
INVESTMENT SECTION

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State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
(609) 292-7524 TDD (609) 292-7718
www.state.nj.us/treasury/pensions

JON S. CORZINE
Governor

Mailing Address:
PO Box 295
Trenton, NJ 08625-0295
Location:
50 West State Street
Trenton, New Jersey
BRADLEY I. ABELOW
Acting State Treasurer
FREDERICK J. BEAVER
Director

June 30, 2006

REVIEWS OF MAJOR POLICY ISSUES

The Division, under the jurisdiction of the State Investment Council, has the investment responsibility for over 180 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 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.

William G. Clark

A handwritten signature in blue ink that reads "William G. Clark".

Director, Division of Investment

INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

STATE INVESTMENT COUNCIL KEY 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.
- Investment 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 BBB 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 that 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

	2006	ANNUALIZED	
		3-YEAR	5-YEAR
TOTAL PORTFOLIO	9.8%	10.9%	5.1%
Equity Segment			
Domestic Equities (Common Pension Fund A)	10.5	12.3	2.4
S&P 1500 Index	9.2	12.1	3.3
S&P 500 Index	8.6	11.2	2.5
International Equities (Common Pension Fund D)	28.0	24.8	10.4
MSCI EAFE International Stock Index (Net)	26.6	24.0	10.0
Fixed Income Segment			
Domestic Fixed Income (Common Pension Fund B)	-1.0	1.9	5.5
Lehman Brothers-Govt/Credit Index	-1.5	1.6	5.1
International Fixed Income (Common Pension Fund D)	4.8	9.1	13.5
Citigroup Non-US World Government Bond Index	0.0	5.0	9.6
Mortgages	2.3	2.7	4.8
Lehman Mortgage Index	2.5	3.6	5.1
Cash Management Fund	4.3	2.6	2.5
91-Day Treasury Bills	4.0	2.3	2.2

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

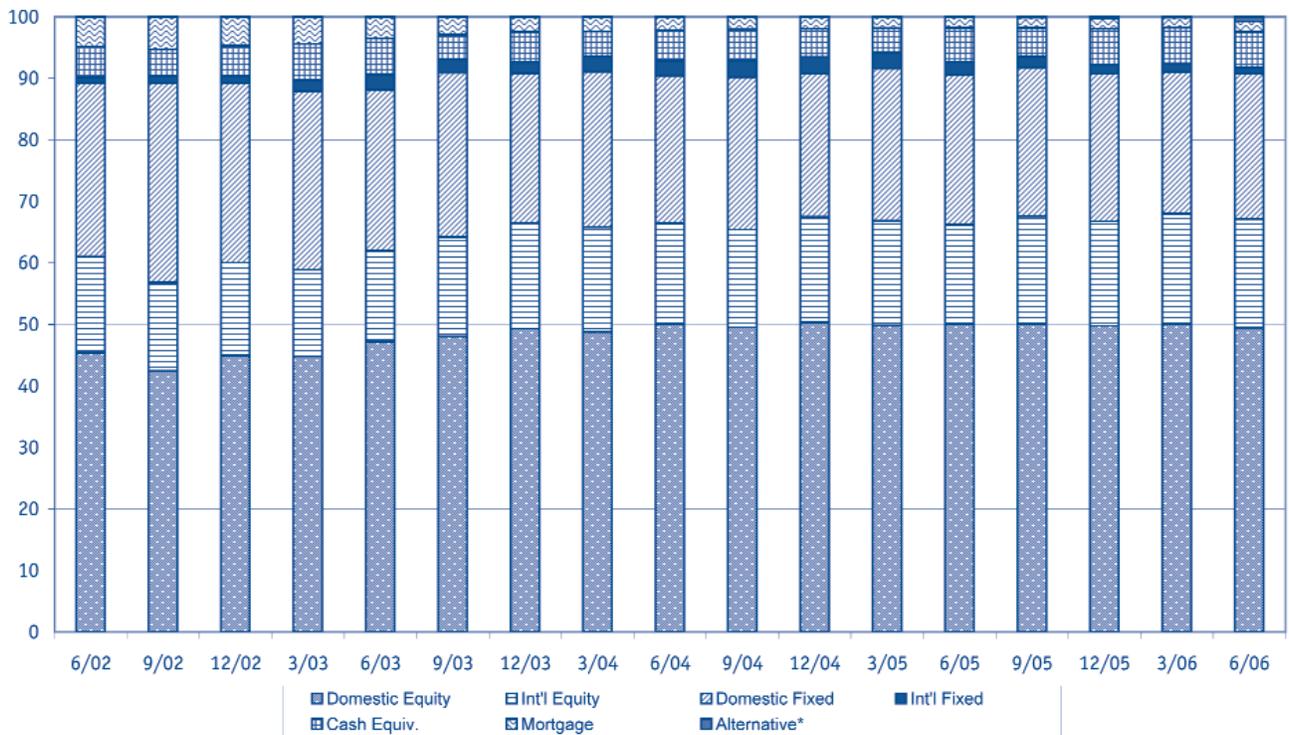
FAIR VALUE AND THE PERCENT OF TOTAL FAIR VALUE FOR EACH MAJOR TYPE OF INVESTMENT

	9/2005		12/2005		3/2006		6/2006	
	(MILS.)	%	(MILS.)	%	(MILS.)	%	(MILS.)	%
Domestic Equity	35,670	50.1	35,676	49.7	37,047	50.1	36,207	49.5
International Equity	12,492	17.5	12,200	17.0	13,258	17.9	12,938	17.7
Domestic Fixed	17,215	24.2	17,165	23.9	17,019	23.0	17,280	23.6
International Fixed	1,257	1.8	1,112	1.6	989	1.3	686	0.9
Alternative	100	0.1	198	0.3	113	0.2	578	0.8
Cash Equivalents	3,311	4.6	4,167	5.8	4,370	5.9	4,291	5.9
Mortgage	1,209	1.7	1,193	1.7	1,193	1.6	1,214	1.7
Total	71,254	100.0	71,711	100.0	73,989	100.0	73,194	100.0

INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

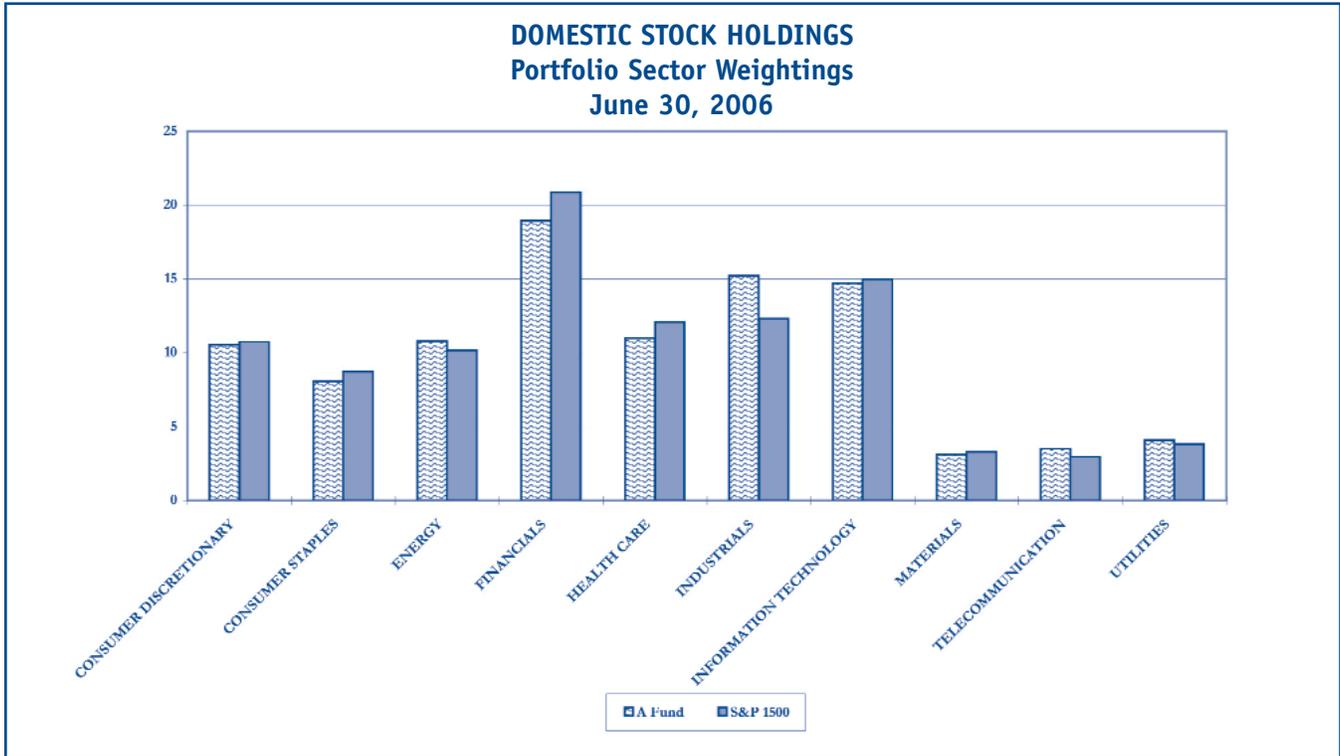
STATE OF NEW JERSEY COMPOSITE ASSET ALLOCATION HISTORY



**Alternative Investment Program started 9/05*

INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS



INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

LIST OF THE LARGEST ASSETS HELD

LARGEST DOMESTIC STOCK HOLDINGS (BY MARKET VALUE) JUNE 30, 2006

	SHARES	STOCK	MARKET VALUE (MIL)
1)	17,167,264	Exxon Mobil Corp.	\$1,053.2
2)	44,000,000	Microsoft Corp.	1,025.2
3)	29,000,000	General Electric Co.	955.8
4)	17,201,601	Citigroup Inc.	830.0
5)	14,449,615	Bank of America Corp.	695.0
6)	20,460,392	Pfizer Inc.	480.2
7)	7,830,329	American International Group Inc.	462.4
8)	8,123,370	Proctor & Gamble Co.	451.7
9)	10,446,154	J.P. Morgan Chase & Co.	438.7
10)	5,956,000	Altria Group, Inc.	437.3

LARGEST DOMESTIC BOND HOLDINGS (BY MARKET VALUE) JUNE 30, 2006

	PAR	BONDS	COUPON	DUE	RATING	MARKET VALUE (USD)
1)	308,200,000	US Treasury Bonds	6.250%	08/15/23	AAA	\$339,910,698
2)	350,000,000	US Treasury Notes	4.250%	08/15/13	AAA	332,062,500
3)	300,000,000	US Treasury Notes	4.000%	11/15/12	AAA	281,976,000
4)	188,000,000	US Treasury Bonds	7.125%	02/15/23	AAA	224,925,080
5)	195,000,000	US Treasury Bonds	6.000%	02/15/26	AAA	211,224,000
6)	225,000,000	US Treasury Notes	3.875%	02/15/13	AAA	209,443,500
7)	200,000,000	US Treasury Notes	2.875%	11/30/06	AAA	198,062,000
8)	195,500,000	US Treasury Notes	6.500%	10/15/06	AAA	196,141,240
9)	160,000,000	US Treasury Notes	4.875%	02/15/12	AAA	158,249,600
10)	125,000,000	US Treasury Bonds	6.875%	08/15/25	AAA	148,222,500

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, 2006

	SHARES	STOCK	MARKET VALUE (USD)
1)	2,265,000	Sanofi-Aventis S.A.	\$221,001,608
2)	15,226,971	Pearson PLC	207,448,851
3)	17,073,545	BP PLC	199,128,562
4)	3,600,500	Toyota Motor Corp.	191,296,823
5)	5,555,555	AXA S.A.	182,300,052
6)	5,250,000	Royal Bank of Scotland Group PLC	172,669,575
7)	1,000,000	Allianz AG	157,957,398
8)	13,000,000	Barclays PLC	147,771,269
9)	10,500	Mitsubishi UFJ Financial Group Inc.	146,981,627
10)	1,150,000	PPR	146,620,835

LARGEST INTERNATIONAL BOND HOLDINGS (BY MARKET VALUE) JUNE 30, 2006

	PAR (LOCAL)	BONDS	COUPON	DUE	MARKET VALUE (USD)
1)	65,000,000	Finland, Government of	2.750%	09/15/10	\$79,805,443
2)	35,000,000	Int'l Bank of Reconstruction and Redevelopment	5.750%	06/07/32	75,511,733
3)	40,000,000	Germany, Government of	4.750%	07/04/34	54,635,459
4)	300,000,000	Sweden, Government of	6.750%	05/05/14	49,391,230
5)	36,587,764	Belgium, Kingdom of	5.750%	03/28/08	48,477,502
6)	35,000,000	Netherlands, Government of	3.000%	01/15/10	43,648,008
7)	30,000,000	Belgium, Kingdom of	3.750%	03/28/09	38,434,979
8)	30,000,000	Italy, Government of	3.750%	08/01/21	35,150,253
9)	25,000,000	Ireland, Republic of	5.000%	04/18/13	33,944,792
10)	25,000,000	Belgium, Kingdom of	4.250%	09/28/14	32,487,919

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INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

DOMESTIC EQUITY TRADING

FISCAL YEAR 2006

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSIONS PER SHARE
Bear Stearns & Co. Inc.	18,246,167	\$875,075	\$0.048
Citigroup	20,055,042	699,737	0.035
Instinet LLC	24,384,941	365,718	0.015
La Branche Financial Services	18,937,828	538,304	0.028
Lehman Brothers Inc.	15,404,191	497,508	0.032
Merrill Lynch	12,979,608	394,790	0.030
Prudential Equity Group	21,503,554	910,398	0.042
Susquehanna Financial Group	16,324,336	407,101	0.025
UBS Securities	13,283,100	480,541	0.036
Westminster Research Associates	13,034,481	651,724	0.050

INTERNATIONAL EQUITY TRADING

FISCAL YEAR 2006

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSIONS PER SHARE
Bear Stearns & Co. Inc.	61,312,420	\$1,061,810	\$0.017
Citigroup Global Markets	52,750,037	864,057	0.016
Credit Suisse Securities	47,360,585	1,186,369	0.025
Goldman Sachs & Company	162,719,574	1,876,541	0.012
Lehman Brothers Inc.	46,866,172	605,127	0.013
Merrill Lynch	58,171,840	1,134,852	0.020
Mizuho Securities	43,254,990	828,312	0.019
Morgan Stanley	34,975,043	653,553	0.019
Nomura Securities	54,018,463	886,995	0.016
UBS Securities	58,838,644	1,228,616	0.021

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