

***Investment
Section***

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State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
PO Box 290
TRENTON, NJ 08625-0290

JAMES E. MCGREEVEY
Governor

JOHN E. MCCORMAC, CPA
State Treasurer

June 30, 2004

REVIEWS OF MAJOR POLICY ISSUES

The Division, under the jurisdiction of the State Investment Council, has the investment responsibility for 181 funds, including seven pension and annuity funds. The Council includes eleven persons appointed to fixed terms. Five employee representatives are appointed by their respective pension fund boards for one-year terms, and five members are appointed by the Governor for staggered five-year terms. In addition, one member is appointed by the Governor from a list of three candidates to be nominated jointly by the President of the Senate and the Speaker of the Assembly. All gubernatorial appointments to the Council are subject to the advice and consent of the State Senate. State law requires that no Council member shall hold any office, position or employment with any political party, and none can benefit from the transactions of the Division.

The investment of state funds by the Division benefits all citizens of the State of New Jersey. The investment income generated by the pension funds contributes directly to the assets of the various pension funds and the retirement security of pension fund beneficiaries.

All investments under the supervision of the Council must conform to the standards of prudence set by state law, which mandate that the Division make investments in which fiduciaries of trust estates may legally invest. Eligible investments are defined as investments in property of every nature, provided the fiduciary shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The law provides for the "whole plan" principle, which permits a broad spectrum of investments. The law also states the fiduciary shall be under a duty to manage and invest the portfolio solely in the interests of the trust beneficiaries and for the exclusive purpose of providing financial benefits to trust participants.

The investment information provided in this section is presented in accordance with the standards of the Association for Investment Management and Research. Performance is calculated using the time-weighted return based on the modified Dietz method.

Peter A. Langerman

A handwritten signature in blue ink that reads "Peter A. Langerman".

Director, Division of Investment



INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

STATE INVESTMENT COUNCIL

REGULATIONS PERTAINING TO PENSION FUND ASSETS

- Equity investments are limited to no more than 70 percent of the portfolio, including both domestic and international equities.
- Investments in international securities are limited to 22 percent of the portfolio, including both international equities and bonds.
- International investments are limited to countries that have at least one AA sovereign rating, except for five emerging markets countries. No more than five percent of the portfolio's international investments may consist of stocks issued by corporations domiciled in emerging markets countries.
- The currency exposure on international investments may be hedged through currency transactions.
- Unlimited investment is permitted in securities issued by the U.S. Government and designated agencies.
- Investment in domestic corporate bonds is permitted subject to the following minimum rating requirements: A/A for bank and finance companies, and Baa/BBB for all other companies.
- Up to three percent of the domestic equity portfolio may consist of debt in lieu of common stock, regardless of the credit rating of the issuing company.
- Investment by the pension funds in mortgages is limited to mortgages that are secured by the Federal Housing Administration (FHA) and mortgage-backed securities with a rating of AA or higher.
- Investments in securities backed by underlying collateral such as mortgage-backed securities and various forms of receivables are permitted, but such investments cannot exceed more than ten percent of the overall fixed income portfolio.
- Investments in international fixed income securities are limited to bonds issued or guaranteed by foreign governments and designated agencies.
- Investments in municipal bonds, commercial paper, repurchase agreements, certificates of deposit, bankers acceptances, etc. are all permitted by specific regulations which specify high credit standards and conservative investment limits.
- Subject to limitations established by the State Investment Council, futures contracts and exchange-traded funds may be utilized in the management of the portfolios.
- The Council regulations contain limits on (1) the percentage of the portfolio that can be invested in any one security and (2) the percentage of the outstanding amount of any one security that can be owned by the portfolio. These limits help to insure that the portfolio is adequately diversified and that competitive market pricing is obtained.

Proxy Voting

- Proxy voting policy addresses key issues.
- Division votes all proxies received, unless shares are out on loan.



INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

INVESTMENT RETURNS

	2004	Annualized	
		3-Year	5-Year
TOTAL PORTFOLIO	14.1%	2.4%	1.5%
Equity Segment			
Domestic	19.1	-1.8	-0.9
S&P 1500	20.4	0.2	-1.1
S&P 500	19.1	-0.7	-2.2
International	31.9	3.6	0.0
MSCI EAFE International Stock Index (Net)	32.4	4.1	0.1
Fixed Income Segment			
Domestic	-0.9	7.0	7.2
Lehman Brothers-Govt/Credit Index	-0.7	6.7	7.1
International	10.0	16.9	8.7
Citigroup Non-US World Government Bond Index	7.6	13.7	6.8
Mortgages	2.5	6.2	7.0
Lehman Mortgage Index	2.2	5.6	6.5
Cash Management Fund	1.1	2.0	3.6
91-Day Treasury Bills	1.0	1.7	3.2

Note: Performance is calculated using the time-weighted return based on the modified Dietz method.

FAIR VALUE AND THE PERCENT OF TOTAL FAIR VALUE FOR EACH MAJOR TYPE OF INVESTMENT

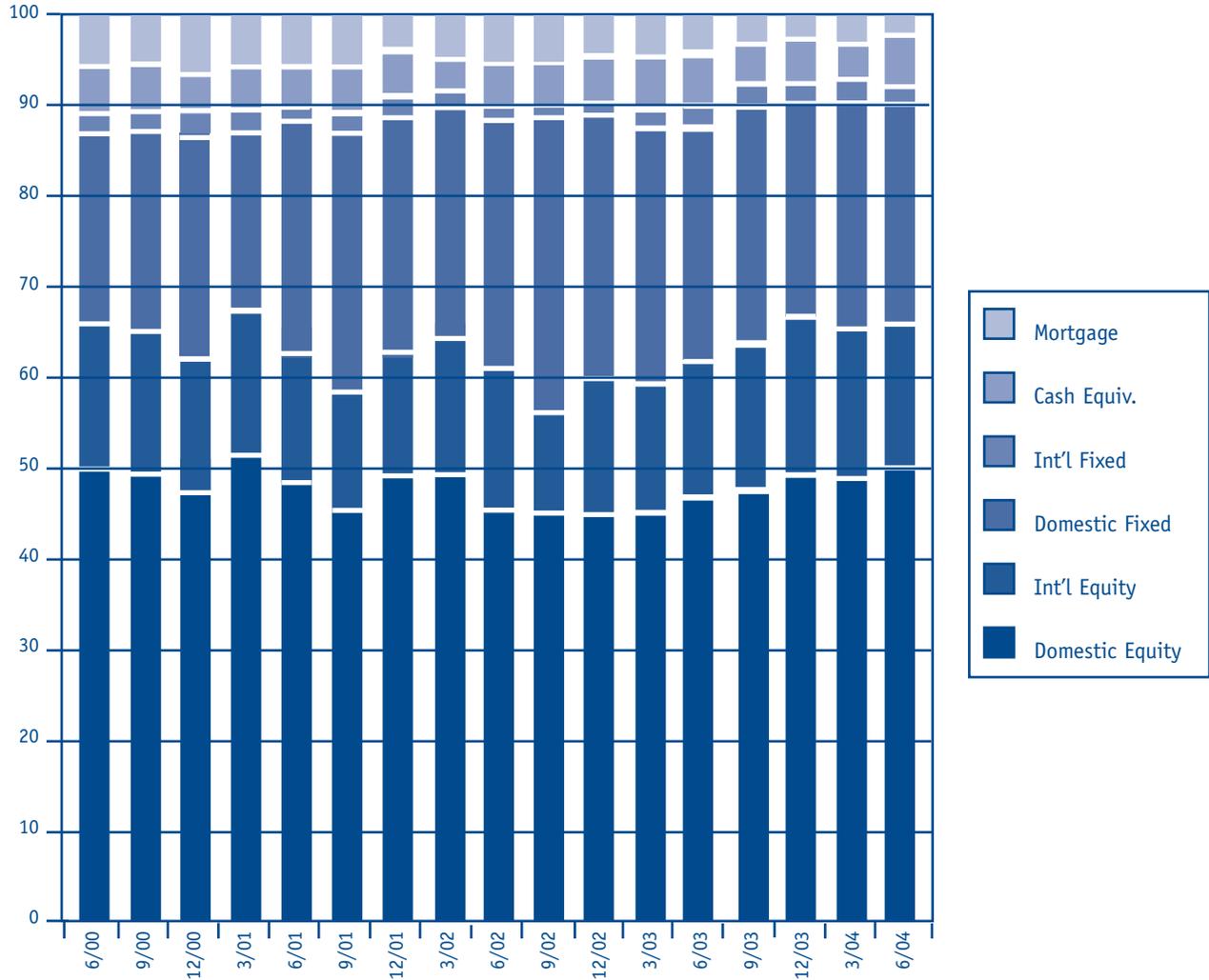
	9/2003		12/2003		3/2004		6/2004	
	(MILS.)	%	(MILS.)	%	(MILS.)	%	(MILS.)	%
Domestic Equity	30,288	48.1	32,998	49.2	33,207	48.8	33,792	50.1
International Equity	10,237	16.2	11,498	17.1	11,564	17.0	11,063	16.4
Domestic Fixed	16,813	26.7	16,403	24.5	17,324	25.4	16,215	24.0
International Fixed	1,386	2.2	1,291	1.9	1,670	2.4	1,642	2.4
Cash Equivalents	2,480	3.9	3,224	4.8	2,726	4.0	3,360	5.0
Mortgage	1,828	2.9	1,689	2.5	1,607	2.4	1,435	2.1
Total	63,032	100.0	67,103	100.0	68,098	100.0	67,507	100.0



INVESTMENTS

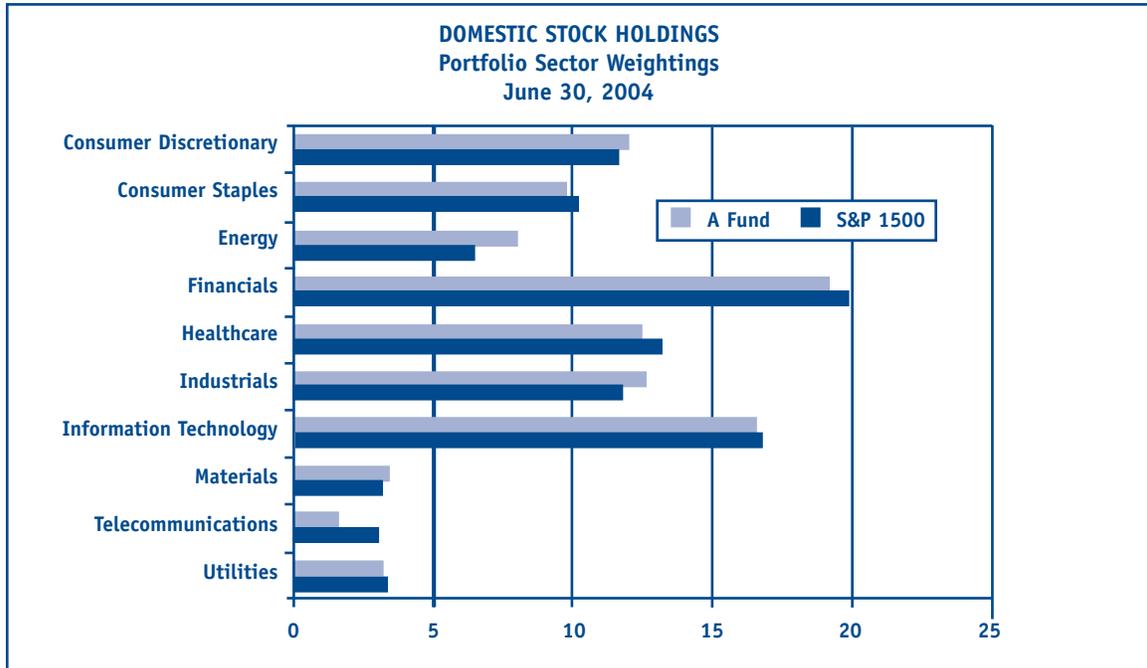
STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

STATE OF NEW JERSEY
COMPOSITE ASSET ALLOCATION HISTORY



INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS



INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

LIST OF LARGEST ASSETS HELD

Largest Domestic Stock Holdings (by Market Value)

June 30, 2004

	Shares	Stock	Market Value (Mil)
1)	40,000,000	Microsoft Corp.	\$1,142.4
2)	32,156,712	General Electric Co.	1,041.9
3)	19,667,264	Exxon Mobil Corp.	873.4
4)	17,394,601	Citigroup, Inc.	808.8
5)	22,910,392	Pfizer, Inc.	785.4
6)	8,793,329	American International Group, Inc.	626.8
7)	11,309,000	Wal-Mart Stores, Inc.	596.7
8)	6,682,546	Bank of America Corp.	565.5
9)	18,900,000	Cisco Systems, Inc.	447.9
10)	5,000,000	International Business Machines Corp.	440.8

Largest Domestic Bond Holdings (by Market Value)

June 30, 2004

	Par	Bonds	Coupon	Due	Rating	Market Value (USD)
1)	258,200,000	US Treasury Bonds	6.250%	08/15/23	AAA	\$285,956,500
2)	184,000,000	US Treasury Bonds	7.500%	11/15/16	AAA	226,837,040
3)	175,000,000	US Treasury Inflation Index Notes	3.000%	07/15/12	AAA	197,826,311
4)	163,000,000	US Treasury Bonds	7.125%	02/15/23	AAA	197,586,970
5)	175,000,000	US Treasury Bonds	9.375%	02/15/06	AAA	194,085,500
6)	180,000,000	US Treasury Notes	7.500%	02/15/05	AAA	186,300,000
7)	124,600,000	US Treasury Bonds	7.250%	05/15/16	AAA	150,648,876
8)	105,000,000	US Treasury Bonds	7.875%	02/15/21	AAA	135,548,700
9)	125,000,000	FPL Group Capital	6.125%	05/15/07	A2	133,340,000
10)	100,000,000	US Treasury Bonds	8.125%	08/15/21	AAA	132,313,000

A complete list of the portfolio holdings is available from the
Division of Investment, P.O. Box 290, Trenton, NJ 08625-0290.



INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

Largest International Stock Holdings (by Market Value) June 30, 2004

	Shares	Stock	Market Value (USD)
1)	120,000,000	Vodafone Group	\$262,785,637
2)	15,000,000	HSBC Holdings	225,038,357
3)	4,450,000	Novartis AG	196,344,434
4)	2,000,000	Groupe Danone	174,473,780
5)	10,400,000	Diageo	140,232,136
6)	500,000	Nestle SA	133,365,277
7)	5,900,000	Repsol YPF, SA	129,212,800
8)	2,000,000	Sanofi-Synthelabo	126,779,414
9)	1,670,000	Aventis	126,077,990
10)	10,188,562	Pearson PLC	123,800,082

Largest International Bond Holdings (by Market Value) June 30, 2004

	Par (Local)	Bonds	Coupon	Due	Market Value (USD)
1)	110,000,000	Government of Italy	3.500%	09/15/08	\$133,830,880
2)	100,000,000	German Government Bond	4.500%	01/04/13	124,331,427
3)	100,000,000	Government of Italy	3.500%	01/15/08	122,427,303
4)	65,000,000	UK Treasury	6.750%	11/26/04	118,958,016
5)	55,000,000	UK Treasury	7.250%	12/07/07	106,652,521
6)	50,000,000	UK Treasury	7.500%	12/07/06	95,901,342
7)	70,000,000	Republic of Ireland	5.000%	04/18/13	89,842,560
8)	50,000,000	UK Treasury	4.250%	06/07/32	82,790,170
9)	50,000,000	European Investment Bank	4.000%	01/15/07	62,308,067
10)	50,000,000	Government of Italy	4.750%	07/01/05	62,247,840

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INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

DOMESTIC EQUITY TRADING

Fiscal Year 2004

Brokerage Firm	Number of Shares Traded	Total Commissions*	Commissions Per Share
Reuters Instinet	31,496,763	\$508,332	0.016
La Branche Financial Services	28,051,935	996,300	0.036
BNY ESI	20,719,422	742,038	0.036
Susquehanna Financial Group	19,262,262	561,419	0.029
Morgan Stanley Group	16,308,325	691,201	0.042
Griswold Company	16,117,025	442,793	0.027
Bear Stearns & Co Group	15,006,939	655,886	0.044
Lehman Brothers Inc.	13,146,870	755,047	0.057
Merrill Lynch Group	12,730,101	574,650	0.045
Citigroup Global Markets	12,647,088	574,687	0.045

**Includes Listed and NASDAQ (Implied @ 0.05)*

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