Agenda Item 3

New Jersey Division of Investment

Director's Report

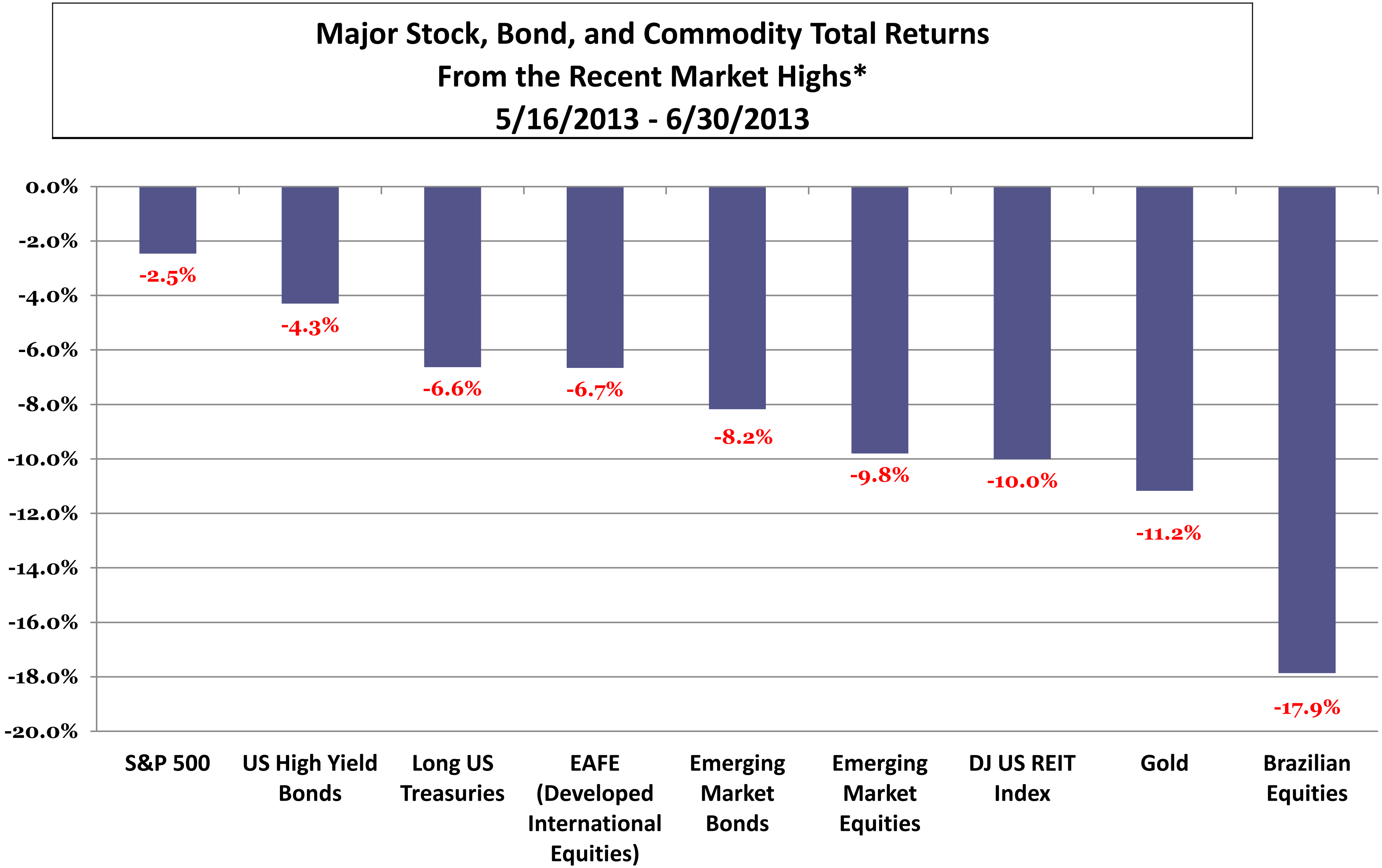
July 11, 2013

State Investment Council Meeting

"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."

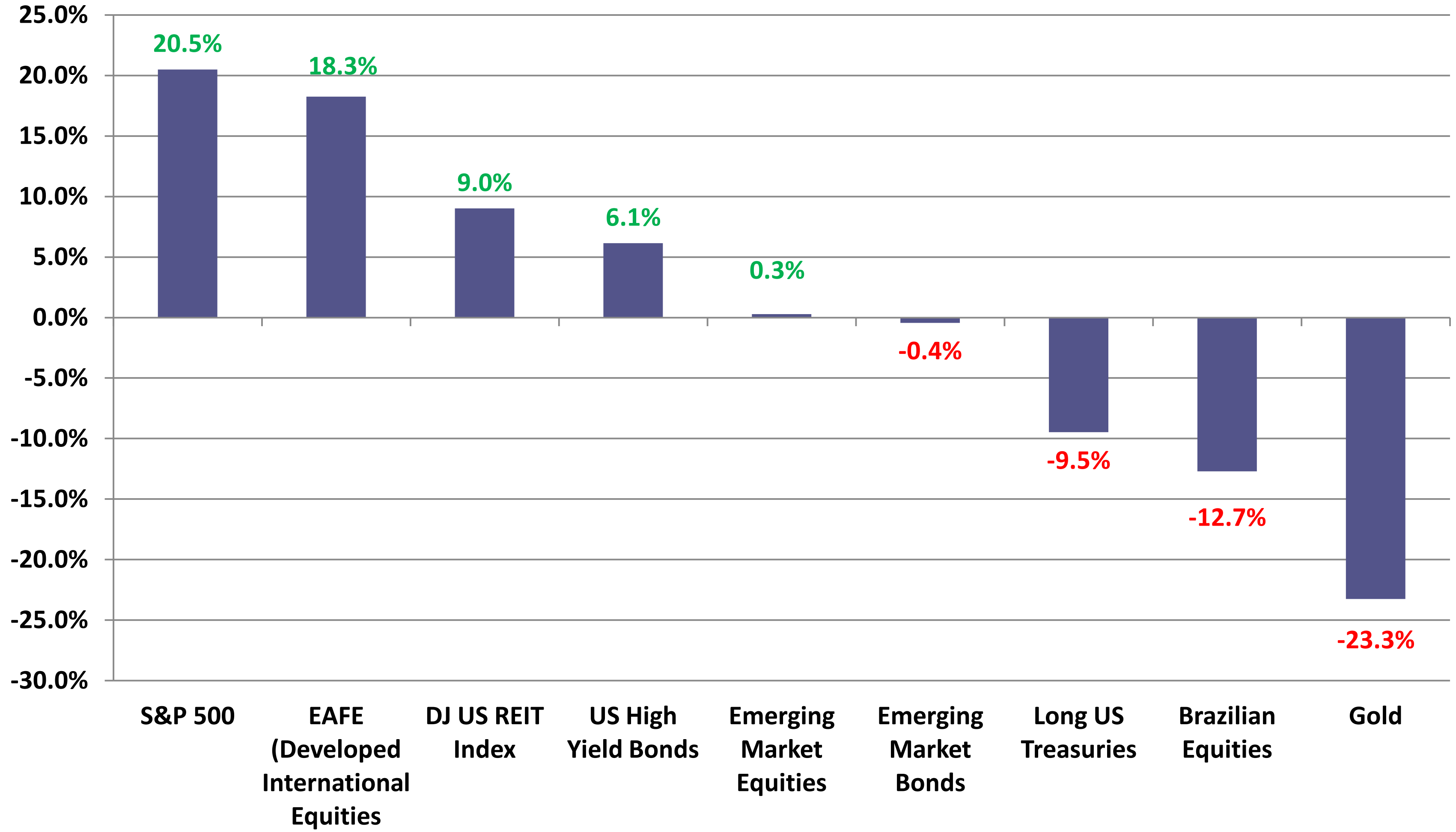
What's Going on in the World – "A Lot" (Since Last SIC Meeting - May 16, 2013)

- On May 21st, comments by Fed Chairman Ben Bernanke regarding "tapering" prompted a market sell-off. Markets were further rattled in June when the Chairman set up a potential timetable for winding down the bond-buying program (i.e. Quantitative Easing)
- President Obama stated that Fed Chairman Bernanke "stayed a lot longer" than the Chairman originally intended to
- US 10-Year Treasury yields rose from 1.87% on 5/16/13 to 2.52% on 06/28/13; highest levels since 2011
- Gold recently touched $1,180.50, the lowest since August 2010. Gold fell -24% this quarter, its biggest quarterly drop in at least 93 years
- In May, Japan's Nikkei Stock Average dropped 7.3% in a single session
- Greece set a new "first," as the country was demoted by MSCI from "developed" to "emerging" status
- For the first time since 2006, Chinese companies have fallen out of the ranks of the world's 10 largest stocks by market value
- Euro-Zone May jobless rate revised up to 12.2% from 12.1%, worst since records began in 1995
- Nationwide protests have broken out across Brazil, Turkey, and Egypt
- Despite May/June swoon, Dow Jones Industrial Average still posts best first half since 1999



*Using S&P 500 at end-of-day (close of the market) pricing; Peak on 5/21/13
Returns are ETFs taken from Bloomberg L.P.

Fiscal Year-to-Date Asset Class Total Returns (12 months)
(Through June 30, 2013)

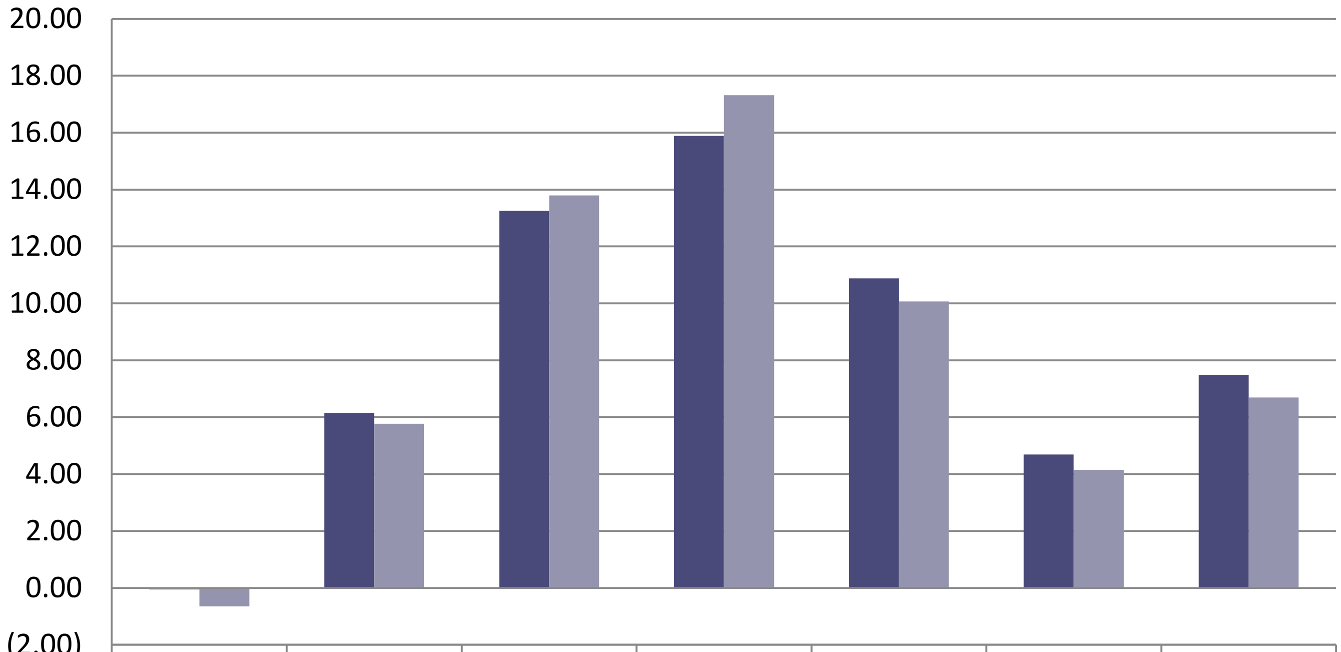


Returns are ETFs taken from Bloomberg L.P.'s Bloomberg Professional Service

What's Going on in the Division of Investment (Since Last SIC Meeting May 16, 2013)

- Maintained overweight allocation to US equities
- Shifted $800mm from the index-like portfolio to internal concentrated portfolio within Domestic Equity
- Re-optimized the Non-US Developed Passive Portfolio through a $1.6 billion rebalancing trade. Reduced expected tracking error from 38 to 25 basis points
- Investment Grade Duration was reduced from 8.12 yrs to 6.89 yrs (vs. benchmark change from 9.65 yrs to 9.38 yrs). Fixed Income Duration including High Yield stands at 6.73 yrs.
- Investment Grade holdings market value was reduced by $1.05 billion, with $440 million being a reduction to TIPS and long duration nominal US Treasuries. An additional $210M of this reduction is a short UST futures position
- To capitalize on the high yield backup, allocated $100M to High Yield: $50M to HY Corporate advisers and $50M internally.
- The Fixed Income Desk executed a GBP denominated United Kingdom Inflation Linked Gilt. This is the first time NJDOI has invested in this product.
- Received $1,029.3 million from the State for its FY 2013 pension contribution.

Total Fund ex Police and Fire Mortgages Performance as of May 31, 2013



	1 Month	CYTD	FYTD	1 Year	3 Year	5 Year	10 Year
Total Fund ex Police & Fire Mortgage	(0.05)	6.15	13.25	15.89	10.88	4.69	7.49
Benchmark	(0.65)	5.77	13.80	17.32	10.07	4.15	6.69

- The Total Fund ex Police and Fire Mortgages returned -0.05% in May to bring the Fiscal Year-to-Date return to 13.25% and the Calendar Year return to 6.15%. May marked the first negative monthly return for the Fund since October, when the Fund returned -0.11%. However, on a relative basis, the Fund had a strong month, outperforming by 61 basis points.
- The Fund is ahead of the benchmark calendar year-to-date and for 3, 5 and 10 year returns.
- The Fund has underperformed the FY2013 benchmark by 55 basis points for the fiscal year; however, when adjusting the Fund's return to account for performance reporting lags, the Division estimates the Fund's performance is in line with the benchmark. The Fund is well ahead of the FY2012 benchmark.

Based on estimated values

Performance Update

Positive Attribution:

- Relative performance in May was strong across the board as every asset class outperformed its benchmark. Outperformance of the Total Fund was primarily driven by strong relative performance in the Income, Global Growth, and Liquidity buckets. Within Income, strong performance in the High Yield category, particularly alternative high yield, was the key contributor. Credit-Oriented Hedge Funds and Debt-Related Private Equity were also positive contributors. For Global Growth, both Domestic Equity and Developed Non-US Equity had strong relative months. In Liquidity, an overweight to Cash and an underweight to Treasuries positively contributed to performance.
- Fiscal year-to-date asset allocation decisions continue to be the largest positive contributor. The Fund's overweight to Global Growth, specifically public equities, and underweights to Risk Mitigation and Real Return relative to the target allocation have been the largest positive contributors to performance.

Negative Attribution:

- There were very few negative contributors in May. Among portfolios that underperformed their benchmark were Treasuries, Public High Yield, and Emerging Markets Equity
- While the Fund's Liquidity portfolio has outperformed the benchmark, the overweight to this category relative to the target allocation has been a drag on performance as cash, Treasuries, and TIPS have underperformed equity and credit markets.
- The Fund's overweight to Investment Grade Credit and underweight to High Yield relative to the target allocations has negatively impacted performance as the latter has outperformed the former by approximately 1,000 bps. It should be noted that the overweight to the benchmark has been reduced by approximately $3.4 billion FYTD.
- Relative performance of the Global Growth portfolio has trailed the benchmark due to Equity Hedge Funds and Private Equity producing lower returns than public equity (however, this is partially due to performance lags).

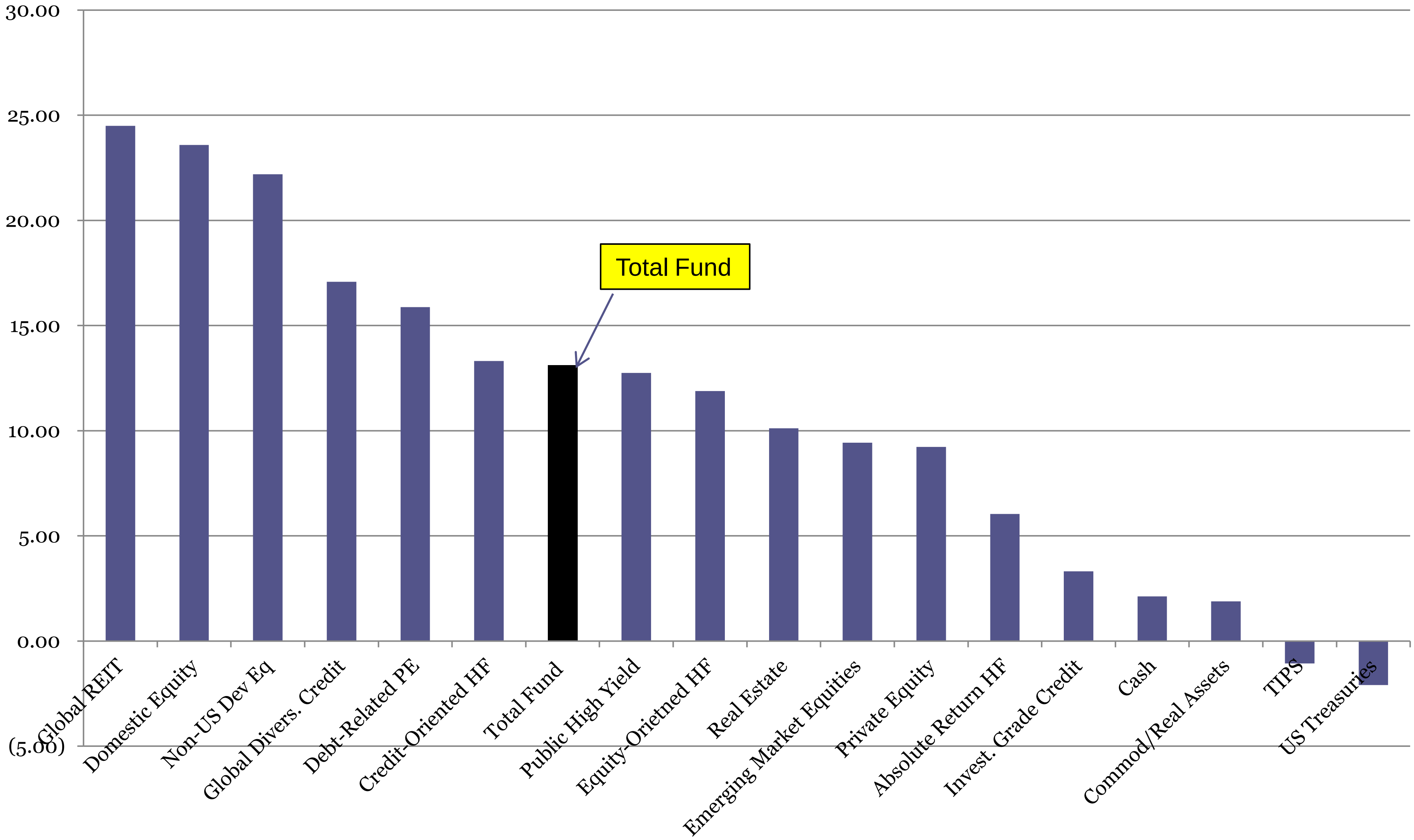
Based on estimated values

Fund Performance Update through 5/31/13

Asset Class (through May 31 2013)	May %	QTD % (Est.)	CYTD % (Est.)	FYTD % (Est.)	1 Year % (Est.)	No.
Risk Mitigation	0.88	1.49	5.23	6.04	5.93	1
Liquidity	(2.54)	(1.16)	(1.89)	0.27	0.14	2
Income	(1.34)	0.47	1.89	7.06	7.27	3
Real Return	1.01	0.89	4.09	7.37	8.97	4
Global Growth	0.54	2.71	9.29	18.91	23.65	5
Total Pension Fund ex P&F	(0.05)	1.73	6.15	13.25*	15.89	6
FY 2013 Total Policy Benchmark	(0.65)	1.24	5.77	13.80	17.32	7
FY2012 Total Policy Benchmark	(0.96)	1.00	4.89	12.45	15.94	8
Current Assets	$74.3 billion					9

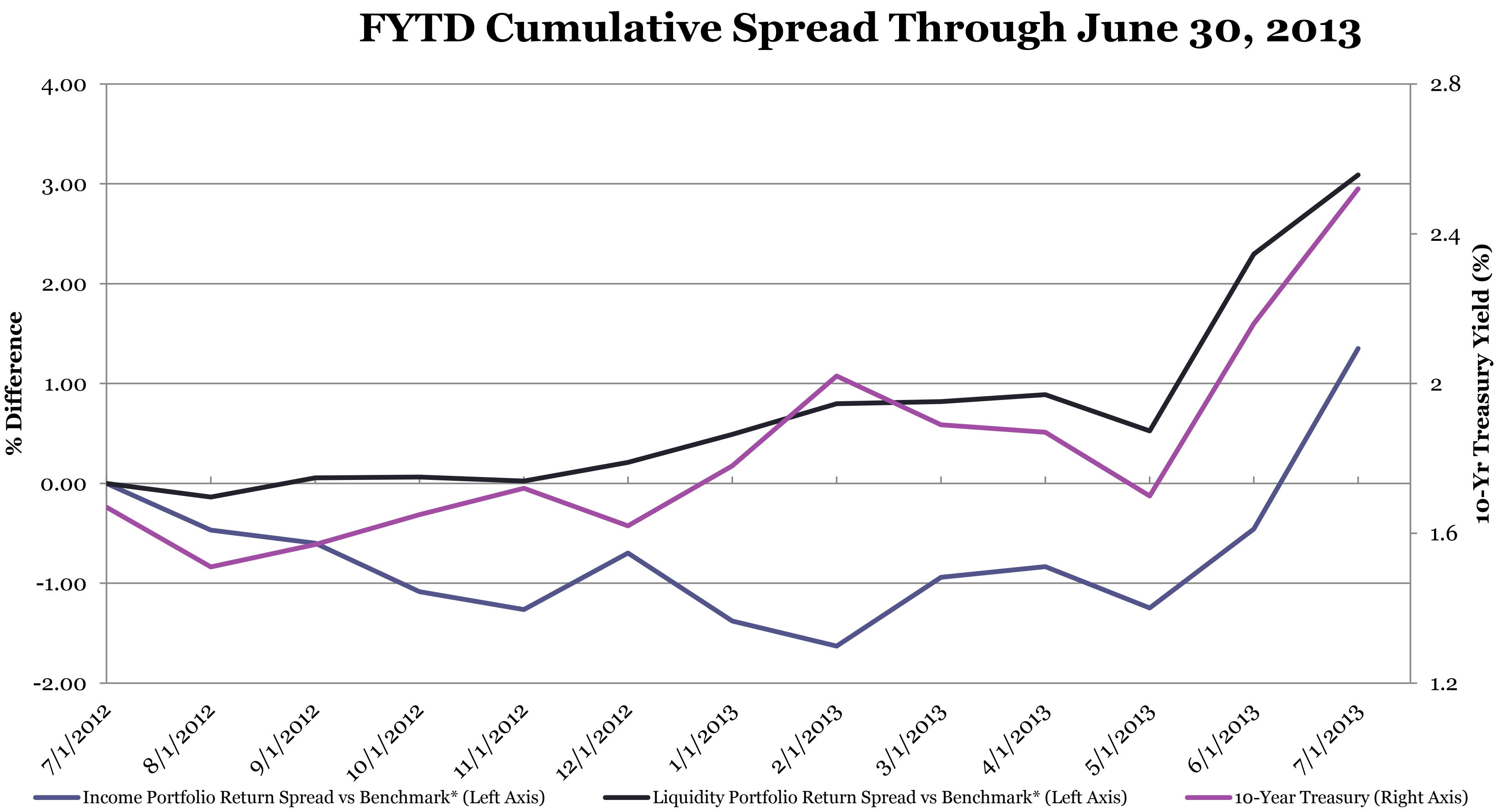
*Due to lag in reporting from Alternative funds, we believe the Pension fund is positive 13.50-13.75% FYTD.

Fiscal YTD Pension Fund Returns by Investment Type through 5/31/13



Based on estimated values

Performance for the Income and Liquidity Portfolios Improved Dramatically Relative to the Benchmark in Final Two Months of the Fiscal Year



* Spread equals Portfolio return minus Benchmark Return. Based on estimated values

Asset Allocation and Diversification Matter

What Worked in FY 2013

Asset Class	Dollars*	FYTD % Return
US Equities - Remained Overweight	+$2.5bn	22.0%
Sold Investment Grade Bonds and US Treasuries	-$4bn	3.6%
Added to Liquid High Yield Fixed Income	+$1bn	14.6%

What Didn't Work in FY 2013

Asset Class	Dollars*	FYTD % Return
Added to Emerging Market Equities	$700mm	Approx. 3.0%

*Balances are derived from the non-audited approximate difference between the 6/30/12 and 6/30/13 figures
Based on estimated values

June 30th 2013 Asset Allocation Contrasting FY 13 and FY 14 Targets

Asset Class	Current Allocation	FY 2013 Target	Over/Under Weight 2013	Current Assets	FY 2013 Target $	Over/Under Weight for 2013	FY 2014 Target	FY 2014 Target $	Over/Under Weight 2014	Over/Under Weight 2014	No:
RISK MITIGATION	**2.7%**	**4.0%**	**-1.25%**	**2,033,639,223**	**2,959,717,207**	**(926,077,984)**	**3.50%**	**2,589,752,556**	**-0.75%**	**(556,113,333)**	1
Absolute Return HFs	2.7%	4.0%	-1.25%	2,033,639,223	2,959,717,207	(926,077,984)	3.50%	2,589,752,556	-0.75%	(556,113,333)	2
LIQUIDITY	**7.2%**	**6.5%**	**0.72%**	**5,345,672,279**	**4,809,540,462**	**536,131,817**	**4.50%**	**3,329,681,858**	**2.72%**	**2,015,990,421**	3
Cash Equivalents	3.7%	1.5%	2.20%	2,735,000,000	1,109,893,953	1,625,106,047	1.00%	739,929,302	2.70%	1,995,070,698	4
TIPS	2.4%	2.5%	-0.09%	1,782,919,176	1,849,823,254	(66,904,078)	2.50%	1,849,823,254	-0.09%	(66,904,078)	5
US Treasuries	1.1%	2.5%	-1.38%	827,753,103	1,849,823,254	(1,022,070,151)	1.00%	739,929,302	0.12%	87,823,801	6
INCOME	**24.9%**	**26.0%**	**-1.08%**	**18,439,089,677**	**19,238,161,847**	**(799,072,169)**	**26.30%**	**19,460,140,637**	**-1.38%**	**(1,021,050,960)**	7
Investment Grade Credit	13.6%	13.0%	0.64%	10,094,521,932	9,619,080,923	475,441,009	12.10%	8,953,144,552	1.54%	1,141,377,380	8
High Yield Fixed Income	4.7%	6.0%	-1.28%	3,494,016,369	4,439,575,811	(945,559,442)	5.50%	4,069,611,160	-0.78%	(575,594,791)	9
Credit-Oriented HFs	2.9%	4.0%	-1.10%	2,147,197,367	2,959,717,207	(812,519,840)	3.50%	2,589,752,556	-0.60%	(442,555,189)	10
Debt-Related PE	1.0%	1.5%	-0.46%	770,566,292	1,109,893,953	(339,327,661)	2.00%	1,479,858,604	-0.96%	(709,292,312)	11
Debt Related Real Estate	0.0%	0.0%	0.0%	1,053,854,836	0	1,053,854,836	2.00%	1,479,858,604	-2.00%	(426,003,767)	12
P&F Mortgage	1.2%	1.5%	-0.31%	878,932,881	1,109,893,953	(230,961,072)	1.20%	887,915,162	-0.01%	(8,982,281)	13
REAL RETURN	**6.2%**	**9.5%**	**-3.28%**	**4,601,450,741**	**7,029,328,367**	**(2,427,877,626)**	**6.00%**	**4,439,575,811**	**0.22%**	**161,874,930**	14
Commodities/RA	2.6%	4.0%	-1.44%	1,891,538,304	2,959,717,207	(1,068,178,903)	2.50%	1,849,823,254	0.06%	41,715,050	15
Equity Related Real Estate	3.7%	5.5%	-1.84%	2,709,912,437	4,069,611,160	(1,359,698,723)	3.50%	2,589,752,556	0.16%	120,159,880	16
GLOBAL GROWTH	**58.7%**	**54.0%**	**4.68%**	**43,416,267,147**	**39,956,182,297**	**3,460,084,850**	**59.70%**	**44,173,779,317**	**-1.02%**	**(757,512,170)**	17
US Equity	27.7%	23.8%	3.91%	20,506,631,678	17,610,317,383	2,896,314,295	26.50%	19,608,126,497	1.21%	898,505,181	18
Non-US Dev Market Eq	12.6%	12.5%	0.09%	9,318,497,099	9,249,116,272	69,380,827	12.70%	9,397,102,133	-0.11%	(78,605,034)	19
Emerging Market Eq	6.9%	7.0%	-0.07%	5,128,255,533	5,179,505,113	(51,249,580)	8.00%	5,919,434,414	-1.07%	(791,178,881)	20
Equity-Oriented HFs	4.1%	4.5%	-0.36%	3,066,413,208	3,329,681,858	(263,268,650)	4.00%	2,959,717,207	0.14%	106,696,001	21
Buyouts/Venture Cap	7.3%	6.2%	1.09%	5,396,469,629	4,587,561,671	808,907,958	8.50%	6,289,399,065	-1.21%	(892,929,436)	22
OTHER	0.2%	0.0%	0.21%	156,811,112	0	156,811,112		0	0.21%	156,811,112	23
			Total	**73,992,930,179**							

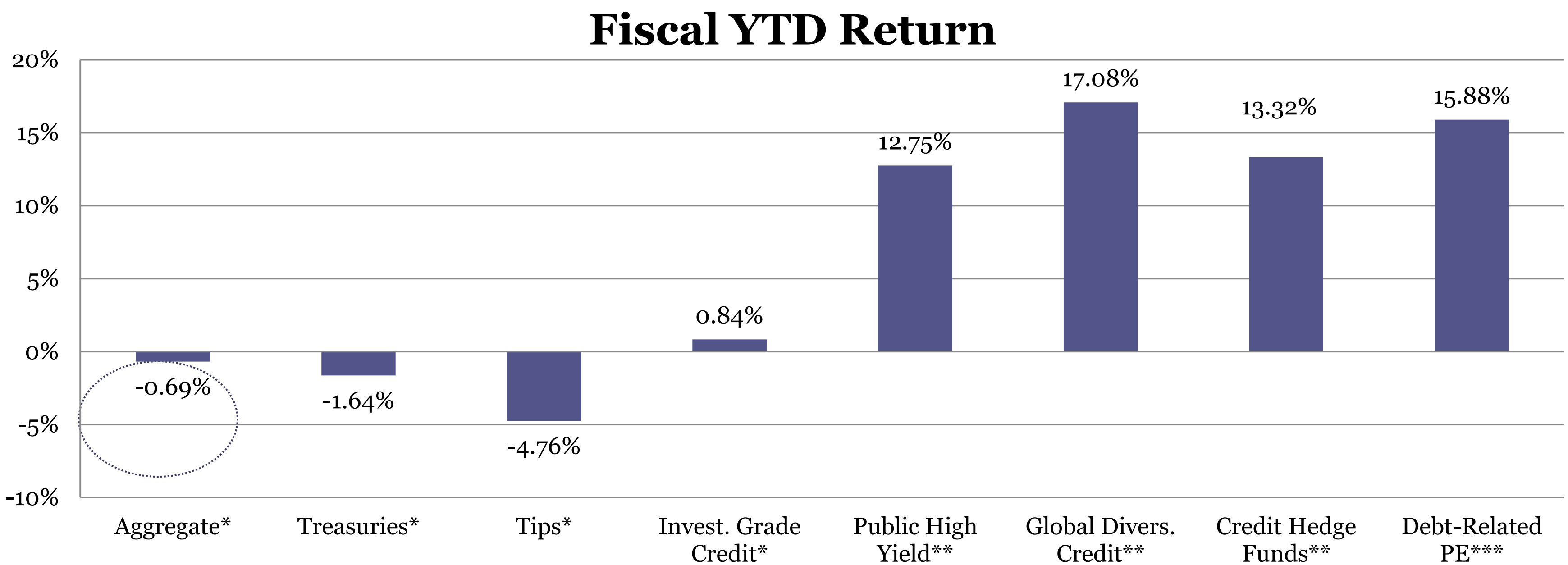
Based on estimated values

June 30th 2013 Asset Allocation with Hedges

Asset Class	Current Allocation	FY 2013 Target	Over/Under Weight 2013 Target	Current Assets	Adjustments to Exposure based on Hedges	Total Net Exposure	FY 2013 Target ($)	Over/Under Weight ($) vs. FY 2013 Target w/ Hedges	No:
RISK MITIGATION	**2.7%**	**4.0%**	**-1.25%**	**2,033,639,223**		**2,033,639,223**	**2,959,717,207**	**(926,077,984)**	1
Absolute Return HFs	2.7%	4.0%	-1.25%	2,033,639,223		2,033,639,223	2,959,717,207	(926,077,984)	2
LIQUIDITY	**7.2%**	**6.5%**	**0.72%**	**5,345,672,279**		**5,060,269,154**	**4,809,540,462**	**250,728,692**	3
Cash Equivalents	3.7%	1.5%	2.20%	2,735,000,000		2,735,000,000	1,109,893,953	1,625,106,047	4
TIPS	2.4%	2.5%	-0.09%	1,782,919,176		1,782,919,176	1,849,823,254	(66,904,078)	5
US Treasuries	1.1%	2.5%	-1.38%	827,753,103	(285,403,125)	542,349,978	1,849,823,254	(1,307,473,276)	6
INCOME	**24.9%**	**26.0%**	**-1.08%**	**17,385,234,841**		**17,385,234,841**	**19,238,161,847**	**(1,852,927,006)**	7
Investment Grade Credit	13.6%	13.0%	0.64%	10,094,521,932		10,094,521,932	9,619,080,923	475,441,009	8
High Yield Fixed Income	4.7%	6.0%	-1.28%	3,494,016,369		3,494,016,369	4,439,575,811	(945,559,442)	9
Credit-Oriented HFs	2.9%	4.0%	-1.10%	2,147,197,367		2,147,197,367	2,959,717,207	(812,519,840)	10
Debt-Related PE	1.0%	1.5%	-0.46%	770,566,292		770,566,292	1,109,893,953	(339,327,661)	11
P&F Mortgage	1.2%	1.5%	-0.31%	878,932,881		878,932,881	1,109,893,953	(230,961,072)	12
REAL RETURN	**6.2%**	**9.5%**	**-3.28%**	**5,655,305,577**		**5,647,442,781**	**7,029,328,367**	**(1,381,885,586)**	13
Commodities/RA	2.6%	4.0%	-1.44%	1,891,538,304	(7,862,796)	1,883,675,508	2,959,717,207	(1,076,041,699)	14
Real Estate	3.7%	5.5%	-1.84%	3,763,767,273		3,763,767,273	4,069,611,160	(305,843,887)	15
GLOBAL GROWTH	**58.7%**	**54.0%**	**4.68%**	**43,416,267,147**		**43,250,748,843**	**39,956,182,297**	**3,294,566,546**	16
US Equity	27.7%	23.8%	3.91%	20,506,631,678	(131,895,172)	20,374,736,506	17,610,317,383	2,764,419,123	17
Non-US Dev Market Eq	12.6%	12.5%	0.09%	9,318,497,099	(10,299,876)	9,308,197,223	9,249,116,272	59,080,951	18
Emerging Market Eq	6.9%	7.0%	-0.07%	5,128,255,533	(23,323,256)	5,104,932,277	5,179,505,113	(74,572,835)	19
Equity-Oriented HFs	4.1%	4.5%	-0.36%	3,066,413,208		3,066,413,208	3,329,681,858	(263,268,650)	20
Buyouts/Venture Cap	7.3%	6.2%	1.09%	5,396,469,629		5,396,469,629	4,587,561,671	808,907,958	21
OTHER	**0.2%**	**0.0%**	0.21%	**156,811,112**		156,811,112	0	156,811,112	22
TOTAL				**73,992,930,179**	**(458,784,225)**	**73,534,145,954**		**(458,784,225)**	

Based on estimated values

Diversification Worked



Approx. $21 billion in Income and Liquidity Buckets, Net of Cash

- Top Fund Performers-
- Global Diversified Credit – Och-Ziff is +31.2% FYTD through May 2013
- Credit Hedge Funds - Canyon is +25.8% FYTD through May 2013
- Private Debt - TPG Non-Performing Loans (NPLs) is + 20.43% FYTD through March 2013

Relative to Income being all Barclays AGG, Diversified portfolio added approximately $750 million to $1 billion to performance

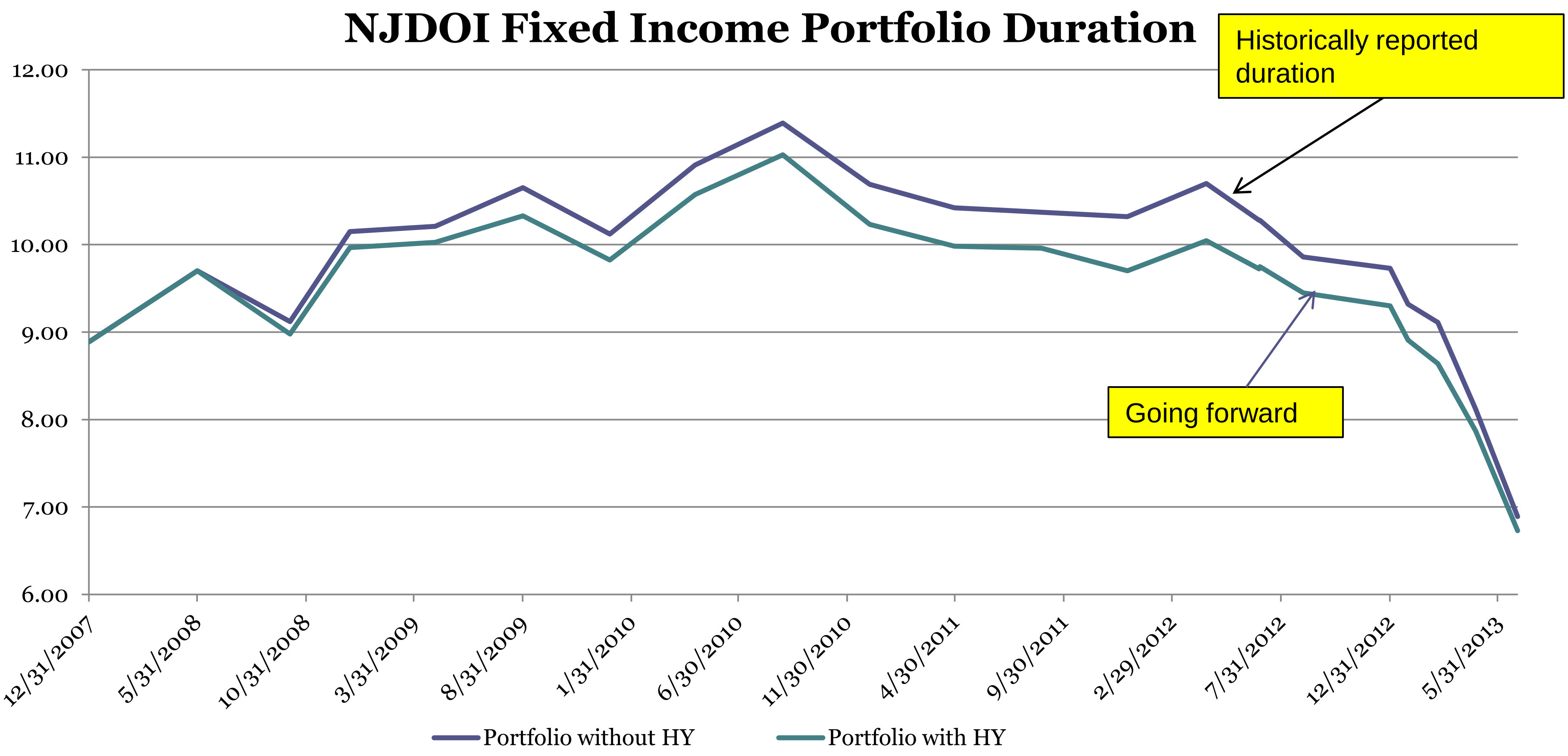
*Barclays Indices as of June 30, 2013
** NJDOI Portfolio returns as of May 31, 2013
*** NJDOI Portfolio returns as of March 31, 2013

State Investment Council

Notifications

Fixed Income Portfolio Duration

The Division will be reporting the duration of the fixed income portfolio including the publicly traded high yield portfolio going forward, assuming there is no objection from the SIC. Including high yield lowers the portfolio duration by approximately 20 basis points. The Division is targeting a duration range of 5.5 to 7.5 years.



FY 2014 Revised Benchmark

Asset Class	Sub-Category	FY 2014 Target		FY 2014 Total Fund Benchmark	
				Weighting	Component
RISK MITIGATION		**3.5%**		**3.5%**	
	Absolute Return HFs	3.5%		3.5%	91-day T-Bills + 300 bps
LIQUIDITY		**4.5%**		**4.5%**	
	Cash Equivalents	1.0%		1.0%	91 Day T-Bills
	TIPS	2.5%		2.5%	BarCap US TIPS 10+ Yr
	US Treasuries	1.0%		0.67%	BarCap US Treasuries
				0.33%	BarCap US Treasuries Long
INCOME		**26.3%**		**26.3%**	
	Investment Grade Credit	12.1%		1.7%	BarCap US Credit Index
				10.7%	BarCap Credit Intermediate
				0.9%	BarCap US Credit Long Index
	High Yield Fixed Income	5.5%		5.5%	BarCap Corp High Yield
	Credit-Oriented HFs	3.5%		3.5%	50% HFRI Distressed Restructuring/50% HFRI Credit Arbitrage (one-month lag)
	Debt-Related Private Equity	2.0%		2.0%	BarCap Corp High Yield (1 Qtr lag) + 300 bps
	Debt-Related Real Estate	2.0%		2.0%	Barclays US CMBS 2.0 Baa Index + 100 bps (1 Qtr lag)
	P&F Mortgage	1.2%			N/A
REAL RETURN		**6.0%**		**6.0%**	
	Commodities/Real Assets	2.5%		2.5%	70% DJ-UBS/30% S&P Oil & Gas Exploration and Production Select Industry (one quarter lag)
	Equity-Related Real Estate	3.5%		3.5%	NCREIF ODCE (one-quarter lag)
GLOBAL GROWTH		**59.7%**		**59.7%**	
	US Equity	26.5%		26.5%	S&P 1500
	Non-US Dev Market Eq	12.7%		12.7%	MSCI EAFE + Canada (ex-prohibited)
	Emerging Market Eq	8.0%		8.0%	MSCI Emerging Markets (ex-prohibited)
	Equity-Oriented HFs	4.0%		4.0%	50% HFRI Equity Hedge/50% HFRI ED Activist (one month lag)
	Private Equity/Venture	8.5%		8.5%	Cambridge PE (1 Qtr Lag)
			Total	**100.0%**	

The FY 2014 Total Plan Benchmark has been revised slightly from the version that the SIC approved in May. The original component included for the Debt- Related Real Estate portfolio (BarCap High Yield CMBS) has been discontinued. It has been replaced with the Barclays US CMBS 2.0 Baa Index + 100 bps. The CMBS 2.0 Index includes securities issued since the start of 2010.

Proposed Modification in CT High Grade Partners II, LLC

History:

- In May 2008, the New Jersey Division of Investment (the "Division") made a commitment of $500 million to NJDOI/GMAM CT High Grade Partners II, L.P. ("CTHG II" or the "Fund") a limited partnership comprised of the Division and General Motors Pension Trust ("GMPT")
- In Q2 2012, the Division and Capital Trust agreed to purchase GMPT's interest in the partnership, with the Division acquiring 98% of said interest for $157.8 million. The Fund's strategy was to invest in a diversified portfolio of fixed-rate, "core" commercial real estate debt and debt-related investments
- On September 27, 2012, Capital Trust, Inc. (now Blackstone Mortgage Trust, Inc., NYSE: BXMT) announced a definitive agreement under which an affiliate of Blackstone (NYSE: BX) acquired its investment management business

Portfolio/Performance:

- Since inception, CTHG II has produced a 1.28x Multiple on Invested Capital ("MOIC") and a net Internal Rate of Return ("IRR") of 10.4% as of March 31, 2013.
- CTHG II investment in high-grade CMBS and Real Estate Investment Trusts ("REIT") bond positions have a market value of $329 million with approximate yields of 2.97% and 1.99% respectively

Recommendation:

- The Division is proposing several modifications to CTHG II (current market value $696 million):
  - Allow for greater investment flexibility within real estate credit mandate (e.g., European mezzanine debt opportunities)
  - Redeployment of $100 million in sale proceeds from lower-yielding investments in CTHG II to GSO Credit Partners, L.P. over time

Proposed Modification in CT High Grade Partners II, LLC (cont.)

Modifications:

1. Allow CTHG II the ability to invest in European real estate mezzanine loans (with a cap of $100 million) at a 1.0% asset management fee, charged on invested capital and 0% incentive compensation (with the Division's approval)[1]. Fees compare favorably to recent investment in M&G European Mezzanine Fund at 1.25% management fee and 20% incentive fee over an 8% preferred return, which was approved at the May 16, 2013 SIC meeting.
2. Allow for CTHG II to have the ability to invest in below investment grade CMBS (with a cap of $100 million) at a 0.75% asset management fee with a 4% IRR hurdle and 10% incentive compensation (with the Division's approval)[1]
3. Gradually sell a portion or all of the low-yielding CMBS and REIT bond securities (market value of approximately $329 million as of May 31, 2013). Approximately $100 million of this will help to fund the Division's add-on commitment to GSO Credit-A Partners, L.P. over time.

[1] The existing portfolio positions and investments going forward that conform to the original mandate will continue to be administered at the current 0.40% asset management fee. CTHG II cannot begin to invest in any of the new strategies without the Division's approval.

Top 5 Market Capitalization Companies in the World

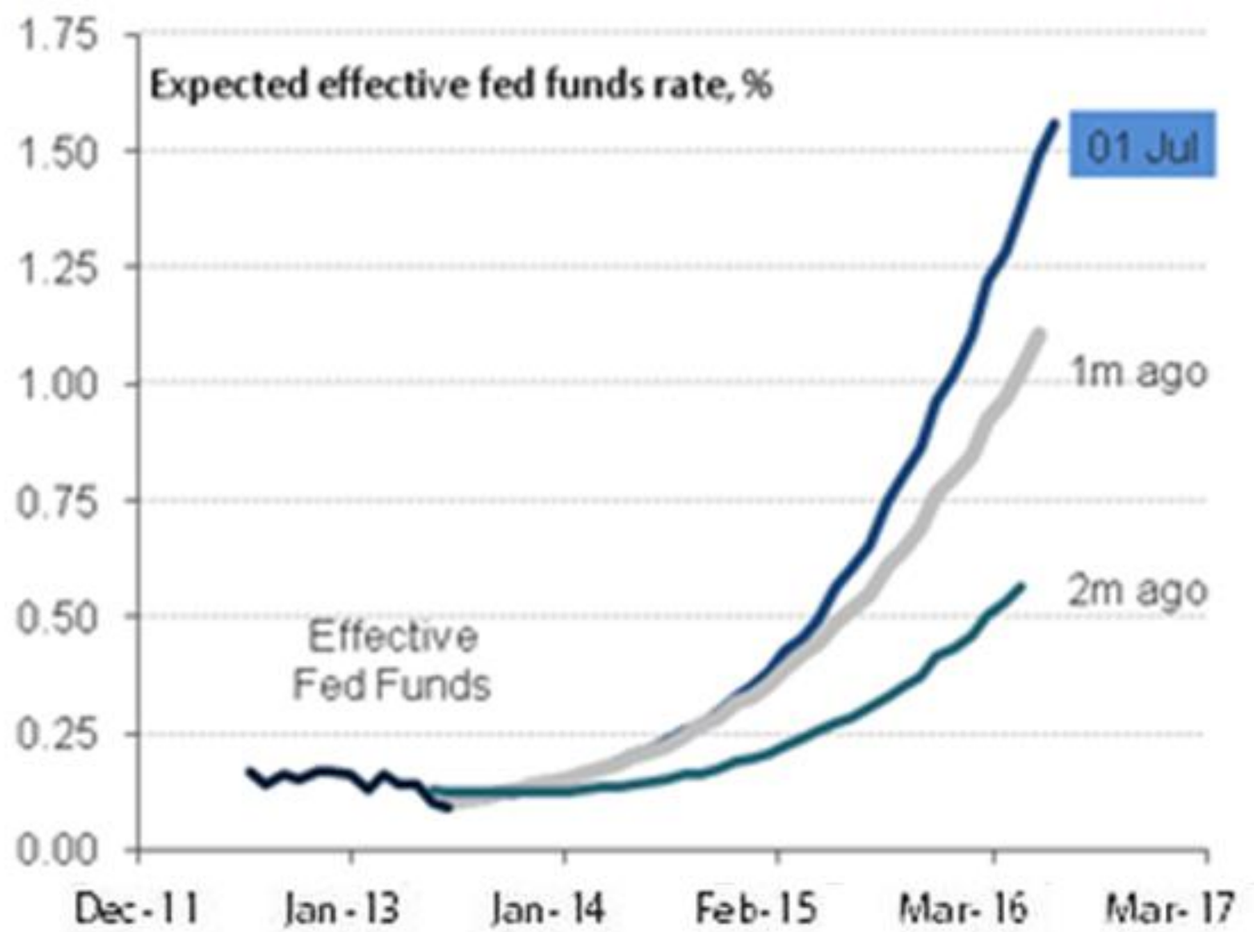
Date	#1 Ranked	#2 Ranked	#3 Ranked	#4 Ranked	#5 Ranked
May 22, 2013	Apple (412.7B)	Exxon Mobil (412.6B)	Google (300.2B)	Microsoft (291B)	Bershire Hathaway-A (277.9B)
2012	Apple (500.6B)	Exxon Mobil (394.6B)	Petrochina (264.8B)	Bank of China (236.5B)	China Mobil (234.1B)
2011	Exxon Mobil (406.3B)	Apple (376.4B)	Petrochina (276.4B)	Royal Dutch Shell (236.2B)	Bank of China (228.1B)
2010	Exxon Mobil (368.7B)	Petrochina (302.8B)	Apple (295.9B)	BHP Billiton Ltd (243B)	BHP Billiton PLC (243B)
2009	Petrochina(353.2B)	Exxon Mobil (323.7B)	Microsoft (270.6B)	Bank of China (268.9B)	Wal-Mart (203.6B)
2008	Exxon Mobil (406.1B)	Petrochina (259.8B)	Wal-Mart (219.9B)	China Mobile (201.3B)	Proctor & Gamble (184.5B)
2007	Petrochina(723.7B)	Exxon Mobil (511.9B)	General Electric (274.6B)	China Mobile (354.1B)	Bank of China(338.7B)
2006	Exxon Mobil (446.9B)	General Electric (383.5B)	Microsoft (293.5B)	Citigroup (273.7B)	Gazprom (272.1B)
2005	General Electric (370.3B)	Exxon Mobil (349.5B)	Microsoft (278.4B)	Citigroup (245.5B)	BP PLC (219.7B)
2004	General Electric (385.9B)	Exxon Mobil (330.7B)	Microsoft (290.5B)	Citigroup (250B)	Wal-Mart (223.7B)
2003	General Electric (311.1B)	Microsoft (295.9B)	Exxon Mobil (271B)	Pfizer (269.6B)	Citigroup (250.48)
2002	Microsoft (276.4B)	General Electric (242.6B)	Exxon Mobil (235.1B)	Wal-Mart (222.9B)	Pfizer (188.3B)
2001	General Electric (397.9B)	Microsoft (356.8B)	Exxon Mobil (268.8B)	Citigroup (259.7B)	Wal-Mart (256.5B)
2000	General Electric (475B)	Exxon Mobil (302.2B)	Pfizer (290.2B)	Cisco (275.3B)	Citigroup (257B)

*All dates are as of Dec. 31.

Interesting Charts

Fed Fund Rates

The market has pulled forward the timing of the first Fed hike significantly

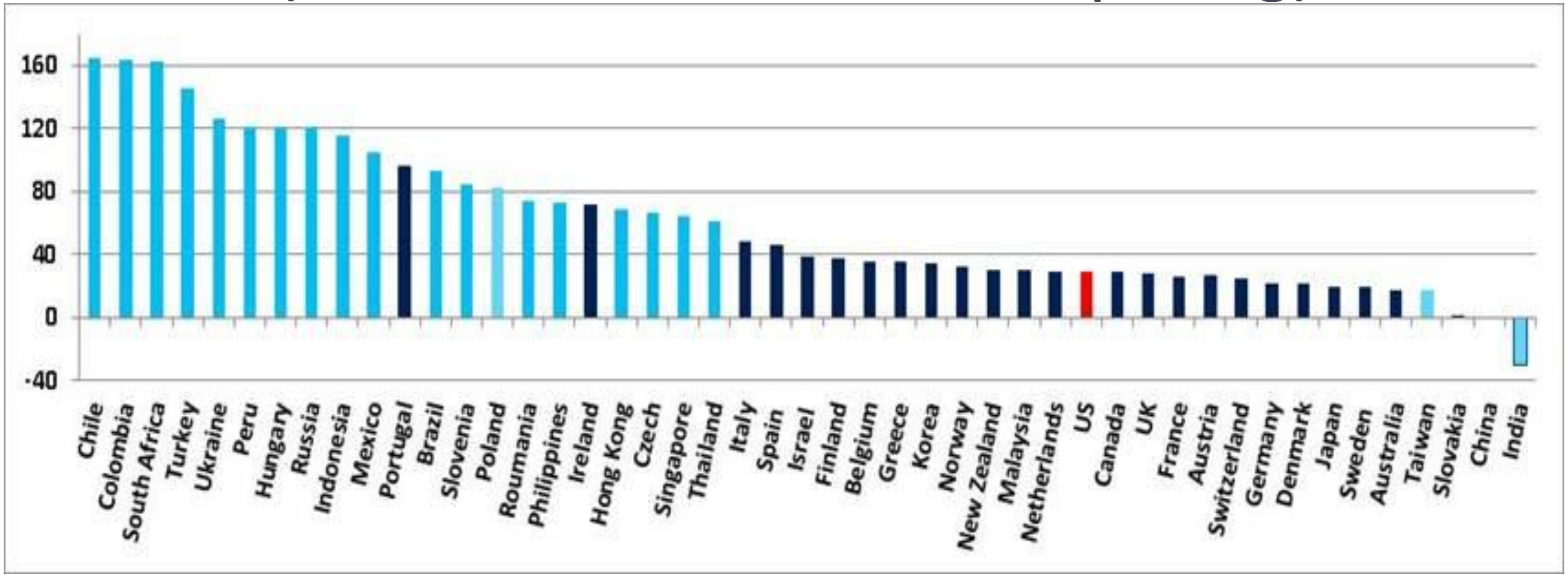


Source: Barclays

Changes in Mortgage Rates

Source: ISI

Increase in Local Currency Bond Yields (Because of fears of US Tapering)



May 1- June 11, in bps

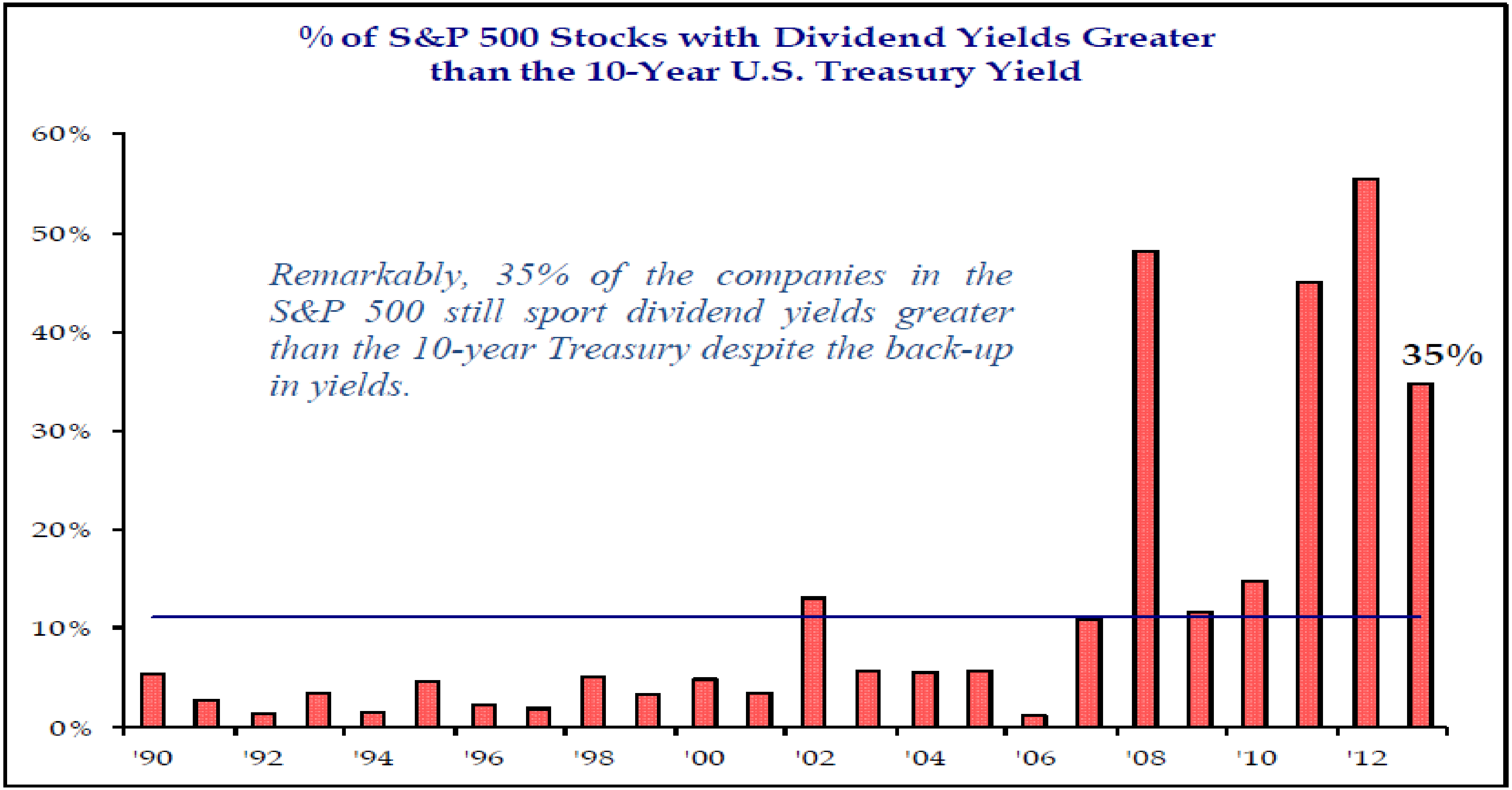
EM

DM

US

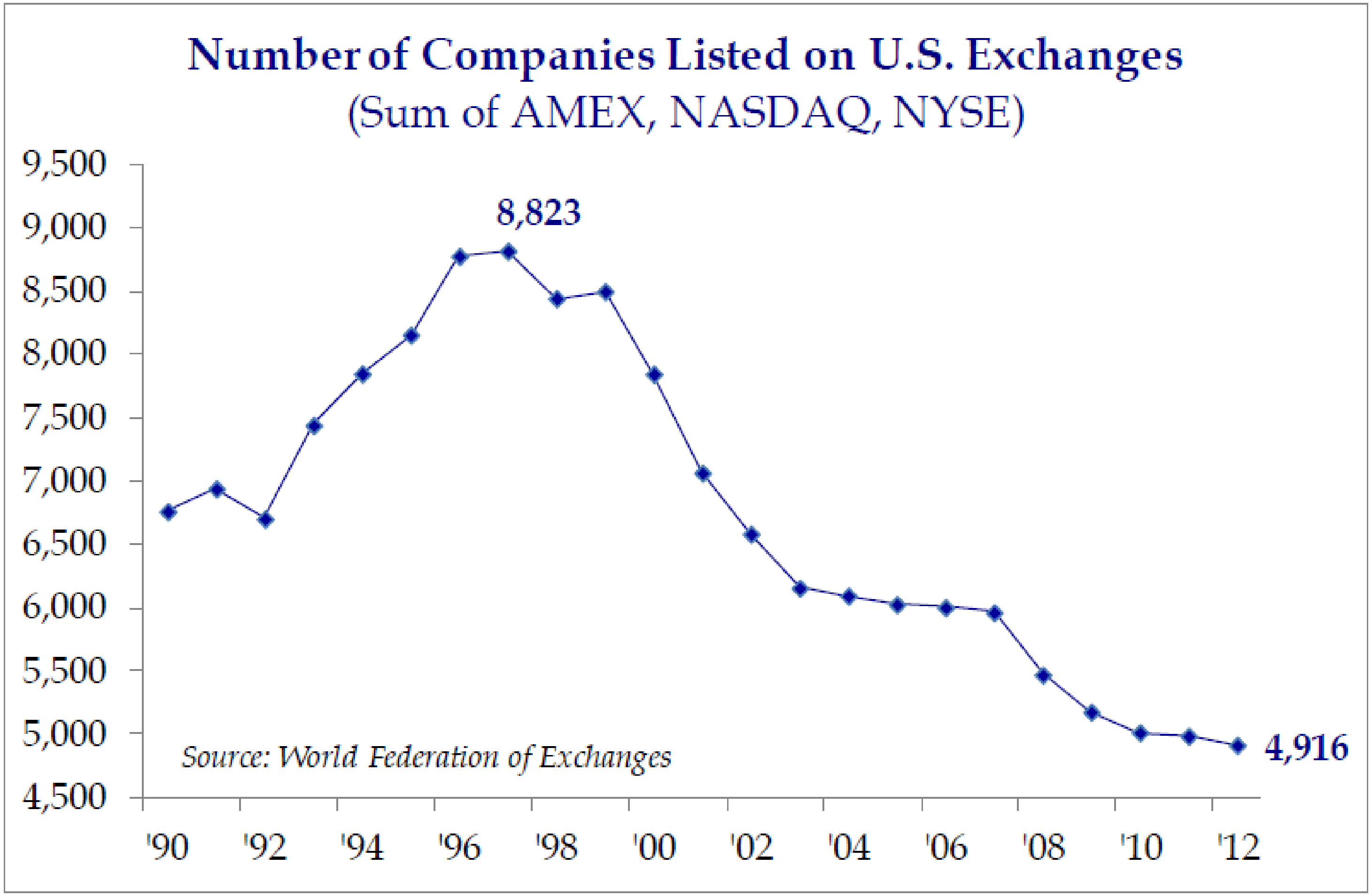
Source: http://ftalphaville.ft.com/files/2013/06/Citi-FX-June-12-1.jpg

FINANCIAL REPRESSION MAKES EQUITIES COMPELLING AS A SOURCE OF YIELD



Source: Strategas

COULD IT ALL BE JUST ABOUT SUPPLY AND DEMAND?



Source: Strategas

Best Quotes from FY 2013

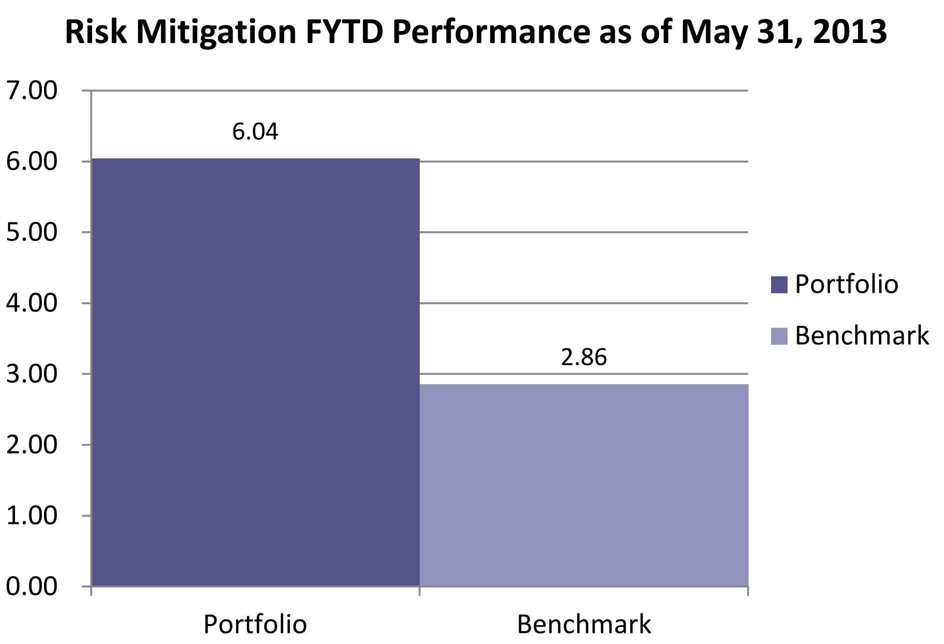
- “I do believe that big money does organize itself somewhat like **feral hogs**. If they detect a weakness or a bad scent, they’ll go after it.”
  - Richard Fischer, President of the Dallas Federal Reserve, anticipating a lively market reaction to the Fed’s announcement regarding tapering.
- However, he later noted, “I don’t want to go from Wild Turkey to ‘cold turkey’ overnight.”

Pensions&Investments

Princeton University's $17 billion endowment has built a 5.9% cash position, moving almost entirely out of fixed income.

-P&I 3-29-13

Performance Appendix

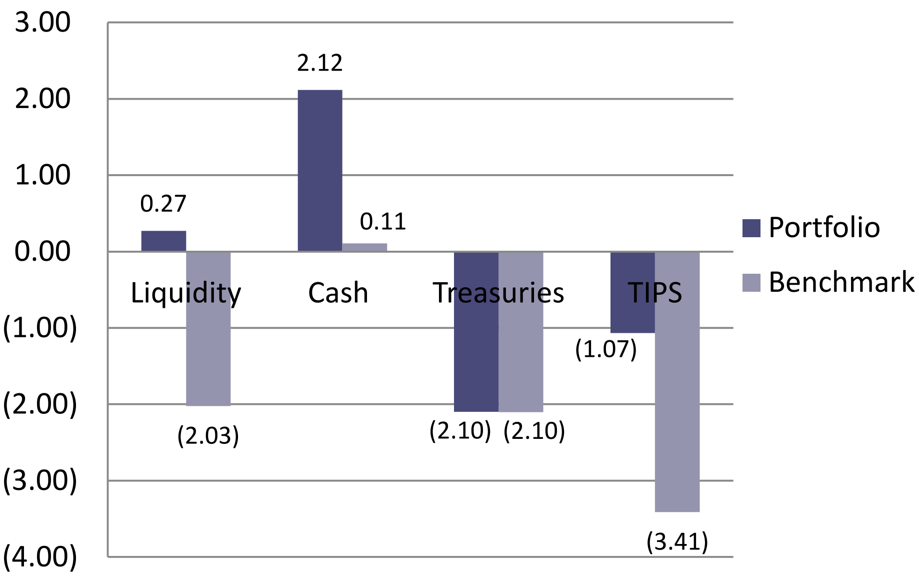


Returns as of May 31, 2013	1 Month	CYTD	3 Month	FYTD	1 Year
Absolute Return Hedge Funds	0.88	5.23	2.66	6.04	5.93
Fund of Fund Lag	0.81	5.39	1.98	7.71	5.86
Difference	*0.07*	*(0.16)*	*0.68*	*(1.66)*	*0.07*

- The Risk Mitigation return is composed largely of the returns of the Absolute Return Hedge Funds. The returns are generally reported on a one month lag for direct funds and one to two months for fund of funds.
- The Absolute Return Hedge Funds as a group have returned 6.04% FYTD and 5.23% CYTD in what has been a challenging environment for macro-oriented managers. While the return is below the HFRI Fund of Funds Index for the fiscal year, the portfolio has outperformed the HFRI Macro Index. The portfolio has also outperformed the T-Bills plus 300 basis points Risk Mitigation benchmark.
- The Fund's underweight to the Risk Mitigation category against the target allocation has positively contributed to performance as equities and credit have outperformed.

Based on estimated values

Liquidity FYTD Performance as of May 31, 2013

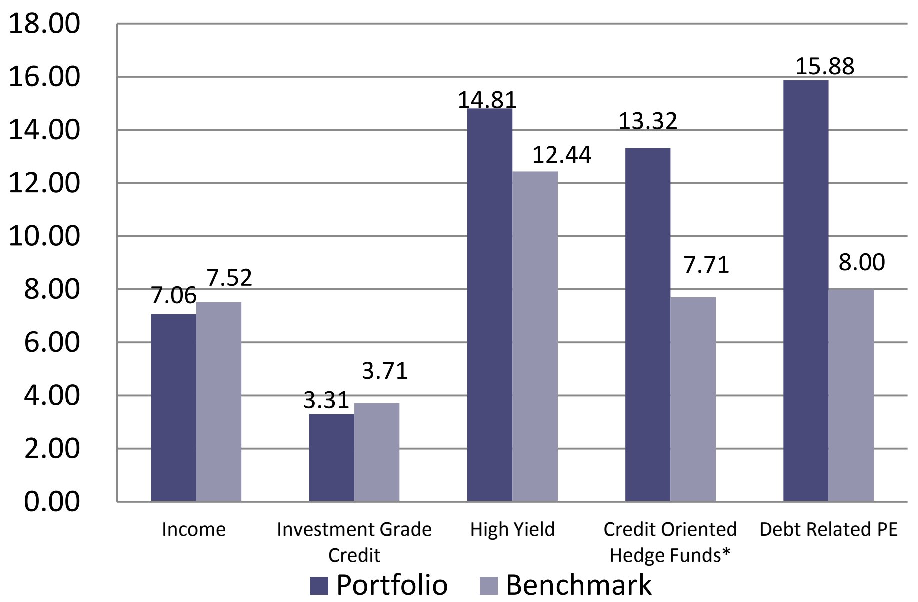


Returns as of May 31, 2013	1 Month	CYTD	3 Month	FYTD	1 Year
Cash Equivalents	0.15	1.38	1.20	2.12	3.12
91 Day Treasury Bill (Daily)	0.01	0.03	0.03	0.11	0.12
Difference	*0.15*	*1.35*	*1.16*	*2.01*	*3.01*
Common B High Grade US Treasuries	(4.93)	(2.98)	(1.92)	(2.10)	(3.07)
Custom US Treasuries Benchmark	(3.20)	(2.24)	(1.32)	(2.10)	(2.44)
Difference	*(1.73)*	*(0.74)*	*(0.60)*	*0.00*	*(0.63)*
TIPS	(5.11)	(5.08)	(3.62)	(1.07)	(1.79)
Custom TIPS Benchmark	(7.96)	(7.40)	(5.39)	(3.41)	(3.98)
Difference	*2.85*	*2.32*	*1.77*	*2.35*	*2.19*

- The Liquidity portfolio has outperformed the benchmark by 230 basis points FYTD as all three components of the portfolio have exceeded their respective benchmarks.
- An underweight to Treasuries relative to the target allocation has helped performance as TIPS have outperformed nominals; however, an overweight to the Liquidity asset class relative to the target allocation has detracted from Total Fund performance as equities and credit have outperformed.
- Over a trailing one-year period, Cash and TIPS are well ahead of their respective benchmarks. The TIPS portfolio has benefited from having a longer duration than the benchmark.

Based on estimated values

Income FYTD Performance as of May 31, 2013

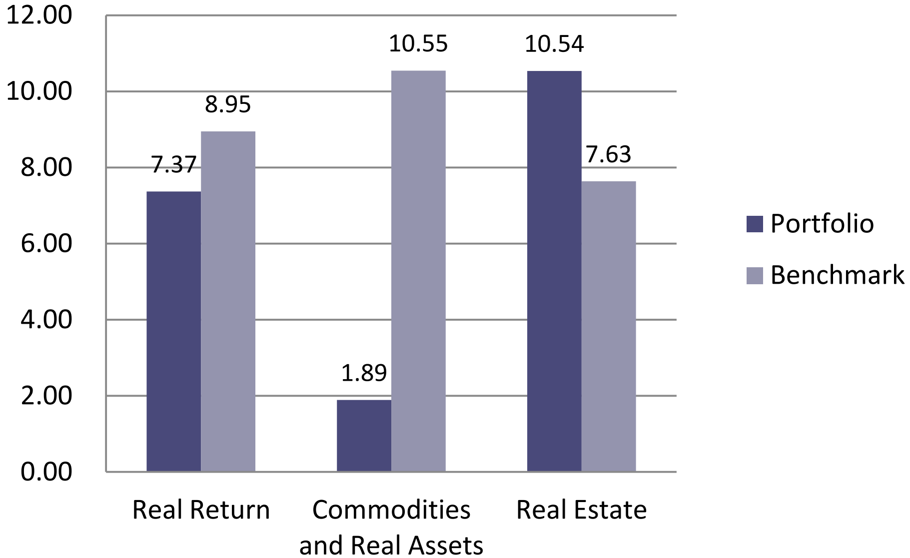


Returns as of May 31, 2013	1 Month	CYTD	3 Month	FYTD	1 Year
Investment Grade Credit	(2.88)	(0.87)	(0.71)	3.31	3.21
Custom Investment Grade Credit	(3.20)	(1.46)	(0.90)	3.71	4.16
Difference	*0.32*	*0.60*	*0.20*	*(0.40)*	*(0.95)*
High Yield	0.92	6.17	2.73	14.81	16.67
Barclays Corp High Yield (Daily)	(0.58)	4.15	2.25	12.44	14.82
Difference	*1.50*	*2.02*	*0.49*	*2.37*	*1.85*
Credit-Oriented Hedge Funds*	1.19	7.58	3.91	13.32	12.84
Fund of Fund Lag	0.81	5.39	1.98	7.71	5.86
Difference	*0.38*	*2.19*	*1.93*	*5.61*	*6.98*
Debt-Related Private Equity	3.51	9.60	8.60	15.88	18.90
Cambridge Associates Private Equity 1 Qtr Lag	0.00	3.46	3.46	8.00	13.82
Difference	*3.51*	*6.13*	*5.14*	*7.88*	*5.08*

- The Income portfolio has underperformed by 46 basis points FYTD. It is important to note that approximately 20% of the assets in this portfolio are reported on a lag. The high yield, credit-oriented hedge fund and debt-related PE portfolios are all affected by this lag and the Division believes the return shown for all is negatively impacted by this.
- The Division has reduced the overweight to the Investment Grade Credit portfolio relative to the target allocation by approximately $4 billion over the last 12 months and increased the High Yield exposure by almost $1 billion.
- The Investment Grade Credit portfolio has underperformed the benchmark FYTD as the portfolio has lower-beta, higher quality securities. This positioning contributed to strong outperformance in May.
- Both traditional High Yield and alternative High Yield portfolios have performed well FYTD, up 13% and 17%, respectively.

*Reported on a one month lag.
Based on estimated values

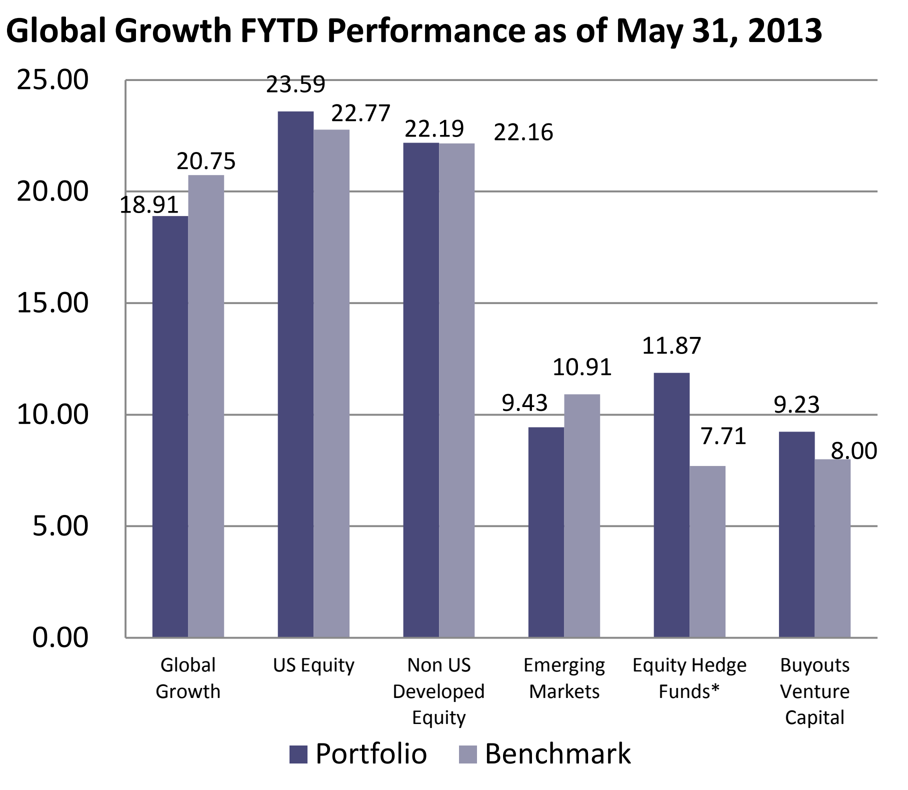
Real Return FYTD Performance as of May 31, 2013



Returns as of May 31, 2013	1 Month	CYTD	3 Month	FYTD	1 Year
Commodities & Real Assets	(1.14)	(3.04)	(2.99)	1.89	0.33
SIS Real Return Index	0.57	4.60	0.75	10.55	16.23
Difference	*(1.70)*	*(7.65)*	*(3.74)*	*(8.66)*	*(15.90)*
Real Estate	2.21	8.39	4.19	10.54	15.80
NCREIF Property Index	0.00	2.57	2.57	7.63	10.52
Difference	*2.21*	*5.83*	*1.63*	*2.90*	*5.27*

- The Real Return portfolio underperformed by 158 basis points FYTD; however, since the bulk of the portfolio is reported on a lag, the Division believes the performance of the portfolio is understated.
- Recent performance of the Real Estate Portfolio has been strong relative to the benchmark based on some valuation increases.
- The Fund’s underweight to Real Return relative to the target weight has been a positive contributor to performance as equity markets have outperformed.
- The Global REIT portfolio is up over 24% FYTD, exceeding the benchmark return by over 700 basis points.

Based on estimated values



Returns as of May 31, 2013	1 Month	CYTD	3 Month	FYTD	1 Year
Domestic Equity	2.54	15.40	8.50	23.59	28.43
S&P 1500 Super Composite (Daily)	2.40	15.52	8.20	22.77	27.61
Difference	*0.14*	*(0.13)*	*0.30*	*0.82*	*0.82*
Non-US Dev Market Equity	(1.92)	7.94	3.76	22.19	29.39
NJDI Iran + Sudan Free EAFE + Canada	(2.29)	7.40	3.16	22.16	30.09
Difference	*0.37*	*0.54*	*0.60*	*0.03*	*(0.70)*
Emerging Market Equity	(3.21)	(4.23)	(3.54)	9.43	15.08
NJDIIran + Sudan Free EM Index	(2.66)	(2.96)	(3.49)	10.91	15.42
Difference	*(0.54)*	*(1.27)*	*(0.05)*	*(1.48)*	*(0.35)*
Total Equity Oriented Hedge Funds*	(0.04)	7.06	2.28	11.88	9.34
HFRI fund of funds lag	0.81	5.39	1.98	7.71	5.86
Difference	*(0.85)*	*1.67*	*0.30*	*4.17*	*3.49*
Buyouts-Venture Capital	1.56	5.37	5.05	9.23	11.89
Cambridge Associates PE 1 Qtr Lag**	0.00	3.46	3.46	8.00	13.82
Difference	*1.56*	*1.90*	*1.58*	*1.23*	*(1.93)*

- The Global Growth portfolio has underperformed the benchmark by 184 basis points FYTD. It is important to note that approximately 20% of the assets in this portfolio are reported on a lag. The equity Hedge Funds and Buyouts/VC are affected by this lag and the Division believes the return shown for both is negatively impacted by this.
- The Fund's overweight to Global Growth relative to the target weight, in particular US and Developed Non-US equity, has positively impacted Total Fund performance FYTD as publicly traded equities have been the best performing segment of the portfolio.
- The Domestic Equity portfolio is now ahead of the benchmark by 82 basis points FYTD, while the Developed Market Non-US equity portfolio is ahead by 3 basis points FYTD.
- The Emerging Markets portfolio trails the benchmark by 148 basis points FYTD as the Adviser portfolios have outperformed by 270 basis points while the ETF portfolio underperformed by 416 basis points.
- The Equity Oriented hedge fund portfolio continues to perform well relative to the HFRI Fund of Fund Index.

*Reported on a one month lag
** Not available at this time
Based on estimated values