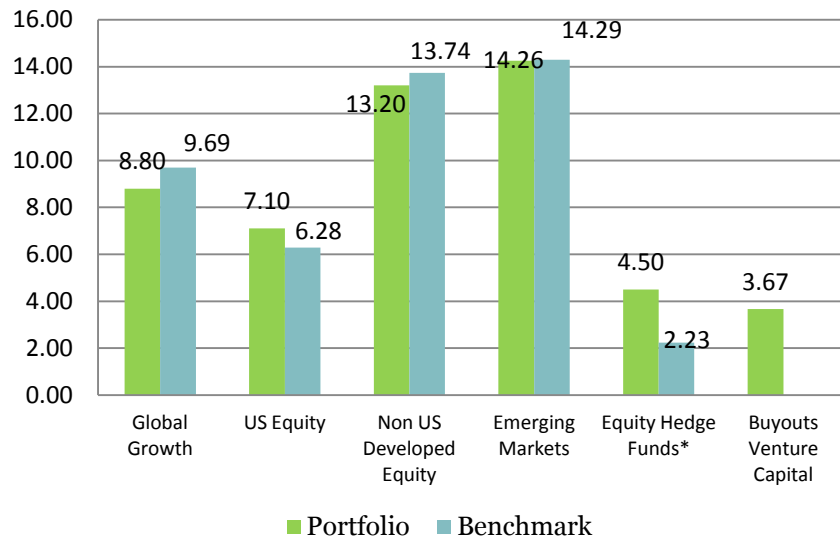


Returns as of Dec 31, 2012	1 Month	3 Months	FYTD	CYTD	1 Year
Commodities & Real Assets	(0.00)	(2.59)	5.09	2.56	2.56
SIS Real Return Index	(0.10)	(3.53)	5.68	2.82	2.82
<i>Difference</i>	<i>0.10</i>	<i>0.94</i>	<i>(0.59)</i>	<i>(0.26)</i>	<i>(0.26)</i>
Real Return Real Estate	1.24	1.67	1.98	9.55	9.55
NCREIF Property Index (Daily)					
<i>Difference</i>					

- The Real Return portfolio underperformed by 212 basis points FYTD, however, since the bulk of the portfolio is reported on a lag, we believe the performance of the portfolio is understated.
- The portion of the Real Return portfolio that is daily valued has outperformed the commodities markets by over 400 basis points FYTD.
- The 4<sup>th</sup> Quarter return for the NCREIF Property Index has not been published as of the time of this report. An estimated return for the Index was used to compute an estimated return for the Real Return benchmark.

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## Global Growth FYTD Performance as of Dec 31, 2012



Returns as of December 31, 2012	1 Month	3 Months	FYTD	CYTD	1 Year
Domestic Equity	1.33	0.19	7.10	17.55	17.55
S&P 1500 Super Composite (Daily)	1.10	0.03	6.28	16.17	16.17
<i>Difference</i>	<i>0.23</i>	<i>0.16</i>	<i>0.82</i>	<i>1.38</i>	<i>1.38</i>
Non-US Dev Market Eq	2.95	6.07	13.20	17.92	17.92
NJDI ex Iran& Sudan EAFE + Canada	2.96	5.97	13.74	17.01	17.01
<i>Difference</i>	<i>(0.01)</i>	<i>0.10</i>	<i>(0.54)</i>	<i>0.92</i>	<i>0.92</i>
Emerging Market Eq	6.14	6.81	14.26	20.39	20.39
NJDI Iran + Sudan Free EM Index	4.76	6.30	14.29	20.04	20.04
<i>Difference</i>	<i>1.38</i>	<i>0.51</i>	<i>(0.03)</i>	<i>0.35</i>	<i>0.35</i>
Total Equity Oriented Hedge Funds*	0.45	2.86	4.50	8.30	8.30
HFRI Fund Of Funds Lag	0.44	1.04	2.23	3.02	3.02
<i>Difference</i>	<i>0.01</i>	<i>1.82</i>	<i>2.27</i>	<i>5.28</i>	<i>5.28</i>
Buyouts-Venture Capital	0.71	3.48	3.67	12.35	12.35
Cambridge Associates PE 1 Qtr Lag					
<i>Difference</i>					

- The Global Growth portfolio has underperformed the benchmark 89 basis points FYTD. It is important to note that 18% of the assets in this portfolio are reported on a lag. The equity hedge funds and buyouts/VC are effected by this lag and we believe the return shown for both is negatively impacted by this.
- The Fund's overweight to Global Growth, in particular US and Developed non-US equity, has positively impacted total fund performance FYTD.
- The Domestic Equity portfolio is off to a good start to the fiscal year, outperforming the benchmark in 4 of 6 months. The portfolio is now ahead of the benchmark by 82 basis points FYTD.
- The Developed Market Non US equity portfolio is behind the benchmark by 54 basis points FYTD, as the actively managed portfolio underperformed. The total Developed Non US Equity portfolio is ahead of the benchmark by over 92 basis points on a trailing one year basis.
- The Emerging Markets portfolio had a strong month of December, primarily driven by the ETF portfolio.
- The Cambridge PE Index was not available at the time of this printing.

\*Reported on a one month lag

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