

# NJ DIVISION OF INVESTMENT

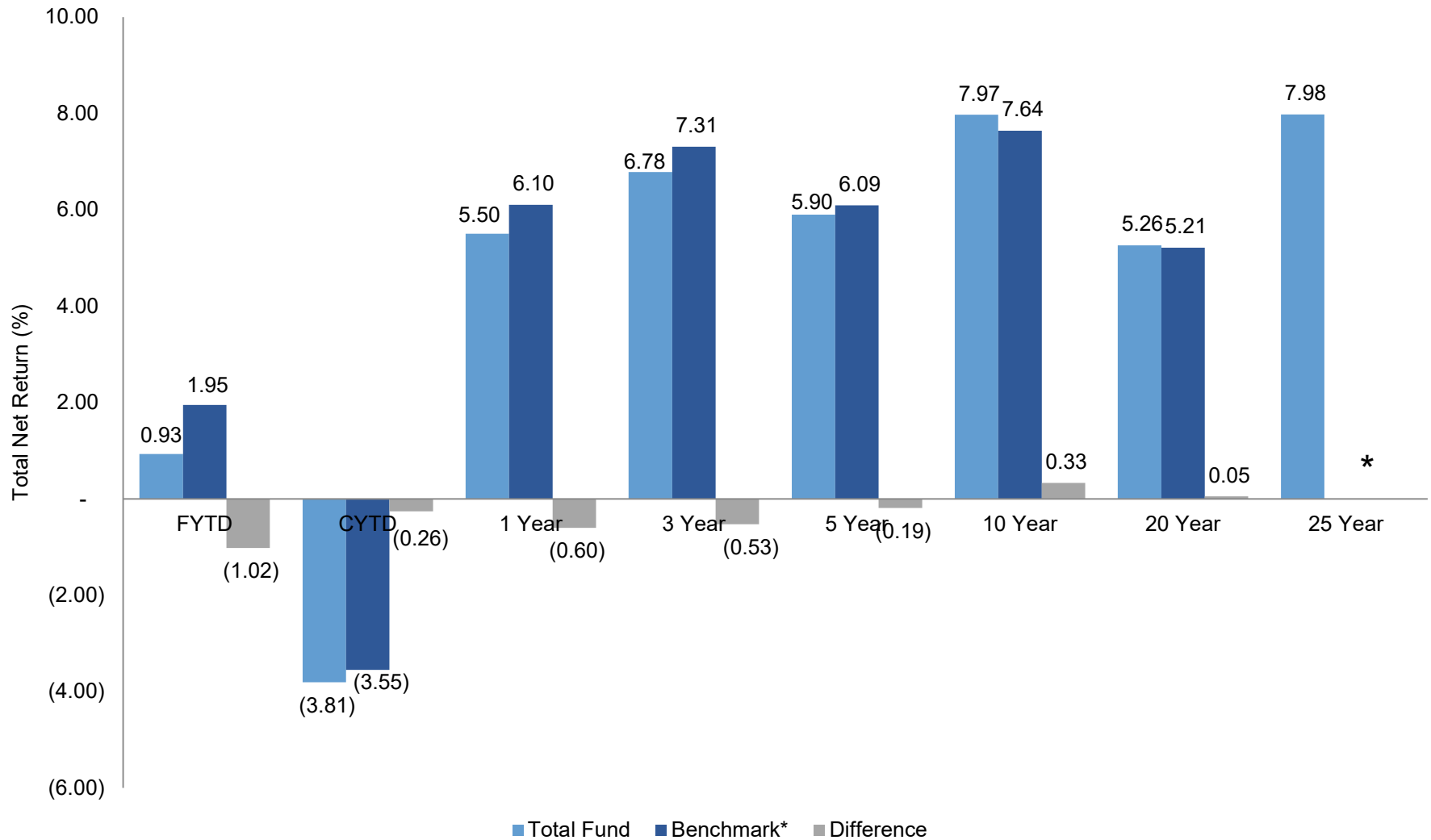
## Director's Report

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State Investment Council  
March 25, 2020

***“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 February 29, 2020



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

\* Benchmark return not available for 25-Year period

## Capital Markets Update (through March 12, 2020)

### Capital Markets Update for periods ending March 12, 2020

	Calendar YTD	Fiscal YTD	One Year	Three Years (Annualized)	Five Years (Annualized)	FYTD thru 2/19/2020	2/19/2020 thru 3/12/2020
<b>Global Equity Indices</b>							
MSCI ALL Country World Index	-23.97	-17.18	-13.06	0.68	2.37	11.90	-25.99
<b>US Equity Indices</b>							
Russell 3000	-23.84	-15.95	-11.26	2.66	5.04	15.99	-27.54
Russell 1000	-23.23	-15.10	-10.11	3.22	5.46	16.50	-27.13
Russell 2000	-32.53	-27.62	-26.43	-5.02	-0.55	8.96	-33.57
Russell Growth	-19.05	-9.43	-3.33	8.84	8.72	21.94	-25.72
Russell Value	-28.91	-22.67	-19.26	-3.60	1.22	9.86	-29.61
<b>Non-US Equity Indices</b>							
MSCI EAFE	-26.48	-21.33	-17.48	-2.74	-1.23	6.16	-25.90
MSCI Emerging Markets	-20.63	-15.01	-13.83	0.82	0.96	6.10	-19.90
<b>Fixed Income Indices</b>							
Bloomberg Barclays U.S. Aggregate	3.00	5.53	10.09	5.18	3.50	4.50	0.99
Bloomberg Barclays U.S. Treasury	6.82	8.52	13.12	5.77	3.58	3.92	4.43
Bloomberg Barclays U.S. Credit	-0.60	3.44	9.60	5.55	4.02	6.82	-3.16
Bloomberg Barclays U.S. High Yield	-8.76	-5.13	-1.78	2.55	3.72	5.27	-9.88

## Asset Allocation and Net Returns by Asset Class (February 29, 2020)

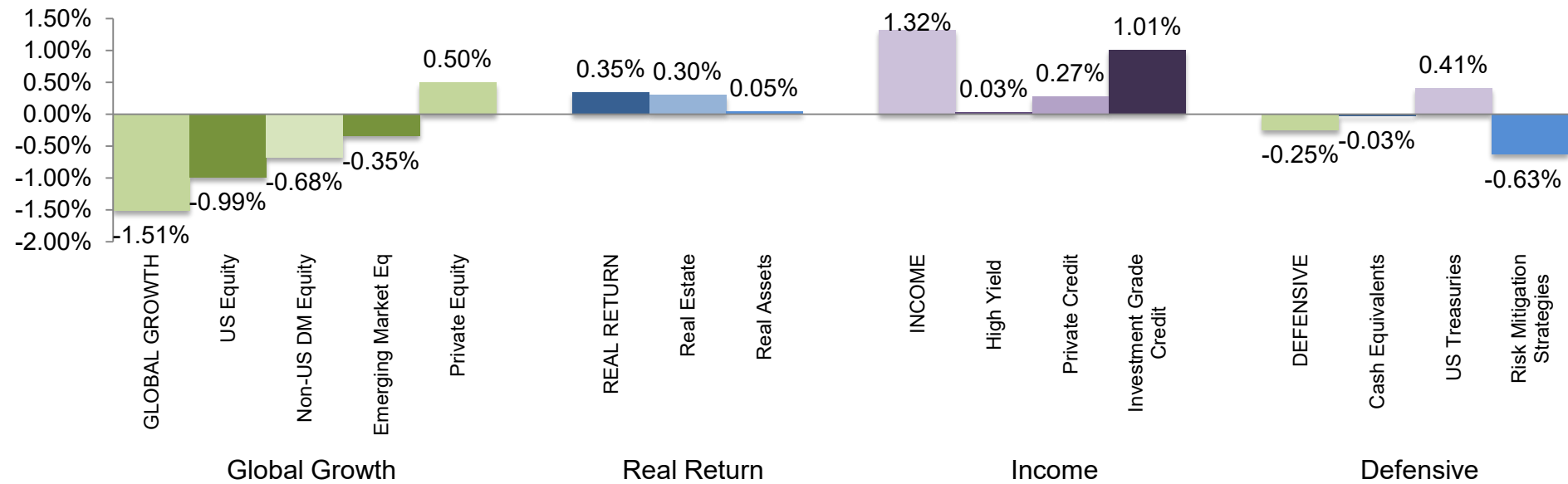
Asset Class	ASSET ALLOCATION				PERFORMANCE (for periods ending February 29, 2020) <sup>(1)</sup>							
	As of February 29, 2020				FYTD		Calendar YTD		Trailing Twelve Months		Trailing Three Years	
	Mkt Value	Actual (%)	Target (%)	Difference	NJ	Bench	NJ	Bench	NJ	Bench	NJ	Bench
<b>GLOBAL GROWTH</b>												
US Equity	21,173	28.54%	30.00%	-1.46%	0.64%	1.53%	-8.26%	-8.33%	6.13%	7.46%	7.95%	9.40%
Non-US Dev Market Eq	8,700	11.73%	11.50%	0.23%	-4.01%	-4.51%	-10.52%	-10.58%	0.25%	-0.42%	4.51%	3.90%
Emerging Market Eq	4,959	6.68%	6.50%	0.18%	-3.64%	-3.09%	-10.13%	-9.59%	-1.66%	-1.57%	4.10%	5.03%
Private Equity	8,420	11.35%	12.00%	-0.65%	-0.08%	4.26%	0.31%	0.00%	5.42%	8.60%	12.01%	14.85%
Equity-Oriented HFs	52	0.07%	0.00%	0.07%	-5.89%	7.01%	2.34%	1.53%	0.87%	7.83%	-0.39%	3.93%
<b>TOTAL GLOBAL GROWTH</b>	<b>43,303</b>	<b>58.38%</b>	<b>56.25%</b>	<b>2.13%</b>	<b>-0.91%</b>	<b>0.27%</b>	<b>-7.40%</b>	<b>-7.26%</b>	<b>3.93%</b>	<b>5.04%</b>	<b>7.41%</b>	<b>8.70%</b>
<b>REAL RETURN</b>												
Real Assets	1,972	2.66%	2.50%	0.16%	-4.39%	-2.58%	-2.72%	0.00%	-5.38%	-7.77%	3.07%	4.88%
Real Estate	5,180	6.98%	6.25%	0.73%	3.79%	1.86%	-0.42%	0.00%	9.30%	4.64%	10.41%	6.34%
<b>TOTAL REAL RETURN</b>	<b>7,153</b>	<b>9.64%</b>	<b>8.75%</b>	<b>0.89%</b>	<b>1.31%</b>	<b>0.61%</b>	<b>-1.07%</b>	<b>0.00%</b>	<b>4.53%</b>	<b>1.07%</b>	<b>8.09%</b>	<b>6.00%</b>
<b>INCOME</b>												
Investment Grade Credit	7,204	9.71%	10.00%	-0.29%	7.54%	7.49%	4.30%	4.11%	14.14%	14.02%	6.08%	5.97%
High Yield	1,063	1.43%	2.50%	-1.07%	2.38%	2.54%	-1.63%	-1.38%	5.92%	6.10%	4.55%	4.86%
Private Credit	5,426	7.32%	6.00%	1.32%	1.69%	7.08%	0.92%	2.19%	7.19%	10.49%	7.29%	6.92%
<b>TOTAL INCOME</b>	<b>13,693</b>	<b>18.46%</b>	<b>21.50%</b>	<b>-3.04%</b>	<b>4.54%</b>	<b>6.23%</b>	<b>2.45%</b>	<b>2.86%</b>	<b>10.00%</b>	<b>11.39%</b>	<b>6.19%</b>	<b>6.34%</b>
<b>DEFENSIVE</b>												
Cash Equivalents	3,776	5.09%	5.50%	-0.41%	1.69%	1.31%	0.37%	0.28%	2.83%	2.18%	2.31%	1.73%
U.S. Government	3,074	4.14%	3.00%	1.14%	7.00%	6.83%	5.32%	5.16%	11.97%	12.15%	4.62%	4.81%
Risk Mitigation Strategies	2,474	3.34%	5.00%	-1.66%	4.08%	3.36%	2.42%	0.77%	9.16%	5.31%	4.62%	4.83%
<b>TOTAL DEFENSIVE</b>	<b>9,324</b>	<b>12.57%</b>	<b>8.50%</b>	<b>4.07%</b>	<b>3.76%</b>	<b>3.64%</b>	<b>2.28%</b>	<b>2.25%</b>	<b>7.10%</b>	<b>6.03%</b>	<b>3.35%</b>	<b>2.96%</b>
<b>OTHER</b>												
OPPORTUNISTIC PE	451	0.61%			4.96%	4.26%	4.16%	0.00%	-1.04%	8.60%	7.15%	14.85%
OTHER	252	0.34%										
<b>TOTAL FUND</b> <sup>(2)</sup>	<b>74,177</b>	<b>100.00%</b>			<b>0.93%</b>	<b>1.95%</b>	<b>-3.81%</b>	<b>-3.55%</b>	<b>5.50%</b>	<b>6.10%</b>	<b>6.78%</b>	<b>7.31%</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 December 31, 2019 – February 29, 2020



Shifts in sector allocations were driven by the sharp repricing of the capital markets.

## Notification: Modification to Excellere Capital Fund III, L.P.

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**Background:** In July 2015, the Division committed \$50 million to Excellere Capital Fund III, L.P. (“the Fund”) (\$550 million, 2017 vintage), a private equity fund managed by Excellere Partners (“Excellere”). As of September 30, 2019, the net asset value of the Fund was \$399.58 million, and it was marked at a net 1.31x total value multiple and 17.8% net IRR.

**Modification:** Excellere recently notified the Division that the co-founder of the firm, David L. Kessenich, passed away, triggering a key person event for the Fund. A 120-day interim suspension period began on January 23, 2020. The Fund intends to resume full operations, pending approval of the continuation plan.

**Impact on Pension Fund:** Mr. Kessenich’s participation in Excellere has been limited in recent years due to health issues. He was supported by four other partners, who continue to serve as managing directors. The Excellere team has grown over time and currently has 16 investment professionals (excluding Mr. Kessenich). Excellere has presented a continuation plan to the Fund’s advisory committee and to all of the Fund’s investors. This plan is currently under review by the Division.

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