

***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  
*State Treasurer*

June 30, 2002

## 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;



## INVESTMENTS

- 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 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.



# INVESTMENTS

## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

### STATE INVESTMENT COUNCIL

#### REGULATORY POLICY DECISIONS 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, except for five emerging markets countries.
- 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 competitive market pricing.



# INVESTMENTS

## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

### 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.
- 2001 - Council considered high yield debt, private equities and real estate and deferred action.



# INVESTMENTS

## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

### INVESTMENT RETURNS

	2002 (P)	Annualized	
		3-Year	5-Year
<b>TOTAL PORTFOLIO</b>	-9.0%	-3.0%	5.4%
<b>Equity Segment</b>			
Domestic	-20.4	-9.3	4.6
Approved List (US)	-17.8	-9.1	3.8
S&P 1500	-16.5	-7.7	4.3
S&P 500	-18.0	-9.2	3.7
International	-9.7	-6.7	0.5
EAFE-USD	-9.0	-6.7	-1.5
<b>Fixed Income Segment</b>			
Domestic	9.2	8.1	7.7
Lehman Brothers-Govt/Credit Index	8.2	7.9	7.5
International	16.6	3.5	3.4
SB World Govt Non US-Unhedged	15.7	3.1	3.0
Mortgages	9.9	8.8	8.0
Lehman Mortgage Index	9.0	8.1	7.5
Cash Management Fund	3.1	5.0	5.3
91-Day Treasury Bills	2.7	4.5	4.7

(P) Preliminary

Note: Above information is based on AIMR Performance Presentation Standards.

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

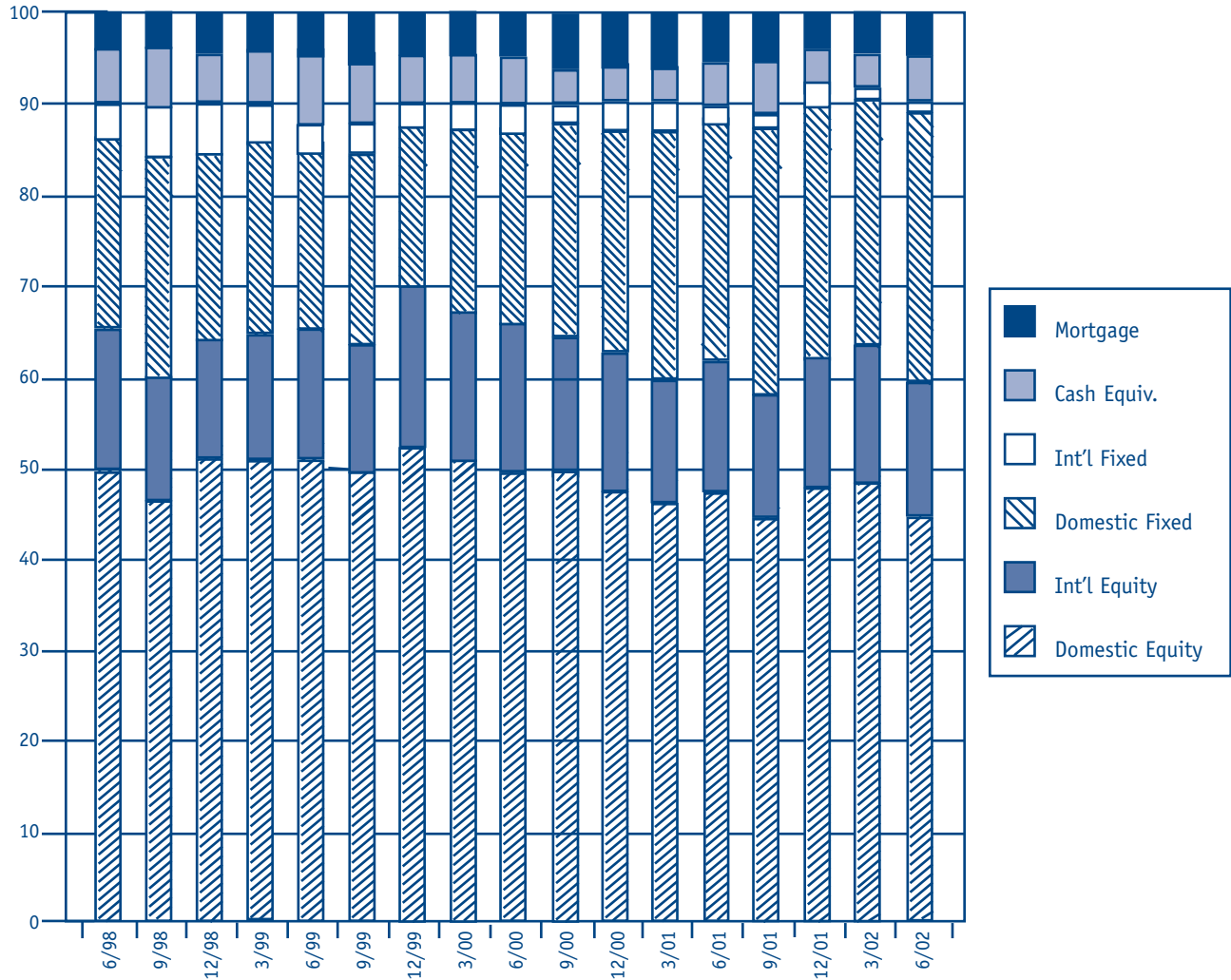
	9/2001		12/2001		3/2002		6/2002	
	(MILS.)	%	(MILS.)	%	(MILS.)	%	(MILS.)	%
Domestic Equity	29,744	45.5	33,911	49.3	33,581	49.4	28,696	45.4
International Equity	8,564	13.1	9,492	13.8	10,333	15.2	9,860	15.6
Domestic Fixed	18,958	29.0	18,228	26.5	17,878	26.3	17,824	28.2
International Fixed	1,111	1.7	1,238	1.8	884	1.3	632	1.0
Cash Equivalents	3,595	5.5	3,370	4.9	2,311	3.4	3,160	5.0
Mortgage	3,399	5.2	2,545	3.7	2,991	4.4	3,034	4.8
Total	65,371	100.0	68,784	100.0	67,978	100.0	63,206	100.0



# INVESTMENTS

## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

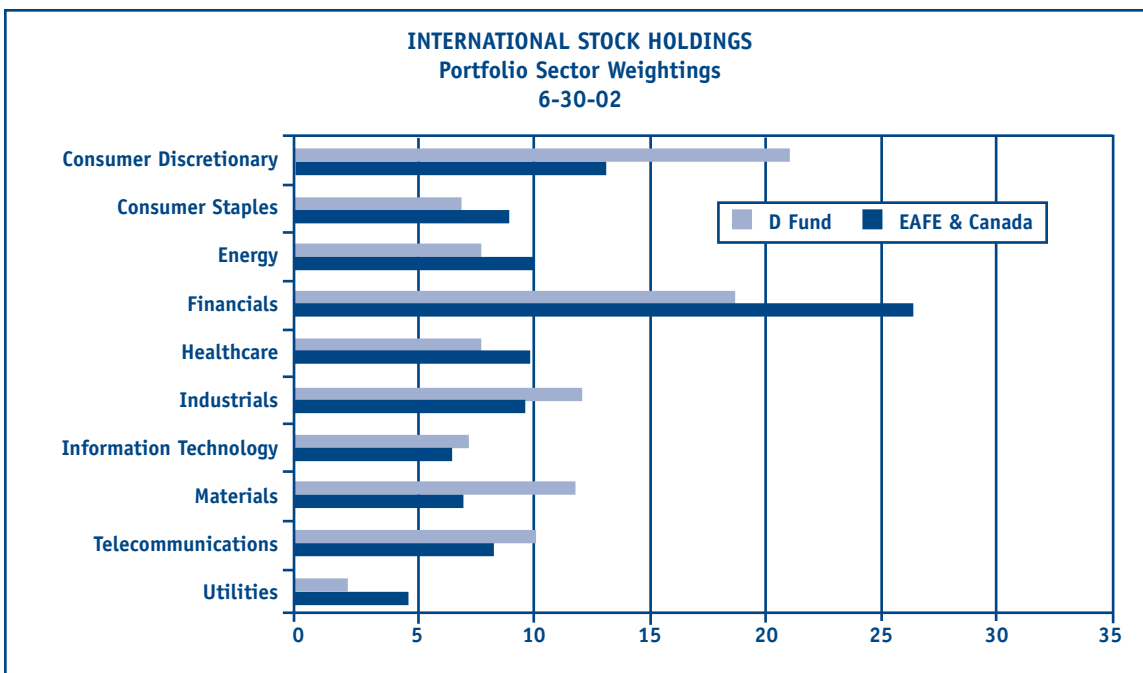
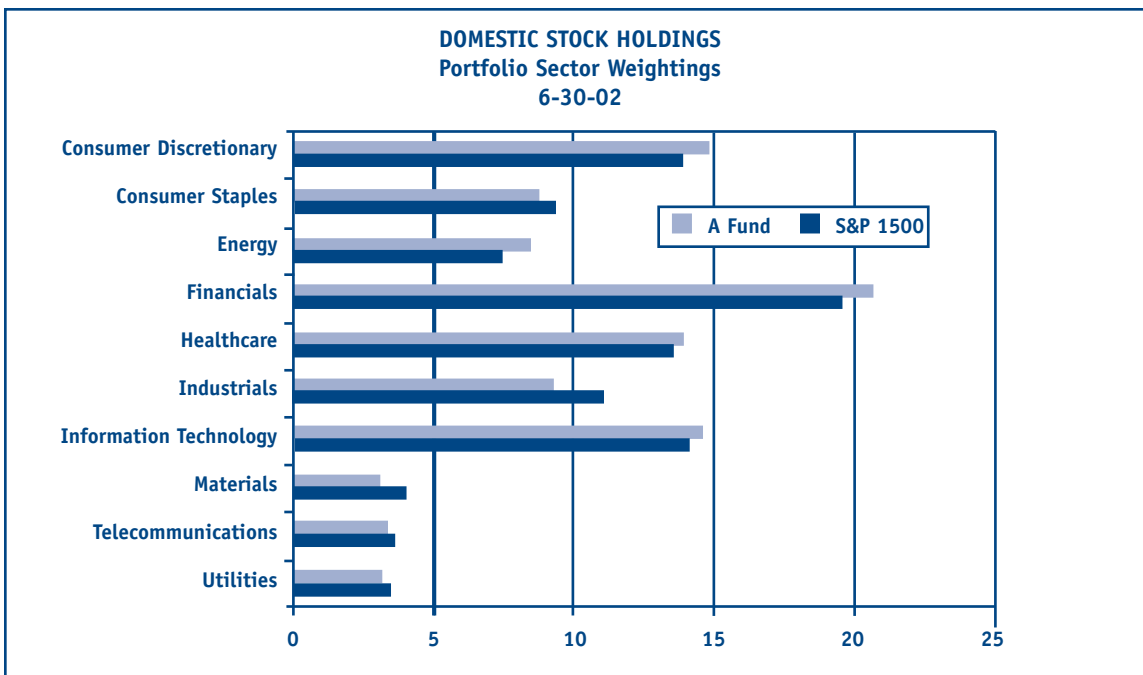
STATE OF NEW JERSEY  
COMPOSITE ASSET ALLOCATION HISTORY





# 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, 2002

	Shares	Stock	Market Value (Mil)
1)	19,789,000	Microsoft Corp.	\$1,082.5
2)	29,336,712	General Electric Co.	852.2
3)	19,632,264	Exxon Mobil Corp.	803.4
4)	21,284,185	Pfizer Inc.	744.9
5)	13,054,000	Wal-Mart Stores, Inc.	718.1
6)	17,594,601	Citigroup	681.8
7)	8,993,329	American International Group Inc.	613.6
8)	10,778,000	Merck & Co. Inc.	545.8
9)	5,343,000	International Business Machines Corp.	384.7
10)	6,707,496	Lilly (Eli) & Co.	378.3

#### Largest Domestic Bond Holdings (by Market Value)

June 30, 2002

	Par	Bonds	Coupon	Due	Rating	Market Value (USD)
1)	549,600,000	US Treasury Bonds	7.250%	05/15/16	AAA	\$647,670,624
2)	534,000,000	US Treasury Bonds	7.500%	11/15/16	AAA	642,636,960
3)	500,000,000	US Treasury Notes	5.000%	08/15/11	AAA	506,875,000
4)	277,500,000	US Treasury Notes	6.250%	02/15/07	AAA	303,690,450
5)	283,200,000	US Treasury Bonds	6.250%	08/15/23	AAA	303,465,792
6)	265,250,000	US Treasury Notes	6.125%	08/15/07	AAA	289,122,500
7)	230,000,000	Federal Home Loan Mtge. Corp.	7.000%	07/15/05	AAA	251,562,500
8)	250,000,000	Verizon NJ Inc.	5.875%	01/17/12	A+	233,537,500
9)	175,000,000	US Treasury Bonds	8.125%	08/15/19	AAA	224,164,500
10)	175,000,000	US Treasury Bonds	9.375%	02/15/06	AAA	208,523,000

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, 2002

	Shares	Stock	Market Value (USD)
1)	15,520,000	BP PLC	\$ 130,338,668
2)	4,355,040	Philips Electronics (Kon)	121,585,012
3)	14,000,000	Barclays ORD	117,786,923
4)	2,000,000	Carrefour	108,236,225
5)	10,000,000	Skandinaviska Enskilda Banken	104,999,720
6)	150,000	Serono AG	98,871,189
7)	2,350,000	Astrazeneca Group	97,280,902
8)	1,000,000	Gucci Group NV NY	94,610,000
9)	450,000	Allianz AG	90,857,695
10)	20,000,000	Unicredito Iliano	90,460,203

### Largest International Bond Holdings (by Market Value) June 30, 2002

	Par (Local)	Bonds	Coupon	Due	Market Value (USD)
1)	275,000,000	Government of Canada	5.750%	06/01/03	\$184,844,510
2)	100,000,000	Italy Government	4.750%	07/01/05	100,069,131
3)	35,000,000	UK Treasury (Gilt)	7.500%	12/07/06	58,546,715
4)	6,000,000,000	Intl Bank of Reconstruction & Development	4.750%	12/20/04	55,850,380
5)	50,000,000	European Investment Bank	3.875%	04/15/05	48,943,315
6)	50,000,000	European Investment Bank	4.000%	01/15/07	48,123,643
7)	36,587,764	Belgium Kingdom	5.750%	03/28/08	37,931,893
8)	300,000,000	Sweden Kingdom	5.000%	01/28/09	32,086,826
9)	30,000,000	Belgium Kingdom	3.750%	03/28/09	27,721,707
10)	110,000,000	Finland Government	9.500%	03/15/04	19,872,567

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### DOMESTIC EQUITY TRADING

Fiscal Year 2002

<b>Brokerage Firm</b>	<b>Number of Shares Traded</b>	<b>Total Commissions*</b>	<b>Commissions Per Share</b>
Instinet Group	77,163,376	\$1,553,234	\$0.020
Griswold	49,354,740	1,269,093	0.026
Francis Maglio	36,779,460	955,811	0.026
Lehman Brothers	19,004,325	858,451	0.045
Princeton Securities	30,924,400	823,165	0.027
Mogavero Lee & Co.	31,128,172	821,126	0.026
Autranet	15,790,217	716,805	0.045
Execution Services	13,713,840	663,257	0.048
KVX Execution Services	24,790,383	646,384	0.026
Merrill Lynch	14,236,700	605,823	0.043

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

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