

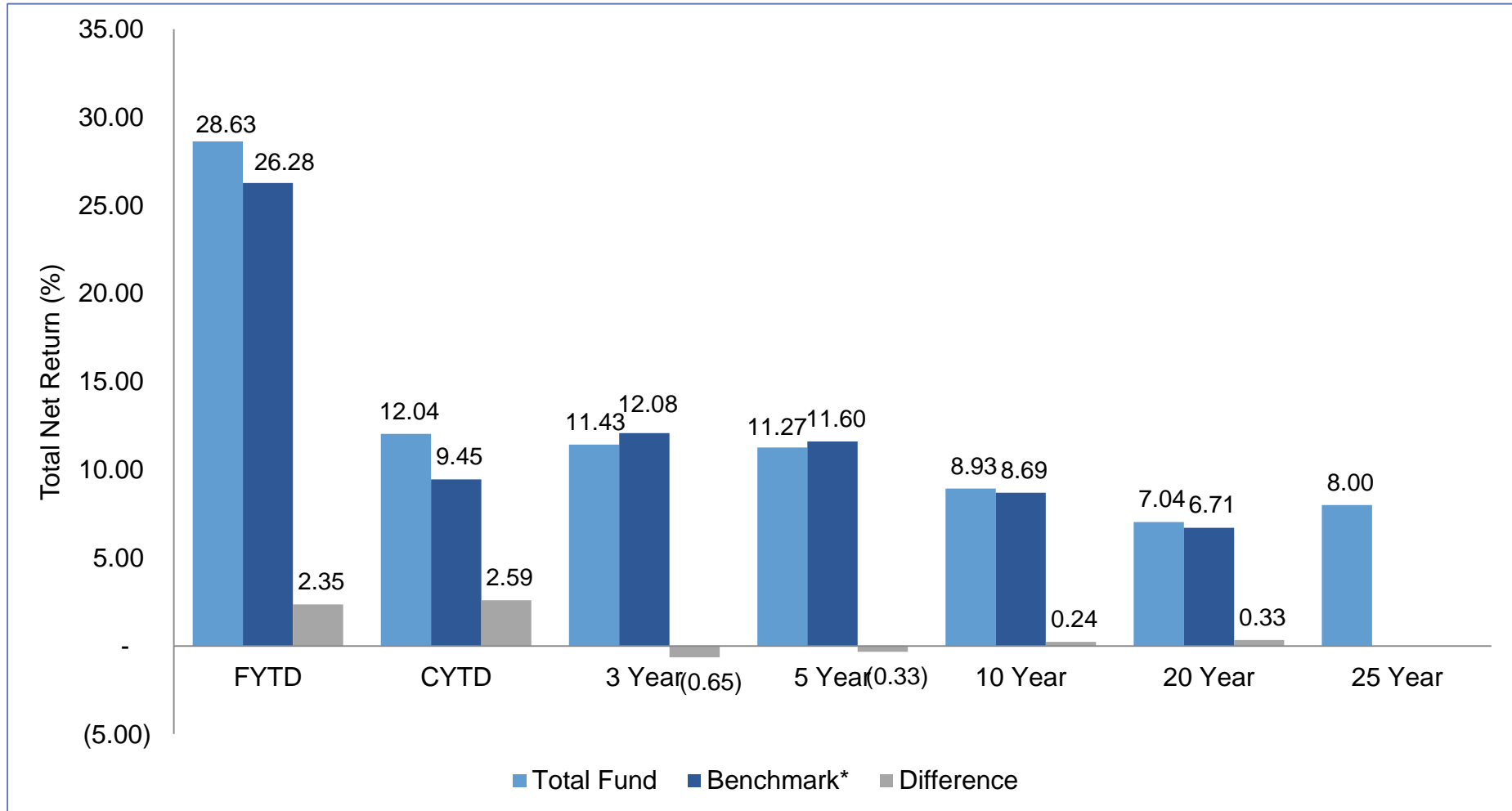
NJ DIVISION OF INVESTMENT

Director's Report

State Investment Council
September 29, 2021

“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 June 30, 2021



(1) Returns are preliminary, unaudited, net of all fees, and exclude Police and Fire Mortgage Program. Benchmark returns for certain private market asset classes are calculated on a lagged basis. This results in performance comparisons that may be less meaningful.

* Benchmark return not available for 25-Year period

Asset Allocation and Net Returns by Asset Class June 30, 2021

Asset Class	ASSET ALLOCATION				PERFORMANCE (for periods ending June 30, 2021) ⁽¹⁾							
	As of June 30, 2021				FY21		Trailing Five Years		Trailing Seven Years		Trailing Ten Years	
	Mkt Value	Actual (%)	Target (%)	Difference	NJ	Bench	NJ	Bench	NJ	Bench	NJ	Bench
GLOBAL GROWTH												
US Equity	26,100	27.64%	27.00%	0.64%	44.31%	44.43%	17.39%	17.97%	13.04%	14.25%	14.15%	14.91%
Non-US Dev Market Eq	12,663	13.41%	13.50%	-0.09%	34.13%	33.33%	10.88%	10.30%	5.53%	4.93%	5.74%	5.74%
Emerging Market Eq	5,588	5.92%	5.50%	0.42%	43.55%	40.98%	12.62%	13.16%				
Private Equity	11,478	12.15%	13.00%	-0.85%	47.89%	48.42%	16.95%	18.50%	15.67%	15.04%	15.45%	14.91%
TOTAL GLOBAL GROWTH	55,842	59.13%	59.00%	0.13%	42.83%	43.41%	15.37%	16.34%	10.93%	11.79%	11.04%	11.25%
REAL RETURN												
Real Assets	2,101	2.22%	3.00%	-0.78%	29.97%	18.79%	4.51%	4.20%	1.06%	-1.86%	0.52%	-0.53%
Real Estate	5,376	5.69%	8.00%	-2.31%	21.21%	1.47%	9.28%	5.26%	10.45%	7.28%	11.04%	8.63%
TOTAL REAL RETURN	7,477	7.92%	11.00%	-3.08%	23.55%	6.19%	7.91%	5.24%	7.26%	4.20%	7.77%	5.65%
INCOME												
Investment Grade Credit	7,472	7.91%	8.00%	-0.09%	0.67%	0.99%	4.12%	4.02%	4.20%	4.07%	5.15%	4.37%
High Yield	2,122	2.25%	2.00%	0.25%	15.84%	15.34%	7.20%	7.47%				
Private Credit	6,154	6.52%	8.00%	-1.48%	23.53%	16.09%	9.93%	8.46%	8.21%		9.57%	
TOTAL INCOME	15,748	16.68%	18.00%	-1.32%	10.95%	7.94%	6.53%	6.39%	5.59%	5.04%	6.71%	5.68%
DEFENSIVE												
Cash Equivalents	5,986	6.34%	4.00%	2.34%	0.25%	0.09%	1.63%	1.17%	1.42%	0.87%	1.49%	0.63%
U.S. Treasuries	5,837	6.18%	5.00%	1.18%	-3.43%	-3.22%	1.95%	2.23%	1.86%	2.42%	3.14%	2.68%
Risk Mitigation Strategies	2,745	2.91%	3.00%	-0.09%	13.26%	3.14%	5.39%	4.25%	4.20%	3.94%	3.94%	3.68%
TOTAL DEFENSIVE	14,568	15.43%	12.00%	3.43%	1.33%	-0.49%	2.64%	1.83%				
OTHER												
OPPORTUNISTIC PE	582	0.62%			37.51%	48.42%	12.99%	18.50%	10.67%	15.04%		
OTHER	222	0.24%										
TOTAL FUND ⁽²⁾	94,441	100.00%			28.63%	26.28%	11.27%	11.60%	8.40%	8.63%	8.93%	8.69%

(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.

FY21 Public Market Update: Asset Allocation and Net Returns (August 31, 2021)

Asset Class	ASSET ALLOCATION As of August 31, 2021			FYTD through August 31, 2021	
	Mkt Value (in \$ millions)	Actual (%)	Target (%)	NJ	Benchmark
<u>GLOBAL GROWTH</u>					
US Equity	27,898	27.84	27.00	4.74	4.77
Non-US Dev Market Eq	13,099	13.07	13.50	2.57	2.23
Emerging Market Eq	5,593	5.58	5.50	-3.11	-4.32
<u>INCOME</u>					
Investment Grade Credit	8,182	8.16	8.00	0.96	0.99
High Yield	1,921	1.92	2.00	0.90	0.90
<u>DEFENSIVE</u>					
Cash Equivalents	9,536	9.51	4.00	0.02	0.01
U.S. Treasuries	5,748	5.74	5.00	1.13	1.18

Capital Markets Update (through August 31, 2021)

	Fiscal YTD	Calendar YTD	One Year	Three Years (Annualized)	Five Years (Annualized)
Global Equity Indices					
MSCI ALL Country World Index	3.21	15.91	28.64	14.32	14.29
US Equity Indices					
Russell 3000	4.59	20.38	33.03	17.82	17.94
Russell 1000	5.03	20.73	32.24	18.39	18.22
Russell 2000	-1.46	15.82	47.05	10.71	14.35
Russell Growth	6.54	20.08	28.80	23.68	23.78
Russell Value	2.54	20.64	37.75	11.18	11.65
Non-US Equity Indices					
MSCI EAFE	2.53	11.58	26.12	8.99	9.72
MSCI Emerging Markets	-4.29	2.84	21.12	9.86	10.40
Fixed Income Indices					
Bloomberg Barclays U.S. Aggregate	0.93	-0.69	-0.08	5.43	3.11
Bloomberg Barclays U.S. Treasury	1.18	-1.43	-2.11	4.94	2.42
Bloomberg Barclays U.S. Credit	1.06	-0.23	2.26	7.35	4.54
Bloomberg Barclays U.S. High Yield	0.90	4.55	10.14	7.11	6.66
Commodities					
Bloomberg Commodities Index	1.53	22.97	30.92	4.65	3.00
Real Estate					
Bloomberg U.S. REIT Index	6.49	28.97	35.77	12.55	9.17

Notification: Modification to BlackRock Separate Accounts

Background: In 2007, the Division committed \$200 million to SONJ Private Opportunities II, L.P. (“SONJ II”), a separately managed investment vehicle managed by BlackRock Private Equity Partners (“BlackRock”). This commitment was subsequently increased in 2011, 2013 and 2016, and the Pension Fund currently has \$1.3 billion committed to SONJ II. SONJ II currently pursues both co-investments and primary fund investments. As of July 31, 2021, SONJ II had a market value of approximately \$1.7 billion. During the September 2020 Council meeting, the Division presented an investment of up to an additional \$250 million in a new separately managed investment vehicle (“SONJ III”) to be managed by BlackRock to also pursue co-investments and primary funds. SONJ III is currently pending legal closing.

Existing terms of the LPA for SONJ II permit certain limited recycling. While the terms of the LPA for SONJ III have not been finalized, the Division previously informed the IPC that recycling principal, but not gains, would be permitted for SONJ III.

Modification: The Division intends to modify the recycling provisions for SONJ II and SONJ III to permit the Division to periodically elect to either (i) fully recycle principal and/or gains, (ii) partially recycle principal and/or gains or (iii) fully distribute principal and/or gains. More specifically, subject to the Division’s aforementioned elections, the modification would allow:

- SONJ II to recycle both principal and gains into either SONJ II or SONJ III. Capital from primary fund investments would generally be recycled into SONJ II, while capital from co-investments would generally be recycled into SONJ III.
- SONJ III to recycle both principal and gains into SONJ III

Impact on Pension Fund: In the short term, these modifications would allow the Division to address the Pension Fund’s underweight allocation to Private Equity by more quickly deploying capital through the recycling of gains. This is especially important for SONJ II, which is running low on dry powder. More broadly, the modification provides the Division with more flexibility and control over the ongoing timing of capital deployment within the Private Equity portfolio. These changes will also eventually allow co-investments to be segregated from primary funds for accounting and reporting purposes by funneling capital for primary fund investments into SONJ II, and co-investments into SONJ III. This modification would have no impact on any other material terms for SONJ II or SONJ III.

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

Notification: Modification to Neuberger Berman / New Jersey Custom Investment Fund III LP

Background: In 2018, the Division committed \$200 million to Neuberger Berman / New Jersey Custom Investment Fund III LP (“NB/NJ III”), an investment vehicle managed by Neuberger Berman to pursue private-equity co-investments. In July 2021, the Division committed up to an additional \$350 million to NB/NJ III. As of July 31, 2021, NB/NJ III had not yet drawn any of the newly committed capital and had a market value of approximately \$230 million. Existing terms of the LPA for NB/NJ III permit certain limited recycling of gains and/or principal.

Modification: The Division intends to modify the recycling provisions for NB/NJ III to permit the Division to periodically elect to either (i) fully recycle principal and/or gains, (ii) partially recycle principal and/or gains or (iii) fully distribute principal and/or gains.

Impact on Pension Fund: In the short term, this modification would allow the Division to address the Pension Fund’s current underweight allocation to Private Equity by more quickly deploying capital through the recycling of principal and/or gains. More broadly, the modification would provide the Division with more flexibility and control over the ongoing timing of capital deployment within the Private Equity portfolio. The modification would have no impact on any other material terms for NB/NJ III.

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