

New Jersey Division of Investment

Annual Meeting

State Investment Council

January 17, 2013

“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.”

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MISSION STATEMENT

“The mission of the New Jersey Division of Investment is to achieve the best possible return at an acceptable level of risk utilizing the highest fiduciary standards.”

The New Jersey State Investment Council is responsible for formulating and establishing policies which govern the investment of assets by the Director of the Division of Investment consistent with the fiduciary duties as set forth by statute. The State Investment Council provides fiduciary oversight for approximately \$70.1 billion in pension related assets on behalf of over 765,000* participants. Approximately 63% are still working and contributing to the pension while 37% are retired.

In addition to managing the assets of the various State pension Systems, NJDOI also manages:

- Cash Management Fund: \$8.8 billion
- Supplemental Annuity Collective Trust: \$155 million
- NJBEST Fund: \$403 million
- Deferred Compensation Program \$488 million

The State Investment Council does not have responsibility for:

- Funding Policy (plan contributions)
- Benefits Policy (plan design)
- Actuarial Activities (setting actuarial expected return)

Division of Investment Overview

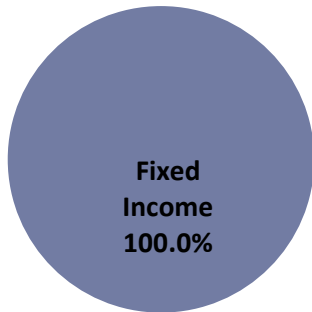
- The New Jersey Division of Investment (NJDOI) was created by the New Jersey Legislature (P.L. 1950, c.270) in 1950.
- NJDOI's Ranking based on assets as of 12-31-2011 among Pension Funds according to *Pension and Investments*:
 - 37th Largest Globally; 16th Largest in the US; 12th Largest US Public Pension Fund
- NJDOI has 63 active employees with an approximate \$8 million personnel budget
- In fiscal year 2012, NJDOI traded:
 - Over 3 billion shares of US and International equities with a value of over \$45 billion
 - \$20 billion in fixed income securities
 - \$9 billion of foreign currency transactions
- In FY12, NJDOI received approximately \$800 million in dividends and \$900 million in bond interest income
- Over 18 month period ending December 31, 2012, NJDOI realized \$45 million in profits on covered call activity
- In CY12, NJDOI evaluated approximately 60 Initial Public Offerings and participated in 19

New Jersey Division of Investment:

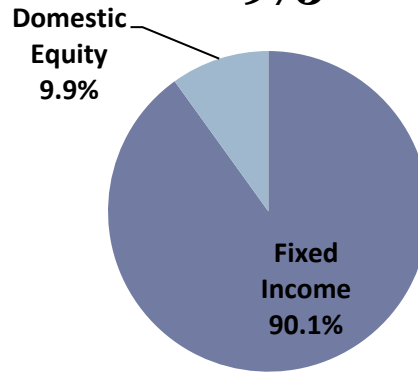
- **Focuses on Diversification**
 - By Asset Class
 - By Geography
- **Is a Long-Term Investor**
- **Focuses on Minimizing Total Costs**

NJDOI Asset Allocation Has Evolved

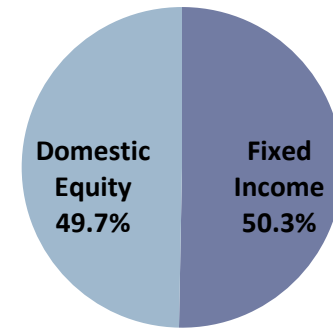
1951



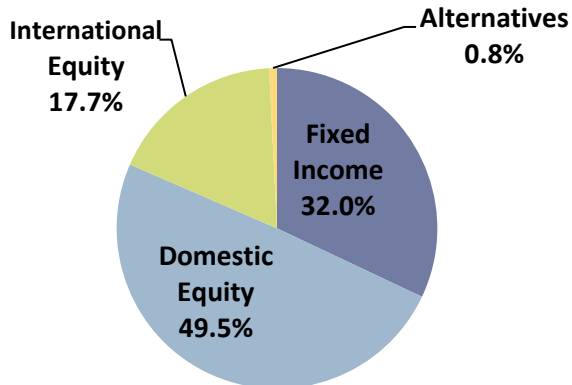
1975



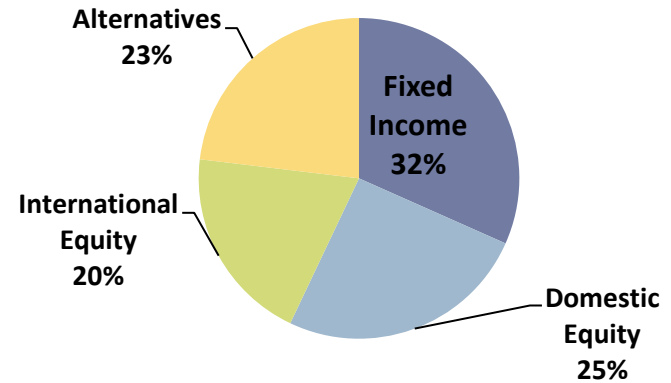
1992



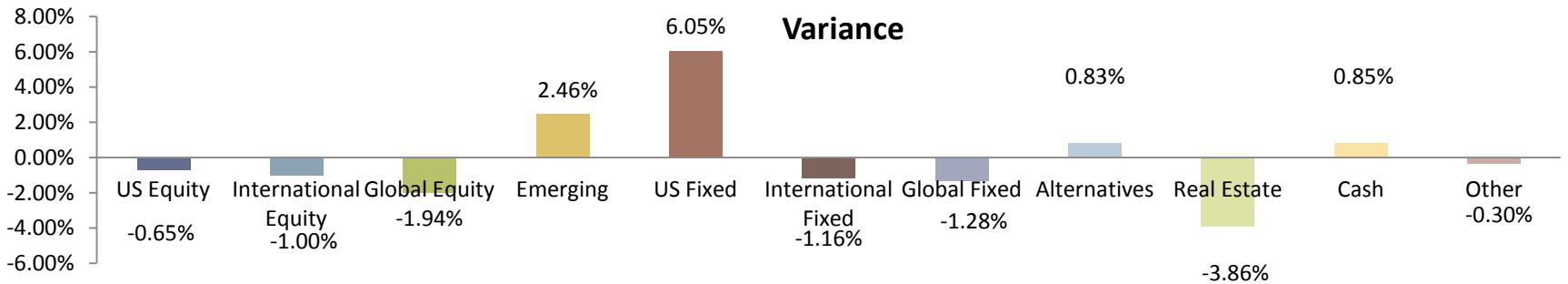
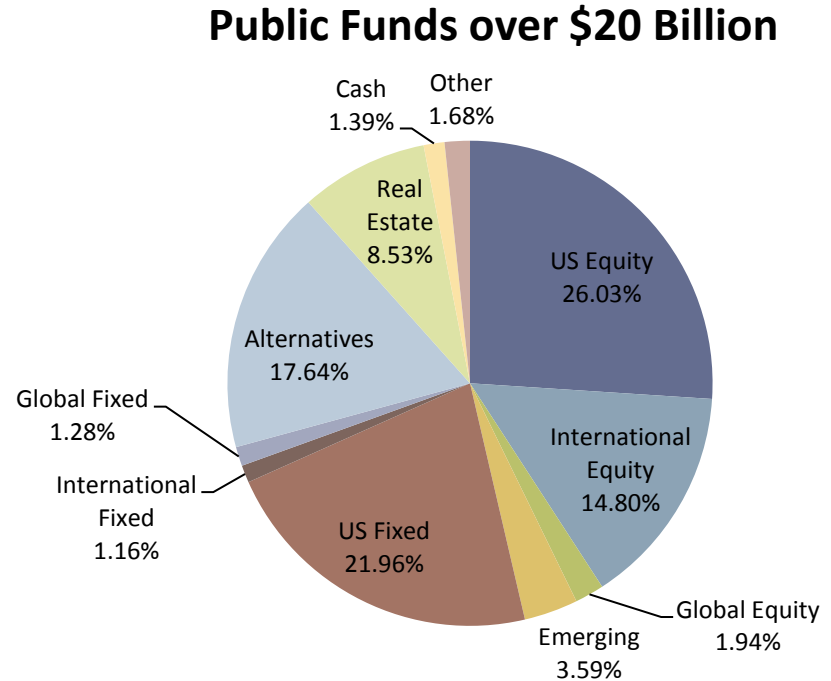
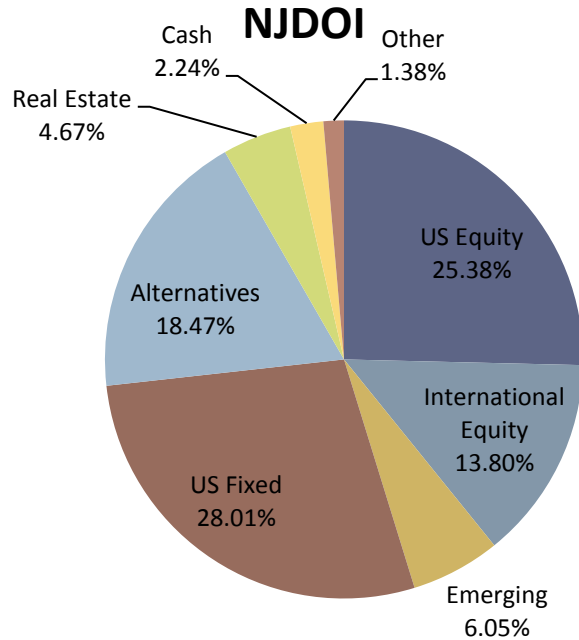
2006



2012



New Jersey Asset Allocation vs. Average of Similar Size Public Funds



Source: RV Kuhns as of 6/30/2012. Allocations shown may not sum up to 100% due to rounding

Diversification Works!

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	4Q12	Cum. '03 - '12	Ann. '03 - '12
MSCI EME 56.3%	REITs 31.6%	MSCI EME 34.5%	REITs 35.1%	MSCI EME 39.8%	Barclays Agg 5.2%	MSCI EME 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	MSCI EAFE 6.6%	MSCI EME 376.0%	MSCI EME 16.9%
Russell 2000 47.3%	MSCI EME 26.0%	DJ UBS Cmdty 21.4%	MSCI EME 32.6%	DJ UBS Cmdty 16.2%	Cash 1.8%	MSCI EAFE 32.5%	Russell 2000 26.9%	Barclays Agg 7.8%	MSCI EME 18.6%	MSCI EME 5.6%	REITs 204.6%	REITs 11.8%
MSCI EAFE 39.2%	MSCI EAFE 20.7%	MSCI EAFE 14.0%	MSCI EAFE 26.9%	MSCI EAFE 11.6%	Market Neutral 1.1%	REITs 28.0%	MSCI EME 19.2%	Market Neutral 4.5%	MSCI EAFE 17.9%	REITs 3.1%	Russell 2000 152.8%	Russell 2000 9.7%
REITs 37.1%	Russell 2000 18.3%	REITs 12.2%	Russell 2000 18.4%	Market Neutral 9.3%	Asset Alloc. -24.0%	Russell 2000 27.2%	DJ UBS Cmdty 16.8%	S&P 500 2.1%	Russell 2000 16.3%	Russell 2000 1.9%	MSCI EAFE 130.3%	MSCI EAFE 8.7%
S&P 500 28.7%	Asset Alloc. 12.5%	Asset Alloc. 8.3%	S&P 500 15.8%	Asset Alloc. 7.4%	Russell 2000 -33.8%	S&P 500 26.5%	S&P 500 15.1%	Cash 0.1%	S&P 500 16.0%	Asset Alloc. 1.3%	Asset Alloc. 117.7%	Asset Alloc. 8.1%
Asset Alloc. 25.1%	S&P 500 10.9%	Market Neutral 6.1%	Asset Alloc. 15.2%	Barclays Agg 7.0%	DJ UBS Cmdty -35.6%	Asset Alloc. 22.2%	Asset Alloc. 12.5%	Asset Alloc. -0.6%	Asset Alloc. 11.2%	Barclays Agg 0.2%	S&P 500 98.6%	S&P 500 7.1%
DJ UBS Cmdty 23.9%	DJ UBS Cmdty 9.1%	S&P 500 4.9%	Market Neutral 11.2%	S&P 500 5.5%	S&P 500 -37.0%	DJ UBS Cmdty 18.9%	MSCI EAFE 8.2%	Russell 2000 -4.2%	Barclays Agg 4.2%	Cash 0.0%	Barclays Agg 65.8%	Barclays Agg 5.2%
Market Neutral 7.1%	Market Neutral 6.5%	Russell 2000 4.6%	Cash 4.8%	Cash 4.8%	REITs -37.7%	Barclays Agg 5.9%	Barclays Agg 6.5%	MSCI EAFE -11.7%	Cash 0.1%	Market Neutral 0.0%	Market Neutral 60.2%	Market Neutral 4.8%
Barclays Agg 4.1%	Barclays Agg 4.3%	Cash 3.0%	Barclays Agg 4.3%	Russell 2000 -1.6%	MSCI EAFE -43.1%	Market Neutral 4.1%	Cash 0.1%	DJ UBS Cmdty -13.3%	Market Neutral 0.0%	S&P 500 -0.4%	DJ UBS Cmdty 49.3%	DJ UBS Cmdty 4.1%
Cash 1.0%	Cash 1.2%	Barclays Agg 2.4%	DJ UBS Cmdty 2.1%	REITs -15.7%	MSCI EME -53.2%	Cash 0.1%	Market Neutral -0.8%	MSCI EME -18.2%	DJ UBS Cmdty -1.1%	DJ UBS Cmdty -6.3%	Cash 18.2%	Cash 1.7%

Source: Russell, MSCI, Dow Jones, Standard & Poor's, Credit Suisse, Barclays Capital, NAREIT, FactSet, J.P. Morgan Asset Management.

The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EMI, 25% in the Barclays Capital Aggregate, 5% in the Barclays 1-3m Treasury, 5% in the CS/Tremont Equity Market Neutral Index, 5% in the DJ UBS Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. All data represents total return for stated period. Past performance is not indicative of future returns. Data are as of 12/31/12, except for the CS/Tremont Equity Market Neutral Index, which reflects data through 11/30/12. "10-ys" returns represent period of 1/1/03 – 12/31/12 showing both cumulative (Cum.) and annualized (Ann.) over the period. Please see disclosure page at end for index definitions. *Market Neutral returns include estimates found in disclosures.

Data are as of 12/31/12.

Diversification within asset classes also important as demonstrated by the returns of various segments of the Fixed Income market over the past 10 years

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	4Q12	10-ys '03 - '12 Cum.	Ann.
High Yield 29.0%	EMD 11.9%	EMD 12.3%	High Yield 11.8%	TIPS 11.6%	Treas. 13.7%	High Yield 58.2%	High Yield 15.1%	TIPS 13.6%	EMD 17.9%	EMD 3.3%	EMD 200.3%	EMD 11.6%
EMD 26.9%	High Yield 11.1%	Asset Alloc. 3.6%	EMD 10.0%	Treas. 9.0%	MBS 8.3%	EMD 34.2%	EMD 12.8%	Muni 10.7%	High Yield 15.8%	High Yield 3.3%	High Yield 174.3%	High Yield 10.6%
Asset Alloc. 9.7%	TIPS 8.5%	Muni 3.5%	MBS 5.2%	Barclays Agg 7.0%	Barclays Agg 5.2%	Corp. 18.7%	Corp. 9.0%	Treas. 9.8%	Corp. 9.8%	Corp. 1.1%	Asset Alloc. 94.3%	Asset Alloc. 6.9%
TIPS 8.4%	Asset Alloc. 6.3%	TIPS 2.8%	Asset Alloc. 5.1%	MBS 6.9%	Asset Alloc. -1.4%	Asset Alloc. 15.8%	Asset Alloc. 7.6%	Asset Alloc. 8.9%	Asset Alloc. 7.8%	Asset Alloc. 1.0%	TIPS 90.4%	TIPS 6.7%
Corp. 8.2%	Corp. 5.4%	Treas. 2.8%	Muni 4.8%	Asset Alloc. 6.2%	TIPS -2.4%	Muni 12.9%	Barclays Agg 6.5%	Corp. 8.1%	TIPS 7.0%	TIPS 0.7%	Corp. 84.7%	Corp. 6.3%
Muni 5.3%	MBS 4.7%	High Yield 2.7%	Barclays Agg 4.3%	EMD 5.2%	Muni -2.5%	TIPS 11.4%	TIPS 6.3%	Barclays Agg 7.8%	Muni 6.8%	Muni 0.7%	Barclays Agg 65.8%	Barclays Agg 5.2%
Barclays Agg 4.1%	Muni 4.5%	MBS 2.6%	Corp. 4.3%	Corp. 4.6%	Corp. -4.9%	Barclays Agg 5.9%	Treas. 5.9%	EMD 7.0%	Barclays Agg 4.2%	Barclays Agg 0.2%	Muni 64.5%	Muni 5.1%
MBS 3.1%	Barclays Agg 4.3%	Barclays Agg 2.4%	Treas. 3.1%	Muni 3.4%	EMD -14.7%	MBS 5.9%	MBS 5.4%	MBS 6.2%	MBS 2.6%	Treas. -0.1%	MBS 64.1%	MBS 5.1%
Treas. 2.2%	Treas. 3.5%	Corp. 1.7%	TIPS 0.4%	High Yield 1.9%	High Yield -26.2%	Treas. -3.6%	Muni 2.4%	High Yield 5.0%	Treas. 2.0%	MBS -0.2%	Treas. 59.0%	Treas. 4.7%

Source: Barclays Capital, FactSet, J.P. Morgan Asset Management.

Past performance is not indicative of future returns. Fixed income sectors shown above are provided by Barclays Capital and are represented by: Barclays Capital U.S. Aggregate Index; MBS: Fixed Rate MBS Index; Corporate: U.S. Corporates; Municipals: Muni Bond Index; Emerging Debt: Emerging Markets Index; High Yield: Corporate High Yield Index; Treasuries: Barclays Capital U.S. Treasury; TIPS: Barclays Capital TIPS. The "Asset Allocation" portfolio assumes the following weights:

10% in MBS, 20% in Corporate, 15% in Municipals, 10% in Emerging Debt, 10% in High Yield, 25% in Treasuries, 10% in TIPS.

Asset allocation portfolio assumes annual rebalancing.

Data are as of 12/31/12.

We are Long Term Investors

1980		1985		1990		1995	
Security	Weight	Security	Weight	Security	Weight	Security	Weight
Union Pac Corp	3.2	IBM	5.0	IBM	4.2	Merck & Co	2.7
Intl Minerals	2.5	Mc Donalds Corp	2.4	Merck & Co	3.4	Intel Corp	2.5
Mobil Corp	2.4	Digital Equip	2.3	Atlantic Rich	3.2	AT&T Corp	2.5
STD Oil-Cal	2.2	General Electric	1.7	Exxon	3.1	Exxon	2.4
Conoco Inc.	2.2	General Motors	1.6	Philip Morris	3.1	General Electric	2.4
Atlantic Rich	2.0	Pepsico Inc	1.6	Amoco Corp	3.1	Philip Morris	1.8
Eastman Kodak	2.0	Amoco	1.4	Wal-Mart Stores	2.3	Microsoft Corp	1.7
IBM	1.9	Atlantic Rich	1.4	Procter & Gamble	2.0	Procter & Gamble	1.6
Minn Min & MFG	1.9	UPJohn Co	1.4	Waste Mgmt	1.7	Amer Intl Group	1.5
Cities Service	1.9	Minn Min & MFG	1.4	McDonalds Corp	1.6	Motorola	1.4
2000		2005		2010		Current	
Security	Weight	Security	Weight	Security	Weight	Security	Weight
General Electric	3.9	General Electric	2.9	Apple Inc	3.2	Apple Inc	6.0
Pfizer Inc	2.7	Microsoft Corp	2.9	Exxon Mobil Corp	2.9	Exxon Mobil Corp	2.8
Citigroup Inc	2.4	Exxon Mobil Corp	2.8	Microsoft Corp	2.1	Microsoft Corp	2.5
Microsoft Corp.	2.3	Citigroup Inc	2.3	JP Morgan Chase	2.0	General Electric	2.1
Merck & Co	2.3	Bank of America	1.8	General Electric	2.0	Pfizer Inc	1.7
Amer Intl Group	2.2	Amer Intl Group	1.5	Merck & Co	1.5	Merck & Co	1.6
Exxon Mobil Co*	2.2	Pfizer Inc	1.4	Oracle Corp	1.0	JP Morgan Chase	1.5
Sun Microsyst	2.1	Procter & Gamble	1.3	Procter & Gamble	1.3	Wells Fargo	1.5
Wal-Mart Store	2.1	Altria Group Inc	1.2	Google Inc	1.2	IBM	1.3
Cisco Systems	2.1	Intel Corp	1.2	Conocophillips	1.1	Procter & Gamble	1.3

The table shows the top 10 US equity holdings in 5 year intervals since 1980. The Division has owned the stock of some high-quality companies continuously for many years. For example, Exxon and General Electric have been meaningful positions in the fund since 1980 and 1985, respectively.

*On November 30, 1999, Exxon and Mobil combined to form Exxon Mobil Corporation.

In the eight time periods listed above, some companies show up several times in NJDOI's "top ten" list

Exxon Mobil Corp- 7x

General Electric -6x

Microsoft Corp- 5x

IBM- 4x

Merck & Co- 5x

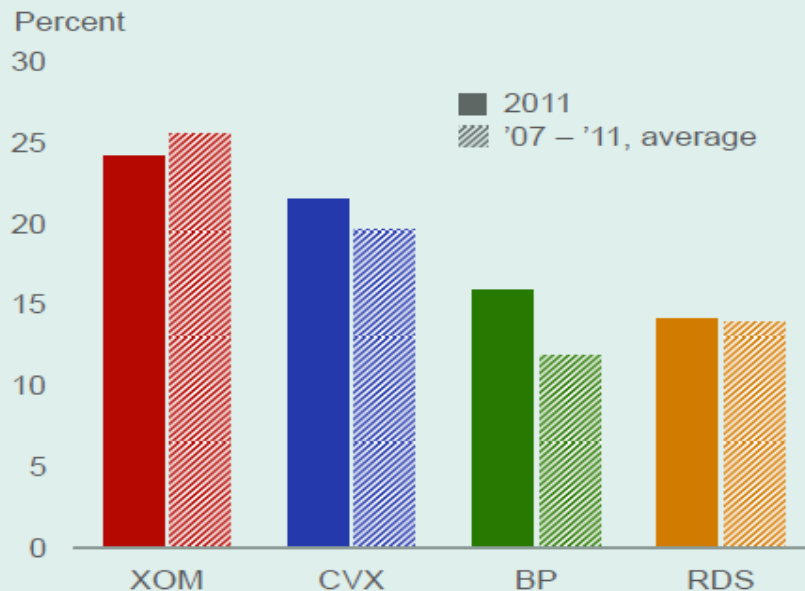
Procter & Gamble- 5x

Exxon Mobil

Return on Capital Employed

ROCE leadership supported by consistent business model

Return on Average Capital Employed*



- ROCE of 24 percent in 2011
- Investments position long-term performance
- Disciplined investment through the business cycle
- Strength of integrated portfolio, project management, and technology application

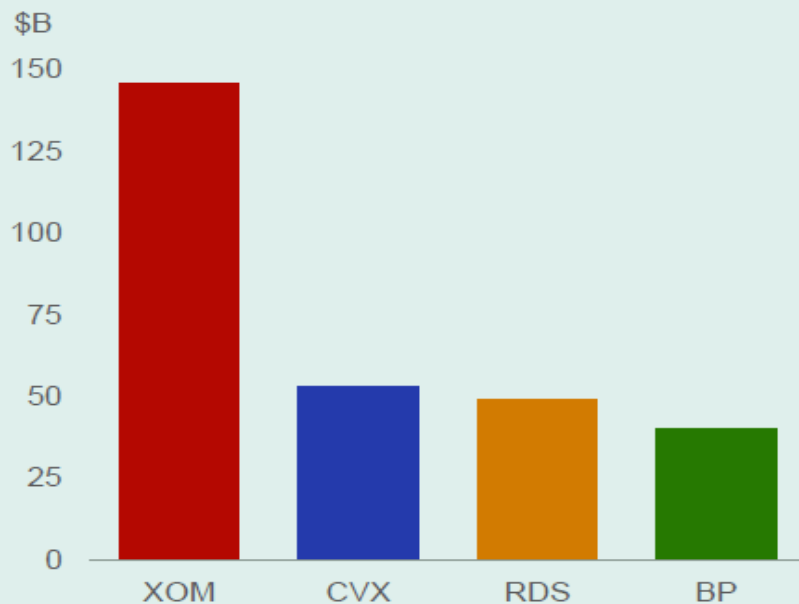
* Competitor data estimated on a consistent basis with ExxonMobil and based on public information.

Exxon Mobil

Free Cash Flow Generation

Cash generation unmatched among peers

Total Free Cash Flow ('07 – '11)*



- Total free cash flow generation of \$146B since beginning of 2007
 - Higher than competitors combined
- Strong cash generation provides capacity for shareholder distributions

* Competitor data estimated on a consistent basis with ExxonMobil and based on public information.

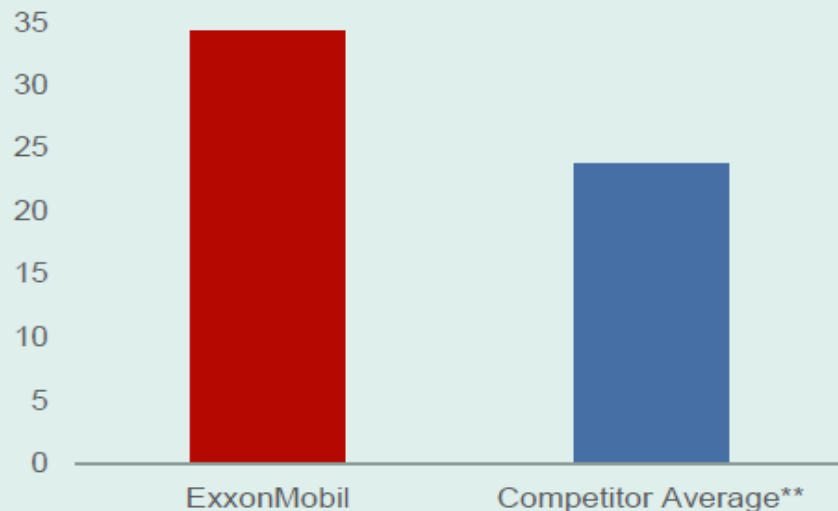
Exxon Mobil

Distribution Yield

Industry-leading shareholder distributions

Total Distribution Yield ('07 – '11)*
Dividends & Share Repurchases

Percent



■ Total distribution yield of 34 percent since beginning of 2007

■ Average distribution yield of 7.3 percent versus competitor average of 5.1 percent

* Yield based on 2006 year-end market capitalization.

** RDS, BP, and CVX.

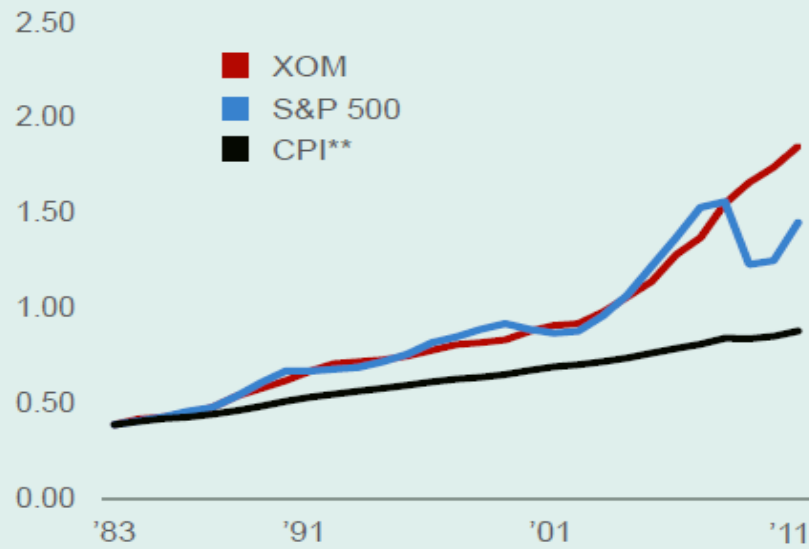
Exxon Mobil

Dividends

Reliable and growing dividends; \$9 billion distributed in 2011

Dividend Growth since 1983*

\$ per share

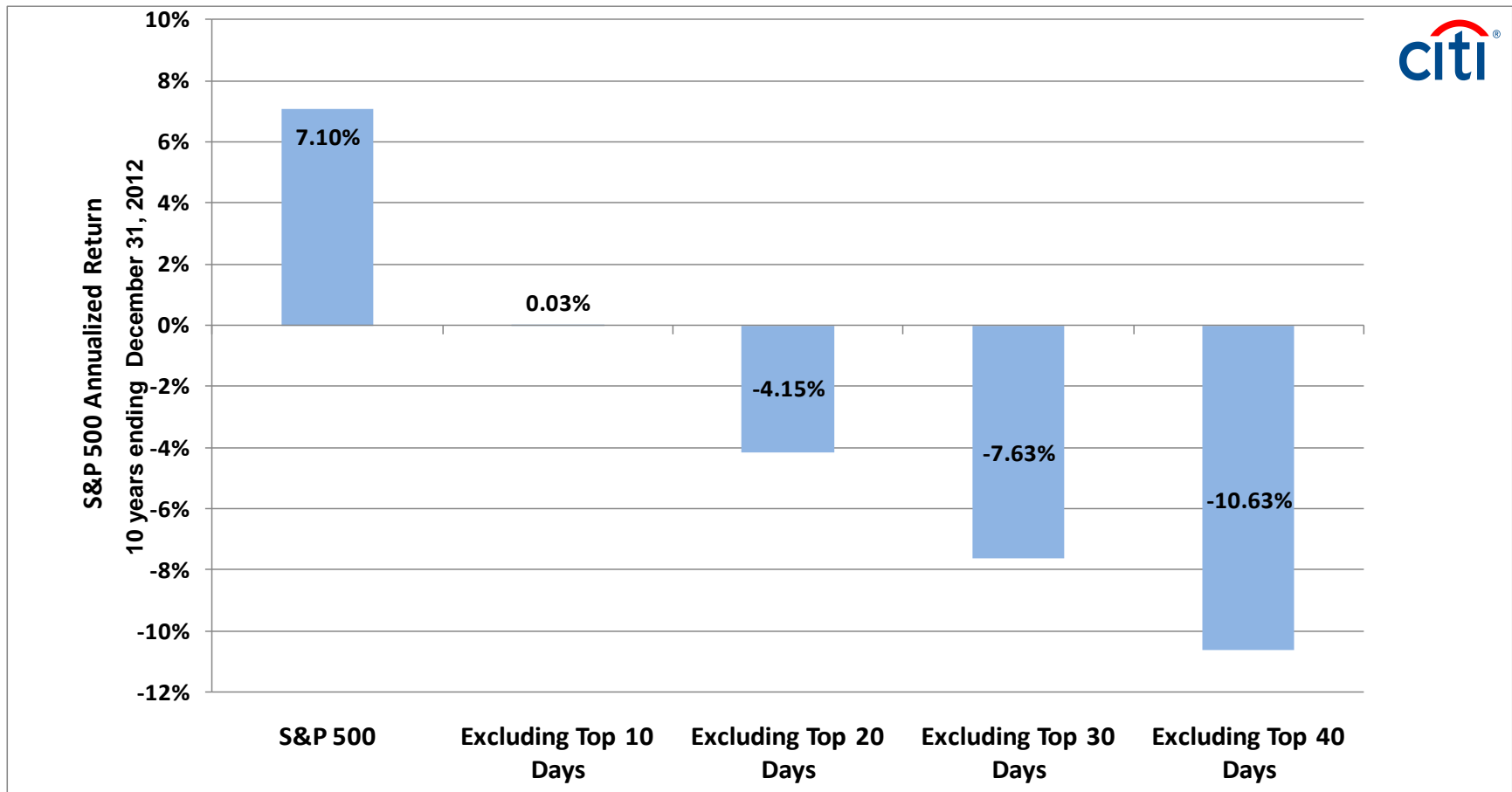


- Over \$40B distributed to shareholders over past five years
- Dividend has grown every year since 1983
- Annualized growth rate of 5.7 percent
 - Almost two times inflation

* S&P and CPI indexed to 1983 Exxon dividend.

** CPI based on historical yearly average from Bureau of Labor Statistics.

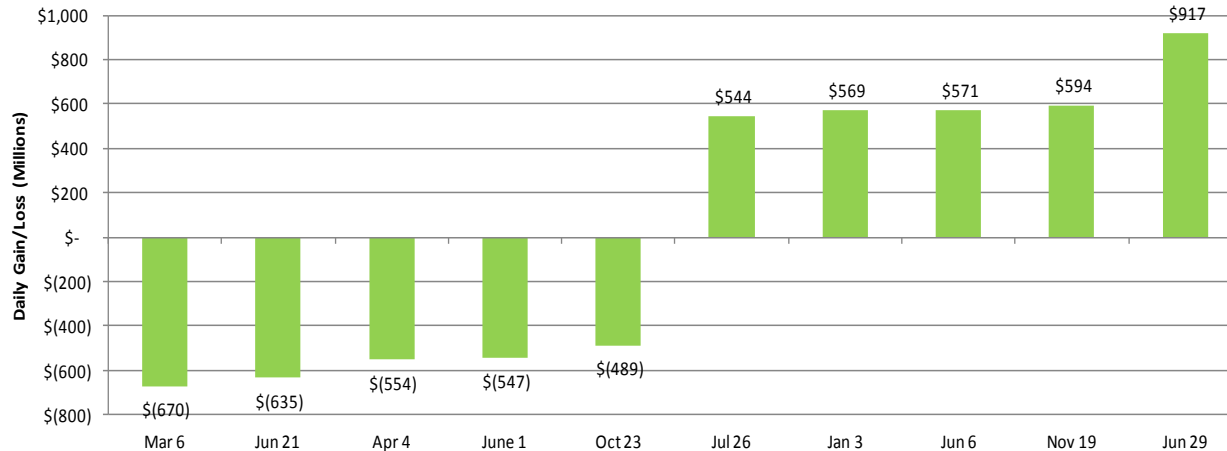
Attempting to Time the Market can be Disastrous



- During the 10 years ending December 31, 2012, missing the best 10 days of the S&P 500 returns (10 out of 2,518 total trading days) would have reduced the annual return from 7.10% to 0.03%. Missing the top 40 days of S&P 500 returns would reduce the annual return to -10.63%.

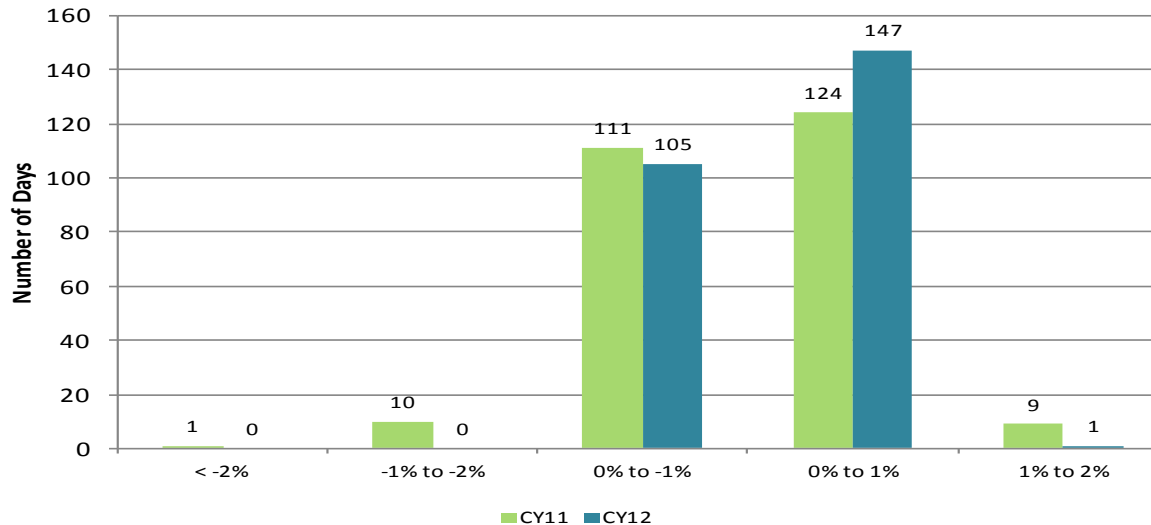
Analysis of Daily Returns

Largest Total Fund Daily Gain/Loss - CY12



In CY12, the Fund had 41 days in which it made more than \$250 million dollars and 32 days in which it lost more than \$250 million dollars. The five largest daily gains and losses are shown on left.

Distribution of Daily Returns



Daily returns were somewhat less volatile in CY12 compared to CY11. In CY 12, only one day's return fell outside of a range of -1% to 1%, while in CY11, 20 days fell outside this range.

NJDOI Works to Keep Costs Low

Total Cost as Percentage of Assets - In Basis Points¹		
	NJ	Similarly-sized US Public Funds ²
Administrative Expenses	1.3 bps	5.0 bps
Investment Expenses	27.2 bps	42.7 bps
Total Expenses	28.5 bps	47.7 bps

¹ Period ending June 30, 2012. ² Source: RV Kuhns. State of New Jersey Pension Fund. Public Fund Universe Analysis.

NJDOI Annual Management Fee Savings on Investments with Preferential Terms

	NJDOI Estimated Fees	Estimated Fees Based on Standard Terms	NJDOI Total Fee Savings
Private Equity	1.01%	1.40%	0.39%
Real Estate	1.00%	1.32%	0.32%
Hedge Funds	0.82%	1.50%	0.68%
Real Assets	0.89%	1.28%	0.39%
Total	0.97%	1.38%	0.41%

The NJDOI Alternatives Program has made a total of 58 investments since August 2010. NJDOI negotiated preferential terms on 25 of these investments.



2012 Division of Investment and Market Performance Review

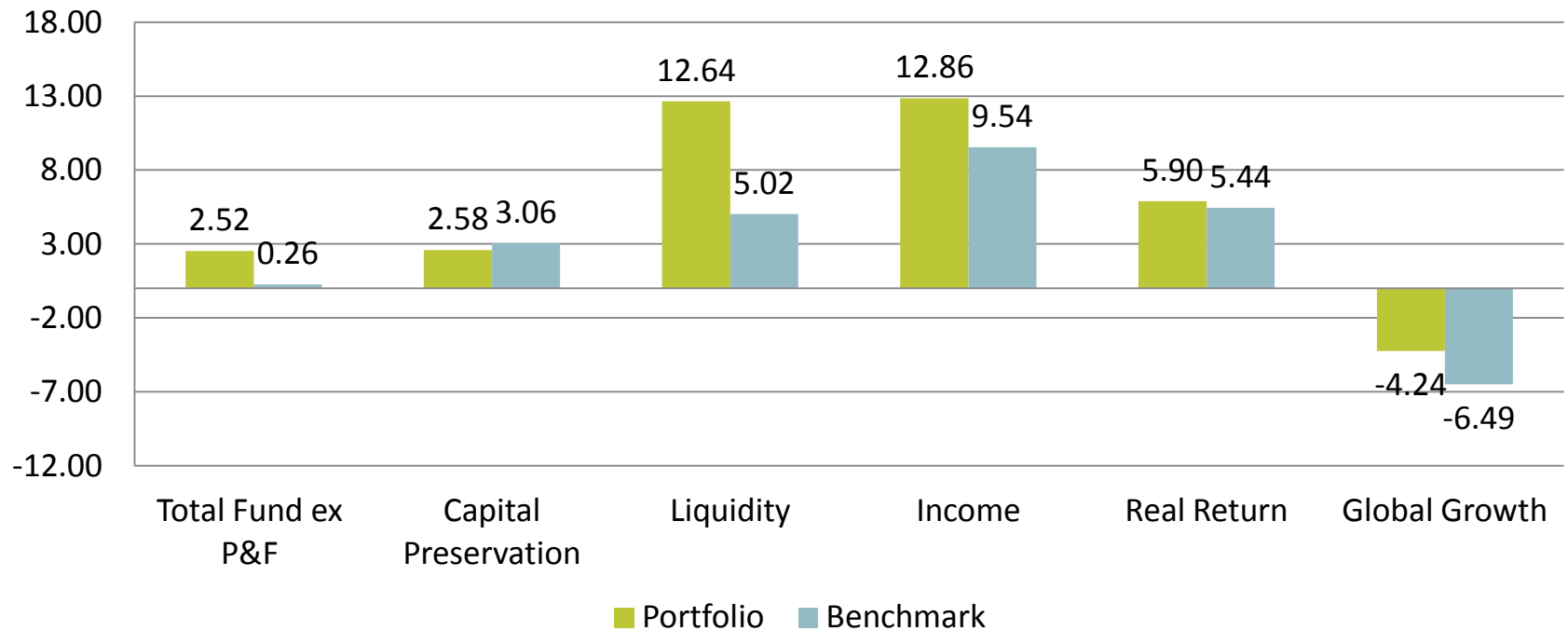
Capital Market Performance as of 6/30/2012

Global Equity Indices		Style	1 Year	3 Years	5 Years	10 Years
MSCI All Country World Index	Global Equity		-6.49%	10.80%	-2.70%	5.73%
US Equity Indices		Style	1 Year	3 Years	5 Years	10 Years
S&P 1500	Broad US Equity		4.63%	16.76%	0.46%	5.67%
Russell 3000	Broad US Equity		3.84%	16.73%	0.39%	5.81%
Russell 1000	Large Cap Equity		4.37%	16.64%	0.39%	5.72%
Russell Mid Cap	Mid Cap Equity		-1.65%	19.44%	1.06%	8.45%
Russell 2000	Small Cap Equity		-2.08%	17.80%	0.54%	7.00%
Dow Jones US REIT Index	REITS		13.29%	33.52%	1.97%	10.27%
Non- US Indices			1 Year	3 Years	5 Years	10 Years
MSCI EAFE	Developed Non-US Equity		-13.83%	5.96%	-6.10%	5.14%
MSCI Emerging Markets	Emerging Non-US Equity		-15.95%	9.77%	-0.09%	14.08%
US Fixed Income Indices			1 Year	3 Years	5 Years	10 Years
ML 3-month T-Bill	Cash		0.05%	0.12%	0.99%	1.89%
Barclays US Aggregate	Core Bonds		7.47%	6.93%	6.79%	5.63%
ML US Government/Credit	Core Bonds		8.73%	7.45%	6.87%	5.79%
ML US Corporate Master	Corporate Bonds		9.15%	10.63%	7.42%	6.59%
Barclays Mrtg Back Securities	Mortgages		4.97%	5.40%	6.67%	5.40%
Merrill Lynch High Yield Master II	High Yield Bonds		6.52%	16.16%	8.16%	9.95%

Capital Market Performance as of 12/31/2012

Global Equity Indices		Style	1 Year	3 Years	5 Years	10 Years
MSCI All Country World Index	Global Equity		16.13%	6.63%	-1.16%	8.11%
US Equity Indices		Style	1 Year	3 Years	5 Years	10 Years
S&P 1500	Broad US Equity		16.17%	11.22%	2.07%	7.51%
Russell 3000	Broad US Equity		16.42%	11.20%	2.04%	7.68%
Russell 1000	Large Cap Equity		16.42%	11.12%	1.92%	7.52%
Russell Mid Cap	Mid Cap Equity		17.28%	13.15%	3.57%	10.65%
Russell 2000	Small Cap Equity		16.35%	12.25%	3.55%	9.72%
DJW US REIT Index	REITS		17.12%	17.94%	5.08%	11.48%
Non- US Indices			1 Year	3 Years	5 Years	10 Years
MSCI EAFE	Developed Non-US Equity		17.32%	3.56%	-3.69%	8.21%
MSCI Emerging Markets	Emerging Non-US Equity		18.22%	4.66%	-0.92%	16.52%
US Fixed Income Indices			1 Year	3 Years	5 Years	10 Years
ML 3-month T-Bill	Cash		0.11%	0.11%	0.52%	1.80%
Barclays US Aggregate	Core Bonds		4.22%	6.19%	5.95%	5.18%
ML US Government/Credit	Core Bonds		5.09%	6.84%	6.05%	5.25%
ML US Corporate Master	Corporate Bonds		10.37%	9.13%	7.72%	6.31%
Barclays Mrtg Back Securities	Mortgages		2.59%	4.72%	5.67%	5.08%
Merrill Lynch High Yield Master II	High Yield Bonds		15.58%	11.60%	10.01%	10.39%

Fiscal Year 2012 Final Performance



The Fund outperformed the benchmark by 226 basis points for the fiscal year.

- Four of the five asset categories outperformed their respective benchmarks
- FY12 outperformance for the Fund was primarily driven by an overweight of US versus Non-US stocks
- Also contributing to the outperformance was strong performance by fixed income group, an underweight to commodities, and strong relative performance by the emerging equity and high yield advisors
- Underperformance by domestic and international equity detracted from overall Pension Fund performance by 26 basis points and 46 basis points, respectively

Division of Investment Performance June 30, 2012

	Asset Class	1 Year			3 Years			5 Years			10 Years		
		NJDOI Return	Benchmark Return	NJDOI Alpha	NJDOI Return	Benchmark Return	NJDOI Alpha	NJDOI Return	Benchmark Return	NJDOI Alpha	NJDOI Return	Benchmark Return	NJDOI Alpha
1	Total Fund ex P&F Mtg	2.52%	0.26%	2.26%	11.11%	10.05%	1.06%	2.46%	1.33%	1.13%	6.42%	5.58%	0.84%
2	US Equity	3.58%	4.63%	-1.05%	16.68%	16.76%	-0.08%	1.79%	0.46%	1.33%	6.41%	5.67%	0.74%
3	International Equity*	-16.53%	-14.36%	-2.17%	3.80%	6.97%	-3.17%	-5.08%	-4.62%	-0.46%	5.31%	6.74%	-1.43%
4	Dev. Non-US Equity	-17.34%	-14.12%	-3.22%									
5	Emerging Equity Advise	-12.76%	-14.98%	2.22%	11.34%	9.77%	1.57%						
6	Fixed Income	15.89%	16.50%	-0.61%	12.76%	11.88%	0.88%	10.77%	9.52%	1.25%	7.68%	8.02%	-0.34%
7	Treasuries	26.14%	9.04%	17.10%									
8	Invest. Grade Credit	15.70%	9.54%	6.16%									
9	TIPS	16.50%	12.24%	4.26%									
10	Public High Yield	7.74%	7.27%	0.47%	14.74%	16.29%	-1.55%						
11	Private Equity	4.85%	10.83%	-5.98%	14.42%	18.22%	-3.80%	3.74%	6.97%	-3.23%			
12	Buyouts/VC**	5.78%	5.87%	-0.09%	15.58%	16.30%	-0.72%	3.18%	5.29%	-2.11%			
13	Debt Related**	5.33%	5.86%	-0.53%	15.39%	16.45%	-1.06%	6.49%	5.32%	1.17%			
14	Real Asset Related**	-3.69%	-13.59%	9.90%	7.47%	17.89%	-10.42%						
15	Real Estate	8.30%	12.04%	-3.74%	6.36%	8.82%	-2.46%	-5.50%	2.51%	-8.01%			
16	Hedge Funds	-1.33%	-5.40%	4.07%	6.25%	2.42%	3.83%	-0.74%	-1.84%	1.10%			
17	Absolute Return***	0.27%	-2.80%	3.07%	5.43%	1.85%	3.58%	-0.29%	3.40%	-3.69%			
18	Credit***	-0.96%	-3.16%	2.20%	9.85%	9.56%	0.29%	3.04%	1.20%	1.84%			
19	Equity***	-2.48%	-7.50%	5.02%	7.22%	4.64%	2.58%	1.55%	-0.73%	2.28%			
20	Opportunistic***	5.70%	3.33%	2.37%	18.35%	10.08%	8.27%	6.98%	3.50%	3.48%			
21	Commodities	-9.54%	-14.32%	4.78%	4.40%	3.49%	0.91%						
	All Data from State Street except as noted												
	*International Equity benchmark shown is Custom International Benchmark for 1 Year and ACWI ex US for all other periods												
	** NJDOI Returns from PE Consultant SIS												
	*** NJDOI from Hedge Fund Consultant Cliffwater												

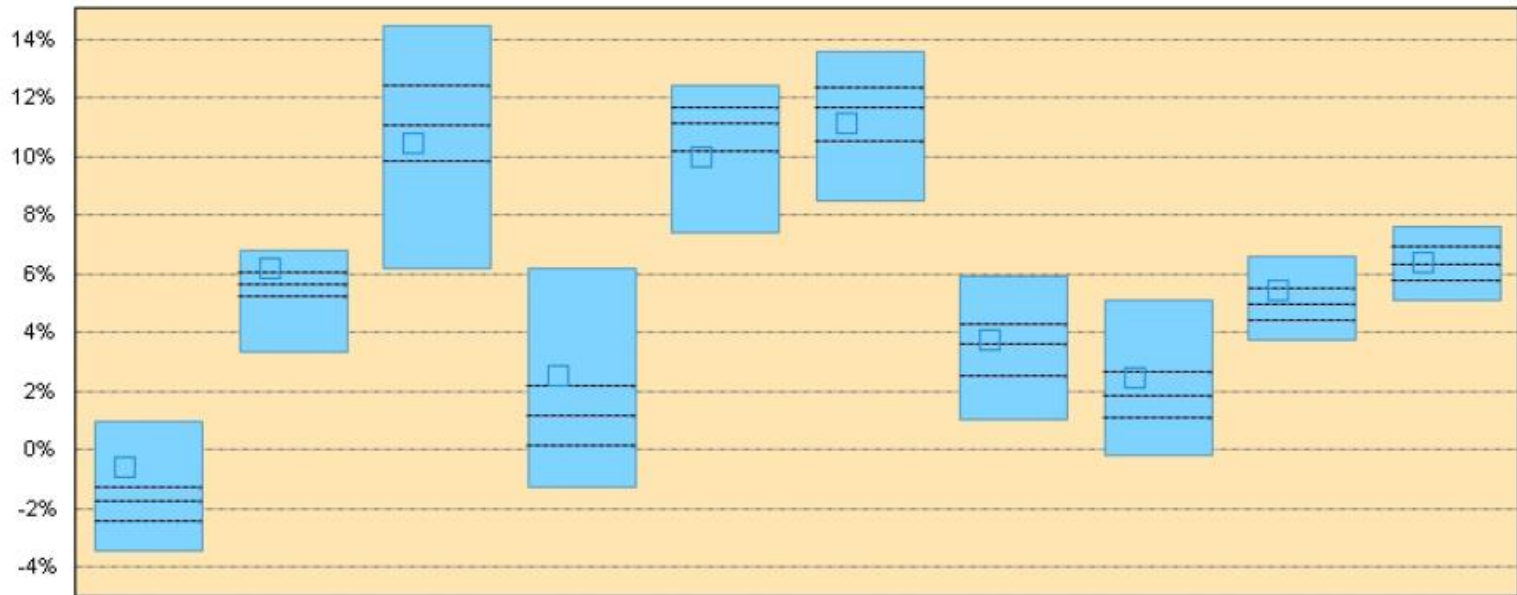
- Despite the historic rally in the bond market, US equities have outperformed fixed income of over the past three years.
- On a five-year basis, Private Equity has outperformed public equity
- Opportunistic Hedge Funds were the second best performing segment of the portfolio for the trailing five years

NJDOJ Fiscal Year Performance Since 2000

Fiscal Year Ending	Total Fund ex Police & Fire %	Total Policy Benchmark %	Over/(Under) Performance %
June 30, 2000	11.86	8.41	3.45
June 30, 2001	(9.80)	(6.71)	(3.09)
June 30, 2002	(8.61)	(7.25)	(1.36)
June 30, 2003	3.31	3.47	(0.16)
June 30, 2004	14.16	14.44	(0.28)
June 30, 2005	8.77	8.07	0.70
June 30, 2006	9.79	8.13	1.66
June 30, 2007	17.14	16.49	0.65
June 30, 2008	(2.70)	(6.00)	3.30
June 30, 2009	(15.48)	(14.76)	(0.72)
June 30, 2010	13.35	13.51	(0.16)
June 30, 2011	18.03	17.03	1.00
June 30, 2012	2.52	0.26	2.26

The 226 basis points of outperformance (alpha), is the most since FY2008, and the most in a positive year since FY2000

Peer Universe Comparison

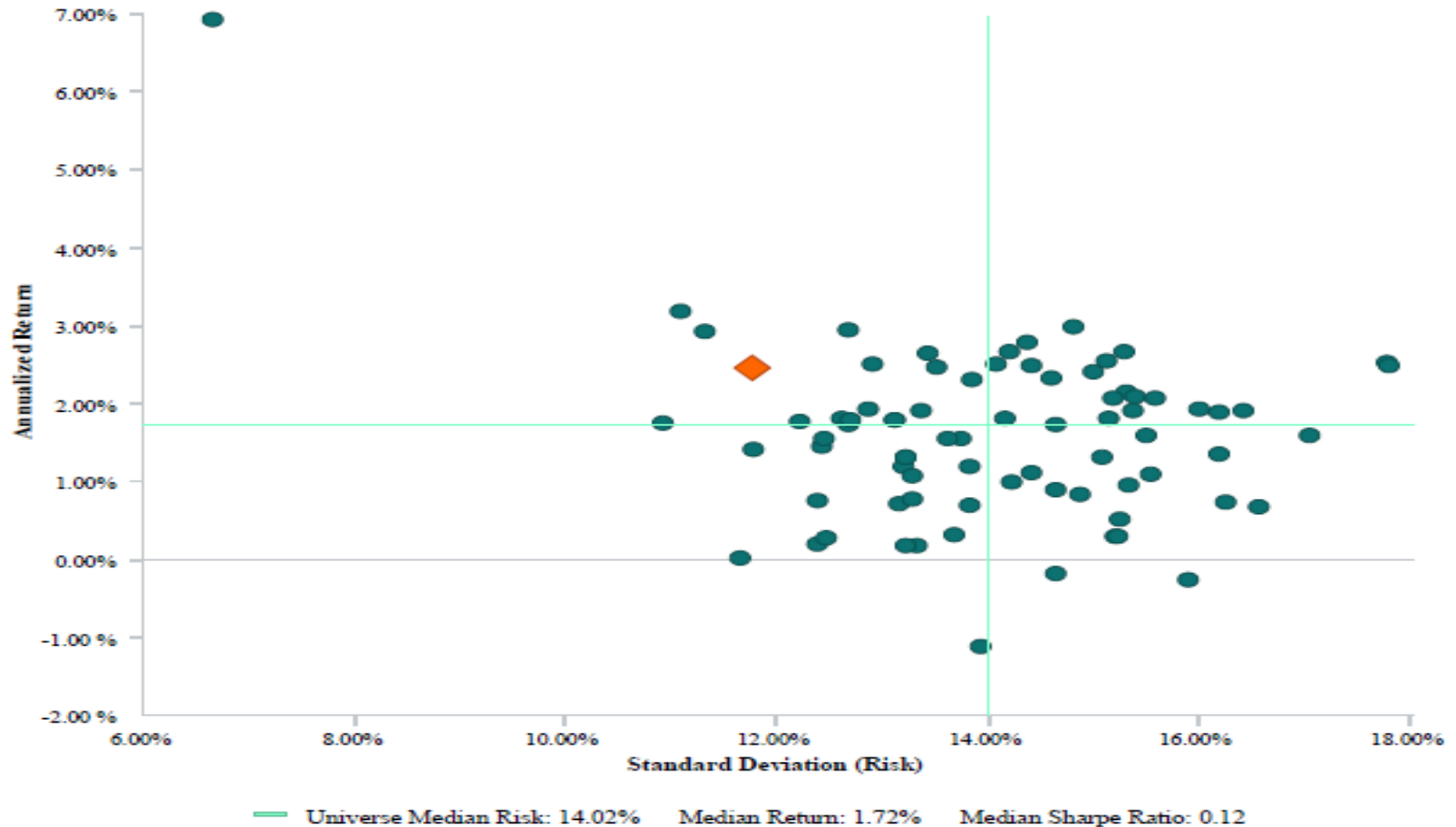


Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th	0.98	6.77	14.43	6.18	12.40	13.59	5.90	5.07	6.58	7.61
25th	-1.27	6.08	12.45	2.16	11.66	12.36	4.30	2.68	5.49	6.90
50th	-1.73	5.65	11.06	1.15	11.12	11.66	3.64	1.82	4.96	6.32
75th	-2.39	5.27	9.84	0.12	10.17	10.55	2.51	1.10	4.41	5.76
95th	-3.42	3.32	6.17	-1.25	7.40	8.52	1.03	-0.17	3.72	5.07
No. Of Obs	117	117	117	115	112	112	111	110	108	102
■ Total Pension Fund ex	-0.62 (15)	6.21 (20)	10.44 (66)	2.52 (16)	10.00 (77)	11.11 (66)	3.76 (43)	2.46 (31)	5.47 (25)	6.42 (45)

NJDOI ranked in the Top Quartile among the 115 Public Plans in the TUCS Master Trust Universe for the Fiscal Year Ending 6/30/12.

Risk/Return Analysis

5 Year Annualized Total Fund Returns vs. Standard Deviation of June 30, 2012

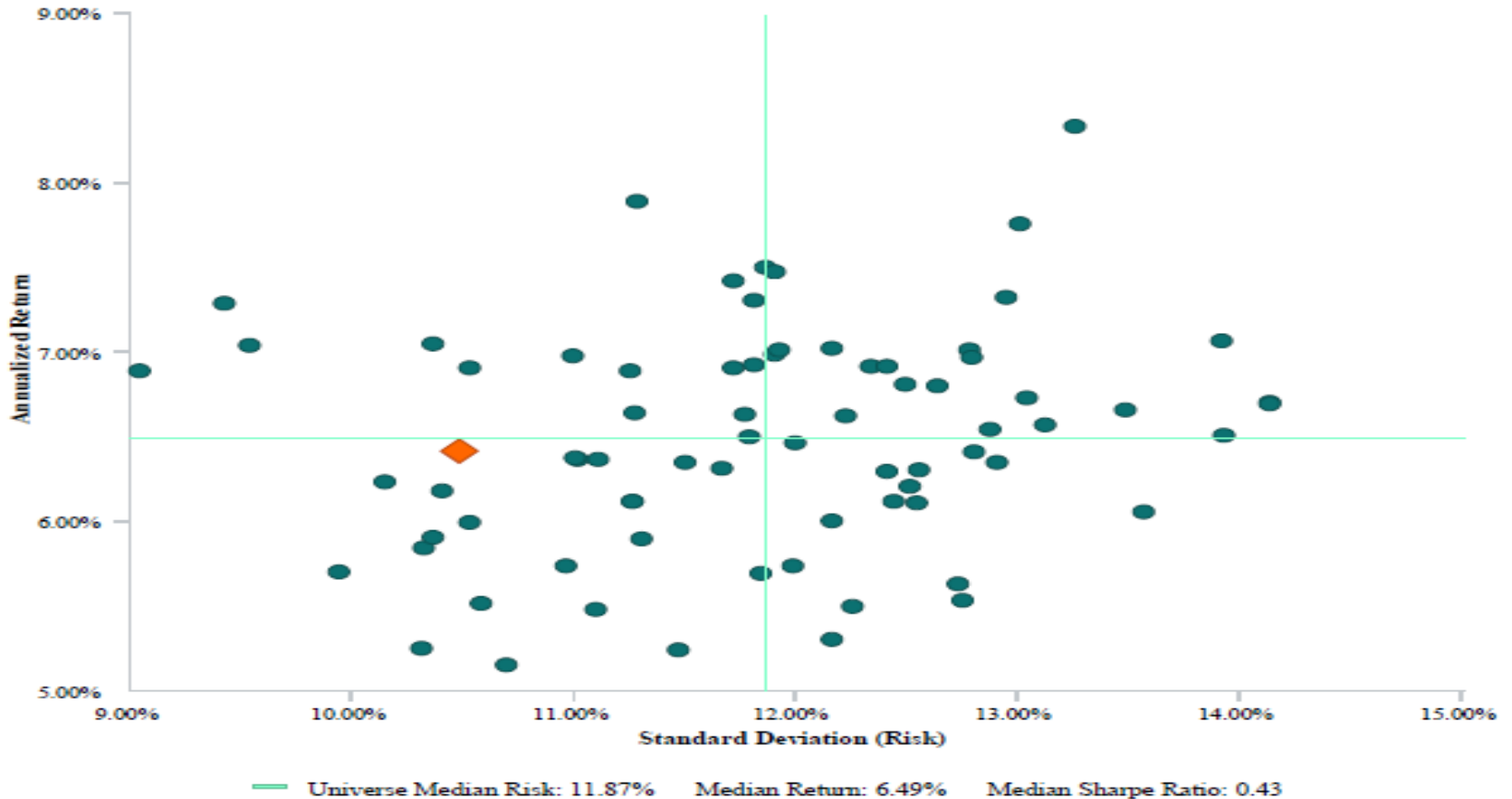


NJ is represented by the orange diamond. The Fund's Sharpe ratio was 0.18.

Source: R.V. Kuhns. 78 US public funds provided data for this category.

Risk/Return Analysis

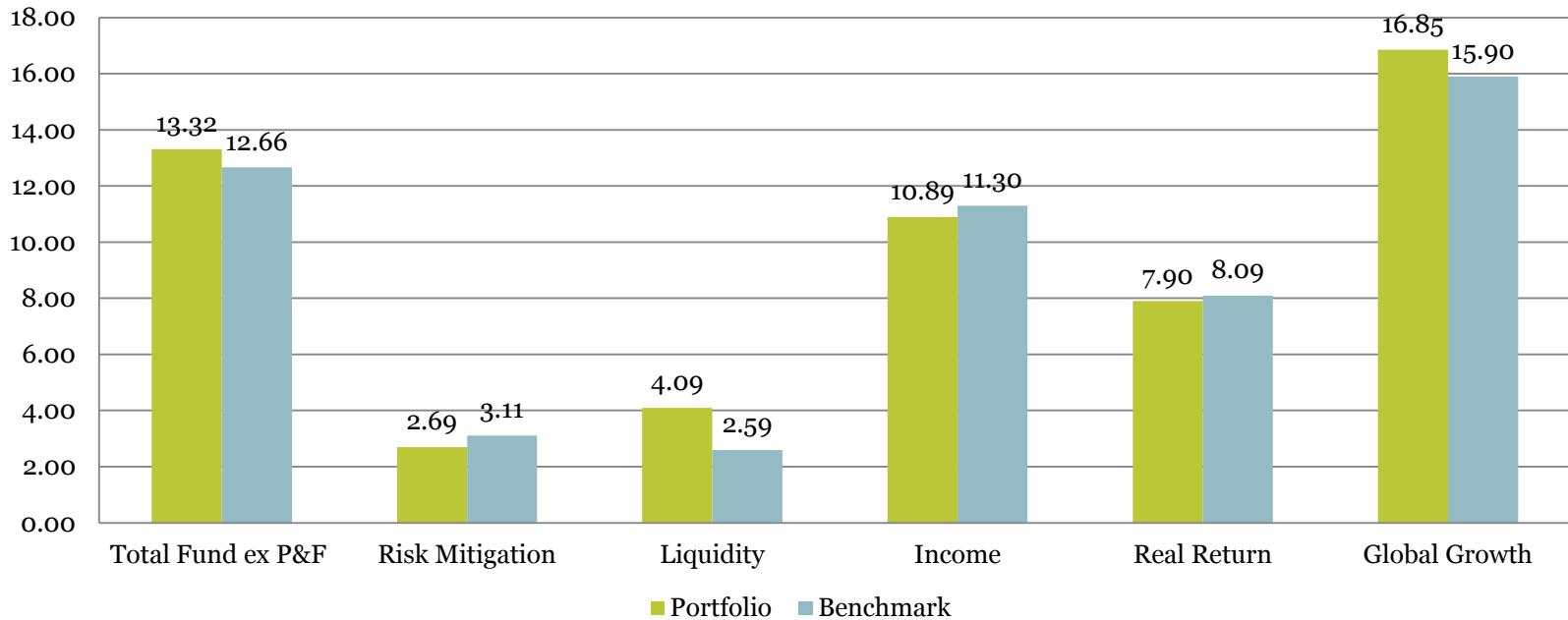
10 Year Annualized Total Fund Returns vs. Standard Deviation of June 30, 2012



NJ is represented by the orange diamond. The Fund's Sharpe ratio was 0.47.

Source: R.V. Kuhns. 75 US public funds provided data for this category.

Calendar Year 2012 Performance by Asset Class*



- Based on preliminary returns, the Fund outperformed the benchmark by 66 basis points for the calendar year.
- The Fund benefited from strong performance within, and an overweight to, the Global Growth portfolio. Specifically, the Domestic Equity, Developed Markets Non-US Equity, and Emerging Markets Equity portfolios all outperformed their benchmarks for the year.
- The Liquidity portfolio also produced strong relative performance based on outperformance of the Treasuries and TIPs portfolios.
- The Income portfolio produced strong absolute returns, driven by the high yield and bank loan portfolios.

2012 Review

2012 Accomplishments

- **Asset Allocation**

- Consistent with the initiatives for 2012, the Division and the SIC increased their focus on asset allocation. NJDOI senior staff reviewed the Fund's asset allocation daily, and the IPC spent a significant amount of time evaluating the annual investment plan for FY13 and spent a portion of every meeting discussing asset allocation.
- For FY12, asset allocation decisions (primarily being overweight US stocks and underweight commodities) were by far the largest contributors to the Fund's outperformance.

- **Internal Management**

- Grew passive international equity portfolio to over 90% of the Division's developed markets non-US equity exposure. Overall performance of the total international equity portfolio has improved substantially since the inception of the passive account; however, as the majority of the portfolio is indexed, over the long term indexing the portfolio will at best produce performance in line with the benchmark.
- Initiated two internally-managed REIT portfolios, one focused on global REITS and one focused on core REITs.
- Grew internally-managed high yield portfolio to over \$200 million.

- **Innovative Investment Structures**

- During 2012, the Division initiated a number of new investments which offered improved terms, structures, and alignment of incentives. Examples include multi-asset class separate accounts with Och-Ziff and Blackstone, a real estate separate account with TPG, a private equity focused separate account with Blackrock, and several real estate and private equity co-investment vehicles along side top quartile general partners.

- **Council Regulations**

- In the last two years the Division has completed seven regulation change projects. These projects have resulted in changes to over 20 regulations.
 - Amended a number of the regulations governing fixed income securities to broaden the permissible investments, providing the Division with greater flexibility in implementing the fixed income allocation.
 - Amendments to the Council Regulations which provide for daily unitization of the common pension funds went into effect in early 2012. Daily unitization allowed the Division to keep significantly lower cash balances, which had a positive impact on performance.

What Worked in 2012 - Equities

These tables show the top five performing stocks in which the Division had positions greater than \$25 million.

US Equity Top 5 Performers	
Security Name	Return
US Airways Group Inc.	166%
HollyFrontier Corp.	116%
Bank of America Corp.	110%
Marathon Petroleum Corp.	94%
Gilead Sciences Inc.	79%

Non-US Equity Top 5 Performers	
Security Name	Return
Fuji Heavy Industries Ltd.	86%
Barclays PLC	60%
Samsung Electronics	55%
SAP AG	54%
Bayer AG	52%

These tables show the top five largest contributors to absolute performance for domestic and international equity (excluding ETFs).

Security	Average Weight	Total Return	Contribution to Return
Apple Inc.	5.71%	33%	1.61%
Bank of America Corp.	0.64%	110%	0.50%
JPMorgan Chase & Co.	1.55%	36%	0.50%
General Electric Co.	2.08%	21%	0.47%
Wells Fargo & Co.	1.57%	27%	0.38%

Security	Average Weight	Total Return	Contribution to Return
HSBC Holdings PLC	0.91%	44%	0.37%
Bayer AG	0.57%	52%	0.27%
Diageo PLC	0.67%	36%	0.24%
Samsung Electronics Co.	0.55%	55%	0.24%
Anheuser-Busch InBev	0.54%	43%	0.23%

These tables show the top five largest contributors to relative performance for domestic and international equity (excluding ETFs).

Security Name	Security Return	Over/Under weight	Attribution	Security Name	Security Return	Over/Under weight	Attribution
Apple Inc.	33%	1.90%	0.32%	Telefonica S.A.	-18%	-0.23%	0.12%
US Airways Group Inc.	166%	0.18%	0.17%	LOREAL PRIME DE FIDELIT	36%	0.66%	0.10%
TRW Automotive	64%	0.35%	0.13%	ATOS	30%	0.13%	0.09%
Solutia Inc.	61%	0.10%	0.13%	Japan Tobacco Inc.	36%	0.26%	0.09%
Community Health Sys	78%	0.22%	0.11%	Carrefour S.A.	16%	0.09%	0.08%

Data based on NJDOI holdings and transactions.

What Worked in 2012

- **Fixed Income**

- Bank Loan funds were the best performing segment of Fixed Income portfolio (+23% vs. +4% for the Barclays Aggregate). Within bank loans, Och-Ziff, which is the largest allocation, returned 35%*
- US Tips positively impacted performance as they outperformed Nominal Treasuries (12% vs. 5%)
- The portfolio's longer duration added to the returns

- **Hedge Funds**

- Credit Oriented funds have performed well, with the portfolio up approximately 13%
 - Best performers include PIMCO Distressed Mortgage (40%)* and Canyon (+21%)*
- Long Biased and Event Driven Equity funds performed well
 - Examples include Omega (+29%)* and Third Point(+21%)*
- Add-on allocation to RockCreek and Arden in late 2012 returned approximately 5.7% vs. 2.2% for the S&P 500 and 2.7% for the HFRI Fund of Funds Index since inception, resulting in \$10 million of additional gains

- **Commodities**

- Two Long Commodity funds performed well relative to benchmark for the year
- Internal commodity ETF portfolio outperformed the benchmark by approximately 400 basis points for the year, primarily driven by gold ETF, up about 8% for the year

- **Fiduciary Presentation**

- The General Consultant made a presentation to the SIC providing a general overview of fiduciary duty issues for public fund trustees and stressing the importance of strong governance practices.

* Estimated Return as of December 31, 2012

What Worked in 2012 (Continued)

- **Private Equity – Notable Distributions**

- Skype: Microsoft Corporation acquired Skype for \$8.5 billion in cash from Silver Lake Partners III, L.P. (New Jersey committed \$100 million to SLP III.) Silver Lake invested approximately \$934 million in Skype in November 2009 and received \$2.9 billion of cash proceeds at exit. This represents a gross **Internal Rate of Return (IRR) of 75%** and a **Multiple of Invested Capital (MOIC) of 3.1x**. NJDOI received nearly **\$17 million of realized gains** on the transaction.
- Schiff: Schiff is a leading provider of vitamins and nutritional supplements in the United States and select international markets. TPG STAR, L.P. sold Schiff to Reckitt Benckiser Group PLC (LSE:RBL) in December 2012. Total proceeds to TPG STAR were \$308.1 million, representing a **6.4x MOIC** and approximately **131% gross IRR**. NJDOI received nearly **\$18 million of realized gains** on the transaction through its investment in TPG STAR, L.P.
- Sunquest Information Systems: Sunquest Information Systems is a leading provider of IT solutions to the healthcare industry with 380,000 users worldwide. Vista Equity Partners, through Vista Equity Partners Fund III, L.P. (VEP III), sold its remaining interest in Sunquest in conjunction with the sale of the business to Roper Industries for cash in August of 2012. (New Jersey committed \$100 million to VEP III.) Vista originally invested \$200 million into Sunquest, and over the course of its investment returned approximately \$1.1 billion. This represents a cumulative gross **IRR of 59%** and a cumulative **MOIC of 5.4x**. NJDOI received over **\$19 million of realized gains** on the transaction.

What Worked in 2012 (Continued)

- **Private Equity - Continued**
 - North American Breweries (“NAB”): KPS Special Situations III, L.P. (KPS III) created NAB in 2009 and it rapidly became one of the largest and fastest growing independent beer companies in the U.S. The sale of NAB by KPS has resulted in a cash gain of \$213 million in addition to a return of KPS III’s original \$27 million of equity. This represents a gross **IRR of 88%** and **MOIC of 8.9x**.
- **Real Estate – Notable Distributions**
 - Blackstone Real Estate Partners VI (BREP VI): In November 2011, NJDOI purchased a secondary interest in BREP VI for \$36 million in addition to \$6 million in uncalled capital commitments. The secondary interest was purchased at a 22% discount to the 3/31/11 Fund NAV. The decision to purchase the secondary interest at a discount has resulted in a **net IRR of 52.7%**, an investment **multiple of 1.4x**, and a **gain of \$17 million** based on the 9/30/2012 NAV.
 - CT High Grade II: In April 2012 NJDOI purchased General Motors Pension Trust’s 25% interest in CT HGII and GM Asset Management’s general partner interest in CT HGII for \$159.8 million and became CT HGII’s sole limited partner.
 - CT HGII’s since-inception **net IRR** and **MOIC** were **10.65%** and **1.3x**, respectively, with no credit losses.
 - For FY 2012, CT HGII returned **9.81%**, outperforming its iShares Core Total US Bond Market benchmark by 547 basis points.
 - Lone Star VII: In May 2011, NJDOI committed \$300 million to Lone Star VII. As of 12/31/2012, the Fund is projected to generate a **30.8% gross IRR**.

What Did Not Work in 2012 - Equities

These tables show the bottom five performing stocks in which the Division had positions greater than \$25 million

US Equity Bottom 5 Performers	
Security Name	Return
Hewlett-Packard Co.	-43%
Allegheny Technologies Inc.	-35%
Cliffs Natural Resources Inc.	-35%
Exelon Corp.	-27%
Chesapeake Energy Corp.	-24%

Non-US Equity Bottom 5 Performers	
Security Name	Return
Nidec Corp.	-32%
Newcrest Mining Ltd.	-23%
Canadian Natural Resources Ltd	-22%
BG Group PLC	-22%
Barrick Gold Corp.	-21%

These tables show the top five largest detractors from absolute performance for domestic and international equity (excluding ETFs).

Security	Average Weight	Total Return	Contribution to Return
Zynga Inc	0.05%	-78%	-0.11%
Hewlett-Packard Co.	0.22%	-43%	-0.10%
Navistar International	0.11%	-50%	-0.10%
McDonald's Corp.	0.68%	-9%	-0.09%
Allegheny Technologies	0.18%	-35%	-0.08%

Security	Average Weight	Total Return	Contribution to Return
Canon Inc.	0.32%	-9%	-0.15%
BG Group PLC	0.53%	-22%	-0.12%
Shiseido Co. Ltd.	0.28%	-20%	-0.12%
Newcrest Mining Ltd.	0.31%	-23%	-0.10%
Nidec Corp.	0.25%	-32%	-0.08%

These tables show the top five largest detractors from relative performance for domestic and international equity (excluding ETFs).

Security Name	Security Return	Over/Under weight	Attribution
Zynga Inc	-78%	0.05%	-0.11%
Navistar International	-50%	0.11%	-0.11%
Allegheny Technologies	-35%	0.16%	-0.09%
Diamond Foods Inc.	-58%	0.07%	-0.09%
Chesapeake Energy	-24%	0.19%	-0.07%

Security Name	Security Return	Over/Under weight	Attribution
Shiseido Co. Ltd.	-20%	0.24%	-0.12%
Samsung Electronics Co.	55%	-0.34%	-0.10%
Nidec Corp.	-32%	0.19%	-0.09%
Toyota Motor Corp.	41%	-0.40%	-0.08%
Taiwan Semiconductor M	38%	-0.47%	-0.07%

Data based on NJDOI holdings and transactions.

What Did Not Work in 2012

- **Fixed Income**

- Underweight to High Yield and overweight to Investment Grade relative to target allocation hurt performance as high yield outperformed investment grade significantly
- Underweight to lower quality/higher beta names, including financials, detracted from performance
- Large underweight to US agencies, which have outperformed Treasury bonds by about 30 basis points, hurt performance

- **Hedge Funds**

- CTAs and Macro funds produced lackluster returns in 2012
- Equity and Credit funds with low net exposure, and those holding elevated levels of cash produced low single digit returns in 2012

- **Real Estate**

- NJDOI has investments in five (5) non-core funds with significant exposure to European real estate. For FY12, the funds were down approximately 14% on a weighted average basis versus the European REIT index (-5.4%) and the European private real estate index (-0.1%).

2013 NJDOI Initiatives

2013 NJDOI Initiatives

Investments

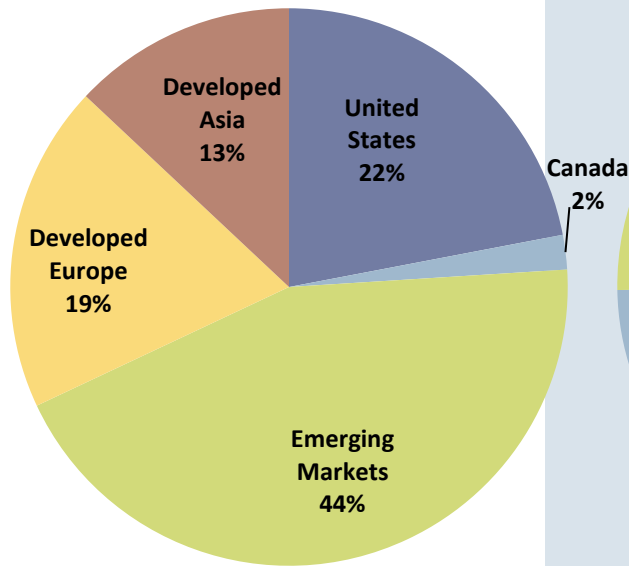
- Further diversify the investment portfolio geographically by expanding non-US investment portfolio
- Focus on alignment of interests on private and public investments
- Continued focus on keeping costs low

Operational

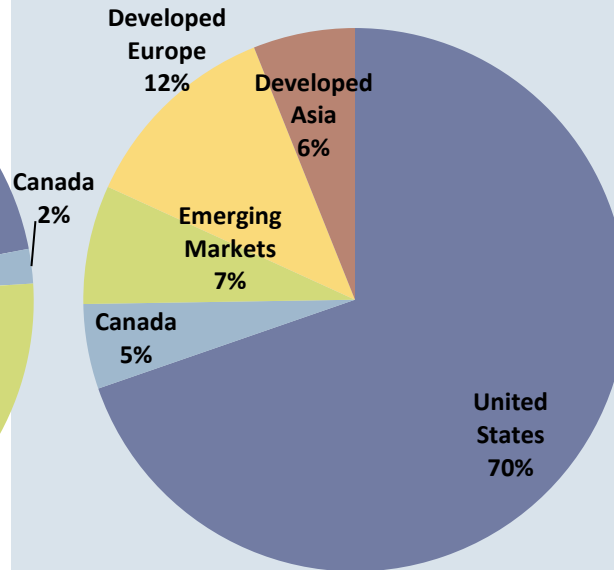
- Complete Regulation Re-adoption (required every 7 years) and create the Division's first Investment Policy Statement
- Relocate Division's trade desk to improve communication and performance as well as upgrade technology

Geographic Diversification 6/30/12

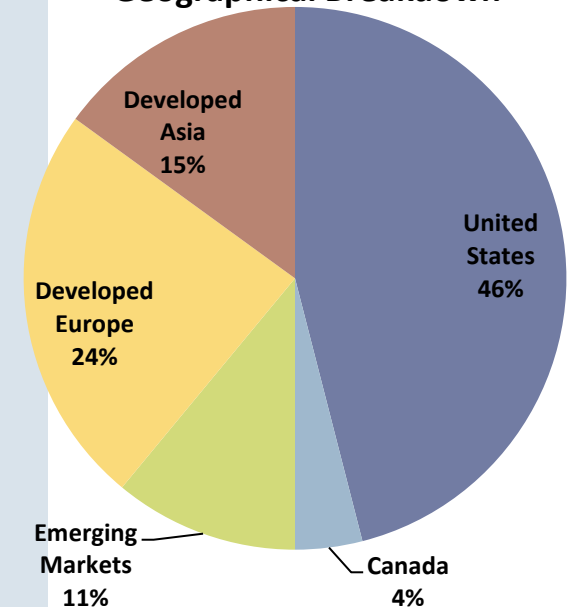
**World GDP
Geographical Breakdown**



**NJ Total Fund
Geographic Exposure**



**MSCI All Country World Investable
Market Index
Geographical Breakdown**



- While geographic diversification has improved in the last several years, the portfolio continues to be heavily weighted towards the US, particularly within fixed income and real estate. This is in contrast to Global GDP and world equity market capitalizations.
- MSCI ACWI IMI is a broad global equity benchmark that covers over 9,000 securities across large, mid and small cap size segments and across style and sector segments in 45 Developed and Emerging Markets.

Keeping Costs Low

	TPG Specialty Lending	Recent IPOs: Publicly Traded BDC
Transaction Fee on \$100 million	\$0	\$7,500,000
Management Fee on \$100 million	\$1,500,000	\$3,260,000
Total Fees for Year 1	\$1,500,000	\$10,760,000
Estimated Fees for Years 1-5, 9% annual return	\$10,125,000	\$26,800,000

TPG Specialty Lending is a NJ Alternative Investment that makes loans to mid-sized businesses. A business development company (“BDC”) is an investment vehicle used to provide capital to small and medium-sized businesses.

Alignment of Interest?

	<u>Apple Inc. (AAPL)</u>	<u>Google Inc. (GOOG)</u>
NJDOI Holdings	1,812,000 Shares	336,000 Shares
Estimated Value of NJDOI Holdings	\$1 Billion	\$195 Million
Net Cash on Company's Balance Sheet	\$117 Billion	\$38 Billion
NJDOI's Proportional Share of Cash	\$226 Million	\$39 Million

Approximate data as of 6/30/2012
Source: Bloomberg

Examples of 2013 Issues That Will Impact Asset Allocation Decisions

Rising Interest Rates

Chinese Growth

Ongoing US Fiscal Cliff Situation

Currency Movements

Commodity Markets

Impact of Rising US Interest Rates

U.S. interest rates are currently at historical lows...what is the impact of a rise in interest rates on the Fund's fixed income portfolio alone?

Scenario Analysis*

Increase of **100** basis points across the yield curve

➤ Fixed income portfolio loss of **\$1.5** billion

Increase of **200** basis points across the yield curve

➤ Fixed income portfolio loss of **\$2.9** billion

Increase of **300** basis points across the yield curve

➤ Fixed income portfolio loss of **\$4.0** billion

**Represents potential losses as of June 15, 2012*