New Jersey State Investment Council
FY 2008 Annual Meeting
Investment Environment and Results

November 20, 2008
William G. Clark
Division of Investment

Outline

I. Summary of Market Environment
II. How We Got Here
III. Pension Fund Performance
IV. Portfolio Decisions FY 2008
V. FY 2009 So Far
VI. Concluding Thoughts

Market Returns for FY 2008

Returns Through June 30, 2008

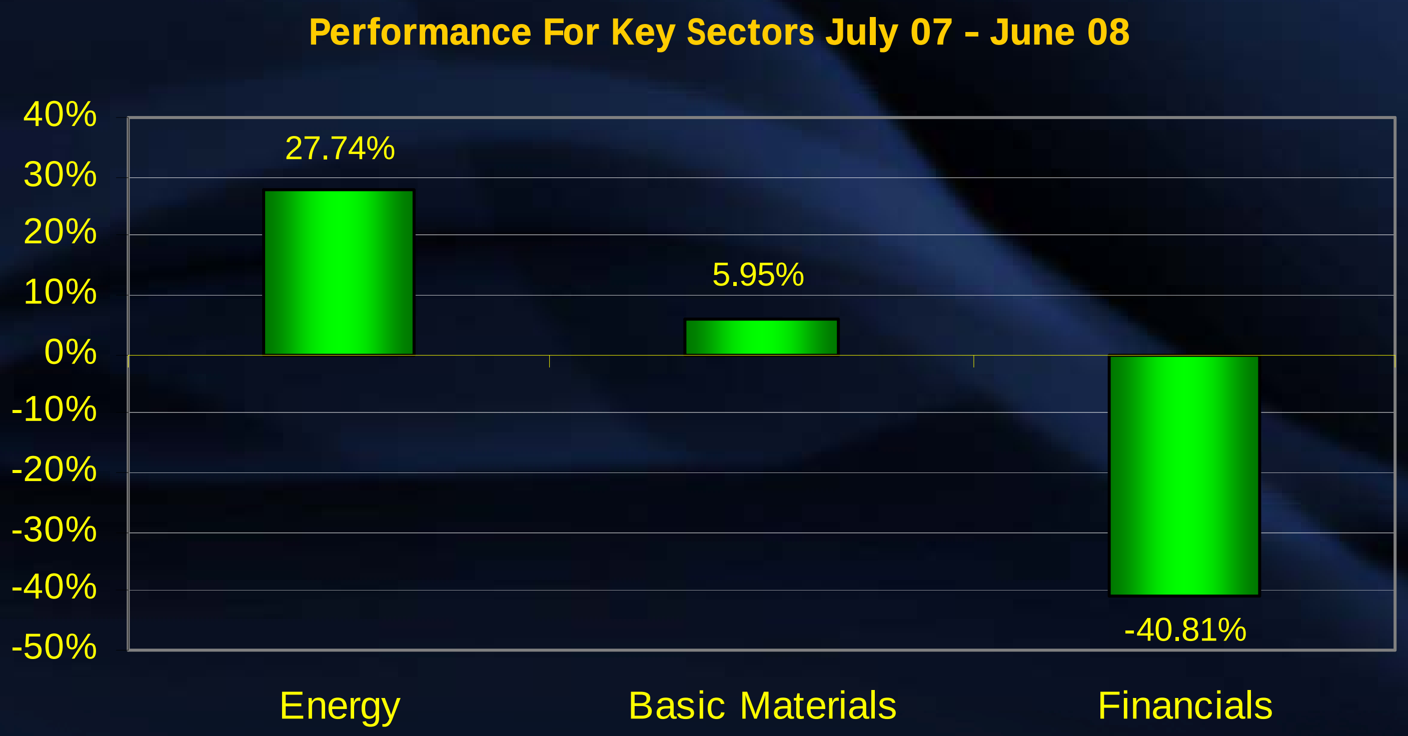
	1 Year	3 Years	5 Years
US Equities			
S&P1500 Index	-12.7%	4.7%	8.2%
International Equities			
MSCI EAFE ex -prohibited	-11.7%	12.6%	16.5%
Emerging Markets Equities			
MSCI Emerging Markets Index	4.6%	27.1%	29.8%
Investment-Grade Bonds			
Lehman Brothers US Treasuries Index	10.3%	4.6%	3.8%
Lehman Brothers Corporate Index	3.1%	2.3%	3.0%
Lehman Brothers Mortgage Backed Index	7.8%	4.8%	4.6%
High Yield Bonds			
Lehman Brothers High Yield Index	-1.6%	4.9%	6.9%

Market Returns for FY 2008

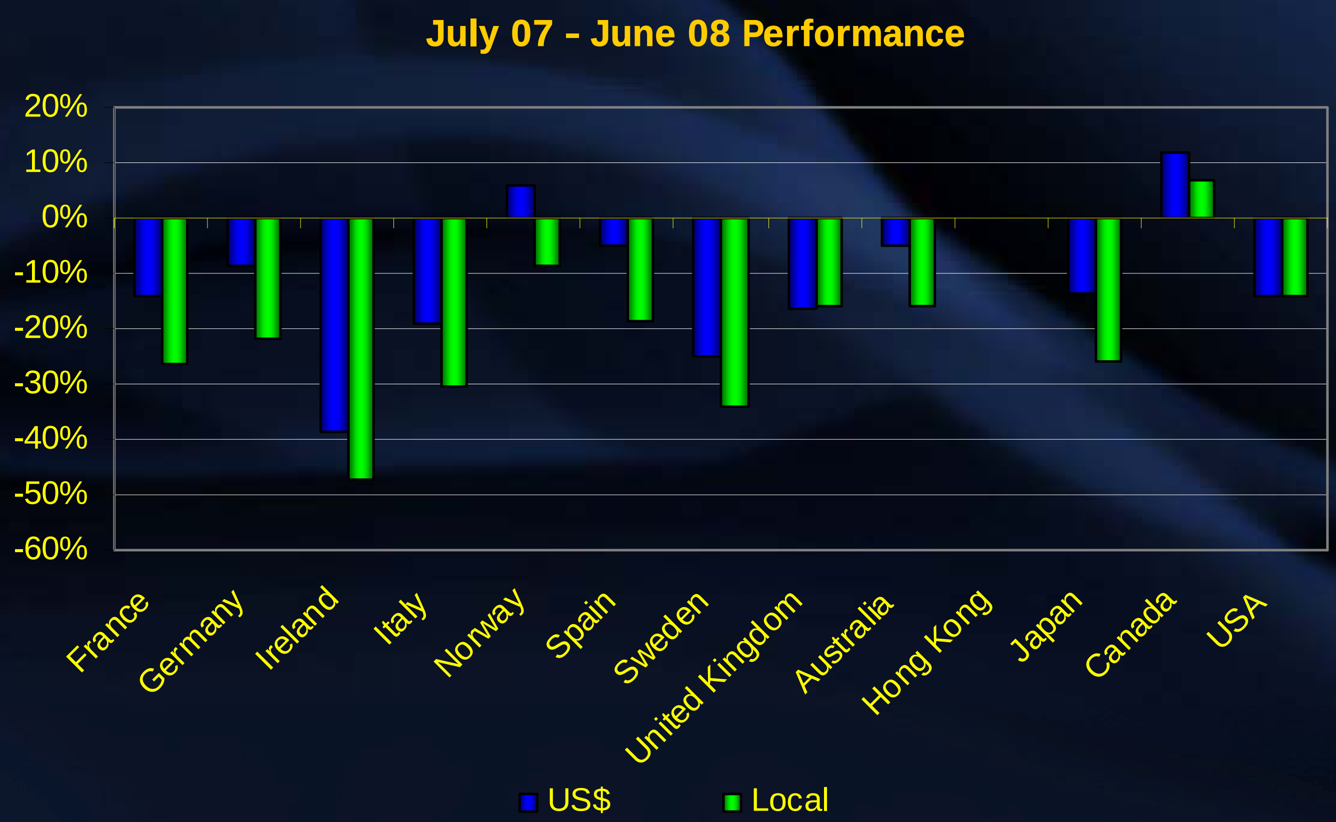
Returns Through June 30, 2008

	1 Year	3 Years	5 Years
Commodities	*41.6%*	*19.8%*	*18.6%*
Private Equity	*-1.5%*	*1.6%*	*10.6%*
Real Estate			
NCREIF Property Index + 100% Index	*10.3%*	*15.9%*	*15.8%*
Hedge Funds			
HFRI Funds of Funds Index	*-0.2%*	*8.1%*	*7.7%*
Cash			
91 Day US T-Bill Index	*3.6%*	*4.3%*	*3.2%*

US Equities – A Tale of Two Markets



International Equities -
Similar story plus additional volatility from "Currency Changes"

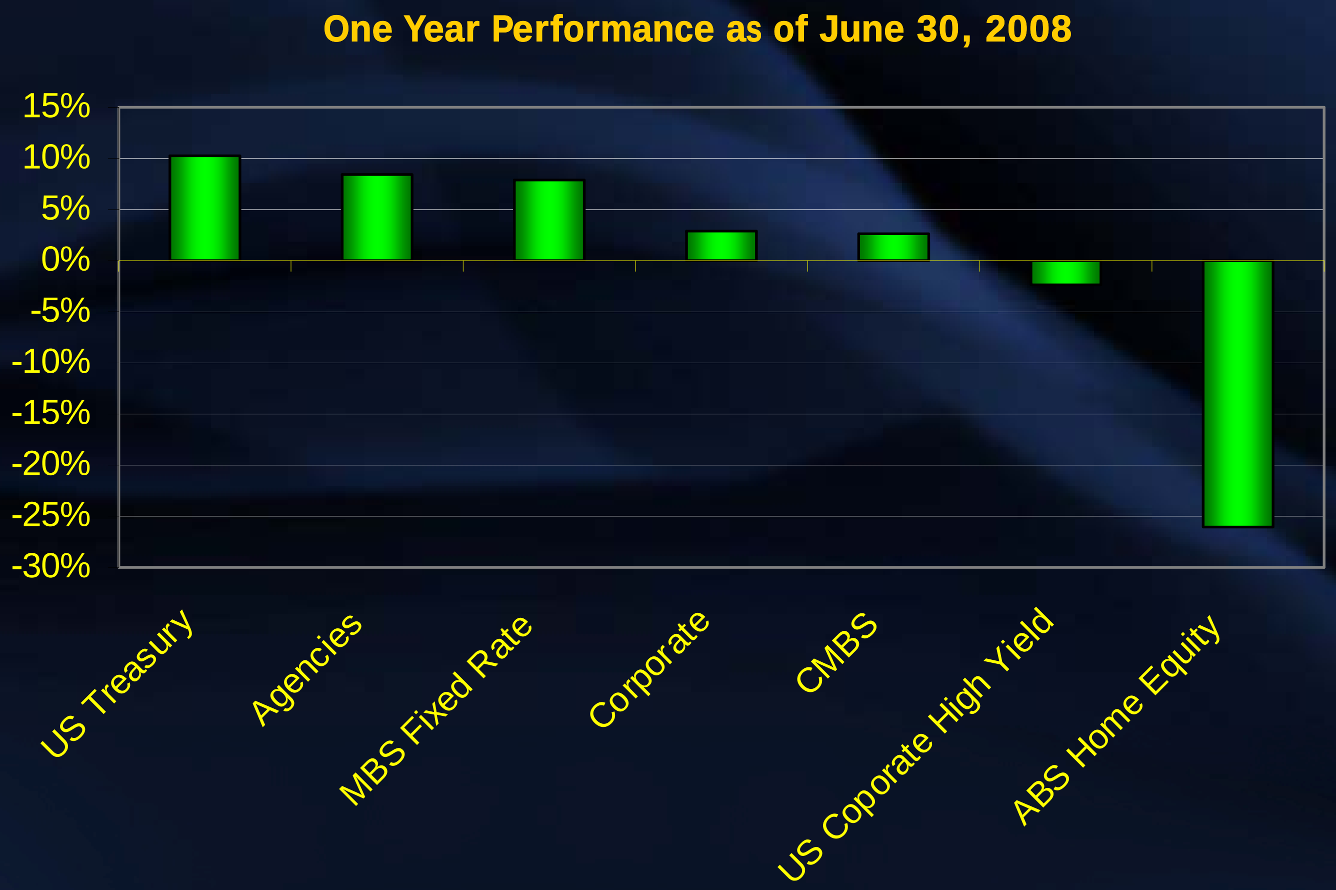


From 2002 through 2007, the markets boomed with the Emerging Markets climbing to unprecedented levels… Markets finally began to turn in 2008

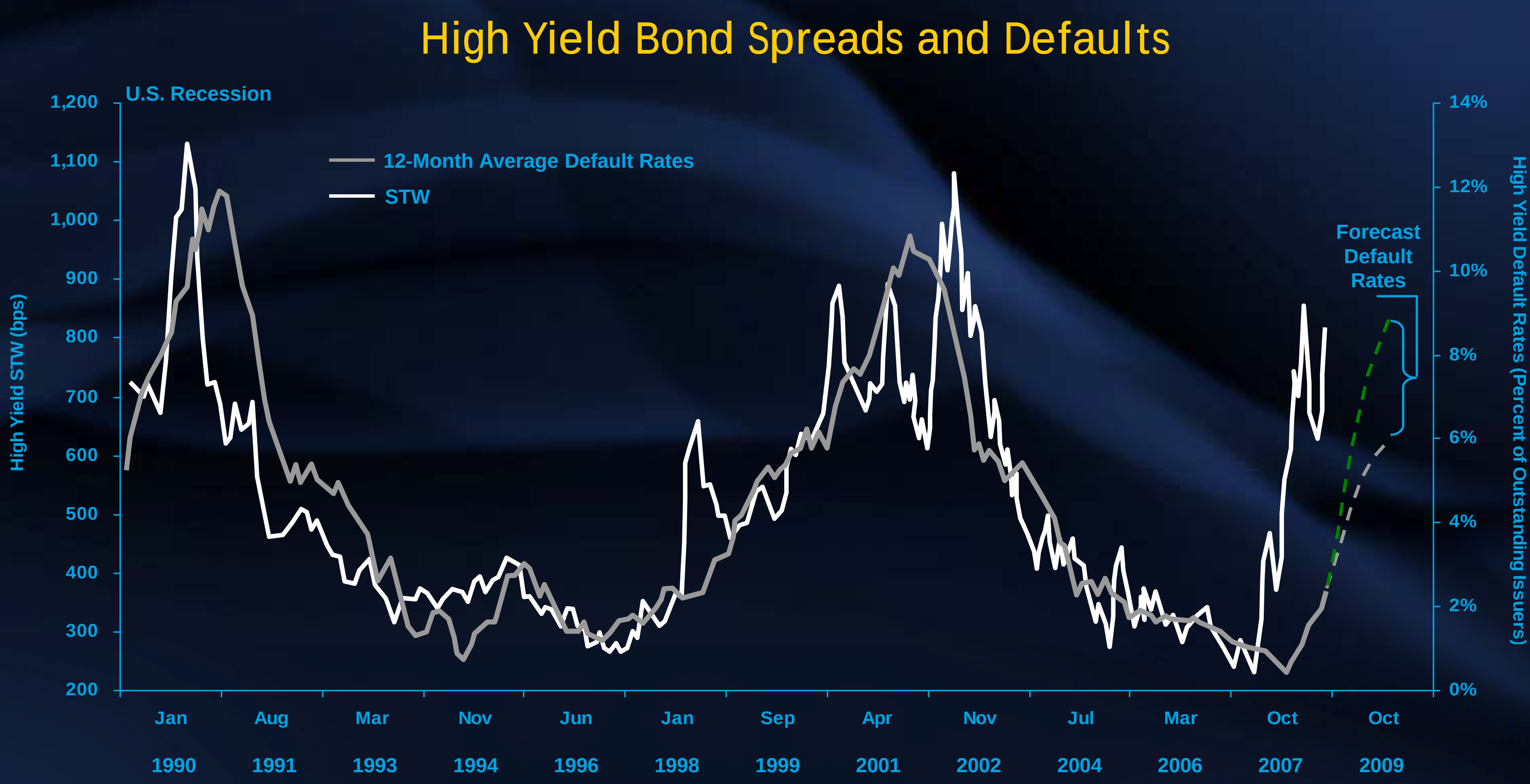
Equity Index Performance by Country / Region
(Dec-2007 to Oct-2008)

Source: FactSet

US Fixed Income Performance By Sector/Industry

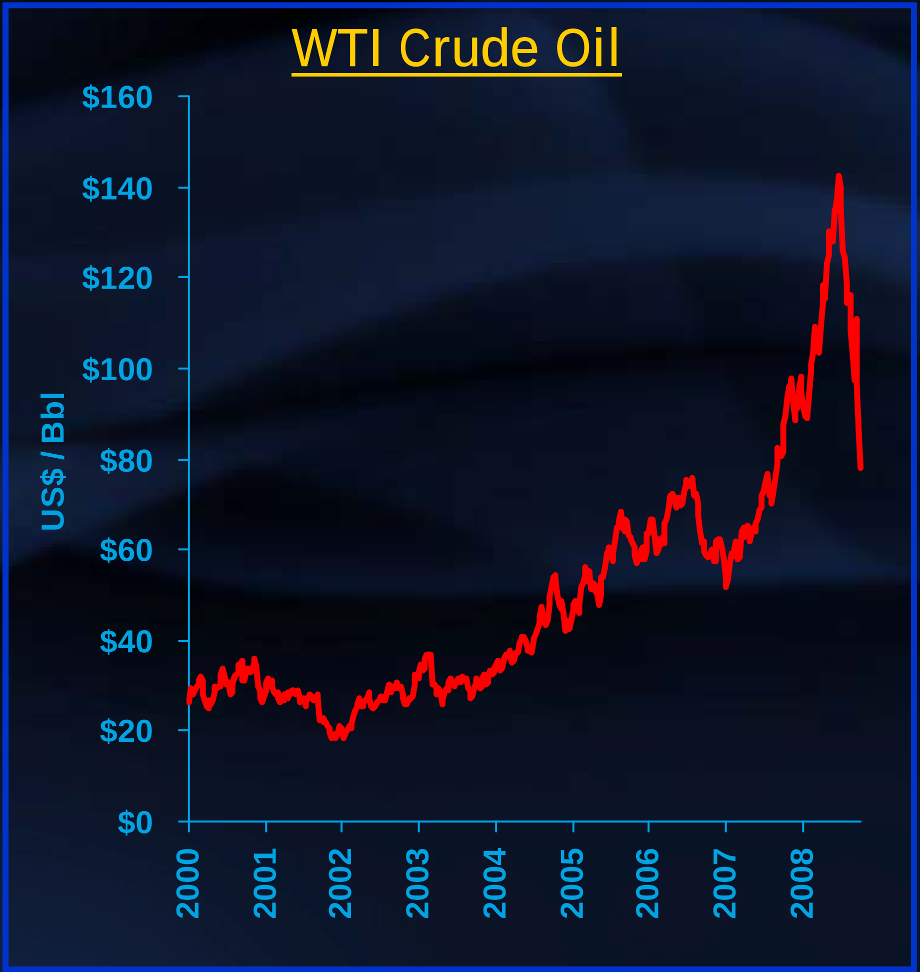


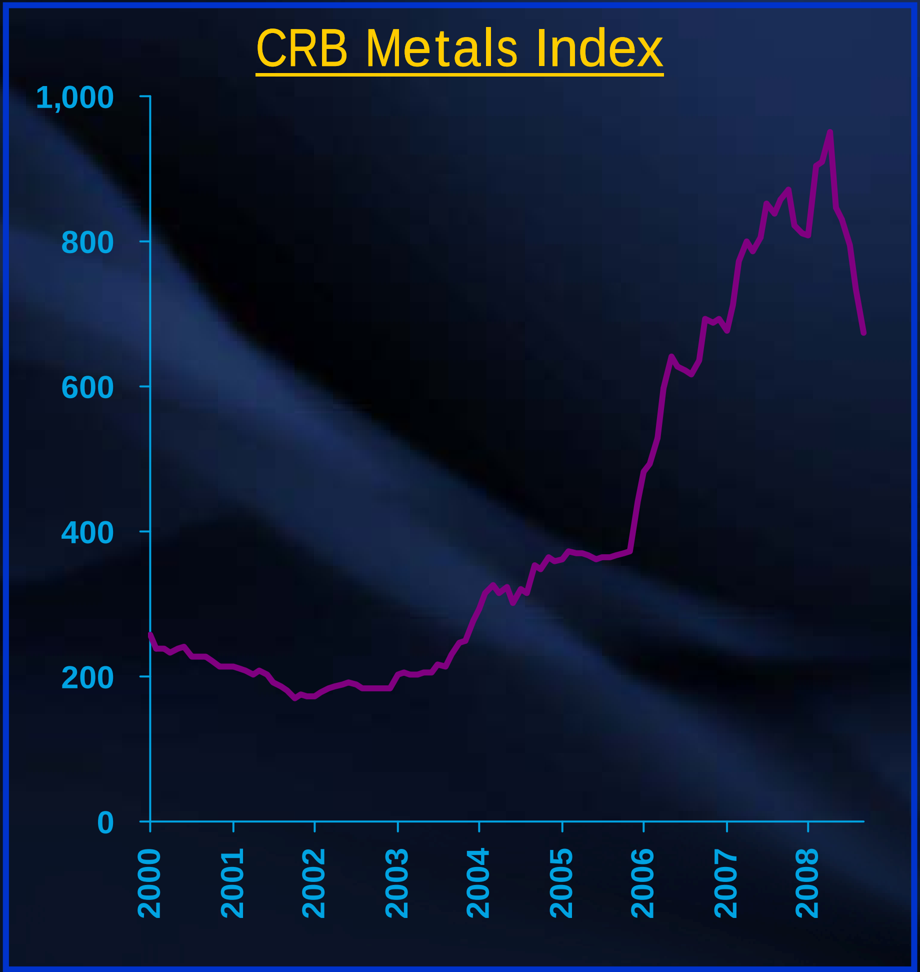
High Yield Bond spreads started to widen dramatically in late 2007…Will defaults follow?



Source: Moody's

After a rapid run-up and fears of rampant inflation… Commodity prices have now come crashing down



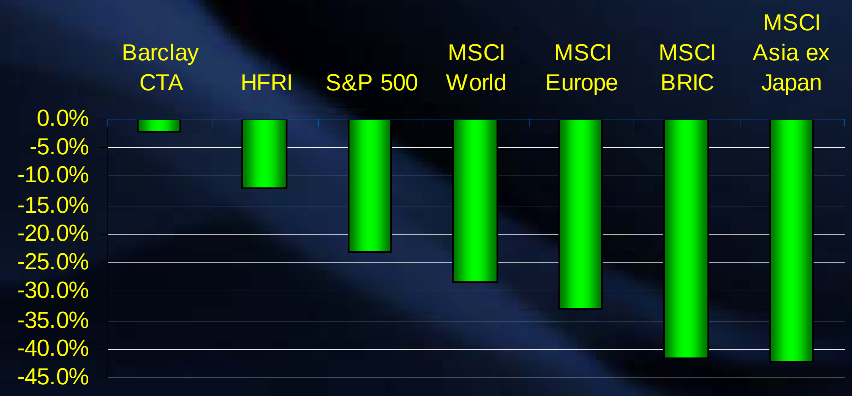


Source: Commodity Research Bureau

The average Hedge Fund had negative returns as well…But returns have beaten stocks

Performance Comparison: 2006-2008 YTD [1]

Current Drawdown



Fund/Index	Drawdown Starts
Barclay CTA	7/31/2008
HFRI	10/31/02007
S&P 500	10/31/02007
MSCI World	10/31/02007
MSCI Europe	10/31/02007
MSCI BRIC	10/31/02007
MSCI ex Japan	10/31/02007

(1) As of Sept 30, 2008

How We Got Here

DEBT

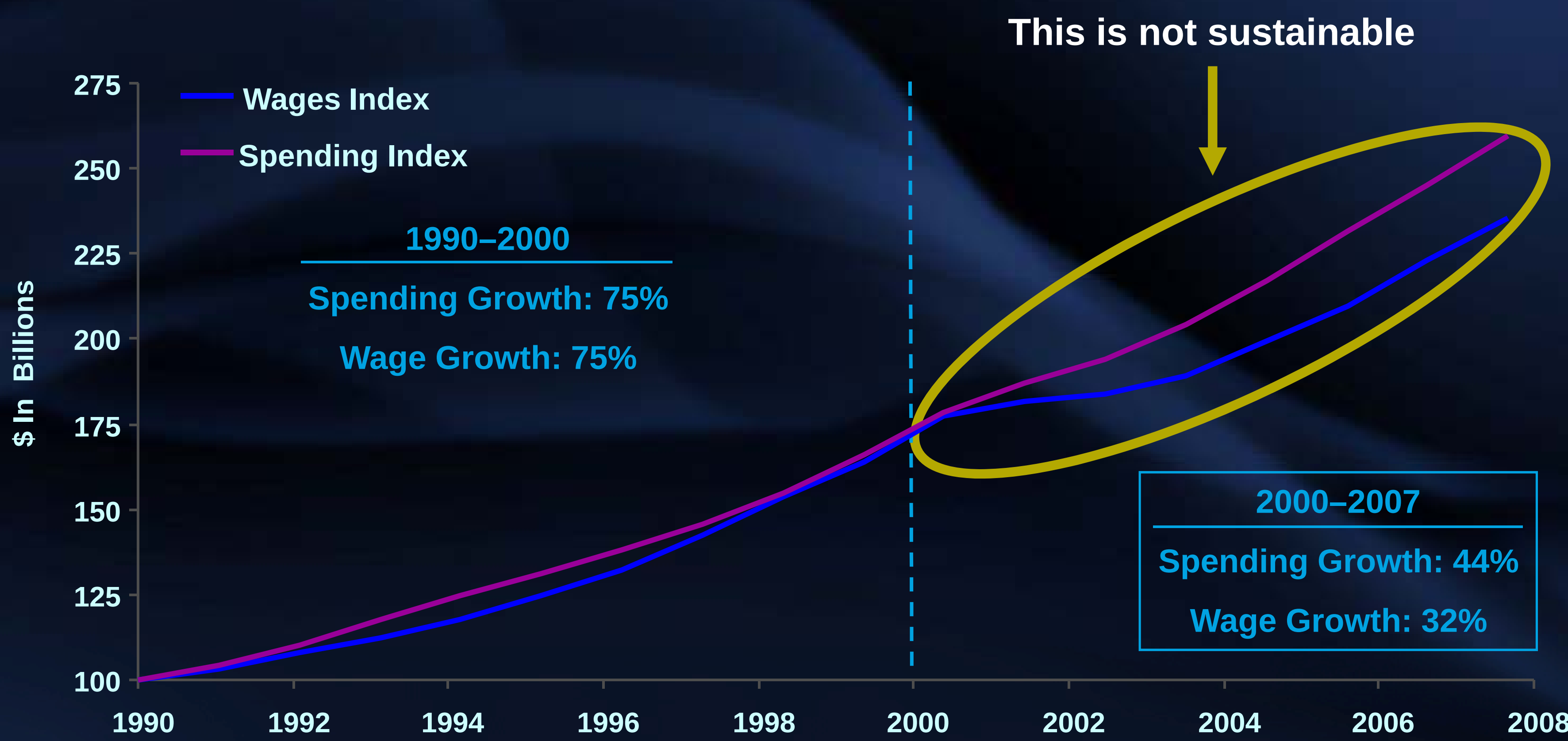
The bottom line is that systemic debt rose to unprecedented heights…

➢ Total U.S. Credit Market Debt Has Risen to 350% of GDP

Total Credit Market Debt / U.S. GDP [(1)]

(1) Source: Ned Davis Research, 2008

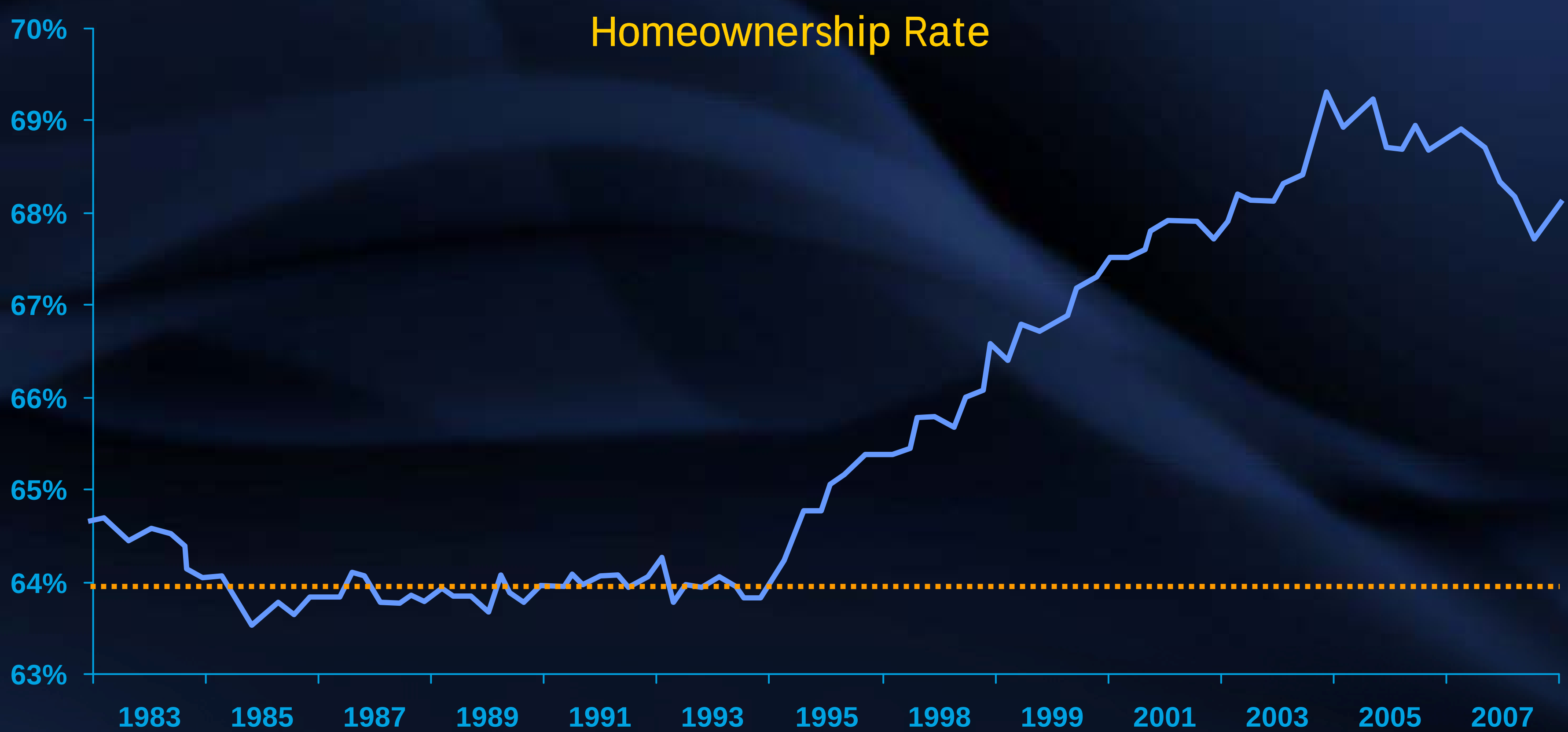
…Much of which supports an unprecedented growth in spending relative to income



Spending Has Outpaced Income

Source: Selected equity research

Much of this increased spending went into housing

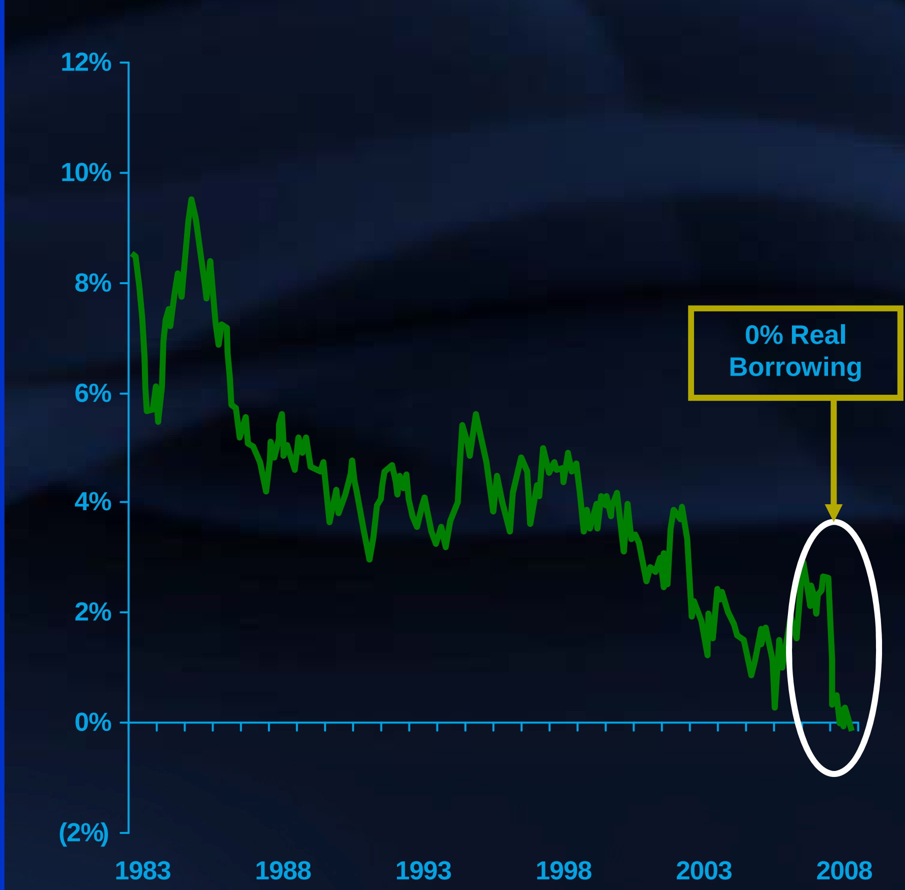


The onset of subprime and other structured loans led to an unparalleled increase in homeownership (68% vs. long term trend of 64%)

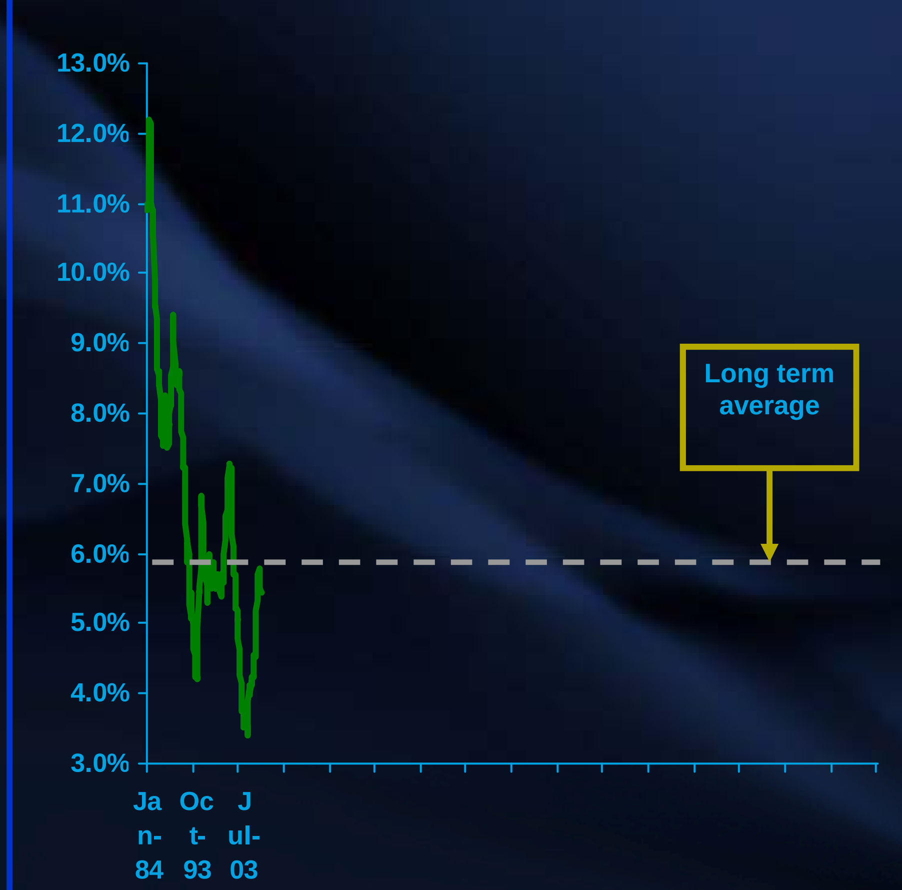
Source: Census Bureau, NBER, Merrill Lynch

Low interest rates, and an under-regulated financial sector, served as the catalysts for this rapid growth in debt

Real 10-Year Treasury Yield



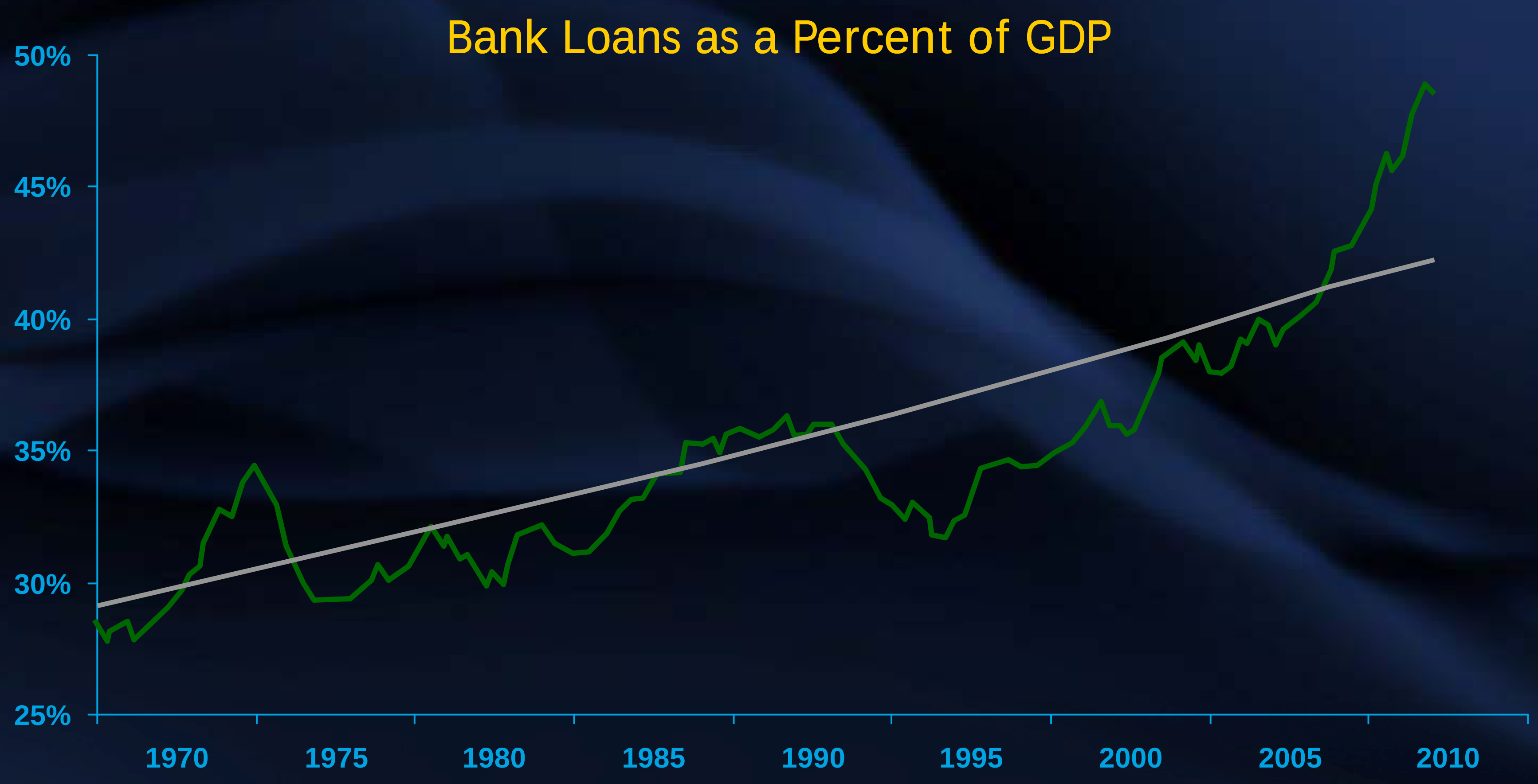
1 Year ARM Rates



Source: Bloomberg per The Conference Board and Factset

Source: JP Morgan

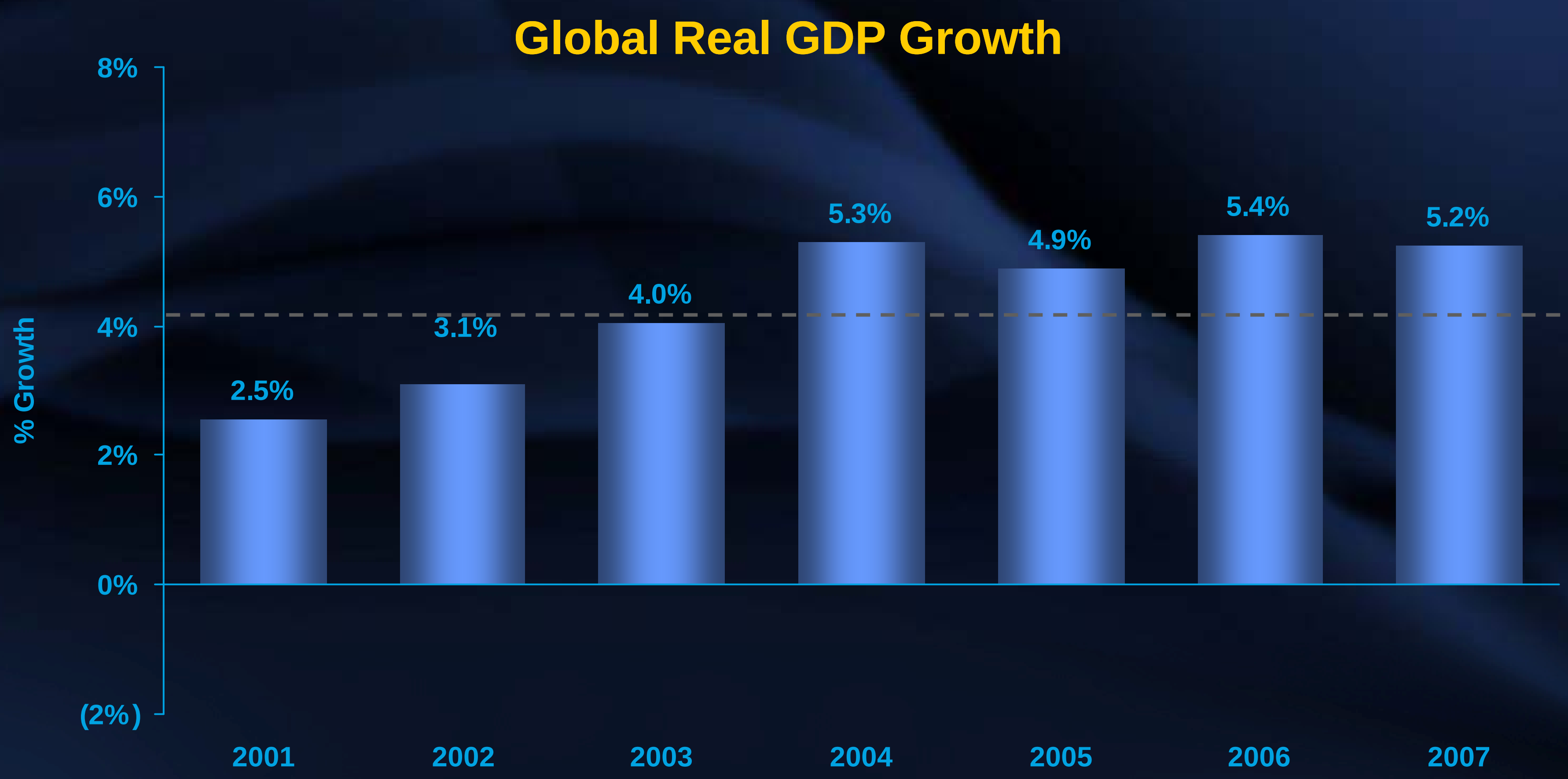
We See It Here



It would take a 20% decline to get to trend, which would imply a credit contraction of approximately $2 trillion

Source: Federal Reserve Board

This excess leverage led to strong economic growth around the world



Source: IMF

Rating Agencies propagated the Illusion of a low-risk investment environment

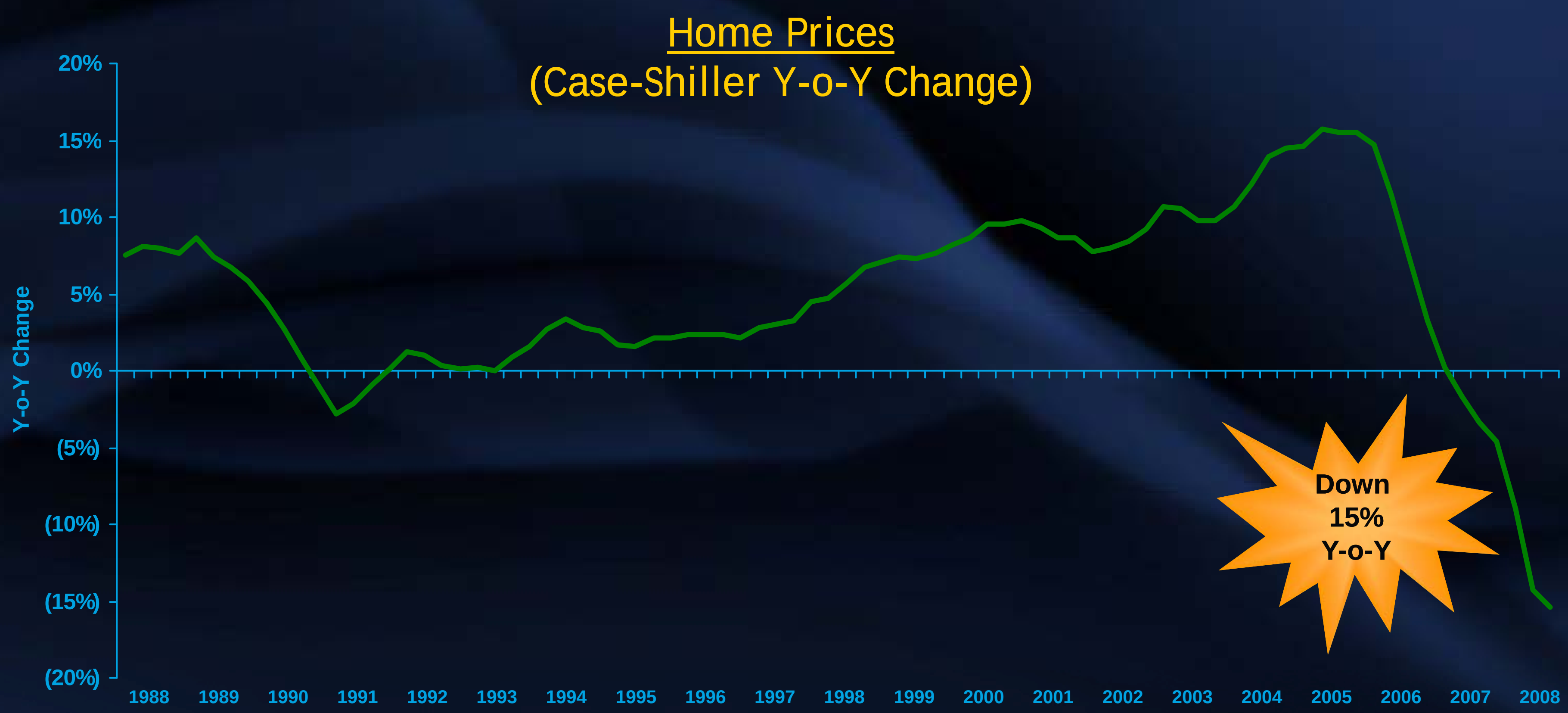
- They assigned high, investment-grade ratings to opaque structured financial products and debt issued by highly leveraged companies

- Since the outbreak of the credit crisis, they have downgraded more than $1.9 trillion of mortgage-backed securities

Rating Agency Downgrades: Mortgage Backed Securities[1]
($ billions)

(1) Source: Citigroup. September, 17 2008

Unfortunately, the economy and financial markets are already unwinding these excesses



Source: First American Real Estate Solutions

Percent of Homes in Foreclosure or Arrears

Source: First American Real Estate Solutions

Financial institutions have sustained more than $500 billion in write-downs since credit crisis began

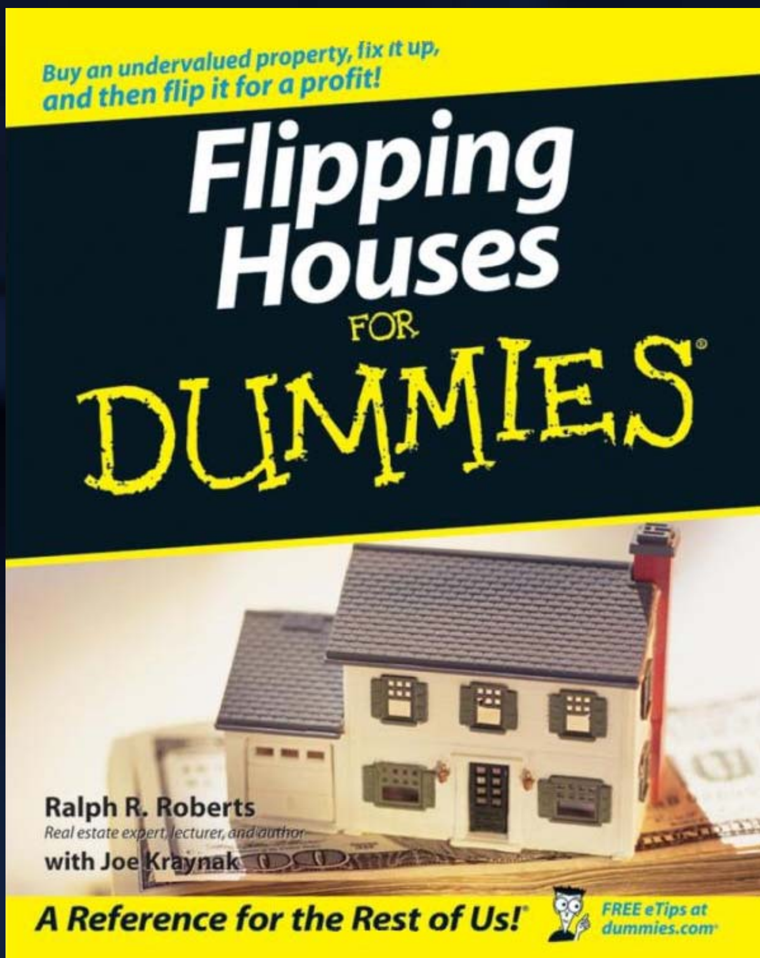
IMF Comparison of Losses Across Financial Crises(1)

The IMF expects that total financial losses will exceed those of any past crisis

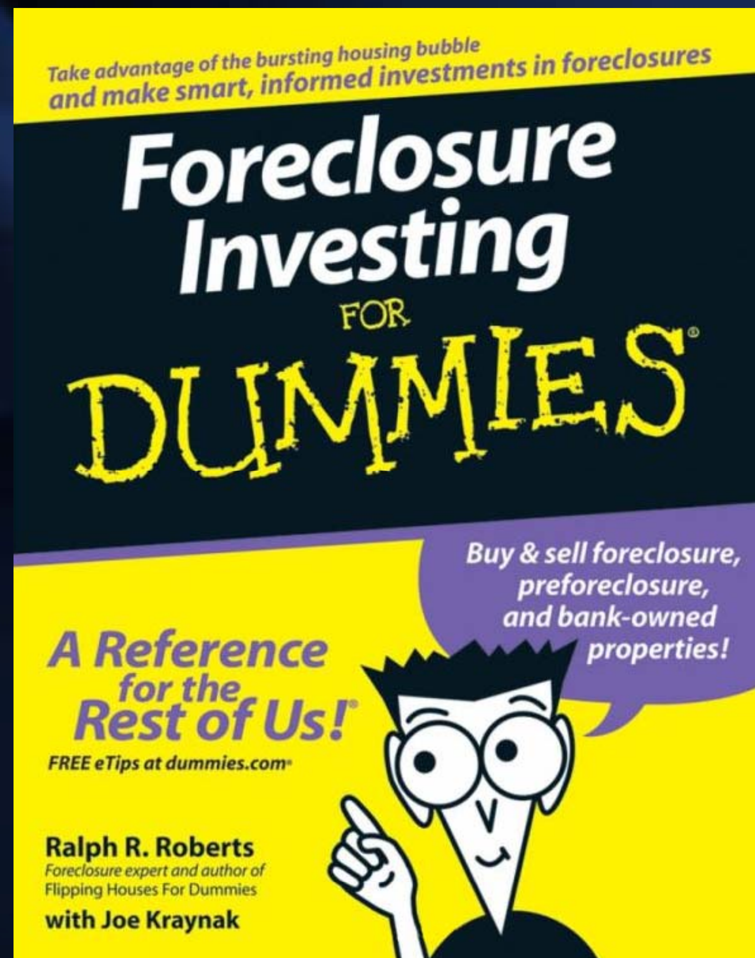
(1)International Monetary Fund, "Global Financial Stability Report," April 2008

Then... And Now

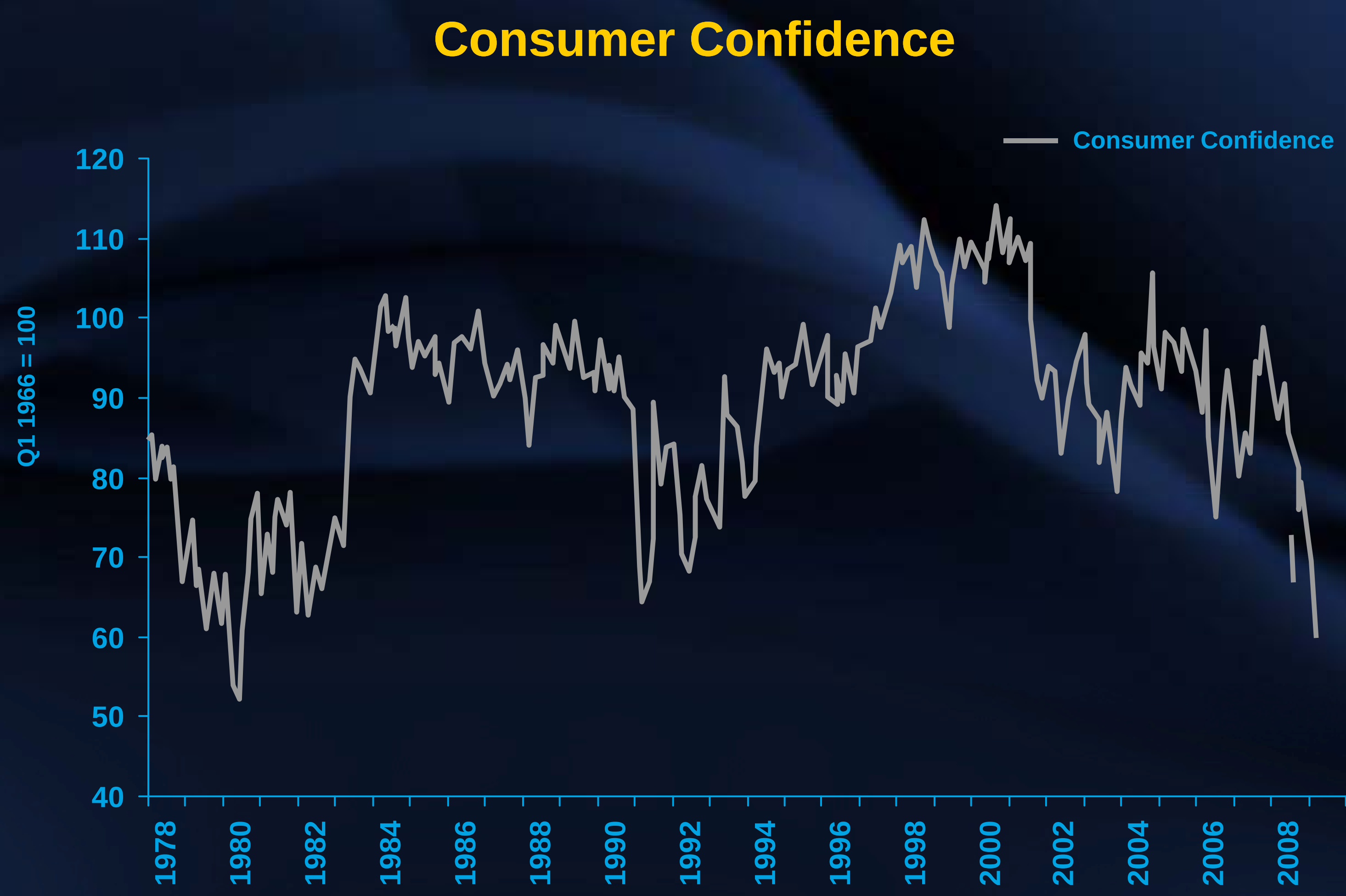
November 2006



Today



Consumer confidence is approaching all-time lows…

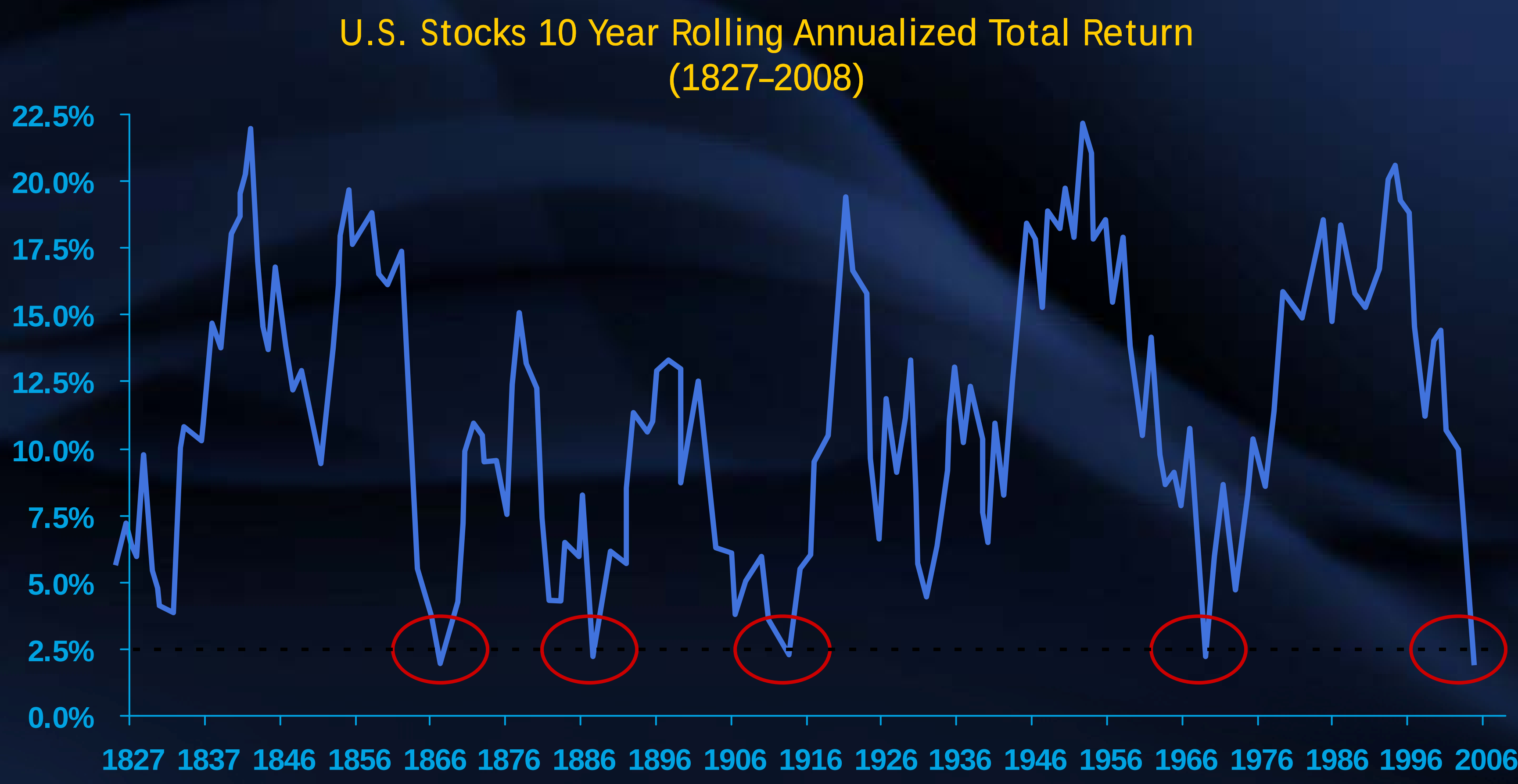


Source: Selected equity research

... and unemployment is quickly ticking up

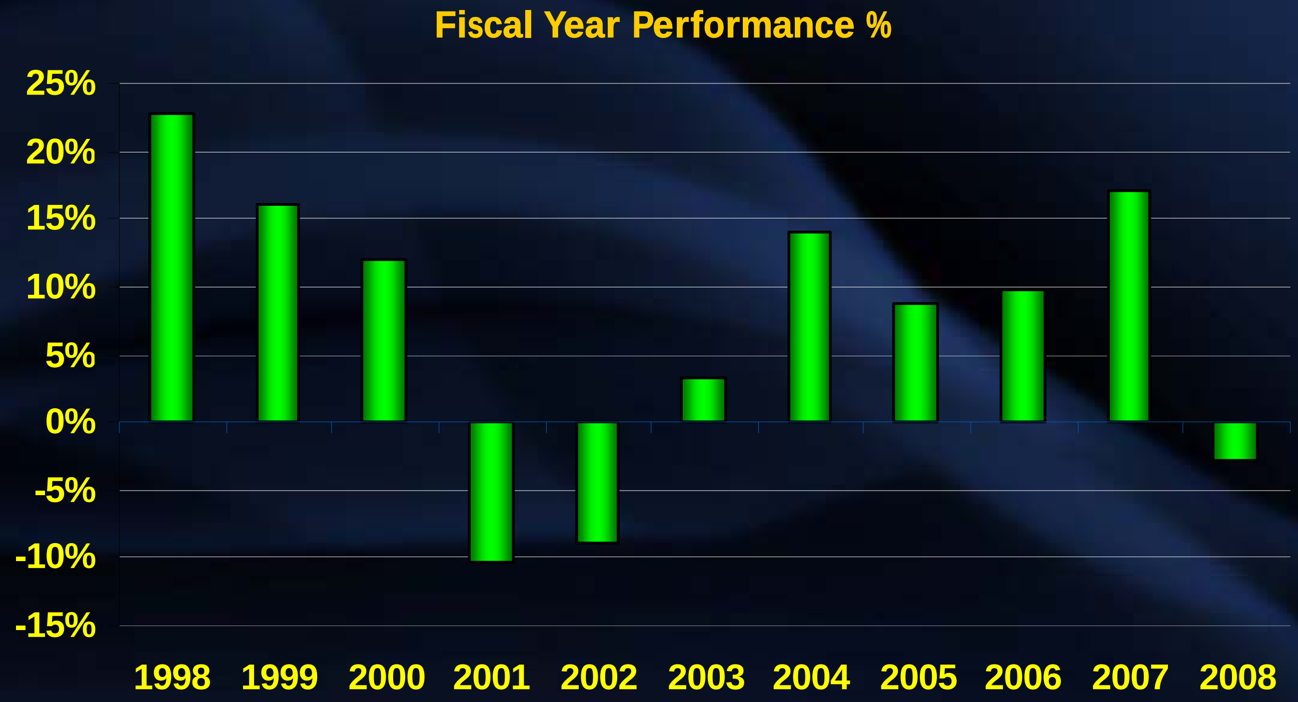
Source: Bureau of Labor Statistics / Haver Analytics

U.S. stocks are near a 200-year low... but look at what has followed



Source: GS Research

New Jersey Pension Fund Performance



As of June 30, 2008

Annualized Performance

1 Year	-2.9%
3 Years	7.7%
5 Years	9.2%
10 Years	5.4%

Figures are unaudited and are subject to change

Portfolio decisions made in FY08 build on change in asset allocations since June 05

Asset Class	June 05	June 08	Medium-Term Goal
US Equities	50.0%	30.8%	27.5%
International Equities	16.2%	17.4%	18.5%
Emerging Markets Equities	0	1.4%	2.5%
US Fixed Income	26.2%	24.1%	24.0%
US High yield	0	0.9%	3.5%
International Fixed Income	2.2%	2.7%	0.0%
Commodities/Real Assets	0	1.2%	3.0%
TIPs	0	4.5%	3.0%
Private Equity	0	3.4%	5.0%
Real Estate	0	2.4%	4.0%
Absolute Return	0	4.2%	6.0%
Cash	5.4%	7.0%	3.0%

How did returns compare among funds?

Fiscal Year Ended June 30, 2008

New Jersey	**-2.9%**
TRS of Texas	-2.1%
CalPERS	-2.4%
PA Public Schools	-2.8%
Connecticut	-4.6%
Florida SBA	-4.4%
CalSTRS	-3.7%
NYC Employees (NYCERS)	-9.5%

Institutional average, per Wilshire Associates: -5 %

Harvard	8.6%
Princeton	5.6%
Yale	2.0%

Institutional average, per Wilshire Associates: - 3%

Figures are unaudited and are subject to change

Within our internally managed portfolios, our performance vs. benchmarks has been excellent

	6/06	6/07	6/08 (1)	Excess Returns ($millions)
Domestic Equities	10.5%	20.6%	-10.2%	1,371
Benchmark	9.2%	20.2%	-12.7	
International Equity	28.0%	28.5%	-9.8%	637
Benchmark	26.6%	27.3%	-11.5%	
Domestic Fixed Income	-1.0%	5.2%	9.1%	271
Benchmark	-1.5%	7.0%	6.8%	
Total				**$2.27 BILLION**

Division Staff added nearly $2.3 billion of value based on their investment decisions relative to the market over the past 3 years

(1) Figures are unaudited and are subject to change

Current Division staff dedicated to internal management

	6/30/2008 Investment Amount ($mm)	Investment Professional FTEs*	Asset Per Investment Professional ($mm)
Cash Management	18,814	1.50	12,543
Domestic Fixed Income	20,957	1.25	16,766
Intl Fixed Income	2,081	0.25	8,324
Subtotal - Fixed Income	*41,852*	*3.00*	*13,951*
Domestic Equity	23,959	8.00	2,995
Intl Equity	14,693	6.00	2,449
Subtotal - Public Equity	*38,652*	*14.00*	*2,761*
Total	*80,504*	*17.00*	*4,736*

** Excludes Director and Deputy Director*

Figures are unaudited and are subject to change

Putting the Year in Perspective

The Division had minimal or no exposure to…

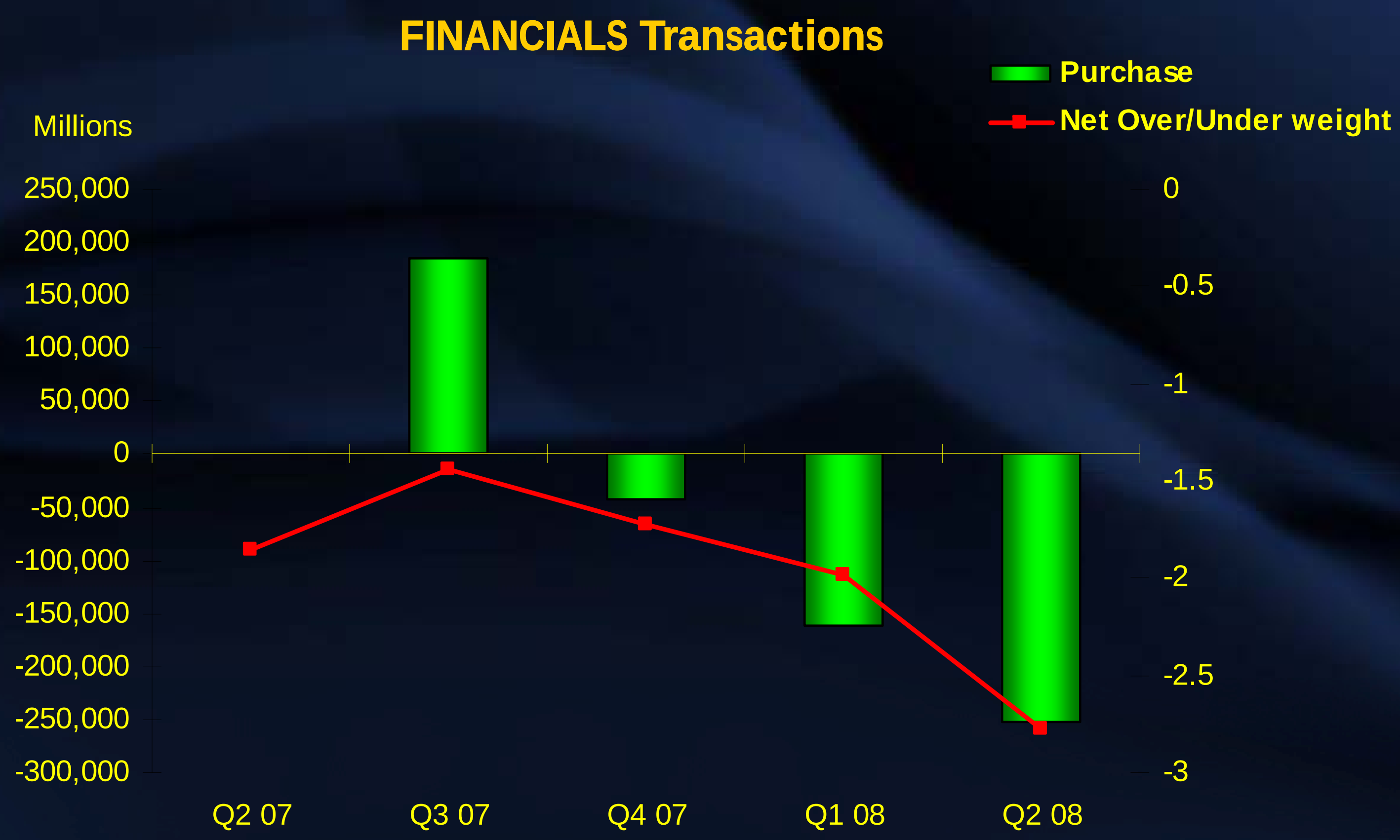
- Debt
  1) Subprime Mortgage Securities
  2) Non-agency Mortgage Backed Securities
  3) CDOs
  4) Asset Back Commercial Paper/SIVs
  5) Student Loan Paper
- Equities
  6) Mortgage Brokers
  7) Monoline Insurers
  8) Student Loan Issuers
  9) Thrifts/S&L's
  10) Auto Makers (GM/Ford)
  11) Freddie Mac/Fannie Mae Commons
  12) Rating Agency Stocks (Moody's & McGraw Hill)
  13) Bear Stearns

How do our management fees compare to our peers?

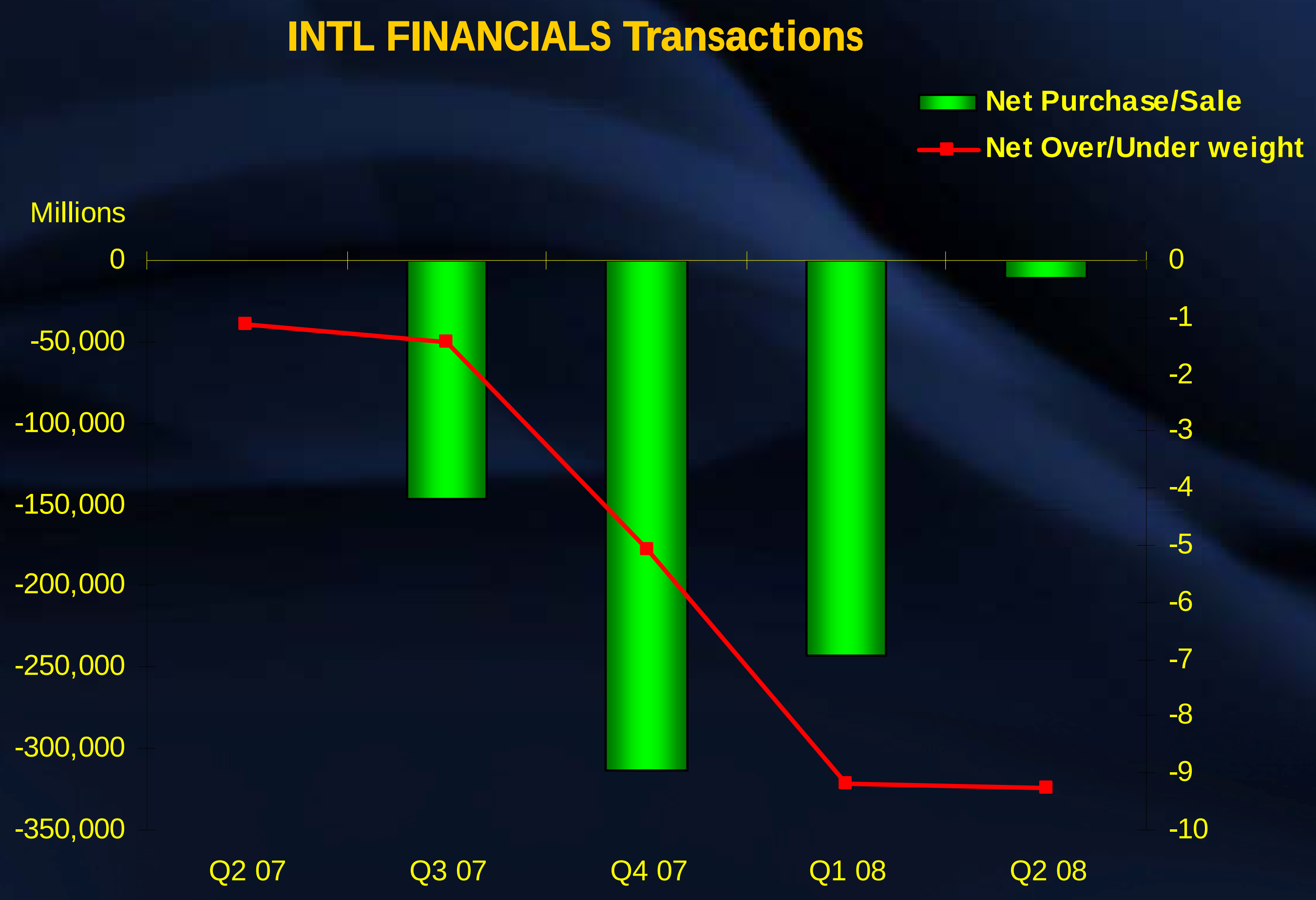
Fund Name	Fiscal Year Ended	Total Net Assets ($ Billions)	Total Fees to Alternatives & External Managers ($ Millions)	Cost Per Each $100 Under Management
Pennsylvania School Employees	2007	$67.5	$307.2	$.46
CalPERS	2007	251.1	953.3	.38
Massachusetts PRIM	2007	50.4	116.0	.23
Oregon	2007	62.9	147.1	.23
New York Common	2008	153.9	275.7	.18
Florida SBA	2007	136.3	206.1	.15
Ohio Public Employees	2007	83.6	124.0	.15
New York State Teachers	2007	105.0	143.1	.14
CalSTRS	2007	172.4	137.0	.08 (1)
New Jersey	**2007**	**$97.4 B**	**$76.2 M**	**.08**

(1) Excludes fees paid for private equity managers that are not disclosed in CAFR

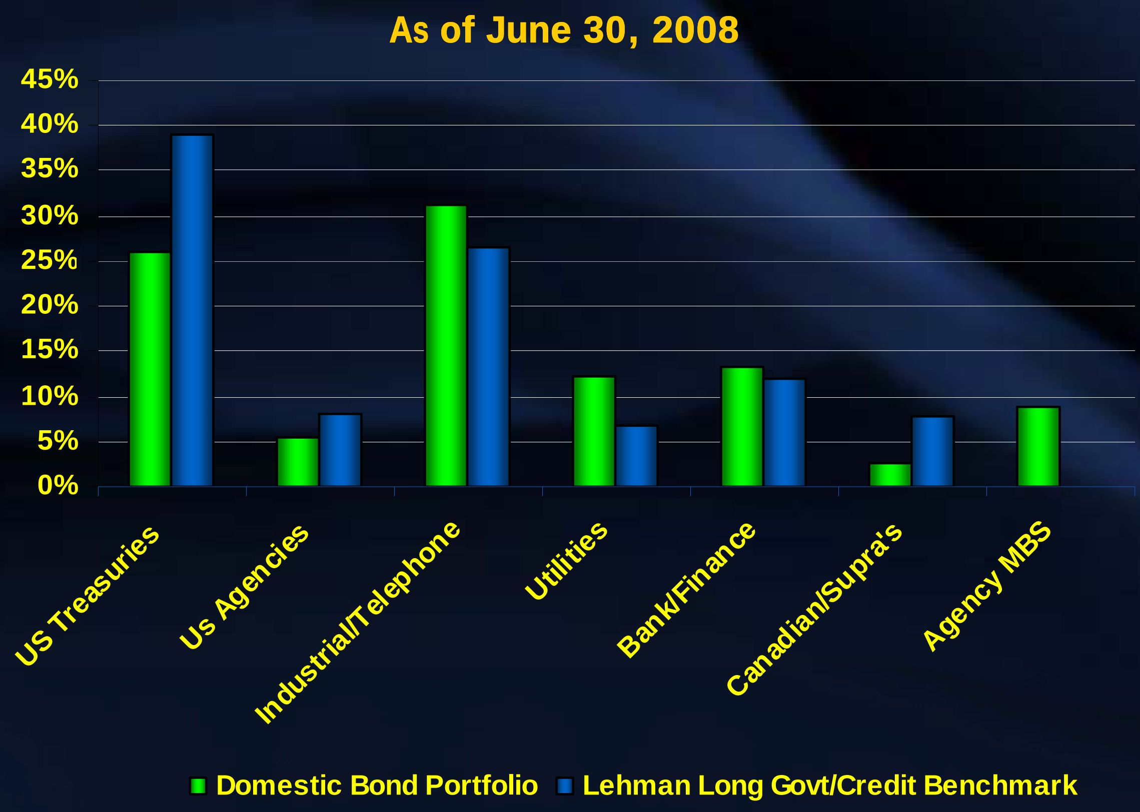
US Equities – Financials were a major driver of relative returns



Int’l Equities - Financials were a major driver of relative returns



Domestic Fixed Income – Exposure to Agency MBS was the major difference from the benchmark



How We Have Structured our Private Equity Portfolio

	Commitments Through 6/30/07 (mm)	Actual Commitments FY08 (mm)	Total Commitments (mm)	Percent
Large Buyout	1,076	900	1,576	23.20%
Domestic MM Buyout	970	650	1,770	26.06%
Domestic Small Mkt Buyout	325	152	525	7.73%
Int'l Buyout	567	462	717	10.55%
Emerging Managers	100	108	200	2.94%
Venture	150	41	300	4.42%
Distressed	520	400	820	12.07%
Mezzanine	285	175	435	6.40%
Co-Investments	100	57	200	4.42%
Secondaries	101	0	150	2.21%
Total	**4,194**	**2,945**	**6,793**	**100.00%**

Current state of our Hedge Fund Portfolio

	6/08 ($mm)	Percent of Portfolio
Fund of Funds *(Goldman, Rock Creek, Blackstone)*	1,250	25.0%
Credit *(Angelo Gordon, BlackRock, Canyon, Golden Tree)*	725	14.5%
Distressed *(Centerbridge, King Street, Pimco)*	800	16.0%
Event Driven *(Davidson Kempner, Pendragon, York)*	535	10.7%
Equity Long/Short *(Wellington, Omega, Ascend, Glenview)*	890	17.8%
Multi Strategy *(Angelo Gordon, Black River, Och-Ziff, Farallon)*	800	16.0%

This puts the overall market into perspective

1-Year Performance	% of Stocks in S&P500
Down >50%	31%
Down 25-50%	42%
Down 0-25%	22%
Flat or Up	5%

S&P500 Company	1-Year Performance
Office DEPOT	(86%)
GM	(84%)
Sprint	(81%)
nVIDIA.	(79%)
WHOLE FOODS MARKET	(71%)
CBS	(70%)
STARWOOD	(66%)
monster.com	(66%)
STARBUCKS COFFEE	(59%)

Source: FactSet

The Perils of Market Timing

Value of a Hypothetical $10,000 Investment in the S&P 500 Over 10 Years (12/31/97 - 12/31/07)

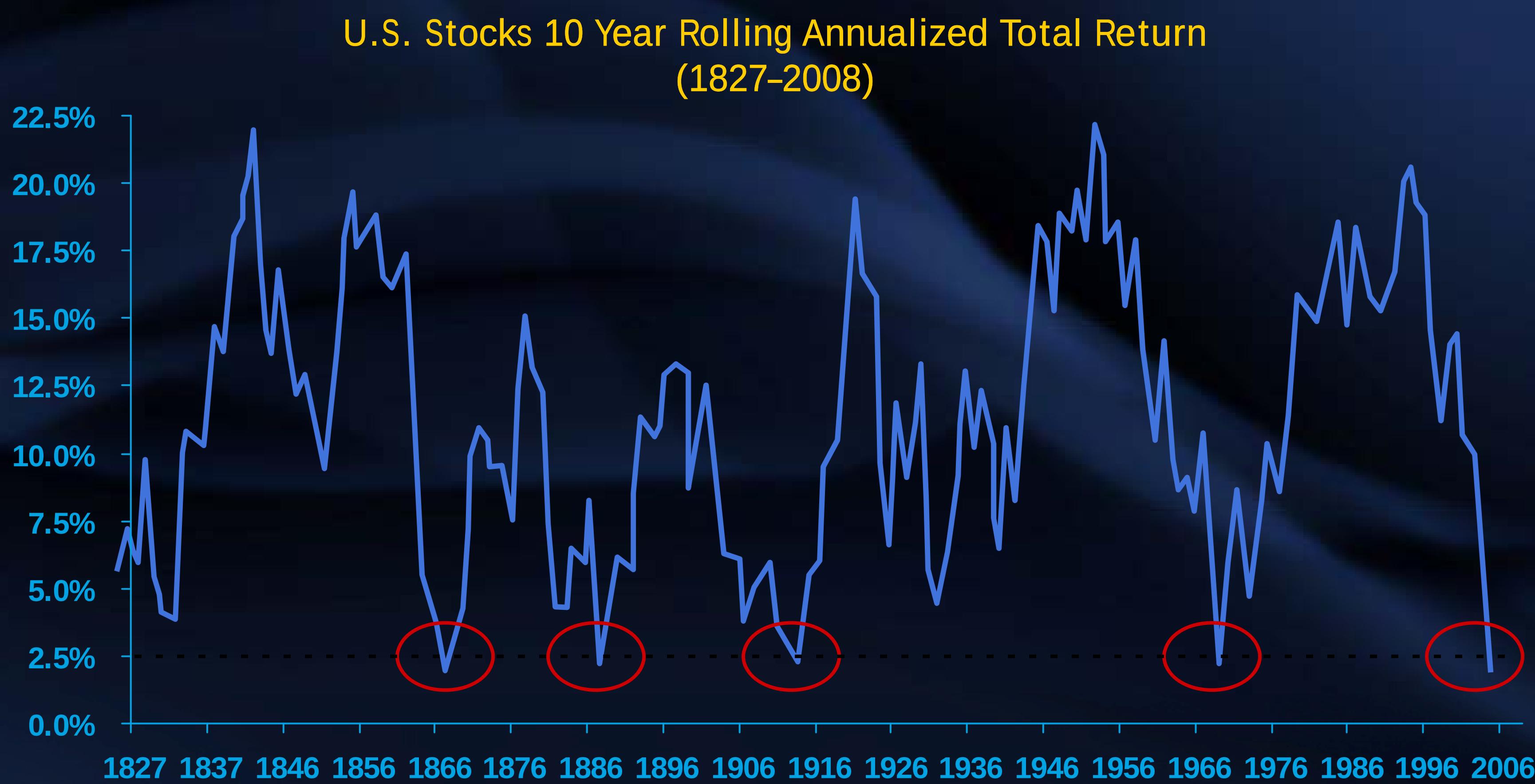
Source: American Funds, Standard & Poor's 500 Composite Index, an unmanaged measure of large-company US stocks. The numbers shown above do not take into account reinvested distributions, nor do they reflect sales charges, commissions or expenses.

Why We Shouldn’t Change Our Long-Term Strategy

- We’ve had business cycles before, and come out of them
- Governments globally are cooperating to aggressively address the problems
- Potential returns on investments look attractive
- Diversification across asset classes ALWAYS makes sense
- We have confidence in our team of investment professionals

WE ARE LONG-TERM INVESTORS, NOT DAY TRADERS

U.S. stocks are near a 200-year low… but look at what has followed



Source: GS Research

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