

***Investment
Section***

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

DONALD T. DiFRANCESCO
Acting Governor

PETER R. LAWRENCE
Acting State Treasurer

REVIEWS OF MAJOR POLICY ISSUES

The State Investment Council has established the investment objectives for the pension funds, which are as follows: “primary investment objectives are the preservation of capital and the realization over time of earnings sufficient to meet or exceed the regular interest rate established for the actuaries in their determination of the assets and liabilities of each pension fund system. The Council sets as a further investment objective the realization of the greatest possible returns on investment commensurate with the standards of risk and prudence set forth within the Regulations of the Council.”

At that time, the Council reviewed the stated objectives and discussed the possibility of amending them to include reference to specific market indices, the rate of inflation or percentile rankings of other managers. They also considered whether a higher risk profile for the portfolios would be appropriate, under the assumption that a diversified portfolio of higher risk securities could, in the aggregate, provide higher returns over the long term. The Council concluded that the pension funds’ primary objectives were preservation of capital and income, and that these requirements were inherent in the state prudence and pension laws.

The Council noted that its regulations had broadened the permissible investment universe of the Division in recent years to include options, real estate, conventional mortgages and a broader list of common stocks. The Council concluded that the present investment regulations provide for a satisfactory range of investment opportunities within the Council’s fiduciary standards, and that new investment opportunities could be considered in the traditional manner as they arose.

The Council also reviewed and confirmed the present standards for selecting stocks which are set forth below:

- a. The company should have growth in revenues and earnings which exceed growth in the Gross Domestic Product;
- b. The company should have a strong market franchise, unique products and proven marketing capability;
- c. The company’s management should have demonstrated the ability to preserve profit margins, to avoid earnings surprises and to take the needed initiatives to preserve and improve upon the company’s strengths;
- d. The company should have a capitalization which is not heavily leveraged, thereby allowing it more flexibility to finance future expansion; the company should not be



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unduly capital intensive, which might expose it to the necessities of raising capital at times when capital markets were unduly expensive; and, the company should demonstrate that it can generate capital internally for growth;

- e. The market for the company's shares should have enough liquidity to permit the orderly acquisition and disposition of a full position; and
- f. The company should have conservative accounting practices.

The standards are only meant to serve as guidelines. The Council agreed that not all companies on its approved list will meet all of these guidelines; however, a failure to meet most of these guidelines will be cause for concern. In addition, the Council believes that good corporate citizenship enhances the value of a company, and, conversely, that poor corporate citizenship detracts from a company's value.



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STATE INVESTMENT COUNCIL

REGULATORY POLICY DECISION FOR THE PENSION FUNDS

- Equity investment must be no more than 70% of the portfolio, including both international and domestic equities.
- International investment is limited to 22% of the portfolios, including both international stocks and bonds.
- International investment in both stocks and bonds is limited to countries which have at least one AA sovereign rating.
- All international investments may be hedged through currency transactions.
- Equity real estate investment is limited to 10% of the portfolio; however, investment in this area is restricted to REITs due to regulatory limitations.
- Unlimited investment is permitted in securities of U.S. Government and designated agencies. CMOs are limited by internal policy.
- Investment in domestic corporate bonds is limited to companies with a rating of Baa/BBB or better.
- Investment by the pension funds in mortgages is defined as pools of certain specified government agencies, with one regulation permitting investment in pools of conventional mortgages with specific credit guidelines.
- Investments in municipal bonds, commercial paper, repurchase agreements, certificates of deposits, bankers acceptances, etc. are all permitted by specific regulations which specify high credit standards and conservative investment limits.
- All investments in any one security are limited to a portion of the security issue, and thus all investments require co-investment ensuring diversification and market pricing.



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NEW JERSEY MAJOR INVESTMENT POLICY CHANGES

- 1983 - Council policy target raised from 25% to 35% for common stocks.
- 1985 - Council policy target raised to 40% common stocks over 2 years and established goal of 50% provided it could be accomplished without jeopardizing the "actuarial assumed interest rate."
- 1985 - So. Africa Divestment Law enacted.
- 1990 - Council policy to begin international investment (5%), small capitalization stocks (5%) and increase common stock target to 60% from 50%.
- 1991 - Pension Revaluation Law enacted. Moved actuarial method from book value (cost) to market value.
- 1991 - Council international policy target raised to 15% from 5%.
- 1994 - So. Africa Divestment repealed.
- 1994 - Pension Reform Law enacted. Change to Projected Unit Credit actuarial method from modified Entry Age Normal.
- 1995 - Council international investment policy limitation raised from 15% to 20%.
- 1995 - State Prudency Law amended to permit "Whole Plan Principle"; higher risk investments (venture capital, junk bonds, etc.) for the first time. Law also permitted investment in limited partnerships (real estate and private equities).
- 1995 - Council considered real estate and emerging markets and deferred action on both.
- 1996 - Council raised common stock maximum to 70%, including both domestic and foreign.
- 1998 - Council considered private equities and deferred action.
- 1999 - Council considered private equities, real estate and emerging markets and deferred action.
- 2000 - Council policy to begin emerging markets investment (2%), and raised the international policy target to 22%. Council considered high yield debt and deferred action.



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INVESTMENT RETURNS

	2001 (P)	Annualized	
		3-Year	5-Year
TOTAL PORTFOLIO	-10.4%	5.2%	11.8%
Equity Segment			
Domestic	-16.2	6.3	15.9
Approved List (US)	-17.2	4.0	14.1
S&P 1500	-12.8	4.6	14.5
S&P 500	-14.8	3.9	14.5
International	-28.8	-1.7	6.4
EAFE-USD	-23.5	-1.2	2.9
Fixed Income Segment			
Domestic	10.9	6.0	7.5
Lehman Brothers-Govt/Corp Index	11.1	6.0	7.4
International	-4.5	-0.7	1.4
SB World Govt Non US-Unhedged	-7.4	-0.2	0.5
Mortgages	11.3	6.6	8.0
Lehman Mortgage Index	10.5	6.5	7.5
Cash Management Fund	6.2	5.8	5.8
91-Day Treasury Bills	5.6	5.2	5.2

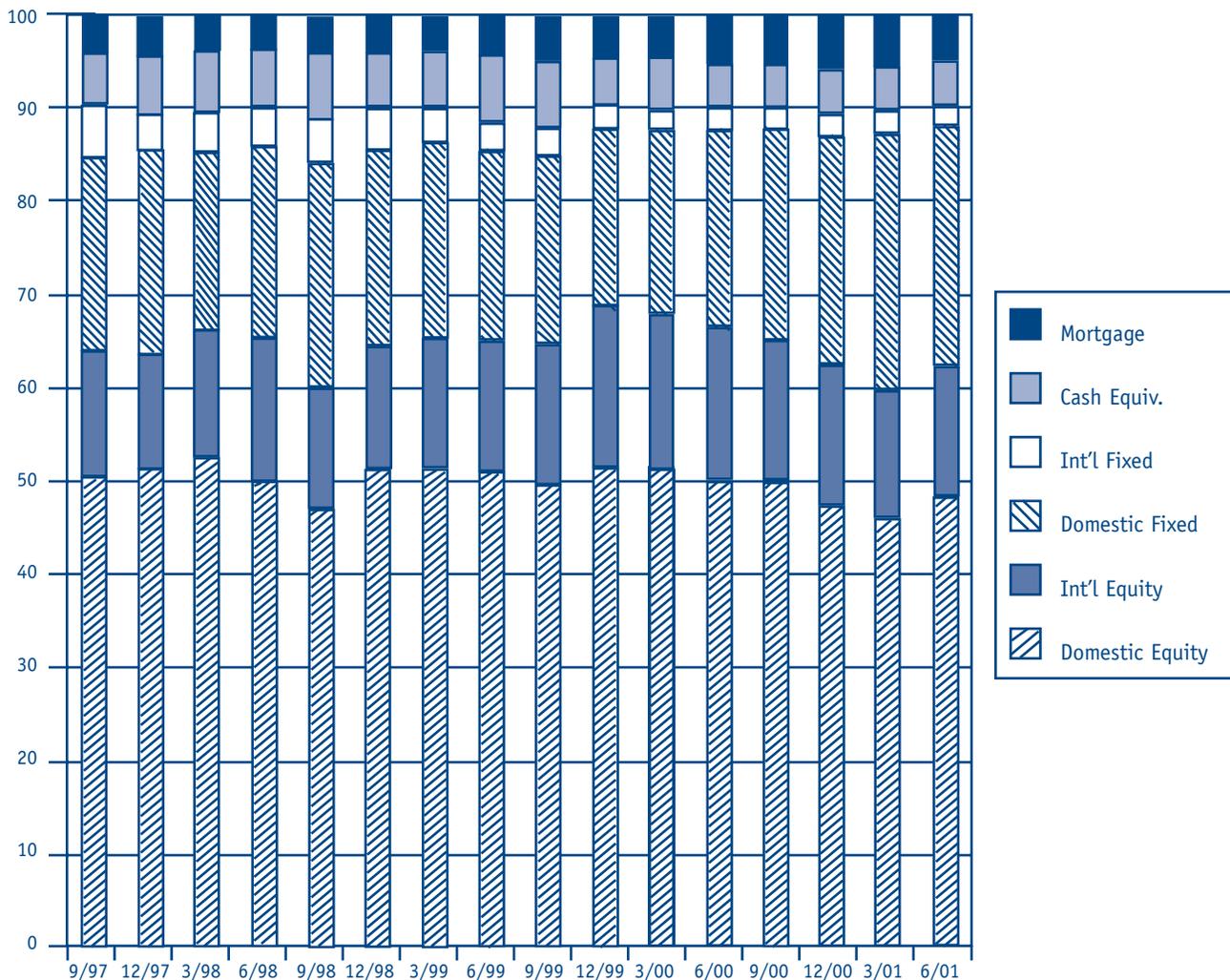
(P) Preliminary



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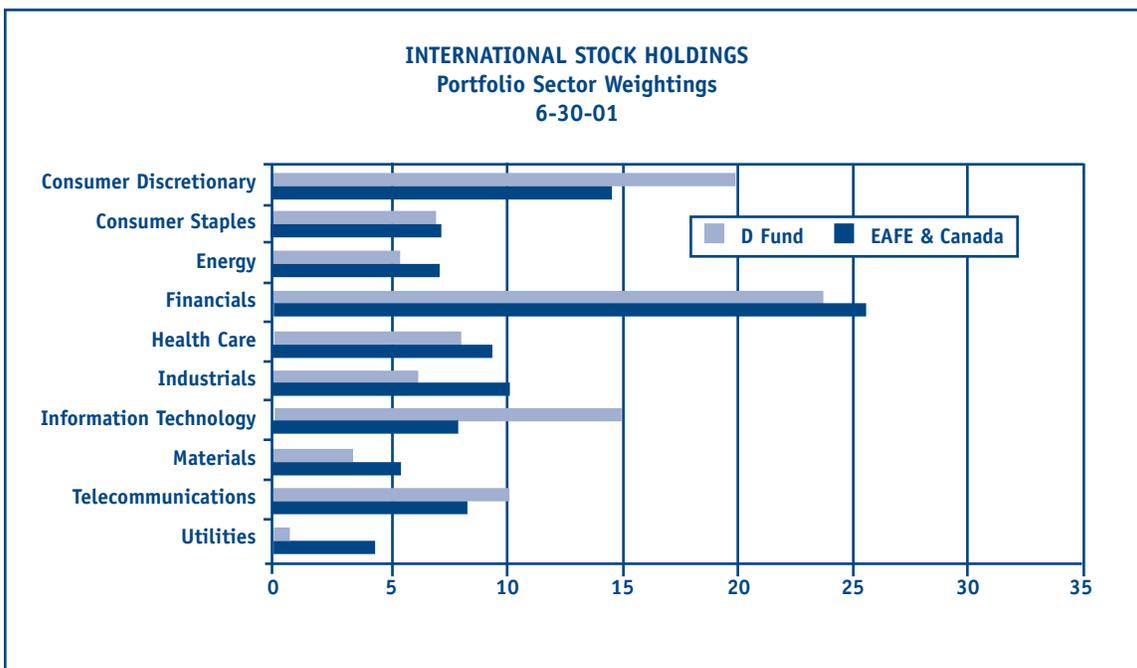
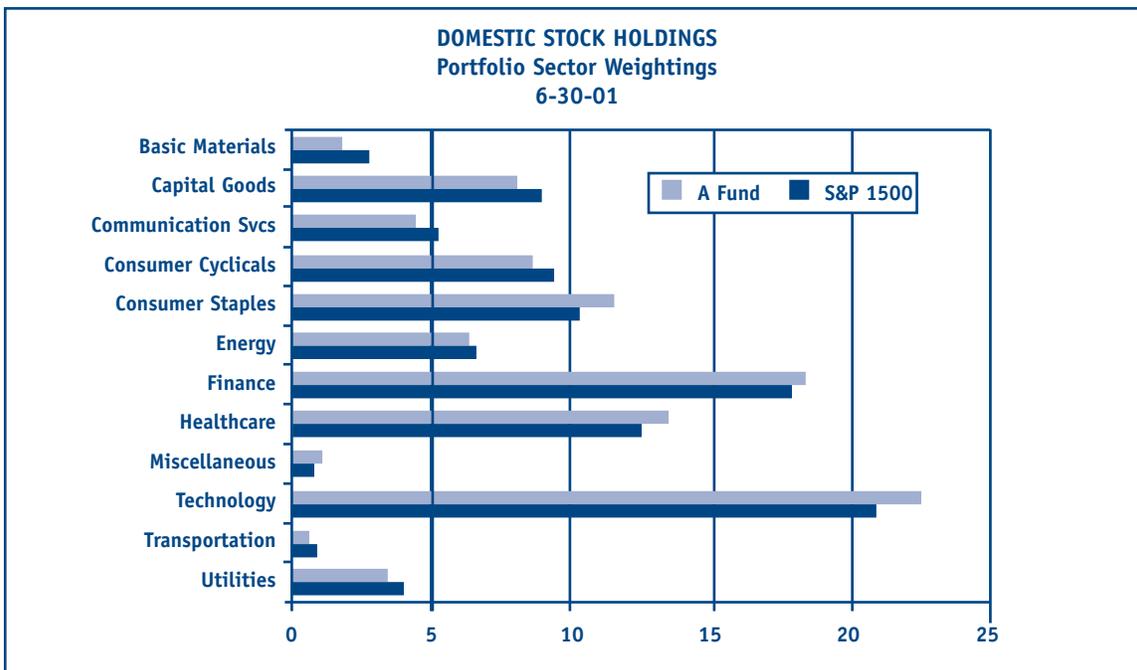
STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

STATE OF NEW JERSEY COMPOSITE ASSET ALLOCATION HISTORY



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LIST OF LARGEST ASSETS HELD

Largest Domestic Stock Holdings (by Market Value)

June 30, 2001

	Shares	Stock	Market Value (Mil)
1)	29,921,712	General Electric Co.	\$ 1,458.7
2)	19,511,000	Microsoft Corp.	1,424.3
3)	19,508,565	AOL Time Warner Inc.	1,034.0
4)	17,699,601	Citigroup	935.2
5)	9,843,632	Exxon Mobil Corp.	859.8
6)	21,419,185	Pfizer Inc.	857.8
7)	14,485,000	Wal-Mart Stores, Inc.	706.9
8)	8,302,647	American International Group Inc.	705.8
9)	10,228,000	Merck & Co. Inc.	653.7
10)	5,303,000	International Business Machines Corp.	599.2

Largest Domestic Bond Holdings (by Market Value)

June 30, 2001

	Par	Bonds	Coupon	Due	Rating	Market Value (USD)
1)	549,600,000	US Treasury Bonds	7.250%	05/15/16	AAA	\$626,027,376
2)	534,000,000	US Treasury Bonds	7.500%	11/15/16	AAA	622,110,000
3)	375,000,000	US Treasury Bonds	9.375%	02/15/06	AAA	442,207,500
4)	327,000,000	US Treasury Notes	6.000%	08/15/09	AAA	343,143,990
5)	325,000,000	Federal Home Loan Mtge. Corp.	5.250%	01/15/06	AAA	321,444,500
6)	303,200,000	US Treasury Bonds	6.250%	08/15/23	AAA	315,515,984
7)	292,500,000	US Treasury Bonds	6.500%	11/15/26	AAA	314,984,475
8)	238,800,000	US Treasury Note	7.250%	08/15/04	AAA	256,337,472
9)	250,000,000	Federal Farm Credit Bank	6.625%	02/01/02	AAA	253,905,000
10)	237,800,000	US Treasury	6.500%	08/15/05	AAA	251,732,702

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



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Largest International Stock Holdings (by Market Value) June 30, 2001

	Shares	Stock	Market Value (USD)
1)	4,000,000	Canon Inc.	\$ 161,642,880
2)	71,075,211	Vodafone Group PLC	157,422,950
3)	2,630,500	Vivendi Universal	153,327,065
4)	17,996,030	BP PLC	147,921,245
5)	3,000,000	Takeda Chemical Industries, Ltd.	139,513,200
6)	949,572	Total Fina Elf S.A.	132,965,808
7)	8,000,000	Pearson PLC	131,852,063
8)	4,525,000	AXA S.A.	128,908,105
9)	1,800,000	Sony Corp.	118,345,680
10)	3,490,910	Bouygues S.A.	117,979,284

Largest International Bond Holdings (by Market Value) June 30, 2001

	Par (Local)	Bonds	Coupon	Due	Market Value (USD)
1)	110,000,000	UK Treasury	7.000%	06/07/02	\$156,932,924
2)	12,000,000,000	Intl Bank of Reconstruction & Development	5.250%	03/20/02	99,775,992
3)	100,000,000	Italy Government	4.750%	07/01/05	84,769,728
4)	55,000,000	UK Government GILT	7.000%	11/06/01	77,816,764
5)	50,000,000	UK Treasury GILT	7.500%	12/07/06	76,894,953
6)	7,000,000,000	Intl Bank of Reconstruction & Development	4.500%	03/20/03	60,391,576
7)	52,407,417	German Government	8.000%	07/22/02	46,031,744
8)	50,000,000	Freddie Mac Senior	5.750%	09/15/10	43,278,023
9)	50,000,000	Freddie Mac 5 Year	5.250%	01/15/06	42,977,482
10)	50,000,000	Freddie Mac - Euro	4.500%	03/15/04	42,283,272

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DOMESTIC EQUITY TRADING

Brokerage Firm	Number of Shares Traded	Total Commissions*	Commissions Per Share
Reuters Instinet	67,901,000	\$2,037,030	\$0.03
Lehman Brothers	31,733,500	1,586,675	0.05
Merrill Lynch	21,662,340	1,083,117	0.05
Schwab/Mayer	20,409,320	1,020,466	0.05
Francis Maglio	38,710,080	967,752	0.025
Griswold	28,339,320	708,483	0.025
Mogavero Lee & Co.	23,845,640	596,141	0.025
Josephthal	11,686,760	584,338	0.05
Cuttone	21,665,360	541,634	0.025
Princeton Securities	17,994,680	449,867	0.025

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

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