

2013 ANNUAL REPORT

NEW JERSEY STATE INVESTMENT COUNCIL • FOR FISCAL AND CALENDAR YEAR 2013



**Liberty and Prosperity
1776**

TABLE OF CONTENTS

OVERVIEW

LETTER FROM THE CHAIRPERSON	2
INTRODUCTION TO THE COUNCIL AND DIVISION	4

ORGANIZATION

COUNCIL REGULATIONS AND STRUCTURE	6
LEGISLATIVE AND REGULATORY UPDATE	7

ASSETS UNDER MANAGEMENT

NET ASSETS UNDER MANAGEMENT	8
20 YEAR PENSION FUND FINANCIAL SUMMARY	9
PENSION FUND ASSET ALLOCATION	9
MARKET OVERVIEW FOR FISCAL 2013	11
TOTAL PENSION FUND RETURN VS BENCHMARK	13
DOMESTIC EQUITY HIGHLIGHTS OF FISCAL YEAR 2013	13
INTERNATIONAL EQUITY HIGHLIGHTS OF FISCAL YEAR 2013	15
FIXED INCOME HIGHLIGHTS OF FISCAL YEAR 2013	17
ALTERNATIVE INVESTMENTS	
PRIVATE EQUITY HIGHLIGHTS OF FISCAL YEAR 2013	18
REAL ESTATE HIGHLIGHTS OF FISCAL YEAR 2013	18
HEDGE FUND HIGHLIGHTS OF FISCAL YEAR 2013	19
COMMODITIES/REAL ASSET HIGHLIGHTS OF FISCAL YEAR 2013	19
SUMMARY OF CALENDAR YEAR 2013	20
CASH MANAGEMENT FUND	22

COSTS

COSTS OF MANAGEMENT	23
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**New Jersey State Investment Council
50 West State Street, 9th Floor
P.O. Box 290
Trenton, New Jersey 08625**

February 3, 2014

To the Honorable: the Governor, the Legislature, the State Treasurer and the Citizens of New Jersey:

On behalf of the State Investment Council, I am pleased to submit this report on the activities of the Council and of the New Jersey Division of Investment for Fiscal and Calendar Years 2013.

During the fiscal year, the Division again achieved strong returns on its investments of the New Jersey Pension Fund, registering a gain of 11.8% for the 12 months ended June 30, 2013 on its portfolio of investments (exclusive of Police and Fire Mortgages the Division is required to hold by law). For the calendar year ended December 31, 2013, the New Jersey Pension Fund achieved a gain of 14.6%. In Fiscal Year 2013, a record amount of \$8.7 billion was also paid out to plan beneficiaries. At the end of calendar 2013, the net asset value of the Pension Fund was \$76.8 billion.

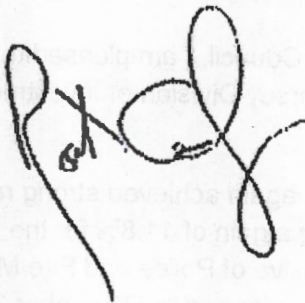
The mission of the New Jersey Division of Investment is "to achieve the best possible return at an acceptable level of risk using the highest fiduciary standards." We remind the members of the State Investment Council of this fiduciary mission at every meeting, and have held ourselves closely to that mission.

In pursuing this mission, the Council and the Division have sought to achieve an appropriate diversification of the Pension Fund's assets. This policy of diversification has served the Fund and its beneficiaries well. In the past fiscal year, the U.S. stock market was the star performer. In other years, fixed income has outperformed. The goal of the State Investment Council in formulating its asset allocation plan is to allow the Pension Fund to participate in rising markets while also being positioned to mitigate the effects of a drop in stock market values.

In total, from the end of Fiscal Year 2010 through the end of Calendar Year 2013, the value of the New Jersey Pension Fund has increased by \$10 billion, and in the last three fiscal years the Pension Fund has paid out \$24.7 billion to plan beneficiaries. This \$35 billion increase in value is testimony to the strong investment performance of the staff of the New Jersey Division of Investment and to the prudent, diversified strategy which governs their activities. In total, the Pension Fund (again, ex-Police and Fire mortgages) outperformed its policy benchmark by 82 basis points during Fiscal Year 2013 and by more than two percentage points for the calendar year 2013.

I speak for all members of the State Investment Council in saying that we are committed to serving the Pension Fund's 767,000 beneficiaries by maximizing the Pension Fund's returns while managing and mitigating risk, and in stating that it is an honor for all of us – who serve as volunteers – to do so.

Sincerely,



Robert E. Grady
Chairman

INTRODUCTION TO THE COUNCIL AND DIVISION

DIVISION OF INVESTMENT

Acting Director:

Christopher McDonough

Acting Deputy Director:

Michael Wszolek

THE STATE INVESTMENT COUNCIL

The State Investment Council (the "Council") was created by the New Jersey Legislature in 1950 to formulate policies governing the investment of funds by the Director of the Division of Investment (the "Division"), as well as to consult with the Director with respect to the work of the Division.

The Council conducts meetings to discuss major investment policy issues, review Pension Fund performance and accept comments from members of the public. Other investment programs and returns are reviewed annually or when needed.

Council meetings are open to the public. Agendas, meeting times and locations are available on the Division's website, www.state.nj.us/treasury/doinvest under the State Investment Council tab.

Mailing Address:

PO Box 290, Trenton, NJ 08625-0290

Email Address:

doi@treas.state.nj.us

Offices:

50 West State Street, 9th Floor, Trenton, NJ
08608-0290 Phone: (609) 292-5106

COUNCIL MEMBERSHIP AT DECEMBER 31, 2013:

Council Chairperson:

Robert Grady⁽¹⁾

Managing Director, Cheyenne Capital Fund

Council Vice Chair:

Brendan Thomas Byrne, Jr. ⁽¹⁾

Managing Member, Byrne Asset Management LLC

Council Members:

Marty Barrett

Police and Firemen's Retirement System Designee

Michael Cleary⁽¹⁾

New Jersey State AFL-CIO Nominee

Charles Dolan⁽¹⁾

Director of Business, AFSScott

Andrew Michael Greaney⁽¹⁾

State Troopers Fraternal Association Nominee

James E. Hanson II ⁽¹⁾

CEO, Hampshire Real Estate Company

Guy Haselmann⁽¹⁾

Director, Capital Markets Strategy, Scotiabank

James L. Joyner

Teachers Pension and Annuity Fund Designee

Adam Liebttag⁽¹⁾

New Jersey State AFL-CIO Nominee

Peter Maurer

Public Employees Retirement System Designee

Timothy McGuckin⁽¹⁾

New Jersey Education Association Nominee

Jeffrey Oram⁽¹⁾

Executive Managing Director, Colliers International

Mitchell Shivers⁽¹⁾

Former Principal Deputy Assistant Secretary of
Defense for Asian & Pacific Security Affairs

⁽¹⁾ Appointed by the Governor

COUNCIL MEMBERSHIP

The Council is comprised of sixteen (16) members pursuant to N.J.S.A. 52:18A-83. Nine members are appointed by the Governor for five year terms, and are drawn traditionally from the corporate investment community. Of those nine appointments, eight are made with the advice and consent of the State Senate. One appointment is made from nominees submitted jointly by the President of the Senate and Speaker of the Assembly. The statute requires that at least seven of the nine gubernatorial appointments shall be qualified by training and experience in the direct management, analysis, supervision or investment of assets, which training and experience shall have been acquired through academic training or through actual employment in those fields.

Four members are appointed by the Governor from nominees submitted by various employee organizations. Two of these four are appointed for five year terms from nominees submitted by the New Jersey State AFL-CIO, with at least one of such two appointed members being a member of a union representing police officers or firefighters. One of these four members is appointed for a three year term from nominees submitted by the New Jersey Education Association. The last of these four members is appointed by the Governor for a three year term from nominees submitted by the State Troopers Fraternal Association. The statute requires that these four appointments shall be qualified by training, experience or long-term interest in the direct management, analysis, supervision or investment of assets and this training, experience or long-term interest shall have been supplemented by academic training in the fields of economics, business, law, financial or actuarial science or by actual employment in those fields.

Three members, representing the Public Employees' Retirement System (PERS), Teachers' Pension and Annuity Fund (TPAF) and Police and Firemen's Retirement System (PFRS), are designated from members of the respective pension system's board of trustees and serve three year terms.

All members serve until reappointed or a successor is named and has qualified.

THE DIVISION OF INVESTMENT

The Division, under the supervision of the Council, is the 12th largest public pension fund manager in the United States, the 36th largest pension fund manager globally and the 16th largest among public and corporate pension fund managers.⁽¹⁾ The Pension Fund supports the retirement plans of approximately 767,000 members in seven public pension systems: the Consolidated Police & Firemen's Pension Fund, the Judicial Retirement System, the Police & Firemen's Retirement System, the Prison Officers Pension Fund, the Public Employees' Retirement System, the State Police Retirement System and the Teachers' Pension & Annuity Fund (collectively referred to in this report as the "Pension Fund"). Approximately 54% are still working and contributing to the pension while 38% are retired. The remaining 8% reflects the number of active noncontributing members.

The net asset value of the Pension Fund assets managed by the Division was \$74.4 billion as of June 30, 2013. The investment return for fiscal year 2013 excluding the Police and Fire Mortgages was 11.78% and approximately \$8.7 billion was paid to plan beneficiaries.

The Division also manages the State of New Jersey Cash Management Fund, Supplemental Annuity Collective Trust (a 403b plan), a portion of the NJBEST Fund (a 529 college savings plan) as well as several funds under the New Jersey State Employees Deferred Compensation Program (a 457 plan).

⁽¹⁾ Measured by assets as of 12/31/12. Reported by P&I and TowerWatson.com in "P&I/ TW 300 analysis." Year end 2012. Towers Watson. September 2013. <http://www.towerswatson.com/en-AU/Insights/IC-Types/Survey-Research-Results/2013/09/The-worlds-300-largest-pension-funds-year-end-2012>. Page 38.

STATUTORY AUTHORITY AND HISTORY OF THE DIVISION

The Division was created in 1950 by the New Jersey Legislature (P.L. 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 a State Investment Council to formulate policies that govern the methods, practices or procedures for investments, reinvestments, sale or exchange transactions to be followed by the Director of the Division. The statute vests investment authority in the Director of the Division, who is appointed by the State Treasurer from a list of candidates certified as qualified and submitted by the Council. New and amended regulations adopted by the Council after public comment are filed with the Office of Administrative Law and reported in the *New Jersey Register*.

INVESTMENT PARAMETERS

All investments 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."

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

COUNCIL REGULATIONS AND STRUCTURE

In addition to investment guidelines established by law, the Council is authorized by statute to establish investment policies that govern the methods, practices or procedures for investments, reinvestments, sale or exchange transactions (P.L. 1950, c.270).

All proposed regulations and amendments are filed upon approval of the Council with the Office of Administrative Law for publication in *The New Jersey Register*, followed by a 60-day public comment period. Following the public comment period, each proposal is returned to the Council for adoption, along with any comments received. The adopted regulations of the Council are published in the New Jersey Administrative Code (N.J.A.C. 17:16), and are available for viewing online at <http://www.lexisnexis.com/njoal>.

COUNCIL ORGANIZATIONAL CHANGES DURING CALENDAR YEAR 2013

The Council underwent the following organizational changes between January 1, 2013 and December 31, 2013:

- o The Council re-elected Robert Grady as Council Chair and Brendan Thomas Byrne, Jr., as Council Vice Chair, each for a one year term.

LEGISLATIVE AND REGULATORY UPDATE

REGULATORY UPDATE

Every seven years, administrative rules must be readopted to avoid expiration. The Council Regulations were set to expire on August 7, 2013, and accordingly, the Council proposed a combination of amendments, repeals and new rules to streamline the rules in the aggregate and further strengthen certain investment guidelines. The proposal was published in the NJ Register and no public comments were received on the proposal. The publication of the proposal extended the expiration of the current rules to February 3, 2014.

PROHIBITED INVESTMENTS

The Division maintains a list of international companies ineligible for investment under two State laws: a Sudan divestiture law adopted in 2005 (P.L. 2005, C. 162), and an Iran divestiture law adopted in 2007 (P.L. 2007, C. 250). The Division utilizes an independent research firm to assist it in complying with the provisions of the statutes.

Divestitures pose three primary fiscal challenges to the Pension Fund: they require the identification and sale of holdings on a timetable that does not consider market conditions; they impact risk and return for the Pension Fund; and they permanently reduce the investment universe available to the Pension Fund. Together, the Sudan and Iran divestiture laws reduced the investment universe in fiscal year 2013 by almost 4.4% in developed markets and 2.5% in emerging markets, relative to its respective benchmarks.

NORTHERN IRELAND REPORT

The Division has been required since 1987 (P.L. 1987, c.177) to report annually to the Legislature regarding the adherence of U.S. companies and their subsidiaries doing business in Northern Ireland, in which the assets of any state pension or annuity fund are invested, to the "MacBride Principles," a name given to a body of employment laws aimed at reducing employment discrimination in Northern Ireland. The report is filed each year by January 15th in accordance with the statute.

NET ASSETS UNDER MANAGEMENT

NET ASSETS IN MILLIONS		
	6/30/2013	6/30/2012
PENSION FUND ⁽¹⁾	\$74,446	\$70,109
The Pension Fund includes pension assets contributed by participants and by state and local employers for currently working and/or retired participants in seven statewide retirement plans.		
Teachers' Pension & Annuity Fund	25,913	25,559
Public Employees' Retirement System	25,209	23,369
Police & Firemen's Retirement System	21,297	19,205
State Police Retirement System	1,785	1,728
Judicial Retirement System	228	235
Prison Officers' Pension Fund	8	9
Consolidated Police & Firemen's Pension Fund	4	4
<i>Note: Total may not equal sum of components due to rounding</i>		
CASH MANAGEMENT FUND ⁽²⁾	\$11,359	\$8,779
This fund includes the cash balances of state government funds and "other-than-state" government entities (counties, municipalities, school districts and the agencies or authorities created by any of these).		
SUPPLEMENTAL ANNUITY COLLECTIVE TRUST	\$180	\$155
This fund includes voluntary investments by employees for retirement income separate from, and in addition to, their basic pension plan.		

- (1) The net assets of the Pension fund include the net assets managed by the Division through the Common Pension Funds and exclude certain direct assets and liabilities of the seven underlying pension plans.
- (2) The total for the Cash Management Fund includes \$3.6 billion on 6/30/13 (\$1.4 billion on 6/30/12) held for and included in the totals for the Pension Fund, the Supplemental Annuity Collective Trust, Trustees for the Support of Public Schools Fund, the NJBEST Fund and Deferred Compensation Program.

NJBEST FUND

The Division manages some of the contributions of New Jersey residents for the state's tax-advantaged 529 college savings program. On June 30, 2013, the Division-managed portion of this fund had a market value of \$412 million (\$403 million on 6/30/12).

DEFERRED COMPENSATION PROGRAM

The Division manages some of the assets contributed by employees into the New Jersey State Employees Deferred Compensation Program. Prudential Retirement, a business of New Jersey-based Prudential Financial, serves as the third-party administrator for this plan. Funds managed by the Division include contributions to the Bond (Fixed Income) Fund, Equity Fund, Money Market (Cash Management) Fund and Small Capitalization Equity Fund. On June 30, 2013, these funds had a combined market value of \$526 million (\$488 million on 6/30/12).

TRUSTEES FOR THE SUPPORT OF PUBLIC SCHOOL FUND

The Division manages the fund reserve required to support the rating of school bonds issued for the maintenance and support of the State's public schools. On June 30, 2013, the portfolio had a market value of \$138 million (\$134 million on 6/30/12).

20 YEAR PENSION FUND FINANCIAL SUMMARY

FISCAL YEAR	NET ASSETS ⁽¹⁾ (\$BILLIONS)	RATE OF RETURN ⁽²⁾ (%)	GROSS PENSION PAYMENTS (\$BILLIONS)
2013	74.4	11.78	8.7
2012	70.1	2.52	8.3
2011	73.7	18.03	7.7
2010	66.8	13.35	7.0
2009	62.9	(15.48)	6.6
5 YEAR ANNUALIZED RETURN		5.32	
2008	78.6	(2.61)	6.1
2007	82.5	17.14	5.6
2006	73.1	9.79	5.2
2005	69.8	8.77	4.8
2004	67.8	14.16	4.4
10 YEAR ANNUALIZED RETURN		7.26	
2003	62.6	3.31	4.1
2002	63.3	(8.61)	3.6
2001	72.2	(9.80)	3.2
2000	82.6	11.86	2.9
1999	76.2	16.27	2.7
15 YEAR ANNUALIZED RETURN		5.50	
1998	67.3	22.70	2.5
1997	56.6	22.09	2.3
1996	45.6	16.13	2.1
1995	40.5	19.69	2.0
1994	35.2	(0.74)	1.7
20 YEAR ANNUALIZED RETURN		7.94	

⁽¹⁾ Includes the net assets of the Common Pension Funds managed by the Division.

⁽²⁾ Returns exclude Police and Fire Mortgages

During fiscal year 2013, net transfers of \$3.75 billion were made from the Pension Fund to the following pension plans: \$24 million to the Judicial Retirement System, \$593 million to the Police & Firemen's Retirement System, \$1.16 billion to the Public Employees' Retirement System, \$115 million to the State Police Retirement System and \$1.86 billion to the Teachers' Pension & Annuity Fund.

PENSION FUND ASSET ALLOCATION

Asset allocation policies for the Pension Fund are adopted and revised by the Council as conditions warrant. The Council formally adopts an annual investment plan which includes long term ranges and annual target allocations for each asset class and asset category. Eligible investments are

governed by the "whole plan" or "whole portfolio" principle, which permits a broad spectrum of investments to ensure diversity, and optimize expected risk/return tradeoffs on the investments as a whole.

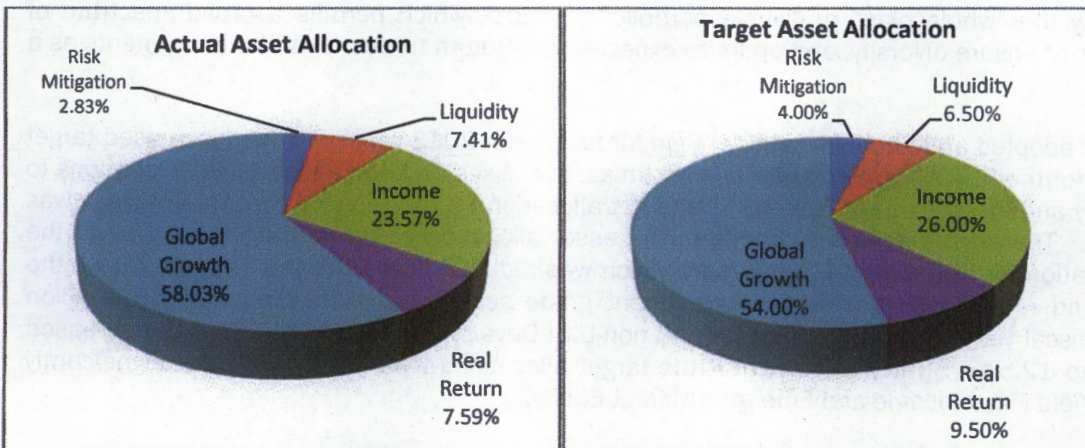
The Council adopted an Annual Investment Plan for fiscal year 2013 which included increased target allocations for the Risk Mitigation and Real Return asset classes and decreased target allocations to the Liquidity and Income asset classes. The target allocation for the Global Growth asset class was unchanged. The most significant change in the asset allocation at the strategy level was to the target allocation for Investment Grade Credit, which was reduced from 20% to 13%. As a result, the Pension Fund reduced its holdings of investment grade securities by approximately \$3.9 billion during the fiscal year. The target allocation to non-U.S. Developed Market Equities was decreased from 15% to 12.5%. Strategies for which the target allocations were increased most significantly were High Yield Fixed Income and Emerging Market Equity.

ACTUAL ALLOCATION AS OF JUNE 30, 2013 VS. FISCAL YEAR 2013 INVESTMENT PLAN TARGET

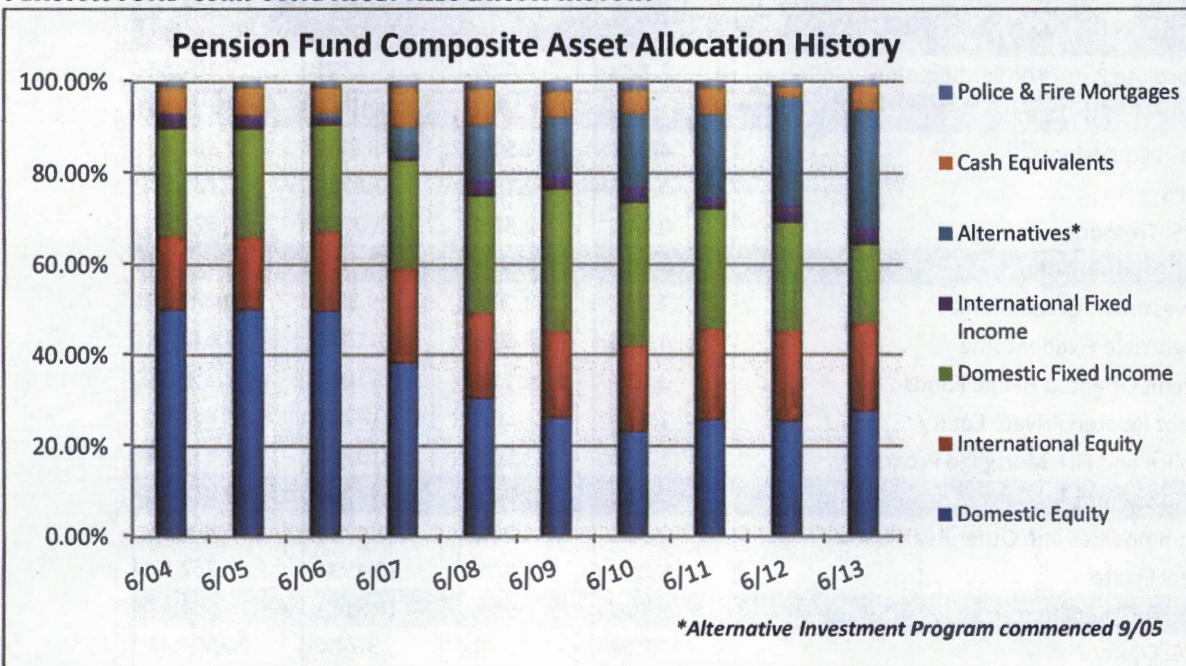
	Actual Allocation %	Target %	Difference%	Allocation\$
Absolute Return/Risk Mitigation	2.83%	4.00%	(1.17%)	2,107.56
Risk Mitigation	2.83%	4.00%	(1.17%)	2,107.56
Cash Equivalents ⁽¹⁾	4.57%	1.50%	3.07%	3,404.25
TIPS	2.39%	2.50%	(0.11%)	1,782.93
U.S. Treasuries	0.44%	2.50%	(2.06%)	328.31
Total Liquidity	7.41%	6.50%	0.91%	5,515.49
Investment Grade Credit	13.59%	13.00%	0.59%	10,120.23
High Yield Fixed Income	4.87%	6.00%	(1.13%)	3,623.46
Credit Oriented Hedge Funds	2.90%	4.00%	(1.10%)	2,156.32
Debt Related Private Equity	1.08%	1.50%	(0.42%)	806.02
Police and Fire Mortgage Program	1.13%	1.50%	(0.37%)	838.80
Total Income	23.57%	26.00%	(2.43%)	17,544.82
Commodities and Other Real Assets	2.53%	4.00%	(1.47%)	1,886.55
Real Estate	5.05%	5.50%	(0.45%)	3,762.52
Total Real Return	7.59%	9.50%	(1.91%)	5,649.07
U.S. Equity	27.54%	23.80%	3.74%	20,504.23
Non-U.S. Developed Markets Equity	12.52%	12.50%	0.02%	9,317.45
Emerging Markets Equity	6.87%	7.00%	(0.13%)	5,117.14
Equity Oriented Hedge Funds	4.11%	4.50%	(0.39%)	3,062.74
Buyouts/Venture Capital	6.99%	6.20%	0.79%	5,200.67
Total Global Growth	58.03%	54.00%	4.03%	43,202.24
Other Cash and Receivables	0.57%	0.00%	0.57%	426.71
Total Pension Fund	100.00%	100.00%	0.00%	74,445.89

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

Totals may not equal sum of components due to rounding



PENSION FUND COMPOSITE ASSET ALLOCATION HISTORY



MARKET OVERVIEW FOR FISCAL 2013

- While fiscal year 2012 was dominated by headlines of turmoil in Europe and other parts of the world, fiscal 2013 saw a dramatic reversal of these headlines. Policy rates being held at historically low levels and additional policy initiatives being enacted created a strong back drop for most equity and credit investments. As the fiscal year came to a close, the uncertainty regarding the path of monetary policy fueled volatility and underperformance in most risk assets, with May and June being particularly difficult. The last quarter of fiscal year 2013 saw both stocks and bonds posting negative returns.

- On a fiscal year basis, the U.S. equity market rose for a fourth consecutive year as reasonable valuations and continued low interest rates produced the top performing major asset class. All industry sectors registered positive returns, with financials and consumer discretionary faring best. Returns in technology and utilities were the weakest. In total, the S&P 1500 rose 21.1% for the year and U.S. equities finished fiscal year 2013 up over 150% from the March 2009 lows.
- In the developed markets, Europe's sovereign debt market pressures eased returning confidence to the European financial sector. Japan implemented massive quantitative easing which caused a significant weakening of the yen and a rally in the Japanese markets. For the fiscal year, international developed markets posted a total return of 18.6%. The emerging markets had shown steady improvement through most of the fiscal year. However growing concerns about current account deficits and lagging economic growth led to heavy investment outflows from both the emerging fixed income and equity markets. Emerging markets lost most of the fiscal year market gain during the last six weeks of the year, going from a gain of 14.7% on May 21 to a gain of 3.9% for the entire fiscal year.
- The low absolute performance in the fixed income markets resulted from the overall rise in interest rates as the Bond Market anticipated the end of Quantitative Easing by the Federal Reserve. Long treasury prices fell substantially during fiscal 2013 as long-term interest rates increased sharply during the period. At the beginning of the fiscal year, the interest rate on the 30-year bond was 2.75%. Ten months later, at the beginning of May, the rate remained relatively unchanged at 2.81%. However, during the last eight weeks of the fiscal year, the rate rose to 3.50%.
- Record inflows into High Yield ETFs and Mutual Funds caused a strong bid for paper. With Treasury rates compressed so low, investors felt that the High Yield market offered an attractive risk/reward versus other investment choices. This peaked in early May, when the Yield to Worst (YTW) for the Barclays High Yield Index reached 4.95%, after starting the year at YTW of 7.26%. This reversed course sharply from that point in time on the back of U.S. Treasuries widening, and High Yield ended the fiscal year at YTW of 6.66%.
- In fiscal year 2013, U.S. private equity was influenced by three key drivers: (1) readily available credit, in part driven by supportive monetary policy, represented by strong new loan issuances; (2) a strong public equity market, with the S&P 500 Index reaching new heights in 2013; and (3) an improved fundraising environment due to higher overall plan values and increase in distributions to investors. Deals of all sizes saw an increase in valuations from the lows of 2009, with purchase price as a multiple of EBITDA for deals over \$500 million consistently above those for smaller transactions, and annual capital deployment returning to pre-recession levels—all suggesting an increasingly competitive market. Exit activity in the U.S. private equity market increased from 2009 to 2012, with concerns over higher taxation in 2013 driving the most active quarter (calendar Q4 2012) ever for both exit volume and capital. Internationally, the private equity landscape remained challenged as buyers and sellers waited for market conditions to improve; however, supportive monetary policies similar to those the U.S. has in place should help with economic growth.
- The real estate market continued its steady recovery in fiscal year 2013, buoyed by strong equity and debt markets. as exemplified by the decline in the volume of CMBS loans in special servicing (8.1%), down from its peak of 10.3% in the summer of 2012. The demand for core assets remained very strong, driven almost exclusively by overseas investors pushing pricing and yields in gateway urban markets, energy, and technology markets to historic lows. Pricing for commercial real estate rose 13.6% in fiscal year 2013 according to the Moody's/RCA national

composite index, but remains 12% below the December 2007 peak. Deal activity remained strong with U.S. transaction volume up 29% year over year.

- Commodity markets were generally down for the fiscal year as the DJ-UBS Index returned -8.01%. The increase in U.S. crude production, commencement of new mining projects and favorable weather across much of the globe all contributed to a slump in prices from corn to zinc.

TOTAL PENSION FUND RETURN VS BENCHMARK

	Annualized Returns (%)			
	FY13	3 Years	5 Years	10 Years
Total Pension Fund	11.63	10.47		
Total Pension Fund excluding Police and Fire Mortgages	11.78	10.59	5.32	7.26
Total Fund Benchmark⁽¹⁾	10.96	9.23	4.75	6.32

⁽¹⁾ Benchmark is a weighted composite of index returns in each asset class

- The Total Pension Fund excluding Police and Fire Mortgages outperformed the Total Fund Benchmark by 82 basis points for fiscal year 2013. Three of the five asset classes (Risk Mitigation, Liquidity and Income) outperformed their respective benchmarks for fiscal year 2013 while two, Real Return and Global Growth, trailed their respective benchmarks slightly.
- Asset allocation decisions contributed positively to performance. Specifically, the Pension Fund's overweight to Global Growth, specifically U.S. public equities, and underweights to Risk Mitigation and Real Return during the year relative to the target allocations produced positive contributions to performance.
- The Fund has outperformed its benchmark in each of the last three fiscal years (fiscal year 2011 by 100 basis points, fiscal year 2012 by 226 basis points, and fiscal year 2013 by 82 basis points), adding incremental value of approximately \$2.8 billion to the Pension Fund.
- The Pension Fund has outperformed the benchmark on a trailing one, three, five, and ten-year basis.

DOMESTIC EQUITY HIGHLIGHTS OF FISCAL YEAR 2013

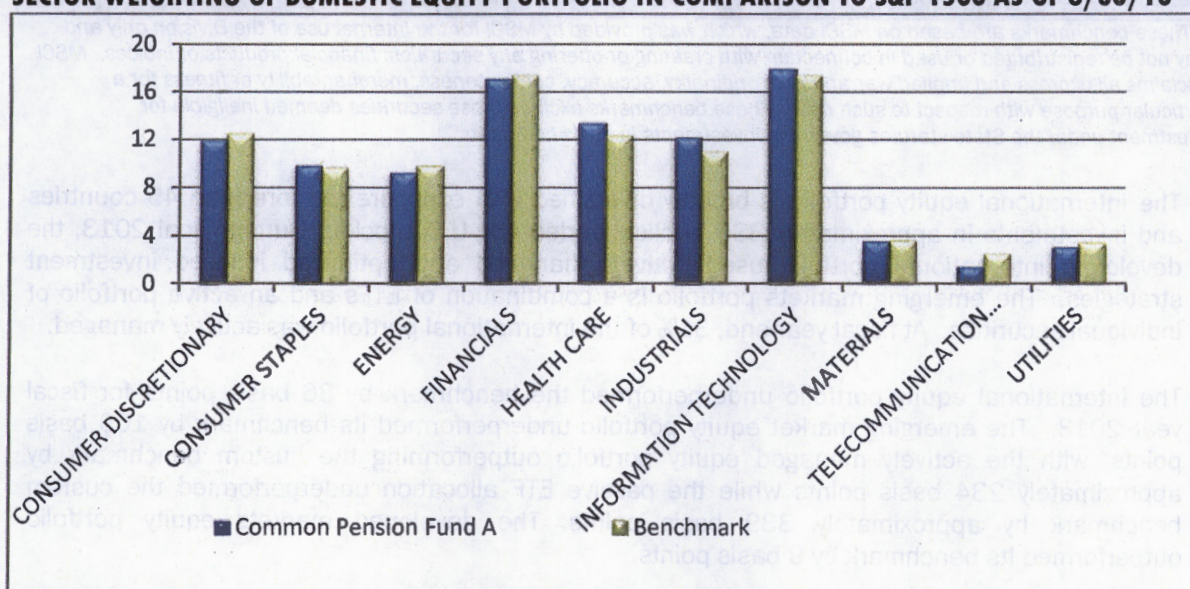
	Annualized Returns (%)			
	FY13	3 Years	5 Years	10 Years
Domestic Equity with Cash, Hedges, Miscellaneous	21.56	18.59	8.13	8.52
Domestic Equity Only (Ex Cash and hedges)	21.89	18.96	8.34	8.63
S&P 1500 Composite	21.13	18.60	7.27	7.71

- The domestic equity portfolio is broadly diversified by economic sector and includes approximately 800 publicly traded stocks. While exposure to most sectors is comparable to that

of the overall market, the Division will overweight and underweight securities and industries in the portfolio in an effort to outperform the benchmark.

- Stocks in the domestic equity portfolio gained 21.89% for fiscal year 2013, exceeding the 21.13% return of the S&P 1500. Stock selection was particularly strong in industrials and healthcare, more than offsetting a 30% decline in top holding Apple. The Pension Fund's U.S. equity returns have outperformed the benchmark on a one, three, five and ten year basis.
- The Pension Fund benefitted by maintaining an overweight position to domestic equities throughout the fiscal year. As of June 30, 2013, the Fund had a 27.5% allocation to U.S. equities, versus a 23.8% target in the benchmark.

SECTOR WEIGHTING OF DOMESTIC EQUITY PORTFOLIO IN COMPARISON TO S&P 1500 AS OF 6/30/13



TOP HOLDINGS IN DOMESTIC EQUITY AS OF 6/30/13

Company	% of Portfolio
APPLE INC.	2.74
EXXON MOBIL CORP	2.34
MICROSOFT CORP	2.33
WELLS FARGO + CO	1.86
JPMORGAN CHASE + CO	1.57
GOOGLE INC CL A	1.56
MERCK + CO. INC.	1.50
PROCTER + GAMBLE CO	1.38
JOHNSON + JOHNSON	1.36
PFIZER INC	1.29

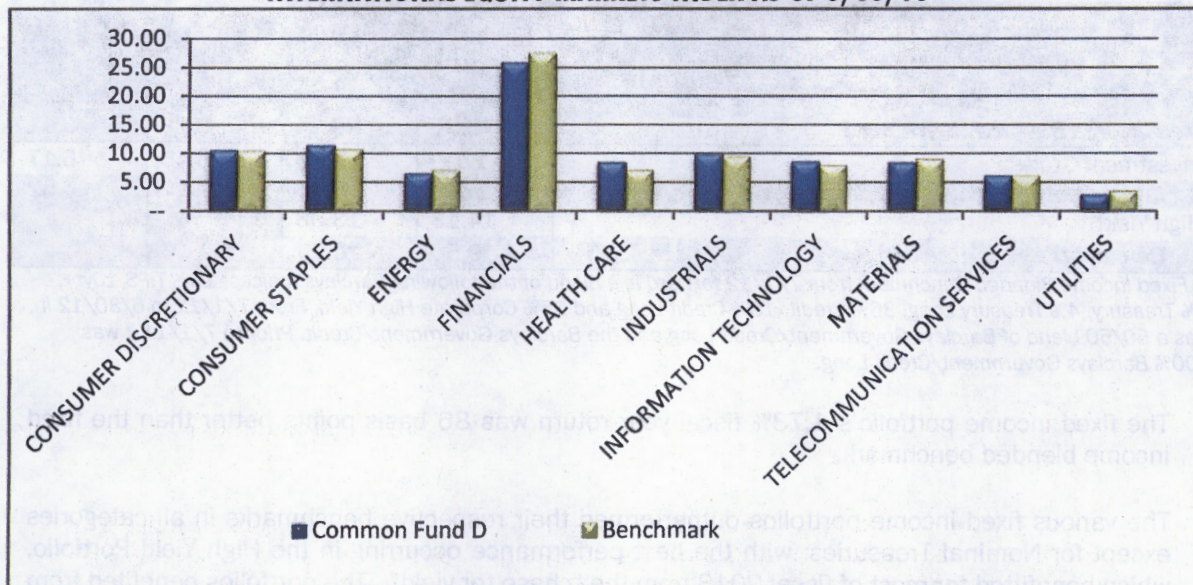
INTERNATIONAL EQUITY HIGHLIGHTS OF FISCAL YEAR 2013

	Annualized Returns (%)			
	FY13	3 Years	5 Years	10 Years
International Equity with Cash, Hedges, Miscellaneous	11.90	5.46	(1.28)	7.09
<i>Custom International Equity Markets Benchmark⁽¹⁾</i>	<i>12.76</i>			
<i>MSCI All Country World Index (ex U.S.)</i>	<i>13.63</i>	<i>7.99</i>	<i>(0.80)</i>	<i>8.62</i>
Developed Markets Equity	17.77			
<i>Custom International Developed Markets Benchmark⁽¹⁾</i>	<i>17.68</i>			
<i>MSCI EAFE Index</i>	<i>18.62</i>			
Emerging Markets Equity	2.87			
<i>Custom Int'l Emerging Markets Benchmark⁽¹⁾</i>	<i>3.96</i>			
<i>MSCI Emerging Markets Index</i>	<i>2.87</i>			

⁽¹⁾ These benchmarks are based on MSCI data, which was provided by MSCI for the internal use of the Division only and may not be redistributed or used in connection with creating or offering any securities, financial products or indices. MSCI disclaims all express and implied warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to such data. These benchmarks exclude those securities deemed ineligible for investment under the State statutes governing investments in Iran and Sudan.

- The international equity portfolio is broadly diversified with exposure to more than 45 countries and investments in approximately 830 publicly traded non-U.S. stocks. During fiscal 2013, the developed international portfolio used actively managed and optimized indexed investment strategies. The emerging markets portfolio is a combination of ETFs and an active portfolio of individual securities. At fiscal year-end, 31% of the international portfolio was actively managed.
- The international equity portfolio underperformed the benchmark by 86 basis points for fiscal year 2013. The emerging market equity portfolio underperformed its benchmark by 109 basis points, with the actively managed equity portfolio outperforming the custom benchmark by approximately 234 basis points while the passive ETF allocation underperformed the custom benchmark by approximately 339 basis points. The developed markets equity portfolio outperformed its benchmark by 9 basis points.
- From a regional perspective, Europe had the largest positive contribution to return relative to the benchmark while Canada and Japan were the largest detractors. By country, an overweight to France, combined with strong stock selection in that country, had the largest positive impact to performance while poor stock selection in Canada had the largest negative impact to performance relative to the benchmark.
- Strong stock selection in the materials sector and an overweight to the healthcare sector were the largest positive contributors to performance relative to the benchmark. An underweight to financial sector and poor stock selection and an overweight to industrials were the largest detractors to performance relative to the benchmark.

SECTOR WEIGHTING OF INTERNATIONAL EQUITY PORTFOLIO IN COMPARISON TO CUSTOM INTERNATIONAL EQUITY MARKETS INDEX AS OF 6/30/13⁽¹⁾



(1) This chart represents sector weights against the custom benchmark, which excludes those names deemed ineligible for investment under the State's Sudan and Iran Divestment laws.

TOP HOLDINGS IN INTERNATIONAL EQUITY AS OF 6/30/13

Company	% of Portfolio
VANGUARD FTSE EMERGING MARKETS	7.90
ISHARES MSCI EMERGING MARKETS (EEM)	6.25
ROCHE HOLDING AG GENUSSCHEIN	1.32
ISHARES MSCI EMERGING MARKETS (EEMV)	1.03
NESTLE SA REG	0.94
ISHARES MSCI EAFE ETF	0.90
L OREAL PRIME DE FIDELITE	0.86
GLAXOSMITHKLINE PLC	0.84
HSBC HOLDINGS	0.80
SAMSUNG ELECTRONICS	0.80

FIXED INCOME HIGHLIGHTS OF FISCAL YEAR 2013

	Annualized Returns (%)			
	FY13	3 Years	5 Years	10 Years
Fixed Income with Cash, Hedges, Miscellaneous	1.73	7.70	9.24	6.55
<i>Fixed Income Blended Benchmark⁽¹⁾</i>	0.87	6.64	8.28	6.11
Investment Grade	(1.12)	6.89	8.45	6.17
<i>Investment Grade Blended Benchmark</i>	(1.92)	8.04	9.12	6.52
High Yield	14.13	13.08		
<i>Barclays Corp High Yield Index</i>	9.50	10.74		

⁽¹⁾ Fixed Income Blended Benchmark from 7/1/12 forward is a blend of the following Barclays Indices: 10% TIPS 10yr+, 7% Treasury, 4% Treasury Long, 36% Credit, 18% Credit Long and 25% Corporate High Yield. From 7/1/11 to 6/30/12 it was a 50/50 blend of Barclays Government/Credit Long and the Barclays Government/Credit. Prior to 7/1/11 it was 100% Barclays Government/Credit Long.

- The fixed income portfolio's 1.73% fiscal year return was 86 basis points better than the fixed income blended benchmark.
- The various fixed income portfolios outperformed their respective benchmarks in all categories except for Nominal Treasuries, with the best performance occurring in the High Yield Portfolio, which benefitted for most of fiscal 2013 from the "chase for yield". The portfolios benefited from an overall increase in demand for credit spread products. For example, ten year CCC rated credit spread vs. ten year treasuries tightened approximately 31%.
- While spread products benefited from the rise in interest rates, the U.S. Treasury and TIPS portfolios suffered. The TIPS portfolio had a negative return for the fiscal year, however its duration was shorter than its benchmark and outperformed due to the rise in interest rates. The nominal Treasury portfolio was slightly long duration relative to its benchmark and underperformed.

ALTERNATIVE INVESTMENTS

In fiscal year 2013, the Division continued to focus on structuring investments that better aligned the interests of the investment managers with those of the Division and partnering with top-tier managers across asset classes. Many of the investment commitments in fiscal year 2013 had preferential terms negotiated by the Division which the Division estimates will save tens of millions of dollars per year in fees. Among the highlights was a strategic relationship formed with Och-Ziff Capital Management which, not unlike the Division's partnership with the Blackstone Group last year, provides the Division with expanded and more flexible investment opportunities, enhanced support of Division resources, a discounted fee structure, better alignment of interests and strong governance rights.

PRIVATE EQUITY HIGHLIGHTS OF FISCAL YEAR 2013

	Annualized Returns (%)		
	FY13	3 Years	5 Years
Private Equity	14.86	13.59	6.18
Cambridge Associates Benchmark ⁽¹⁾	12.85	15.09	7.46

(1) Cambridge Associates Benchmark is reported on a one quarter lag.

- The Total Value Multiple for the overall private equity portfolio increased from 1.16x to 1.26x from June 30, 2012 to June 30, 2013. All segments within the Private Equity portfolio saw increases in fiscal year 2013 with middle-market and large buyouts leading the way.
- The Pension Fund committed \$1.05 billion to 6 new private equity partnerships in fiscal year 2013.
- The private equity portfolio contributed \$938 million to various funds and received distributions totaling \$1.2 billion during the fiscal year. In fiscal years 2011 and 2012, the portfolio contributed \$1.3 billion and \$1.2 billion, respectively to various funds and received distributions of \$963 million and \$1.1 billion, respectively.

REAL ESTATE HIGHLIGHTS OF FISCAL YEAR 2013

	Annualized Returns (%)		
	FY13	3 Years	5 Years
Real Estate	13.17	12.94	(3.66)
NCREIF(NPI)	10.73	13.14	2.79

- Fiscal year 2013 was the third consecutive year that the real estate portfolio produced a positive overall return driven primarily by performance of the non-core funds returning 23.59% for fiscal year 2013.
- The Total Value Multiple for the overall real estate portfolio increased from 0.92x to 1.06x from June 30, 2012 to June 30, 2013.
- The Pension Fund committed \$1.3 billion to 7 real estate partnerships in fiscal year 2013.

- The real estate portfolio contributed \$536 million to various funds and received distributions totaling \$544 million during the fiscal year. In fiscal years 2011 and 2012, the portfolio contributed \$708 million and \$633 million, respectively to various funds and received distributions of \$178 million and \$394 million, respectively.
- The Pension Fund entered into an agreement to sell 25 existing fund investments in the secondary market for a total sales price of \$925 million.

HEDGE FUND HIGHLIGHTS OF FISCAL YEAR 2013

	Annualized Returns (%)		
	FY13	3 Years	5 Years
Hedge Funds	12.58	7.13	1.66
HFRI Fund of Funds Composite ⁽¹⁾	8.41	3.18	(0.51)

⁽¹⁾ Reported on a one month lag.

- The credit oriented and equity oriented hedge funds were the best performing segments of the hedge portfolio for the fiscal year, returning 16.13% and 15.46%, respectively.
- For fiscal year 2013, the Pension Fund committed \$1.85 billion to 9 direct and fund-of-fund strategies in the hedge fund portfolio, including new investments and additions to existing investments. During the same period, the fund redeemed \$556 million from six funds.

COMMODITIES/REAL ASSET HIGHLIGHTS OF FISCAL YEAR 2013

	Annualized Returns (%)		
	FY13	3 Years	5 Years
Real Assets/Commodities	(0.88)	4.77	(9.01)
Dow Jones UBS Commodity Total Return Index	(8.01)	(0.26)	(11.61)

- The real assets/commodities portfolio outperformed the Dow Jones UBS Commodity Total Return Index by 713 basis points for the fiscal year. The Pension Fund's private commodity related investments performed particularly well relative to the benchmark with a return of 3.00%. These returns were primarily driven by private-equity type investments in the energy sector.

SUMMARY OF CALENDAR YEAR 2013

Annualized Returns (%) for Calendar Year 2013 (Unaudited)	CY13	Benchmark
Total Pension Fund	14.42	12.43⁽¹⁾
Total Pension Fund excluding Police and Fire Mortgages	14.60	12.43⁽¹⁾
Domestic Equity with Cash, Hedges, Miscellaneous	33.10	32.80
International Equity with Cash, Hedges, Miscellaneous	12.50	12.24
Developed Markets Equity	22.12	21.52
Emerging Markets Equity	(2.94)	(2.38)
Fixed Income with Cash, Hedges, Miscellaneous	(1.11)	(2.29)
Alternative Investments	12.94	
Private Equity ⁽²⁾	18.31	16.98
Real Estate ⁽²⁾	15.97	12.97
Hedge Funds ⁽²⁾	13.34	8.79
Real Assets/Commodities	(5.55)	5.19
Cash Management Fund	0.13	0.07

⁽¹⁾ Benchmark is a weighted composite of index returns in each asset class. Benchmark return is preliminary.

⁽²⁾ Performance based on most recent values available

- The net asset value of the Pension Fund at December 31, 2013 was \$76.8 billion.
- The Total Pension Fund excluding Police & Fire Mortgages outperformed the Total Fund Benchmark by 217 basis points for calendar year 2013.
- The domestic equity portfolio return of 34.01 percent outperformed the S&P 1500 Composite by 121 basis points. The benchmark return of 32.8% was the strongest U.S. equity market performance since 1997, overcoming headwinds including the fiscal cliff, sequestration, and the budget and debt ceiling squabbles in Washington DC. The domestic equity portfolio benefited from an overweight in the industrials and healthcare sectors and good stock selection in the industrials, financials and healthcare sectors. The portfolio also benefited from underweights in interest rate sensitive sectors, utilities and telecommunication services, as interest rates rose on concerns about the Federal Reserve pulling back on its QE3 bond buying program.
- The total international equity portfolio returned 12.5%, outperforming the international benchmark by 26 basis points. The outperformance in the developed market portfolio was attributable to an underweight in the materials sector and overweight in the health care sector, as well as overweights to France and Switzerland from a geographic perspective. The actively managed emerging market portfolio outperformed its benchmark by 227 basis points while the passive ETF portfolio underperformed the benchmark by 266 basis points. Contributing to the outperformance of the active emerging market portfolio was the underweight in China and overweight in Russia, which produced the best relative return for the portfolio for country allocation, combined with an overweight in the information technology sector and underweights in the materials and energy sectors.

- The fixed income portfolio was down overall for the calendar year but still outperformed the blended portfolio benchmark by 118 basis points. The high yield portfolio was the best performing segment of the portfolio, returning 11.47% vs. the Barclays High Yield Index which returned 7.45% for the calendar year. Although the TIPS, U.S. Treasury and investment grade portfolios were a drag on overall performance, all but the U.S. Treasury portfolio outperformed their respective benchmarks.
- The Alternative Investment portfolio as a whole returned 12.94% for the year. Private Equity was the best performing segment of the portfolio as investments benefited from rising equity markets and robust IPO activity. Real Estate had a strong year on both an absolute and relative basis as residential and commercial real estate values continue to rebound from the lows of the financial crisis. The Hedge Fund portfolio outperformed the benchmark by 455 basis points for the year as long biased equity and credit funds produced strong performance. The performance of the Real Asset and Commodities portfolio was negatively impacted by strategies tied to the major commodity indexes, which performed poorly on the year.

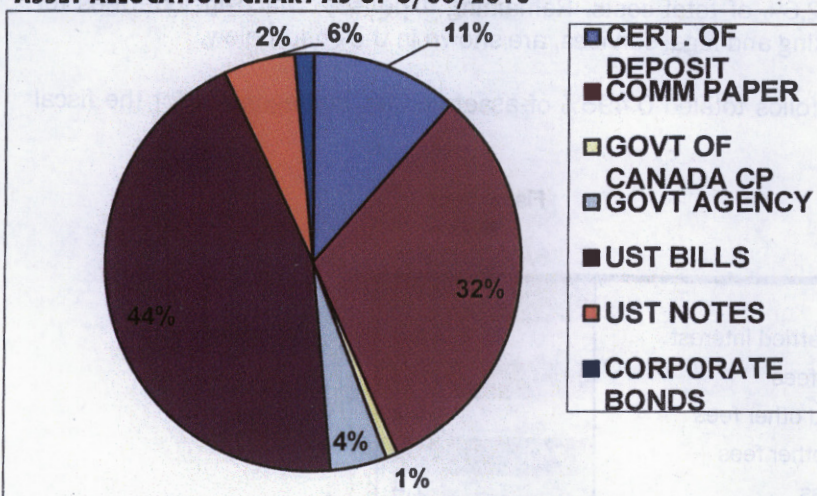
CASH MANAGEMENT FUND

	Returns ⁽¹⁾ (%)		
	FY13	3 Years	5 Years
Cash Mgt. Fund – State Participants	0.14	0.20	0.52
Cash Mgt. Fund – Non-State Participants	0.06	0.10	0.41
<i>U.S. Treasury Bills (3 month)</i>	0.11	0.11	0.29

⁽¹⁾ Returns represent the annual rate for the period based on the average daily rate of return.

- The State of New Jersey Cash Management Fund has consistently beaten its benchmark. The downward trend in rates in recent years is a result of the Federal Reserve's continuing policy of maintaining lower short term interest rates.
- The net assets of the cash management fund of \$11.4 billion increased by \$2.6 billion or 29.4% during the fiscal year primarily due to net participant contributions.

ASSET ALLOCATION CHART AS OF 6/30/2013



CASH MANAGEMENT DETAIL AS OF 6/30/2013

	Percentage	June 30, 2013
GOVT OF CANADA CP	0.90%	\$102,408,000
CORPORATE BONDS	1.52%	173,000,000
GOVT AGENCY	4.40%	500,000,000
UST NOTES	5.54%	629,090,000
CERT. OF DEPOSIT	11.38%	1,293,000,000
COMM PAPER	31.84%	3,616,284,000
UST BILLS	44.41%	5,043,920,000
TOTAL**	100.00%	\$11,357,702,000

**Total is at par.

COSTS OF MANAGEMENT

Approximately 71% of the net assets of \$83.5 billion of all funds under Division management are managed by in-house staff. The Division relies on external fund managers only through its alternative investments and global diversified credit funds; it also utilizes the expertise of external investment advisers in the specialty areas of emerging market equity and high-yield fixed income.

The Division paid \$378.1 million in management and performance fees and expenses in fiscal year 2013 to the alternative investment and global diversified credit fund managers. These investments totaled \$20.3 billion on June 30, 2013. Annual fees in this sector therefore represent 1.9% of the June 30 market value. The Division paid an additional \$20.6 million to the advisers of its emerging market equity and high-yield fixed income portfolios in fiscal year 2013. Investments in these portfolios totaled \$4.2 billion on June 30, 2013. Annual fees in this sector thus represent 0.5% of the June 30 market value.

Operating expenses for staff compensation, overhead and equipment were \$10.7 million for the fiscal year, and represent about 2.6% of total costs. Remaining expenses, which include fees for consulting services, custodial banking and legal services, are shown in the chart below.

In total, costs to manage the portfolios totaled 0.495% of assets under management for the fiscal year.

	Fiscal Year Ended 6/30/2013
Fees & Expenses:	
Hedge Funds performance fees and carried interest	\$131.8
Hedge Funds management and other fees	79.8
Private Equity Funds management and other fees	86.2
Real Estate Funds management and other fees	21.8
Real Asset management and other fees	1.4
Global Diversified Credit Fund fees and expenses	57.1
High-Yield and Emerging Market Adviser Fees	20.6
Agency Operations	10.7
Consulting Fees	2.8
Legal Fees	1.4
Custodial Banking Fees	.1
Total	\$413.7 million
Total net assets under management	\$83.5 billion
Cost as a percentage of assets under management	0.495%
Cost per each \$100 under management	49.5 cents

COMMISSIONS

The Division incurred broker/dealer commission costs totaling \$25.4 million for fiscal year 2013 from equity security trades related to the \$83.5 billion in assets under Division management. The brokerage commission total includes \$3.5 million in "soft dollar" commissions used to procure systems and services critical to the Division's trading and research.

The Division purchases and sells certain investments with no involvement by a broker/dealer, including commercial paper, certificates of deposit, foreign currency transactions and investments in alternative investment funds by transacting directly with the issuer, partnership or fund; as a result, no direct commissions are paid.

COMMISSION

The Commission on the State Investment in 1913, created by the act of the Legislature of the State of New Jersey, passed on March 22, 1913, Chapter 111, Section 1, has the honor to submit herewith its report.

The Commission has the honor to acknowledge the assistance and cooperation of the various departments of the State, and the assistance of the various members of the Commission.

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