

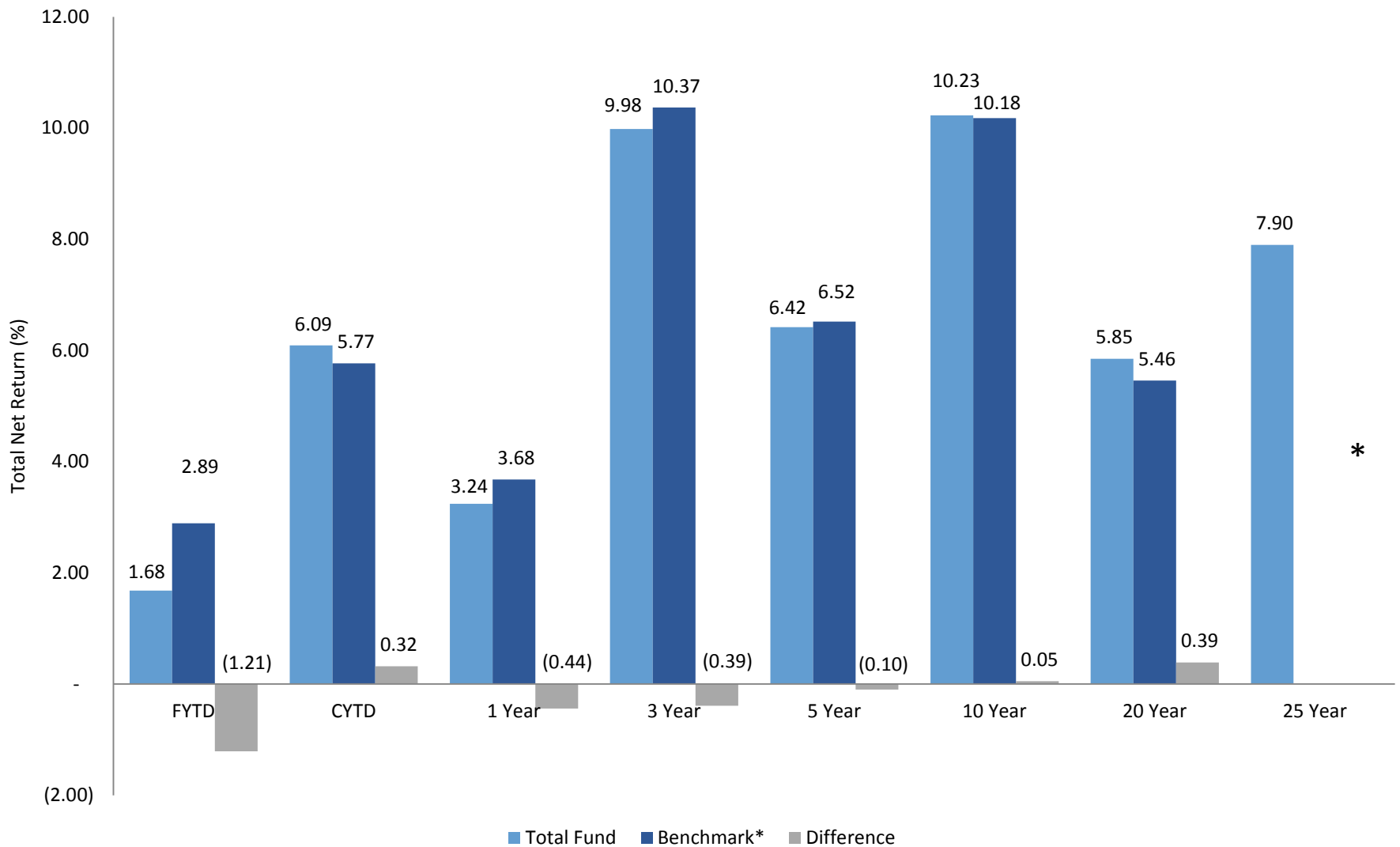
NJ DIVISION OF INVESTMENT

Director's Report

State Investment Council
March 27, 2019

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

Pension Fund Net Returns⁽¹⁾ for Periods Ending February 28, 2019

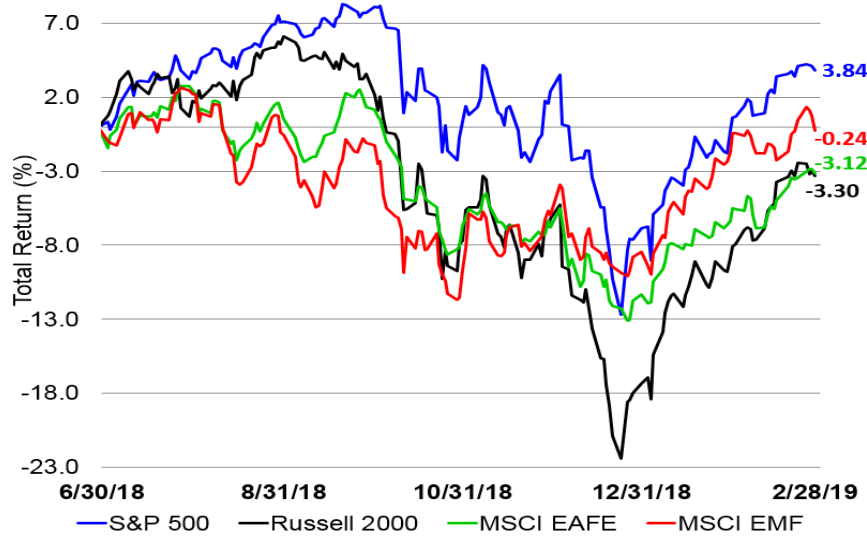


(1) Returns are preliminary, unaudited, net of all fees, and exclude Police and Fire Mortgage Program

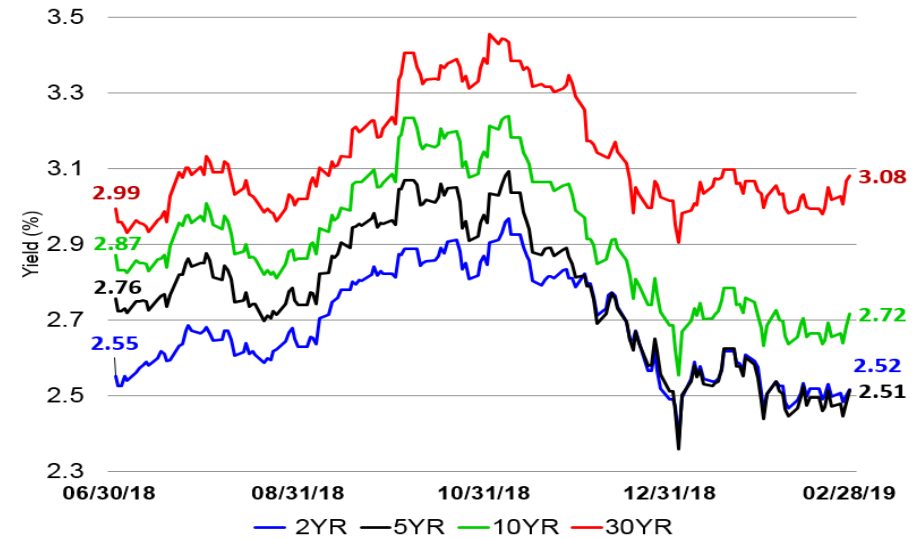
*Benchmark return not available for 25-Year period

Capital Markets Update (through February 28, 2019)

Fiscal Year 2019 Equity Market Returns



Fiscal Year 2019 U.S. Treasury Yields



	February 28, 2019	MTD %	FYTD %	CYTD %	1 Yr %	3 Yrs %	5 Yrs %	10 Yrs %	
Domestic Equity	S&P 500	3.21	3.84	6.59	4.67	15.27	10.66	16.66	1
	Russell 2000	5.19	-3.30	4.12	5.54	16.65	7.35	16.58	2
International Equity	MSCI EAFE	2.55	-3.12	-5.78	-6.04	9.32	2.07	9.56	3
	MSCI EM	0.22	-0.24	-6.88	-9.89	15.04	4.13	10.32	4
Bond	Barclays US Aggregate	-0.06	2.68	1.01	3.17	1.69	2.32	3.71	5
	Barclays US High Yield	1.66	3.88	4.05	4.31	9.81	4.53	11.50	6
	Barclays US Tips	-0.01	0.08	0.05	1.91	1.69	1.47	3.81	7
Commodity	Bloomberg Commodity	0.82	-6.89	-7.69	-7.66	2.33	-9.49	-2.61	8
Real Estate	Bloomberg US REIT	0.59	6.14	7.09	18.98	9.87	9.17	19.04	9

Asset Allocation and Net Returns by Asset Class (February 28, 2019)

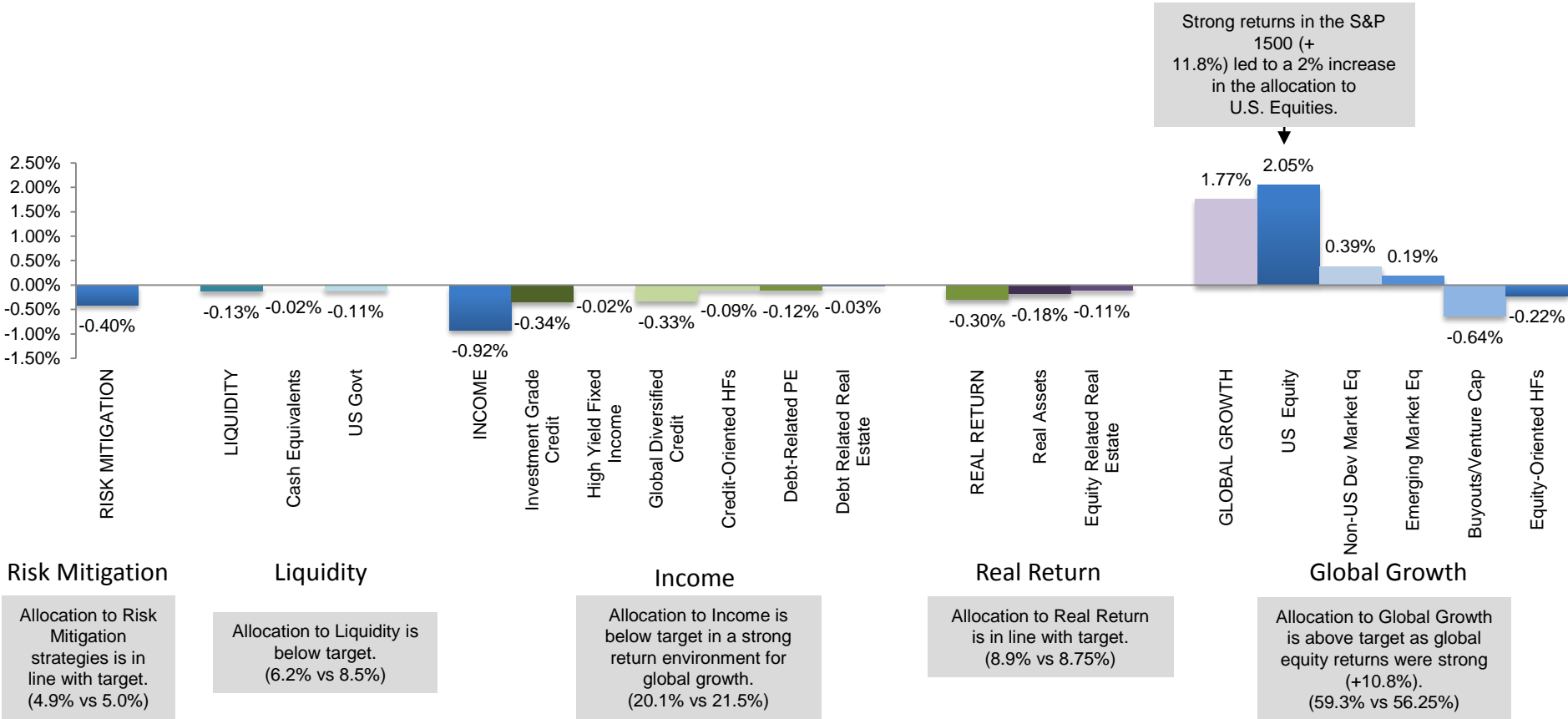
Asset Class	ASSET ALLOCATION				PERFORMANCE (for periods ending February 28, 2019) ⁽¹⁾							
	As of February 28, 2019				FYTD		Calendar YTD		Trailing Twelve Months		Trailing Three Years	
	Mkt Value	Actual (%)	Target (%)	Difference	Pension	Benchmark	Pension	Benchmark	Pension	Benchmark	Pension	Benchmark
RISK MITIGATION												
RISK MITIGATION STRATEGIES	3,666	4.89%	5.00%	-0.11%	0.15%	3.44%	0.44%	0.85%	-0.11%	5.12%	2.28%	4.20%
LIQUIDITY												
Cash Eqv & Short Term	3,068	4.10%	5.50%	-1.40%	1.96%	1.44%	0.54%	0.38%	2.65%	2.04%	1.80%	1.13%
U.S. Government	1,557	2.08%	3.00%	-0.92%	1.99%	2.16%	0.21%	0.20%	3.04%	3.23%	0.35%	0.82%
TOTAL LIQUIDITY	4,625	6.17%	8.50%	-2.33%	2.03%	1.70%	0.42%	0.32%	2.80%	2.47%	0.92%	1.06%
INCOME												
Investment Grade Credit	7,360	9.82%	10.00%	-0.18%	3.71%	3.16%	1.90%	1.84%	3.73%	2.93%	2.88%	3.15%
Public High Yield	1,094	1.46%	2.50%	-1.04%	3.18%	3.88%	5.95%	6.26%	2.97%	4.31%	8.82%	9.81%
Global Diversified Credit	4,457	5.95%	5.00%	0.95%	0.37%	3.88%	-0.48%	6.26%	4.42%	4.31%	10.77%	9.81%
Credit-Oriented HF's	806	1.08%	1.00%	0.08%	-2.54%	0.95%	-2.19%	0.93%	-1.21%	1.79%	6.48%	8.55%
Debt-Related PE	915	1.22%	2.00%	-0.78%	-7.41%	2.92%	-7.84%	-1.99%	0.12%	3.40%	6.48%	10.34%
Debt Related Real Estate	408	0.54%	1.00%	-0.46%	2.72%	5.93%	1.78%	-0.04%	7.17%	8.58%	5.75%	7.26%
TOTAL INCOME	15,040	20.08%	21.50%	-1.42%	1.52%	3.39%	0.58%	2.85%	3.40%	3.67%	6.14%	6.67%
REAL RETURN												
Real Assets & Commodities	2,279	3.04%	2.50%	0.54%	1.39%	6.02%	1.06%	0.00%	12.78%	11.01%	8.60%	7.28%
Equity Related Real Estate	4,363	5.83%	6.25%	-0.42%	3.32%	3.71%	3.29%	0.00%	10.97%	7.71%	11.25%	7.83%
TOTAL REAL RETURN	6,642	8.87%	8.75%	0.12%	2.65%	4.37%	2.51%	0.00%	11.61%	8.65%	10.39%	8.02%
GLOBAL GROWTH												
US Equity	23,301	31.11%	30.00%	1.11%	2.27%	3.28%	13.23%	11.83%	3.24%	4.73%	14.79%	15.29%
Non-US Dev Market Eq	8,384	11.19%	11.50%	-0.31%	-3.14%	-2.76%	10.09%	9.94%	-4.99%	-5.24%	9.74%	9.49%
Emerging Market Eq	5,044	6.73%	6.50%	0.23%	0.31%	-0.26%	8.74%	8.98%	-11.04%	-10.08%	14.15%	15.05%
Buyouts/Venture Cap	7,557	10.09%	8.25%	1.84%	5.30%	7.92%	1.87%	0.00%	18.81%	17.08%	13.62%	14.39%
Equity-Oriented HF's	116	0.16%	0.00%	0.16%	-9.18%	-4.67%	-3.00%	-0.12%	-11.73%	-5.20%	2.23%	6.06%
TOTAL GLOBAL GROWTH	44,402	59.27%	56.25%	3.02%	1.50%	2.42%	9.92%	9.13%	2.10%	2.74%	13.11%	13.98%
OTHER												
OPPORTUNISTIC PE	439	0.59%			1.93%	7.92%	1.13%	0.00%	10.09%	17.08%	9.78%	14.39%
OTHER	95	0.13%										
TOTAL FUND⁽²⁾	74,910	100.00%			1.68%	2.89%	6.09%	5.77%	3.24%	3.68%	9.98%	10.37%

(1) Returns are preliminary, unaudited, and net of all fees

(2) Total Fund excludes Police and Fire Mortgage Program

Sum of components may not equal totals due to rounding

Pension Fund Update: Change in Sector Allocation from December 31, 2018 – February 28, 2019



Risk Mitigation
Allocation to Risk Mitigation strategies is in line with target. (4.9% vs 5.0%)

Liquidity
Allocation to Liquidity is below target. (6.2% vs 8.5%)

Income
Allocation to Income is below target in a strong return environment for global growth. (20.1% vs 21.5%)

Real Return
Allocation to Real Return is in line with target. (8.9% vs 8.75%)

Global Growth
Allocation to Global Growth is above target as global equity returns were strong (+10.8%). (59.3% vs 56.25%)

A higher allocation to U.S. equities resulted from strong market returns. There was a modest corresponding decline in most other assets classes over the past two months.

Update on Implementation of P.L. 2018, c.55: Regulatory and Operational Summary

On July 3, 2018, P.L. 2018, c.55 (the “Act”) was enacted, which provides for the transfer of oversight of the Police and Firemen’s Retirement System (“PFRS”) from the State Investment Council to the PFRS Board of Trustees (the “PFRS Board”). Investments remain under the control and management of the Division.

- **Proposed Investment Regulations (State Administrative Code) are being drafted for review and approval by the PFRS Board**
 - these regulations will provide the authority for permissible investments and investment limitations
 - an asset allocation plan may be adopted separately by the PFRS Board
- **A separate PFRS account is in the process of being established with the custodian (State Street)**
 - this will allow for the in kind transfer of PFRS’ proportionate share of publicly traded securities
 - subaccounts will also be established to provide for asset allocation and performance measurement
- **Over 50 global trading markets will be opened through State Street’s subcustodians and the regulatory markets to allow for the transfer of international securities**
 - this process will take several months with extensive documentation requirements
- **Application was made to the IRS and will be made to the global markets to provide for preferential tax treatment in the various markets related to dividend and interest income**
- **Proxy voting will be established through the Division’s proxy voting vendor (ISS)**
- **Compliance limitations will be programmed in State Street’s compliance module**

Notification: Secondary Sale – Lubert-Adler Real Estate Fund VI-B, L.P.

Background: On September 27, 2018, the Division presented to the State Investment Council (the “Council”) its intention to pursue a secondary sale of Lubert-Adler Real Estate Fund VI-B, L.P. (the “Fund”), an opportunistic real estate fund to which the Division made a \$100 million commitment in January 2011. The Fund provided investors with a liquidity option to sell to a purchaser identified through an auction process conducted by Evercore. Following the final round of bids, the pricing was determined to be 94% of NAV.

The Fund made 89 investments, of which 16 remain either in development or are otherwise not expected to be sold in the near term. The Division and its Real Estate consultant, Hamilton Lane, reviewed the secondary sale proposal and determined it was in the Pension Fund’s best economic interest to participate in the secondary sale. The secondary sale closed on February 1, 2019.

Impact on the Pension Fund: Since the time of its initial investment in the Fund, the Pension Fund has realized a net IRR of 20.3%, a net Multiple of 1.80x and a DPI of 159%. The secondary sale facilitated an efficient exit from a legacy investment and avoids the payment of further fees and expenses.

Total Sale Proceeds:	\$12,797,581
Deferred Payments Outstanding:	\$0
% of Commitment Sold:	100%
% of Real Estate Portfolio:	0.67%
% of Real Estate Sub Asset Class:	0.75%

The Director is notifying the SIC of this secondary sale in accordance with the Alternative Investment Sale Procedures.