

NEW JERSEY DIVISION OF INVESTMENT



ANNUAL MEETING
State Investment Council
January 31, 2024

“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.”

Background: The New Jersey State Investment Council

New Jersey State Investment Council (the “Council”)

- **The Council is responsible for the formulation of policies that govern the investment of funds by the Division of Investment consistent with the fiduciary duties set forth by statute**
 - The Council provides fiduciary oversight for the assets managed by the Division
 - The Pension Fund, with \$93.2 billion in assets, comprises the bulk of assets managed by the Division
 - Pursuant to P.L. 2018, c. 55, the authority to direct investment policy of the Police and Firemen’s Retirement System of New Jersey (“PFRS”) was transferred from the Council to the Board of Trustees of the Police and Firemen’s Retirement System of New Jersey.
 - The Council retains its oversight responsibility for the non-PFRS portion of the Pension Fund
- **The Council is NOT responsible for:**
 - Funding Policy (plan contributions)
 - Benefits Policy (plan design)
 - Actuarial Activities (setting actuarial expected return)

Background: The State of New Jersey Division of Investment

New Jersey Division of Investment (the "Division")

Division of Investment Assets under Management		Division of Investment "At a Glance"	
Assets as of 6/30/2023	(\$ millions)	<ul style="list-style-type: none"> • 22nd largest U.S. pension fund manager⁽³⁾ • 58 active employees with a \$11.5 million personnel budget⁽⁴⁾ • During Fiscal Year 2023, the Division traded: <ul style="list-style-type: none"> ➤ 414 million shares of stock worth \$6.7 billion ➤ \$10.6 billion in fixed income securities⁽⁵⁾ ➤ \$891 million in foreign currency transactions • During Fiscal Year 2023, the Pension Fund earned: <ul style="list-style-type: none"> ➤ \$1.043 billion in stock dividends ➤ \$421 million in bond interest 	
Pension Fund ⁽¹⁾	93,213		
Cash Management Fund (CMF)	38,985		
Deferred Compensation Plan funds (DCP)	725		
NJBEST Funds (NJBEST)	113		
Supplemental Annuity Collective Trust (SACT)	287		
Trustees for the Support of Public Schools Fund (TSPSF)	169		
Total⁽²⁾	\$ 125,558		

Note: All figures are as of June 30, 2023 unless otherwise noted.

(1) Throughout this presentation, Pension Fund totals include PFRS assets.

(2) The total excludes \$8 billion held in CMF which is included in the totals for the Pension Fund, the DCP, NJBEST, SACT, and TSPSF. Additionally, the Division held \$2.3 thousand in a separate account on behalf of the State of New Jersey.

(3) Measured by assets as of September 30, 2022. Reported by P&I on February 10, 2023

(4) As of January 2024

(5) The total trades in fixed income securities include only the Pension Fund

Division of Investment Update: 2023 Year in Review

State Investment Council (SIC) approved a revised asset allocation plan

- During FY 2022, at the direction of the SIC the Division's general consultant RVK, Inc. conducted an asset/liability study.
- Following the completion of the asset/liability study, during FY 2023, SIC approved a revised asset allocation plan with minor changes made to select long-term asset allocation targets.
- Additionally, the SIC reviewed and where needed, updated asset allocation allowable ranges.
- New plan effective on October 1, 2023.

Continued progress on the emerging managers program for private market asset classes

- Primary objective is to increase the Division's allocations to smaller, emerging, diverse and off-the-radar investment managers.
- Emerging managers symposium successfully conducted during FY 2023.
- First sleeve of the program is private equity.
- Second sleeve is real estate.
- Investment team now working on a private credit sleeve.

Continued effort to strengthen the team

- Following up on last year's momentum with the recruitment of a Deputy Director and Senior Legal Specialist, the Division recruited a Head of Private Equity, Head of Private Credit and Chief of Staff in 2023.
- The Division also attracted talent in other areas, including several newly-minted college graduates who joined the investment team. In doing so, we aim to build on existing talent across the Division while also training & developing the next bench and future leaders at the Division.

NJ Pension Fund Annual Performance: Fiscal Years 2004-2023⁽²⁾

Fiscal Year	NJ Pension Fund ⁽¹⁾	Policy Benchmark	Variance (in bps)
2023	9.06	8.43	63
2022	-7.90	-4.67	-323
2021	28.63	26.28	235
2020	1.21	4.13	-292
2019	6.27	7.07	-80
2018	9.06	8.65	41
2017	13.07	13.14	-7
2016	-0.93	0.23	-116
2015	4.09	2.93	116
2014	16.79	15.79	100
2013	11.72	10.96	76
2012	2.47	0.26	221
2011	17.97	17.13	84
2010	13.34	13.51	-17
2009	-15.49	-14.76	-73
2008	-2.61	-6.00	339
2007	17.14	16.49	65
2006	9.79	8.13	166
2005	8.77	8.07	70
2004	14.16	14.44	-28
5 Year Annualized Returns	6.80	7.79	-99
10 Year Annualized Returns	7.51	7.89	-38
20 Year Annualized Returns	7.38	7.10	27

(1) Throughout this presentation, NJ Pension Fund returns exclude Police and Fire Mortgage program assets.

(2) Throughout this presentation, returns are preliminary, unaudited, and net of fees. Certain asset class returns, including private equity, real assets, real estate, and private credit do not include up-to-date valuations and benchmark returns for these asset classes are calculated on a lagged basis. This results in performance comparisons that may be less meaningful.

Long-Term Capital Market Returns

Annualized Returns for Periods Ending December 31, 2023 (%)

	One Year	Three Years	Five Years	Ten Years	Fifteen Years
Global Equity Indices					
MSCI ALL Country World Index	22.20	5.75	11.71	7.92	10.20
US Equity Indices					
MSCI USA	27.10	9.13	15.73	11.97	14.00
Russell 1000	26.50	8.95	15.49	11.79	14.00
Russell 2000	16.88	2.19	9.93	7.13	11.27
Russell 3000	25.93	8.52	15.13	11.46	13.82
Russell Growth	41.20	8.07	18.83	14.32	16.35
Russell Value	11.61	8.76	10.80	8.25	11.01
Non-US Equity Indices					
MSCI EAFE	18.24	4.02	8.16	4.28	6.93
MSCI EAFE + Canada	17.94	4.42	8.45	4.31	6.97
MSCI Emerging Markets	9.83	-5.08	3.68	2.66	6.55
Private Equity Index					
Cambridge Global PE and VC Index ⁽¹⁾	3.68	15.50	15.46	15.06	12.70

⁽¹⁾ Cambridge Global PE and VC Index returns are presented with a three-month lag and are calculated on an IRR basis.

Source: Bloomberg and Cambridge Associates

Long-Term Capital Market Returns

Annualized Returns for Periods Ending December 31, 2023 (%)

	One Year	Three Years	Five Years	Ten Years	Fifteen Years
Fixed Income Indices					
Bloomberg Barclays U.S. Aggregate	5.53	-3.31	1.10	1.81	2.68
Bloomberg Barclays U.S. Treasury	4.05	-3.82	0.53	1.27	1.56
Bloomberg Barclays U.S. Credit	8.18	-3.21	2.45	2.83	4.49
Bloomberg Barclays U.S. Credit (A or better)	7.23	-3.45	1.89	2.46	3.76
Bloomberg Barclays U.S. Credit (Baa)	9.41	-2.88	3.14	3.30	5.75
Bloomberg Barclays U.S. High Yield	13.45	1.98	5.37	4.59	9.17
S&P/LSTA Leveraged Loan Index	13.32	5.76	5.79	4.41	7.63
Cliffwater BDC Index	26.56	16.00	12.75	7.17	11.40
Real Estate Indices					
NCREIF ODCE Index ⁽¹⁾	-12.88	6.19	4.72	7.19	4.65
Bloomberg U.S. REIT Index	9.07	4.18	6.41	7.50	10.58
Real Assets Index					
Custom Cambridge Blend for Real Assets ⁽¹⁾	5.31	16.81	4.99	3.03	n/a

⁽¹⁾ NCREIF ODCE and Property Index returns are presented with a three-month lag

Source: Bloomberg, State St and National Council of Real Estate Investment Fiduciaries

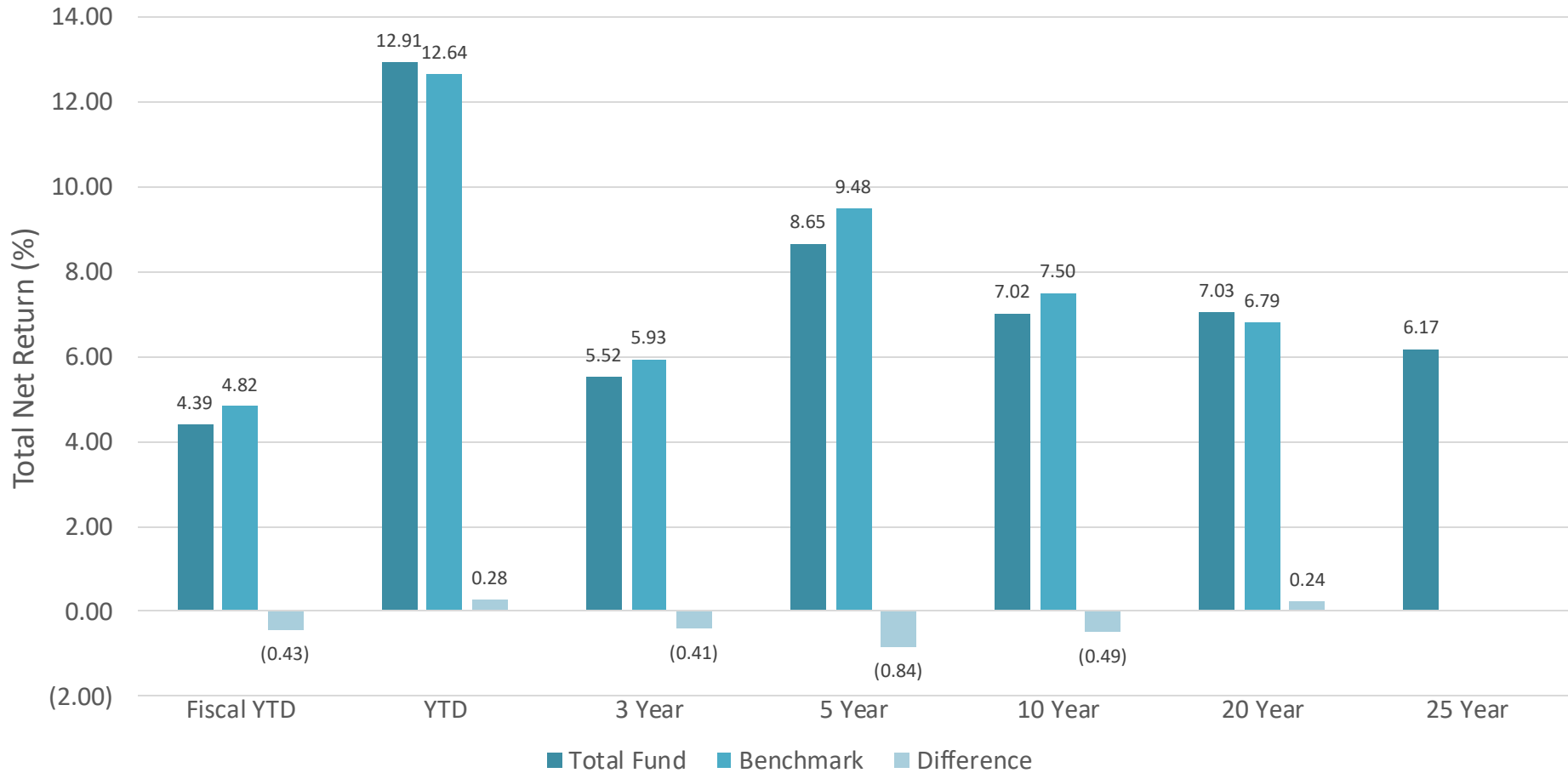
Ten Year Periodic Table of Returns⁽¹⁾

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2023
Private Equity 17.63	Real Estate 13.86	High Yield 17.13	Emerging Markets 37.28	Private Equity 17.91	Russell 3000 31.01	Russell 3000 20.88	Private Equity 53.64	Real Estate 20.96	Russell 3000 25.93	Private Equity 14.75
Russell 3000 12.55	Private Equity 11.48	Russell 3000 12.72	EAFE & Canada 24.21	Real Estate 7.71	EAFE & Canada 22.49	Private Equity 20.37	Commodities 27.05	Commodities 13.75	EAFE & Canada 17.94	Russell 3000 11.47
Real Estate 11.36	Treasuries 0.84	Commodities 11.40	Russell 3000 21.12	Treasuries 0.86	Emerging Markets 18.42	Emerging Markets 18.31	Russell 3000 25.64	Private Equity -5.57	High Yield 13.45	Real Estate 7.19
Corporates 7.46	Russell 3000 0.47	Emerging Markets 11.19	Private Equity 16.97	High Yield -2.08	Corporates 14.54	Corporates 9.89	Real Estate 13.64	High Yield -11.19	Emerging Markets 9.83	High Yield 4.60
Treasuries 5.05	Corporates -0.68	Private Equity 9.46	High Yield 7.50	Corporates -2.51	High Yield 14.32	Treasuries 8.00	EAFE & Canada 12.62	Treasuries -12.46	Corporates 8.52	EAFE & Canada 4.32
High Yield 2.45	EAFE & Canada -3.04	Real Estate 9.08	Real Estate 6.70	Russell 3000 -5.25	Private Equity 10.44	EAFE & Canada 7.59	High Yield 5.28	EAFE & Canada -14.29	Treasuries 4.05	Corporates 2.95
Emerging Markets -2.19	High Yield -4.47	Corporates 6.11	Corporates 6.42	Commodities -12.99	Treasuries 6.86	High Yield 7.11	Corporates -1.04	Corporates -15.76	Private Equity 3.68	Emerging Markets 2.66
EAFE & Canada -4.32	Emerging Markets -14.92	EAFE & Canada 2.75	Treasuries 2.31	EAFE & Canada -14.09	Commodities 5.44	Real Estate 0.52	Treasuries -2.32	Russell 3000 -19.22	Commodities -12.55	Treasuries 1.27
Commodities -17.04	Commodities -24.70	Treasuries 1.04	Commodities 0.75	Emerging Markets -14.57	Real Estate 4.64	Commodities -3.50	Emerging Markets -2.54	Emerging Markets -20.09	Real Estate -12.88	Commodities -2.40

Over the past ten years, Private Equity, U.S. Equities, and Real Estate were the three best performing asset classes. The wide variation of returns amongst asset classes in each of the past ten years reinforces the important role of diversification in asset allocation.

(1) Private Equity and Real Estate returns are presented with a three-month lag. Private Equity returns are calculated using an IRR methodology. Source: Bloomberg/DOI calculations, Cambridge Associates, and National Council of Real Estate Investment Fiduciaries

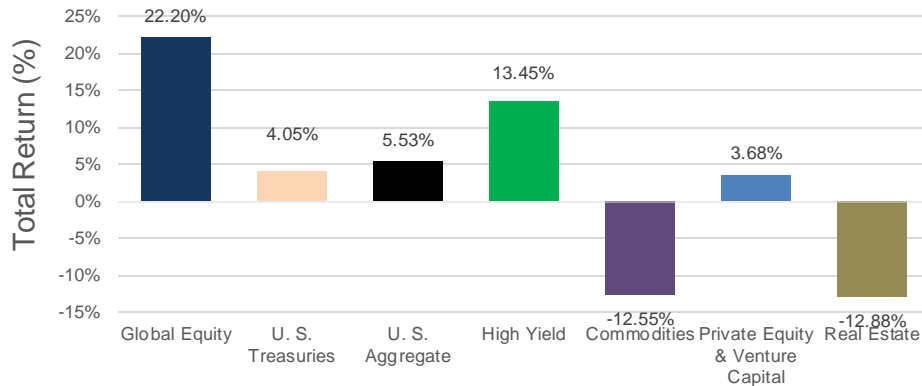
Long-Term NJ Pension Fund Returns⁽¹⁾ versus Policy Benchmark (as of December 31, 2023)



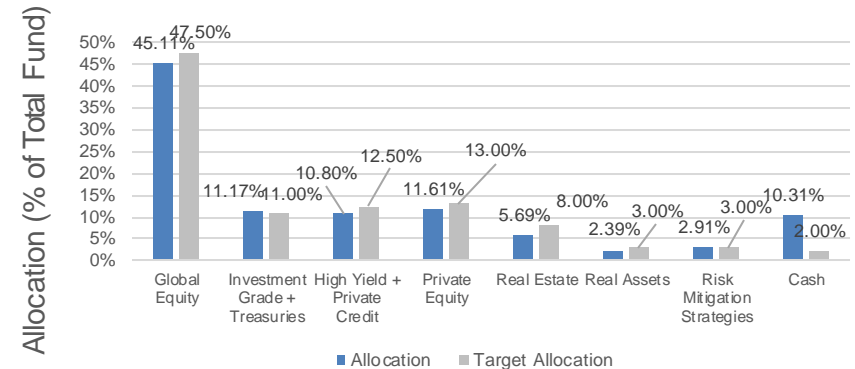
¹ Benchmark return not available for 25-Year period

2023 Capital Markets Review: Asset Class Returns

CY 2023 Select Asset Class Returns (1)



CY 2023 Pension Fund Asset Allocation



In 2023, the Federal Reserve appears to have completed their fight against inflation with the 25bps increase in July. The perception that the rate rising cycle was complete, coupled with inflation measures continuing to abate, allowed for public equity markets to perform quite well. The higher for longer impact of rates was felt in the private markets as Real Estate, Private Equity and Commodities continued to adjust to the new rate environment. Fixed Income suffered some volatility during 2023 but wound up delivering their coupon.

In 2023, Cash continued to provide real return while lowering the risk profile of the plan. This Cash position, coupled with a healthy allocation, although slight underweight, to Global Equities provided the plan with a bar-belled exposure to uncertain capital markets. Duration risk was increased during the year as rates neared 5% while the Private Market asset class weightings continued to be worked higher (towards targets) through consistent deployment.

Slowing inflation and slowing monetary tightening policies in 2023 provided the easing in financial conditions which allowed for a resumption of risk taking in the public equity and public and private credit markets.

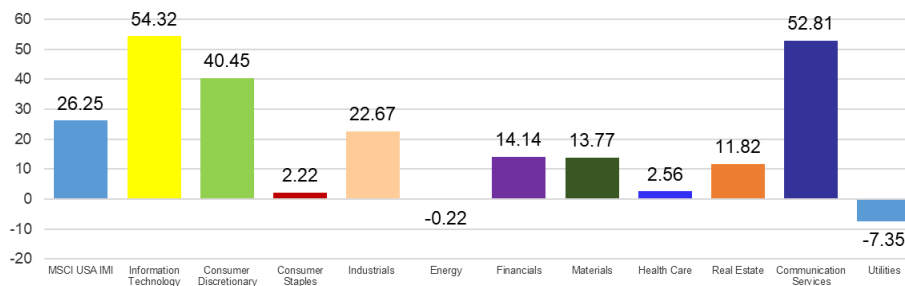
(1) Private Equity (PE) and Real Estate (RE) returns reflect a three-month lag.

Source: Bloomberg, Cambridge Associates, National Council of Real Estate Investment Fiduciaries, State Street

2023 Capital Markets Review: U.S. Equity Returns

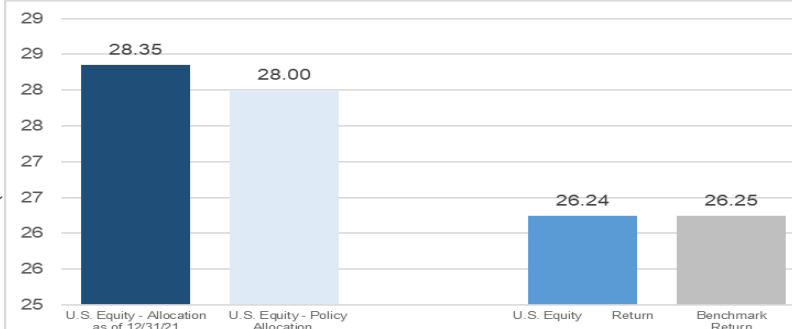
2023 U.S. Equity Sector Returns

Total Return (%)



2023 U.S. Equity Asset Allocation and Returns

Allocation (% of Total Fund)



The U.S. market surprisingly finished calendar year 2023 up 26.25% - a total reversal of the losses in 2022, one of the worst years of performance.

Several narratives emerged in 2023, starting with fears of recession, which led to intense buying of mega caps(1) – perceived to be economically resilient - and those stocks related to the growth prospects of AI.

The narrative then shifted to uncertainty regarding interest rates remaining higher for longer which caused the market to decline, before a perception of the Fed pivoting away from tightening spurred a strong rally in the 4th quarter.

A narrow concentration of Technology, Discretionary, and Communication securities dominated overall market performance.

In the fall of 2023, a tactical decrease in the allocation to U.S. Equity was implemented as a means to mitigate the Pension Fund's risk from the exposure to equity, on concerns pertaining to volatile market dynamics.

The portfolio value was reduced by slightly over \$900 million, bringing the allocation closer to the Policy Target of 28%.

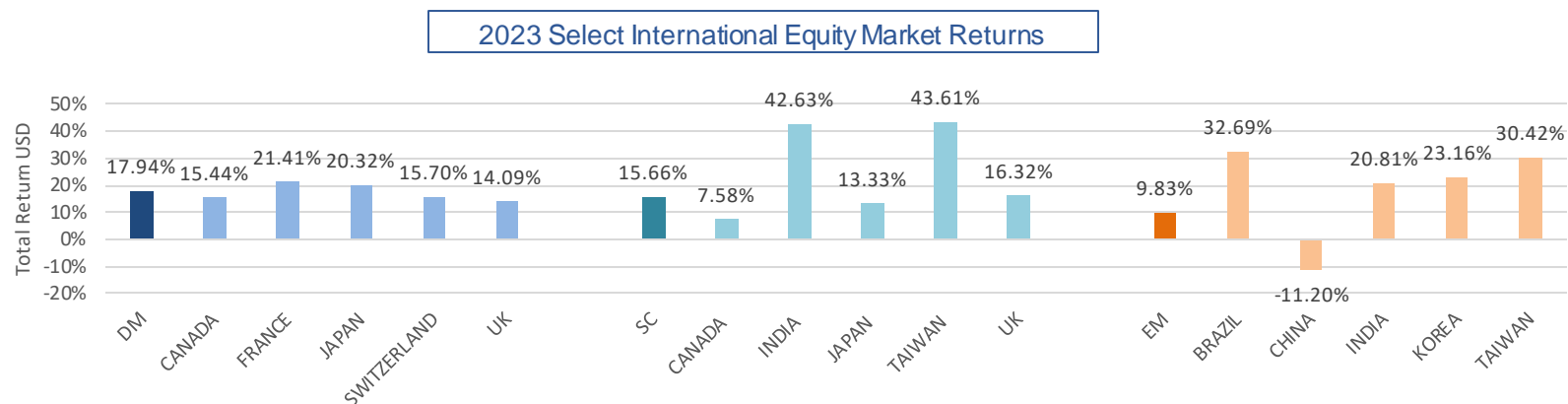
For 2023, the optimization strategy informing the portfolio's passive construction performed as expected, as the portfolio return was aligned with the benchmark return.

The year 2023 reflected a series of sharp shifts in market narratives, as uncertainty regarding the economic outlook caused volatile changes in market dynamics.

(1) Example: Apple, Amazon, Tesla, Microsoft, Meta, Alphabet, NVIDIA

Source: Bloomberg, MSCI, State Street

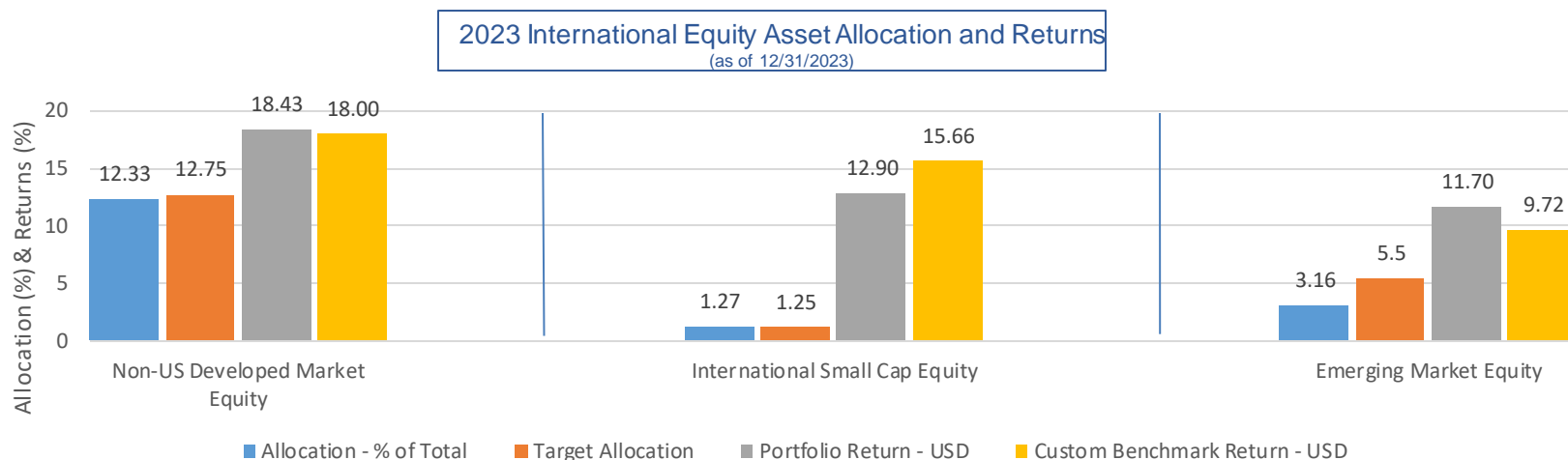
2023 Capital Markets Review: International Equity Market Returns



International equity markets ended the year up 15.6%, as measured by the MSCI All-Country ex US Index, after participating in a 4th quarter rally in global risk assets. The strong performance is remarkable considering the markets endured turmoil in the US and European banking sector, soaring bond yields, and geopolitical conflicts in Eastern Europe and the Middle East. These events increased the fears of a pending recession, causing the international markets to trade range bound until late fall following dovish comments from the Federal Reserve. As the perception of a pivot in the Fed's tightening policy took hold, and inflation levels eased, a risk-on sentiment propelled global markets ex US to rise 9.75% in the last quarter of the year.

Non-US Developed Market Equity (DM) rose 10.5% in the 4th quarter to finish the year at a positive 17.9%, and International Small Cap Equity (SC) rose 10.1% in the final quarter to close the year up 15.7%. Emerging Market Equity (EM) provided less robust, positive returns of 9.8% for the year as China disappointed investors who expected a strong recovery after the easing of COVID restrictions. Instead, China continued to struggle with addressing the high levels of debt embedded in the real estate industry and local governments that is impeding economic growth. The global rise in interest rates only intensified investors' uncertainty pertaining to the faltering economy, resulting in China ending the year as the worst performing country in Emerging Markets.

2023 Capital Markets Review: Allocation and Portfolio Returns

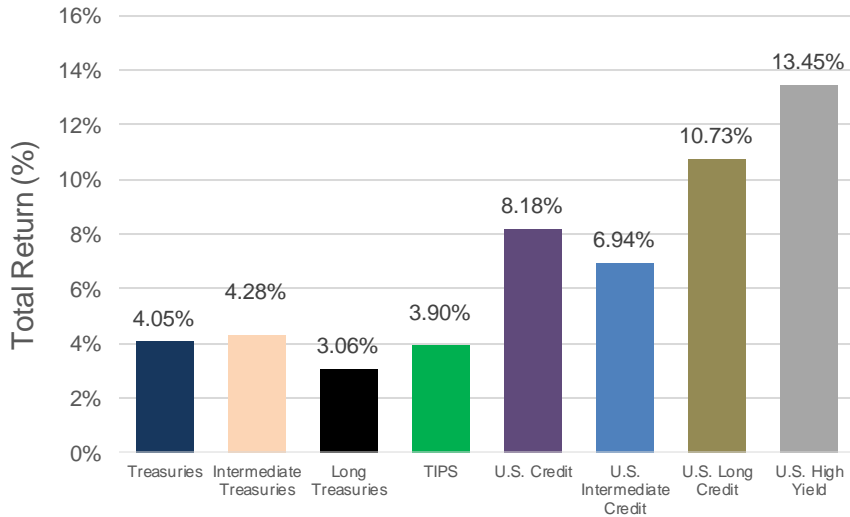


During the calendar year 2023, there were no changes to the allocation levels of Non-US Developed Market Equity or International Small Cap Equity; however, the International Small Cap Equity, formerly a component of the Non-US Developed Market Equity asset class, was segregated from the Non-US Developed Market Equity allocation with a target allocation set to 1.25% and the Non-US Developed Market Equity target allocation was increased by 0.50% to 12.75%. The Non-US Developed Market Equity portfolio exceeded its benchmark return by 43 basis points returning 18.43%; conversely, the International Small Cap Equity portfolio, with a heavy growth tilt, lagged its benchmark return by 276 basis points returning 12.90%.

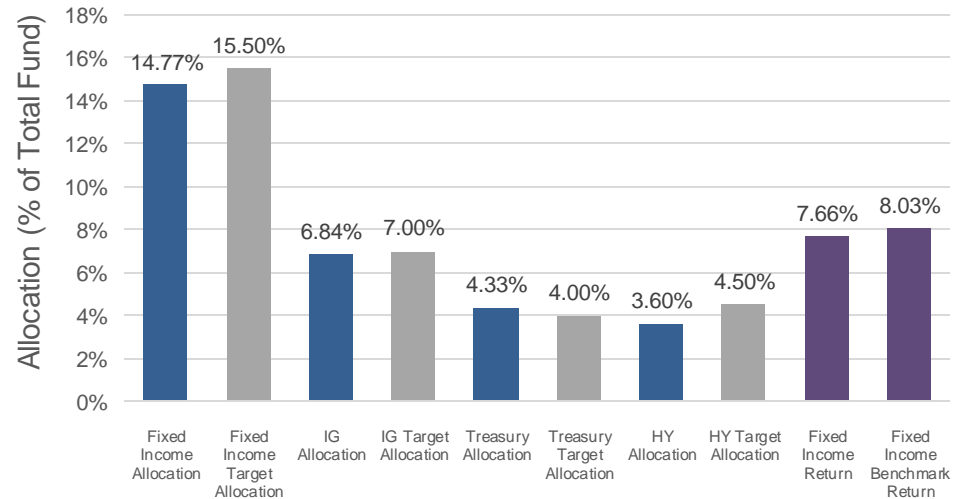
In the 4th quarter of 2023, the allocation to Emerging Markets was decreased from 5.0% to 3.2% as a means to de-risk the portfolio ahead of the conflict in the Middle East. Nonetheless, the Emerging Market Equity portfolio outperformed its benchmark by nearly 2%, returning 11.7% as value focused strategies continued to provide superior performance relative to the broad market index.

2023 Capital Markets Review: Fixed Income Returns

CY 2023 Select Fixed Income Returns



CY 2023 Pension Fund Asset Allocation and Returns

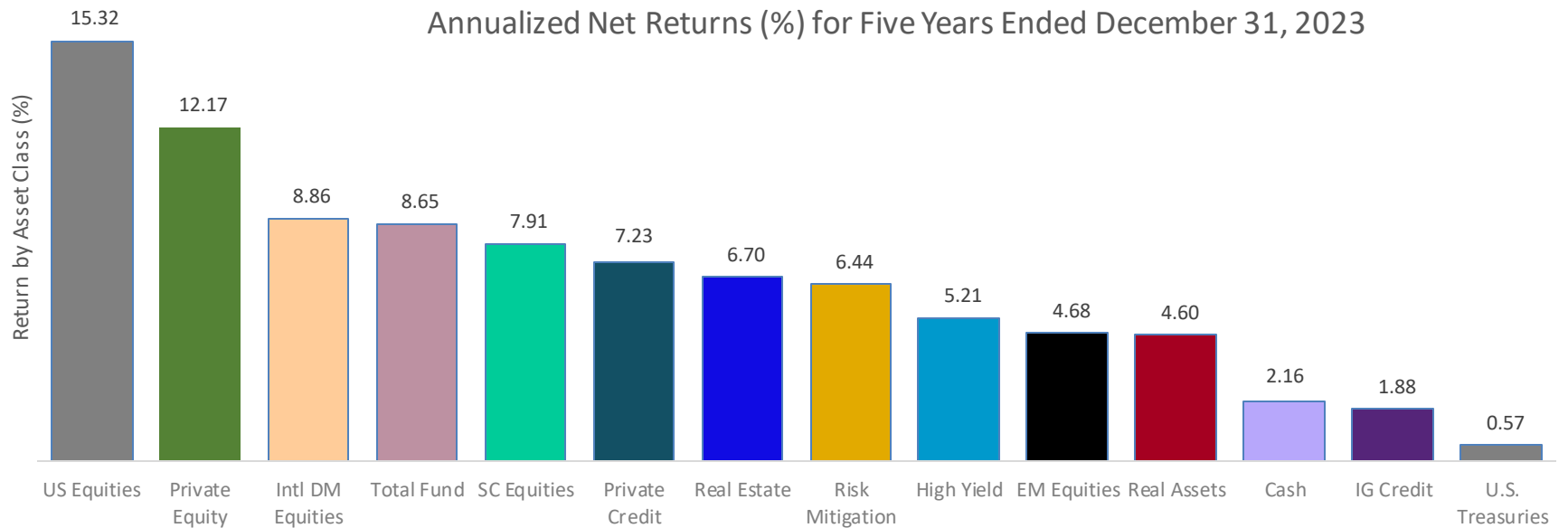
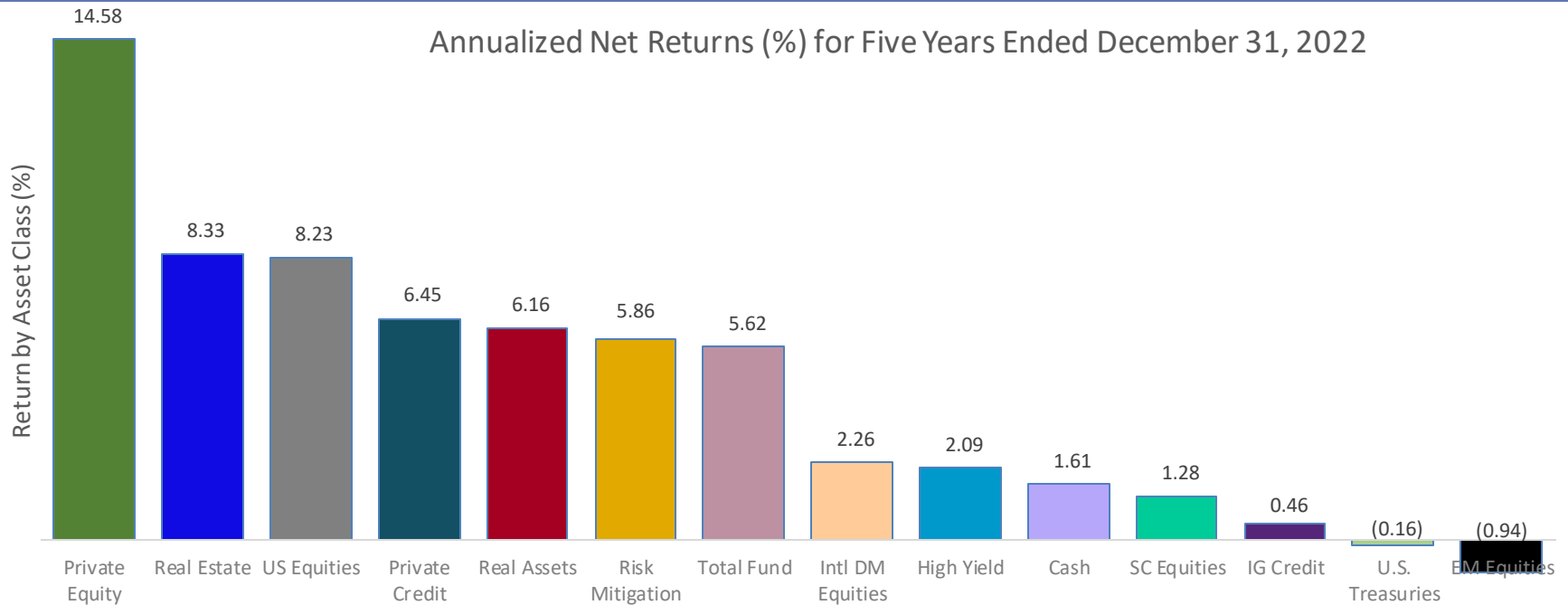


Fixed Income realized solid returns as the Federal Reserve completed their hiking cycle in July. Outperformance came from the lower quality part of the fixed income markets. High Yield (HY) and Long Credit were the outperformers as spreads tightened over the year. Treasuries provided effective carry as the inverted yield curve bull steepened somewhat over the year.

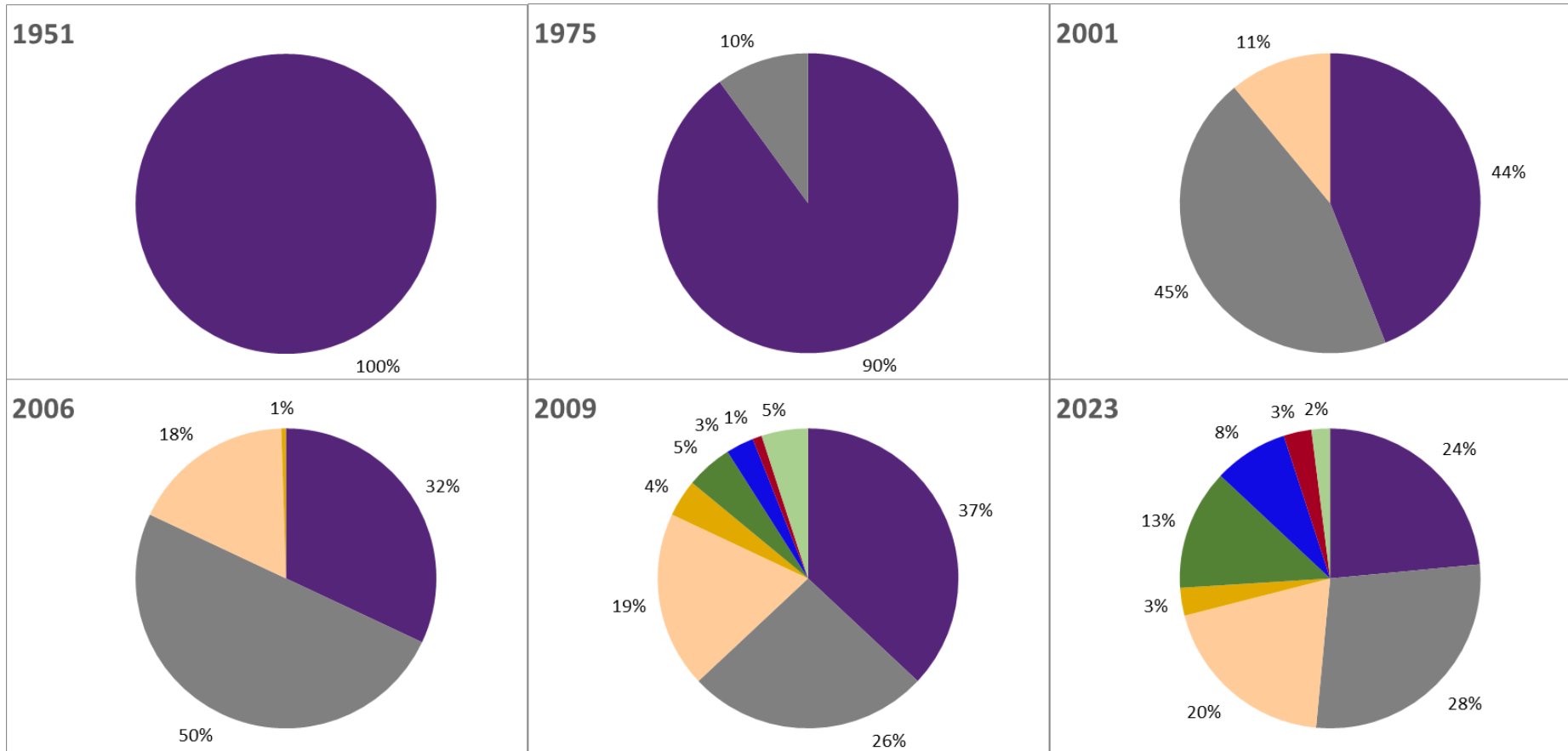
Fixed Income slightly underperformed the benchmark as the portfolio was positioned somewhat defensively entering a year where "hard landing" was the expected outcome. The U.S. economy was more resilient than forecast and credit markets surprised to the upside. An underweight to a recently increased High Yield target (+50bps) was the main contributor to underperformance versus the benchmark.

During 2023, the "soft landing" narrative took hold as inflation ebbed over the course of the year. Risk outperformed as attractive spreads at the start of the year compressed meaningfully.

Pension Fund Five Year Net Returns By Asset Class



Pension Fund Asset Allocation: A Long-Term Perspective



Legend:



The well-diversified NJ Pension Fund asset allocation has evolved over a period of decades from a portfolio comprised solely of fixed income securities.

(1) 2023 reflects the Council's current targeted asset allocation that took effect on October 1, 2023

Note: Totals may not equal 100% due to rounding

Recent Trends in the Pension Fund's Targeted Asset Allocation⁽¹⁾

Asset Class	FY 2016 Target ⁽²⁾	FY 2017-19 Target	FY 2020 Target	FY 2021-22 Target	FY 2023 Target	FY 2024 Target ⁽³⁾
GLOBAL GROWTH	54.75%	58.25%	59.00%	59.00%	59.00%	60.50%
US Equity	26.00%	30.00%	28.00%	27.00%	27.00%	28.00%
Non-U.S. DM Equity	13.25%	11.50%	12.50%	13.50%	13.50%	12.75%
International Small Cap Equity ⁽⁴⁾						1.25%
Emerging Market Eq	6.50%	6.50%	6.50%	5.50%	5.50%	5.50%
Private Equity	9.00%	10.25%	12.00%	13.00%	13.00%	13.00%
REAL RETURN	8.55%	9.75%	10.00%	11.00%	11.00%	11.00%
Real Estate	6.05%	7.25%	7.50%	8.00%	8.00%	8.00%
Real Assets	2.50%	2.50%	2.50%	3.00%	3.00%	3.00%
INCOME	18.75%	18.50%	18.00%	18.00%	19.00%	19.50%
High Yield	2.00%	2.50%	2.00%	2.00%	4.00%	4.50%
Private Credit	8.75%	6.00%	8.00%	8.00%	8.00%	8.00%
Investment Grade Credit	8.00%	10.00%	8.00%	8.00%	7.00%	7.00%
DEFENSIVE	13.00%	13.50%	13.00%	12.00%	11.00%	9.00%
Cash Equivalents	5.00%	5.50%	5.00%	4.00%	4.00%	2.00%
US Treasuries	3.00%	3.00%	5.00%	5.00%	4.00%	4.00%
Risk Mitigation Strategies	5.00%	5.00%	3.00%	3.00%	3.00%	3.00%
TOTAL	95.05%	100.00%	100.00%	100.00%	100.00%	100.00%

- (1) Prior year targeted allocations have been restated to be consistent with the current asset allocation plan categories approved by the Council. Global Diversified Credit and Credit-Oriented Hedge Funds were combined into Private Credit. Buyouts/Venture Cap and Debt-Related Private Equity were combined into Private Equity. Equity-Related Real Estate and Debt-Related Real Estate were combined into Real Estate.
- (2) FY 2016 target excludes a 3.75% allocation to Equity-Oriented Hedge Funds and a 1.2% allocation to the PFRS mortgage program.
- (3) A new target asset allocation was approved effective October 1, 2023.
- (4) Prior year targeted allocations for Non-U.S. DM Equity included International Small Cap Equity. In the targeted allocation that went into effect October 1, 2023, the allocation to International Small Cap Equity is separate from Non-U.S. DM Equity.

Division of Investment Update: 2024 Key Goals and Initiatives

Closely monitor and navigate global markets

- After a period of intense inflation-fighting steps, central banks will likely seek to reduce interest rates in the coming months.
- The Division will need to be diligent in appropriately positioning the pension fund portfolio as the pivot to lower interest rate environment occurs.
- Pension fund portfolio is currently overweight cash & cash equivalents allowing for opportunistic deployment of dry powder.
- Currently underweight in private market asset classes, however strong confidence in current capacity and future pipeline of opportunities being worked on.

Continue to expand the emerging managers platform

- Planning to hold 2nd emerging managers symposium in 2024.
- With two (2) investment sleeves already launched and a third on the way, objective for the next event is to include more one-on-ones with investment partners and managers.
- Recruit and onboard a Diversity & Inclusion Investment Officer.

Issue and complete RFPs/procurements

- A number of RFPs/RFQs need to be issued, reviewed and completed.
- In 2024, the Division will increase its focus towards this.

Division of Investment Update: 2024 Key Goals and Initiatives

Continue to work towards enhancements and strengthening the organization

- Follow-up on the organizational review previously conducted in order to identify key areas of risk and potential staffing gaps.
- Continue effort towards improved processes, infrastructure, and team.
- Systems upgrade and enhancement.

Transfer of assets to the Police & Firemen's Retirement System of New Jersey

- In 2024, the Division will begin the transfer of assets to the Police & Firemen's Retirement System of New Jersey.
- Transferred assets will be managed by the Police & Firemen's Retirement System of New Jersey with oversight from the Division.
- Transferable public securities will be first in terms of transfer priority.