NEW JERSEY DIVISION OF INVESTMENT

Director's Report

June 23, 2014

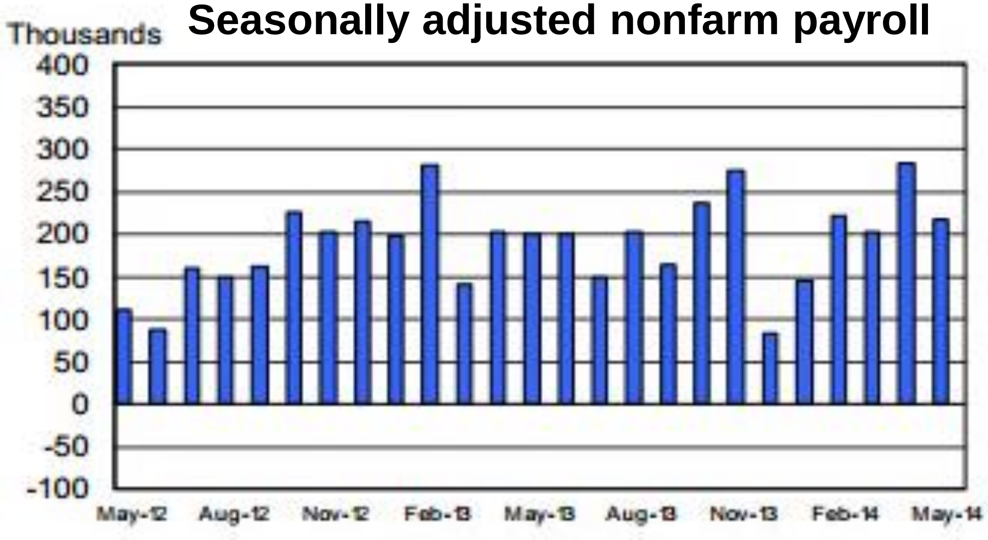
State Investment Council Meeting

"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."

Market Updates

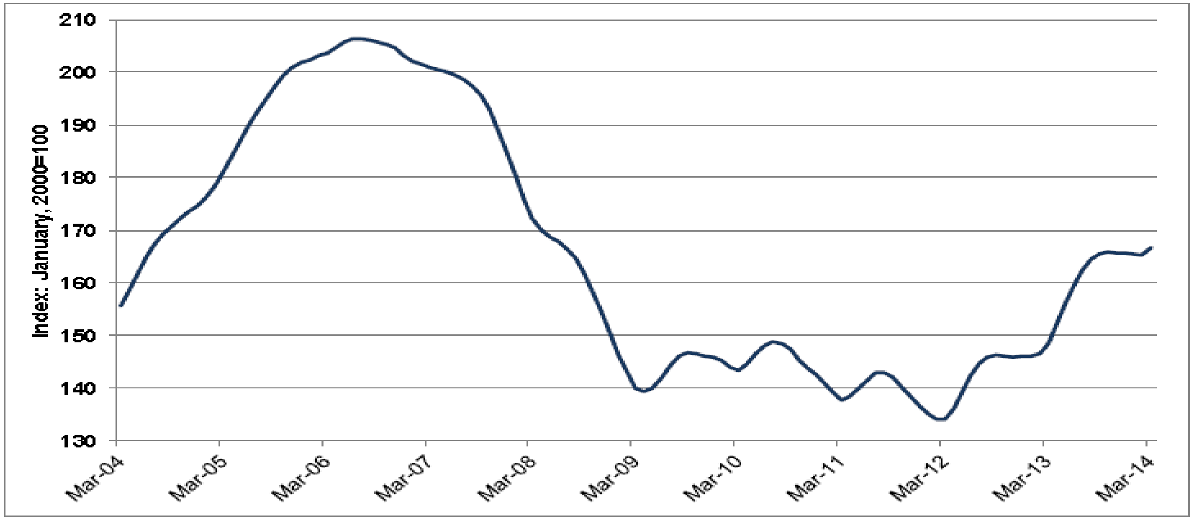
Non-farm payrolls increased by 217K in May, slightly better then expectations. This marked the first time since 1999 that the NFP increased by more then 200k for four consecutive months. The unemployment rate remained unchanged at 6.3%, below the median forecast of 6.4%. The participation rate was also unchanged at 62.8%.

Seasonally adjusted nonfarm payroll



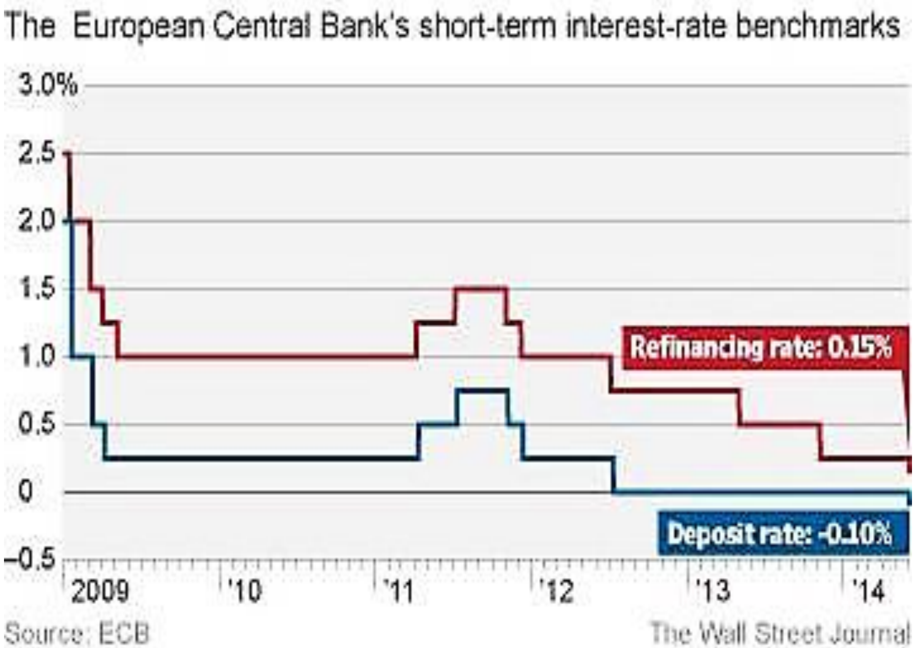
Source: BLS

Case-Shiller 20 City Composite Home Price Index

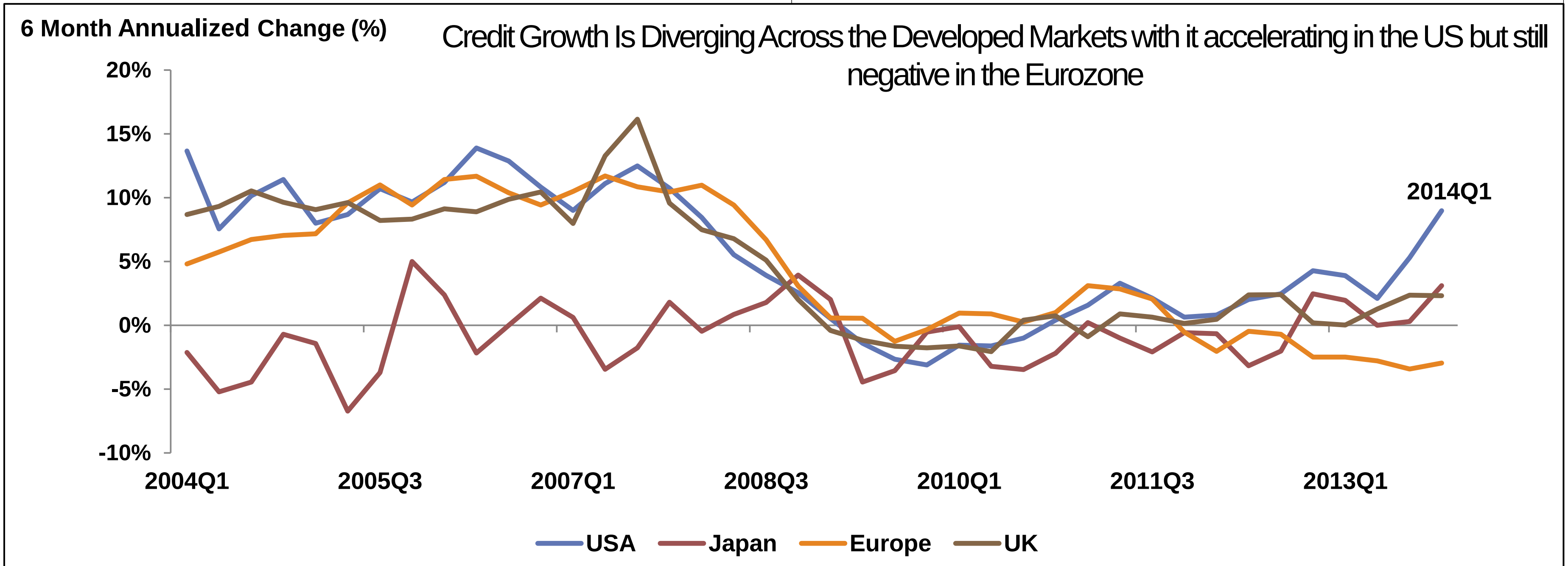


Home prices in the US continue to rise, but the pace of price increases has been slowing. In May 2014, home prices in 20 U.S. cities tracked by Case-Shiller were up 12.4% Y/Y, a slowdown from the previous reading of 12.9% Y/Y. Housing starts for single family have experienced little improvement while Multi-family housing starts have experienced significant expansion.

Source: S&P Case-Shiller and Oppenheimer Asset Management Investment Strategy. Data updated subject to a one-quarter lag.

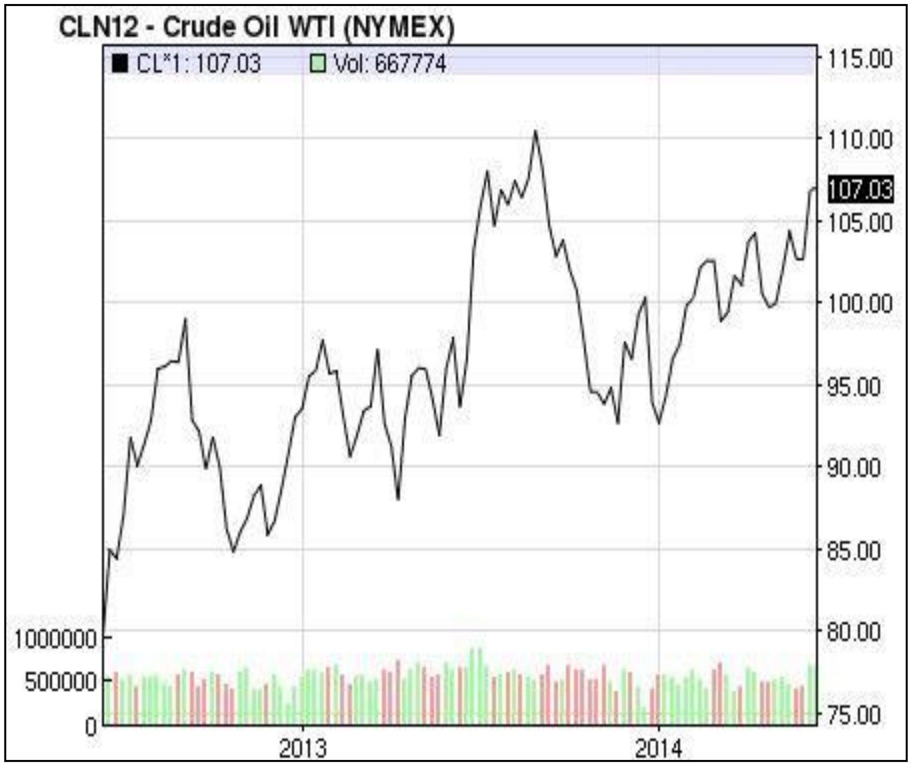


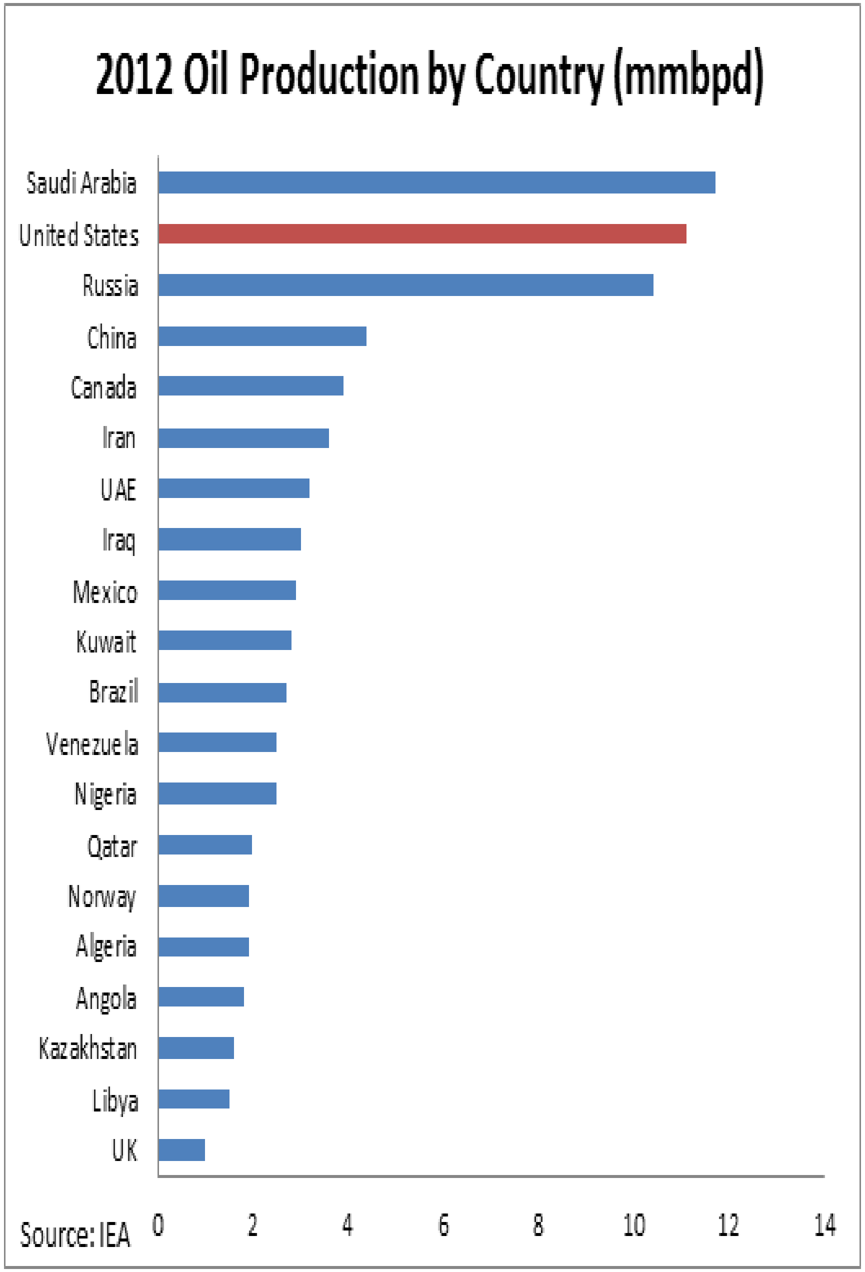
At its June 5th meeting, the European Central Bank (ECB) took steps to address very low inflation and growth levels. The Central Bank cut its key refinancing rate from 0.25% to 0.15% and, in an unprecedented move for a large central bank, cut its deposit rate, which it pays banks for parking funds with it overnight, into negative territory, at -0.10%. The stimulus package is intended to encourage lending and stoke economic growth. The possibility of further stimulus, including quantitative easing, was left open.



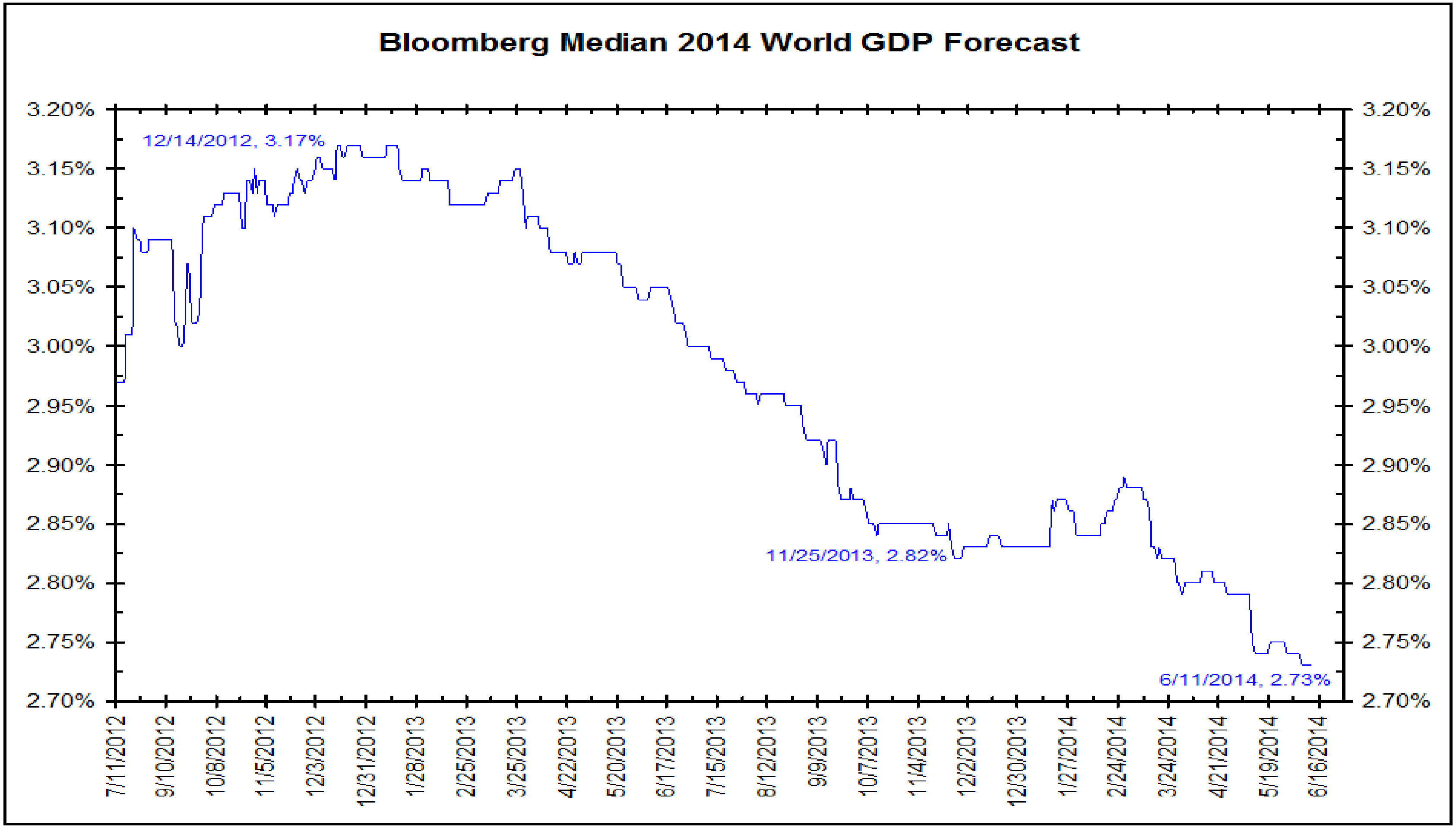
Market Updates

Fears of reduced oil output from Iraq due to escalating conflict and violence in the country have pushed oil prices to a ten-month high. A rebel group known as ISIS is taking control of a large portion of northern Iraq, including the city of Mosel, and have threatened to move on Bagdad. The crisis has put pressure on the commodity markets, specifically oil. Iraq is the seventh largest oil producer in the world.



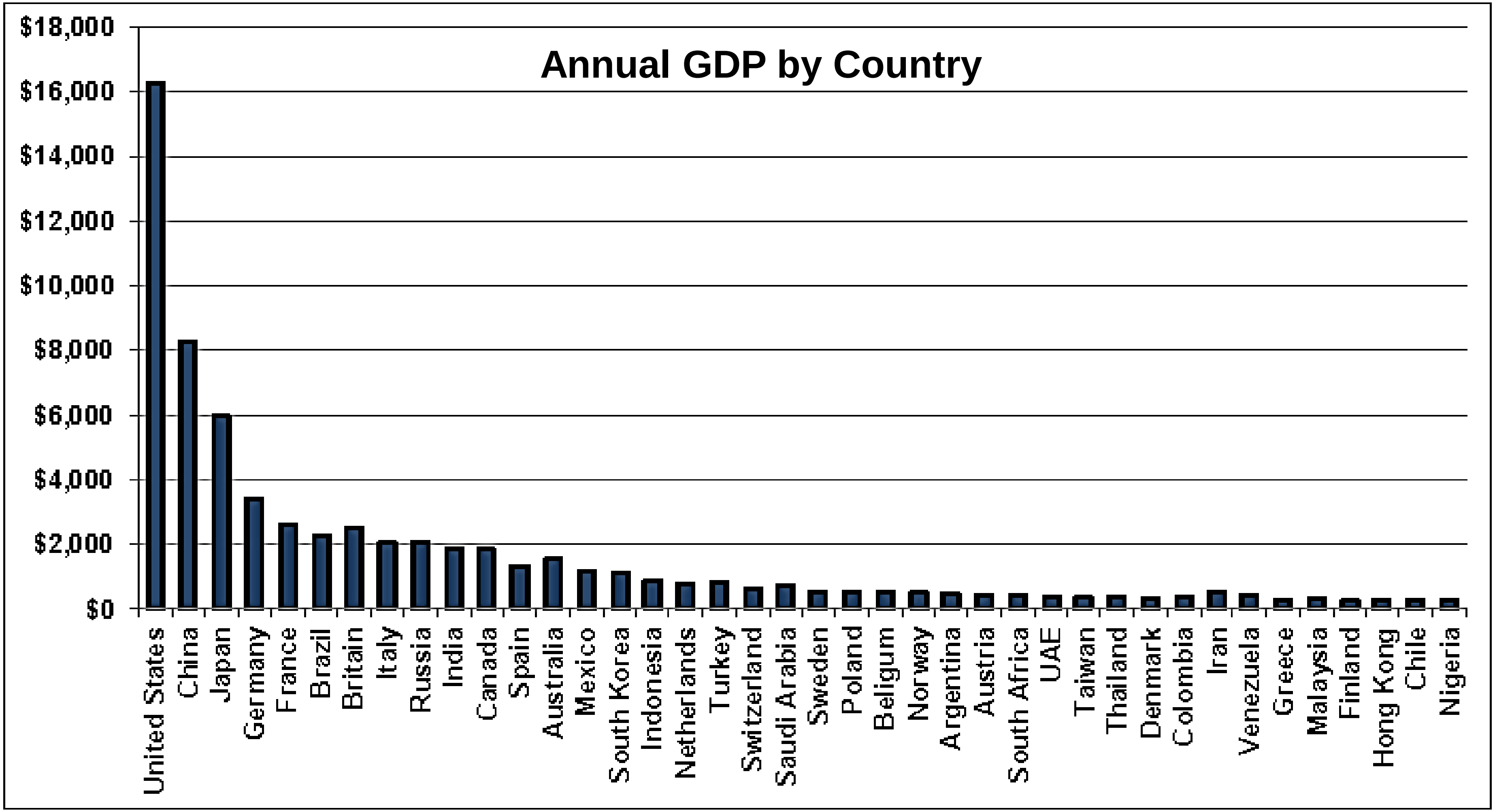


The World Bank recently lowered its forecast for world economic growth in 2014. The organization predicts that the world economy will expand by 2.8 percent this year, and strengthening by 3.4 percent and 3.5 percent in 2015 and 2016, respectively. In January, it had predicted 3.2 percent growth for this year. As the chart below shows, the median 2014 World GDP forecast has been on the decline since the start of 2013 and now stands at 2.73%.



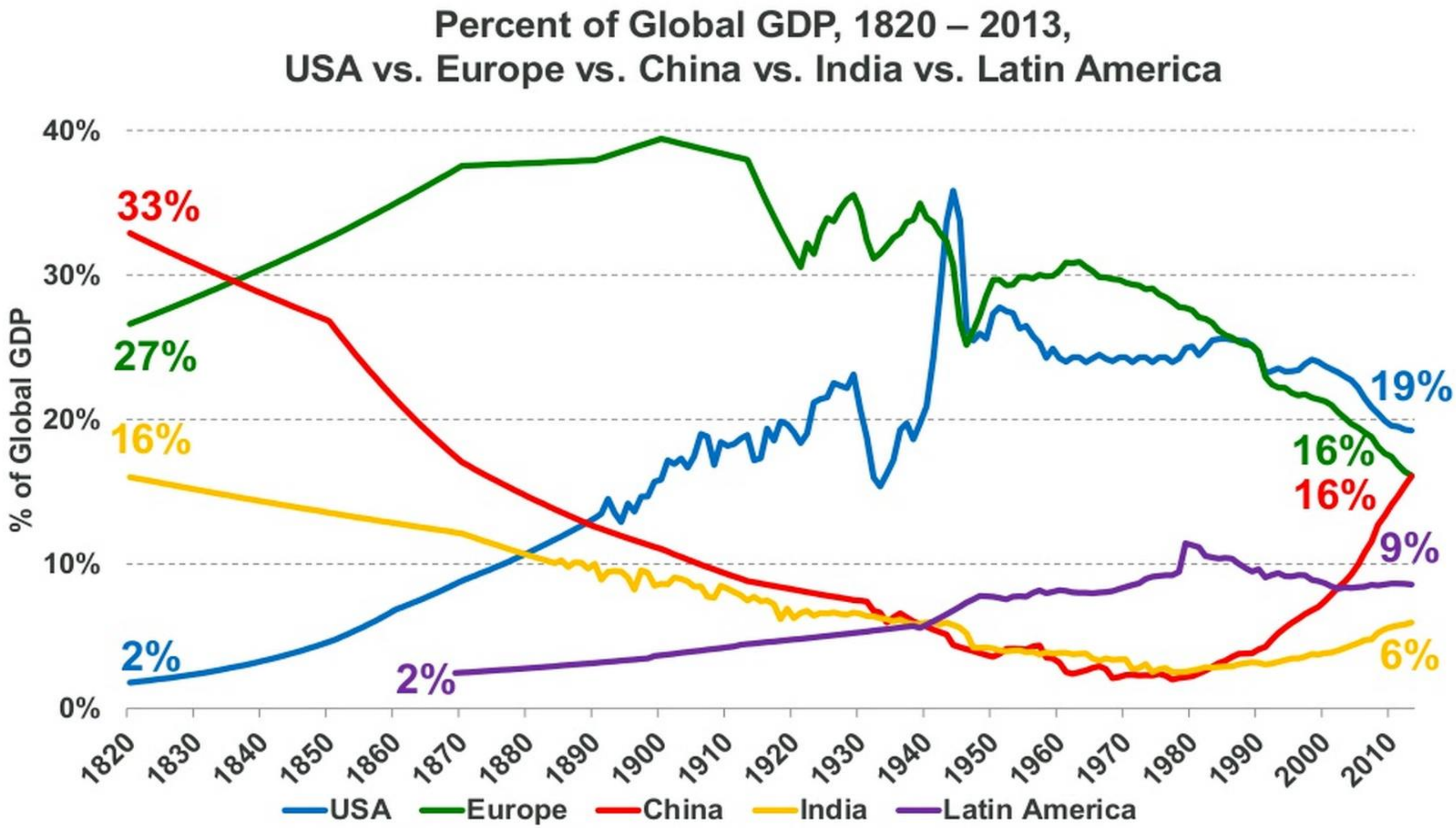
Market Updates

The U.S. remains the world's largest economy in terms of measured GDP. In aggregate, the countries of the EU, rival the size of the U.S. economy. In April Nigeria's economy surpassed that of South Africa as the largest economy in Africa after Nigeria's National Bureau of Statistics overhauled its data regime.



Source: Oppenheimer Asset Management Investment Strategy and the World Bank. Quoted in Value/$Billions and subject to 1-year lag.

Global GDP = China Rise Continues

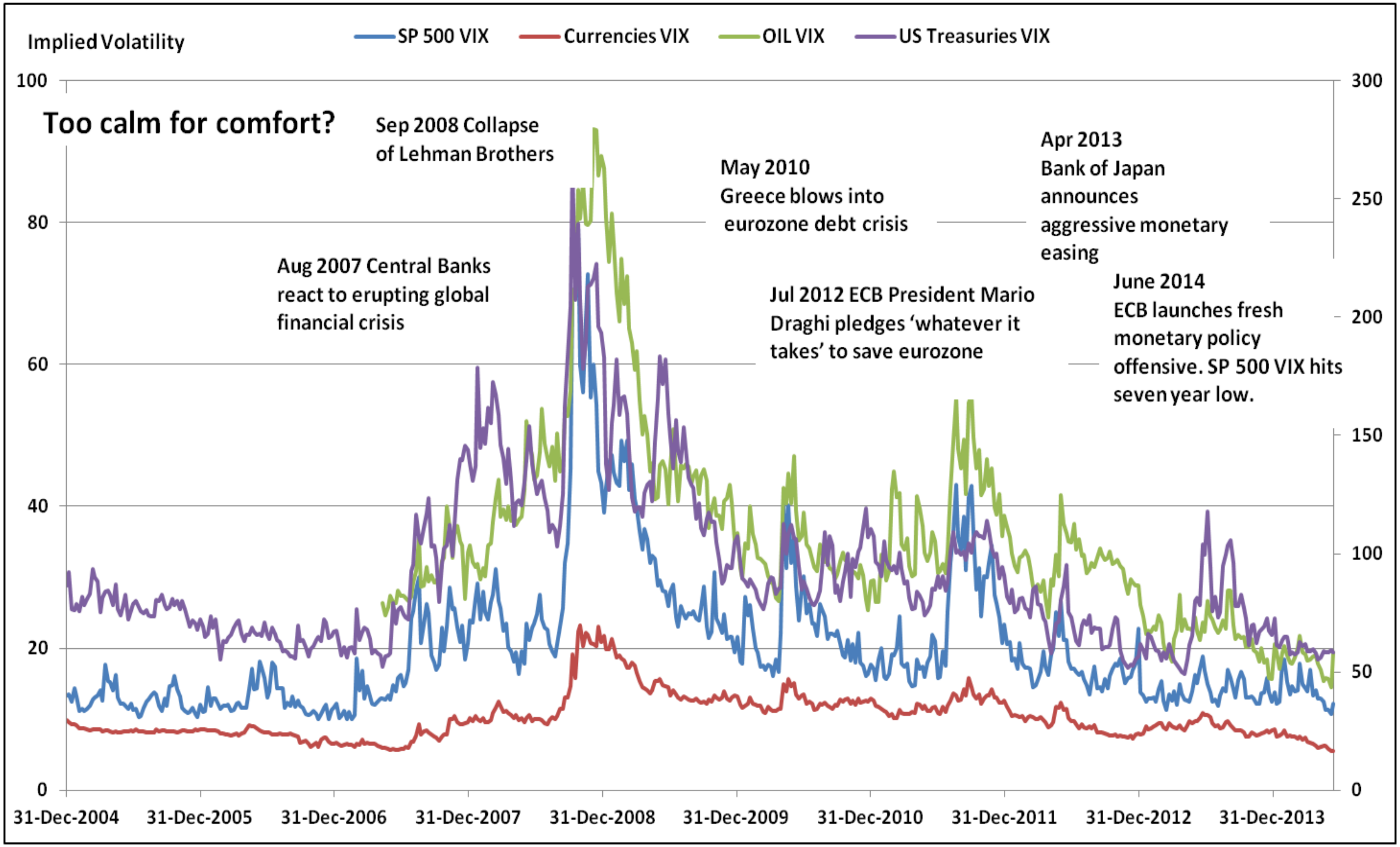


@KPCB

Source: Angus Maddison, University of Groningen, OECD, data post 1980 based on IMF data (GDP adjusted for purchasing power parity).

Declining Trend In Volatility

Volatility across asset classes is currently at very low levels, a situation which highlights the central bankers' control of the financial markets and economies, in the post 2007-crisis era. The chart below shows the trend of volatility for major asset classes against the backdrop of major crises and the actions taken by the central bankers which have played a large role in calming the markets.



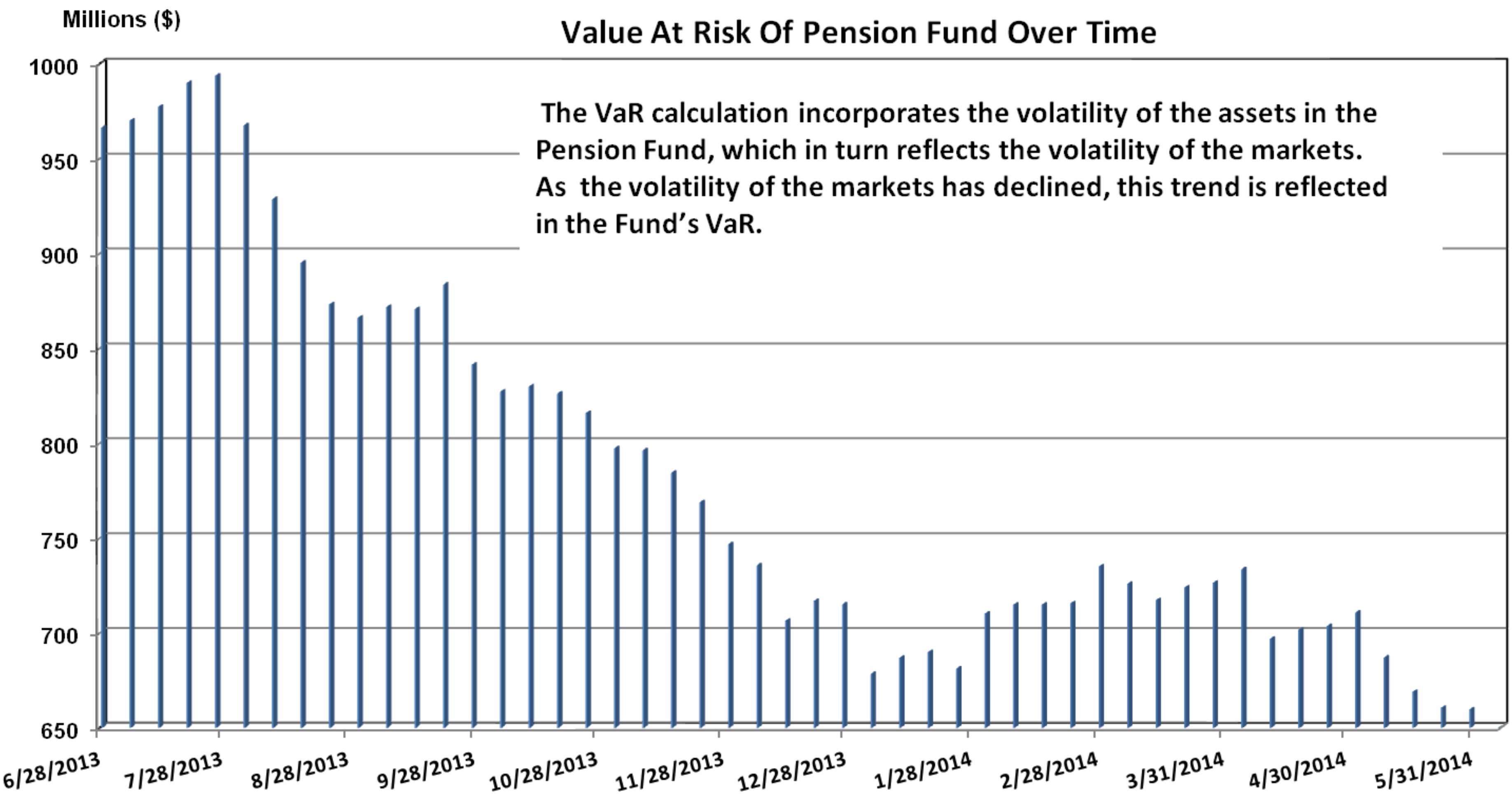
Source: "Sound of silence is cause for disquiet", June 10 2014, Financial Times.

Indices: CBOE VIX,OVX (Oil); Deutsche Bank CVIX (FX):Merrill Lynch MOVE (Treasuries).

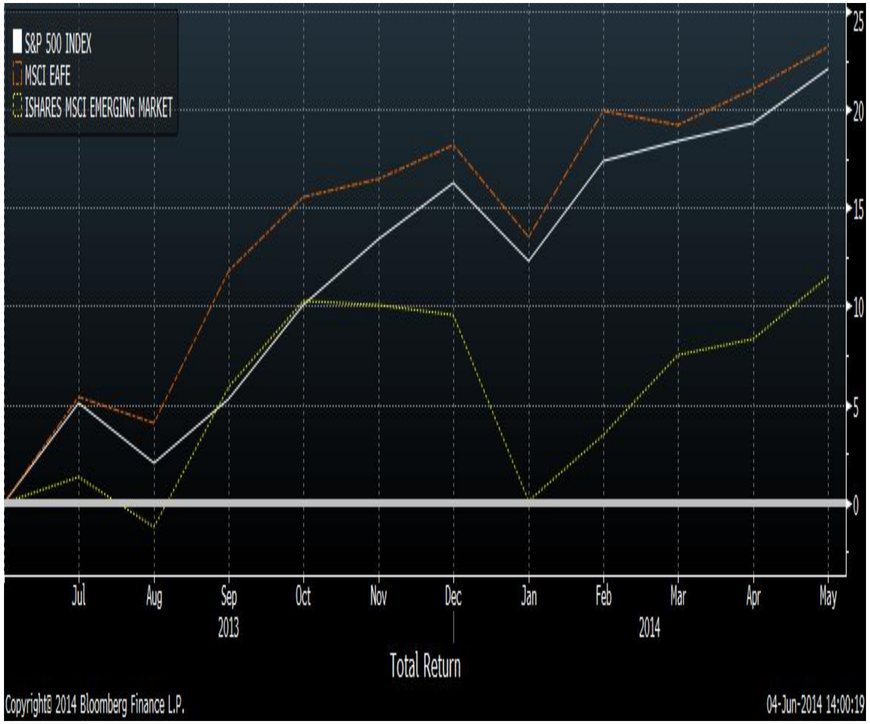
Impact Of Declining Volatility On The Pension Fund

The decline in the volatility of the markets has had an impact on the Pension Fund. The chart below shows how the trend in volatility affects the potential daily loss in value of the Fund - the Value at Risk (VaR).

The Value at Risk statistical model is a means to estimate the maximum potential loss in value of the $78 billion Pension Fund over a 1 day time horizon. The chart is a graphical representation of the Pension Fund's 1 day VaR over the fiscal year, which has fallen from a high of $989 million to approximately $650 million as of May 31,2014.



FYTD Equity Market Returns

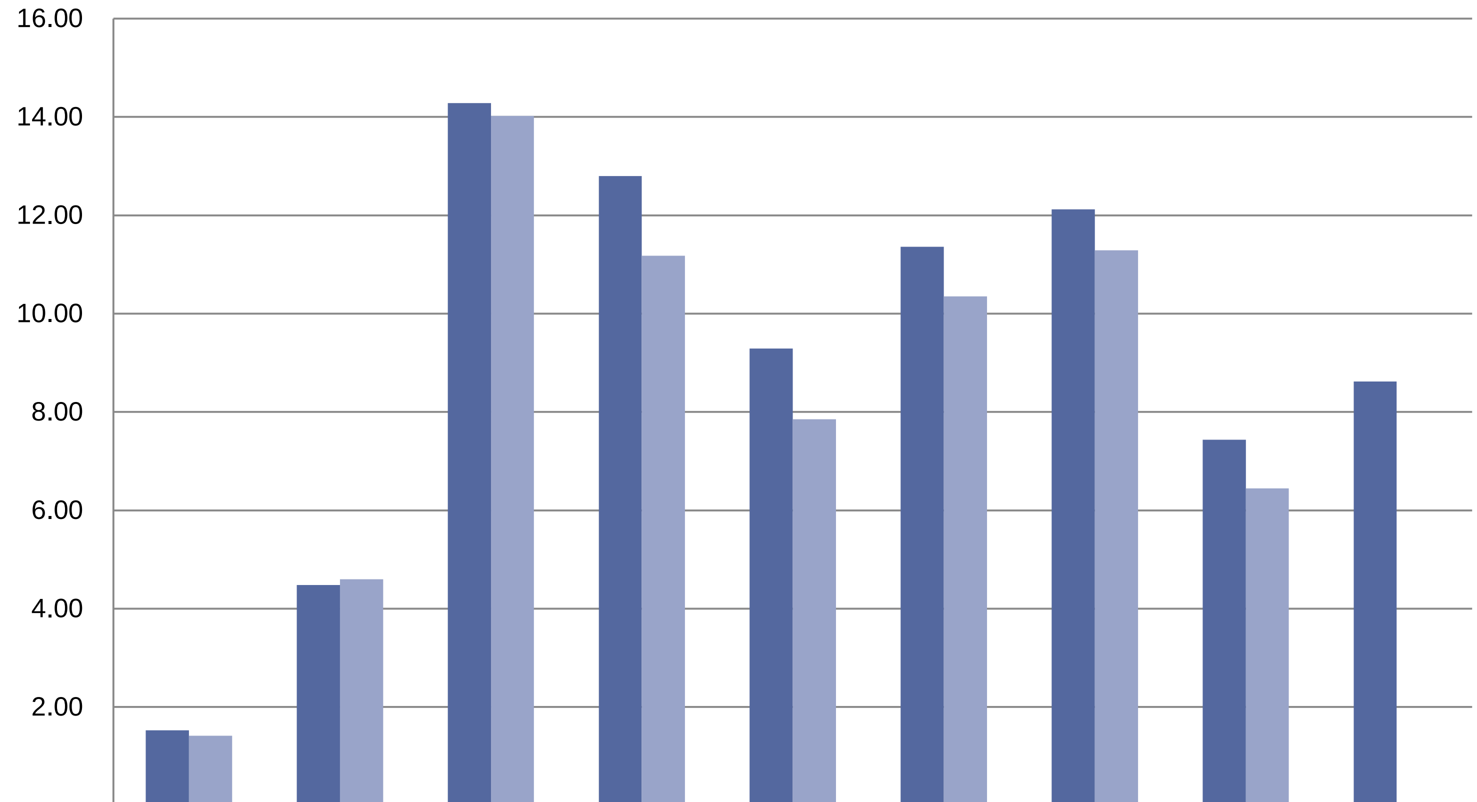


10 Year Treasury Yield

	May 30, 2014	MTD %	CYTD %	FYTD %	1 Yr %	3Yrs %	5 Yrs %	10 Yrs %	
Domestic Equity	S&P 500	2.35	4.96	22.07	20.44	15.14	18.37	7.77	1
	Russell 2000	0.80	(2.02)	17.40	16.80	11.74	19.28	8.56	2
International Equity	MCSI EAFE	1.62	3.78	22.39	18.04	7.30	11.41	7.07	3
	MSCI EMF	3.49	3.39	11.35	4.27	(1.77)	8.36	11.61	4
Bond	Barclays Agg	1.14	3.87	4.33	2.71	3.56	4.97	4.99	5
	Barclays HY	0.92	4.58	10.81	7.90	8.83	14.40	9.12	6
	Barclays US Tips	3.03	7.75	5.45	0.39	4.91	6.47	NA	7
Commodity	DJUBS Com	(2.87)	6.45	7.57	1.97	(6.75)	1.47	0.39	8

Source: Cliffwater

Total Fund ex Police and Fire Performance as of May 30, 2014

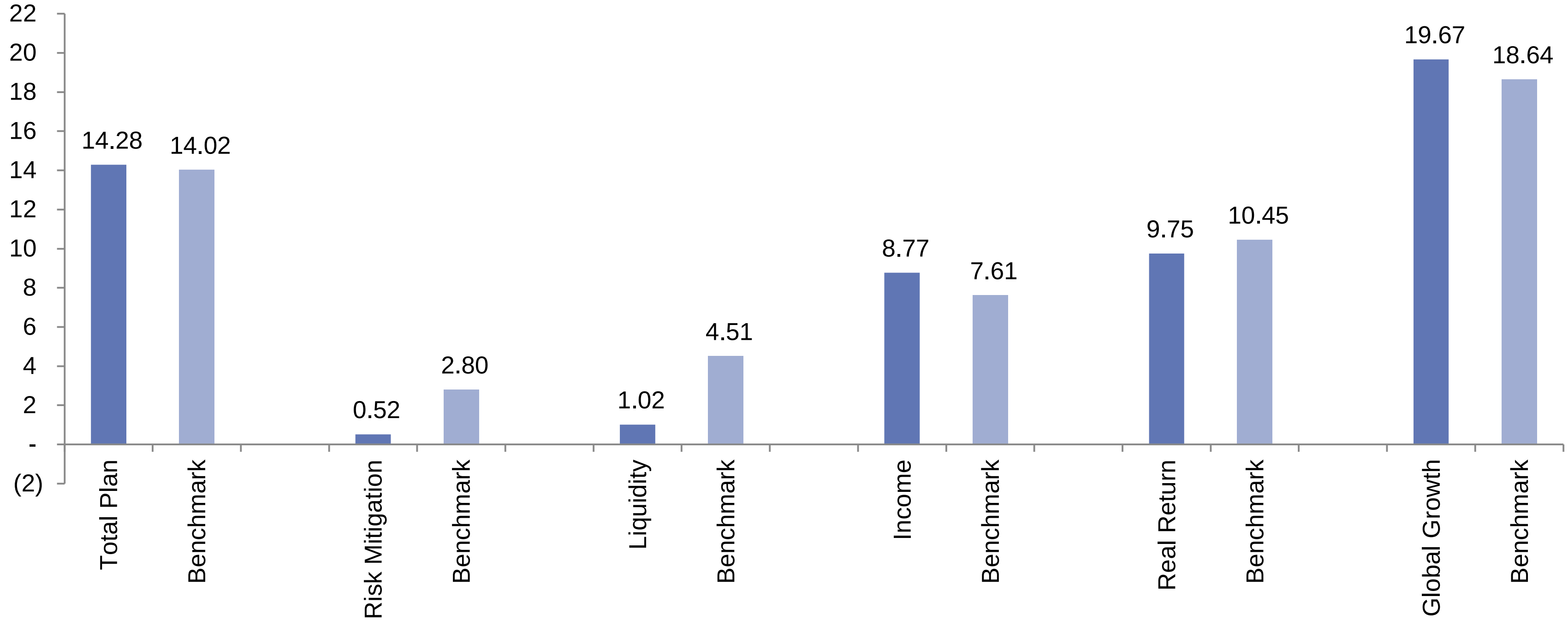


	1 Month	CYTD	FYTD	1 Year	3 Year	4 Year	5 Year	10 Year	20 Year
Total Fund ex Police and Fire	1.52	4.48	14.28	12.80	9.29	11.36	12.12	7.44	8.62
Benchmark	1.41	4.60	14.02	11.18	7.85	10.35	11.29	6.44	*N/A

- The Total Fund ex Police and Fire Mortgages returned 1.52% in May to bring the Fiscal Year to Date return to 14.28% and the Calendar Year return to 4.48%.
- May was the fourth consecutive positive monthly return for the fund. The Fund has had a positive return in 9 of 11 months for the fiscal year
- **The Fund is ahead of the benchmark FYTD and for the 1, 3, 4, 5 and 10 year return.**

*Benchmark return not available for 20-Year period

FYTD Return as of May 30, 2014



Asset Class (thru May 30, 2014)	May %	CYTD %	FYTD %	1-Year	2-Year	No.
Risk Mitigation	(0.22)	0.63	0.52	0.47	3.16	1
Liquidity	0.38	0.74	1.02	(1.04)	(0.45)	2
Income	1.04	5.85	8.77	7.15	7.21	3
Real Return	1.31	6.69	9.75	10.46	9.71	4
Global Growth	2.07	4.56	19.67	17.89	20.73	5
Total Pension Fund ex P&F Mort.	**1.52**	**4.48**	**14.28**	**12.80**	**14.34**	6
Total Policy Benchmark	1.40	4.60	14.02	11.18	14.21	7
Estimated Market Value	$78.6 Billion					9

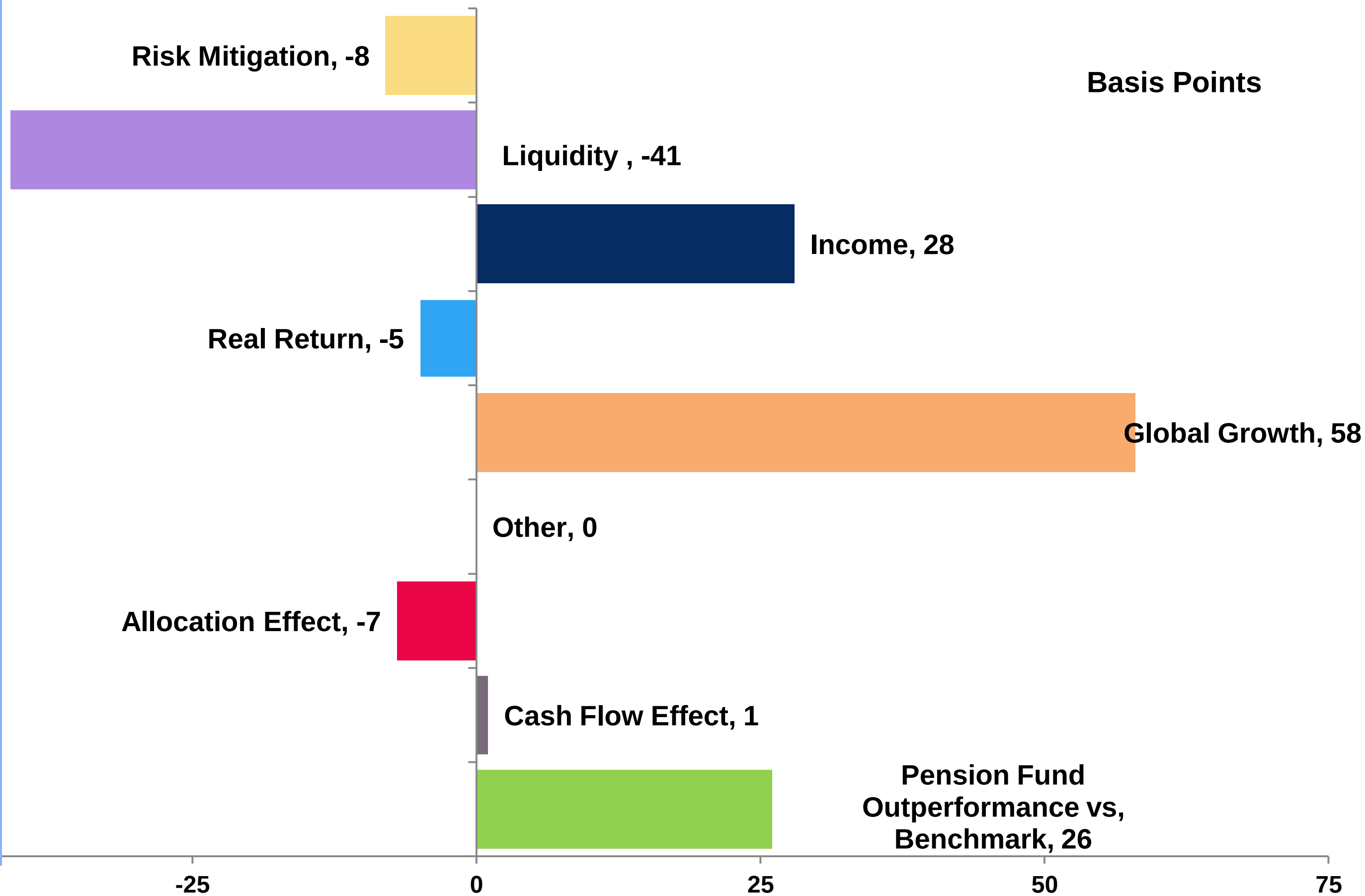
Pension Fund Attribution vs. Benchmark Fiscal Year through May 2014

FYTD through May 2014, the Pension Fund has outperformed the Benchmark by 0.26%: 14.28 % vs. 14.02%.

The primary driver of performance continues to be the Fund's overweight allocation to the US Equity market (reflective of the exposure to the strong 2013 rally), and secondly, the position in Investment Grade and High Yield Bonds, as the fixed income asset class has surprised to the upside YTD.

Primary detractors were in Liquidity where the position in Treasuries and TIPs did not fully capture the flight to quality and rising inflation expectations in the markets.

An overweight position in Liquidity for the majority of the fiscal year was responsible for the negative Allocation Effect.



Allocation Effect indicates the effect of asset allocation bets, i.e. overweights or underweights vs. the target allocations. Cash Flow Effect reflects the impact of cash flows – i.e. money added to or taken from asset classes.

Fiscal Year to Date Performance Attribution Commentary

Risk Mitigation

- The Risk Mitigation portfolio has underperformed the benchmark FYTD as Absolute Return Hedge Funds have produced muted performance and are up 0.52% FYTD through May (based on one month lag). Discretionary Macro strategies have been the worst performers, while the Division's systematic macro funds (CTAs) have done better for this period (up 4.9% and 7.1%)

Liquidity

- The Liquidity portfolio has underperformed the benchmark by 349 basis points FYTD
- The Fund's elevated cash position since the start of the calendar year has been a slight drag on performance
- The Treasury and TIPS portfolios have been negatively impacted CYTD by having a shorter duration then the benchmark. This has caused the portfolios to underperform the benchmark FYTD

Income

- The Income portfolio has outperformed the benchmark by 116 basis points FYTD
- The Investment Grade Credit portfolio has outperformed the benchmark FYTD due to longer duration and an underweight to Financials
- High Yield, Global Diversified Credit, Credit Hedge Funds, Debt Related Private Equity and Debt Related Real Estate have all been additive to performance FYTD

Real Return

- The Real Return portfolio made up significant ground relative to the benchmark in May, outperforming by 138 basis points and now trails the benchmark 70 basis points FYTD
- Commodities/Real Assets have underperformed FYTD as both private real asset strategies and ETFs have lagged. Private strategies are somewhat negatively impacted by a lag in performance reporting
- Real Estate Equity has had a strong year, up 13.2%, outperforming the benchmark by 295 bps. The Core REIT portfolio has been the best performer, up almost 21%

Global Growth

- The Global Growth portfolio has outperformed the benchmark by 103 basis points FYTD
- The Fund's overweight to Global Growth relative to the target allocation, in particular US and Developed non-US equity, has positively impacted total fund performance FYTD
- US equity portfolio has outperformed by approximately 100 bps FYTD. Outperformance has been driven by the actively managed portfolio, which has outperformed by approximately 336 bps
- The Emerging Markets portfolio has underperformed by 27 bps FYTD as the outperformance by the advisors has partially offset the underperformance by the ETF
- Equity Hedge Funds are well ahead of the benchmark FYTD as long-biased, activists, and healthcare focused funds have had a particularly strong period of performance
- Private Equity has enjoyed a strong fiscal year, up over 18%, 275 bps ahead of the index

Asset Allocation with Hedges as of May 30th 2014

Line #	Asset Class	Long Term Target Range	Current Allocation	FY 2014 Target	Over/Under Weight 2014 Target	Current Assets	Adjustments to Exposure based on Hedges	Total Net Exposure	FY 2014 Target ($)	Over/Under Weight for 2014	Over/Under Weight ($) vs. FY 2014 Target w/ Hedges	Line #
1	**RISK MITIGATION**	**0-5%**	**4.05%**	**4.50%**	**-0.45%**	**3,166,600,299**		**3,166,600,299**	**3,517,215,068**	**(350,614,769)**	**(350,614,769)**	1
2	Absolute Return HFs	0-5%	4.05%	4.50%	-0.45%	3,166,600,299		3,166,600,299	3,517,215,068	(350,614,769)	(350,614,769)	2
3	**LIQUIDITY**	**2-15%**	**7.68%**	**9.50%**	**-1.82%**	**6,002,299,553**		**5,661,362,053**	**7,425,231,811**	**(1,422,932,258)**	**(1,763,869,758)**	3
4	Cash Equivalents	0-15%	4.00%	6.00%	-2.00%	3,128,000,000		3,128,000,000	4,689,620,091	(1,561,620,091)	(1,561,620,091)	4
5	Short Term Cash Equiv	0.00%	0.64%	0.00%	0.64%	496,408,549		496,408,549	0	496,408,549	496,408,549	5
6	TIPS	0-10%	2.08%	2.50%	-0.42%	1,625,267,510		1,625,267,510	1,954,008,371	(328,740,861)	(328,740,861)	6
7	US Treasuries	0-10%	0.96%	1.00%	-0.04%	752,623,494	(340,937,500)	411,685,994	781,603,348	(28,979,854)	(369,917,354)	7
8	**INCOME**	**20-40%**	**23.68%**	**24.20%**	**-0.52%**	**18,506,845,889**		**18,506,845,889**	**18,914,801,033**	**(407,955,144)**	**(407,955,144)**	8
9	Investment Grade Credit	8-23%	12.48%	11.20%	1.28%	9,753,026,454		9,753,026,454	8,753,957,503	999,068,951	999,068,951	9
10	High Yield Fixed Income	0-10%	5.16%	5.50%	-0.34%	4,029,316,198		4,029,316,198	4,298,818,417	(269,502,219)	(269,502,219)	10
11	Credit-Oriented HFs	0-6%	2.95%	3.75%	-0.80%	2,305,140,422		2,305,140,422	2,931,012,557	(625,872,135)	(625,872,135)	11
12	Debt-Related PE	0-4%	1.03%	1.25%	-0.22%	804,718,719		804,718,719	977,004,186	(172,285,467)	(172,285,467)	12
13	Debt Related Real Estate	1-4%	0.94%	1.30%	-0.36%	731,990,141		731,990,141	1,016,084,353	(133,430,398)	(284,094,212)	13
14	P&F Mortgage	--	1.13%	1.20%	-0.07%	882,653,955		882,653,955	937,924,018	(205,933,877)	(55,270,063)	14
15	**REAL RETURN**	**3-12%**	**6.13%**	**5.70%**	**0.43%**	**4,788,191,845**		**4,782,998,770**	**4,455,139,086**	**333,052,759**	**327,859,684**	15
16	Commodities/RA	2-7%	2.51%	2.50%	0.01%	1,965,529,827	(5,193,075)	1,960,336,752	1,954,008,371	11,521,456	6,328,381	16
17	Equity Related Real Estate [1]	2-7%	3.61%	3.20%	0.41%	2,822,662,018		2,822,662,018	2,501,130,715	321,531,303	321,531,303	17
18	**GLOBAL GROWTH**	**45-65%**	**58.26%**	**56.10%**	**2.16%**	**45,535,387,430**		**44,994,995,575**	**43,847,947,850**	**1,687,439,580**	**1,147,047,725**	18
19	US Equity	15-35%	27.23%	25.90%	1.33%	21,283,999,871	(268,549,963)	21,015,449,908	20,243,526,726	1,040,473,145	771,923,182	19
20	Non-US Dev Market Eq	8-20%	12.98%	12.70%	0.28%	10,141,892,303	(56,630,210)	10,085,262,093	9,926,362,526	215,529,777	158,899,567	20
21	Emerging Market Eq	5-15%	6.59%	6.50%	0.09%	5,148,342,013	(215,211,682)	4,933,130,331	5,080,421,765	67,920,248	(147,291,434)	21
22	Buyouts/Venture Cap [2]	4-10%	7.62%	7.00%	0.62%	5,955,884,058		5,955,884,058	5,471,223,439	484,660,619	484,660,619	22
23	Equity-Oriented HFs	0-8%	3.85%	4.00%	-0.15%	3,005,269,185		3,005,269,185	3,126,413,394	(121,144,209)	(121,144,209)	23
	OTHER	**0.00%**	**0.21%**	**0.00%**	**0.21%**	**161,009,832**		**161,009,832**	**0**	**161,009,832**	**161,009,832**	

1 Current assets do not include receivables of $423 million primarily related to Real Estate secondary sale
2 Current assets do not include receivables of $58 million primarily related to Private Equity secondary sale

NJDOI Updates Since Last SIC Meeting

Equities

- The international portfolio was net seller of approximately $200 million of non-US equity exposure.
- Net sellers of approximately $700 million of US equity exposure at and near market highs

Fixed Income

- Net sellers of approximately $250 million of High Grade bonds based on strong secondary market demand
- Net Sellers of approximately $130 million of High Yield bonds.
- The increased cash position and merger of the common pension funds has decreased duration. When factoring in cash, duration stands at 4.61 vs. benchmark duration of 6.07. Ex-cash, duration is at 5.55.

Alternatives

- FYTD through 5/31/14, Private Equity portfolio has produced net positive cash flow of approximately $488 million and the Real Estate Portfolio has produced positive net cash flow of $240 million.

Investment Advisors Request for Proposals

- Developing Markets and International Small Cap: The Division is nearing completion of the evaluation of the responses to the Developing Markets and International Small Cap RFP. A total of 59 responses were received and evaluated. A written report summarizing the bidders selected and the bid selection process will be submitted to the IPC and SIC upon completion of the process.
- High Yield and Municipal Bond: 50 proposals were received. The proposals are being evaluated to determine which meet the minimum criteria prior to the evaluation committee beginning their review

State Investment Council

Notifications

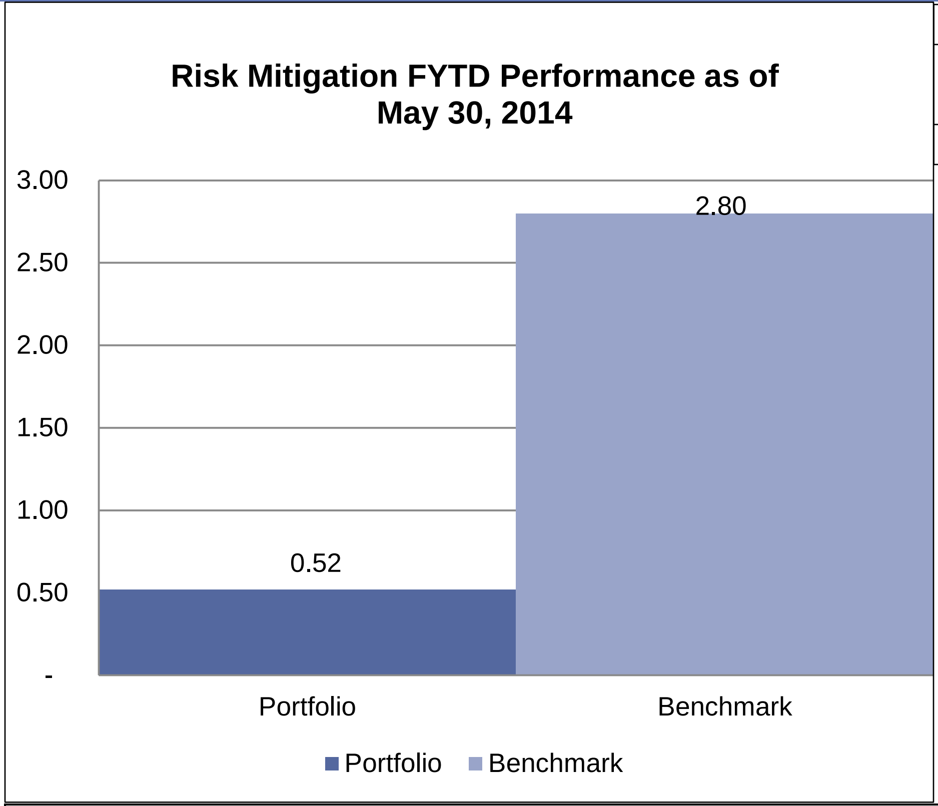
Lead Consultant Change – Private Equity

The Division was recently informed that Pete Keliuotis, CEO of Strategic Investment Solutions, Inc (SIS), and lead consultant to the Division of Investment and State Investment Council for the Private Equity Portfolio, will be leaving the firm at the end of June. Barry Dennis, Managing Director, will be assuming the role of CEO at SIS.

Faraz Shooshani has been appointed lead consultant on the New Jersey relationship. Faraz's bio is as below.

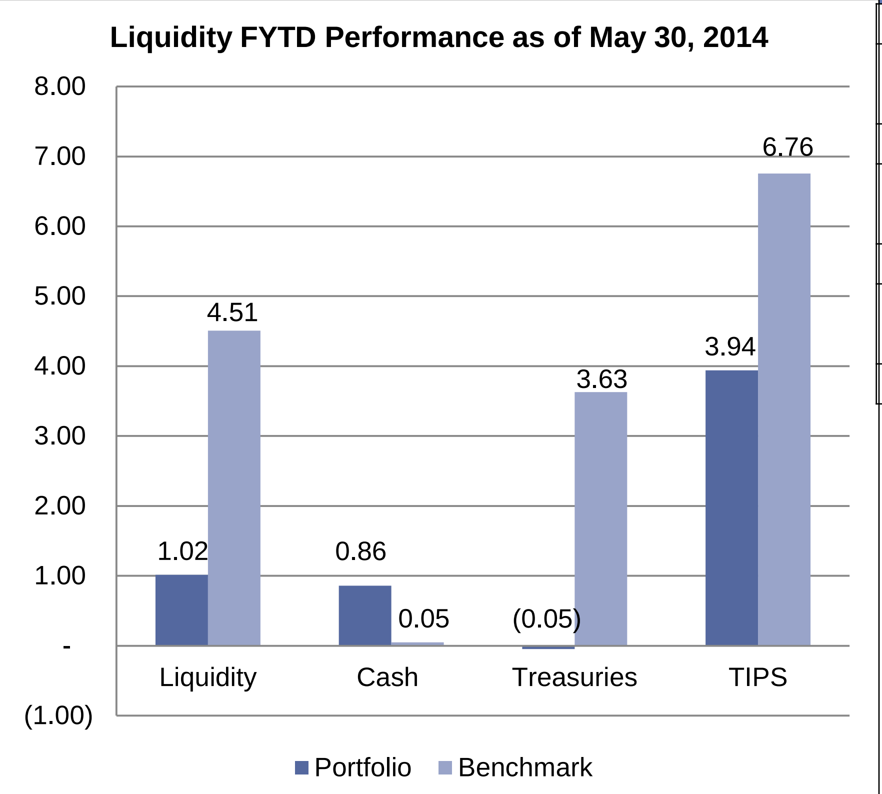
Faraz Shooshani, Senior Vice President, joined SIS in August 2006. Faraz is responsible for managing the private equity group at SIS, as well as client relations and partnership reviews. He was formerly the associate director of investments at Caltech, where he helped manage the university's permanent endowment and life-income portfolios. He founded Catapult Ventures, a consulting company that provided venture development services to startup companies. He also served as a senior revenue analyst at Intel Corporation for its Profit and Loss group, and was a consultant at Booz Allen Hamilton. Faraz earned a BA in Economics from University of California, Berkeley and an MBA in Finance from Yale School of Management.

Performance Appendix



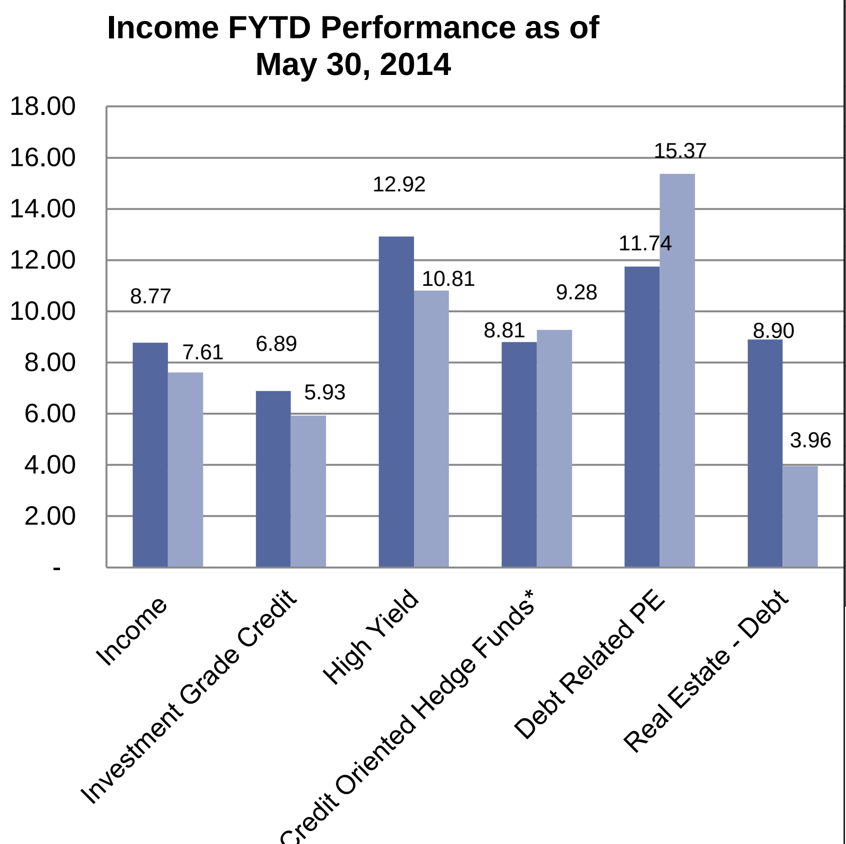
Returns as of May 30, 2014	1 Month	CYTD	FYTD	1 Year	2 Year
Absolute Return Hedge Funds	(0.22)	0.63	0.52	0.47	3.16
1 M LIBOR + 400 Bps	0.34	1.69	3.77	4.12	4.15
Difference	*(0.56)*	*(1.06)*	*(3.25)*	*(3.66)*	*(0.99)*

- The Risk Mitigation return is composed largely 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 0.52% FYTD and 0.47% over the past one year period in what has been a challenging environment for macro oriented managers. CTA funds and multi-strategy funds have outperformed discretionary macro funds over these periods.



Returns as of May 30, 2014	1 Month	CYTD	FYTD	1 Year	2 Year
Cash Equivalents	0.11	0.27	0.86	0.92	2.02
91 day treasury bill	0.00	0.02	0.05	0.06	0.09
Difference	*0.11*	*0.26*	*0.81*	*0.87*	*1.93*
US Treasuries	0.39	0.54	(0.05)	(2.81)	(2.94)
Custom Benchmark	1.58	5.94	3.63	1.78	(0.35)
Difference	*(1.19)*	*(5.39)*	*(3.68)*	*(4.59)*	*(2.59)*
TIPS	1.66	3.81	3.94	(0.30)	(1.05)
Custom Tips Benchmark	3.48	11.05	6.76	0.50	(1.76)
Difference	*(1.82)*	*(7.24)*	*(2.82)*	*(0.80)*	*0.71*

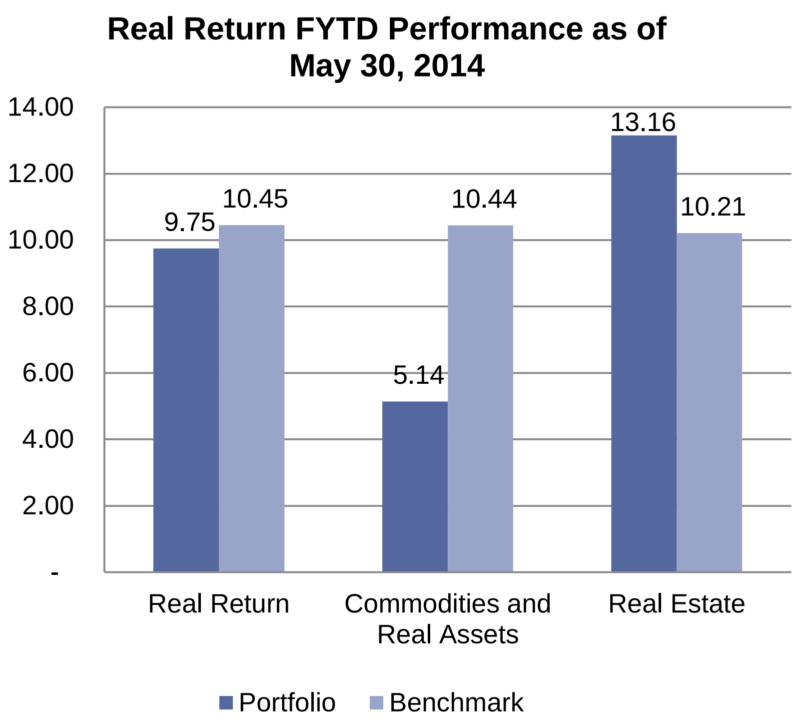
- The Liquidity portfolio has underperformed the benchmark by 349 basis points FYTD.
- An overweight to cash and underweights to Treasuries and TIPS relative to target allocations has been a drag on performance.
- The Treasuries and TIPS portfolios have been negatively impacted by having a shorter duration then their respective benchmarks.



*Reported on a 1 month lag

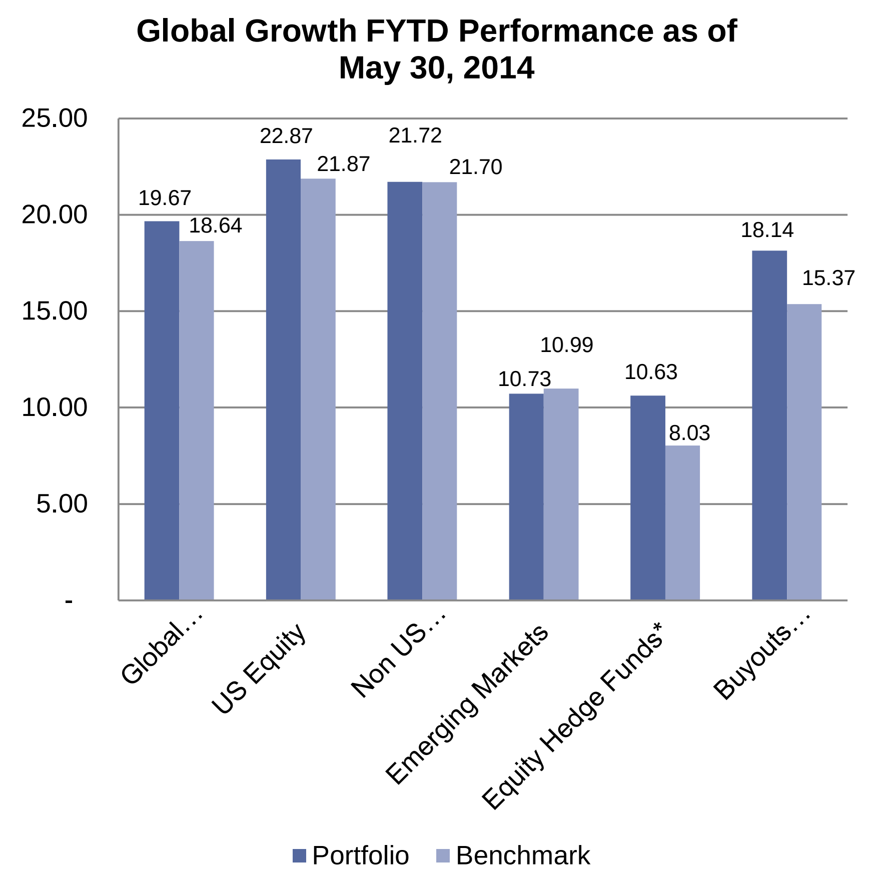
Returns as of May 30, 2014	1 Month	CYTD	FYTD	1 Year	2 Year
Investment Grade Credit	1.64	6.16	6.89	3.53	3.37
Custom IGC Benchmark	1.14	4.18	5.93	2.07	3.11
Difference	*0.50*	*1.98*	*0.96*	*1.47*	*0.27*
High Yield	1.56	6.98	12.92	12.30	14.44
Barclays Corp High Yield (Daily)	0.92	4.59	10.81	7.90	11.31
Difference	*0.64*	*2.39*	*2.11*	*4.40*	*3.14*
Credit-Oriented Hedge Funds	(2.02)	3.22	8.81	11.51	12.17
Custom Benchmark	0.34	4.50	9.28	10.97	11.20
Difference	*(2.36)*	*(1.28)*	*(0.47)*	*0.55*	*0.97*
Debt-Related Private Equity	1.38	7.10	11.74	18.35	18.62
Cambridge Assoc. PE Qtr Lag	-	6.68	15.37	20.77	17.31
Difference	*1.38*	*0.42*	*(3.63)*	*(2.43)*	*1.31*
Real Estate-Debt	(0.08)	3.11	8.90		
Barclays CMBS 2.0 Baa + 100 (Qtr lag)	2.25	8.80	3.96		
Difference	*(2.33)*	*(5.69)*	*4.94*	-	-

- The Income portfolio has outperformed the benchmark by 116 basis points FYTD, 298 bps over the trailing year, and 115 bps over the trailing 2 years.
- The Investment Grade Credit portfolio has outperformed the benchmark FYTD due to longer duration and an underweight to Financials.
- Both traditional high yield and alternative high yield portfolios have performed well FYTD, up in excess of 11% and 14% respectively. Over the trailing one and two year periods, alternative high yield allocations have driven the outperformance.



Returns as of May 30, 2014	1 Month	CYTD	FYTD	1 Year	2 Year
Commodities & Real Assets	(0.27)	5.07	5.14	2.36	1.34
Custom Benchmark	(0.27)	6.51	10.44	7.11	11.58
Difference	*(0.00)*	*(1.44)*	*(5.30)*	*(4.75)*	*(10.24)*
Real Return Real Estate	2.44	7.84	13.16	15.85	15.82
NCREIF Property Index (Daily)	-	2.94	10.21	13.38	11.94
Difference	*2.44*	*4.91*	*2.95*	*2.47*	*3.88*

- The Real Return portfolio made up significant ground relative to the benchmark in May, outperforming by 138 basis points and now trails the benchmark 70 basis points FYTD.
- The Real Estate portfolio has returned over 13% FYTD. The Global REIT and the Core REIT portfolios are up 15% and 21%, respectively FYTD.



Returns as of May 30, 2014	1 Month	CYTD	FYTD	1 Year	2 Year
Domestic Equity	2.18	4.35	22.87	21.19	24.76
S&P 1500 Super Composite (Daily)	2.23	4.59	21.87	20.24	23.87
Difference	*(0.05)*	*(0.24)*	*1.00*	*0.95*	*0.89*
Non-US Dev Market Eq	1.60	3.68	21.72	17.31	23.20
NJDI ex Iran& Sudan EAFE + Canada	1.58	3.61	21.70	17.24	23.50
Difference	*0.02*	*0.07*	*0.02*	*0.07*	*(0.30)*
Emerging Market Eq	3.62	2.71	10.73	4.09	9.45
NJDI Iran + Sudan Free EM Index	3.33	3.42	10.99	4.03	9.58
Difference	*0.29*	*(0.71)*	*(0.27)*	*0.06*	*(0.13)*
Total Equity Oriented Hedge Funds*	(1.49)	3.14	10.63	14.15	11.72
Custom Benchmark	(1.55)	1.45	8.03	11.80	8.18
Difference	*0.06*	*1.69*	*2.60*	*2.35*	*3.54*
Buyouts-Venture Capital	3.04	9.66	18.14	23.76	17.68
Cambridge Associates PE 1 Qtr Lag	-	6.68	15.37	20.77	17.31
Difference	*3.04*	*2.98*	*2.77*	*2.99*	*0.37*

•The Global Growth portfolio has outperformed the benchmark by 101 basis points FYTD. The Fund's overweight to Global Growth relative to the target allocation, in particular US and Developed non-US equity, has positively impacted total fund performance FYTD.
•The Domestic Equity portfolio is ahead of the benchmark by 100 basis points FYTD primarily due to strong stock selection.
•The Developed Market Non US equity portfolio is ahead of the benchmark by 2 bps FYTD and 6 bps ahead on a trailing one-year basis. The dedicated healthcare portfolio is up 37% over the trailing two years.
•The Emerging Markets portfolio has underperformed by 27 bps FYTD as the outperformance by the advisors has partially offset the underperformance by the ETF.
•Equity Hedge Funds are well ahead of the benchmark FYTD as long-biased, activists, and healthcare focused funds have had a particularly strong period of performance.

*Reported on a one month lag