
INVESTMENT SECTION

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State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
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www.state.nj.us/treasury/pensions

JON S. CORZINE
Governor

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Trenton, New Jersey
R. DAVID ROUSSEAU
Acting State Treasurer
FREDERICK J. BEAVER
Director

June 30, 2008

REVIEWS OF MAJOR POLICY ISSUES

The Division, under the jurisdiction of the State Investment Council (the "Council"), has the investment responsibility for over 180 funds, including seven pension and annuity funds. The Council includes thirteen persons appointed to fixed terms. Four employee representatives are appointed by their respective pension fund boards (Public Employees' Retirement System, State Police Retirement System, Teachers' Pension and Annuity Fund, and the Police and Fireman's Retirement System of New Jersey) for three-year terms. Two additional employee representatives are appointed by the Governor from candidates nominated by the Public Employee Committee of the State AFL-CIO and the NJEA for terms of five years. Six 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 (except for the two additional employee representatives discussed above) 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 returns generated by the pension funds contribute 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.

To the best of our knowledge, 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.

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

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

- 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 corporate obligations, finance company debt, bank debentures, 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.

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

| | 2008 | ANNUALIZED | |
|--|--------|------------|--------|
| | | 3-YEAR | 5-YEAR |
| TOTAL PORTFOLIO | -2.66% | 7.78% | 9.22% |
| Equity Segment | | | |
| Domestic Equities (Common Pension Fund A) | -10.15 | 6.17 | 8.92 |
| S&P 1500 Index | -12.72 | 4.65 | 8.15 |
| S&P 500 Index | -13.12 | 4.41 | 7.58 |
| International Equities (Common Pension Fund D) | -9.97 | 14.15 | 17.69 |
| MSCI EAFE Index ex-Prohibited ¹ | -11.53 | 12.54 | 16.48 |
| Fixed Income Segment | | | |
| Domestic Fixed Income (Common Pension Fund B) | 9.06 | 4.34 | 3.93 |
| Fixed Income Benchmark ² | 6.78 | 3.32 | 3.05 |
| Mortgages | 7.90 | 5.38 | 4.39 |
| Lehman Mortgage Index | 7.82 | 5.62 | 5.04 |
| Cash Management Fund | 4.20 | 4.66 | 3.46 |
| 91-Day Treasury Bills | 3.32 | 4.11 | 3.06 |

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

¹Benchmark is based on MSCI EAFE ex-Prohibited return for 2007. Annualized 3-year and 5-year returns are based on MSCI EAFE returns for 2003 to 2006 and MSCI EAFE ex-Prohibited return for 2007 to 2008.

²Benchmark is based on Lehman Long Govt/Credit returns for 2008. Annualized 3-year and 5-year returns are based on Lehman Govt/Credit returns for 2003 to 2006, and Lehman Long Govt/Credit returns for 2007 to 2008.

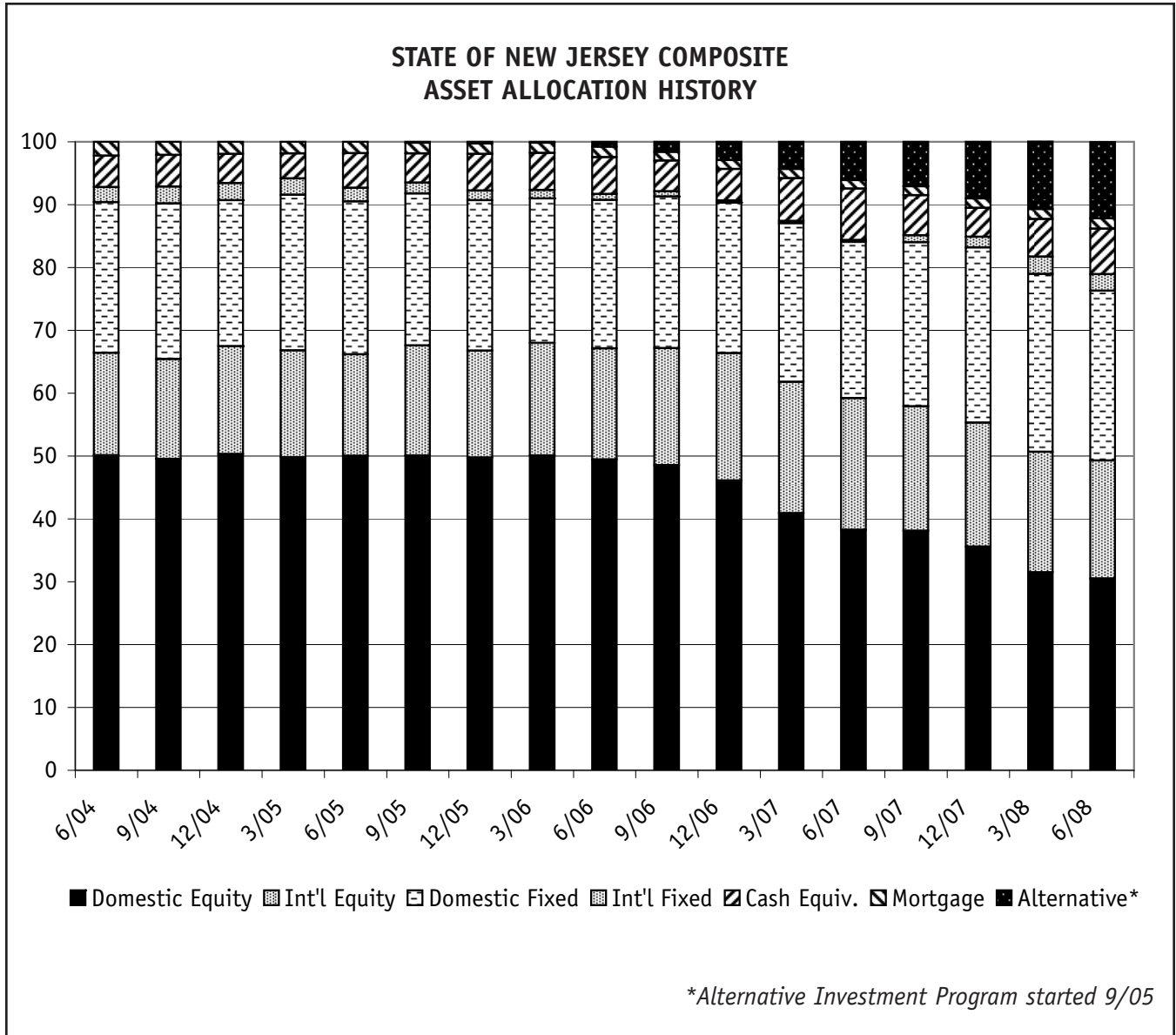
FAIR VALUE AND THE PERCENT OF TOTAL FAIR VALUE FOR EACH MAJOR TYPE OF INVESTMENT

| | 9/2007 | | 12/2007 | | 3/2008 | | 6/2008 | |
|----------------------------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|--------------|
| | (MILS.) | % | (MILS.) | % | (MILS.) | % | (MILS.) | % |
| Domestic Equity | 31,558 | 38.1 | 28,903 | 35.6 | 24,560 | 31.5 | 23,850 | 30.5 |
| International Equity | 16,365 | 19.8 | 15,986 | 19.7 | 14,949 | 19.2 | 14,690 | 18.8 |
| Domestic Fixed Income | 21,622 | 26.1 | 22,695 | 27.9 | 22,044 | 28.3 | 21,147 | 27.0 |
| International Fixed Income | 895 | 1.1 | 1,420 | 1.7 | 2,165 | 2.8 | 2,081 | 2.7 |
| Alternative Investments | 5,882 | 7.1 | 7,304 | 9.0 | 8,369 | 10.7 | 9,481 | 12.1 |
| Cash Equivalents* | 5,297 | 6.4 | 3,751 | 4.6 | 4,655 | 6.0 | 5,664 | 7.2 |
| Mortgage | 1,161 | 1.4 | 1,208 | 1.5 | 1,240 | 1.6 | 1,288 | 1.6 |
| Total | 82,780 | 100.0 | 81,267 | 100.0 | 77,982 | 100.0 | 78,201 | 100.0 |

* Including net payable on securities purchased but not settled and other miscellaneous receivables and payables.

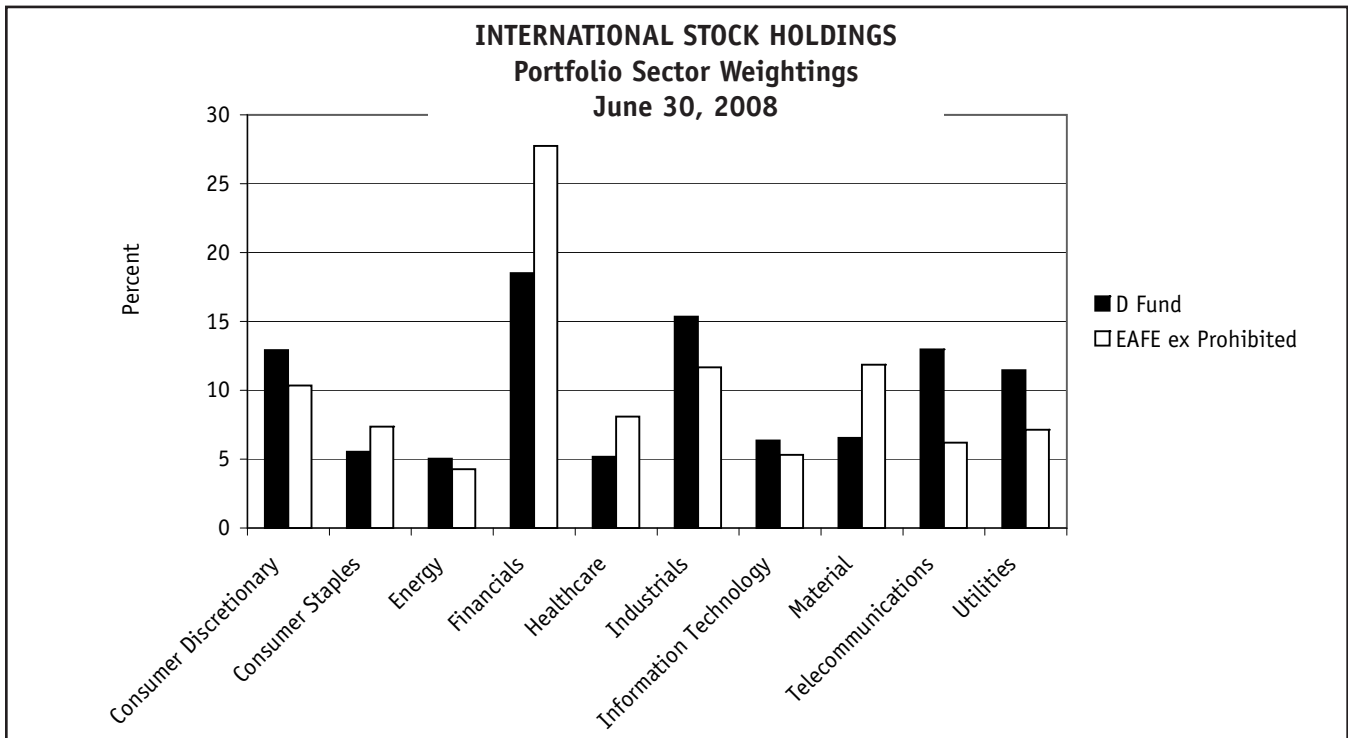
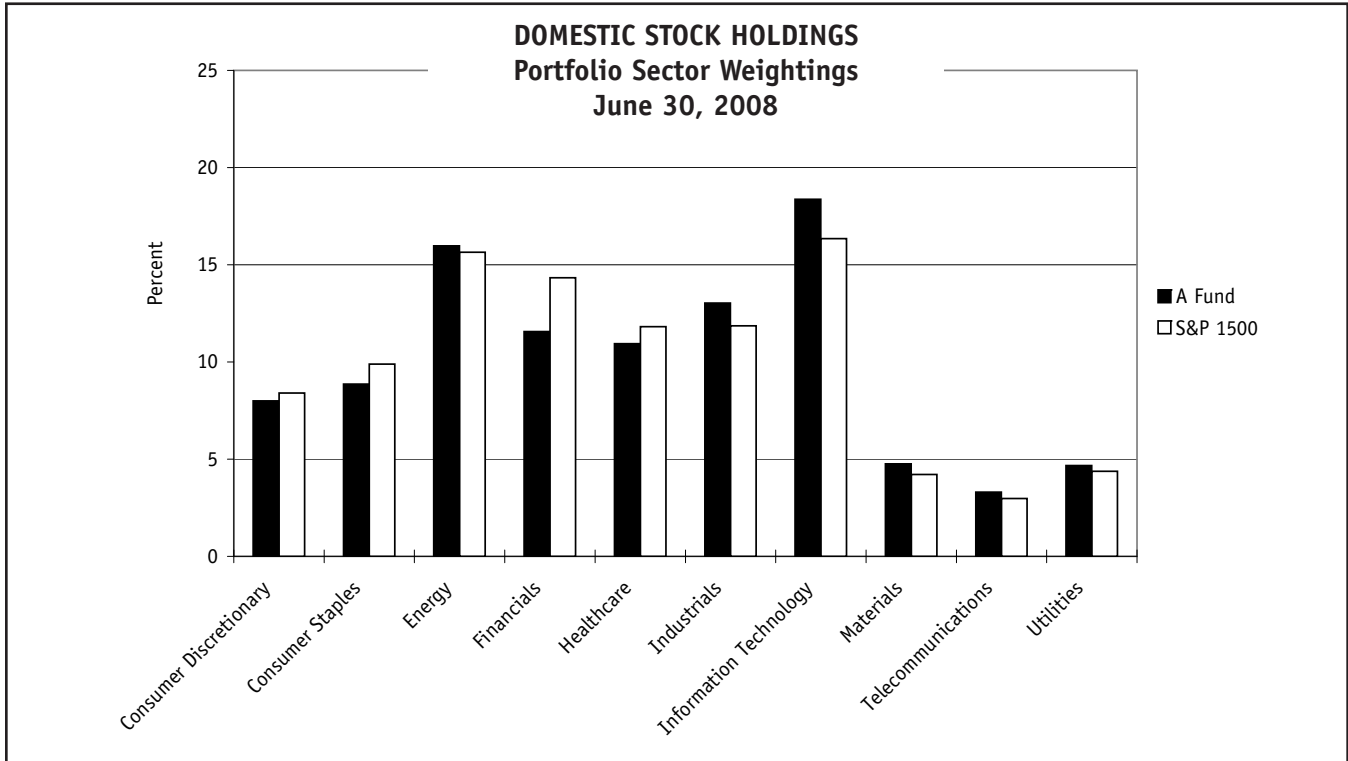
INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS



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, 2008

| | SHARES | STOCK | MARKET VALUE (MIL) |
|-----|------------|-------------------------|-----------------------|
| 1) | 10,036,264 | Exxon Mobil Corp. | \$884.5 |
| 2) | 23,700,000 | Microsoft Corp. | 652.0 |
| 3) | 2,310,000 | Apple, Inc. | 386.8 |
| 4) | 5,732,000 | Proctor & Gamle Co. | 348.6 |
| 5) | 8,000,000 | Citigroup NC CONV | 346.0 |
| 6) | 3,391,400 | Chevron Corp. | 336.2 |
| 7) | 5,118,600 | Johnson & Johnson | 329.3 |
| 8) | 3,112,051 | ConocoPhillips | 293.7 |
| 9) | 7,928,154 | J.P. Morgan Chase & Co. | 272.0 |
| 10) | 12,300,000 | Intel Corp. | 264.2 |

LARGEST DOMESTIC BOND HOLDINGS (BY MARKET VALUE)

JUNE 30, 2008

| | PAR | BONDS | COUPON | DUE | RATING | MARKET VALUE (USD) |
|-----|-------------|-------------------|--------|----------|--------|-----------------------|
| 1) | 630,000,000 | US Treasury Bonds | 2.375% | 01/15/25 | AAA | \$752,842,251 |
| 2) | 640,000,000 | US Treasury Bonds | 2.000 | 01/15/26 | AAA | 686,668,800 |
| 3) | 630,000,000 | US Treasury Bonds | 5.250 | 02/15/29 | AAA | 683,499,600 |
| 4) | 410,000,000 | US Treasury Bonds | 3.625 | 04/15/28 | AAA | 679,415,334 |
| 5) | 535,000,000 | US Treasury Bonds | 6.000 | 02/15/26 | AAA | 626,575,950 |
| 6) | 415,000,000 | US Treasury Bonds | 2.375 | 01/15/27 | AAA | 463,366,175 |
| 7) | 358,200,000 | US Treasury Bonds | 6.250 | 08/15/23 | AAA | 426,175,614 |
| 8) | 360,000,000 | US Treasury Bonds | 5.500 | 08/15/28 | AAA | 401,767,200 |
| 9) | 214,000,000 | US Treasury Bonds | 3.875 | 04/15/29 | AAA | 363,314,524 |
| 10) | 200,000,000 | US Treasury Bonds | 7.250 | 08/15/22 | AAA | 257,688,000 |

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, 2008

| | SHARES | STOCK | MARKET VALUE (USD) |
|-----|-------------|-----------------------------|-----------------------|
| 1) | 137,000,000 | Vodafone Gr PLC US | \$406,709,036 |
| 2) | 30,000,000 | BP PLC | 348,269,946 |
| 3) | 5,500,000 | SAP AG | 288,242,607 |
| 4) | 9,000,000 | France Telecom SA | 265,331,945 |
| 5) | 9,500,000 | Telefonica SA Eur 1.0 | 252,679,082 |
| 6) | 1,400,000 | Allianz SE (REG) | 246,848,996 |
| 7) | 8,000,000 | Enagas SA | 226,900,647 |
| 8) | 3,057,436 | Julius Baer Holding AG-B | 207,171,839 |
| 9) | 3,100,000 | Red Electrica Corp. SA | 201,980,969 |
| 10) | 2,000,000 | Yara International NOK 1.70 | 177,151,050 |

LARGEST INTERNATIONAL BOND HOLDINGS (BY MARKET VALUE) JUNE 30, 2008

| | PAR (LOCAL) | BONDS | COUPON | DUE | MARKET VALUE (USD) |
|----|----------------|----------------------------|--------|----------|-----------------------|
| 1) | 78,860,000,000 | Japan Financing Bills | 0.000% | 08/04/08 | \$742,981,882 |
| 2) | 65,000,000 | Finland, Government of | 2.750 | 09/15/10 | 98,172,564 |
| 3) | 7,670,000,000 | Japan Financing Bills #502 | 0.000 | 09/10/08 | 72,171,306 |
| 4) | 6,840,000,000 | Japan T Bills 435 | 0.000 | 05/20/09 | 64,133,567 |
| 5) | 35,000,000 | Netherlands, Government of | 3.000 | 01/15/10 | 53,744,856 |
| 6) | 30,000,000 | Belgium, Kingdom of | 3.750 | 03/28/09 | 46,975,865 |
| 7) | 25,000,000 | Ireland, Republic of | 5.000 | 04/18/13 | 39,556,583 |
| 8) | 25,000,000 | Spain, Government of | 4.000 | 01/31/10 | 38,926,240 |
| 9) | 15,000,000 | Denmark, Republic of | 3.250 | 11/14/08 | 23,501,292 |

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INVESTMENTS

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

DOMESTIC EQUITY TRADING
FISCAL YEAR 2008

| <u>DOMESTIC EQUITY BROKERS</u> | <u>SHARES</u> | <u>TOTAL COMMISSIONS</u> | <u>COMMISSIONS PER SHARE</u> |
|---------------------------------|---------------|------------------------------|----------------------------------|
| Bear Sterns & Co. Inc. | 17,076,637 | \$685,665.11 | 0.040 |
| BNY Convergeex Exec Solutions | 23,788,882 | 1,154,244.10 | 0.049 |
| Capital Institutional Services | 11,099,865 | 554,993.25 | 0.050 |
| Citigroup/Citibank | 20,404,878 | 627,998.34 | 0.031 |
| Cowen and Co., LLC | 13,196,700.00 | 522,998.00 | 0.040 |
| Credit Suisse Securities USA | 10,865,585 | 346,468.55 | 0.032 |
| JP Morgan Securities Inc. | 19,023,800 | 755,370.00 | 0.040 |
| Labranche Financial Services | 19,921,795 | 728,013.86 | 0.037 |
| Lehman Brothers Inc. | 22,971,148 | 714,819.49 | 0.031 |
| Sanford C. Bearstein & Co., LLC | 16,307,600 | 634,516.00 | 0.039 |

INTERNATIONAL EQUITY TRADING
FISCAL YEAR 2008

| <u>INTERNATIONAL EQUITY BROKERS</u> | <u>SHARES</u> | <u>TOTAL COMMISSIONS</u> | <u>COMMISSIONS PER SHARE</u> |
|--|---------------|------------------------------|----------------------------------|
| Bear Sterns & Co. | 47,048,556 | 669,322.16 | 0.014 |
| Citigroup Global Markets, Inc. | 24,137,786 | 569,445.28 | 0.024 |
| Credit Agricole Chevreux | 10,325,122 | 693,645.61 | 0.067 |
| Credit Suisse Securities (USA), LLC | 58,010,822 | 1,560,967.52 | 0.027 |
| Goldman, Sachs & Co. | 43,199,666 | 909,724.56 | 0.021 |
| JP Morgan Securities, Inc. | 29,850,400 | 787,828.76 | 0.026 |
| Merrill Lynch, Pierce, Fenner, & Smith, Inc. | 51,754,607 | 759,974.70 | 0.015 |
| Mizuho Securities (USA), Inc. | 31,918,400 | 557,748.80 | 0.017 |
| Morgan Stanley & Co. | 31,907,299 | 677,886.59 | 0.021 |
| Nomura Securities International, Inc. | 33,206,120 | 647,155.60 | 0.019 |

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