

# NJ DIVISION OF INVESTMENT

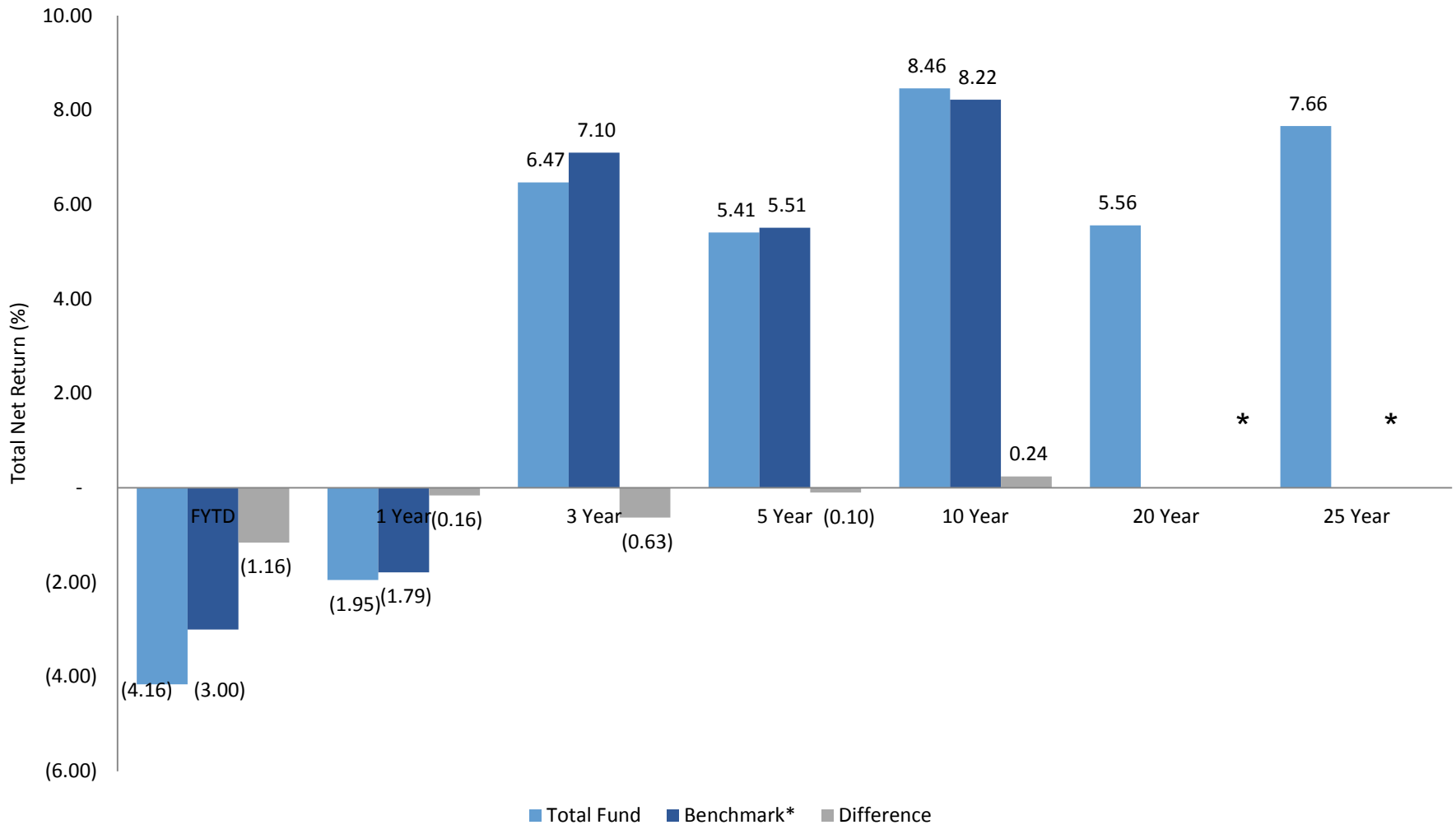
## Director's Report

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State Investment Council  
January 30, 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 December 31, 2018

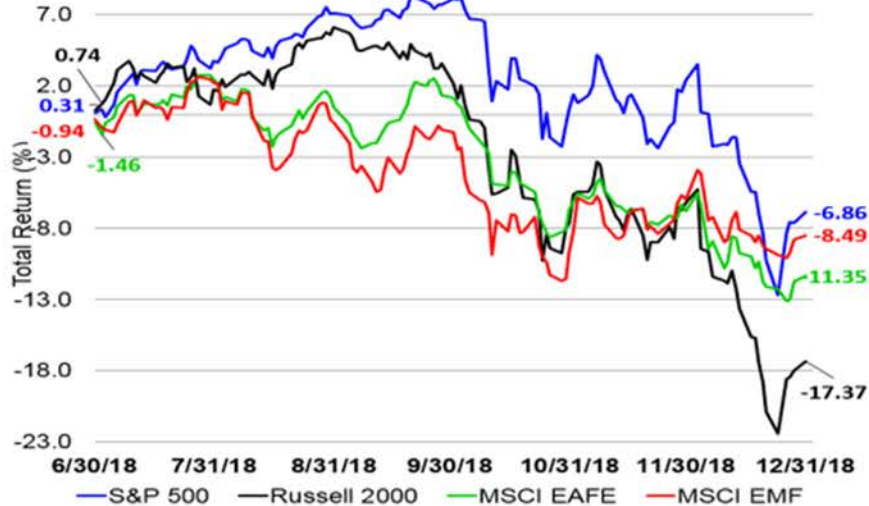


(1) Returns are preliminary, unaudited, net of all fees, and exclude Police and Fire Mortgage Program

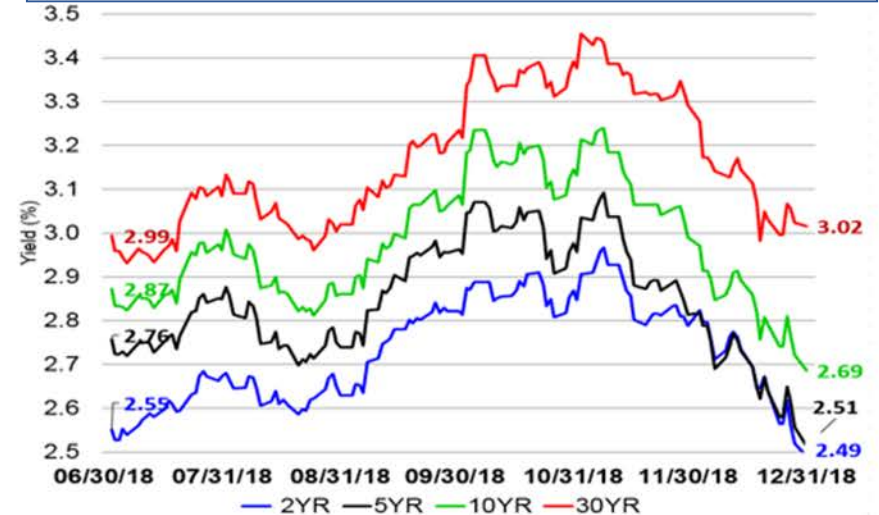
\*Benchmark return not available for 20 and 25-Year period

## Capital Markets Update (through December 31, 2018)

### Fiscal Year 2019 Equity Market Returns



### Fiscal Year 2019 U.S. Treasury Yields



	December 31, 2018	MTD %	FYTD %	1 Yr %	3 Yrs %	5 Yrs %	10 Yrs %	
Domestic Equity	S&P 500	-9.03	-6.86	-4.39	9.25	8.49	13.11	1
	Russell 2000	-11.88	-17.37	-11.03	7.34	4.40	11.96	2
International Equity	MSCI EAFE	-4.85	-11.35	-13.79	2.87	0.53	6.32	3
	MSCI EMF	-2.65	-8.48	-14.57	9.25	1.65	8.02	4
Bond	Barclays Agg	1.84	1.65	0.01	2.06	2.52	3.48	5
	Barclays HY	-2.14	-2.24	-2.08	7.23	3.83	11.12	6
	Barclays US Tips	0.55	-1.24	-1.26	2.11	1.69	3.64	7
Commodity	Bloomberg	-7.08	-12.23	-12.99	-0.79	-9.41	-4.15	8
Real Estate	Bloomberg REIT	-7.85	-5.42	-4.57	4.29	8.60	12.74	9
Hedge Funds	HFRI Composite Index*	-2.37	-5.26	-4.49	3.03	2.17	4.94	10

## Asset Allocation and Net Returns by Asset Class (December 31, 2018)

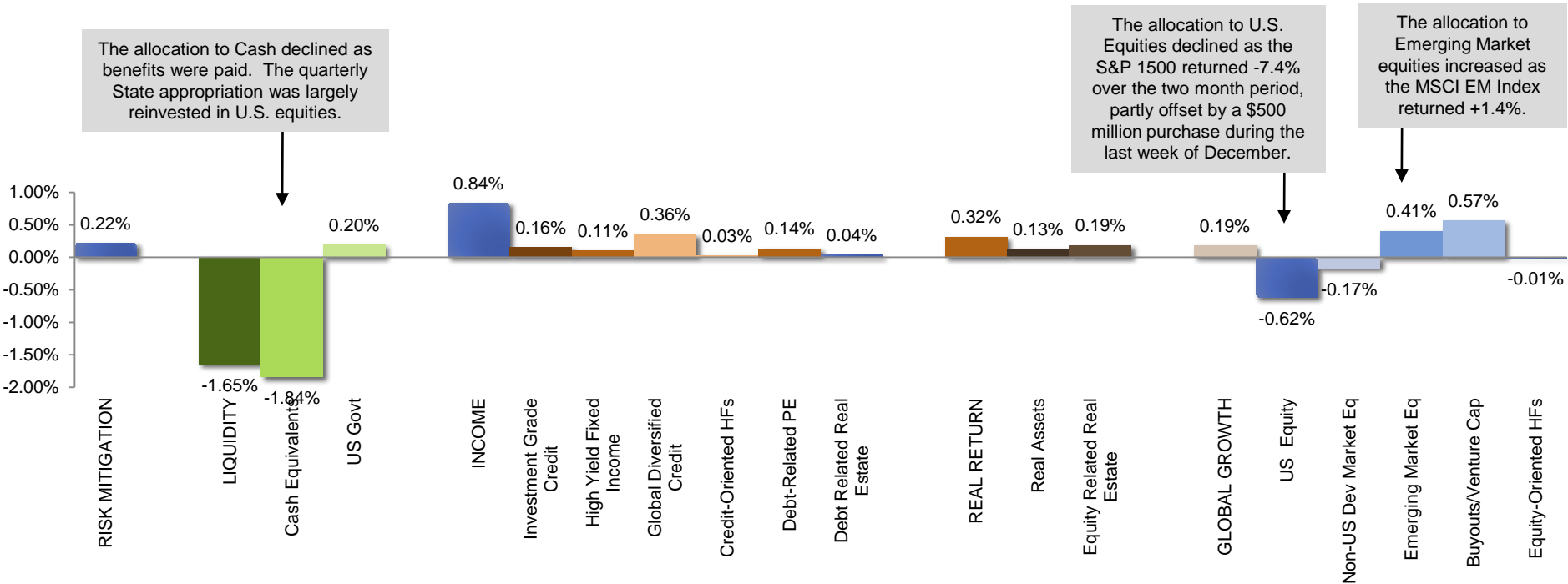
Asset Class	ASSET ALLOCATION				PERFORMANCE (for periods ending December 31, 2018) <sup>(1)</sup>							
	As of December 31, 2018				FYTD		Calendar YTD		Trailing Three Years		Trailing Five Years	
	Mkt Value	Actual (%)	Target (%)	Difference	NJ	Bench	NJ	Bench	NJ	Bench	NJ	Bench
<b>RISK MITIGATION</b>												
<b>RISK MITIGATION STRATEGIES</b>	<b>3,755</b>	<b>5.30%</b>	<b>5.00%</b>	<b>0.30%</b>	<b>-0.28%</b>	<b>2.57%</b>	<b>2.99%</b>	<b>4.96%</b>	<b>1.76%</b>	<b>4.08%</b>	<b>2.25%</b>	<b>3.68%</b>
<b>LIQUIDITY</b>												
Cash Eqv & Short Term	2,915	4.11%	5.50%	-1.39%	1.42%	1.06%	2.46%	1.87%	1.63%	1.02%	1.28%	0.63%
U.S. Government	1,553	2.19%	3.00%	-0.81%	1.77%	1.96%	0.44%	0.86%	1.13%	1.71%	0.92%	2.91%
<b>TOTAL LIQUIDITY</b>	<b>4,469</b>	<b>6.30%</b>	<b>8.50%</b>	<b>-2.20%</b>	<b>1.61%</b>	<b>1.38%</b>	<b>1.22%</b>	<b>1.52%</b>	<b>1.22%</b>	<b>1.32%</b>	<b>0.83%</b>	<b>2.25%</b>
<b>INCOME</b>												
Investment Grade Credit	7,208	10.17%	10.00%	0.17%	1.77%	1.29%	-0.19%	-1.45%	2.81%	2.99%	3.34%	2.82%
Public High Yield	1,047	1.48%	2.50%	-1.02%	-2.61%	-2.24%	-2.80%	-2.08%	6.62%	7.23%	3.93%	3.83%
Global Diversified Credit	4,450	6.28%	5.00%	1.28%	0.85%	-2.24%	7.05%	-2.08%	10.35%	7.23%	9.35%	3.83%
Credit-Oriented HFIs	829	1.17%	1.00%	0.17%	-0.36%	0.01%	4.58%	2.99%	6.26%	6.43%	4.44%	3.24%
Debt-Related PE	1,029	1.45%	2.00%	-0.55%	0.46%	5.01%	11.08%	6.16%	9.10%	11.43%	9.27%	8.74%
Debt Related Real Estate	405	0.57%	1.00%	-0.43%	0.93%	5.97%	6.68%	10.11%	4.41%	6.84%	5.94%	8.72%
<b>TOTAL INCOME</b>	<b>14,968</b>	<b>21.11%</b>	<b>21.50%</b>	<b>-0.39%</b>	<b>0.94%</b>	<b>0.52%</b>	<b>2.89%</b>	<b>-0.14%</b>	<b>5.85%</b>	<b>5.46%</b>	<b>5.18%</b>	<b>3.79%</b>
<b>REAL RETURN</b>												
Real Assets & Commodities	2,288	3.23%	2.50%	0.73%	0.33%	5.97%	11.45%	10.71%	7.70%	7.09%		
Equity Related Real Estate	4,211	5.94%	6.25%	-0.31%	0.02%	3.71%	7.78%	7.71%	10.00%	7.83%	11.91%	9.71%
<b>TOTAL REAL RETURN</b>	<b>6,498</b>	<b>9.17%</b>	<b>8.75%</b>	<b>0.42%</b>	<b>0.13%</b>	<b>4.35%</b>	<b>9.06%</b>	<b>8.57%</b>	<b>9.29%</b>	<b>7.89%</b>	<b>8.53%</b>	<b>6.39%</b>
<b>GLOBAL GROWTH</b>												
US Equity	20,599	29.06%	30.00%	-0.94%	-9.68%	-7.65%	-8.06%	-4.96%	7.48%	9.17%	6.71%	8.25%
Non-US Dev Market Eq	7,660	10.80%	11.50%	-0.70%	-12.02%	-11.56%	-13.76%	-14.11%	3.16%	3.06%	0.69%	0.38%
Emerging Market Eq	4,639	6.54%	6.50%	0.04%	-7.75%	-8.48%	-15.30%	-14.78%	8.75%	9.24%	0.66%	1.83%
Buyouts/Venture Cap	7,521	10.61%	8.25%	2.36%	3.37%	4.41%	17.93%	13.28%	12.99%	13.00%	15.37%	12.52%
Equity-Oriented HFIs	267	0.38%	0.00%	0.38%	-6.38%	-4.79%	-6.19%	-3.07%	1.30%	3.84%	1.95%	3.65%
<b>TOTAL GLOBAL GROWTH</b>	<b>40,686</b>	<b>57.39%</b>	<b>56.25%</b>	<b>1.14%</b>	<b>-7.66%</b>	<b>-6.61%</b>	<b>-6.14%</b>	<b>-5.20%</b>	<b>7.33%</b>	<b>8.54%</b>	<b>5.88%</b>	<b>6.46%</b>
<b>OTHER</b>												
OPPORTUNISTIC PE	443	0.63%			0.79%	4.41%	8.87%	13.28%	9.37%	13.00%		
OTHER	75	0.11%										
<b>TOTAL FUND</b> <sup>(2)</sup>	<b>70,894</b>	<b>100.00%</b>			<b>-4.16%</b>	<b>-3.00%</b>	<b>-1.95%</b>	<b>-1.79%</b>	<b>6.47%</b>	<b>7.10%</b>	<b>5.41%</b>	<b>5.51%</b>

(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 October 31, 2018 – December 31, 2018



The allocation to Cash declined as benefits were paid. The quarterly State appropriation was largely reinvested in U.S. equities.

The allocation to U.S. Equities declined as the S&P 1500 returned -7.4% over the two month period, partly offset by a \$500 million purchase during the last week of December.

The allocation to Emerging Market equities increased as the MSCI EM Index returned +1.4%.

### Risk Mitigation

Allocation to Risk Mitigation strategies is modestly above target. (5.3% vs 5.0%)

### Liquidity

Allocation to Liquidity declined as cash was reinvested in U.S. Equities following a sharp drop in valuations. (6.3% vs 8.5%)

### Income

Allocation to Income increased and is now more in line with the targeted allocation. (21.1% vs 21.5%)

### Real Return

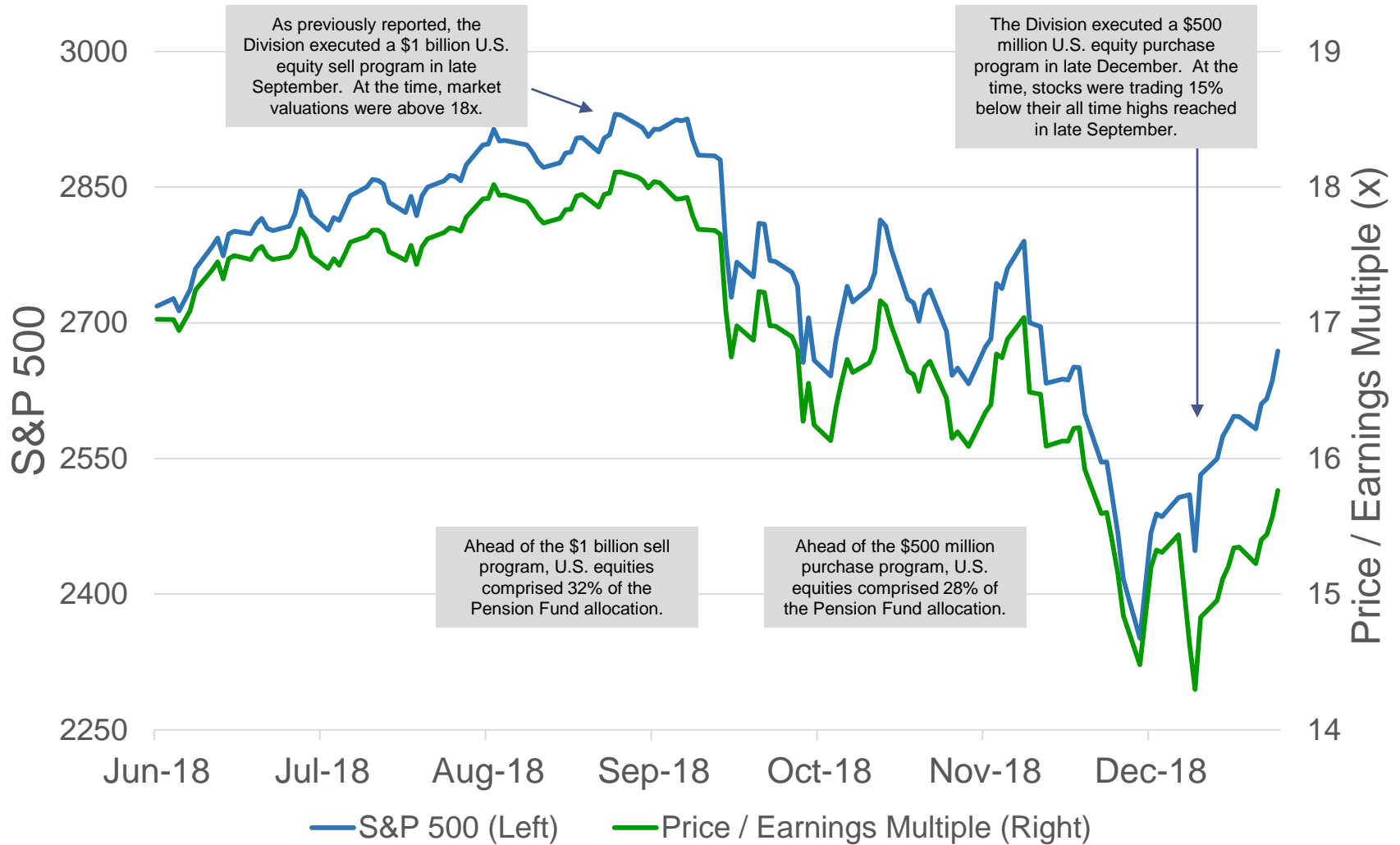
Allocation to Real Return increased as returns were positive in a weak financial market environment. (9.2% vs 8.75%)

### Global Growth

Allocation to Global Growth increased modestly, in part, as a result of positive returns in Emerging Markets. (57.4% vs 56.25%)

Changes in sector allocation were modest. The decline in the cash allocation reflects payment of benefits and a \$500 million program trade in the U.S. Equity portfolio.

## The U.S. Equity Market Has Been Volatile During FY19



In the midst of heightened equity market volatility, the Division is maintaining a disciplined approach to asset allocation

## Notification: Modification of CVC Capital Partners VI

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**Background:** In July 2013, the Pension Fund committed €75 million (~\$86 million) to CVC Capital Partners VI, LP (the “Fund”), a transatlantic private equity fund targeting buyout investments in North America and Europe.

**Modification:** In January 2019, the Fund notified the Division that its General Partner has replaced CVC Advisers Jersey Limited as investment manager for the Fund. This change was made by CVC to update the Fund’s structure to better align with current interpretations of European regulations and to rationalize the various fund structures across the platform.

**Impact on Pension Fund:** This change is not expected to have any impact on the Pension Fund’s investment. There is no change in the investment team, the investment process, or the economic terms of the Fund.

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

## Notification: Modification of OZNJ Real Asset Opportunities and OZ Energy Partners

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**Background:** In March 2013, the Pension Fund committed up to \$150 million to OZNJ Real Asset Opportunities, L.P. (OZ Real Assets), a separately managed account managed by Och-Ziff (Oz) focused on private energy investments. In May 2016, the Division committed up to \$100 million to OZ Energy Partners Parallel B, L.P. (OZ Energy), a commingled fund managed by Oz and also focused on private energy investments.

**Modification:** Effective December 15, 2018, Oz transferred the Pension Fund's remaining interests in OZ Energy (valued at approximately \$5.8 million as of October 31, 2018) to OZ Real Assets. OZ Energy is currently in the process of dissolution.

**Impact on Pension Fund:** The transfer of interests from OZ Energy to OZ Real Assets will have minimal economic impact, as the Pension Fund is paying the same fees across both vehicles. Elimination of the fund will decrease administrative expenses that would otherwise have been paid to OZ Energy.

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



## Notification: Modification of Benefit Street Partners Special Situations Fund

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**Background:** In January 2017, the Pension Fund committed up to \$150 million in Benefit Street Partners Special Situations Fund L.P. (the “Fund”), a private equity fund targeting stressed and distressed investments. The investment manager of the Fund is Benefit Street Partners L.L.C. (BSP). As of October 31, 2018, the Fund has called \$80 million.

**Modification:** BSP is being acquired by Franklin Templeton Investments (“Franklin”). Franklin, primarily known as a global mutual fund asset manager with \$724 billion in assets under management, has been expanding in recent years into alternative investments and multi-asset solutions. Franklin will not be involved in BSP investment decisions, and the Division does not expect that there will be any change in day-to-day operations. BSP will continue to operate on a standalone basis with the same team and leadership as before, utilizing the same investment process.

**Impact on New Jersey:** This change in ownership of BSP is not expected to have any impact on the Division’s investment in the Fund. There is no change in the investment team, the investment process, or the economic terms of the Fund.

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

## Notification: Modification of Perella Weinberg Real Estate Funds II and III

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**Background:** In July 2013 and November 2015, the Pension Fund committed €75 million and €90 million, respectively, to Perella Weinberg Real Estate Fund II LP (Fund II) and PW Real Estate Fund III LP (Fund III). In October 2018, the Pension Fund committed €100 million to Aermont Capital Real Estate Fund IV SCSp (Fund IV). (The Perella Weinberg real estate platform was renamed Aermont Capital in 2016.) Unlike Funds II and III, Fund IV was structured with Aermont Capital Management as its Alternative Investment Fund Manager (AIFM) in compliance with the Alternative Investment Fund Manager Directive (AIFMD), a regulatory scheme enacted by the European Union to increase transparency and monitoring by regulatory bodies and to provide additional protection to investors.

**Modification:** Aermont Capital Management now serves as AIFM for Fund II and Fund III as of January 1, 2019. This appointment brings Fund II and Fund III under the AIFMD regulatory regime. The economic terms of Fund II and Fund III remain unchanged.

**Impact on Pension Fund:** The modification will benefit the Pension Fund as a result of the enhanced regulatory oversight provided by AIFMD regulations. There is no change in the investment team, the investment process, or the economic terms of the Fund.

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

## Notification: Risk Mitigation and Global Diversified Credit Portfolio Redemptions

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The Division has submitted the following redemptions to funds in its Risk Mitigation Strategy (RMS) and Global Diversified Credit (GDC) portfolios. Some of the redemptions noted below will be paid out over time as stipulated in the respective partnership agreements.

<b>Investment</b>	<b>Date Submitted</b>	<b>Amount*</b>	<b>Type</b>
<b>RMS</b>			
Lynx Common (Bermuda) Ltd.	12/28/2018	\$100,000,000	Partial
Scopia PX, LLC	12/31/2018	\$258,670,001	Full
Woodley Park NJ, L.P.	1/3/2019	\$25,000,000	Partial
<b>GDC</b>			
GSO Credit Partners -A, L.P.	11/16/2018	\$501,856,283	Full

*\*for full redemptions, valuations as of November 30, 2018*

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