
INVESTMENT SECTION

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State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
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ANDREW P. SIDAMON-ERISTOFF
State Treasurer
FLORENCE J. SHEPPARD
Acting Director

June 30, 2010

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 policies 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 13 members, elected or appointed to fixed terms. Seven members are appointed by the Governor for staggered five-year terms, and are drawn traditionally from the corporate investment community. Six of these seven 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 three-year terms from nominees submitted by the New Jersey State AFL-CIO and the New Jersey Education Association. Four members are elected to the Council for three-year terms by the employee pension boards of the Public Employees' Retirement System, the Police and Firemen's Retirement System, the State Police Retirement System, and the Teachers' Pension and Annuity Trust. 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

INVESTMENTS

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 28% of the portfolio. The individual categories of private equity, real estate, real assets, and hedge funds are limited to 7%.

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.

INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

INVESTMENT RETURNS

	<u>2010</u>	<u>ANNUALIZED</u>	
		<u>3-YEAR</u>	<u>5-YEAR</u>
TOTAL PORTFOLIO ⁽³⁾	13.36%	-2.28%	3.71%
Equity Segment			
Common Pension Fund A (Domestic Equities)	15.77	-7.31	1.19
S&P 1500 Index	15.57	-9.43	-0.49
Common Pension Fund D (International Equities)	6.70	-9.75	3.06
Custom International Equity Markets Index ⁽¹⁾	8.33	-13.01	1.35
Fixed Income Segment			
Common Pension Fund B (Domestic Fixed Income)	16.75	10.74	7.18
Fixed Income Benchmark ⁽²⁾	16.49	9.43	5.57
Cash Management Fund	0.45	1.88	2.95
91-Day Treasury Bills	0.15	1.57	2.77
Alternative Investments Segment			
Common Pension Fund E	9.42	-5.56	N/A

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

⁽¹⁾ Prior to 4/1/2010, the benchmark was the Custom International Developed Markets Index. Starting on 4/1/2010, the benchmark was changed to Custom International Equity Index.

⁽²⁾ Benchmark is based on Barclays Capital Long Govt/Credit returns for 2010.

⁽³⁾ Excludes performance on Police & Fire Mortgages.

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

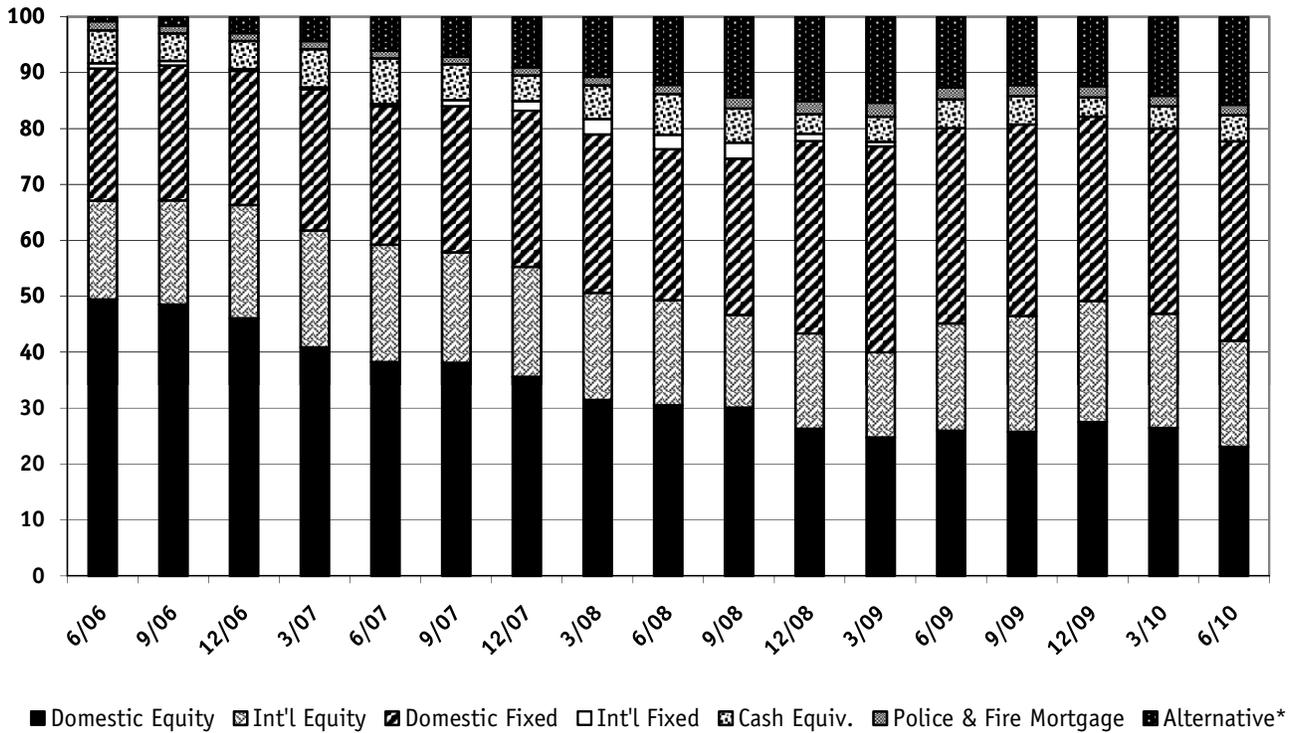
	<u>9/2009</u>		<u>12/2009</u>		<u>3/2010</u>		<u>6/2010</u>	
	<u>(MILS.)</u>	<u>%</u>	<u>(MILS.)</u>	<u>%</u>	<u>(MILS.)</u>	<u>%</u>	<u>(MILS.)</u>	<u>%</u>
Domestic Equity	17,571	25.8	18,437	27.5	17,978	26.5	15,454	23.1
International Equity	14,080	20.7	14,577	21.7	13,881	20.4	12,668	19.0
Domestic Fixed Income	23,241	34.2	22,054	32.9	22,467	33.1	23,814	35.6
International Fixed Income	32	0.0	32	0.0	29	0.0	--	0.0
Alternative Investments	8,274	12.2	8,317	12.4	9,543	14.0	10,469	15.7
Cash Equivalents/Other*	3,479	5.1	2,318	3.5	2,721	4.0	3,128	4.7
Police & Fire Mortgage	1,376	2.0	1,343	2.0	1,322	1.9	1,291	1.9
Total	68,053	100.0	67,078	100.0	67,941	100.0	66,824	100.0

* Including receivables and payables.

INVESTMENTS

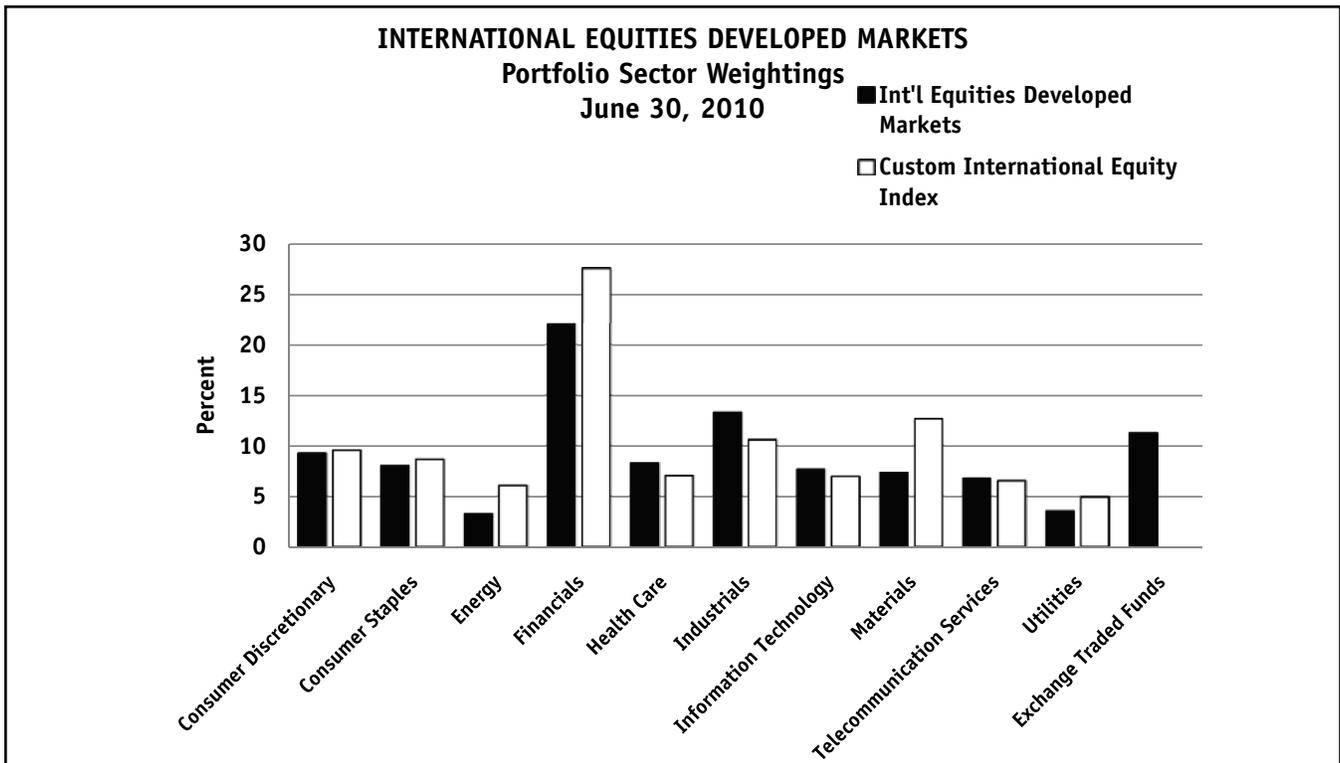
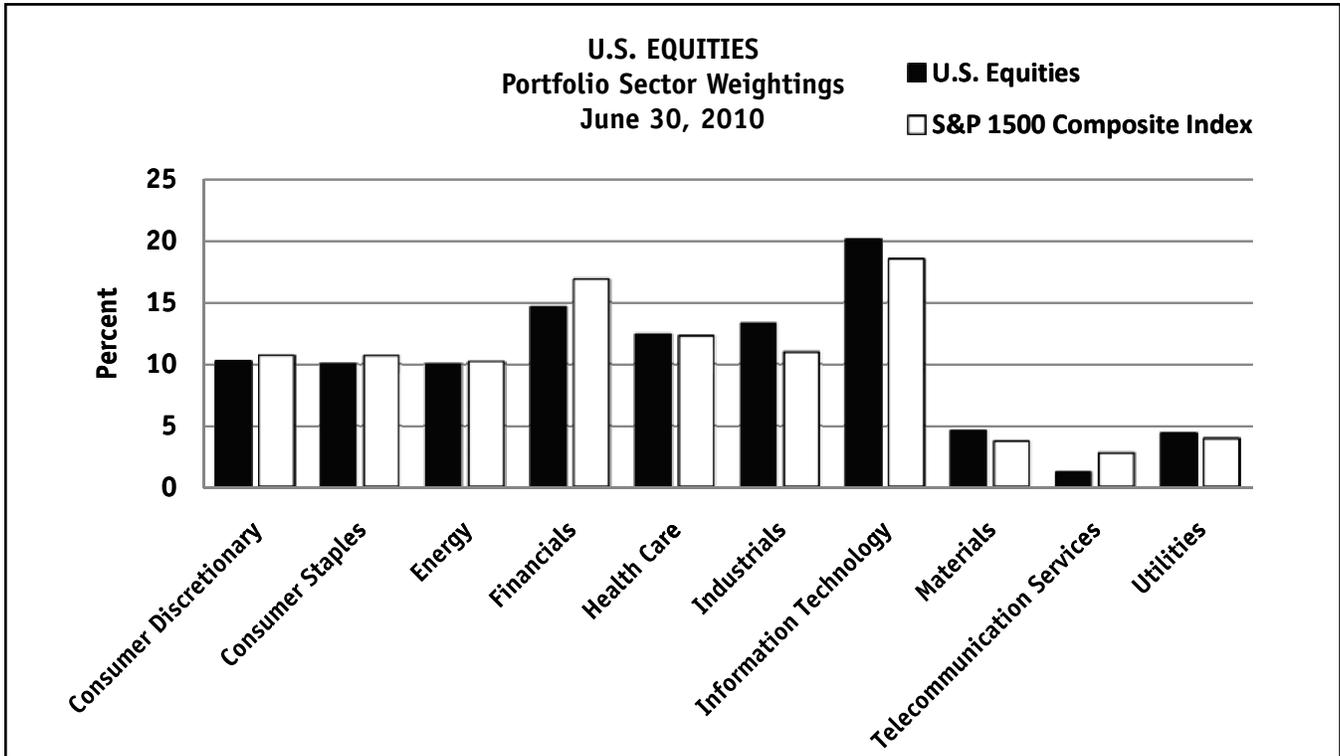
STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

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 THE LARGEST ASSETS HELD
LARGEST DOMESTIC STOCK HOLDINGS (BY MARKET VALUE)
JUNE 30, 2010

	SHARES	STOCK	MARKET VALUE (MIL)
1)	1,880,000	Apple Inc.	\$472.9
2)	6,697,834	Exxon Mobil Corp.	338.2
3)	14,700,000	Microsoft Corp.	338.2
4)	8,458,154	J.P. Morgan Chase & Co	309.7
5)	8,230,909	Merck & Co., Inc.	287.8
6)	3,929,945	Proctor & Gamble Co.	235.7
7)	13,393,615	Bank of America Corp.	192.5
8)	3,228,600	Johnson & Johnson	190.7
9)	412,000	Google Inc.	183.3
10)	1,420,000	International Business Machines Corp.	175.3

LARGEST DOMESTIC BOND HOLDINGS (BY MARKET VALUE)
JUNE 30, 2010

	PAR	BONDS	COUPON	DUE	RATING	MARKET VALUE (USD)
1)	610,000,000	US Treasury Bonds	2.000%	01/15/26	AAA	\$708,458,075
2)	395,300,000	US Treasury Bonds	3.625	04/15/28	AAA	689,509,049
3)	525,000,000	US Treasury Bonds	2.375	01/15/27	AAA	628,704,053
4)	460,000,000	US Treasury Bonds	2.375	01/15/25	AAA	590,136,507
5)	450,000,000	US Treasury Bonds	6.000	02/15/26	AAA	579,865,500
6)	535,000,000	US Treasury Tips	1.750	01/15/28	AAA	564,710,369
7)	249,000,000	US Treasury Bonds	3.875	04/15/29	AAA	443,100,390
8)	310,000,000	US Treasury Bonds	6.250	08/15/23	AAA	401,837,500
9)	550,000,000	US Treasury Strips	0.000	02/15/27	AAA	288,150,500
10)	188,000,000	US Treasury Bonds	7.125	02/15/23	AAA	260,291,640

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

INVESTMENTS

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

LARGEST INTERNATIONAL STOCK HOLDINGS (BY MARKET VALUE)
JUNE 30, 2010

	SHARES	STOCK	MARKET VALUE (USD)
1)	26,750,000	IShares S&P/TSX 60	\$418,472,327
2)	146,600,000	Vodafone GrPLC US	305,236,154
3)	32,000,000	HSBC Holdings PLC	294,567,681
4)	5,000,000	SAP AG	224,499,555
5)	1,500,000	Roche Holding AG	207,467,532
6)	1,750,000	Allianz SE (REG)	175,480,246
7)	4,362,200	Toyota Mortor Corp.	151,865,898
8)	2,500,000	Bayer AG Ord NPV	140,886,487
9)	5,000,000	Unilever PLC	134,741,851
10)	150,000	Givaudan (REG)	128,223,562

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INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

DOMESTIC EQUITY TRADING FISCAL YEAR 2010

DOMESTIC EQUITY BROKERS ⁽¹⁾	SHARES ⁽²⁾	TOTAL COMMISSIONS	COMMISSIONS PER SHARE
Labranche Financial Services	41,127,552	\$1,485,020	\$0.036
Instinet LLC	36,561,082	1,028,034	0.028
JP Morgan Securities Inc.	32,283,901	963,620	0.030
CAPIS	18,600,800	928,040	0.050
Sanford Berstein & Co.	20,565,159	819,382	0.040
Barclays Capital	23,476,055	809,662	0.034
Goldman Sachs & Company	34,443,500	784,684	0.023
Citigroup/Citibank	16,726,224	665,849	0.040
BNY Convergeex Exec Solutions	13,301,500	665,075	0.050
UBS Securities	20,024,351	629,540	0.031

⁽¹⁾ Includes International Company ADR's executed in U.S. dollars

⁽²⁾ Excludes options written on approximately 77.3 million shares

INTERNATIONAL EQUITY TRADING FISCAL YEAR 2010

INTERNATIONAL EQUITY BROKERS ⁽¹⁾	SHARES	TOTAL COMMISSIONS	COMMISSIONS PER SHARE
Credit Suisse Securities (USA) Inc.	137,522,686	\$1,863,356	\$0.014
Goldman Sachs & Co.	234,750,977	913,020	0.004
Macquarie Capital (USA), Inc.	32,946,195	733,497	0.022
Sanford Bernstein LLC	48,234,493	549,119	0.011
Calyon/CLSA	37,910,000	508,847	0.013
Morgan Stanley & Co.	85,836,040	492,616	0.006
JP Morgan Securities Inc.	36,550,979	492,246	0.013
Julius Baer Securities Inc.	9,329,591	432,292	0.046
Exane Inc.	15,276,631	379,513	0.025
Fidentiis Equities S.V.S.A.	27,044,705	348,263	0.013

⁽¹⁾ International Company ADR's executed in U.S. dollars are included in the Domestic Equity Brokers report

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