NEW JERSEY DIVISION OF INVESTMENT

Director’s Report

November 19, 2014

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.”

Key Investment Themes: Implications for New Jersey Portfolio

The U.S. economy is showing signs of emerging from a tepid recovery to a more normalized longer-term growth rate

- Over the past six months, the economy has expanded at a rate above 4% (annualized)
- The labor market has improved and is moving towards the Fed's estimated range of full employment
- The strong U.S. dollar and weak commodity prices are impacting global asset class valuations and may provide further support to the economic recovery
- The slow rebound of the housing market continues to dampen growth somewhat
- Disinflationary factors may extend the timeframe for accommodative monetary policy

NJDOI is overweight U.S. Equities relative to the policy benchmark

Monetary policy is diverging between the Federal Reserve and other central banks as the U.S. continues in its recovery while the Eurozone and Japan struggle to stimulate growth

- The Fed has ended its quantitative easing (QE) program and has signaled a move toward more restrictive monetary policy that may commence in 2015
- The BOJ has expanded its QE program and has announced plans to increase buying of equity securities
- The ECB may introduce a formal QE program and has signaled an expansion of accommodative monetary policy
- Divergent monetary policies reflect contrasting fundamental outlooks and less favorable global economic prospects vs. the U.S.
- Higher volatility from historically low levels appears likely
- Divergent Central Bank policies favor currency and rates strategies that realized more modest returns in an homogenous policy environment

NJDOI is underweight non-U.S. Developed Markets relative to the policy benchmark
NJDOI remains committed to its Global Macro Hedge Fund Strategies as part of its Risk Mitigation portfolio
NJDOI has maintained its Cash allocation above historical norms

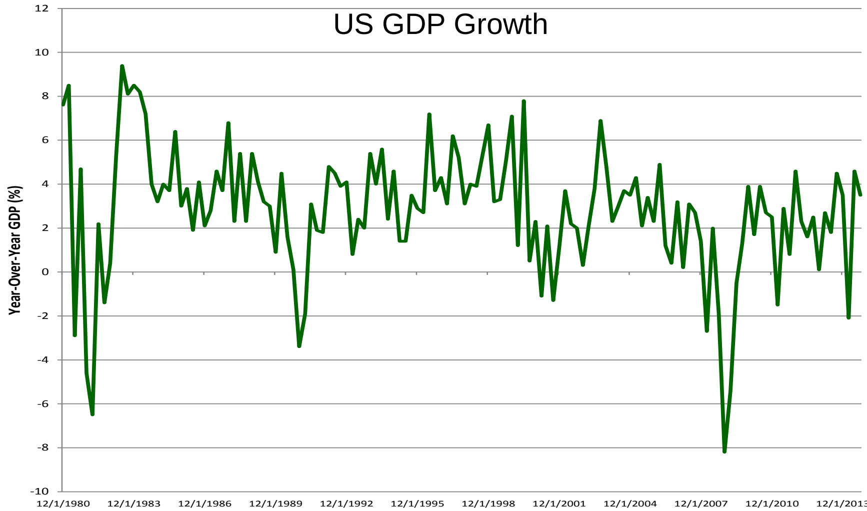
Artificially low interest rates are a by-product of QE and are unsustainable over time

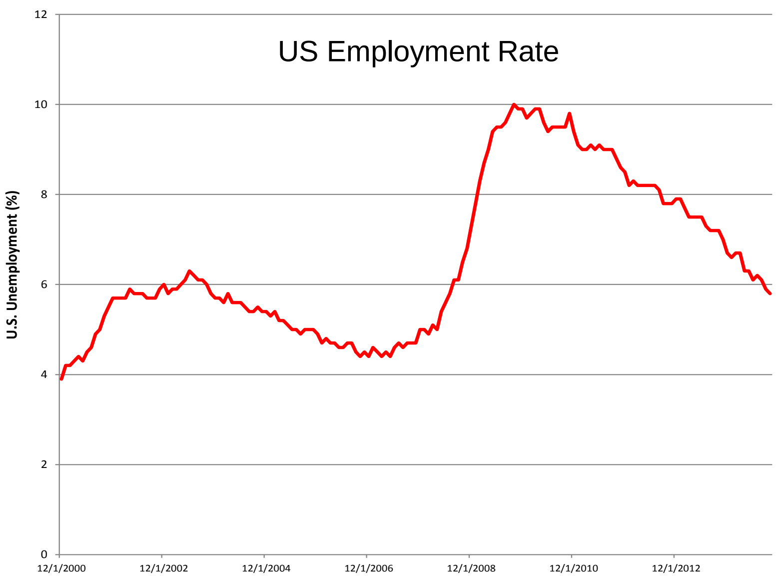
- Negative real interest rates are partially the result of the Fed's purchase program
- A sustained economic recovery may prove inflationary over time, particularly in the wake of extraordinary policy accommodation

The NJDOI is maintaining a below duration profile within its Liquidity Portfolio to preserve capital and to cushion the portfolio should yields move to more normalized levels

Update on the U.S. Economy: GDP Growth and Employment

During the third quarter of 2014, the U.S. economy expanded 3.5% (annualized), beating the median estimate of 3%. This was on the heels of a 4.6% growth rate in the prior quarter, capping the fastest six-month expansion in more than a decade. The two strong quarters followed an especially weak first quarter that was at least partially due to severe winter weather in parts of the country. Key drivers of economic expansion during the third quarter included the biggest increase in government spending in the past five years, as well as an improvement in the U.S. balance of trade.





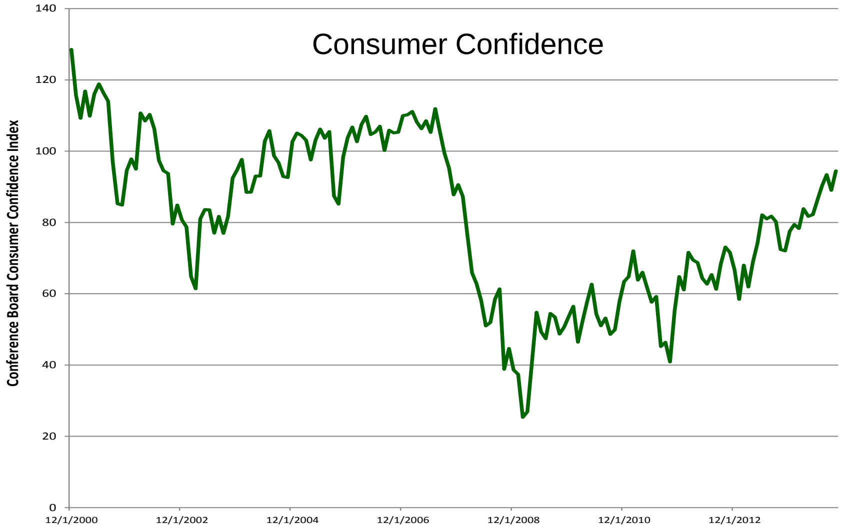
According to the Fed, "there has been a substantial improvement in the outlook for the labor market since the inception of its current purchase program (QE3)." **In October, the unemployment rate declined to 5.8%**, the best reading since the summer of 2008 and just 0.3% above the upper range of the Fed's estimate of full employment. October also marked the ninth consecutive month of net payroll gains exceeding 200,000 at the same time the underemployment rate dropped to 11.5%. Notwithstanding a meager 2% increase in average hourly wages over the past year, an upturn in hours worked in conjunction with favorable job creation have moved the Labor Department's payrolls index up 4.8% over the past year, the fastest pace since March 2012.

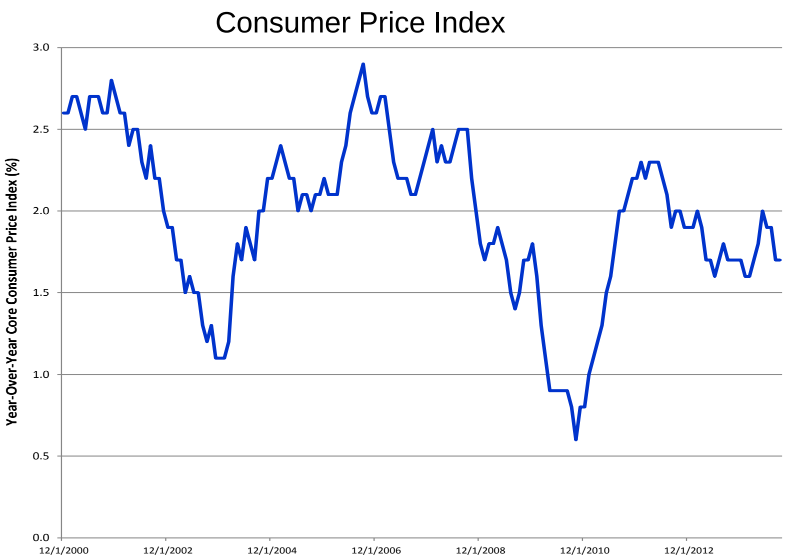
The U.S. economy realized favorable growth during the third quarter of 2014, supported by increased government spending and an improvement in the trade deficit. Looking ahead, final demand may be buoyed by the rebuilding of inventories, as well as an improving outlook for the labor market.

Source: Bloomberg

Update on the U.S. Economy: Consumer Confidence and Inflation

Consumer confidence reached its highest level since October 2007 as the outlook for jobs and wages has improved at the same time energy prices have declined and the U.S. equity market reached its highest level on record. The sustainability of favorable growth may rest upon consumer spending that accounts for 2/3 of the U.S. economy. During the third quarter, personal expenditures grew at a modest 1.8%, while certain indicators suggest consumer spending may begin to accelerate.





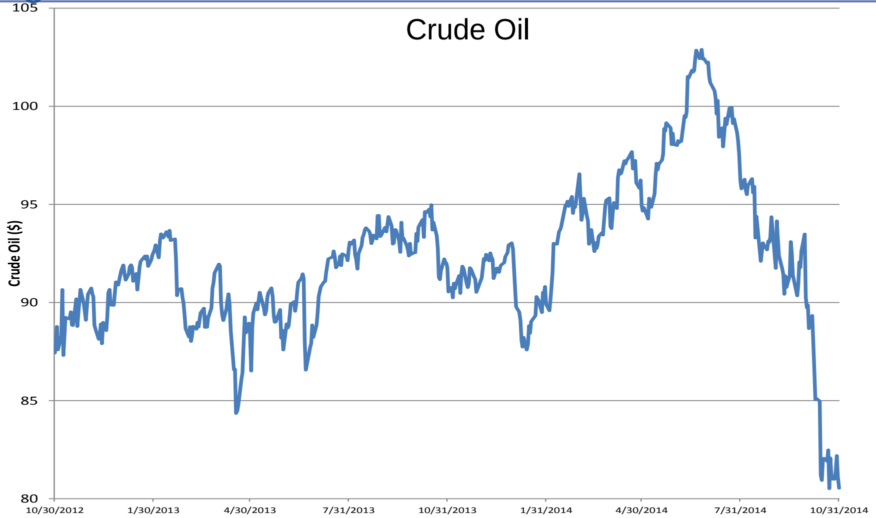
The Fed also noted, "Inflation has continued to run below the Committee's longer-run objective (and)... inflation in the near term will likely be held down by lower energy prices and other factors." **Core consumer prices have risen 1.7% over the past year** as a result of the aforementioned decline in energy prices in conjunction with a global economic slowdown. In the meantime, producer prices declined (-0.1%) in September for the first time since August 2013 as the declining energy sector reduced wholesale costs, suggesting consumer prices may remain muted.

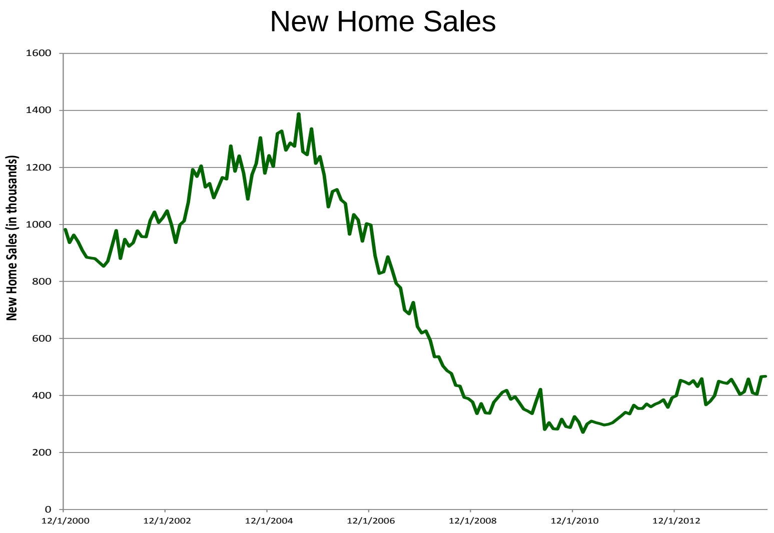
The highest reading in seven years for consumer confidence, coupled with the wealth effect of a record-high equity market, bodes well for economic growth prospects, particularly in light of the dampened outlook for inflation that may further extend the timeframe for accommodative monetary policy.

Source: Bloomberg

Update on the U.S. Economy: Oil Prices and Housing

Oil prices have declined by nearly 25% since June. Among factors contributing to the decline are growth in US production and slowing demand from Europe and China. Cheaper oil should result in extra cash for US consumers to spend during the holiday season as the average price for a gallon of gas is in the US is now $2.92, its lowest level in over four years. The downside of lower prices is that if they fall too far, it could negatively impact US oil output and US Energy producing companies.





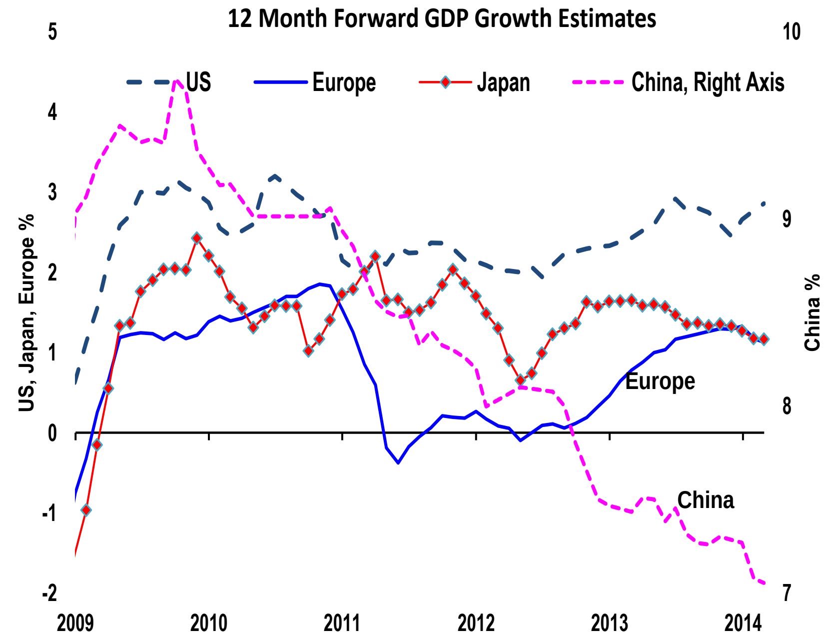
Residential fixed investment decelerated during the third quarter as the housing sector remained a drag on economic growth. The slow recovery of the housing market reflects tighter credit standards and the aftermath of a residential mortgage crisis that resulted in short sales or foreclosures on 17% of all outstanding mortgages as of 2006, leaving a significant portion of potential buyers unable to qualify for borrowing. Despite exceptionally low mortgage rates, **sales of new homes have languished for the past five years at a pace of approximately one-third the rate realized prior to the onset of the housing crisis**. More recently, modest improvements in housing starts and permits suggest the housing drag on growth may subside.

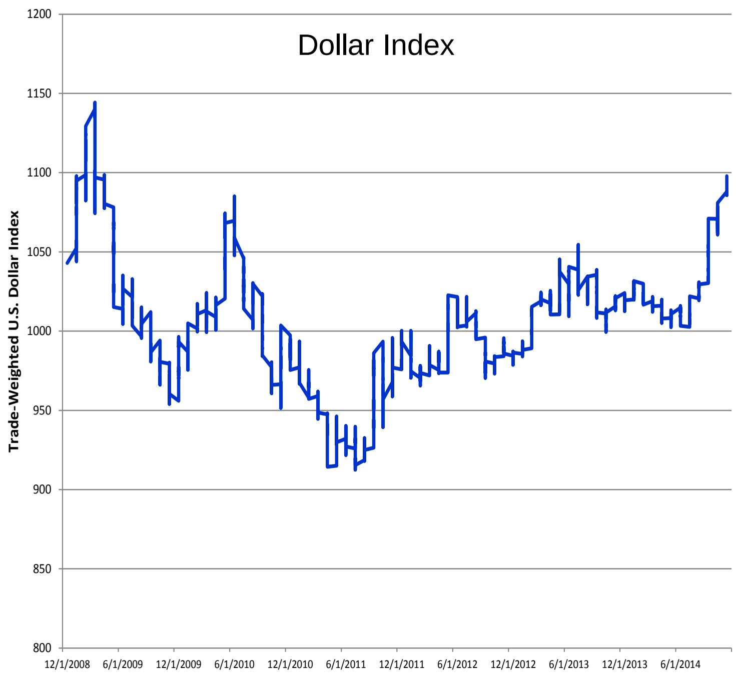
A weakening global economic environment and increasing production have led to a sharp decline in oil that may help accelerate consumer spending, particularly as we head into the holiday season. In the meantime, residential fixed investment remains a drag on otherwise favorable economic growth.

Source: Bloomberg

Update on the U.S. Economy: US Dollar

Consensus US GDP forecasts are being revised higher vs peers. Improving fundamentals of the US economy plus the prospect of rising interest rates (especially as Japan has increased its QE program and Europe may be forced into one) are attracting flows to the dollar currency.





In October, **the trade-weighted dollar appreciated to its highest level since April 2009,** supported by market expectations of a move toward less accommodative monetary policy, as well as weakening growth prospects in China and Europe.

The improving U.S. economic outlook relative to the global landscape has buoyed a pronounced strengthening of the U.S. dollar, with divergent monetary policies adding further support to the greenback.

Source: Bloomberg and Credit Suisse

U.S. Quantitative Easing: The Economic and Financial Environment Before and After

	BEFORE (Dec 2008)	AFTER (Oct 2014)
U.S. Economy		
GDP (QOQ)	-8.20%	3.50%
Unemployment	7.30%	5.80%
Non-farm payroll	-697k	+214k
Inflation (CPI YOY)	0.10%	1.70%
Financial Markets		
S&P 500	903	2,018
10 year Treasury yield	2.21%	2.34%
Investment grade spreads (bps)	493	112
High yield spreads (bps)	1,662	415

The labor market and the broader economy have undergone a meaningful recovery from a deep recession and deflationary risks have subsided

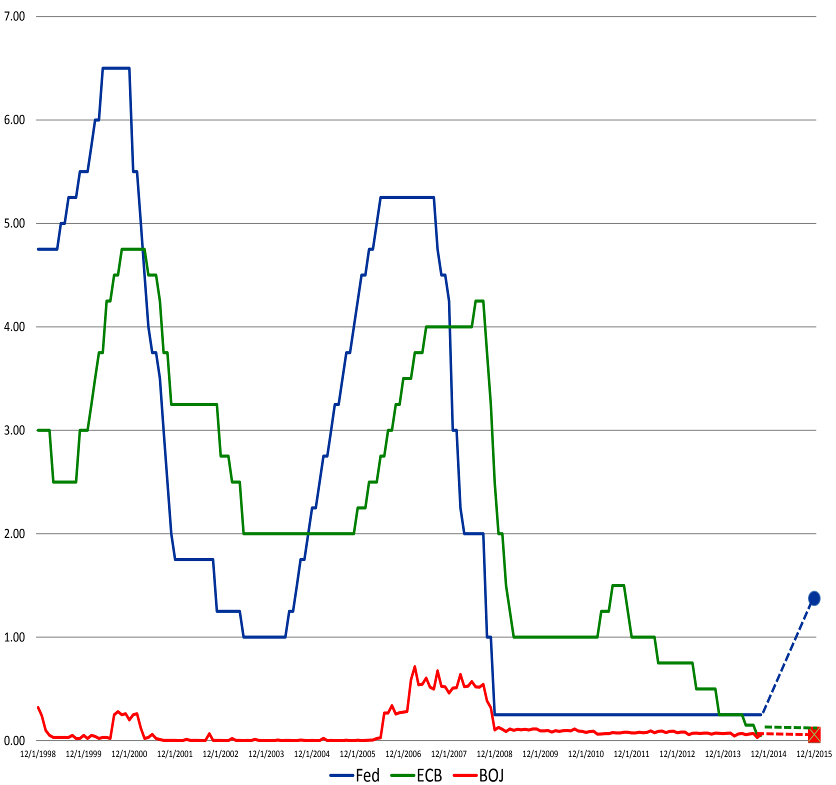
Investors have been rewarded by moving further along the risk spectrum as equities have realized strong returns and credit spreads have narrowed sharply

On October 29, the Federal Reserve concluded the expansion of its massive Treasury, Agency and Mortgage-Backed Securities purchase program that coincided with strong financial market returns and a more favorable outlook for the broader economy

Source: Barclays Capital and Bloomberg

U.S. Federal Reserve Monetary Policy is Diverging from other Central Banks

Global Central Bank Targeted Overnight Lending Rates

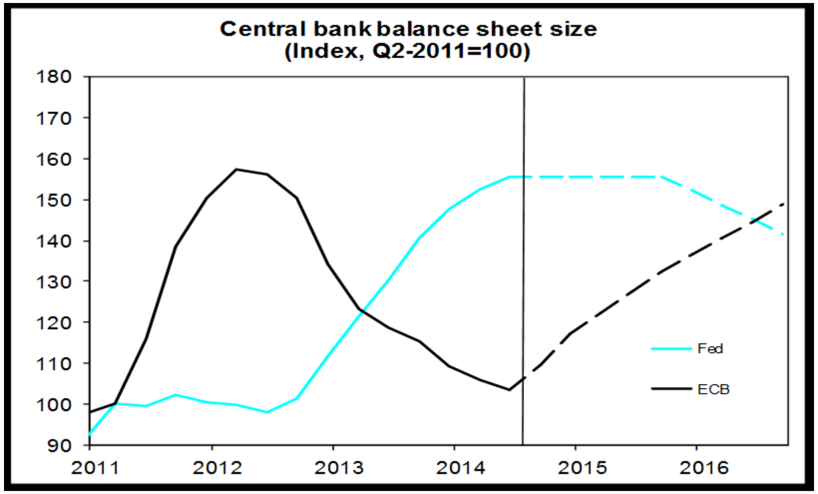


	U.S.	E.U.	Japan	
GDP growth (%)				
2013	2.2	-0.4	1.5	The U.S. economy is expected to expand at a rate near potential, but Europe and Japan face tepid economic prospects
2014P	2.2	0.8	1.0	
2015P	3.0	1.2	1.1	
Unemployment (%)				
2013	7.4	12.0	4.0	The U.S. unemployment rate is approaching its NAIRU, while the E.U. jobless rate is expected to remain above 11%
2014P	5.8	11.6	3.6	
2015P	5.6	11.3	3.6	
Inflation (%)				
2013	1.5	1.4	0.4	The U.S. appears to face less risk of deflation versus Europe and Japan
2014P	1.7	0.5	2.8	
2015P	1.8	1.0	1.9	
2015 Monetary Policy				The U.S. has ended its QE program and is poised to raise its targeted Fed Funds rate, while both Europe and Japan are contemplating further easing
Higher Targeted Rate	✓	✗	✗	
Quantitative Easing	✗	?	✓	

An accommodative U.S. stance has led global central bank monetary policy to date. U.S. policy will likely be less accommodative in the near-term, while further easing is widely expected in Europe and Japan. The divergence in policies mirrors disparate economic growth prospects and inflation outlooks.

Source: Bloomberg

U.S. Federal Reserve Monetary Policy is Diverging from other Central Banks

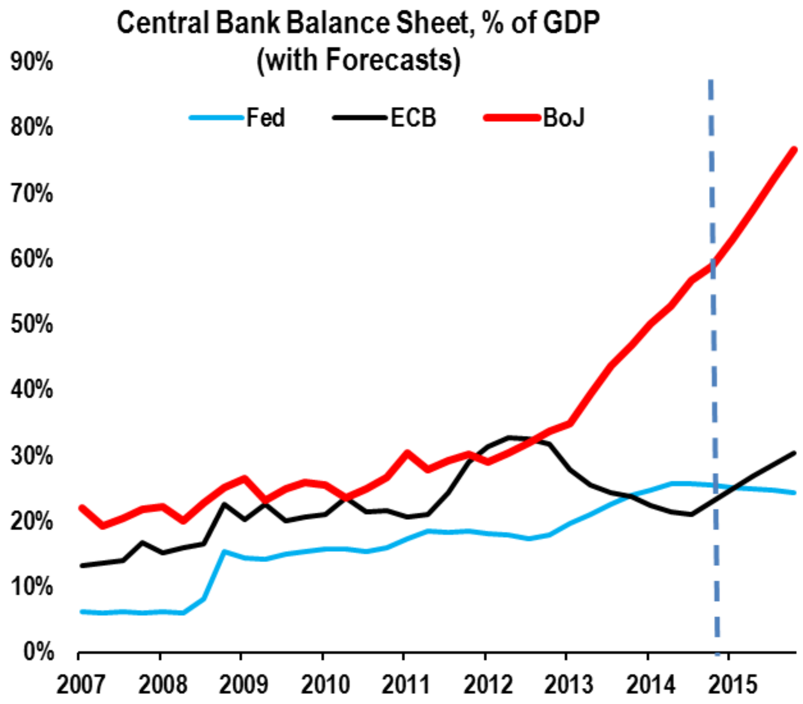


"…the Committee decided to conclude its asset purchase program this month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction."

Federal Reserve Board of Governors
October 29, 2014

"Together with the series of targeted longer-term refinancing operations to be conducted until June 2016, these asset purchases will have a sizeable impact on our balance sheet, which is expected to move towards the dimensions it had at the beginning of 2012"

Mario Draghi, ECB President
November 6, 2014



The Bank of Japan (BoJ) plans to buy government bonds at an annual rate of 16% of GDP.
Its balance sheet is set to comprise 80% of GDP compared to the forecast 20% to 30% levels of the US and Europe (ECB).

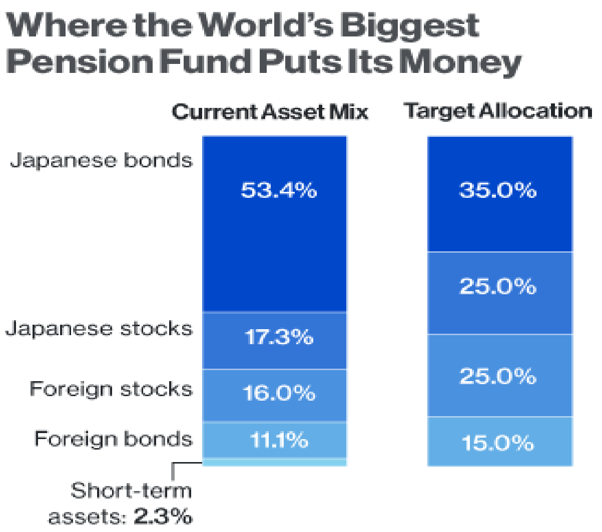
Source: Bloomberg, Credit Suisse

BoJ Monetary Policy Announcements Could Have Global Implications on Equity Markets

BOJ announcement of additional stimulus to purchase JPY 3trn (US$ 26 bn) ETFs in expansion of Qualitative and Quantitative Easing (QQE)

- Market rallied on announcement
- Questions on long-term effectiveness due to implementation

Government Pension Investment Fund (GPIF) announced major asset reallocations to increase both domestic and global equity to 25%, other domestic pensions to follow



Potential decrease in domestic bonds up to $232 bn

- Potential for further currency (JPY) weakening
- Export of deflationary pressures abroad, especially Asia

Source: MSCI, Rimes, Morgan Stanley Research. Data as of Nov 11, 2014.

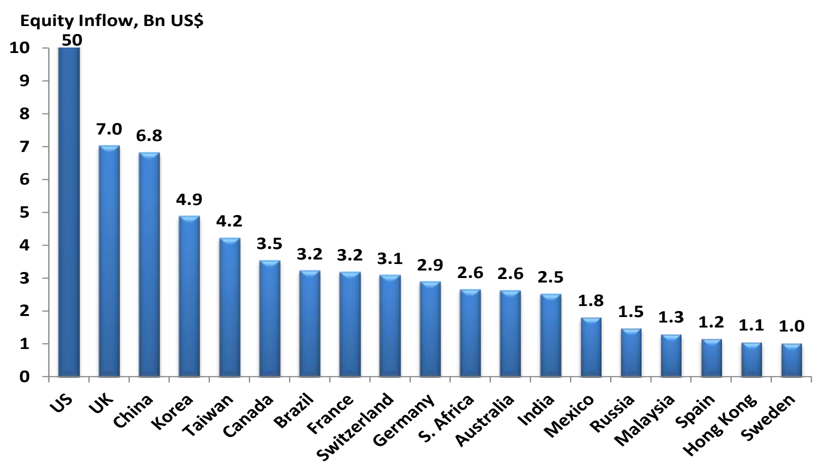
Country	MSCI Investable Market Cap Bn US$	Equity Inflows Bn US$	Equity Inflows % of Investable Mkt Cap
Total	34,289	113.4	0.33%
EM	3,901	33.9	0.87%
DM	30,389	79.5	0.26%

Potential increase in domestic stocks up to $97 bn

- Equity flows to passive vehicles (ETFs) affects stock prices without discernment

Potential increase in global stocks up to $113 bn

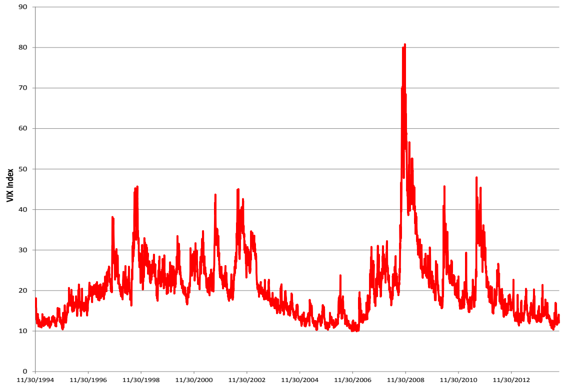
- largest % impact on Emerging Markets due to benchmark change (from World to ACWI)



Source: GPIF. Bloomberg. Flow estimates are based on GPIF reported AUM reported on June 30, 2014

Divergent Monetary Policy May Heighten Uncertainty and Increase Volatility

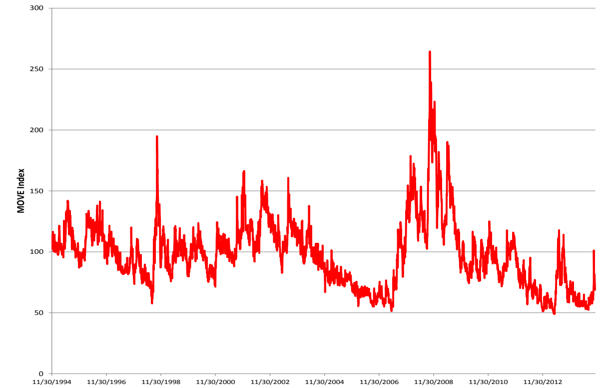
Equity Volatility



In recent years, volatility has been low in an historical context

	Equities (VIX Index)	Fixed Income (MOVE Index)
Average Volatility		
One Year	14	62
Twenty Years	21	98

Fixed Income Volatility



Select Capital Market Returns September 18 – October 31

	September 18 – October 15	October 15 – October 31	September 18 – October 31
U.S. Equities			
Broad Market (Russell 3000)	-7.55	8.57	0.37
Small Cap (Russell 2000)	-7.38	9.45	1.37
Large Cap (Russell 1000)	-7.56	8.50	0.29
Growth (Russell 1000 Growth)	-7.31	8.84	0.88
Value (Russell 1000 Value)	-7.82	8.15	-0.31
Airlines (Dow Jones Airline)	-16.19	24.07	3.98
Global Equities			
Developed Market (MSCI EAFE)	-9.10	5.37	-4.22
Emerging Market (MSCI EM)	-6.90	3.48	-3.66

	September 18 – October 15	October 15 – October 31	September 18 – October 31
U.S. Fixed Income			
Broad Market (Barclays Aggregate)	2.37	-0.90	1.45
Long Treasuries (Barclays)	8.56	-2.96	5.35
High Yield (Barclays)	-2.21	2.28	0.02
Currencies			
US Dollar (Bloomberg Trade Weighted)	0.75	1.84	2.61
Commodities			
Broad Market (Bloomberg)	-2.89	0.63	-2.28
Gold	1.38	-5.56	-4.26
Oil (Crude)	-11.43	-0.49	-11.87

Recent sharp moves in capital market returns may be a harbinger of increasing volatility following a prolonged period of dampened volatility that corresponded to broadly uniform global monetary policy in the developed markets

Source: Bloomberg

Update on U.S. Treasury Yields: Real Interest Rates Remain Low in an Historical Context

Real U.S. Interest Rates
1964 – 2014

Nominal U.S. Yield Curve Steepness
1980 – 2014

Exceptionally low yields in conjunction with accommodative monetary policy has resulted in low real interest rates, even as inflationary pressures have remained tempered

Nominal yield curves remain steep versus historical norms, partly reflecting elevated uncertainty regarding the future path of inflation

(in %)	5 yr real rate	10 yr real rate
Minimum	**-4.94**	**-4.90**
Maximum	**9.51**	**9.64**
Average (5 years)	**-0.59**	**0.54**
Average (50 years)	**2.10**	**2.44**
Now	**0.07**	**0.65**

While real yields are low, nominal curves are steep. Low real yields should imply a low expectation for increasing inflation, while steep curves suggest inflationary pressures may rise.

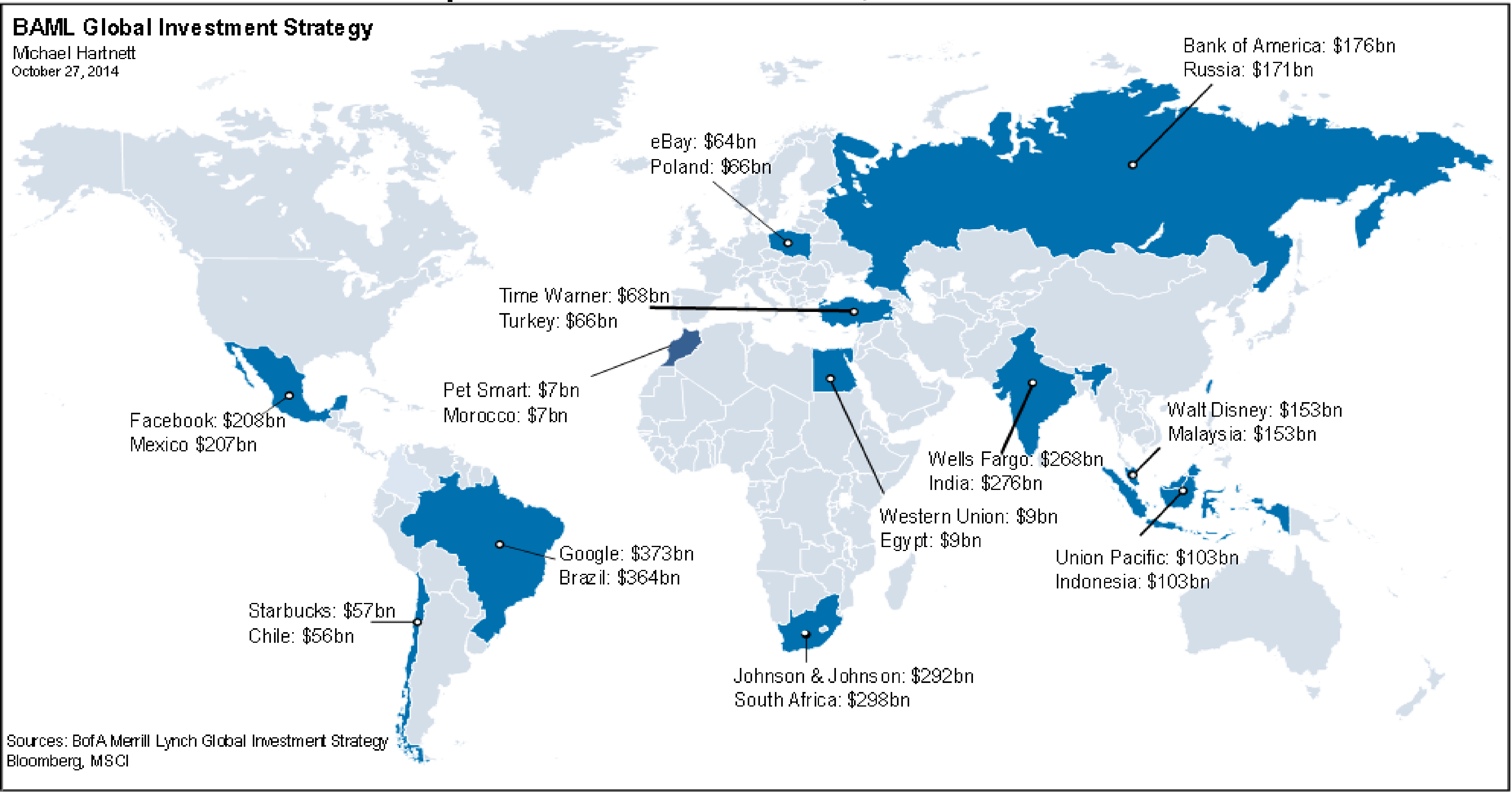
(in bps)	5-30 curve	10-30 curve
Minimum	**-133**	**-71**
Maximum	**282**	**138**
Average (5 years)	**218**	**105**
Average (24 years)	**87**	**39**
Now	**144**	**72**

Notwithstanding structural risks associated with the unwinding of unprecedented policy accommodation, a defensive posture may be warranted for fixed income based on fundamental valuations.

Source: Bloomberg

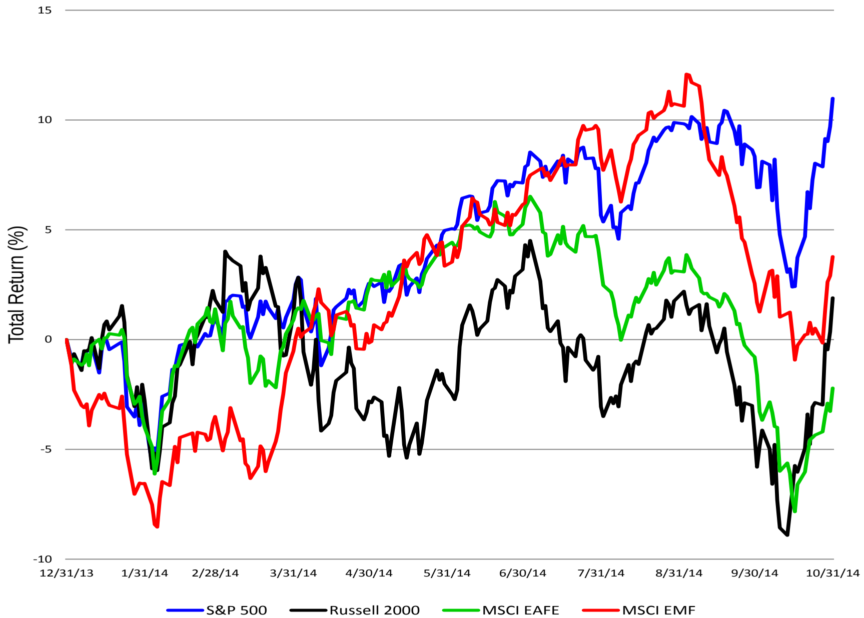
Some Perspective

US Companies versus EM Countries, Free Float Market Cap

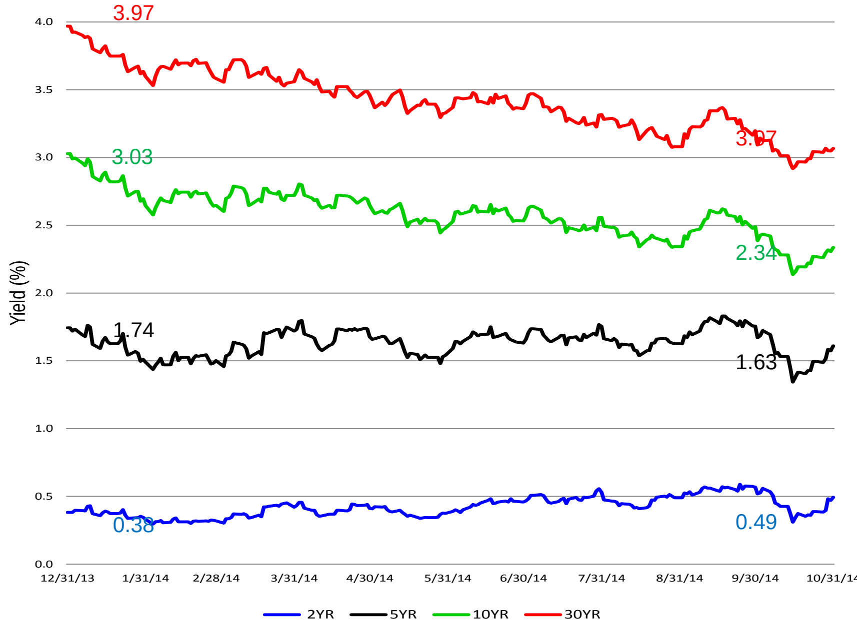


Capital Markets Update (through October 31, 2014)

YTD Equity Market Returns

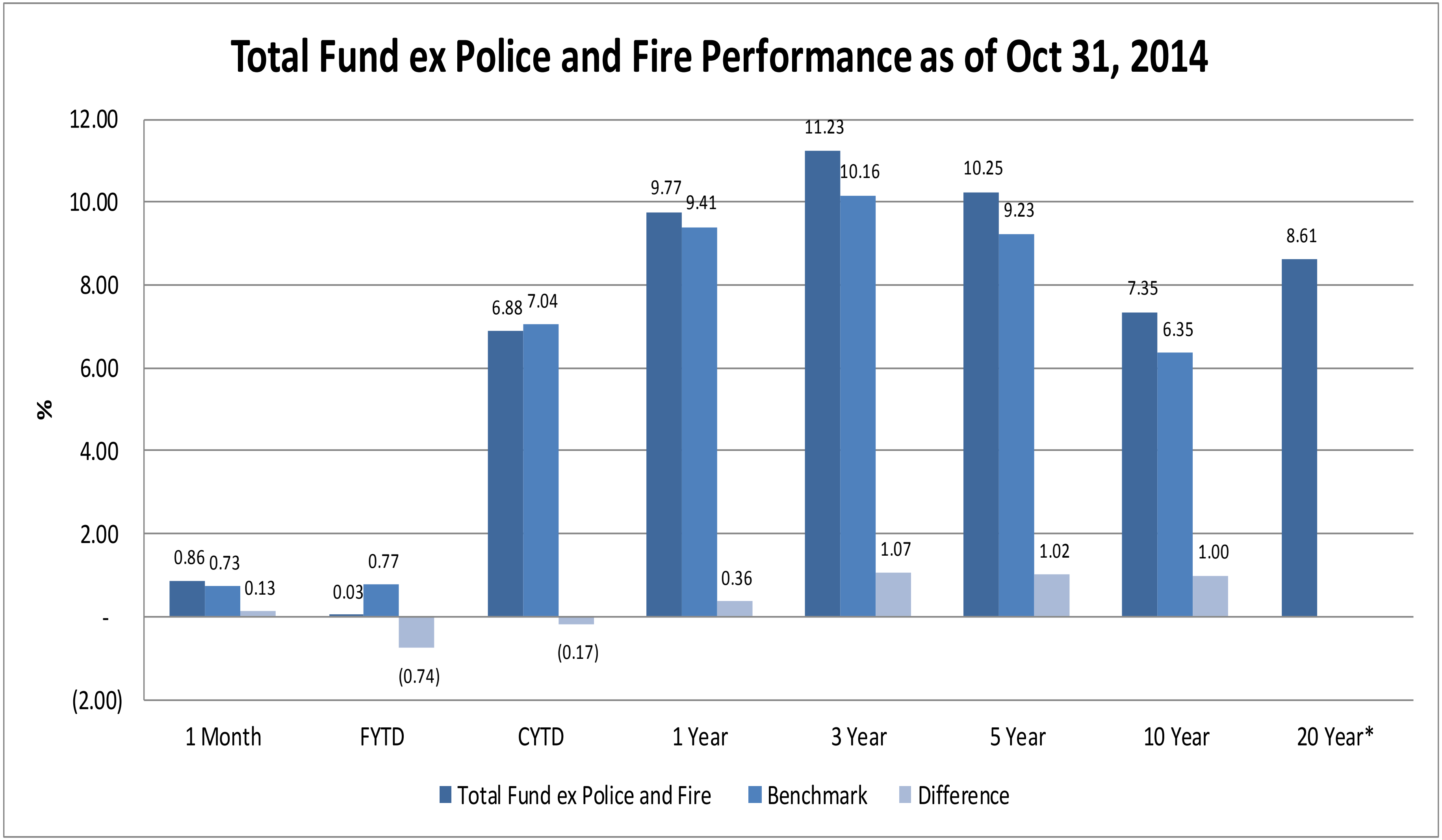


U.S. Treasury Yields



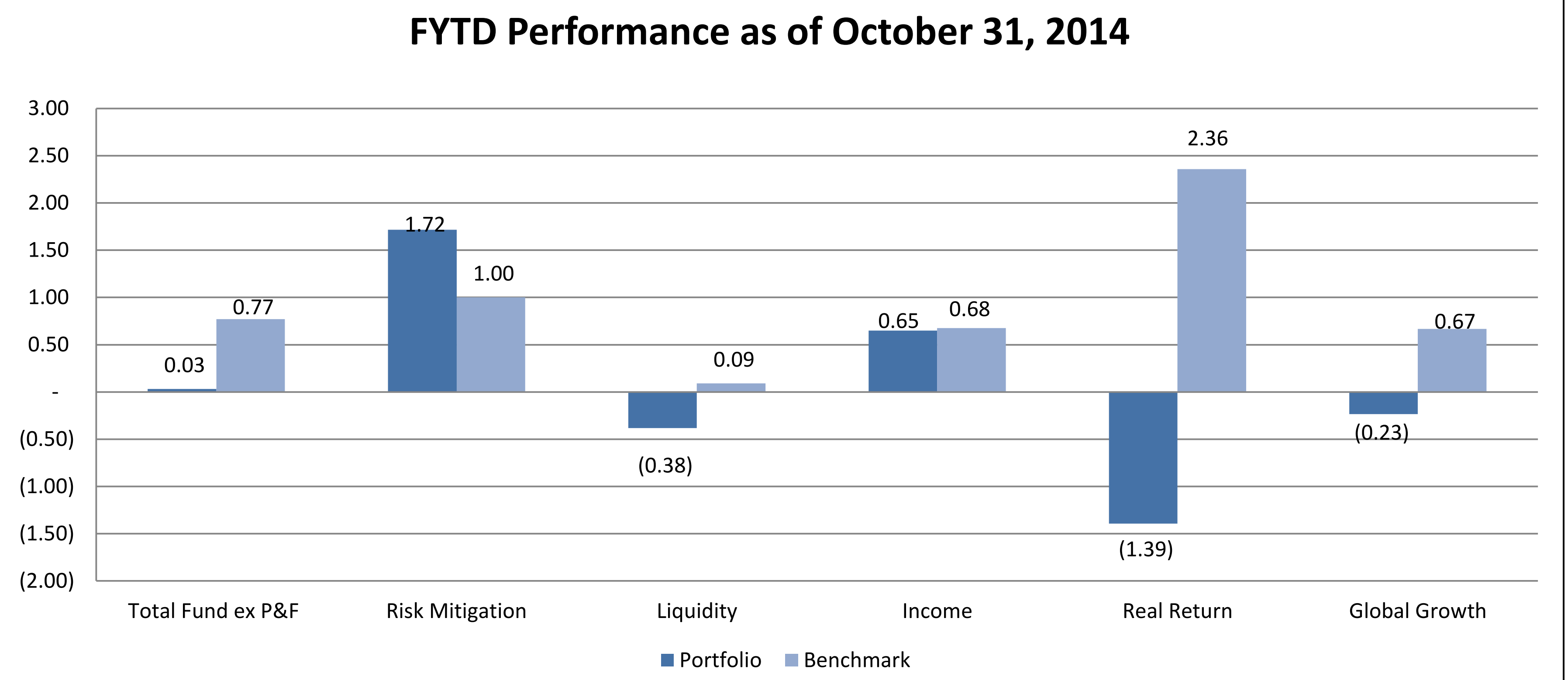
	Oct. 31, 2014	MTD %	FYTD %	CYTD %	1 Yr %	3Yrs %	5 Yrs %	10 Yrs %	
Domestic Equity	S&P 500	2.44	3.60	10.99	17.26	19.76	16.69	8.20	1
	Russell 2000	6.59	(1.25)	1.90	8.07	18.19	17.39	8.64	2
International Equity	MSCI EAFE	(1.43)	(7.09)	(2.21)	0.08	10.41	7.22	6.56	3
	MSCI EMF	1.19	(2.23)	3.78	0.95	3.62	5.01	10.95	4
Bond	Barclays Agg	0.93	0.28	4.96	3.92	2.46	4.01	4.51	5
	Barclays HY	1.94	(1.30)	5.51	6.17	8.27	9.44	6.7	6
	Barclays US Tips	0.75	(2.04)	4.97	2.08	0.75	4.25	NA	7
Commodity	Bloomberg	(0.81)	(12.55)	(6.37)	(5.98)	(7.65)	(2.24)	(2.75)	8
Real Estate	Bloomberg REIT	9.01	5.89	24.51	18.00	15.16	19.50	8.60	9

Source: Bloomberg



- The Total Fund ex Police and Fire Mortgages returned 0.86% in October to bring the Fiscal Year-to-Date return to 0.03% and the Calendar Year-to-Date return to 6.88%.
- **The Fund is below the benchmark calendar year-to-date and above for 1-, 3-, 5- and 10-year periods.**
- **Total Plan assets as of October 31, 2014 were approximately $77.8 billion**

*Benchmark return not available for 20-Year period



- Some of the underperformance fiscal year to date at the Total Plan level and within in Global Growth, Real Return, and Income categories are due to a lag in performance reporting for Real Estate and Private Equity
- Within Risk Mitigation, Absolute Return Funds performed well during the equity market sell off in September with most producing positive performance.
- Within Liquidity, underperformance of the Treasuries and TIPS portfolios and an overweight to TIPS has drove underperformance
- Within Income, both Investment Grade and High Yield have outperformed FYTD, with High Yield performance driven by the Global Diversified Credit managers
- Within Real Return, the commodities portfolio was down 11.3% FYTD, which was better then the benchmark which returned -12.54%. Both the Private Real Asset and the Real Estate portfolios are negatively impacted by the lag in performance reporting, which caused the underperformance of the Real Return portfolio relative the benchmark
- Within Global Growth, both US Equities and Emerging Markets have underperformed while Developed Market Non-US Equities have outperformed FYTD. Much of the underperformance of the Global Growth portfolio is due to the lag in performance reporting for the Private Equity portfolio.

NJDOI Updates (9/1/14 through 10/31/14)

US Equity

- Executed buy program on October 16, 2014 following significant equity sell off which resulted in $250 million of net purchases for the period. The S&P 1500 was up approximately 8% from October 16th through month end.
- Moved from a 94 bps overweight position on an unhedged basis as of end of August to a 191 bps overweight at the end of October.
- Significant portfolio moves include: Bought $60mm Disney (DIS), making the stock the US Equity portfolio's largest overweight; lessened the underweight to IBM on stock weakness; swapped $75mm Coke (KO) into $56mm PepsiCo (PEP)

International Equity

- The Developed Markets portfolio was a net seller of approximately $85 million
  - A program trade was executed in the Developed Optimized portfolio to lessen its exposure to Europe and energy
  - Moved from a 50 bps underweight position at the end of August to a 89 bps underweight at the end of October
- The Emerging Markets ETF portfolio was net seller of approximately $50 million

Fixed Income

- Net sellers of $550 million of corporate bonds for the period
  - Sellers of approximately $925mm in corporate bonds in the secondary market
  - Purchased 7 new issues in the primary market totaling $330mm in corporate bonds
  - Purchased $40mm corporate bonds in the secondary market
- Purchased $50mm of HYG, which is the high yield ETF, on October 16, 2014
- Duration stands at 5.3 ex cash vs benchmark duration of 6.0

Alternatives

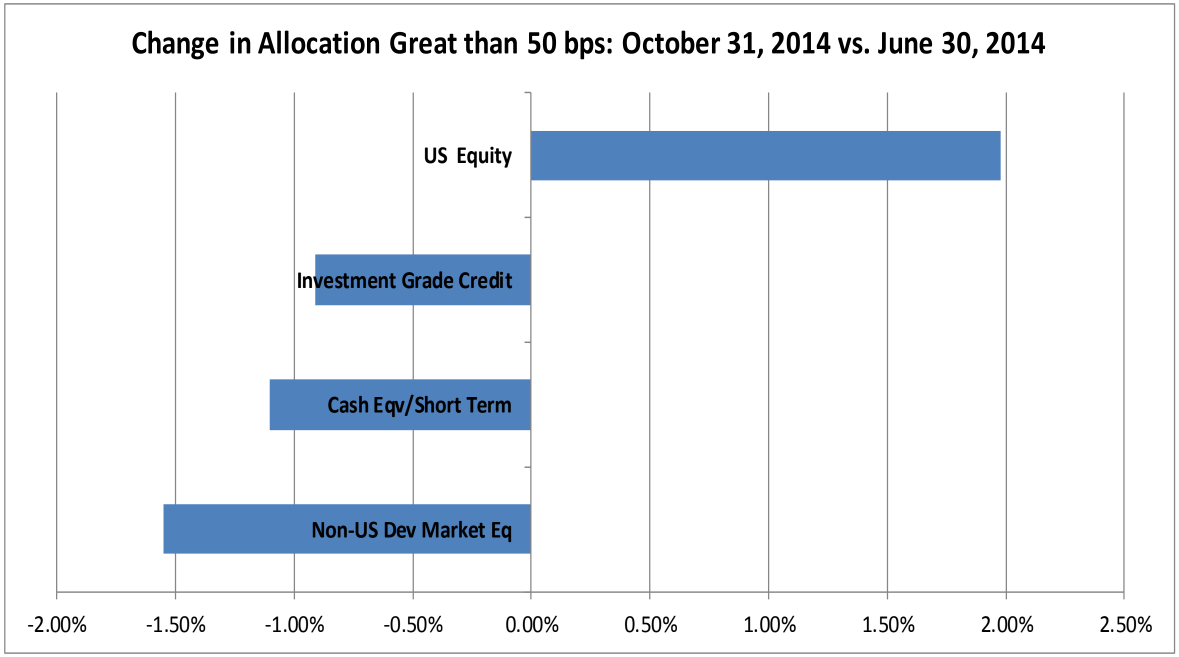
- The Private Equity portfolio was cash positive in the third quarter, with $527 million in distributions and $305 million of contributions. For the quarter, the alternatives portfolio, excluding hedge funds, had a positive cash flow of $314 million. Fund that produced the largest distributions included Oak Hill III, Lindsay Goldberg & Bessemer II, Onex III, and SONJ Private Opportunities II (Blackrock) in the private equity portfolio, and Blackstone VI and VII, Westbrook VIII, and Lone Star VII in the real estate portfolio.

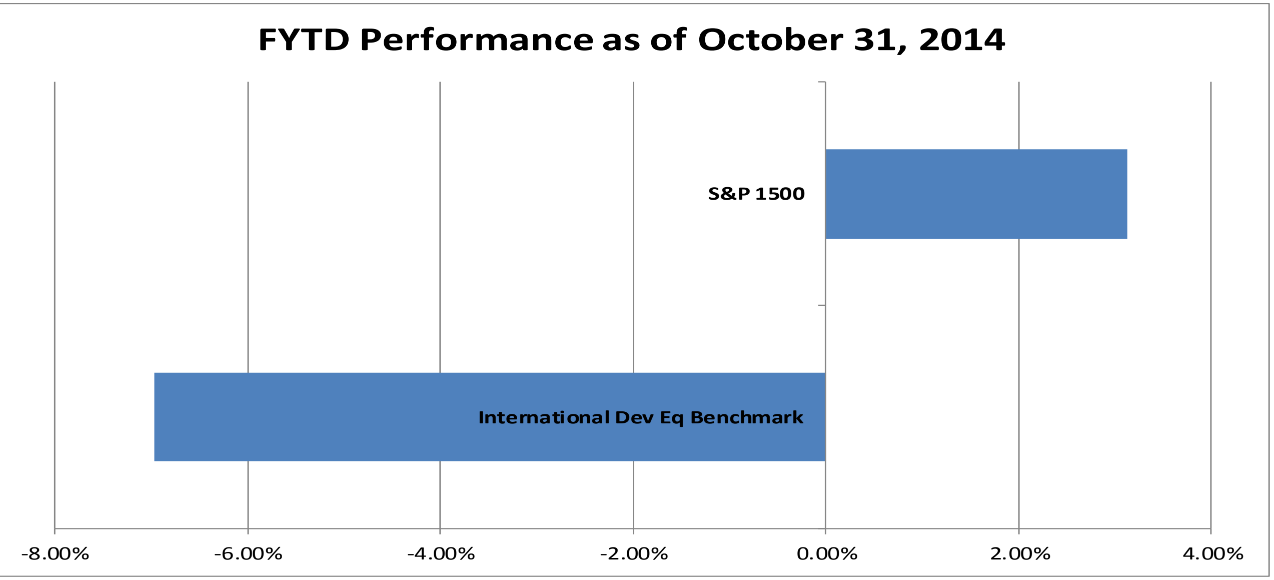
Asset Allocation with Hedges as of October 31, 2014

Line #	Asset Class	Current Assets Not Adjusted for Hedges ($ in millions)	Current Allocation Not Adjusted for Hedges	FY 2015 Target	Over/Under Weight 2015 Target	Long Term Target Range
1	**RISK MITIGATION**	**3,312**	**4.29%**	**4.00%**	**0.29%**	**0-5%**
2	Absolute Return HFs	**3,312**	4.29%	4.00%	0.29%	0-5%
3	**LIQUIDITY**	**5,786**	**7.50%**	**8.25%**	**-0.75%**	**2-15%**
4	Cash Eqv/Short Term	**3,267**	4.24%	5.00%	-0.76%	0-15%
5	TIPS	**1,692**	2.19%	1.50%	0.69%	0-10%
6	US Treasuries	**827**	1.07%	1.75%	-0.68%	0-10%
7	**INCOME**	**17,472**	**22.65%**	**22.60%**	**0.05%**	**20-40%**
8	Investment Grade Credit	**8,646**	11.21%	10.00%	1.21%	8-23%
9	High Yield	**1,674**	2.17%	2.00%	0.17%	0-8%
10	Global Diversified Credit	**2,192**	2.84%	3.50%	-0.66%	0-7%
11	Credit-Oriented HFs	**2,477**	3.21%	4.00%	-0.79%	0-6%
12	Debt-Related PE	**802**	1.04%	1.00%	0.04%	0-4%
13	Debt Related Real Estate	**774**	1.00%	1.00%	0.00%	1-4%
14	P&F Mortgage	**905**	1.17%	1.10%	0.07%	--
15	**REAL RETURN**	**4,900**	**6.35%**	**7.25%**	**-0.90%**	**3-12%**
16	Commodities	**877**	1.14%	1.00%	0.14%	0-7%
17	Private Real Assets	**970**	1.26%	2.00%	-0.74%	0-7%
18	Equity Related Real Estate [1]	**3,052**	3.96%	4.25%	-0.29%	2-7%
19	**GLOBAL GROWTH**	**45,363**	**58.80%**	**57.90%**	**0.90%**	**45-65%**
20	US Equity	**22,496**	29.16%	27.25%	1.91%	15-35%
21	Non-US Dev Market Eq	**8,570**	11.11%	12.00%	-0.89%	8-20%
22	Emerging Market Eq	**5,037**	6.53%	6.40%	0.13%	5-15%
23	Buyouts/Venture Cap [2]	**6,146**	7.97%	8.25%	-0.28%	4-10%
24	Equity-Oriented HFs	**3,113**	4.04%	4.00%	0.04%	0-8%
25	**OPPORTUNISTIC PE**	**141**	**0.18%**	**0.00%**	0.18%	**0.00%**
26	**OTHER**	**170**	**0.22%**	**0.00%**	0.22%	**0.00%**

[1] Current assets do not include receivables of $423 million related to Real Estate secondary sale
[2] Current assets do not include receivables of $64 million related to Private Equity secondary sale
Based on estimated values

Since the start of Fiscal Year 2015, the Division has been net purchasers of $618 million of US Equity and net sellers of $712 million of Non-US Developed Market Equity. During this time the portfolio moved from an equal weight in US equities to close to a 2% overweight and from a 70 bps overweight in Dev. Non-US to a 90 bps underweight. The cash and investment grade credit allocations have declined since the start of the fiscal year as they have been the primary source of funds for benefit payments.



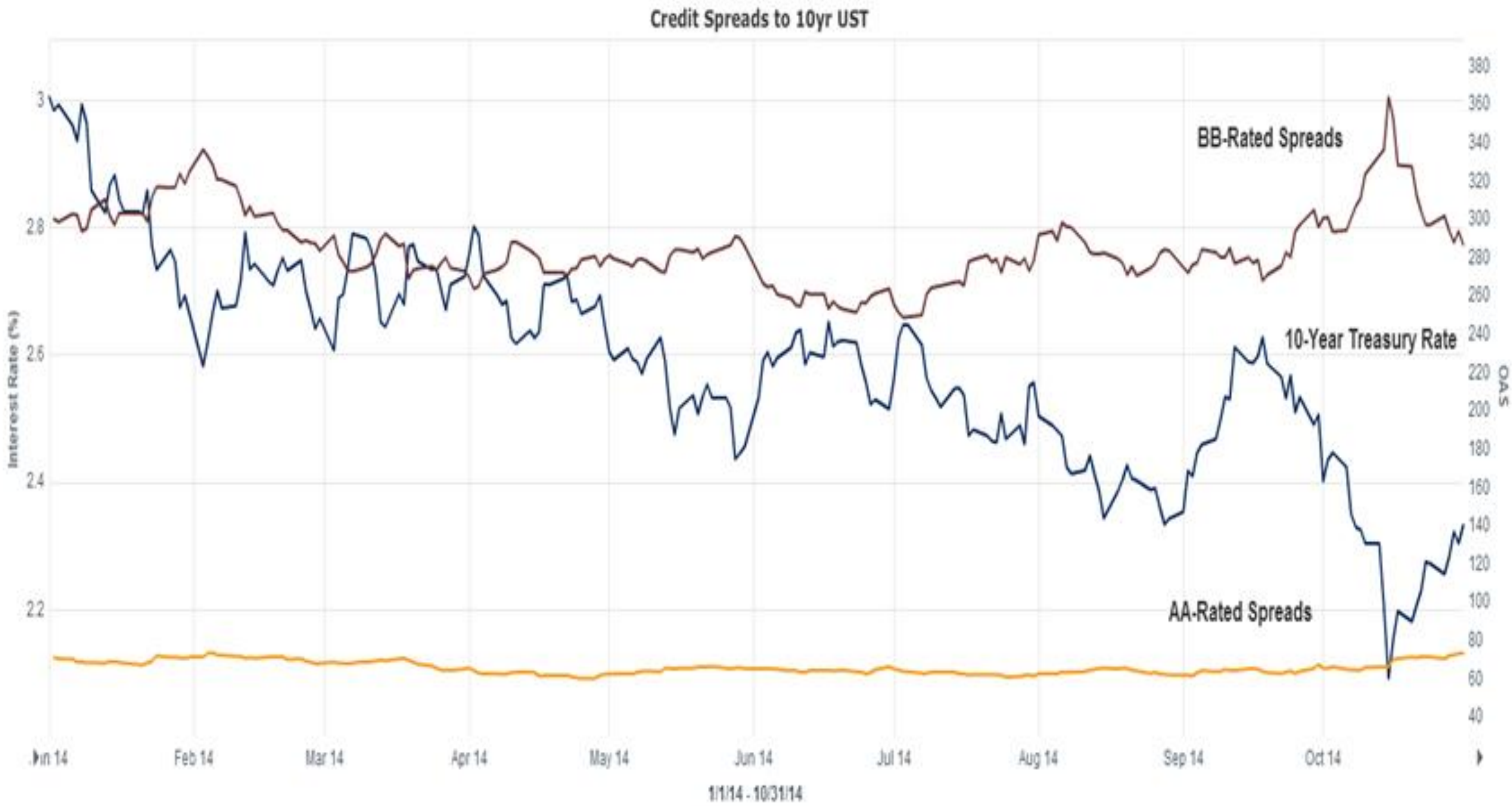


This shift out of Non-US Equity and into US Equity has had a positive impact on performance as the US Equity market has returned 3.13% and Non-US Developed Equity has returned -6.97%* since the start of FY15. Based on the portfolio's average weightings to these asset classes for the period, the shift has increased the value of the Total Fund by approximately $30 million.

*Total Return for 7/1/14 to 10/30/14: S&P 1500 for US Equity and NJDOI Custom Dev. International Equity Benchmark for Non-US Dev. Eq.

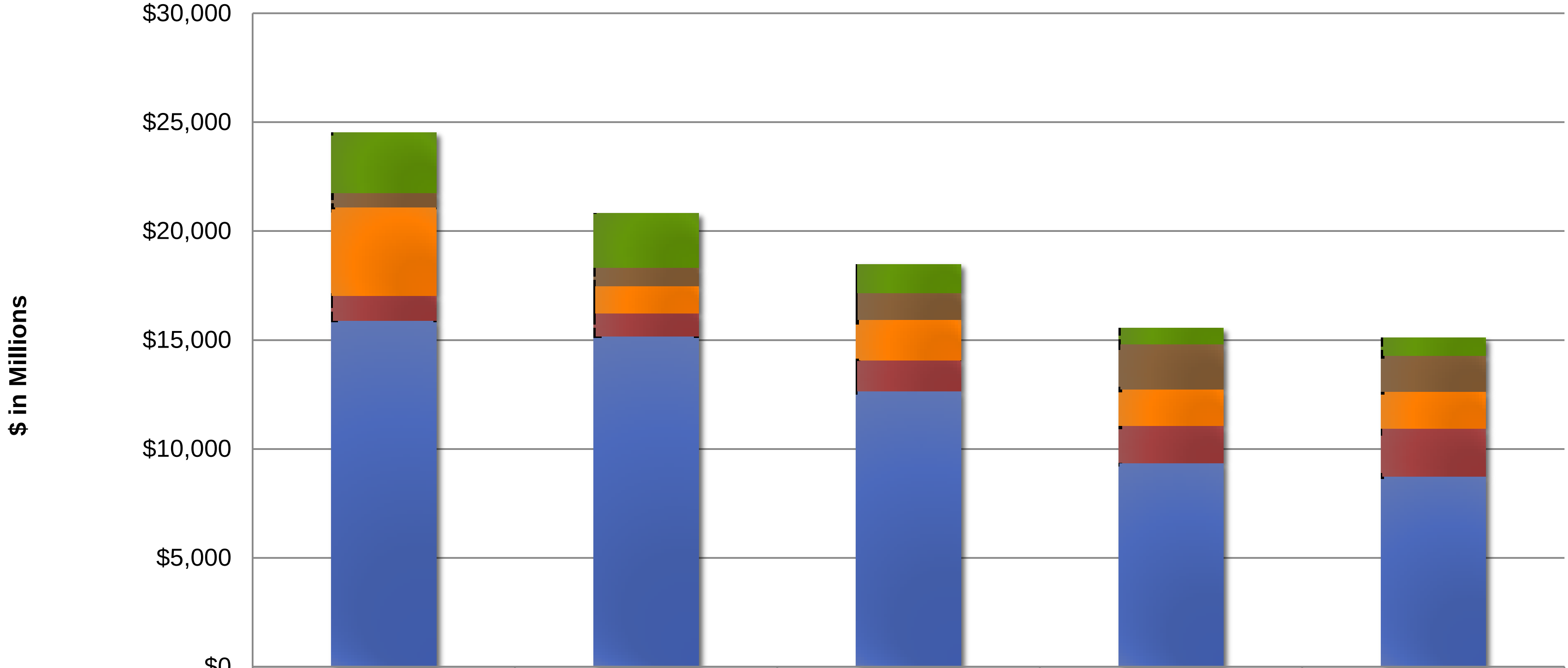
DOMESTIC FIXED INCOME PORTFOLIO OVERVIEW

CREDIT SPREADS vs. 10 YEAR U.S. TREASURY NOTES



MARKET VALUE OF THE DOMESTIC FIXED INCOME FUND BY PORTFOLIO AS OF OCTOBER 31, 2014

DOMESTIC FIXED INCOME



	Oct. 2010	Oct. 2011	Oct. 2012	Oct. 2013	Oct. 2014
Treasuries	$2,776	$2,487	$1,332	$737	$827
Public High Yield	$654	$858	$1,225	$2,072	$1,653
Inflation Link	$4,058	$1,237	$1,859	$1,692	$1,692
Global Credit Funds	$1,150	$1,060	$1,417	$1,707	$2,192
High Grade	$15,894	$15,179	$12,650	$9,348	$8,745

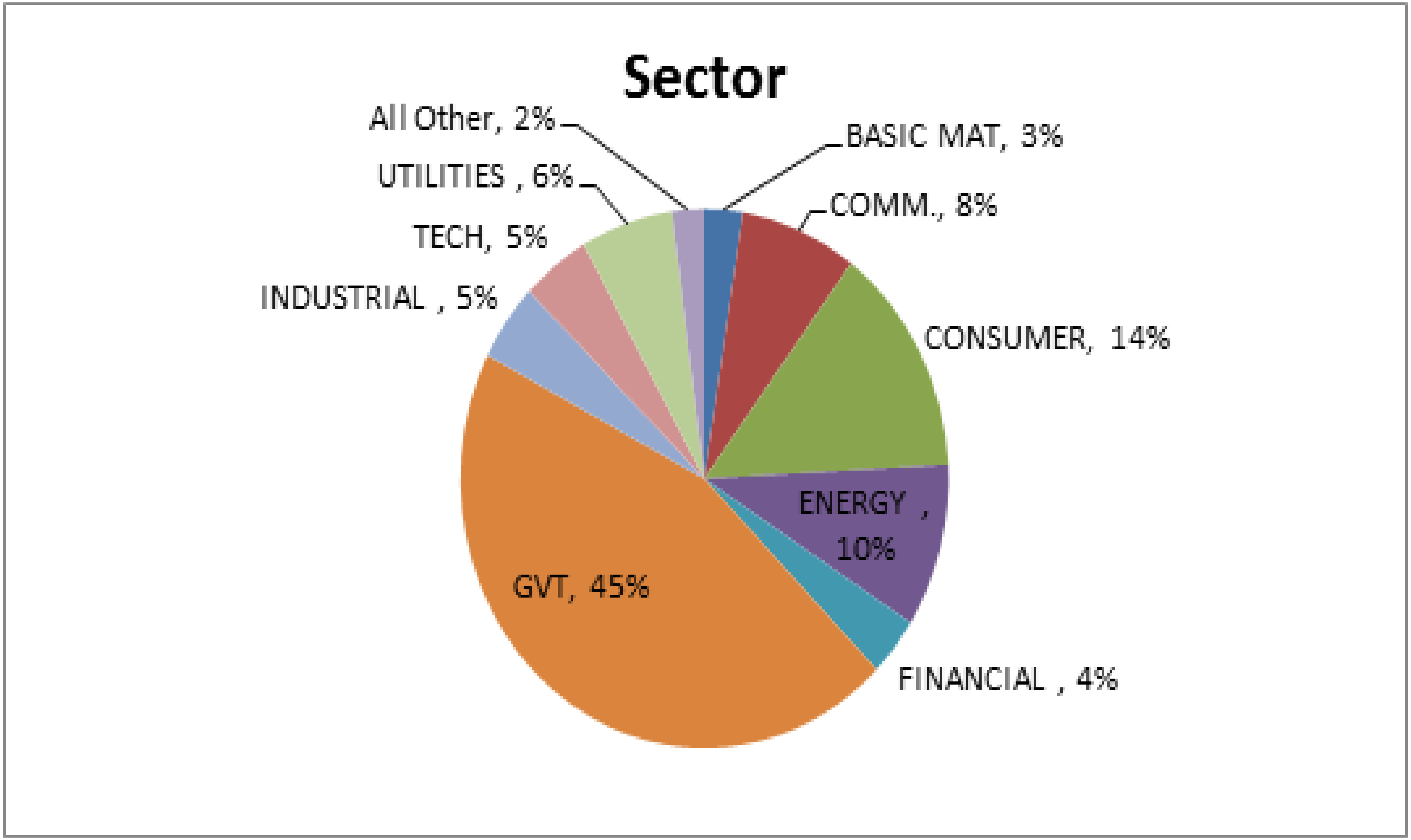
- Short Term Cash Equivalent Fund Not Included

INVESTMENT GRADE & PUBLIC HIGH YIELD PORTFOLIOS STATISTICS AS OF OCTOBER 31, 2014

	INVESTMENT GRADE*	PUBLIC HIGH YIELD
MARKET VALUE ($ IN BILLIONS)	$11.3	$1.7
LINE ITEMS	428	1,929
NUMBER OF CREDITS	200	813
DURATION (CASH NOT INCLUDED)	5.3 YRS.	4.3 YRS.
INDEX DURATION	6.6 YRS.	4.2 YRS.
AVERAGE COUPON	3.388%	7.011%
INDEX AVERAGE COUPON	3.729%	6.940%
YIELD TO WORST	2.180%	6.040%
INDEX YIELD TO WORST	1.440%	5.830%

* Includes Treasury, TIPs, and Investment Grade Credit Portfolios

INVESTMENT GRADE* AND PUBLIC HIGH YIELD COMBINED SECTOR BREAKDOWN AS OF OCTOBER 31, 2014



* Includes Treasury, TIPs, and Investment Grade Credit Portfolios

HIGH GRADE PORTFOLIO vs. BARCLAYS CREDIT INDEX AS OF OCTOBER 31, 2014

	High Grade Portfolio	Barclays Credit Index	Diff.
ABS & MBS	1.71%	0.00%	1.71%
Basic Materials	2.76%	3.92%	-1.16%
Communications	8.93%	9.35%	-0.42%
Consumer Cyclical	1.29%	4.45%	-3.16%
Consumer Non-cyclical	14.23%	11.56%	2.67%
Diversified	0.00%	0.02%	-0.02%
Energy	12.14%	10.45%	1.69%
Financial	3.20%	28.65%	-25.45%
Multi-National	2.06%	5.73%	-3.67%
Municipal	9.94%	3.19%	6.75%
Regional(state/province)	15.41%	1.22%	14.19%
Sovereign	10.31%	5.95%	4.36%
Industrial	3.55%	5.86%	-2.31%
Technology	5.52%	3.34%	2.18%
Utilities	8.94%	6.30%	2.64%

PUBLIC HIGH YIELD PORTFOLIO vs. BARCLAYS HIGH YIELD INDEX AS OF OCTOBER 31, 2014

	Public High Yield Portfolio	Barclays HY	DIFF
Basic Materials	5.99%	6.55%	-0.56%
Communications	16.90%	18.89%	-1.99%
Consumer Cyclical	13.63%	14.21%	-0.58%
Consumer Non-cyclical	18.04%	14.76%	3.28%
Diversified	1.81%	0.47%	1.34%
Energy	12.76%	15.58%	-2.82%
Financial	12.73%	12.01%	0.72%
Industrial	12.54%	10.13%	2.41%
Technology	3.58%	4.02%	-0.44%
Utilities	2.02%	3.38%	-1.36%

TOP 10 INVESTMENT GRADE HOLDINGS AS OF OCTOBER 31, 2014

Market Value	Description	%
$1,672,577,140	U.S. TIPS	14.21%
$1,002,343,591	U.S. TREASURIES	8.52%
$278,803,919	EXXON MOBIL	2.37%
$261,544,103	PROVINCE OF MANITOBA	2.22%
$260,316,030	AID TO ISRAEL	2.21%
$219,428,315	AT&T	1.86%
$196,850,480	PROVINCE OF ONTARIO	1.67%
$196,615,647	PROVINCE OF BRITISH COLUMBIA	1.67%
$177,017,145	COMCAST	1.50%
$176,228,828	HYDRO QUEBEC	1.50%

PERFORMANCE SUMMARY AS OF OCTOBER 31,2014

	YTD (%)	Fiscal YTD (%)
Total Domestic Fixed Income Portfolio	6.57	0.55
Fixed Income Benchmark	5.82	0.42
Investment Grade Portfolio	6.57	0.86
Investment Grade Blended Benchmark	6.36	0.85
Treasuries Portfolio	0.95	0.47
Custom US Treasuries Benchmark	7.15	1.32
High Grade (Credit) Portfolio	7.72	1.35
Custom Investment Grade Credit Benchmark	5.30	1.04
Inflation Linked Portfolio	2.46	(1.62)
Custom TIPS Benchmark	10.18	(1.10)
High Yield	9.38	(0.07)
Global Diversified Credit Funds*	12.56	0.17
Public High Yield Portfolio	5.55	(0.42)
Barclays Corp High Yield Benchmark	4.72	(0.70)

* Returns reported on a delayed basis

State Investment Council

Notifications

Alternative Investment Notifications

Real Estate Redemptions: The Division has submitted to redeem its interest in AEW Core Property Trust in full ($91 million NAV) and plans to partially redeem approximately $400 million from CT High Grade Partners II, LLC.

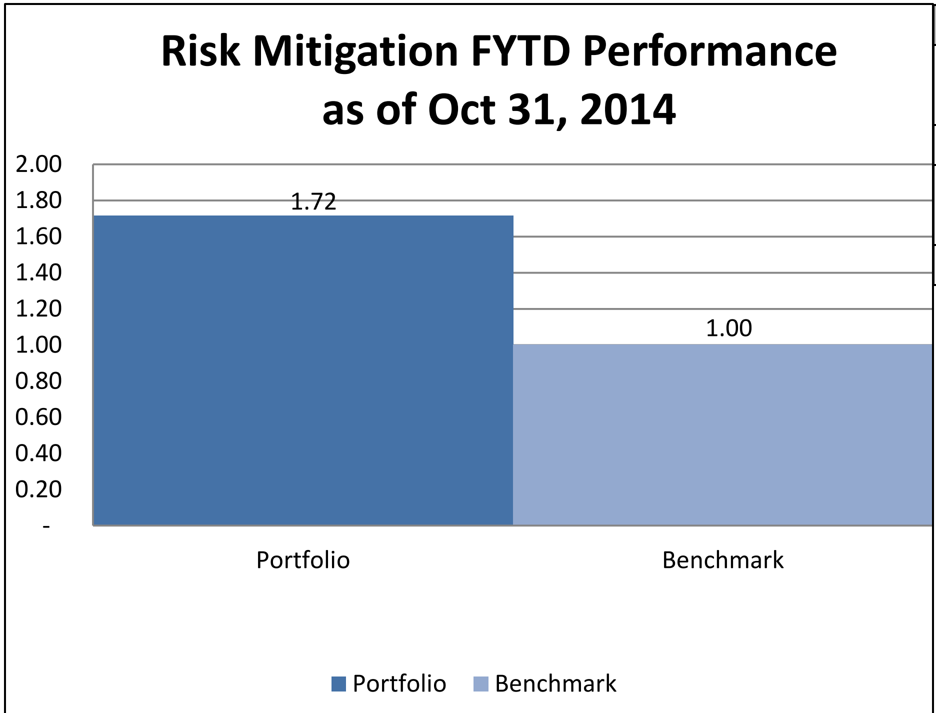
The Division has been evaluating its mostly legacy (‘06 – ’08 vintages) Core Real Estate portfolio over the last several months and has determined that given the significant valuation recovery since the financial crisis and our cost basis in several of these funds, now is a good time to rotate out of some legacy managers and slowly redeploy into better opportunities over time.

Real Asset Redemption: The Division has submitted to redeem its interest in Schroders Commodity Portfolio ($201 million NAV as of 9/30/2014)

The Division has been evaluating its mostly legacy (‘07 – ’08 vintages) long-only active commodity portfolio over the last several months and has determined, that given recent under performance and fee structure now is a good time to redeem and slowly redeploy into better opportunities over time with a focus on private real assets. The redemption will likely be distributed in less than 30 days.

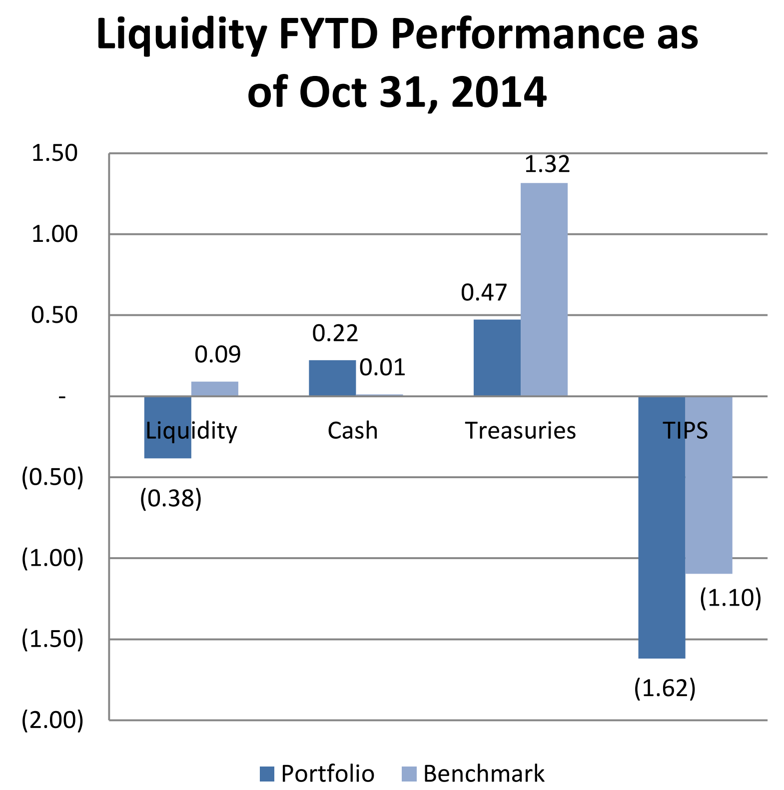
Purpose of Notification: The Division is notifying the SIC of this transaction under its Modification Procedures

Performance Appendix



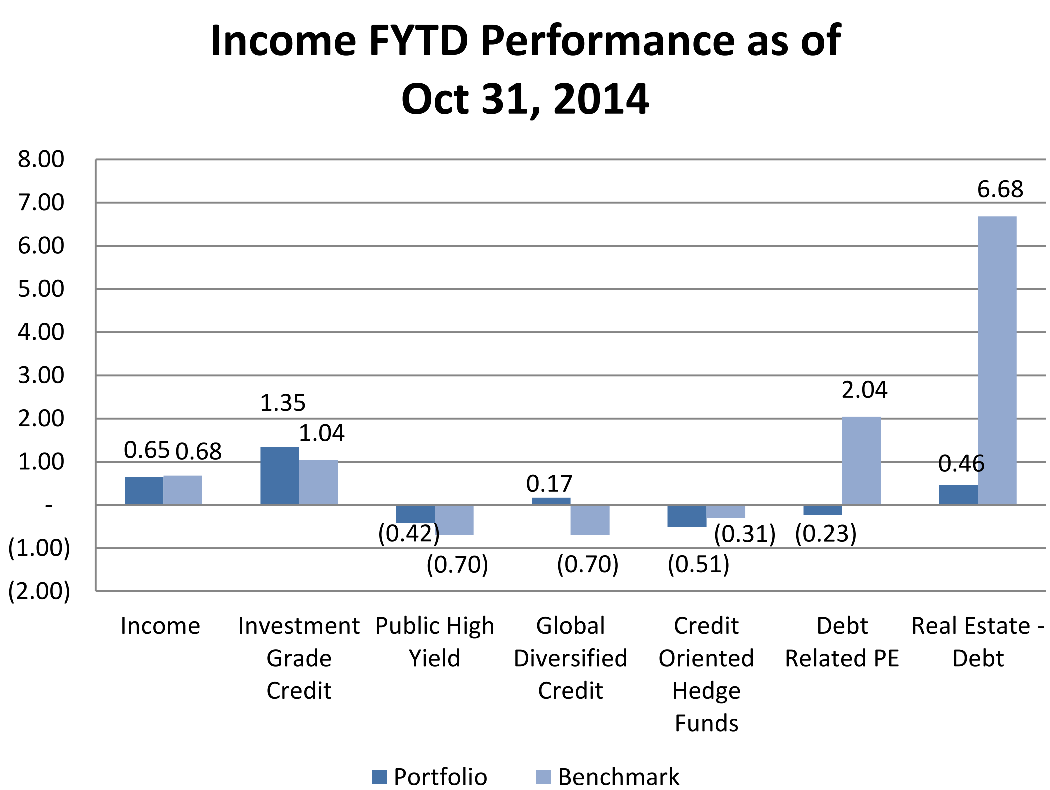
Returns as of Oct 31, 2014	1 Month	FYTD	CYTD	1 Year	2 Year	3 Year
Absolute Return Hedge Funds	1.08	1.72	3.41	5.66	4.32	3.19
1 M LIBOR + 400 Bps	0.34	1.35	3.42	4.12	4.13	4.17
Difference	*0.75*	*0.36*	*(0.01)*	*1.54*	*0.19*	*(0.98)*
Total Risk Mitigation	**1.08**	**1.72**	**3.41**	**5.66**	**4.32**	**3.19**
T-Bill + 300 BP	0.25	1.00	2.53	3.05	3.07	3.07
Difference	*0.83*	*0.72*	*0.88*	*2.61*	*1.25*	*0.12*

- 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 1.72% FYTD and 3.41% . The funds performed well during the equity market sell-off in September with the majority of the funds producing positive returns for the month (which are reflected in the October return here due to the lag in performance reporting).
- CTA funds have outperformed discretionary macro funds in recent periods.
- The Risk Mitigation asset class has outperformed the benchmark over a 1, 2, and 3 year period.



Returns as of Oct 31, 2014	1 Month	FYTD	CYTD	1 Year	2 Year	3 Year
Cash Equivalents	0.07	0.22	0.55	0.85	1.40	1.71
91 day treasury bill	0.00	0.01	0.03	0.05	0.07	0.07
Difference	*0.07*	*0.21*	*0.52*	*0.80*	*1.33*	*1.64*
US Treasuries	0.43	0.47	0.95	0.20	(2.70)	1.49
Custom Benchmark	0.97	1.32	7.15	4.72	0.24	1.33
Difference	*(0.54)*	*(0.84)*	*(6.20)*	*(4.53)*	*(2.94)*	*0.16*
TIPS	0.50	(1.62)	2.46	0.30	(3.52)	1.81
Custom Tips Benchmark	0.98	(1.10)	10.18	4.93	(4.33)	0.42
Difference	*(0.47)*	*(0.52)*	*(7.72)*	*(4.63)*	*0.81*	*1.40*
Total Liquidity	**0.15**	**(0.38)**	**0.45**	**(0.07)**	**(1.57)**	**1.32**
Benchmark	0.39	0.09	7.47	4.15	(1.22)	0.48
Difference	*(0.24)*	*(0.47)*	*(7.03)*	*(4.22)*	*(0.35)*	*0.84*

- The Liquidity portfolio has underperformed the benchmark by 47 basis points FYTD as the Treasuries and TIPs portfolios have each underperformed their respective benchmarks. Both portfolios have suffered from having a shorter duration then the benchmark.
- An overweight to TIPs and an underweight to nominal Treasuries has also detracted from performance FYTD.
- Over the trailing three years, the Liquidity portfolio has outperformed the benchmark by 84 bps as all three segments have outperformed.

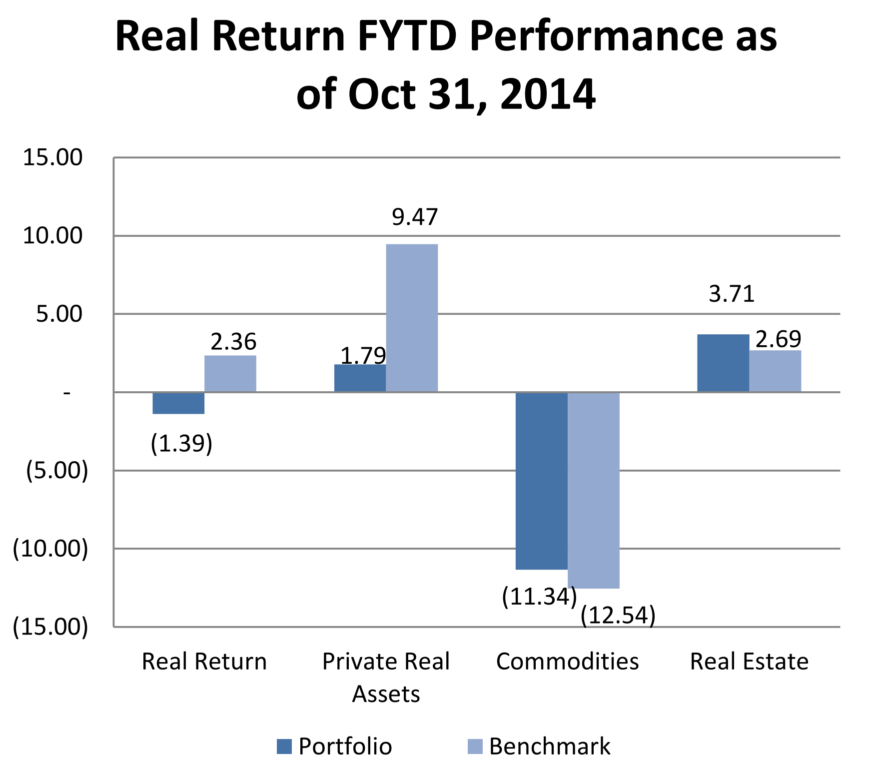


*Reported on a 1 month lag

Returns as of Oct 31, 2014	1 Month	FYTD	CYTD	1 Year	2 Year	3 Year
Investment Grade Credit	0.94	1.35	7.72	6.65	1.88	4.70
Custom IGC Benchmark	1.07	1.04	5.30	4.86	0.66	3.89
Difference	*(0.12)*	*0.31*	*2.42*	*1.79*	*1.22*	*0.81*
Public High Yield	1.11	(0.42)	5.55	6.54	7.83	9.83
Barclays Corp High Yield (Daily)	1.19	(0.70)	4.72	5.82	7.33	9.39
Difference	*(0.08)*	*0.28*	*0.83*	*0.72*	*0.50*	*0.44*
Global Diversified Credit	*0.48*	*0.17*	*12.56*	*15.20*	*16.54*	*17.68*
Barclays Corp High Yield (Daily)	*1.19*	*(0.70)*	*4.72*	*5.82*	*7.33*	*9.39*
Difference	*(0.71)*	*0.87*	*7.84*	*9.38*	*9.21*	*8.29*
Credit-Oriented Hedge Funds	(1.70)	(0.51)	5.68	8.78	12.02	10.74
Custom Benchmark	(1.14)	(0.31)	4.99	7.72	10.16	10.04
Difference	*(0.56)*	*(0.20)*	*0.70*	*1.05*	*1.86*	*0.70*
Debt-Related Private Equity	(0.21)	(0.23)	8.73	11.01	17.42	14.02
BarCap Corp HY (1 Qtr lag) + 300 bps	(1.09)	2.04	10.45	11.42	12.08	11.81
Difference	*0.88*	*(2.27)*	*(1.72)*	*(0.40)*	*5.34*	*2.21*
Real Estate-Debt	(0.09)	0.46	7.68	13.44		
Barclays CMBS 2.0 Baa + 100 (Qtr lag)	0.54	6.68	16.31	16.52		
Difference	*(0.63)*	*(6.23)*	*(8.62)*	*(3.07)*		
Total Income	**0.40**	**0.65**	**7.84**	**8.48**	**5.87**	**7.54**
Benchmark	0.59	0.68	6.00	6.47	3.55	5.85
Difference	*(0.18)*	*(0.03)*	*1.84*	*2.01*	*2.32*	*1.70*

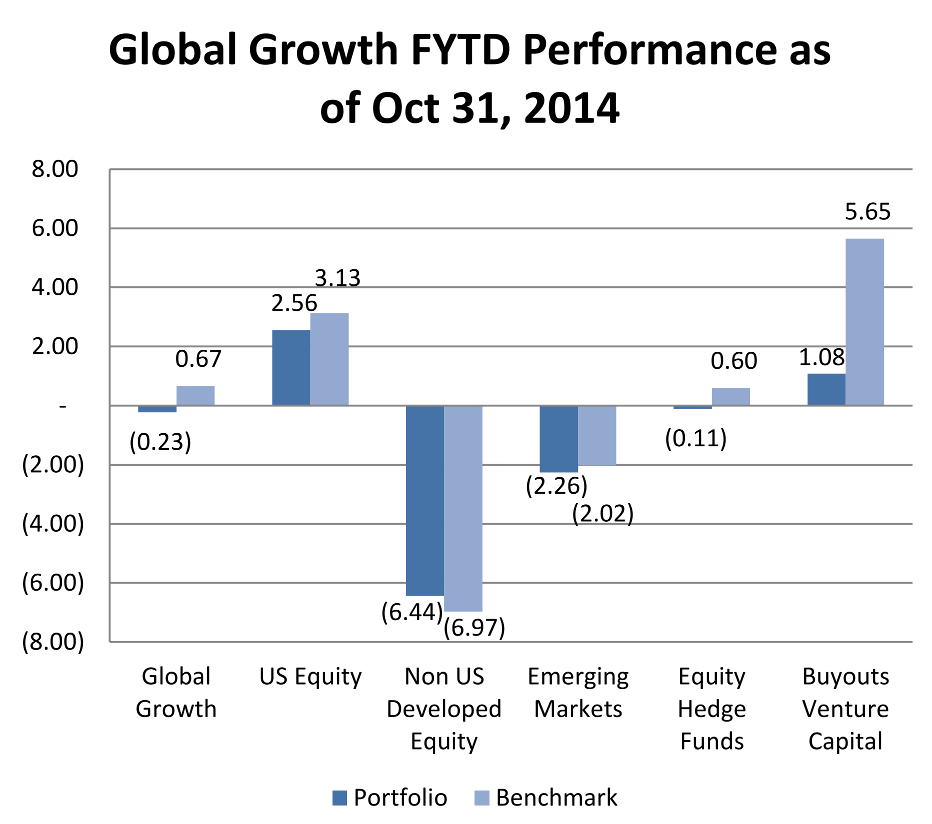
- The Income portfolio has underperformed by 3 basis points FYTD but is ahead over all other periods.
- The Investment Grade Credit portfolio has outperformed the benchmark FYTD as the portfolio has lower-beta, higher quality securities. The portfolio is ahead of the benchmark CYTD and for the one, two, and three year periods.
- Both Public High Yield and Global Diversified Credit have outperformed over all periods. Over the past three years, the return of the Global Diversified Credit portfolio (17.7%) is almost double the return of the High Yield index.
- 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.
- While the Real Estate Debt portfolio has trailed the benchmark over all periods, returns have been strong on an absolute basis.

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



Returns as of Oct 31, 2014	1 Month	FYTD	CYTD	1 Year	2 Year	3 Year
Private Real Assets	1.87	1.79				
CA Energy Upst & Royalties & PE Lagged Daily	-	9.47				
Difference	*1.87*	*(7.68)*				
Commodities	*(4.55)*	*(11.34)*				
Bloomberg Commodity Index Total Return	*(0.80)*	*(12.54)*				
Difference	*(3.74)*	*1.20*				
Real Return Real Estate	1.56	1.01	12.67	17.03	15.39	13.29
NCREIF Property Index (Daily)	-	2.69	8.12	11.74	11.92	11.61
Difference	*1.56*	*(1.68)*	*4.55*	*5.29*	*3.48*	*1.68*
Total Real Return	**0.46**	**(1.39)**	**9.05**	**10.85**	**8.74**	**8.28**
Benchmark	(0.11)	2.36	8.99	12.07	10.05	9.19
Difference	*0.57*	*(3.75)*	*0.06*	*(1.22)*	*(1.31)*	*(0.92)*

- The Real Return portfolio underperformed by 375 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.
- Commodities are down significantly fiscal year to date, although the portfolio has outperformed the benchmark by 120 bps.
- The Real Estate portfolio continues to perform well and is ahead of the benchmark for all periods shown with the exception of FYTD.



Returns as of Oct 31, 2014	1 Month	FYTD	CYTD	1 Year	2 Year	3 Year
Domestic Equity	2.10	2.56	9.95	16.68	22.63	20.25
S&P 1500 Super Composite (Daily)	2.68	3.13	10.37	16.52	22.17	19.70
Difference	*(0.59)*	*(0.57)*	*(0.43)*	*0.16*	*0.46*	*0.56*
Non-US Dev Market Eq	(1.28)	(6.44)	(1.73)	0.59	12.44	9.85
NJDI ex Iran& Sudan EAFE + Canada	(1.46)	(6.97)	(2.26)	(0.21)	11.76	9.34
Difference	*0.19*	*0.53*	*0.54*	*0.80*	*0.68*	*0.51*
Emerging Market Eq	1.55	(2.26)	3.01	1.32	3.59	3.96
NJDI Iran + Sudan Free EM Index	1.35	(2.02)	3.87	0.93	3.93	3.88
Difference	*0.20*	*(0.23)*	*(0.86)*	*0.40*	*(0.34)*	*0.07*
Total Equity Oriented Hedge Funds*	0.27	(0.11)	4.81	9.25	12.53	11.53
Custom Benchmark	(1.90)	0.60	3.94	7.07	10.74	9.83
Difference	*2.17*	*(0.71)*	*0.87*	*2.18*	*1.79*	*1.70*
Buyouts-Venture Capital	1.32	1.08	18.45	25.36	20.61	15.69
Cambridge Associates PE 1 Qtr Lag	-	5.65	16.16	21.96	19.25	14.75
Difference	*1.32*	*(4.57)*	*2.29*	*3.40*	*1.36*	*0.94*
Total Global Growth	**1.16**	**(0.23)**	**7.33**	**11.73**	**17.06**	**14.72**
Benchmark	0.98	0.67	7.42	11.12	16.30	13.59
Difference	*0.18*	*(0.90)*	*(0.09)*	*0.61*	*0.77*	*1.13*

- The Global Growth portfolio has underperformed the benchmark by 90 basis points FYTD. Performance relative to the benchmark is negatively impacted by the lag in reporting for alternatives. Global Growth is ahead of the benchmark on a one, two, and three year basis.
- The Domestic Equity portfolio trails the benchmark by 57 bps fiscal year to date but is ahead for one, two, and three years.
- The Developed Market Non-US equity portfolio is ahead of the benchmark for all periods shown.
- The Emerging Markets portfolio trails the benchmark by 23 basis points FYTD as the Adviser portfolios have outperformed by 10 basis points while the ETF portfolio underperformed by 70 basis points.
- Buyouts/VC as well as Equity Oriented Hedge Funds are ahead of their respective benchmarks for one, two, and three year periods

*Reported on a one month lag

set Class	Long Term Target Range	Current Allocation	FY 2014 Target	FY 2015 Target	Over/Under Weight 2015 Target	Current Assets	Adjustments to Exposure based on Hedges	Total Net Exposure	FY 2015 Target ($)	Over/Under Weight for 2015	C W FY W
ATION	**0-5%**	**4.29%**	**4.50%**	**4.00%**	**0.29%**	**3,311,963,285**		**3,311,963,285**	**3,085,776,211**	**226,187,074**	
turn HFs	0-5%	4.29%	4.50%	4.00%	0.29%	3,311,963,285		3,311,963,285	3,085,776,211	226,187,074	
	2-15%	**7.50%**	**9.50%**	**8.25%**	**-0.75%**	**5,786,291,346**		**5,574,603,846**	**6,364,413,435**	**(578,122,089)**	(
hort Term	0-15%	4.24%	6.00%	5.00%	-0.76%	3,267,494,260		3,267,494,260	3,857,220,263	(589,726,003)	(
	0-10%	2.19%	2.50%	1.50%	0.69%	1,691,649,370		1,691,649,370	1,157,166,079	534,483,291	
es	0-10%	1.07%	1.00%	1.75%	-0.68%	827,147,716	(211,687,500)	615,460,216	1,350,027,092	(522,879,376)	(
	20-40%	**22.65%**	**24.20%**	**22.60%**	**0.05%**	**17,472,234,679**		**17,472,234,679**	**17,434,635,591**	**37,599,088**	
Grade Credit	8-23%	11.21%	11.20%	10.00%	1.21%	8,646,428,007		8,646,428,007	7,714,440,527	931,987,480	
	0-8%	2.17%	5.50%	2.00%	0.17%	1,674,131,039		1,674,131,039	1,542,888,105	131,242,934	
sified Credit	0-7%	2.84%	--	3.50%	-0.66%	2,192,399,292		2,192,399,292	2,700,054,184	(507,654,892)	(
ted HFs	0-6%	3.21%	3.75%	4.00%	-0.79%	2,477,315,129		2,477,315,129	3,085,776,211	(608,461,082)	(
d PE	0-4%	1.04%	1.25%	1.00%	0.04%	802,107,669		802,107,669	771,444,053	30,663,616	
d Real Estate	1-4%	1.00%	1.30%	1.00%	0.00%	774,485,881		774,485,881	771,444,053	3,041,828	
ge	--	1.17%	1.20%	1.10%	0.07%	905,367,662		905,367,662	848,588,458	56,779,204	
URN	**3-12%**	**6.35%**	**5.70%**	**7.25%**	**-0.90%**	**4,899,647,489**		**4,895,480,712**	**5,592,969,382**	**(693,321,893)**	(
s	0-7%	1.14%	2.50%	1.00%	0.14%	877,385,742		877,385,742	771,444,053	105,941,689	
Assets	0-7%	1.26%	--	2.00%	-0.74%	970,272,143	(4,166,777)	966,105,366	1,542,888,105	(572,615,962)	(
ed Real Estate [1]	2-7%	3.96%	3.20%	4.25%	-0.29%	3,051,989,604		3,051,989,604	3,278,637,224	(226,647,620)	(
ROWTH	**45-65%**	**58.80%**	**56.10%**	**57.90%**	**0.90%**	**45,362,564,399**		**45,196,758,729**	**44,666,610,651**	**695,953,748**	
	15-35%	29.16%	25.90%	27.25%	1.91%	22,495,749,378	(158,924,256)	22,336,825,122	21,021,850,436	1,473,898,942	1
Market Eq	8-20%	11.11%	12.70%	12.00%	-0.89%	8,569,510,912		8,569,510,912	9,257,328,632	(687,817,720)	(
arket Eq	5-15%	6.53%	6.50%	6.40%	0.13%	5,037,457,960	(6,881,414)	5,030,576,546	4,937,241,937	100,216,023	
nture Cap [2]	4-10%	7.97%	7.00%	8.25%	-0.28%	6,146,490,984		6,146,490,984	6,364,413,435	(217,922,451)	(
ted HFs	0-8%	4.04%	4.00%	4.00%	0.04%	3,113,355,165		3,113,355,165	3,085,776,211	27,578,954	
NISTIC PE	**0.00%**	**0.18%**	**0.00%**	**0.00%**	**0.00%**	**141,393,845**		**141,393,845**	**0**	**141,393,845**	
	0.00%	**0.22%**	**0.00%**	**0.00%**	**0.00%**	**170,310,226**		**170,310,226**	**0**	**170,310,226**	

[1] Current assets do not include receivables of $423 million related to Real Estate secondary sale
[2] Current assets do not include receivables of $64 million related to Private Equity secondary sale
Based on estimated values