
INVESTMENT SECTION

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State of New Jersey
 DEPARTMENT OF THE TREASURY
 DIVISION OF PENSIONS AND BENEFITS
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State Treasurer

KIM GUADAGNO
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FLORENCE J. SHEPPARD
Acting Director

June 30, 2011

REVIEWS OF MAJOR POLICY ISSUES

The Division of Investment (“Division”), under the jurisdiction of the State Investment Council (the “Council”), is responsible for the investment management of the assets of seven public pension systems: the Consolidated Police & Firemen’s Pension Fund, the Judicial Retirement System, the Police & Firemen’s Retirement System, the Prison Officers Pension Fund, the Public Employees’ Retirement System, the State Police Retirement System, and the Teachers’ Pension & Annuity Fund (collectively referred to as the “Pension Fund”).

The Division was created in 1950 by the New Jersey Legislature (P.L. 1950, c.270) to centralize all functions relating to the purchase, sale or exchange of securities for the State’s diverse funds under experienced and professional management. The statute also established the Council to formulate investment procedures and polices to be followed by the Director. The statute vests investment authority in the Director, who is appointed by the State Treasurer from candidates nominated by the Council. New and amended regulations adopted by the Council after public comments are filed with the Office of Administrative Law and reported in the *New Jersey Register*.

The Council is comprised of 16 members, appointed to fixed terms. Nine members are appointed by the Governor for staggered five-year terms, and are drawn traditionally from the corporate investment community. Eight of these nine hold appointments subject to the advice and consent of the Senate, and one appointee is selected by the Governor from nominees submitted jointly by the President of the Senate and the Speaker of the Assembly. Two members are appointed by the Governor for five-year terms from nominees submitted by the New Jersey State AFL-CIO, with at least one appointed member being a member of a union representing police officers or firefighters. Two members are appointed by the Governor for three year terms from nominees submitted by the New Jersey Education Association and the State Troopers Fraternal Organization. Three members are designated to the Council for three-year terms by the respective pension system’s board of trustees for the Public Employees’ Retirement System, the Police and Firemen’s Retirement System, and the Teachers’ Pension and Annuity Fund. 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.

All investments by the Director must conform to the heightened “prudent person” standard set by the New Jersey Legislature (P.L. 1997, c.26). This standard requires the Director “to manage and invest the portfolio solely in the interests of the beneficiaries of the portfolio and for the exclusive purpose of providing financial benefits to the beneficiaries of the portfolio.”

To the best of our knowledge, performance is calculated using the time-weighted return based on the modified Dietz method.

Timothy M. Walsh
 Director, Division of Investment

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STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

STATE INVESTMENT COUNCIL KEY REGULATIONS PERTAINING TO PENSION FUND ASSETS

- Public 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 30 percent of the portfolio, including both international equities and fixed income obligations.
- The market value of securities of companies in emerging markets is limited to 1.5 times the percentage derived by (1) dividing the total market capitalization of companies included in the MSCI Emerging Market Index by (2) the total market capitalization of the companies included in the MSCI All-Country World Ex-United States Index of the total market value of the assets held by Common Pension Fund D.
- 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 and international corporate obligations, and collateralized mortgage obligations are subject to a minimum rating requirement of Baa3 by Moody's, BBB- by Standard & Poor's, and BBB- by Fitch Ratings. Investment in mortgage backed senior debt securities are subject to a minimum rating requirement of A3 by Moody's, A- by Standard & Poor's, and A- by Fitch Ratings. Up to five percent of the pension assets may be invested in these securities not meeting the minimum rating requirements.
- Up to 3 percent of the domestic equity portfolio may consist of debt in lieu of common stock, regardless of the credit rating of the issuing company.
- Investments in international government and agency obligations are limited to direct debt obligations of a sovereign government or its political subdivisions, debt obligations of agencies of a sovereign government which are unconditionally guaranteed as to principal and interest by the sovereign government's full faith and credit, and debt obligations of international agencies that are directly backed by the collective credit of multiple sovereign governments.
- 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, certain options 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.
- Investments in alternative investments are limited to no more than 38% of the portfolio in the aggregate, with individual category limitations for private equity (12%), real estate (9%), real assets (7%), and hedge funds (15%).

PROXY VOTING

- Proxy voting policy addresses key issues.
- The Division seeks to vote all proxies received, unless shares are out on loan. Under certain circumstances, the Division may restrict shares from being loaned, or recall loaned shares in order to preserve the right to vote on proxy issues.

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INVESTMENT RETURNS

	ANNUALIZED		
	2011	3-YEAR	5-YEAR
TOTAL PORTFOLIOS⁽¹⁾	18.03%	4.18%	5.23%
Equity Segment			
Common Pension Fund A (Domestic Equities)	32.47	5.49	4.93
S&P 1500 Index	31.65	3.87	3.29
Common Pension Fund D (International Equities)	25.58	0.13	3.24
MSCI All World Country Index (ex US)-net	29.73	-0.35	3.67
Fixed Income Segment			
Common Pension Fund B (Domestic Fixed Income)	5.98	9.68	8.65
Barclays Long Government/Credit	3.20	8.19	7.67
Alternative Investments Segment			
Common Pension Fund E	17.69	-1.72	2.18

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

⁽¹⁾ Excludes performance on Police and Fire Mortgages

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STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

ACTUAL ALLOCATION VS FY 2011 INVESTMENT PLAN TARGET 6/30/2011

	Actual Allocation %	Target %	Difference %	Allocations \$	FYTD Performance %
US Equity Total	25.55	19.00	6.55	18,843.07	33.40
Intl Developed Markets Equity	15.70	15.00	0.70	11,552.01	27.04
Intl Emerging Markets Equity	4.30	5.00	-0.70	3,169.46	27.99
Total Public Equity	45.55	39.00	6.55	33,564.54	30.41
US Fixed Income	23.03	30.25	-7.22	17,019.17	4.68
US High Yield	2.47	3.50	-1.03	1,821.39	21.27
Total Public Fixed Income	25.50	33.75	-8.25	18,840.56	6.05
Police & Fire Mortgage Program ⁽²⁾	1.55	N/A	1.55	1,145.25	5.90
Total Police and Fire Mortgage Program	1.55	N/A	1.55	1,145.25	5.90
Commodities and Other Real Assets	1.61	4.00	-2.39	1,191.93	28.25
TIPS	3.72	5.00	-1.28	2,746.03	8.35
Total Inflation Sensitive Assets	5.33	9.00	-3.67	3,937.96	13.06
Private Equity	7.30	5.50	1.80	5,384.21	21.68
Private Real Estate	3.70	3.00	0.70	2,731.63	17.55
Absolute Return/Hedge Funds	5.30	6.75	-1.45	3,910.59	10.69
Total Alternatives	16.30	15.25	1.05	12,026.43	16.93
Cash ⁽³⁾	5.72	3.00	2.72	4,217.32	0.40
Total Pension Fund⁽¹⁾	100.00	100.00	0.00	73,732.07	17.79
Total Pension Fund ex Police & Fire Mortgages					18.03

⁽¹⁾ Individual asset class balances include the market value of derivatives; however, performance of derivatives are only included in the Total Pension Fund.

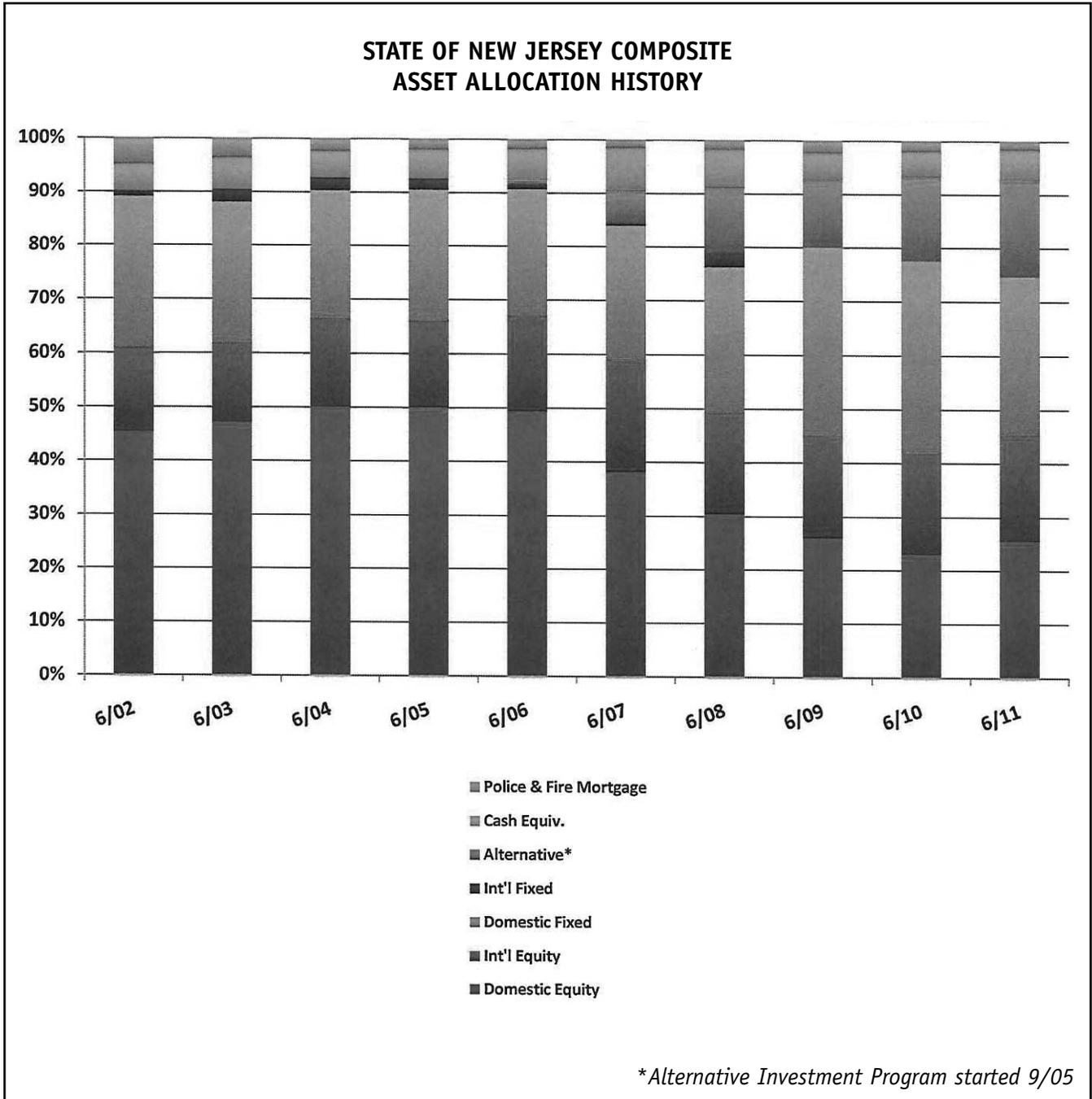
⁽²⁾ Police & Fire Mortgage Program is not included in target asset allocation; assets are private mortgages that by law cannot be sold.

⁽³⁾ The cash aggregate comprises the four common fund cash accounts, in addition to the seven plan cash accounts.

Totals may not add up due to rounding.

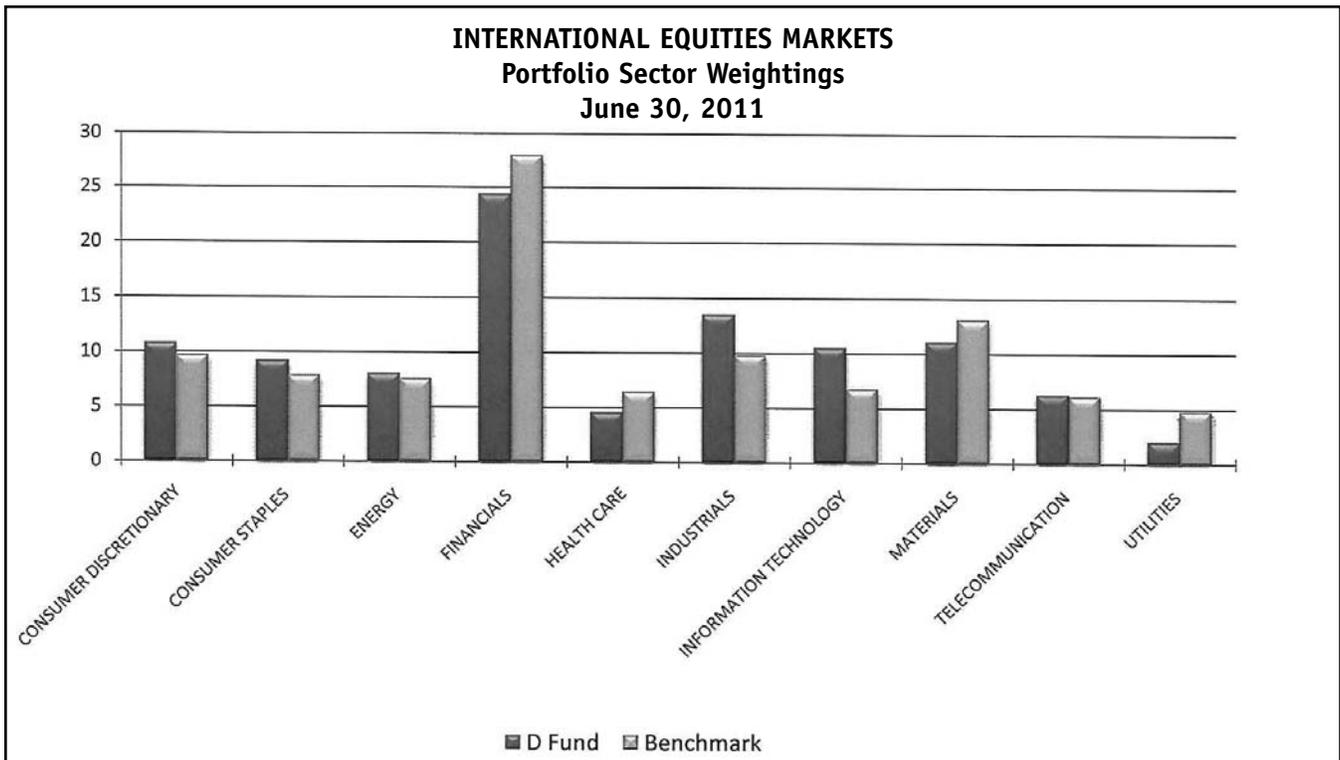
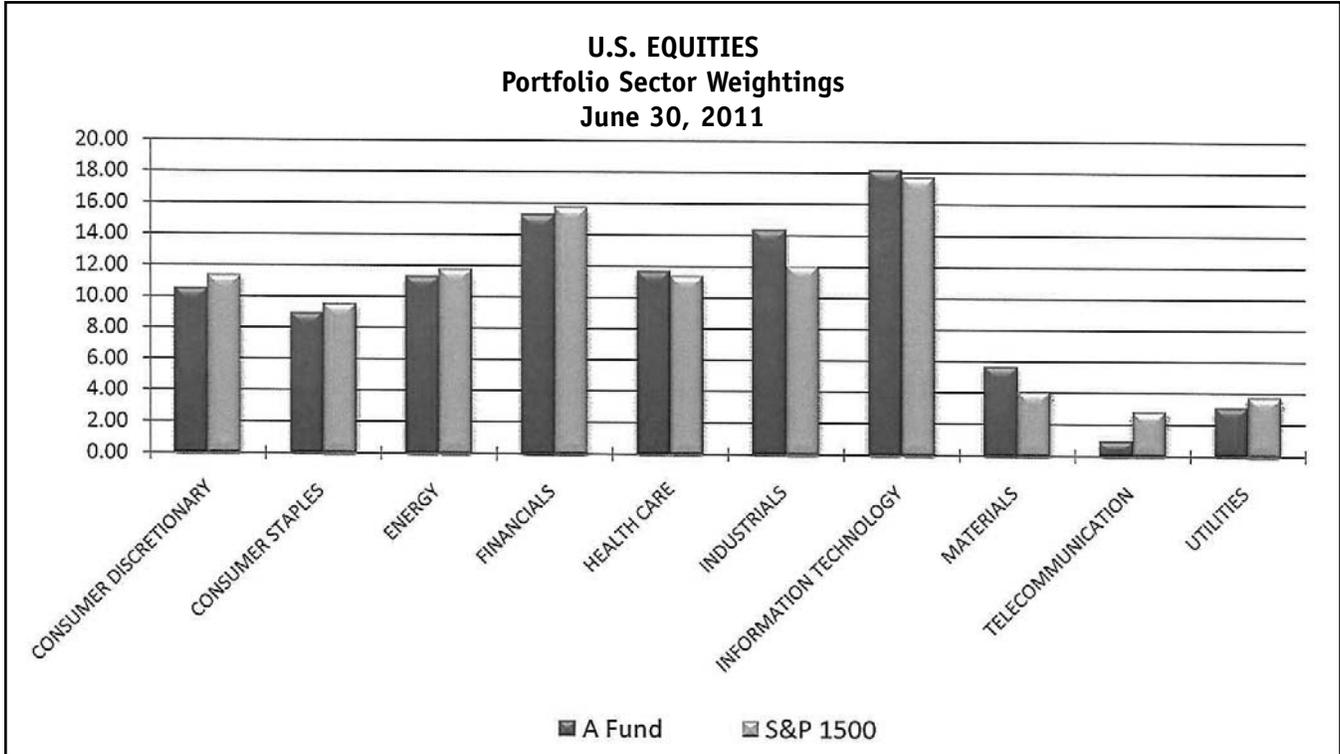
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DIVISION OF PENSIONS AND BENEFITS

LIST OF THE LARGEST ASSETS HELD
LARGEST DOMESTIC STOCK HOLDINGS (BY FAIR VALUE)
JUNE 30, 2011

	SHARES	STOCK	FAIR VALUE (USD)
1)	1,975,000	Apple Inc.	\$662,948,250
2)	6,887,834	Exxon Mobile Corp.	560,531,931
3)	14,200,000	Microsoft Corp.	369,200,000
4)	8,400,000	J.P. Morgan Chase & Co.	343,896,000
5)	17,122,000	General Electric Co.	322,920,920
6)	13,986,425	Pfizer Inc.	288,120,355
7)	7,935,909	Merck & Co., Inc.	280,058,229
8)	7,400,000	Oracle Corp.	243,534,000
9)	3,085,051	Conocophillips	231,964,985
10)	1,330,000	International Business Machines Corp.	228,161,500

LARGEST DOMESTIC BOND HOLDINGS (BY FAIR VALUE)
JUNE 30, 2011

	PAR	BONDS	COUPON	DUE	FAIR VALUE (USD)
1)	1,053,607,750	US Treasury Tips	1.125%	1/15/21	\$1,094,108,432
2)	670,189,000	US Treasury Tips	1.250	7/15/20	708,932,626
3)	500,000,000	US Treasury Bonds	6.000	2/15/26	622,345,000
4)	370,000,000	US Treasury Bonds	6.250	8/15/23	469,378,300
5)	363,721,888	US Treasury Tips	2.000	1/15/26	397,424,359
6)	334,029,000	US Treasury Tips	2.500	7/15/16	382,256,107
7)	135,000,000	Verizon Communications	8.950	3/1/39	190,574,100
8)	145,000,000	US Treasury Bonds	5.500	8/15/28	172,119,350
9)	295,000,000	US Treasury Strips	0.000	2/15/25	167,798,950
10)	300,000,000	US Treasury Strips	0.000	8/15/25	165,651,000

A complete listing of the portfolio is available on the Division of Investment's
Web site at www.state.nj.us/treasury/doinvest

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STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

LARGEST INTERNATIONAL STOCK HOLDINGS (BY FAIR VALUE)
JUNE 30, 2011

	SHARES	STOCK	FAIR VALUE (USD)
1)	13,550,000	IShares MSCI EAFE Index Fund	\$814,897,000
2)	14,500,000	IShares MSCI Emerging Markets	690,200,000
3)	7,107,200	Vanguard MSCI Emerging Markets	345,552,064
4)	32,284,703	HSBC Holdings PLC	320,526,015
5)	5,500,000	BHP Billiton PLC	216,511,098
6)	3,500,000	SAP AG Common	211,859,185
7)	2,750,000	Rio Tinto PLC	198,255,116
8)	35,989,040	Mitsubishi UFJ Financial Group	173,795,513
9)	1,000,000	Roche Holding AG Genusschein	167,102,138
10)	150,000	Givaudan (REG)	158,461,995

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DOMESTIC EQUITY TRADING FISCAL YEAR 2011

DOMESTIC EQUITY BROKERS	SHARES ⁽¹⁾	TOTAL COMMISSIONS ⁽¹⁾	COMMISSIONS PER SHARE
Capis	27,795,300	\$1,389,765	\$0.050
Istinet LLC	57,738,963	1,347,604	0.023
JP Morgan Securities Inc.	25,650,857	984,013	0.038
Sanford Bernstein & Co.	34,582,440	782,989	0.023
Citigroup/Citibank	19,070,649	735,908	0.039
Barclays Capital	16,887,369	657,000	0.039
UBS Warburg LLC	19,360,550	584,000	0.030
Morgan Stanley	17,750,215	571,000	0.032
Deutsche Bank Securities Inc.	15,305,557	499,021	0.033
Cowen and Co., LLC	12,001,879	480,000	0.040

⁽¹⁾ Excludes options written on approximately 32.3 million shares with total commissions of \$401,033.

INTERNATIONAL EQUITY TRADING FISCAL YEAR 2011

INTERNATIONAL EQUITY BROKERS	SHARES	TOTAL COMMISSIONS	COMMISSIONS PER SHARE
Credit Suisse Securities (USA) Inc.	90,442,560	\$1,739,643	\$0.019
Istinet LLC	121,700,031	940,176	0.008
Credit Agricole Chevreux	62,413,935	855,661	0.014
Morgan Stanley & Co.	163,518,827	771,002	0.005
Goldman Sachs & Co.	72,338,980	725,012	0.010
Merrill Lynch Pierce Fenner & Smith, Inc.	48,373,919	634,022	0.013
G-Trade Services Ltd.	133,232,037	613,057	0.005
Keefe Bruyette	57,984,670	580,108	0.010
Banca IMI Securities Corp.	11,000,000	557,566	0.051
Macquarie Capital (USA), Inc.	51,274,667	520,184	0.010

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