NEW JERSEY DIVISION OF INVESTMENT

Director's Report

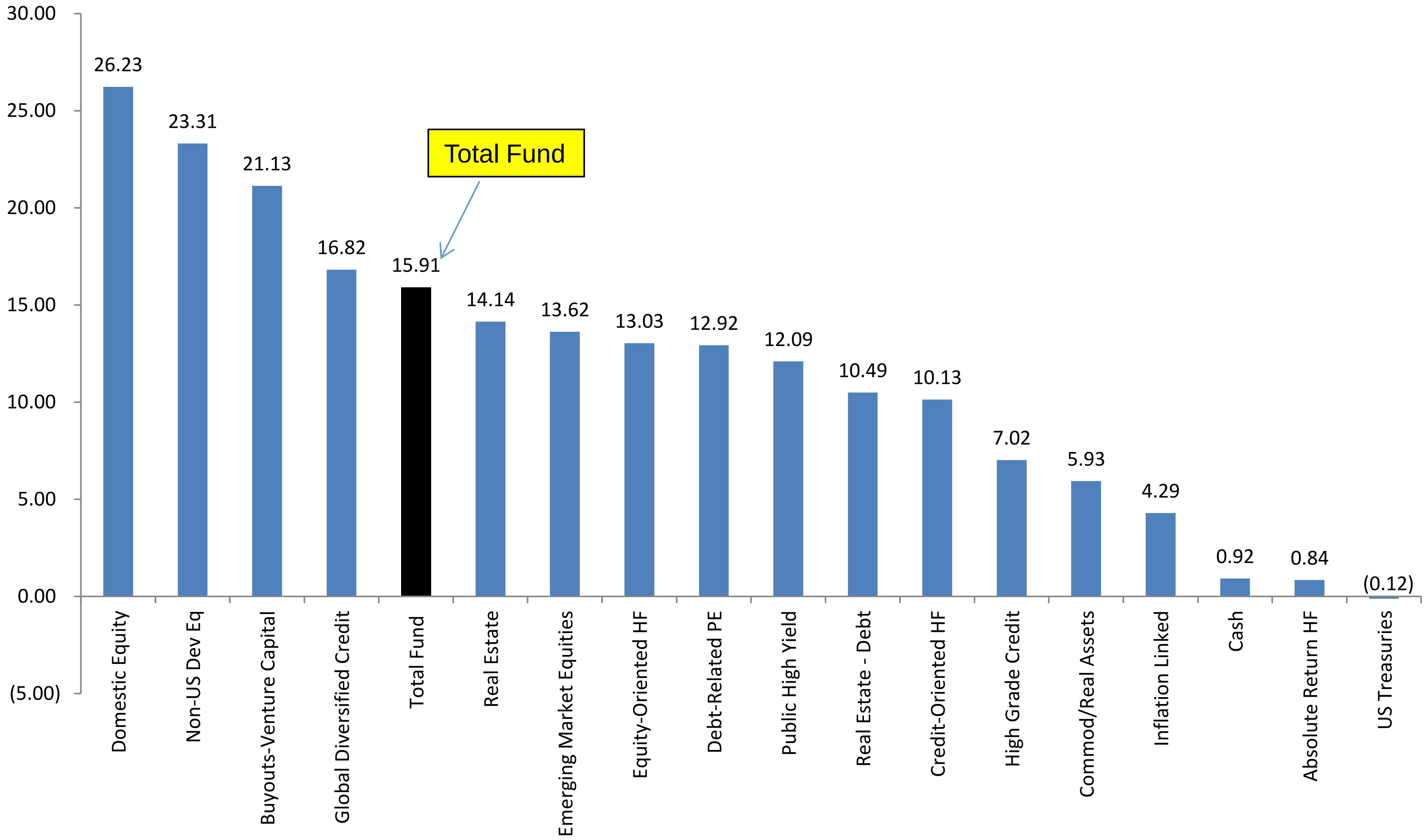
July 23, 2014

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."

Pension Fund Returns 15.9% for FY14 Based on Preliminary Results

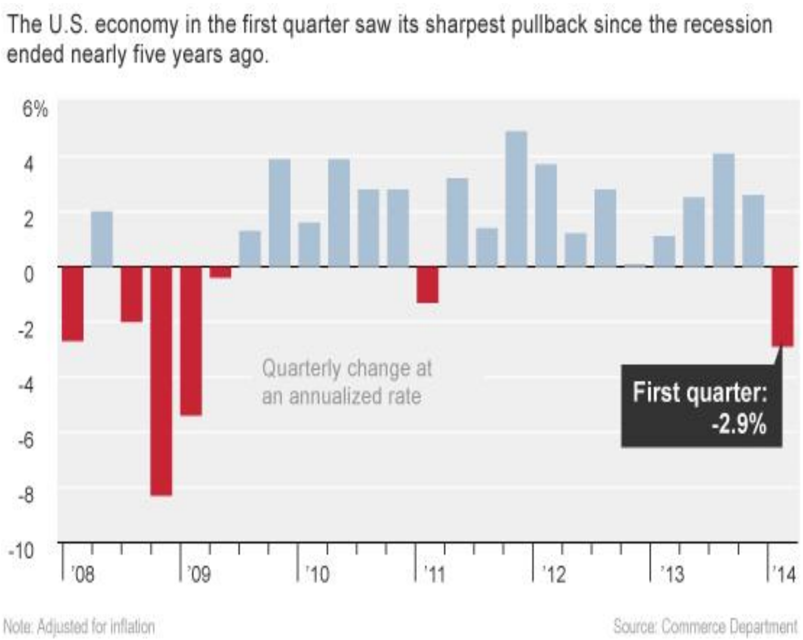
Based on preliminary, unaudited returns, the Total Fund ex Police and Fire Mortgage Program returned 15.9% for the fiscal year ending June 30, 2014. This return is based on lagged performance for the alternative investment portfolio. Final returns for the Total Fund ex Police and Fire Mortgage Program will be available at the end of August.

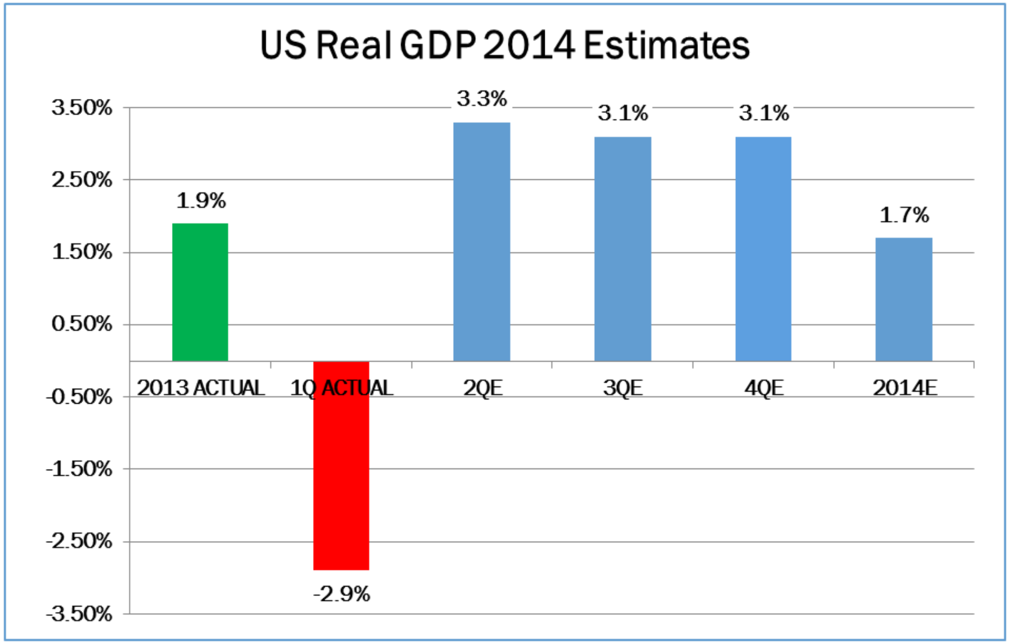


*Based on Preliminary Unaudited Returns. All Alternative Investment performance is shown on a lagged basis.

GDP Update – 1Q14 Weaker than Expected

The latest data shows that the U.S. economy contracted significantly more than previously estimated in the first quarter of 2014, as the Bureau of Economic Analysis ("BEA") released its third and final estimate of real gross domestic product (GDP) for the first three months of the year. Many market participants believe the Q1 number to be an aberration, reflecting the negative impact of the severe winter with unusually large swings in inventories and net exports. Contrary to 1Q GDP, other growth indicators - such as payrolls, industrial output, ISMs - were quite strong and do not suggest the economy is sliding back into recession. Consensus estimates for full year 2014 GDP growth now stands at 1.7%.

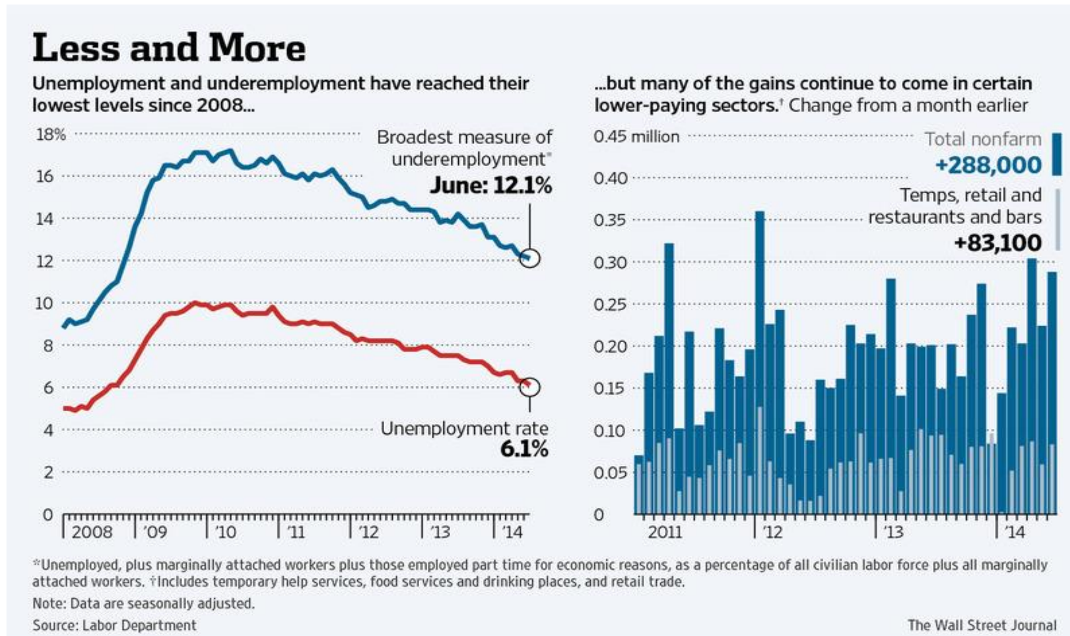




Source: Bloomberg (As of July 14 2014, quarter-over-quarter SAAR median of 87 sell-side estimates /Annual median of 89 SS estimates; Merrill Lynch)

Employment Update – Headline Numbers Improve

U.S. employers added jobs at a robust pace in June and job openings have climbed to their highest level (4.5 million) in seven years. June nonfarm employment advanced at a seasonally adjusted 288,000, as the unemployment rate fell to 6.1%, the lowest level since September 2008. In addition, the combined gains for the prior two months, April and May, were revised up 29,000. April's 304,000 increase was the strongest since January 2012. June marked the best five-month stretch of job creation since early 2006. It is worth noting that a fairly significant percentage of recent job gains have come from lower paying sectors and part time employment. The trend of "replacing" full-time employees with part-time workers began in 2009 and is attributed to the passage of the Affordable Healthcare Act.

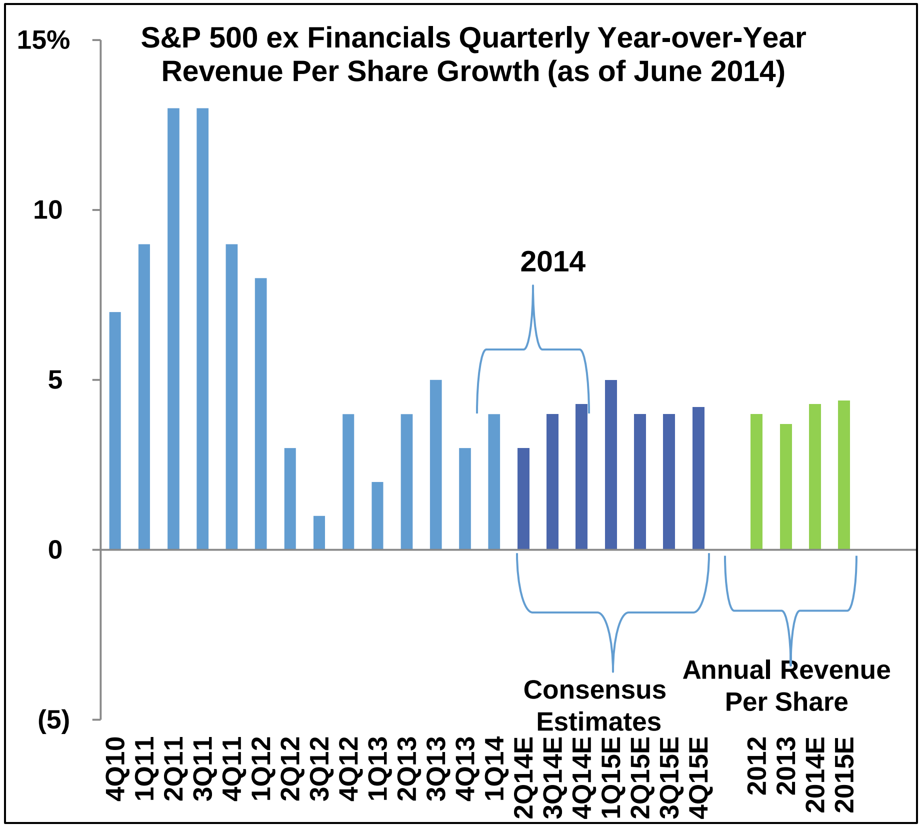


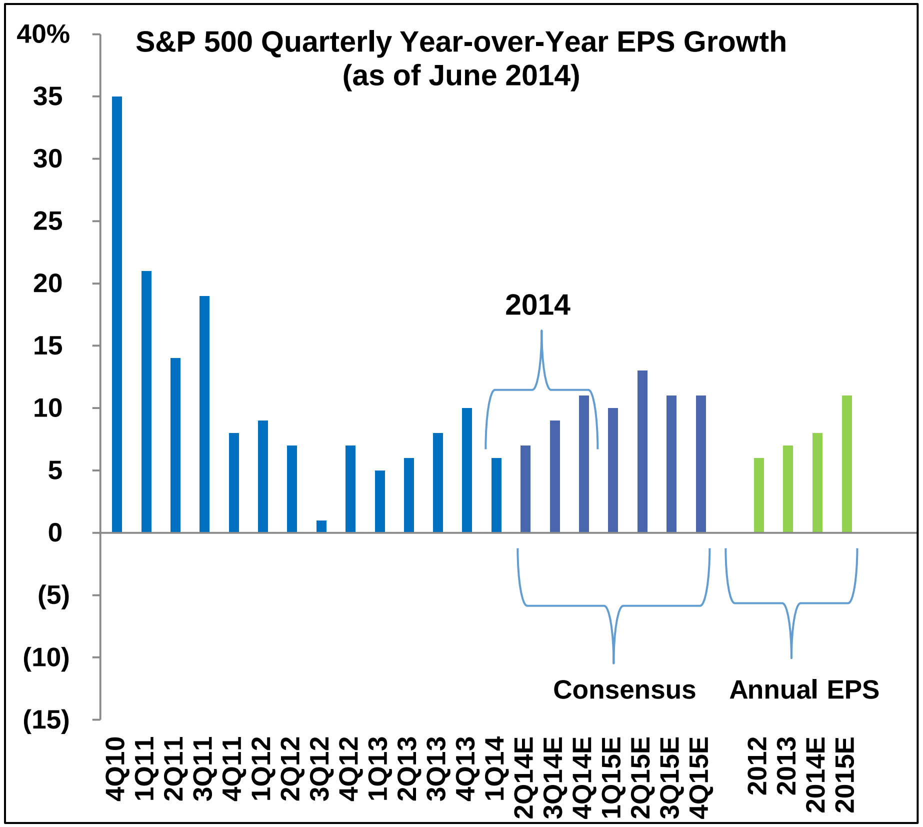
Will Revenue And Earnings Growth Support Valuations?

Investors are concerned that market valuations are stretched, which is causing greater importance to be placed on corporate revenue and earnings growth.

Currently, revenue growth expectations imply a steady growth profile for 2014, but revenue per share is forecast to be at an all-time high in 4Q. Of companies (ex Financials) that have reported for the 2Q, revenue growth is beating consensus estimates.

Consensus estimates are implying year-over-year 7% EPS growth for 2Q, slightly higher than 1Q. Forecasts were trimmed only slightly in 2Q vs. recent quarters when they were considerably lowered. Expectations are for better EPS growth in 2H '14.

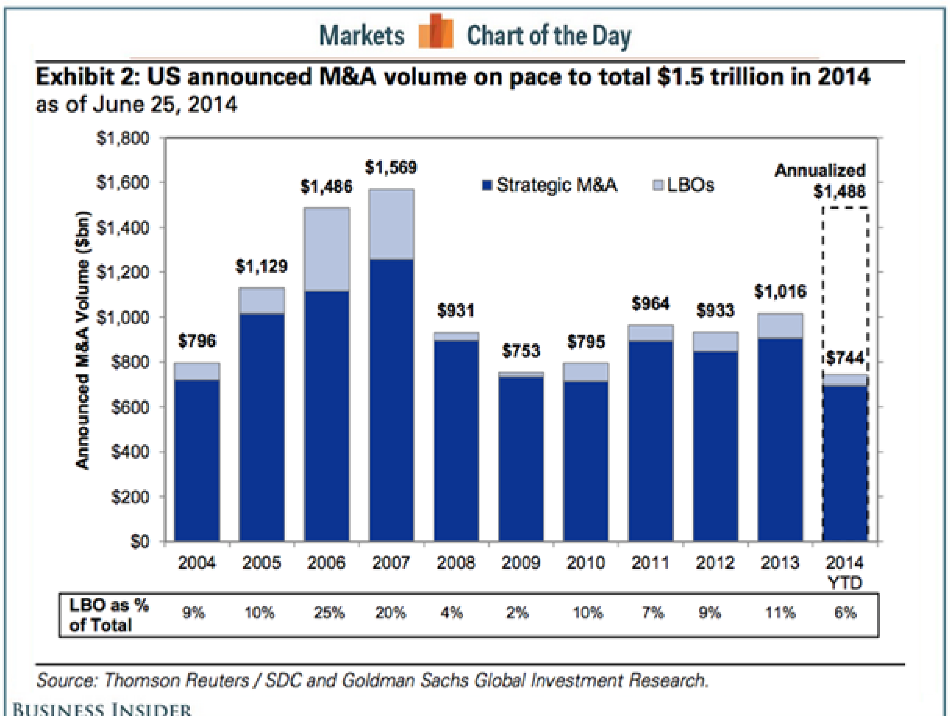




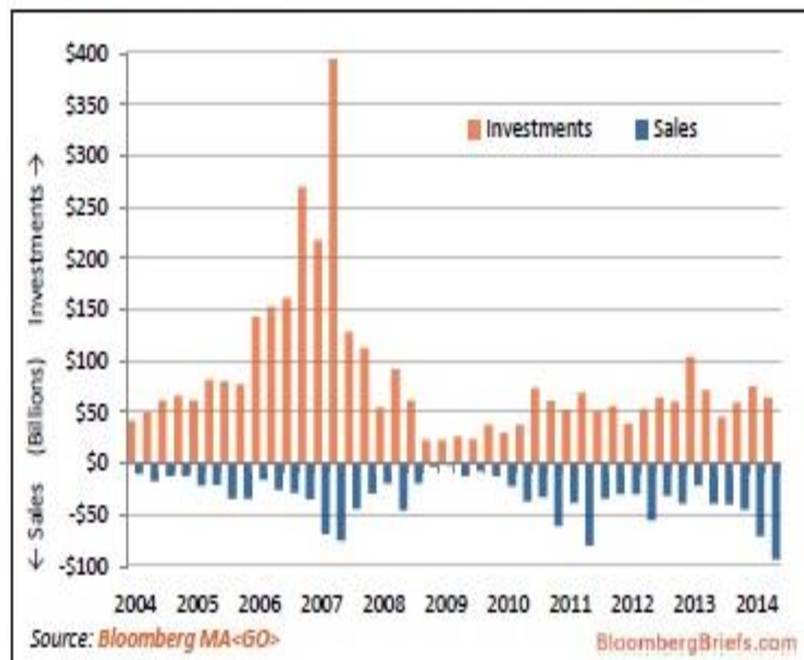
Source: Morgan Stanley

M&A Activity – Public Companies Buying; Private Equity Selling

Merger and Acquisition activity continues to be robust and reached $750 billion in the US YTD through June thanks to cash-flush corporations, steadily improving growth, and rising CEO confidence. Of note, financial sponsors like private equity firms account for just 6% of deals vs. 11% over the past decade, and the average bid premium is down to 26% vs. 44% in 2009 amid higher share prices. At the peak of the LBO boom in 2006 and 2007, private equity accounted for 20%-25% of annual US M&A volume. While private equity funds currently have significant buying capacity and debt markets are extremely favorable, public target company valuations are stretched. This dynamic explains why strategic combinations have dominated 2014 merger volume and LBOs have accounted for a below-average market share. Through the first six months of 2014, private equity firms were net sellers, having sold companies worth $130 billion while investing in new companies with an aggregate deal value of $125 billion.



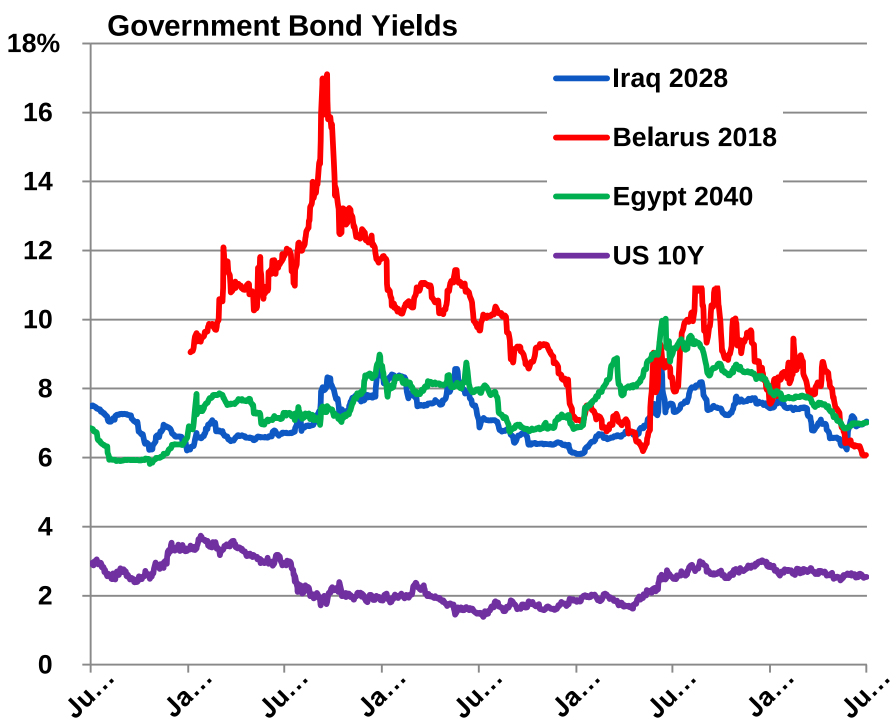
Buyout Firms Sold More Than They Bought

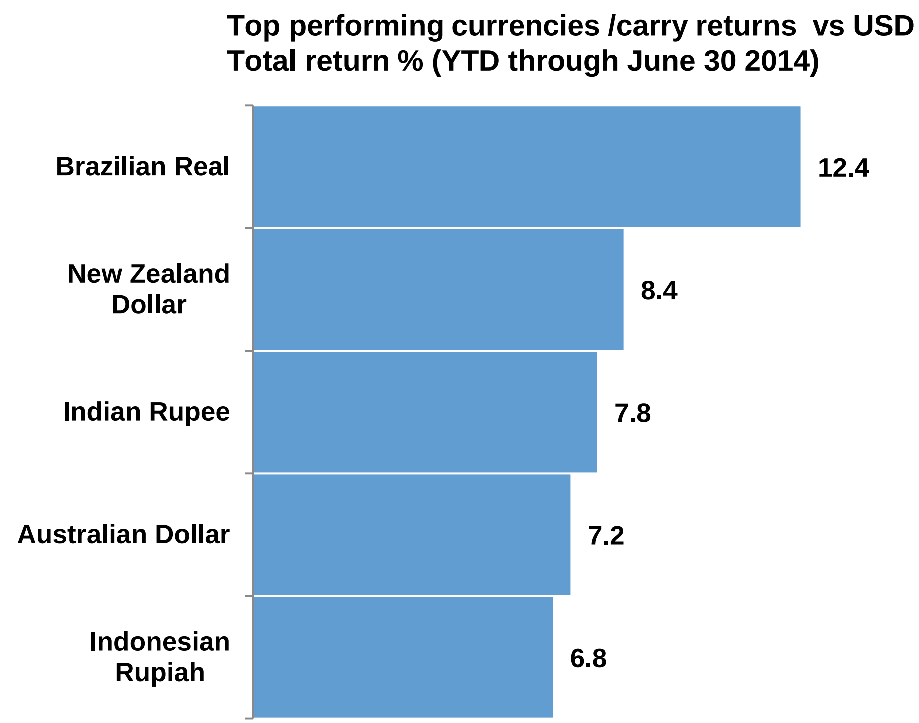


Search for Yield Continues

Since the onset of the Global Financial Crisis, central banks have cut rates 567 times and have injected $14 trillion of liquidity into the financial markets. Low, and in some cases negative, interest rates have caused investors to embark on the search for yield, engaging in a carry trade in EM debt and currency (borrowing cheaply in e.g. USD and investing in a higher yielding currency via government bonds or forward currency).

Investors have been buying EM bonds with less discrimination than ever. Iraq's US dollar bond due in 2028 is priced at 6.7%; Egypt's hard-currency bonds that mature in 25 years yield just below 7%. This year, three of the world's five best-performing currencies have been former "Fragile Five" countries. After last year's taper tantrum, their high current account deficits were seen as vulnerable to capital flight. The top performer has been Brazil, whose progress has been relatively light.





Source: Bloomberg, Merrill Lynch

Division of Investment Updates since last SIC Meeting

- **Fixed Income:**
  - The new issue market continues to see significant demand. The Division received approximately 20% of requested allocations across a number of new issues, indicating the strong demand for paper continues
  - In total, Division was net purchaser of $55 million worth of investment grade bonds for the period
  - The yield curve continued to flatten with the 30yr and 10yr rallying, while the 5yr remained steady
  - Duration stands at 5.48 ex cash vs benchmark duration of 6.03. When factoring in cash, duration stands at 4.51
- **Domestic Equities:**
  - Relatively stronger US economic data, fluctuating energy prices and no surprises from the Fed led the market to grind higher, although in a very tight range, for the period
  - Telecommunications and Healthcare were the best performing sectors for the period, up +4.34% and +2.98% respectively, while energy and industrials lagged
  - The Division was a net seller of approximately $130 mm of US equities
  - The Division participated in the GoPro IPO. The wearable camera gear company raised approximately $ 500 million. The shares are up 79% since the IPO
- **International Equities:**
  - Weak European economic data and global profit taking weighed on the markets. The ACWI(All Country World Index ex. US) was down 0.24% for the period
  - The Division was a seller of approximately $325 million of Non-US Developed equities as part of efforts to realign the portfolio to the new asset allocation targets

June 30th, 2014 Asset Allocation with Hedges

Line #	Asset Class	Current Assets	Current Allocation	Adjustments to Exposure based on Hedges	Total Net Exposure	FY 2014 Target	Over/Under Weight 2014 Target	Over/Under Weight ($) vs. FY 2014 Target w/ Hedges	FY 2015 Target	Over/Under Weight 2015 Target	Over/Under Weight ($) vs. FY 2015 Target w/ Hedges	Line #
1	**RISK MITIGATION**	**3,232,442,358**	**4.10%**		**3,232,442,358**	**4.50%**	**-0.40%**	**(319,114,721)**	**4.00%**	**0.10%**	**75,502,732**	1
2	Absolute Return HFs	3,232,442,358	4.10%		3,232,442,358	4.50%	-0.40%	(319,114,721)	4.00%	0.10%	75,502,732	2
3	**LIQUIDITY**	**6,672,983,555**	**8.46%**		**6,332,202,305**	**9.50%**	**-1.04%**	**(1,165,529,306)**	**8.25%**	**0.21%**	**(178,985,673)**	3
4	Cash Equivalents	4,217,162,608	5.34%		4,217,162,608	6.00%	-0.66%	(518,246,831)	5.00%	0.34%	270,988,076	4
6	TIPS	1,630,539,729	2.07%		1,630,539,729	2.50%	-0.43%	(342,547,537)	1.50%	0.57%	446,687,369	6
7	US Treasuries	825,281,218	1.05%	(340,781,250)	484,499,968	1.00%	0.05%	(304,734,938)	1.75%	-0.70%	(896,661,118)	7
8	**INCOME**	**18,233,889,571**	**23.10%**		**18,233,889,571**	**24.20%**	**-1.10%**	**(865,595,164)**	**22.60%**	**0.50%**	**397,180,686**	8
9	Investment Grade Credit	9,561,802,166	12.12%		9,561,802,166	11.20%	0.92%	722,371,214	10.00%	2.12%	1,669,453,102	9
10	High Yield/ Global Div. Credit	3,893,926,492	4.93%		3,893,926,492	5.50%	-0.57%	(446,865,493)	5.50%	-0.57%	(446,865,493)	10
11	Credit-Oriented HFs	2,322,356,792	2.94%		2,322,356,792	3.75%	-0.81%	(637,274,107)	4.00%	-1.06%	(834,582,834)	11
12	Debt-Related PE	809,129,687	1.03%		809,129,687	1.25%	-0.22%	(177,413,946)	1.00%	0.03%	19,894,781	12
13	Debt Related Real Estate	767,269,104	0.97%		767,269,104	1.30%	-0.33%	(258,736,274)	1.00%	-0.03%	(21,965,802)	13
14	P&F Mortgage	879,405,330	1.11%		879,405,330	1.20%	-0.09%	(67,676,558)	1.10%	0.01%	11,246,933	14
15	**REAL RETURN**	**4,860,262,905**	**6.16%**		**4,847,452,162**	**5.70%**	**0.46%**	**348,813,195**	**7.25%**	**-1.09%**	**(874,500,910)**	15
16	Commodities/ RA	2,021,823,173	2.56%	(12,810,743)	2,009,012,430	2.50%	0.06%	35,925,164	3.00%	-0.44%	(358,692,289)	16
17	Equity Related Real Estate [1]	2,838,439,732	3.60%		2,838,439,732	3.20%	0.40%	312,888,031	4.25%	-0.65%	(515,808,620)	17
18	**GLOBAL GROWTH**	**45,787,125,414**	**58.01%**		**45,521,842,129**	**56.10%**	**1.91%**	**1,245,763,879**	**57.90%**	**0.11%**	**(174,858,953)**	18
19	US Equity	21,454,758,683	27.18%	(118,946,361)	21,335,812,322	25.90%	1.28%	894,628,246	27.25%	-0.07%	(170,838,878)	19
20	Non-US Dev Market Eq	9,991,252,044	12.66%		9,991,252,044	12.70%	-0.04%	(32,031,268)	12.00%	0.66%	520,433,167	20
21	Emerging Market Eq	5,223,762,853	6.62%	(146,336,925)	5,077,425,928	6.50%	0.12%	(52,600,963)	6.40%	0.22%	26,322,527	21
22	Buyouts/Venture Cap [2]	6,068,907,998	7.69%		6,068,907,998	7.00%	0.69%	544,263,653	8.25%	-0.56%	(442,279,980)	22
23	Equity-Oriented HFs	3,048,443,836	3.86%		3,048,443,836	4.00%	-0.14%	(108,495,790)	4.00%	-0.14%	(108,495,790)	23
24	**OTHER**	**136,786,839**	**0.17%**		**136,786,839**	**0.00%**	**0.17%**	**136,786,839**	**0.00%**	**0.00%**	**136,786,839**	24

Based on estimated values

1 Current assets do not include receivables of $422 million related to Real Estate secondary sale

2 Current assets do not include receivables of $59 million related to Private Equity secondary sale

Capital Markets Update (through June 30, 2014)

FYTD Equity Market Returns

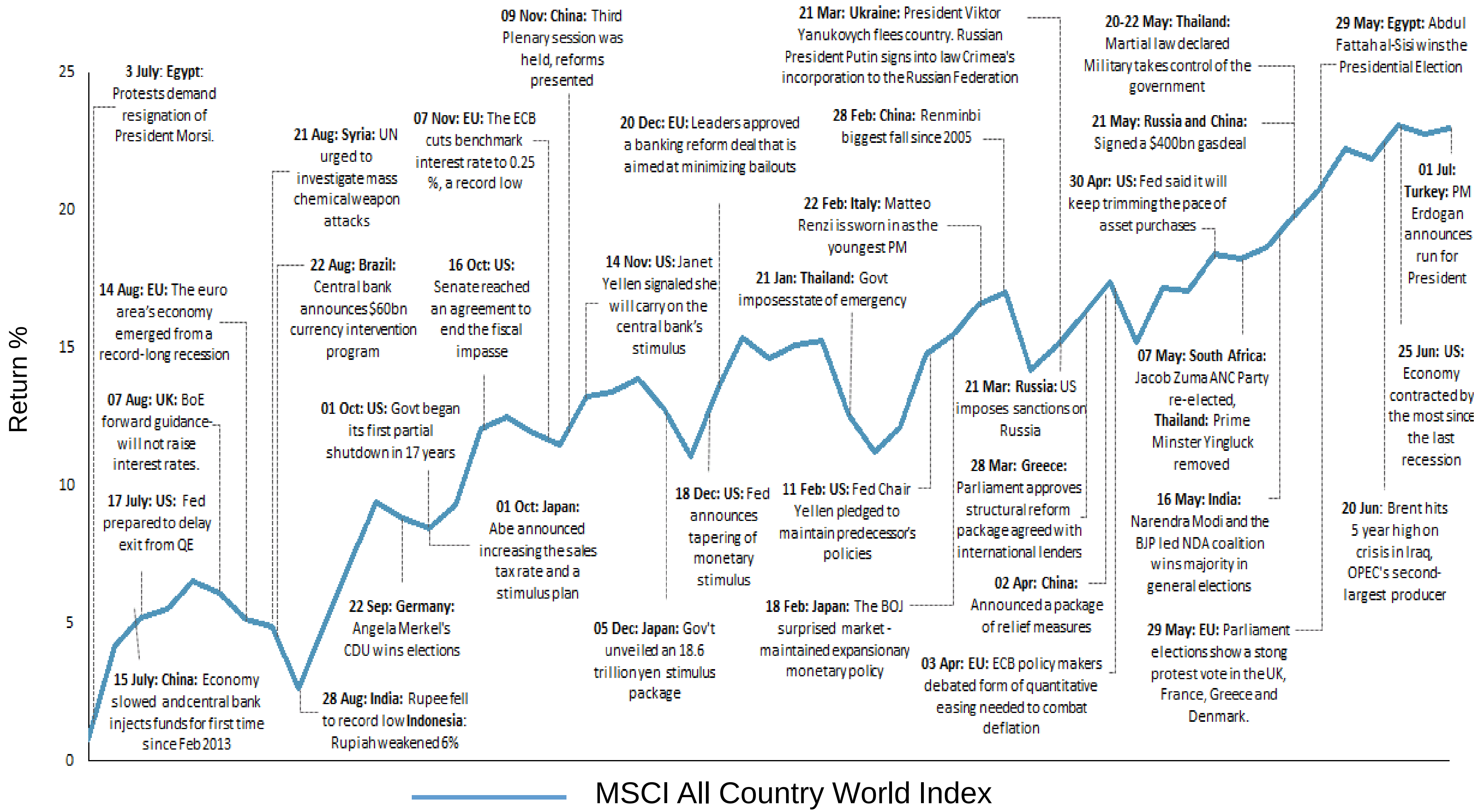
10 Year Treasury Yield

	30-Jun-14	MTD %	CYTD %	FYTD %	1 Yr %	3Yrs %	5 Yrs %	10 Yrs %	
Domestic Equity	S&P 500	2.07	7.13	24.60	24.60	16.56	18.81	7.83	1
	Russell 2000	5.32	3.19	23.64	23.64	14.56	20.19	8.75	2
International Equity	MCSI EAFE	0.96	4.78	23.57	23.57	8.09	11.76	6.90	3
	MSCI EMF	2.66	6.14	14.31	14.31	(0.39)	9.23	12.04	4
Bond	Barclays Agg	0.05	3.87	3.80	3.80	3.48	4.75	4.88	5
	Barclays HY	0.84	5.46	11.74	11.74	9.49	13.98	9.05	6
	Barclays US Tips	0.46	6.29	3.27	3.27	3.51	5.45		7
Commodity	DJUBS Com	0.60	7.08	8.21	8.21	(5.17)	1.99	0.92	8

Source: Cliffwater

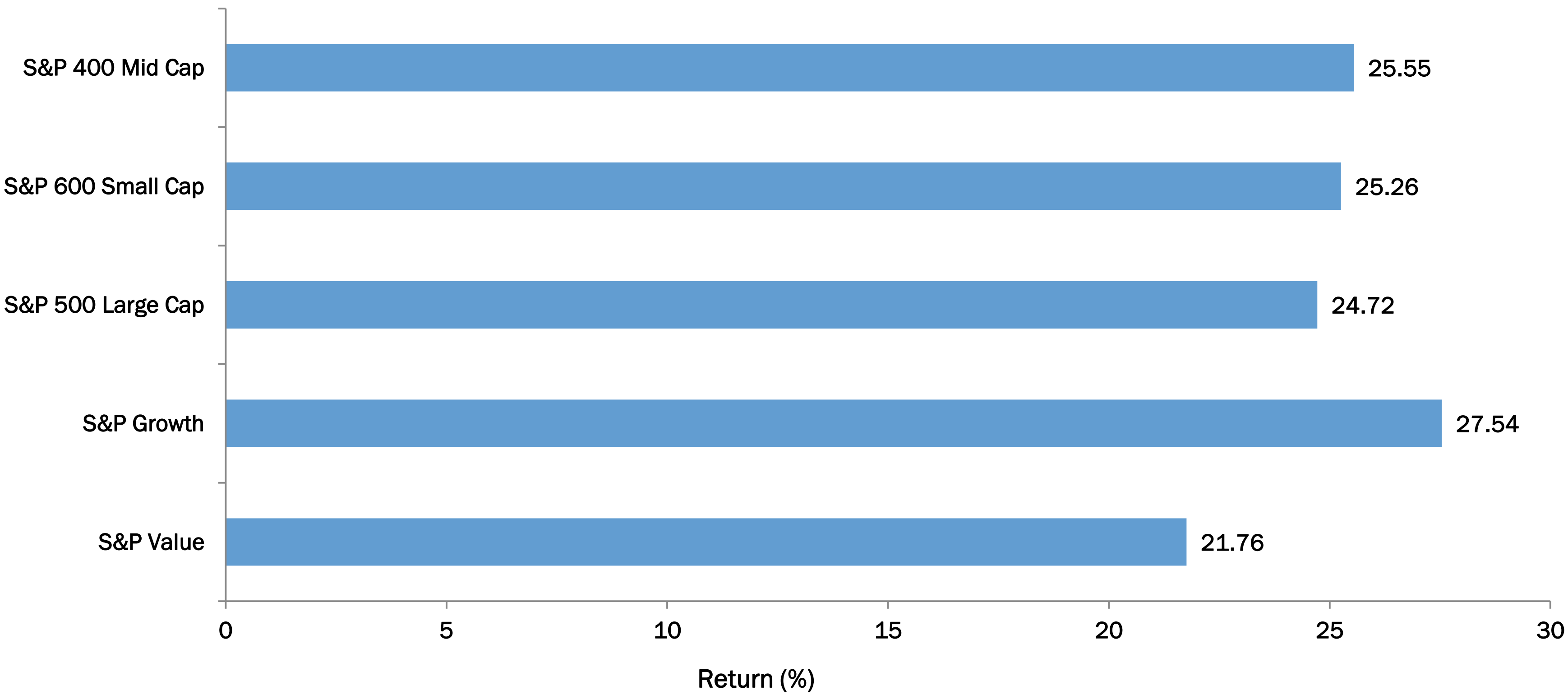
Significant Events that Affected Equity Markets in Fiscal 2014

Developed equity markets were impacted by currency, the banking systems and sovereign debt issues as well as import-export slowdowns. Meanwhile, Emerging Markets experienced tremendous geo-political turmoil including wars, elections and government instability.



US Equity Size and Style Component Returns FY 2014

Growth stocks (+27.5%) outperformed value stocks (+21.8%) as investors sought secular growth opportunities such as cloud computing and social media in information technology and biotechnology in healthcare within the framework of a moderate growth US economic environment. Small caps stocks (+25.3%) and mid cap stocks (+25.6%) modestly outperformed large cap stocks (+24.7%) as concerns about slowing growth in China and emerging markets, and slower growth in Europe, led investors to rotate away from larger cap companies with foreign sales exposure.

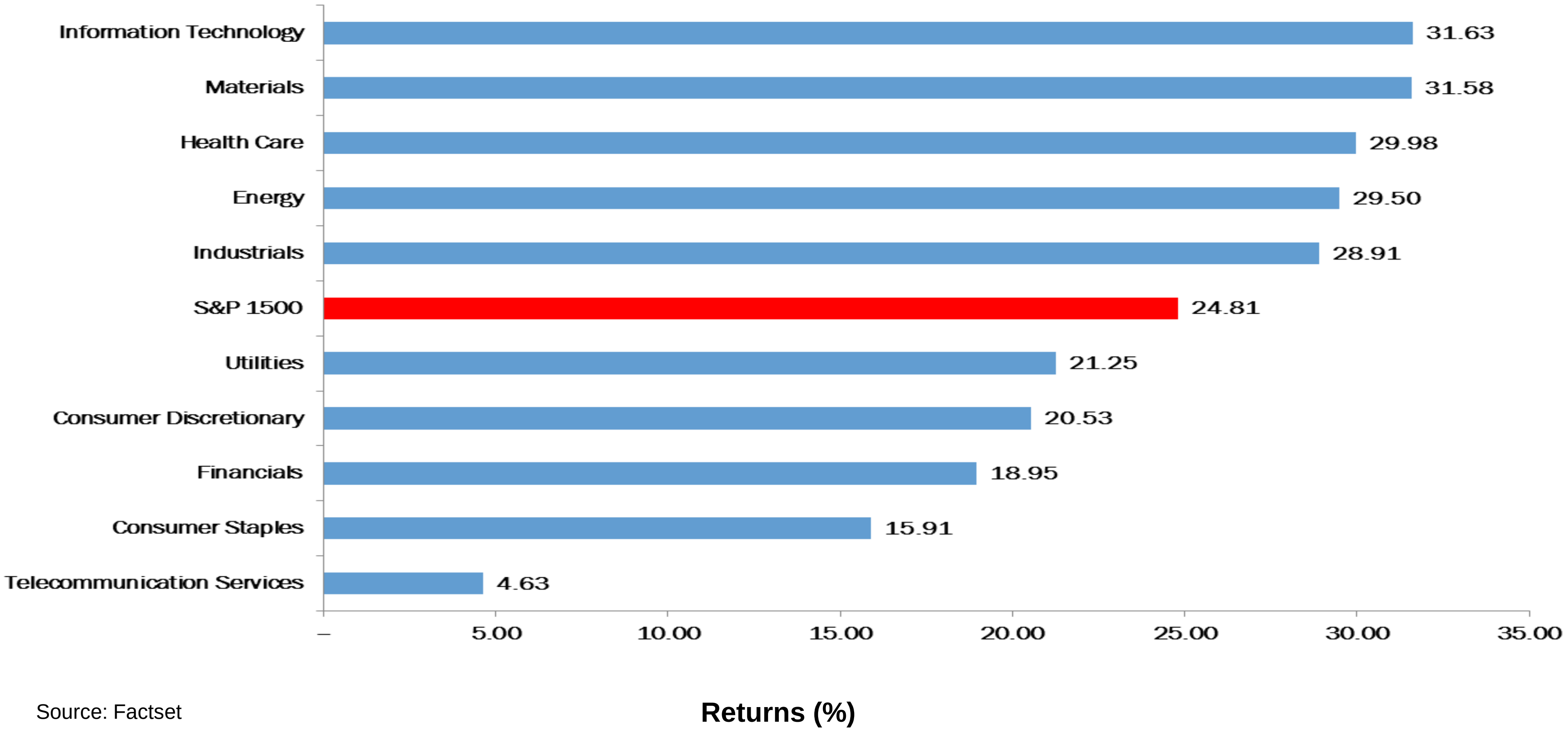


Source: Factset

S&P 1500 Sector Returns FY 2014

The domestic equity market continued to move higher, increasing 24.81% during fiscal 2014, on expectations of an improving global economy. Headwinds during the year included the weather-induced economic slowdown in the US in the March quarter, and geopolitical tensions in the Middle East and Ukraine. Takeovers continue to be a major storyline, with $1.62 trillion in deals globally during the first half of calendar 2014, representing almost 70% of the value of all deals in 2013.

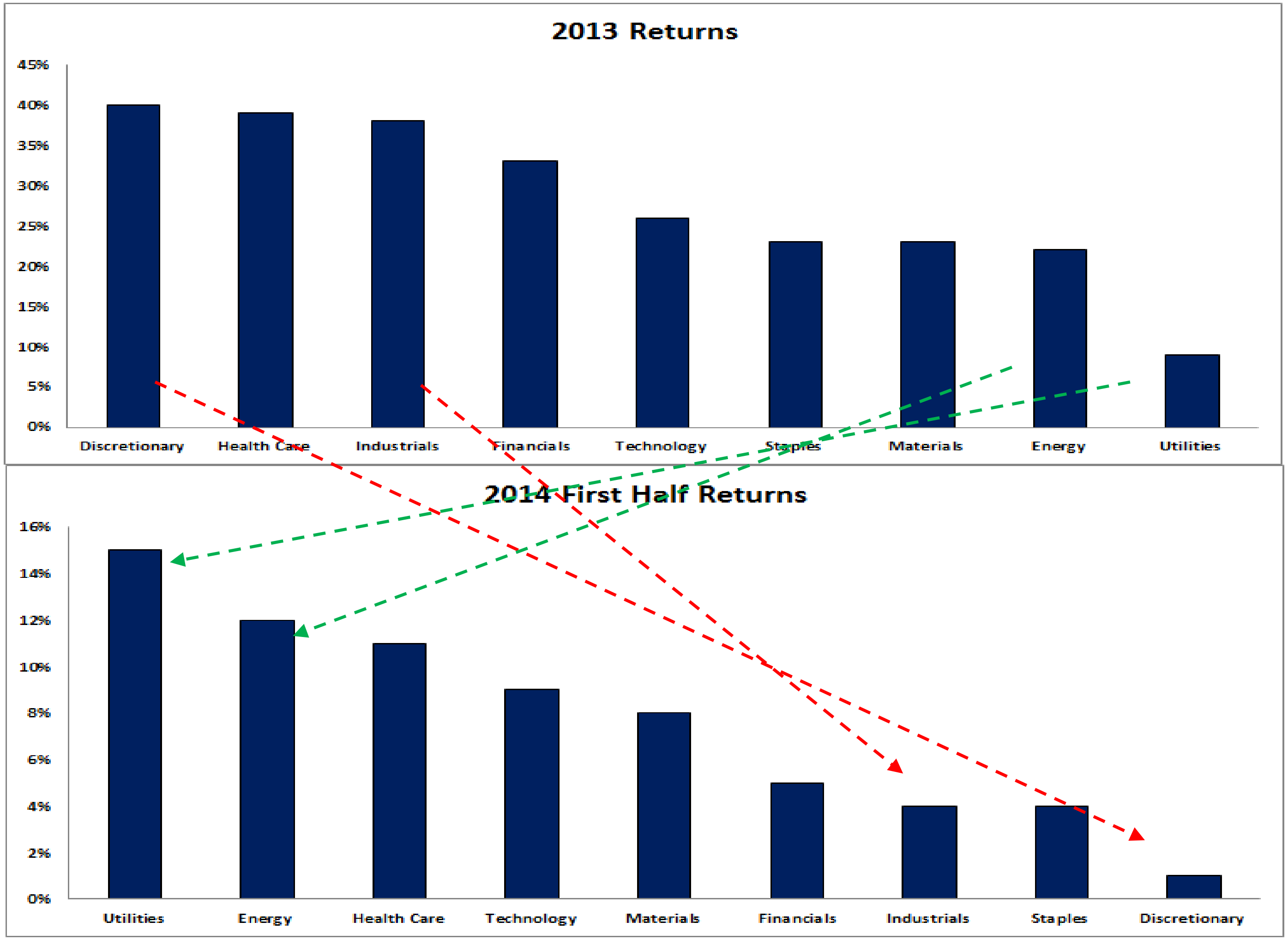
Information technology was the best performing sector, returning 31.63%, boosted by the proliferation of cloud computing and increased shift toward mobility and use of social media. Telecommunication services was the worst performing sector, returning 4.63% as price competition increased among wireless carriers.



Source: Factset

Sector Performance Leadership Rotated in First Half of 2014

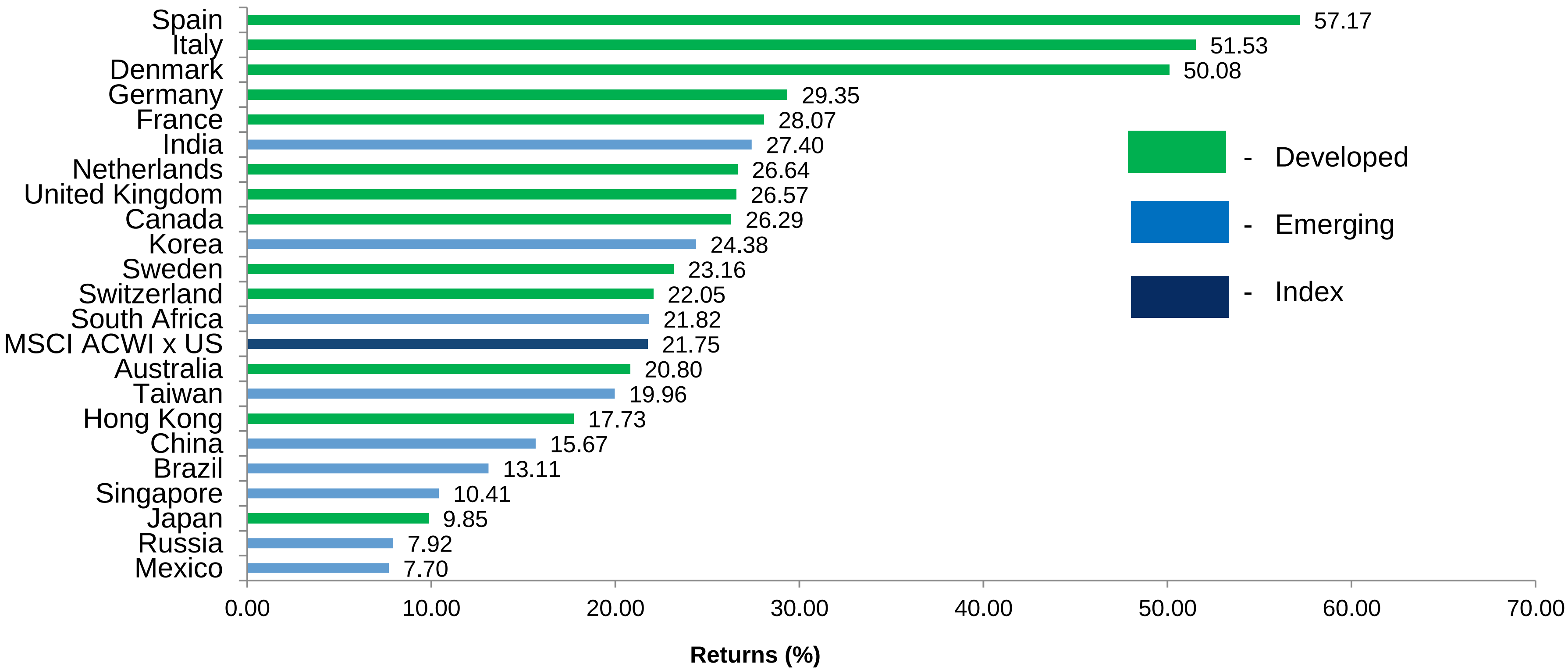
Two of the top three performing sectors in 2013, Discretionary and Industrials, have lagged in the first half of 2014 while the worst performing sectors in 2013, Energy and Utilities, have been the best performers in the first half of 2014



Source: FBN Securities

MSCI All Country World ex-US Returns FY 2014

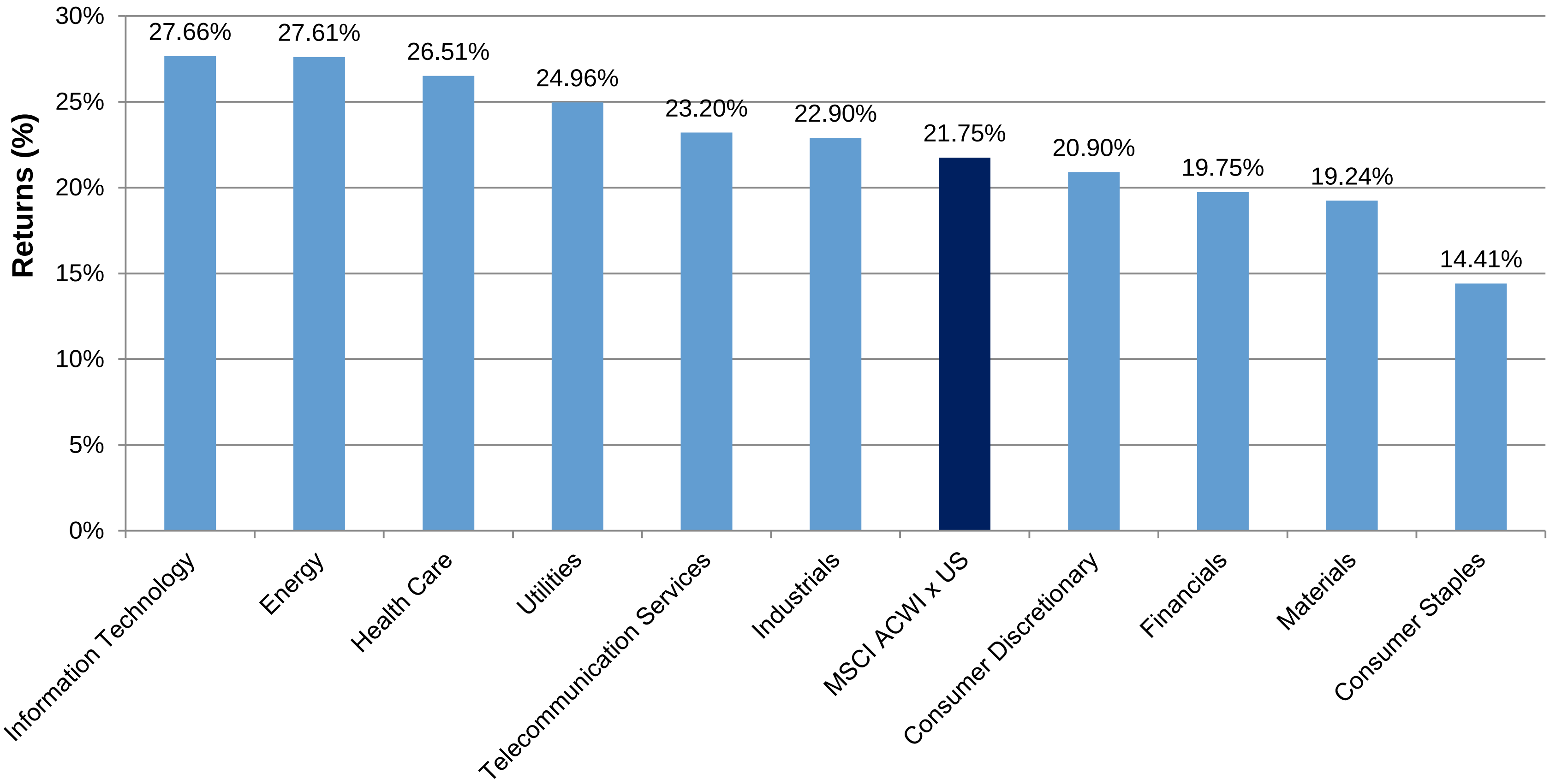
International developed markets were up 23.57% as Europe emerged from recession in August 2013. Periphery countries of Spain and Italy significantly outpaced the major core countries of Germany, France and Netherlands. This divergence is attributed to the ECB easing being peripheral-focused, the periphery GDP growth having fallen further relative to the core, the greater significance of exports on core countries' economic activity-especially Germany, and global demand for higher returns compressing the spread between the weaker periphery sovereign yields and the core. Emerging markets were up 14.31% for the year, in line with the general global recovery driven by improvements in current account deficits, currency retracement, and improved domestic policy discipline in many of the EM countries. Divergence in EM county performance replaced the risk-on/risk-off correlation as countries coped with a weak recovery of export/import volume (esp. Brazil, China, Russia, Mexico), the slowdown in China, multiple geo-political concerns as well as country specific domestic economic and election pressures.



NOTE: There are 45 countries represented in the MSCI ACWI. These 22 countries represent 97% of the index by weight (countries with 1.00% weight or greater).

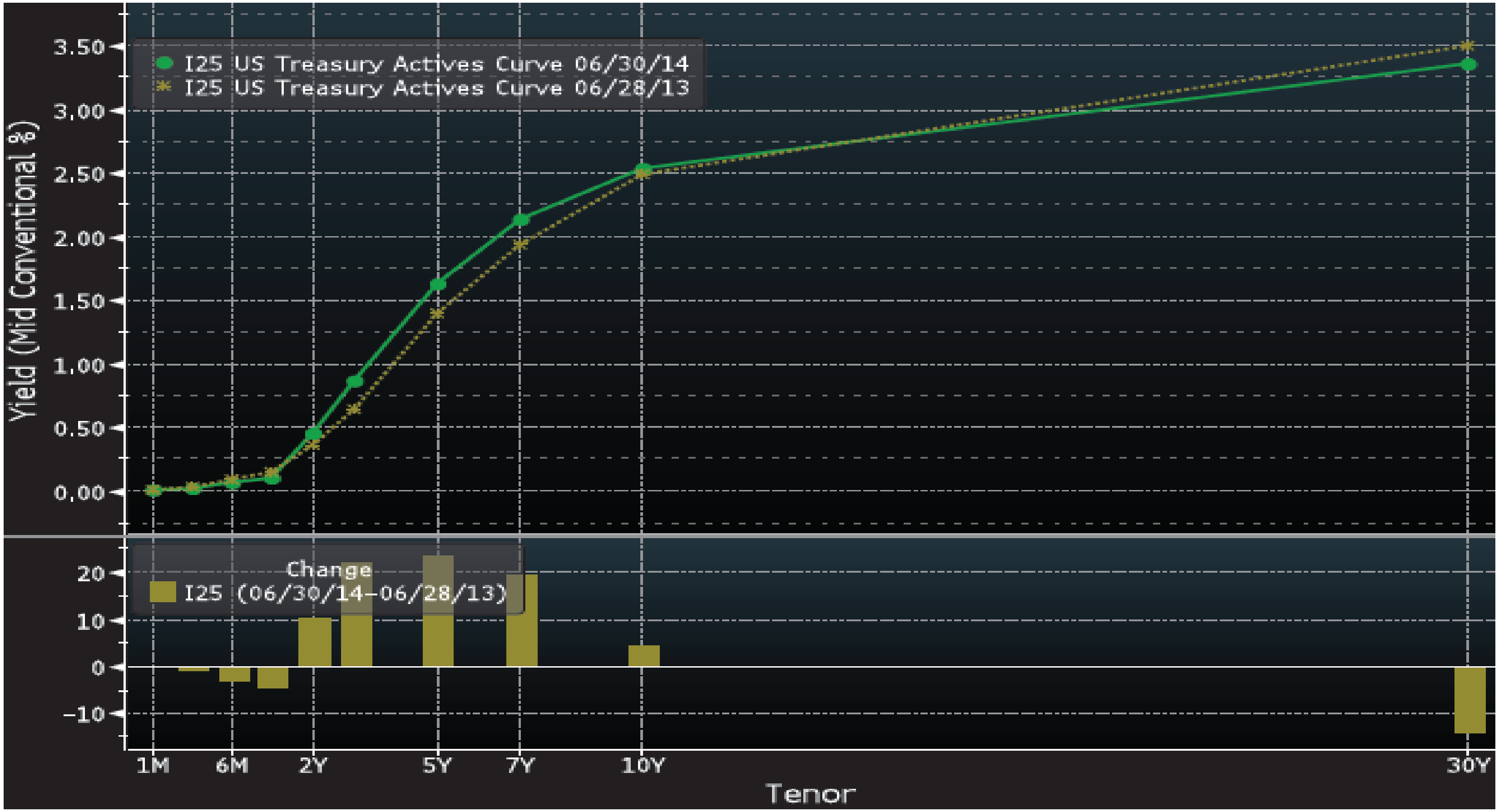
MSCI All Country World ex-US Sector Returns FY 2014

All sectors participated in the rally this past year with Information Technology, Energy and Healthcare being the best performers . Information Technology returned 27.66% driven largely by increased demand for cloud computing, overall system upgrades and social media. Geo-political risks across the Middle East and Eastern Europe, as well as elevated cap-ex, attributed to Energy returning 27.61%. Health Care Equipment & Services and Pharmaceuticals had strong performance with Pharmas specifically benefiting from an increase in M&A activity and promising pipeline advances.



Treasury Yield Curve - June14 vs June13

At the end of Fiscal Year 2013, the concern in the bond market was that the Federal Reserve would start to taper its buy-back program in US Treasuries and mortgages, which would result in a dramatic increase in rates, especially on the long end of the curve. While the Federal Reserve did start to taper in January 2014, the affect on rates, as shown in the chart below, has been minimal. The belly of the curve (3, 5, and 7-year Treasuries) has risen the most, while the 30-year Treasury yield has decreased 14 basis points.



Source: Bloomberg

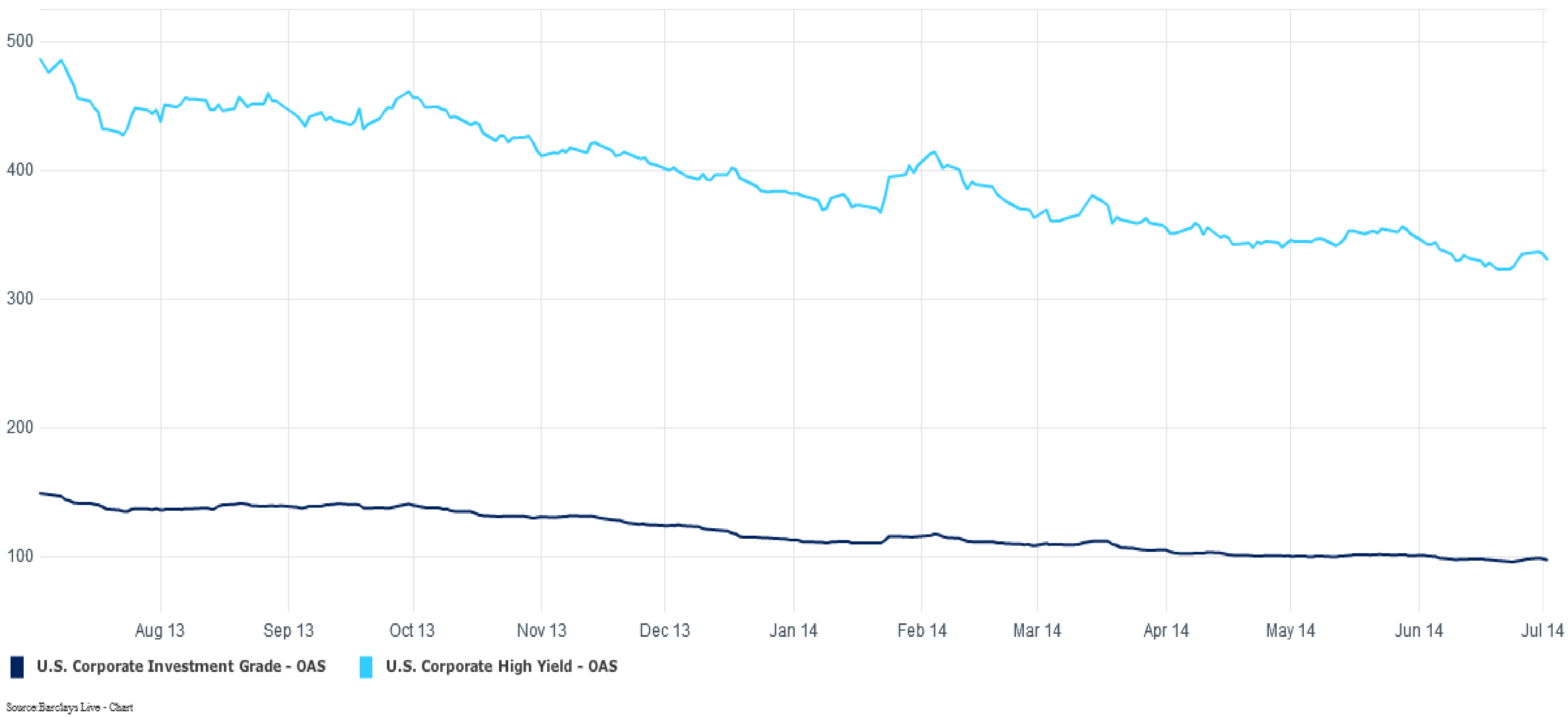
Sovereign 10 Year Yields

June 28, 2013 vs. June 30, 2014

Country	6/28/2013 Yield	6/30/2014 Yield	Change
United States	2.49%	2.53%	0.04
Australia	3.76%	3.54%	(0.22)
Brazil	12.03%	12.18%	0.15
Canada	2.44%	2.23%	(0.20)
Colombia	6.91%	6.55%	(0.36)
France	2.34%	1.70%	(0.64)
Germany	1.73%	1.24%	(0.48)
Greece	10.80%	5.91%	(4.89)
Italy	4.54%	2.85%	(1.70)
Japan	0.85%	0.56%	(0.29)
Mexico	5.88%	5.68%	(0.21)
Portugal	6.38%	3.64%	(2.75)
Spain	4.76%	2.66%	(2.10)
United Kingdom	2.44%	2.67%	0.23

Investment Grade Corporate & High Yield Spread

Fiscal Year 2014 saw a continuation of the demand for spread products by investors as they search for higher yields. The chart below shows that High Yield spreads for the fiscal year narrowed from 492 basis points to 337 basis points, and Investment Grade spreads for the same period narrowed from 144 basis points to 96 basis points. High Yield outperformed High Grade as investors worried less about risk and more about incremental yield.



New Jersey State Investment Council

NOTIFICATIONS AND FOLLOW-UPS

State Investment Council Notification

Dyal NJ Investors, L.P. *:*

At the June 2014 State Investment Council meeting, the Division presented a proposed additional $250 million investment in Dyal NJ Investors, L.P. The purpose of the investment was to facilitate investment in Dyal Capital Partners II, L.P., as well as co-investment opportunities. During negotiations and discussions with counsel, it has been recommended that the additional investment be placed into a newly created fund, Dyal NJ Investors II, L.P., rather than into the existing fund, Dyal NJ Investors, L.P., for legal and administrative purposes. This modification is not expected to affect the strategy of the Division's proposed $250 million commitment amount or any of the other terms described in the June 2014 memo.

Purpose of Notification:

The Division is notifying the SIC of this activity under its Modification Procedures.

MSCI MARKET CLASSIFICATION

MSCI ACWI & FRONTIER MARKETS INDEX

MSCI ACWI	MSCI EMERGING & FRONTIER MARKETS INDEX

MSCI WORLD INDEX	MSCI EMERGING MARKETS INDEX	MSCI FRONTIER MARKETS INDEX
DEVELOPED MARKETS	EMERGING MARKETS	FRONTIER MARKETS

DEVELOPED MARKETS

Americas	Europe & Middle East	Pacific
Canada	Austria	Australia
United States	Belgium	Hong Kong
	Denmark	Japan
	Finland	New Zealand
	France	Singapore
	Germany	
	Ireland	
	Israel	
	Italy	
	Netherlands	
	Norway	
	Portugal	
	Spain	
	Sweden	
	Switzerland	
	United Kingdom	

EMERGING MARKETS

Americas	Europe & Middle East	Pacific
Brazil	Czech Republic	China
Chile	Egypt	India
Colombia	Greece	Indonesia
Mexico	Hungary	Korea
Peru	Poland	Malaysia
	Qatar	Philippines
	Russia	Taiwan
	South Africa	Thailand
	Turkey	
	United Arab Emirates	

FRONTIER MARKETS

Americas	Europe & CIS	Africa	Middle East	Asia
Argentina	Bosnia Herzegovina[1]	Botswana[1]	Bahrain	Bangladesh
Jamaica[1]	Bulgaria	Ghana[1]	Jordan	Pakistan
Trinidad & Tobago[1]	Croatia	Kenya	Kuwait	Sri Lanka
	Estonia	Mauritius	Lebanon	Vietnam
	Lithuania	Nigeria	Morocco	
	Kazakhstan	Tunisia	Oman	
	Romania	Zimbabwe[1]	Palestine[1]	
	Serbia		Saudi Arabia[2]	
	Slovenia			
	Ukraine			

1-The MSCI Bosnia Herzegovina Index, the MSCI Botswana Index, the MSCI Ghana Index, the MSCI Jamaica Index, the MSCI Trinidad & Tobago Index, the MSCI Zimbabwe Index, and the MSCI Palestine IMI are currently stand-alone country indexes and are not included in the MSCI Frontier Markets Index. The addition of these country indexes to the MSCI Frontier Markets Index is under consideration.

2-The MSCI Saudi Arabia Index is currently not included in the MSCI Frontier Markets Index but is part of the MSCI Gulf Cooperation Council (GCC) Countries Index.

As of May 2014

MSCI MARKET CLASSIFICATION
EMERGING & FRONTIER MARKETS INDEX

MSCI EMERGING MARKETS INDEX

EMERGING MARKETS

Country	# of Constituents	Weight in Index (%)
Brazil	74	11.12
Chile	20	1.54
China	140	18.11
Colombia	14	1.05
Czech Republic	3	0.24
Egypt	4	0.20
Greece	10	0.82
Hungary	3	0.24
India	69	6.77
Indonesia	30	2.44
Korea	104	15.35
Malaysia	43	3.93
Mexico	30	5.16
Peru	3	0.44
Philippines	20	0.98
Poland	23	1.70
Qatar	10	0.45
Russia	22	5.47
South Africa	50	7.59
Taiwan	101	11.96
Thailand	29	2.18
Turkey	25	1.72
United Arab Emirates	9	0.52
# of Constituents	836	

MSCI FRONTIER MARKETS INDEX

FRONTIER MARKETS

Country	# of Constituents	Weight in Index (%)
Argentina	6	7.85
Bahrain	3	1.41
Bangladesh	4	1.89
Bosnia Herzegovina[1]		
Botswana[1]		
Bulgaria	2	0.19
Croatia	3	1.75
Estonia	2	0.46
Ghana[1]		
Jamaica[1]		
Jordan	3	0.74
Kazakhstan	3	3.72
Kenya	5	4.93
Kuwait	8	24.86
Lebanon	4	2.37
Lithuania	2	0.15
Mauritius	2	1.28
Morocco	9	6.13
Nigeria	18	19.44
Oman	9	4.47
Pakistan	15	6.99
Palestine[1]		
Romania	4	2.26
Saudi Arabia[2]		
Serbia	2	0.27
Slovenia	4	2.89
Sri Lanka	3	1.73
Trinidad & Tobago[1]		
Tunisia	2	0.59
Ukraine	2	0.21
Vietnam	12	3.4
Zimbabwe[1]		
# of Constituents	127	

1. The MSCI Bosnia Herzegovina Index, the MSCI Botswana Index, the MSCI Ghana Index, the MSCI Jamaica Index, the MSCI Trinidad & Tobago Index, the MSCI Zimbabwe Index, and the MSCI Palestine IMI are currently stand-alone country indexes and are not included in the MSCI Frontier Markets Index. The addition of these country indexes to the MSCI Frontier Markets Index is under consideration.

2. The MSCI Saudi Arabia Index is currently not included in the MSCI Frontier Markets Index but is part of the MSCI Gulf Cooperation Council (GCC) Countries Index.