

INVESTMENT SECTION

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CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
(609) 292-7524 TDD (609) 292-6683

ANDREW P. SIDAMON-ERISTOFF
State Treasurer

FLORENCE J. SHEPPARD
Acting Director

June 30, 2014

The Division of Investment (“Division”), under the jurisdiction of the State Investment Council (the “Council”), is responsible for the investment management of the assets of seven public pension systems: the Consolidated Police and Firemen’s Pension Fund, the Judicial Retirement System, the Police and Firemen’s Retirement System, the Prison Officers’ Pension Fund, the Public Employees’ Retirement System, the State Police Retirement System, and the Teachers’ Pension and Annuity Fund (collectively referred to as the “Pension Fund”).

The Division was created in 1950 by the New Jersey Legislature (P.O. 1950, c.270) to centralize all functions relating to the purchase, sale, or exchange of securities for the State’s diverse funds under experienced and professional management. The statute also established the Council to formulate investment procedures and policies to be followed by the Director. The statute vests investment authority in the Director, who is appointed by the State Treasurer from candidates nominated by the Council. New and amended regulations adopted by the Council after public comments are filed with the Office of Administrative Law and reported in the *New Jersey Register*.

The Council is comprised of 16 members, appointed to fixed terms. Nine members are appointed by the Governor for staggered five-year terms, and are drawn traditionally from the corporate investment community. Eight of these nine hold appointments subject to the advice and consent of the Senate, and one appointee is selected by the Governor from nominees submitted jointly by the President of the Senate and Speaker of the Assembly. Two members are appointed by the Governor for five-year terms from nominees submitted by the New Jersey State ALF-CIO, with at least one appointed member being a member of a union representing police officers or firefighters. Two members are appointed by the Governor for three-year terms from nominees submitted by the New Jersey Education Association and the State Troopers Fraternal Organization. Three members are designated to the Council for three-year terms by the respective pension system’s board of trustees for the Public Employees’ Retirement System, the Police and Firemen’s Pension Fund, and the Teachers’ Pension and Annuity Fund. State law requires that no Council member shall hold any office, position, or employment with any political party, and none can benefit from the transactions of the Division.

All investments by the Director must conform to the heightened “prudent person” standard set by the New Jersey Legislature (P.L. 1997, c.26). This standard requires the Director “to manage and invest the portfolio solely in the interests of the beneficiaries of the portfolio and for the exclusive purpose of providing financial benefits to the beneficiaries of the portfolio.”

To the best of our knowledge, performance is calculated using the time-weighted return based on the modified Dietz method.

A handwritten signature in black ink, appearing to read "Chris McDonough".

Christopher McDonough
Director, Division of Investment

State Investment Council Policies Regarding the Investment of Pension Fund Assets (at June 30, 2014)

- Investment of pension assets is governed by the State Investment Council Regulations (N.J.A.C. 17:16) (the “Regulations”) as well as an annual asset allocation plan approved the State Investment Council.
- Global equity investments, excluding exchange traded funds that invest in fixed income assets, strategies or indices, shall not exceed 70 percent of the market value of the pension assets.
- Unlimited investments is permitted in securities issued by the U.S. Government and designated agencies.
- Investment in global debt obligations, non-convertible preferred stocks, global diversified credit investments and collateralized notes and mortgages are subject to minimum rating requirements of Baa3 by Moody’s, BBB- by Standard & Poor’s and BBB- by Fitch Ratings. Investment in mortgage backed passthrough securities are subject to a minimum rating requirement of A3 by Moody’s, A- by Standard and Poor’s and A- by Fitch Ratings. Up to eight percent of the pension assets may be invested in these securities not meeting the minimum rating requirements.
- Investments in international government and agency obligations are limited to direct debt obligations of a sovereign government or its political subdivisions, debt obligations of agencies of a sovereign government which are unconditionally guaranteed as to principal and interest by the sovereign government’s full faith and credit, and debt obligations of international agencies or financial institutions that are backed, but not necessarily guaranteed, by the collective credit of multiple sovereign governments.
- Investments in fixed income securities such as municipal bonds, commercial paper, repurchase agreements, and certificates of deposit are all permitted by specific Regulations which specify high credit standards and conservative investment limits.
- Subject to specified limitations, futures, swaps, covered call options and put options may be utilized in the management of the portfolios.
- The currency exposure on international investments may be hedged through currency transactions.
- The Regulations contain limits on (1) the percentage of the pension assets that can be invested in any one security, (2) the percentage of the outstanding amount of any one security that can be owned, and (3) the percentage of pension assets invested in any one issuer and affiliated entities. These limits help to ensure that the portfolio is adequately diversified and that competitive market pricing is obtained.
- Investments in alternative investments are limited to no more than 38% of the portfolio in the aggregate, with individual category limitations for private equity (12%), real estate (9%), real assets (7%) and hedge funds (15%).

PROXY VOTING

- The Proxy Voting Policy summarizes guidelines for addressing key proxy issues. Business judgement is applied in determining the most advantageous position to the pension fund as a shareholder.
- The Division seeks to vote all proxies received, unless shares are out on loan. Under certain circumstances, the Division may restrict shares from being loaned, or recall loaned shares in order to preserve the right to vote on proxy issues.

Pension Fund Rate of Return

	Fiscal 2014	Annualized	
		3 Years	5 Years
Domestic Equity with Cash, Hedges, Miscellaneous	25.45%	16.46%	19.36%
S&P 1500 Composite	24.70	16.48	19.18
Equity Only (Ex Cash)	26.23	16.79	19.87
Domestic Fixed Income with Cash, Hedges, Miscellaneous	7.66	8.27	9.45
Fixed Income Blended Benchmark	7.45	8.09	8.71
Investment Grade	6.23	7.20	
<i>Investment Grade Blended Benchmark</i>	<i>6.04</i>	<i>9.02</i>	
High Yield	15.53	11.27	16.92
<i>Barclays High Yield Index</i>	<i>11.73</i>	<i>9.49</i>	<i>13.98</i>
International Equity with Cash, Hedges, Miscellaneous	19.38	3.70	8.36
MSCI All World Country Index (ex US)	21.75	5.73	11.11
Custom International Equity Markets Index	19.64	4.95	
Developed Markets Equity	23.31	6.25	
<i>Custom International Equity Developed Markets Index</i>	<i>23.40</i>	<i>7.64</i>	
Emerging Markets Equity	13.62	0.21	
<i>Custom International Equity Emerging Markets Index</i>	<i>13.78</i>	<i>0.19</i>	
Alternative Investments	14.88	9.23	10.91
Hedge Funds	10.53	7.08	8.34
<i>HFRI Fund of Funds Composite (One month lag)</i>	<i>5.10</i>	<i>2.52</i>	<i>4.12</i>
Private Equity	24.14	14.35	16.39
<i>Cambridge Associates (One quarter lag)</i>	<i>18.90</i>	<i>14.36</i>	<i>17.35</i>
Real Estate	14.21	11.86	9.23
<i>Real Estate Index (One quarter lag)</i>	<i>12.74</i>	<i>11.83</i>	<i>9.97</i>
Real Assets/Commodities	9.74	(0.54)	4.36
DJUBS TR Index	8.21	(5.17)	1.99
Police and Fire Mortgage Program	4.23	2.93	
Plan Cash¹	0.39	0.24	0.30
US Treasury Bills (3 month)	0.04	0.05	0.08
Total Pension Fund	16.72	10.13	
Total Fund Benchmark	15.79	8.81	

¹ Plan Cash comprises the seven plan cash accounts.

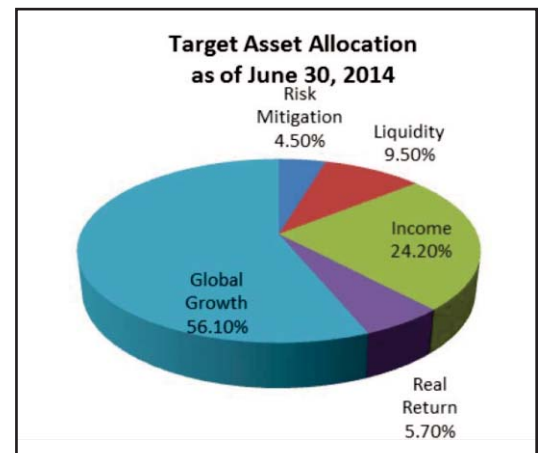
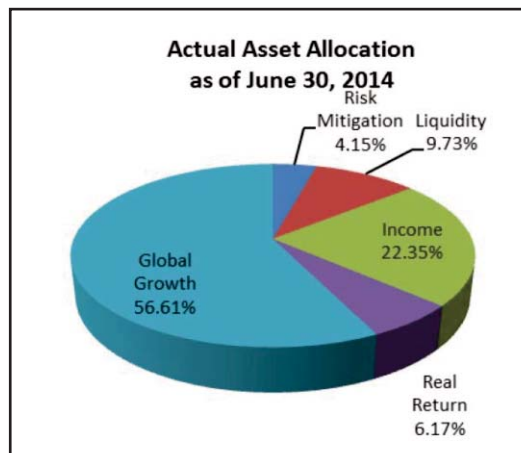
Pension Fund Asset Allocation – June 30, 2014

	Actual Allocation %	Target %	Difference %	Allocation \$
Absolute Return/Risk Mitigation	4.15	4.50	(0.35)	3,367.29
Risk Mitigation	4.15	4.50	(0.35)	3,367.29
Cash Equivalents ⁽¹⁾	6.21	6.00	0.21	5,047.30
Short Term Cash Equivalents	0.49	0.00	0.49	396.16
TIPS	2.01	2.50	(0.49)	1,630.54
US Treasuries	1.02	1.00	0.02	832.38
Total Liquidity	9.73	9.50	0.23	7,906.38
Investment Grade Credit	11.54	11.20	0.34	9,376.72
High Yield Fixed Income	4.82	5.50	(0.68)	3,915.83
Credit Oriented Hedge Funds	2.91	3.75	(0.84)	2,360.83
Debt Related Private Equity	1.02	1.25	(0.23)	824.83
Real Estate – Debt	0.97	1.30	(0.33)	786.08
Police and Fire Mortgage Program ⁽²⁾	1.10	1.20	(0.10)	890.00
Total Income	22.35	24.20	(1.85)	18,154.29
Commodities and Other Real Assets	2.57	2.50	0.07	2,085.02
Real Estate	3.60	3.20	0.40	2,926.24
Total Real Return	6.17	5.70	0.47	5,011.26
US Equity	26.41	25.90	0.51	21,450.30
Non-US Developed Markets Equity	12.31	12.70	(0.39)	9,994.31
Emerging Markets Equity	6.43	6.50	(0.07)	5,218.62
Equity Oriented Hedge Funds	3.61	4.00	(0.39)	2,928.51
Buyouts/Venture Capital	7.87	7.00	0.87	6,390.31
Total Global Growth	56.61	56.10	0.51	45,982.05
Opportunistic Private Equity	0.18	0.00	0.18	143.81
Other Cash and Receivables	0.81	0.00	0.81	654.88
Total Pension Fund	100.00	100.00	0.0	81,219.96

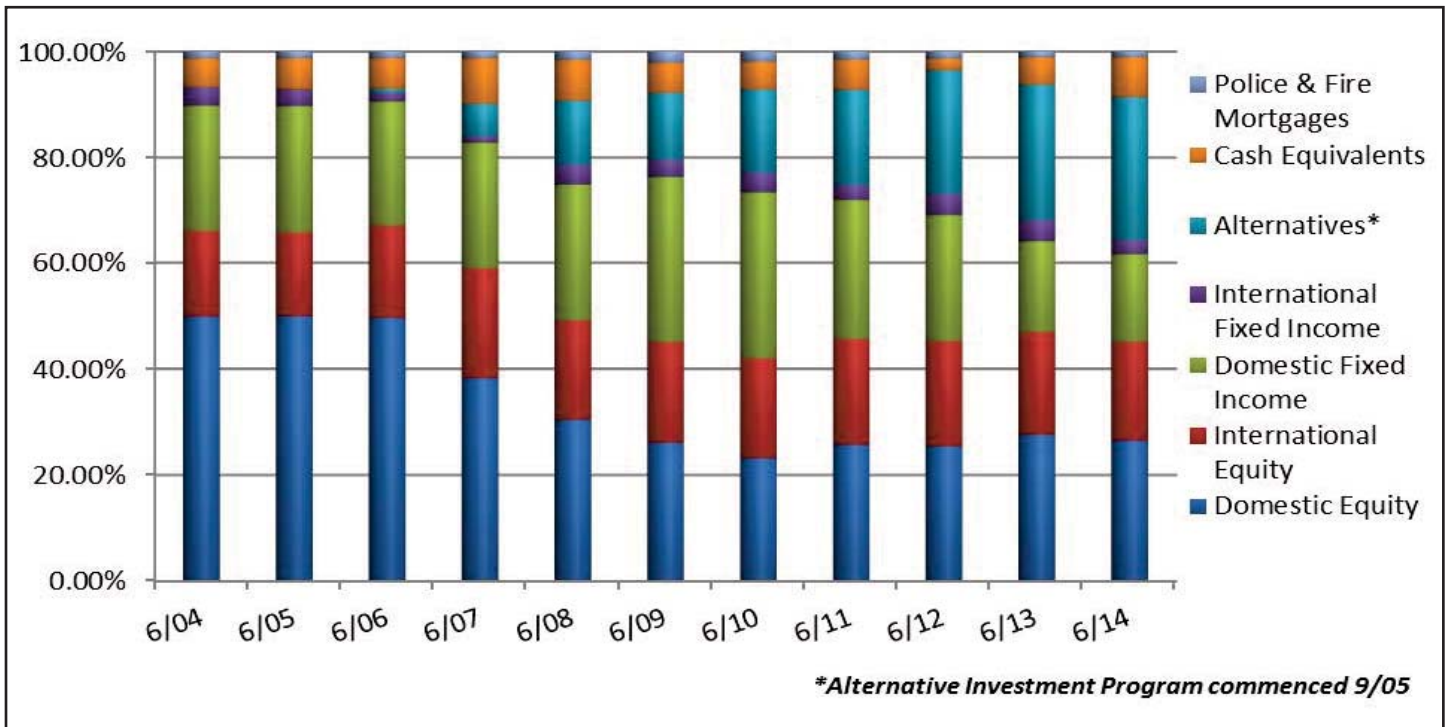
¹ The cash aggregate comprises the two common fund cash accounts, in addition to the seven plan cash accounts.

² Police and Fire Mortgage Program are private mortgages that cannot be sold.

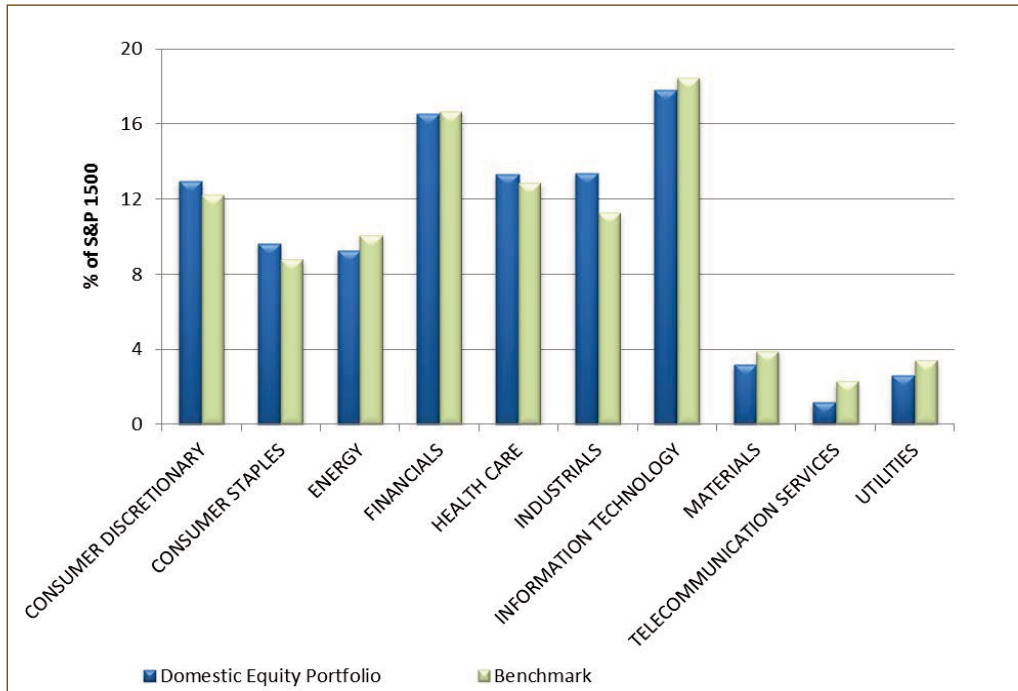
Totals may not equal sum of components due to rounding.



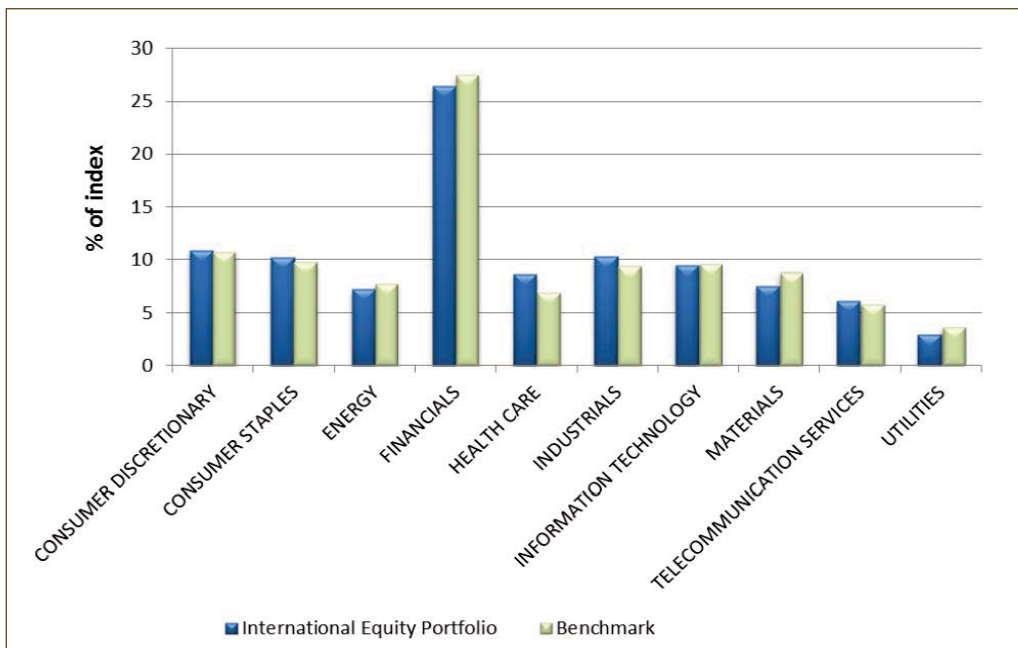
Pension Fund Composite Asset Allocation Ten Year History



U.S. Equities Market – Portfolio Sector Weightings June 30, 2014



International Equities Markets – Portfolio Sector Weightings June 30, 2014



List of Largest Assets Held by the Pension Fund

**Largest Domestic Equity Holdings
June 30, 2014**

Shares	Security Name	Fair Value (USD)
8,026,000	Apple Inc.	745,856,180
4,820,000	Exxon Mobil Corp.	485,277,600
10,700,000	Microsoft Corp.	446,190,000
7,415,000	Wells Fargo & Co.	389,732,400
656,000	Google Inc.	377,383,680
12,000,000	General Electric Co.	315,360,000
2,985,000	Johnson & Johnson	312,290,700
5,190,000	Merck & Co. Inc.	300,241,500
4,738,000	JPMorgan Chase & Co.	273,003,560
2,025,000	Chevron Corp.	264,363,750

**Largest Domestic Fixed Income Holdings
June 30, 2014**

Par	Security Name	Coupon	Due	Fair Value (USD)
717,822,000	US Treasury TIPS	0.125%	4/15/2018	741,487,874
500,000,000	US Treasury Bonds	0.375	6/30/2015	501,172,000
385,110,000	US Treasury TIPS	0.125	1/15/2023	383,785,992
234,821,250	US Treasury TIPS	0.125	4/15/2017	242,893,230
222,144,150	US Treasury TIPS	1.125	1/15/2021	240,627,210
150,000,000	Exxon Mobil Corp.	0.921	3/15/2017	150,157,200
150,000,000	US Treasury Bonds	1.375	2/28/2019	148,898,400
110,000,000	Exxon Mobil Corp.	1.819	3/15/2019	110,775,940
89,000,000	Aid Israel	5.500	4/26/2024	108,585,696
100,000,000	Procter & Gamble Co.	3.100	8/15/2023	100,822,200

List of Largest Assets Held
Largest International Equity Holdings
June 30, 2014

Shares	Security Name	Fair Value (USD)
31,355,400	IShares MSCI Emerging Markets	1,355,493,942
7,586,500	IShares MSCI EAFE ETF	518,689,005
578,870	Roche Holding AG	172,655,745
3,275,000	IShares Core MSCI Emerging Markets	169,317,500
1,687,852	Novartis AG	152,835,493
1,886,497	Nestle SA	146,146,080
2,100,000	IShares MSCI South Korea Cappe	136,542,000
752,177	L'Oreal Prime De Fidelite	129,605,788
5,461,208	Taiwan Semiconductor SP ADR	116,815,239
818,397	Bayer AG	115,580,452

Largest International Fixed Income Holdings
June 30, 2014

Par	Security Name	Coupon	Due	Fair Value (USD)
140,000,000	Province of British Columbia	2.650%	9/22/2021	142,301,460
69,000,000	Hydro Quebec	8.500	12/1/2029	103,776,414
60,000,000	Province of Quebec	7.500	9/15/2029	85,342,140
82,000,000	Province of Ontario	2.450	6/29/2022	80,067,260
60,000,000	Province of Manitoba	9.625	12/1/2018	77,178,300
72,000,000	Province of Manitoba	2.100	9/6/2022	68,761,224
63,000,000	Province of New Brunswick	2.750	6/15/2018	65,961,000
65,000,000	Oekb Oest. Kontrollbank	1.125	5/29/2018	64,255,685
64,000,000	Province of Ontario	1.650	9/27/2019	63,008,704
45,000,000	Province of Saskatchewan	8.500	7/15/2022	62,481,015

Fiscal Year 2014 Commissions on Global Securities

Broker	Shares ⁽¹⁾	Total Commissions ⁽¹⁾	Commissions per Share
Abel/Noser Corp.	1,500,000	\$75,000	\$0.050
ABG Sundal Collier Inc.	1,135,798	22,410	0.020
Aqua Securities, L.P.	1,795,750	17,958	0.010
Barclays Capital Inc.	15,543,505	457,575	0.029
Sanford C. Bernstein & Co., LLC	25,672,573	395,842	0.015
Blaylock Beal Van, LLC	19,319,414	193,194	0.010
BMO Capital Markets Corp.	20,855,478	208,555	0.010
C.L. King & Associates, Inc.	23,884,795	238,848	0.010
Canaccord Genuity Inc.	3,860,150	105,755	0.027
Capital Institutional Services, Inc.	21,229,602	1,061,481	0.050
CF Global Trading, LLC	17,794,588	55,835	0.003
CIBC World Markets Corp.	64,966	1,340	0.021
Citigroup Global Markets, Inc.	82,280,570	864,072	0.011
CLSA Americas, LLC	3,353,600	95,143	0.028
Cowen and Company, LLC	9,552,000	286,560	0.030
Craig-Hallum Capital Group LLC	8,849,108	256,023	0.029
Credit Suisse Securities LLC	36,521,063	1,181,531	0.032
DBS Vickers Securities Inc.	4,850,000	26,609	0.005
Deutsche Bank AG	20,208,906	398,420	0.020
FBN Securities, Inc.	7,152,678	50,069	0.007
Goldman, Sachs & Co.	17,811,719	304,491	0.017
Gordon, Haskett & Co.	7,431,100	371,555	0.050
Instinet, LLC	53,921,354	1,687,628	0.031
International Strategy & Investment Group	7,309,550	219,287	0.030
ITG Inc.	21,678,740	139,346	0.006
J.P. Morgan Securities LLC	47,216,303	1,130,315	0.024
Janney Montgomery Scott LLC	4,280,099	141,459	0.033
Jefferies LLC	5,958,596	193,025	0.032
Jones Trading Institutional Services LLC	11,732,148	117,321	0.010
Kepler Capital Markets, Inc.	2,529,412	81,040	0.032
KeyBanc Capital Markets Inc.	3,261,336	106,761	0.033
Lazard Capital Markets LLC	1,090,000	34,700	0.032
Leerink Partners LLC	3,853,000	124,025	0.032
Macquarie Capital Inc.	365,155,903	170	0.000
Meridian Equity Partners, Inc.	24,719,366	242,919	0.010
Merrill Lynch, Pierce, Fenner & Smith, Inc.	11,609,886	337,497	0.029
MND Partners, Inc.	70,000	700	0.010
Morgan Stanley & Co. LLC	121,232,737	653,510	0.005
Oppenheimer & Co. Inc.	4,878,500	160,560	0.033
Raymond James & Associates, Inc.	5,565,279	172,931	0.031
Redburn Partners LP	1,062,119	22,641	0.021
Scotia Capital Inc.	422,064	11,108	0.026
Sidoti & Company, LLC	2,228,971	70,044	0.031
Sterne, Agee & Leach, Inc.	3,425,250	109,433	0.032
Stifel, Nicolaus & Company, Inc.	5,807,726	188,582	0.032
SunTrust Robinson Humphrey, Inc.	1,330,600	42,984	0.032
Themis Trading LLC	29,420,921	275,408	0.009

INVESTMENTS

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

Fiscal Year 2014 Commissions on Global Securities, *continued*

Broker	Shares ⁽¹⁾	Total Commissions ⁽¹⁾	Commissions per Share
UBS Securities LLC	10,209,050	\$274,983	\$0.027
Vontobel Securities Ltd.	375,000	44,337	0.118
WallachBeth Capital, LLC	43,813,741	267,650	0.006
Wells Fargo Securities LLC	7,711,000	225,330	0.029
William Blair & Company, LLC	4,615,440	148,749	0.032
Williams Capital Group, L.P.	21,946,818	206,802	0.009
	<u>1,179,098,272</u>	<u>\$14,099,510</u>	<u>\$0.012</u>
Trades executed through advisers with various brokers	<u>954,934,010</u>	<u>\$4,318,630</u>	<u>\$0.005</u>

Note: ⁽¹⁾ Excludes \$978,440 in commissions for options written on approximately 99.3 million shares, and \$164,038 in commissions paid on futures.

Schedule of Fees Year ending June 30, 2014

(000's)	Net Assets under Management	Fees	Basis Points
Investment Advisers' fees:			
Fixed Income advisers	\$ 1,403,114	\$ 6,206	
Emerging Market Advisers	3,407,177	22,298	
	<u>\$ 4,810,291</u>	<u>28,504</u>	<u>59.256</u>
Alternative investment and global diversified credit funds	<u>\$ 23,408,190</u>	<u>236,799</u>	<u>101.161</u>
Other investment service fees:			
Custodian	—	370	
Security Lending Fees	—	1,591	
Investment consultants	—	2,526	
		<u>4,487</u>	
Total	<u>\$ 81,219,964</u>	<u>\$ 269,790</u>	<u>33.217</u>