

# NJ DIVISION OF INVESTMENT

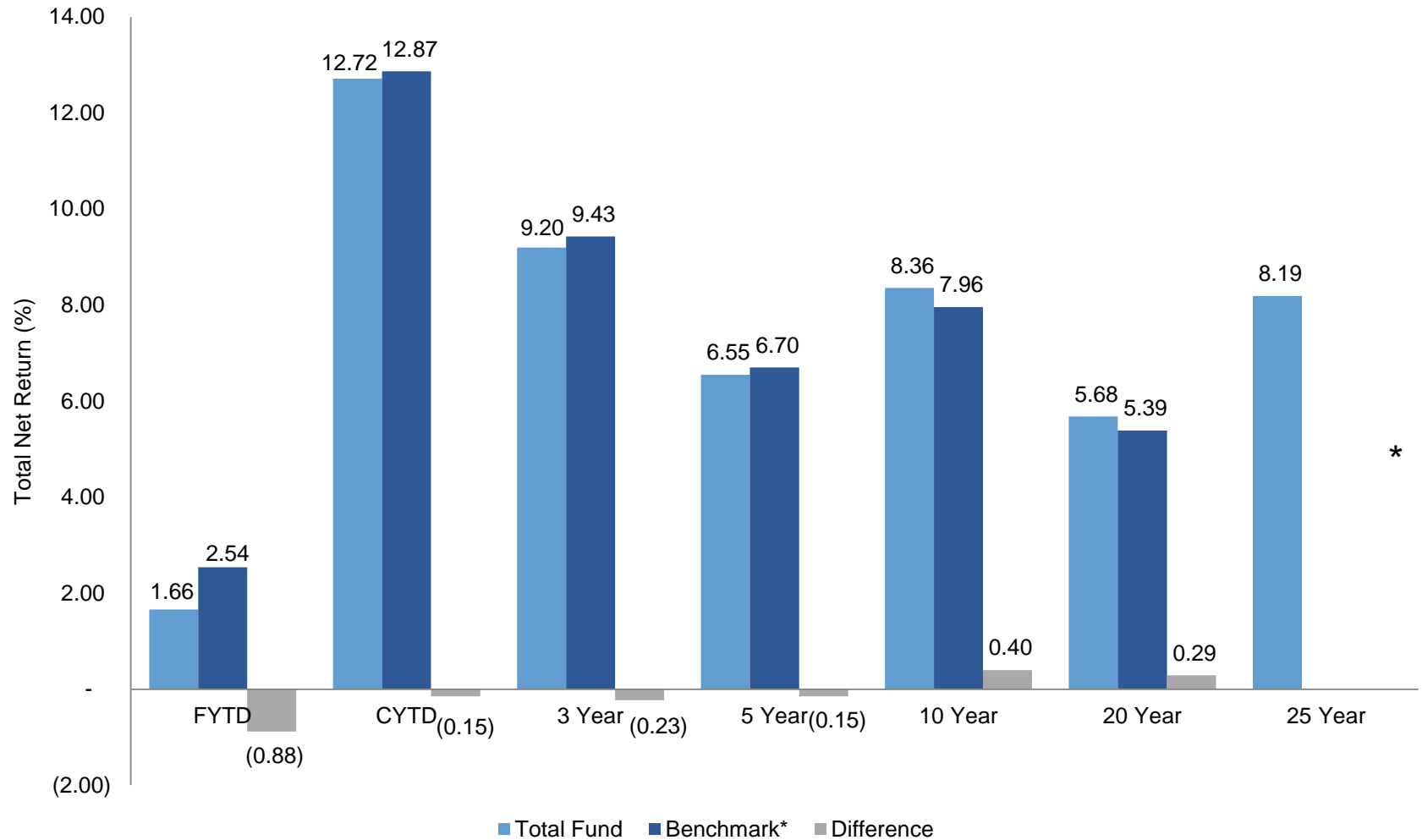
## Director's Report

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State Investment Council  
November 20, 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<sup>(1)</sup> for Periods Ending October 31, 2019



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

\*Benchmark return not available for 25-Year period

## Capital Markets Update (for periods ending October 31, 2019)

	Fiscal YTD	Calendar YTD	One Year	Three Years (Annualized)	Five Years (Annualized)
<u>Global Equity Indices</u>					
MSCI ALL Country World Index	2.71	19.38	12.59	11.33	7.08
<u>US Equity Indices</u>					
Russell 3000	3.34	22.68	13.48	14.46	10.30
Russell 1000	3.57	23.08	14.15	14.72	10.54
Russell 2000	0.17	17.16	4.87	10.93	7.35
Russell Growth	3.95	26.21	16.34	18.50	13.04
Russell Value	2.71	19.19	10.63	10.38	7.51
<u>Non-US Equity Indices</u>					
MSCI EAFE	2.48	16.86	11.04	8.48	4.30
MSCI Emerging Markets	-0.21	10.35	11.86	7.36	2.93
<u>Fixed Income Indices</u>					
Bloomberg Barclays U.S. Aggregate	2.58	8.85	11.51	3.29	3.24
Bloomberg Barclays U.S. Treasury	2.47	7.78	11.08	2.64	2.73
Bloomberg Barclays U.S. Credit	3.57	13.26	14.88	4.83	4.43
Bloomberg Barclays U.S. High Yield	1.61	11.71	8.38	6.03	5.18
<u>Commodities</u>					
Bloomberg Commodities Index	-0.52	3.29	-4.75	-2.28	-7.61
<u>Real Estate</u>					
Bloomberg U.S. REIT Index	8.38	28.94	24.36	11.07	9.37

## Asset Allocation and Net Returns by Asset Class (October 31, 2019)

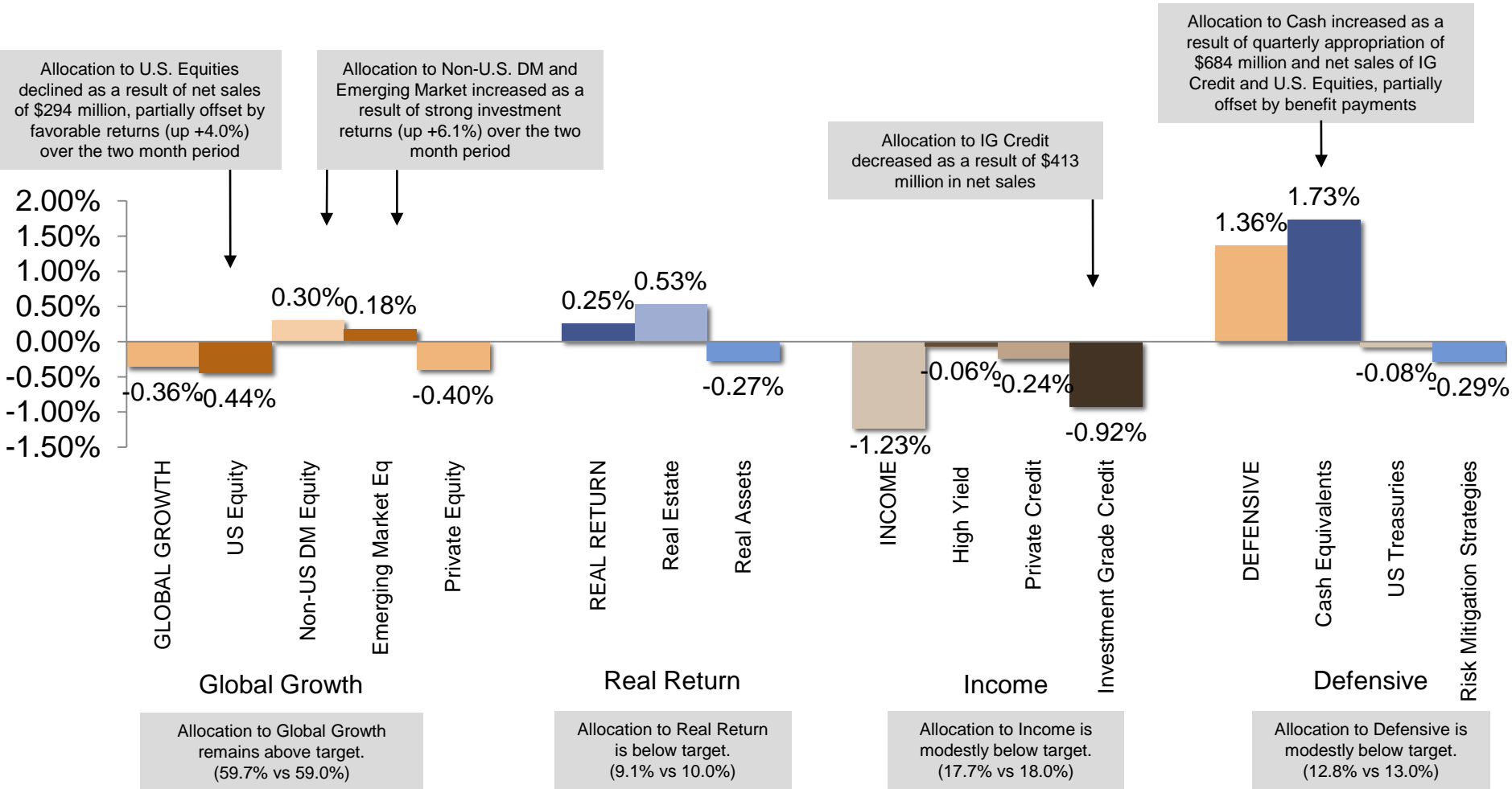
Asset Class	ASSET ALLOCATION				PERFORMANCE (for periods ending October 31, 2019) <sup>(1)</sup>					
	As of October 31, 2019				FYTD		Calendar YTD		Trailing Three Years	
	Mkt Value	Actual (%)	Target (%)	Difference	NJ	Bench	NJ	Bench	NJ	Bench
<b>GLOBAL GROWTH</b>										
U.S. Equity	23,164	29.82%	28.00%	1.82%	2.79%	3.70%	22.74%	22.75%	13.37%	14.57%
Non-U.S. Developed Market Equity	9,335	12.02%	12.50%	-0.48%	2.43%	2.28%	17.77%	17.27%	8.77%	8.33%
Emerging Market Equity	5,136	6.61%	6.50%	0.11%	-0.23%	-0.16%	10.73%	10.51%	6.56%	7.42%
Private Equity	8,656	11.14%	12.00%	-0.86%	-0.22%	4.27%	6.21%	8.57%	13.12%	16.37%
Equity-Oriented HF's	59	0.08%	0.00%	0.08%	-9.06%	2.42%	-5.45%	3.12%	0.17%	3.86%
<b>TOTAL GLOBAL GROWTH</b>	<b>46,351</b>	<b>59.67%</b>	<b>59.00%</b>	<b>0.67%</b>	<b>1.82%</b>	<b>3.12%</b>	<b>17.18%</b>	<b>17.88%</b>	<b>11.51%</b>	<b>12.77%</b>
<b>REAL RETURN</b>										
Real Assets	2,051	2.64%	2.50%	0.14%	-1.56%	-2.57%	-1.48%	-7.78%	5.66%	6.20%
Real Estate	5,014	6.45%	7.50%	-1.05%	2.31%	0.77%	11.17%	3.53%	11.30%	6.61%
<b>TOTAL REAL RETURN</b>	<b>7,065</b>	<b>9.10%</b>	<b>10.00%</b>	<b>-0.90%</b>	<b>1.09%</b>	<b>-0.18%</b>	<b>6.86%</b>	<b>0.26%</b>	<b>9.59%</b>	<b>6.54%</b>
<b>INCOME</b>										
High Yield	1,094	1.41%	2.00%	-0.59%	1.49%	1.61%				
Private Credit	5,653	7.28%	6.00%	1.28%	0.52%	1.61%	5.44%	11.71%	9.00%	6.03%
Investment Grade Credit	6,975	8.98%	10.00%	-1.02%	3.17%	3.18%	11.58%	11.46%	4.29%	4.16%
<b>TOTAL INCOME</b>	<b>13,722</b>	<b>17.66%</b>	<b>18.00%</b>	<b>-0.34%</b>	<b>1.77%</b>	<b>2.72%</b>	<b>8.24%</b>	<b>10.77%</b>	<b>6.14%</b>	<b>5.78%</b>
<b>DEFENSIVE</b>										
Cash Equivalents	5,152	6.63%	5.00%	1.63%	0.93%	0.76%	2.61%	2.01%	2.20%	1.60%
U.S. Treasuries	1,549	1.99%	5.00%	-3.01%	2.48%	2.47%	7.46%	7.78%	2.18%	2.64%
Risk Mitigation Strategies	3,255	4.19%	3.00%	1.19%	0.99%	1.80%	6.38%	4.60%	4.27%	4.68%
<b>TOTAL DEFENSIVE</b>	<b>9,956</b>	<b>12.82%</b>	<b>13.00%</b>	<b>-0.18%</b>	<b>1.28%</b>	<b>1.42%</b>				
<b>OTHER</b>										
Opportunistic PE	425	0.55%			0.60%	4.27%	-4.08%	8.57%	7.60%	16.37%
Other	162	0.21%								
<b>TOTAL PENSION FUND<sup>(2)</sup></b>	<b>77,681</b>	<b>100.00%</b>			<b>1.66%</b>	<b>2.54%</b>	<b>12.72%</b>	<b>12.87%</b>	<b>9.20%</b>	<b>9.43%</b>

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

(2) Total Pension Fund excludes Police and Fire Mortgage Program

Notes: Sum of components may not equal totals due to rounding. 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 presented on a lagged basis. This results in performance comparisons that may be less meaningful for certain time periods.

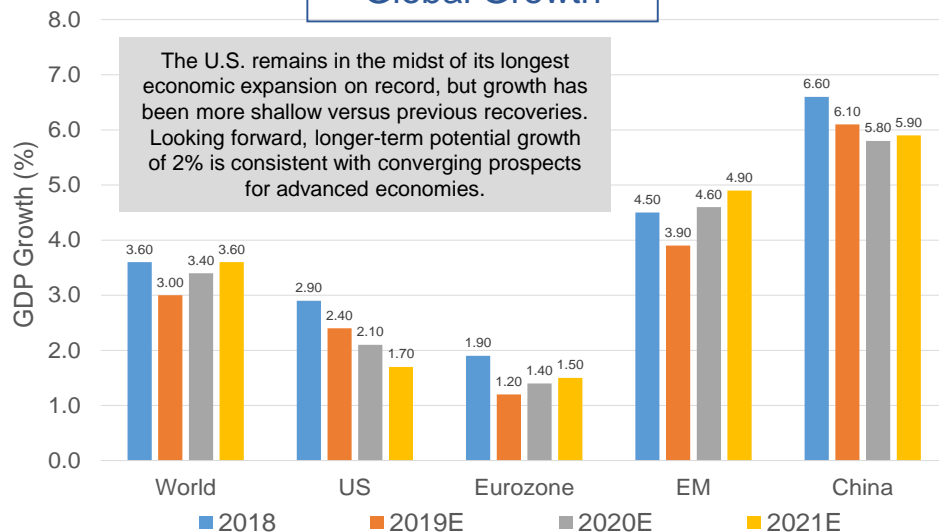
# Pension Fund Update: Change in Sector Allocation from August 31, 2019 – October 31, 2019



The Division continues to adjust the portfolio allocation in line with the new targeted allocation that went into effect on October 1<sup>st</sup>

## Global Economic Growth & Inflation Trends

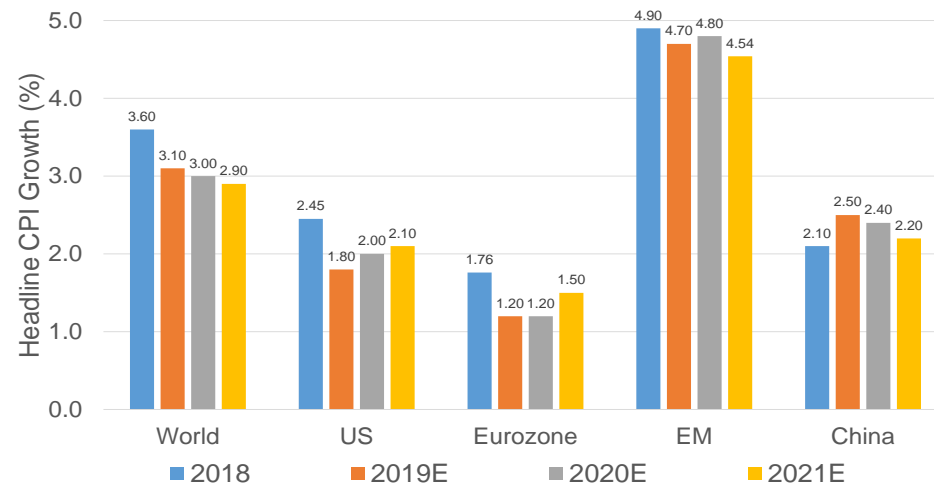
### Global Growth



Global economic growth is expected to slow to 3% in 2019 as the positive effects of U.S. fiscal stimulus wane, the Chinese economy decelerates in the midst of deleveraging, and trade wars escalate. Looking ahead, a recovery in Emerging Market (EM) economies is expected to drive 3.4% growth in 2020, while developed economies are expected to trend toward a longer-term projected growth rate of 1.75%

The broader global economic slowdown has coincided with a deceleration in inflation. Notwithstanding this, synchronized monetary policy easing and increased barriers to trade tend to be inflationary over time. Notably, U.S. inflation is expected to pick up modestly, in line with the Federal Reserve's longer-term objectives.

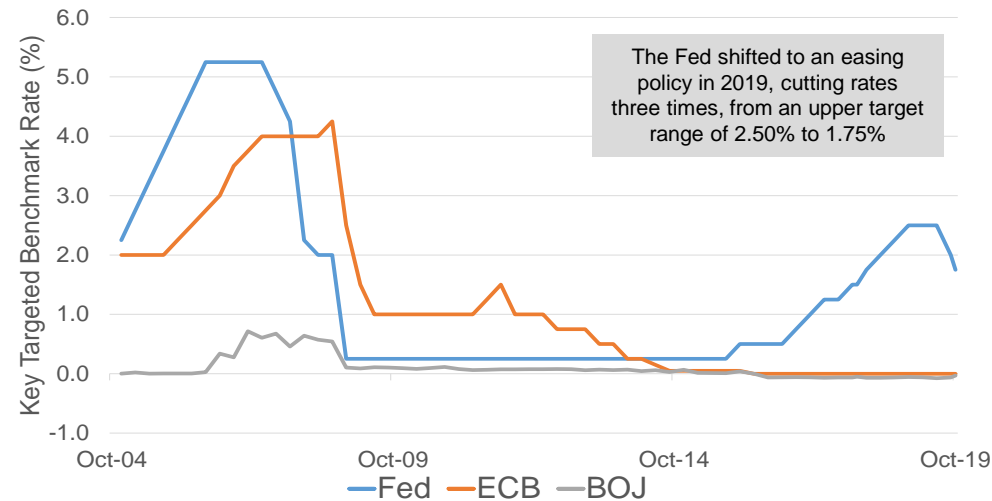
### Global Inflation



The IMF lowered its projection for 2019 global economic growth to 3%. If realized, 2019 would represent the slowest pace of economic growth since the financial crisis.

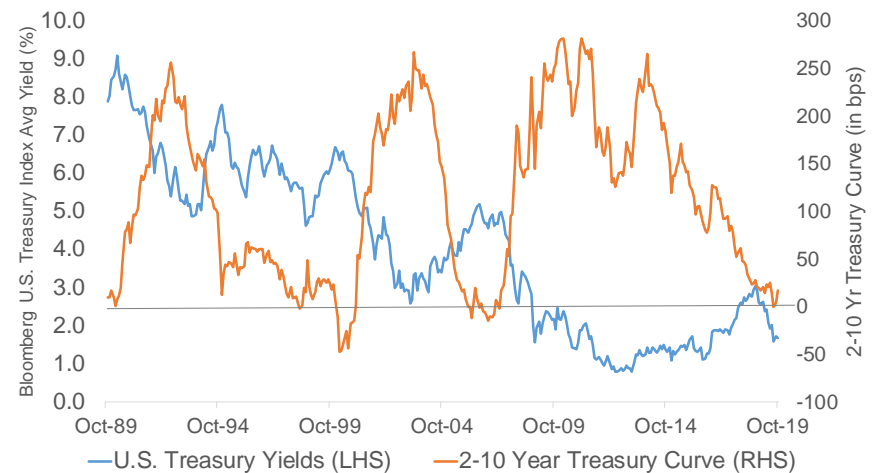
# Global Monetary Policy and the U.S. Fixed Income Markets

## Central Bank Targeted Policy Rates

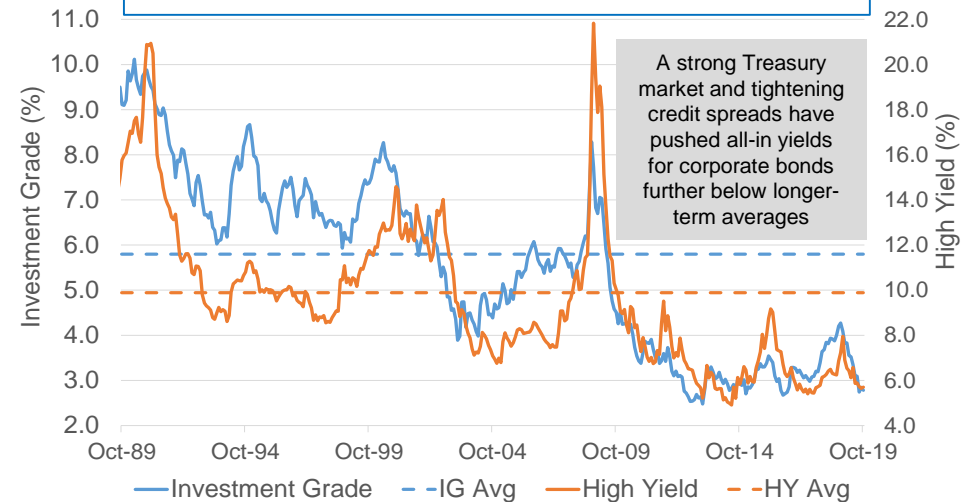


The weakening U.S. economic outlook has led to sharply lower Treasury yields and a flat curve. In August, the 2-10 Treasury curve briefly inverted, marking its first inversion since the financial crisis. Corporate bonds have realized strong returns over the past year as credit spreads tightened.

## Treasury Yields & Steepness of Curve



## All-in Yields for IG & HY



Treasury yields moved lower in the midst of a global economic slowdown. At the same time, credit spreads narrowed, on balance, as demand for corporate bonds remained strong.

# Global Equity Market Valuations

## S&P 500 Forward Price/Earnings Multiple



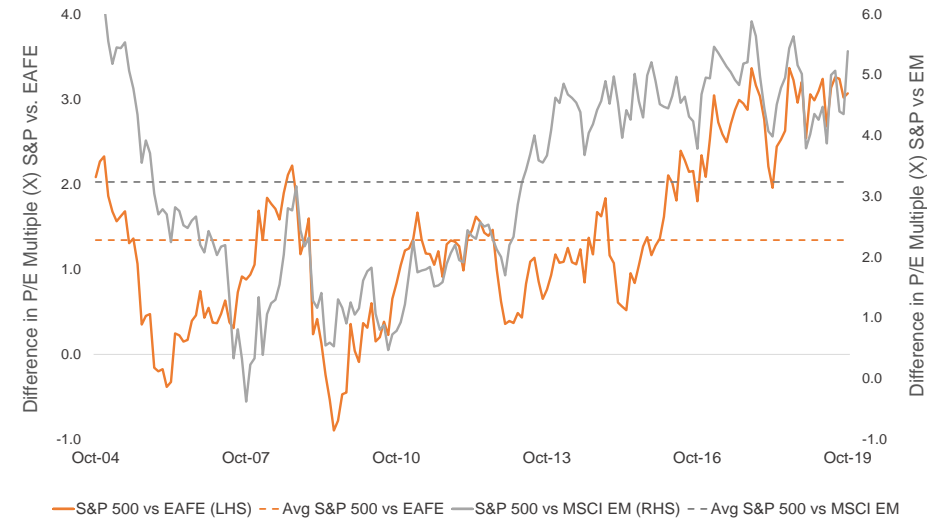
## EAFE Forward Price/Earnings Multiple



## Emerging Markets Forward Price/Earnings Multiple



## Global Equity Valuation Comparisons



Global equity valuations are above longer-term historical averages



## Notification: Fund and Asset Reclassifications

**Background:** As part of the ongoing monitoring of the Pension Fund, the Division, in consultation with its consultants and the Division's Compliance Officer, is undertaking a review of the Private Credit and Alternative Investment portfolios to ensure assets and funds are properly classified.

**Modification:** The Division will be reclassifying certain assets and funds consistent with existing regulations and will be providing the SIC with a revised schedule incorporating the new classifications. Division staff will continue to provide updates as further reclassifications are identified. Below is a summary table of specific funds impacted by the reclassifications to date:

Fund	Unfunded Commitment	Current Market Value	From	To
Anacap Credit Opportunities II, LP	16,314,242	4,069,398	Private Equity	Private Credit
Blackstone Residential Fund - A L.P	0	271,746,250	Private Credit	Real Estate
Sculptor Private Opportunities LP (select assets only)	0	144,999,364	Private Credit	Real Estate

Data is based on August 31, 2019 values

**Impact on Pension Fund:** The asset reclassifications will not impact the overall value of the Pension Fund, but will marginally affect the current allocations to certain asset classes within the Pension Fund. The impacts on asset allocation are not material and the Pension Fund remains in compliance with regulatory caps.

**The Director is notifying the SIC of this modification in accordance with the Alternative Investment Modification Procedures**

## Notification: KPS Special Situations V, L.P. and KPS Mid-Cap, L.P.

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**Background:** During the September 2019 meeting, proposed investments in KPS Special Situations V, L.P. and KPS Mid-Cap, L.P. (collectively, the “Funds”) were presented to the Council. At that meeting, staff noted that it would be working with representatives of the Division of Law and outside counsel to negotiate legal documents governing the investment.

**Modifications:** After extensive negotiations, the Division and the Funds were unable to reach agreement on the terms of the legal documents, and the Division did not participate in the Funds’ October closing. The Division continues to seek attractive investment opportunities in this asset class.

**The Director is notifying the SIC of these modifications in accordance with the Alternative Investment Modification Procedures.**