

NJ DIVISION OF INVESTMENT

Director's Report

State Investment Council
July 21, 2021

“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 May 31, 2021)

	Calendar YTD	Fiscal YTD	One Year	Three Years (Annualized)	Five Years (Annualized)
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Global Equity Indices

MSCI ALL Country World Index	10.84	37.46	41.85	13.85	14.17
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US Equity Indices

Russell 3000	12.33	40.68	43.89	18.00	17.34
Russell 1000	12.13	39.56	42.65	18.40	17.44
Russell 2000	15.30	58.92	64.54	13.02	15.97
Russell Growth	6.16	34.68	40.50	22.37	21.73
Russell Value	18.97	46.99	46.31	12.72	12.40

Non-US Equity Indices

MSCI EAFE	10.07	33.86	38.41	8.23	9.77
MSCI Emerging Markets	7.26	40.66	51.00	9.64	13.87

Fixed Income Indices

Bloomberg Barclays U.S. Aggregate	-2.29	-1.03	-0.40	5.05	3.25
Bloomberg Barclays U.S. Treasury	-3.20	-3.84	-3.75	4.44	2.47
Bloomberg Barclays U.S. Credit	-2.74	1.47	3.32	6.72	4.79
Bloomberg Barclays U.S. High Yield	2.25	13.84	14.96	7.11	7.39

Commodities

Bloomberg Commodities Index	18.92	42.86	46.10	0.77	1.70
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Real Estate

Bloomberg U.S. REIT Index	17.77	28.94	31.90	11.80	8.69
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FY21 Public Market Update: Asset Allocation and Net Returns (May 31, 2021)

Asset Class	ASSET ALLOCATION As of May 31, 2021			FYTD through May 31, 2021	
	Mkt Value (in \$ millions)	Actual (%)	Target (%)	NJ	Benchmark
<u>GLOBAL GROWTH</u>					
US Equities	25,474	27.86%	27.00%	40.62%	40.73%
Non-US Developed Market Equities	12,827	14.03%	13.50%	35.76%	34.65%
Emerging Market Equities	5,544	6.06%	5.50%	42.41%	40.80%
<u>INCOME</u>					
Investment Grade Credit	7,460	8.16%	8.00%	-0.63%	-0.30%
High Yield	2,065	2.26%	2.00%	14.60%	13.82%
<u>DEFENSIVE</u>					
U.S. Treasuries	5,804	6.35%	5.00%	-4.02%	-3.84%

ExxonMobil Corporation Proxy Vote

- ExxonMobil's (XOM's) 2021 Annual Shareholder Meeting was held on May 26
 - XOM is the largest North American energy firm and DOI's largest energy holding
 - Start-up activist investor, Engine No.1 proposed a slate of 4 dissident directors
 - Following thorough research, DOI supported the full Engine No. 1 slate
 - The Division held meetings with Engine No.1, ISS, ExxonMobil and director nominee Mr. Runevad
 - DOI concluded that the dissident nominees possessed key experience and expertise lacking among the board incumbents
 - ESG Committee members supported a vote for the full dissident slate
 - Despite extensive efforts by XOM management to support incumbents, Three of the four dissident directors won seats on the XOM board
 - This vote marks a major shareholder engagement success that will likely have a meaningful impact on the strategies of ExxonMobil and the energy sector overall

Notification: Modifications to Magenta Fund Ltd.

Background: In April 2021, the Division invested \$100 million in Magenta Fund Ltd. (the Fund) managed by Nephila Capital Ltd.(Nephila). The Fund targeted a combination of investments in traded catastrophe bonds (Cat Bonds) and insurance-linked strategies (ILS) contracts, with an anticipated allocation of 50/50 to each category of investment.

Modification: In May 2021, Nephila notified the Division that, due to influx of large investors into reinsurance market, insurance yields for Cat Bonds had contracted significantly, making it unattractive to continue deploying cash into those investments until the next underwriting cycle in January 2022. As a result, Nephila has proposed altering the allocation of the Fund's investments for the remainder of the 2021 calendar year from 50 percent Cat Bonds and 50 percent ILS contracts to 55 percent ILS contracts, 25 percent Cat Bonds and 20 percent cash, with the uninvested cash to be used for mid-season trades in connection with loss events. In the past, these mid-season trades were proven to be quite profitable. The Division is also considering modifying the investment to allow the Division to receive cash distributions subject to recall by the Fund.

Impact on Pension Fund: The targeted returns for the Fund are expected to decrease temporarily from the originally projected 4%-7% net return per cycle to a projected 2%-4% net return. These returns remain appealing given interest rates on securities with similar liquidity are currently returning near zero percent. Nephila has agreed to waive all management fees on excess uninvested cash commencing June 2021.

**The Director is notifying the SIC of this modification in accordance with the
Alternative Investment Modification Procedures**

Notification: Modification to Funds Managed by Neuberger Berman

Background: In 2018, Common Pension Fund E committed \$200 million to NB/NJ Custom Investment Fund III. During the September 30, 2020, Council meeting, the Division presented “an investment of up to \$350 million in a separately managed investment vehicle (the “Fund”) to be managed by Neuberger Berman (the “Firm”).”

Modification: The purpose of this notification is to clarify that the Fund presented at the September 2020 Council meeting is the existing NB/NJ Custom Investment Fund III, and not a new, distinct fund.

Impact on Pension Fund: None.

**The Director is notifying the SIC of this modification in accordance with the
Alternative Investment Modification Procedures**

Notification: Update on Owl Rock/Dyal Merger

Background: In connection with the Pension Fund's \$400 million commitment to Owl Rock Capital Corporation in 2016, the Pension Fund received 250,000 Class A Units in Owl Rock Capital Group ("ORCG"). In May 2021, the Division was notified that ORCG and Dyal Capital Partners ("Dyal") had merged into a newly formed entity, Blue Owl Capital Inc. ("Blue Owl"), a publicly-traded entity (NYSE: OWL). As of that date, the value of the Pension Fund's interest in Blue Owl was estimated to be approximately \$138 million.

Update: During the March 2021 Council meeting, the Division notified the SIC that the Division expected to submit a revocable election to receive partnership units in Blue Owl Capital Holdings LP and Blue Owl Capital Carry LP in connection with the Owl Rock/Dyal merger, noting that if the Division was unable to successfully negotiate partnership terms it would receive shares of Blue Owl Class E common stock instead. After an unsuccessful negotiation of partnership terms, the Division now expects to receive approximately 11.68 million fully vested shares of OWL common stock (subject to a lock-up period) plus an additional 1.125 million shares, subject to certain vesting provisions.

Impact on Pension Fund: The management team is unchanged as a result of the Owl Rock/Dyal Merger. The Pension Fund will not be liable for any additional commitments of capital, nor will there be any management fees, incentive fees, carried interest or other similar fees in connection with the receipt of the Blue Owl shares.

**The Director is notifying the SIC of this modification in accordance with the
Alternative Investment Modification Procedures**

Notification: Clarification of Stonepeak Infrastructure Fund IV LP Management Fee

Background: During the March 2021 IPC and SIC meetings, Division Staff presented a commitment of up to \$200 million to Stonepeak Infrastructure Fund IV LP (the “Fund”), allocated as \$125 million to the Fund and \$75 million to a co-investment sidecar vehicle alongside the Fund. The Fund will invest across infrastructure assets primarily in North America.

Clarification: At the March meetings, Division Staff described the Fund’s management fees as 1.225% p.a. on committed capital during the investment period and on net invested capital after the investment period ends. Staff hereby clarifies that the 1.225% fee is an initial fee that sunsets on the third anniversary of the Fund’s effective date (representing the fee arrangement for first close investors), and reverts back to 1.375% thereafter. The Fund’s effective date was October 31, 2020 and the sunset will occur on October 31, 2023. The 1.375% fee (“Consultant Aggregation Management Fee”) is the fee level for clients of consultants whose aggregate client commitments are greater than or equal to \$250m, which is the case with the Division’s consultant.

Impact on Pension Fund: The Division believes that the fee structure is advantageous to the Division, and does not anticipate a material impact to the Pension Fund. Both the 1.225% initial fee and the 1.375% subsequent fee are lower than the Fund’s standard fee of 1.5%. The 1.375% fee matches what the Division is paying on its \$125 million commitment to Stonepeak Infrastructure Fund III.

**The Director is notifying the SIC of this modification in accordance with the
Alternative Investment Modification Procedures**