



**STATE INVESTMENT COUNCIL
DEPARTMENT OF THE TREASURY
STATE OF NEW JERSEY**

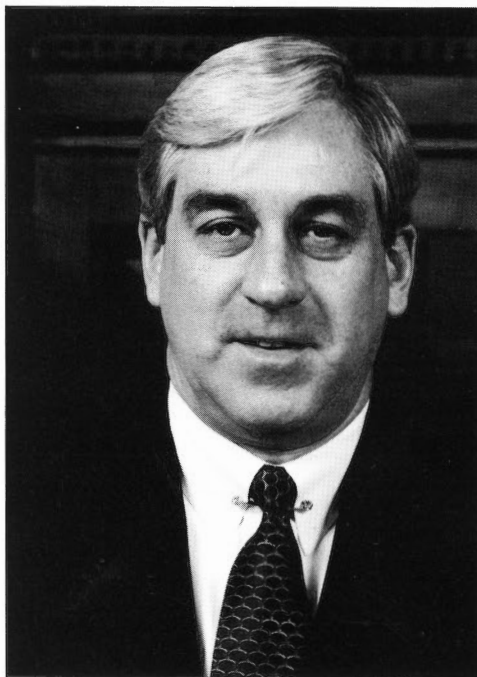


FORTY-FIFTH ANNUAL REPORT

For the Fiscal Year Ended June 30, 1995



CHRISTINE TODD WHITMAN
Governor



BRIAN W. CLYMER
State Treasurer

A Report to
Governor Christine Todd Whitman,
the Members of the
New Jersey Legislature
and the State Treasurer

Submitted by the
State Investment Council

For the Fiscal Year ended June 30, 1995

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November 15, 1995

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To The Honorable:
The Governor;
The Legislature;
The State Treasurer:

We are pleased to submit the Annual Report of the Division of Investment, Department of the Treasury, for the fiscal year ended June 30, 1995, as required by Section 13, P.L. 1950, c. 270. The report is a summary of the activities of the Division during the year. Separate reports are also prepared for the Supplemental Annuity Collective Trust and the State of New Jersey Cash Management Fund, both of which are available upon request from the Investment Division.

The Investment Division, under the jurisdiction of the State Investment Council, has the investment responsibility for 134 funds, including seven pension and annuity funds. The book value of all funds on June 30, 1995, was \$36.0 billion, the same as at the end of the prior year, and the market value of the funds was \$48.3 billion, compared with \$43.8 billion at the end of the previous fiscal year. The Council includes ten persons appointed to fixed terms. Five employee representatives are appointed by their respective pension fund boards for one year terms, and five members are appointed by the Governor for staggered five year terms. In fiscal 1992, the Legislature provided for an eleventh member of the Council, to be 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. The new law also provided that all gubernatorial appointments to be pension fund boards and to the Council are subject to the advice and consent of the State Senate. To date, the eleventh member of the Council has not been nominated or appointed. 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 income generated by the pension funds contributes directly to the assets of the various pension funds and the retirement security of pension fund beneficiaries. The income generated by the investment of the pension funds and other state funds also contributes to the funding of services and benefits provided by the state to its citizens and thus directly benefits the taxpayers of New Jersey.

Pension fund returns were up sharply in fiscal 1995, as the domestic stock market rallied strongly and the bond market also improved. International markets also showed positive returns. The estimated total return of the pension funds, which includes changes in the market value of the securities held by the funds and dividend and interest income over the year, was 19.7 percent, which compares with a (0.7) percent return in fiscal 1994. For the past five and ten fiscal years the estimated average annual total returns earned by the pension funds was 10.7 percent and 12.3 percent, respectively. These total returns of the pension funds ranked the Division in the top quarter of all State fund managers in these periods. Appendix II sets forth estimated total returns of the state administered pension funds for the past five years.

All investments under the supervision of the Council must conform to standards of prudence set by state law, which mandate that the Division make investments in which fiduciaries of trust estates may legally invest. State prudence law was amended in April 1995, by P.L. 1995, c. 48. 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 amendment to the law provides for the "whole plan" principle, which permits a broader spectrum of investments. The new law also states that the fiduciary shall be under a duty to manage and invest the portfolio solely in the interests of the trust beneficiaries and for the exclusive purpose of providing financial benefits to trust participants.

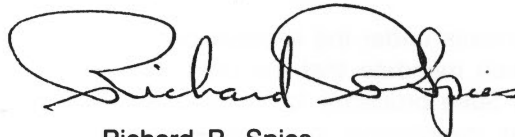
Over the years, members of the public, political figures and lobbyists have raised the question of whether investments under the jurisdiction of the Council should be guided by non-financial considerations. Such investments could be directed regionally or toward specific capital markets or could be averted from certain areas. The Council has considered each of these issues as they have arisen and has concluded, with the concurrence of the Attorney General's office, that state law requires that the financial merits of each investment are the only factors that should be considered. Social and regional issues may have financial implications for fund beneficiaries, and the Division analyzes such implications in the determination of its investment decisions, but it is only those financial risk and return characteristics that are taken into account in making the final investment decisions. The policies of the Council regarding social investment are discussed in greater detail herein. Council policies have been reviewed by special gubernatorial commissions established by both Governors Byrne and Kean, representing different political parties, and both commissions supported the present structure and policies of the Council. These reports are discussed further herein.

The Council is pleased to note that the majority of the corporate debt obligations and equities held by the Division have been issued by corporations which are identified as New Jersey employers. The pension funds have investments in major companies who have their headquarters in New Jersey and in out-of-state companies which provide employment within the state. From time to time the Council has been asked to consider direct investment in personal loans, individual mortgages and loans to small businesses. The Division does not have the facilities or personnel to make such loans, but it does participate indirectly in these areas through investments in securities of U.S. Government agencies and other financial intermediaries. The Council has been asked to provide below market interest rates for New Jersey investment programs for housing and economic development, but has declined to do so since Council members believe that to do so would be a violation of their fiduciary responsibilities to the beneficiaries of the funds under their supervision. Furthermore, in many instances, such programs can be funded through tax-exempt bond financing, which generally provides favorable interest rates to borrowers.

Over the years, the Council has addressed the major issues which concern fiduciaries, such as the standards for investment, the allocation of invested funds among asset classes and the resources available to the Division of Investment. In fiscal 1995, the Council again addressed the issue of the asset allocation of the pension funds, and has acted to increase the limit on international investment from 15% to 20% of the market value of the pension funds. The Council is also studying other asset classes which now may be eligible for investment by the pension funds due to the enactment of modifications in the state's prudence law.

For each of the past forty-five years, the Council has requested and obtained a review of the records and procedures of the Division by an independent accountant. The accountant's report for the current year is included in this report.

Respectfully submitted,

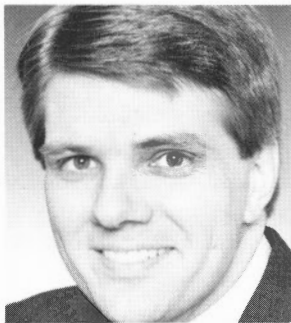
A handwritten signature in dark ink, appearing to read "Richard R. Spies". The signature is fluid and cursive, with a large, stylized initial "R".

Richard R. Spies
Chair

The State Investment Council



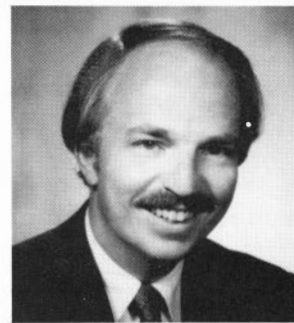
RICHARD R. SPIES
Chair of the Council



ROBERT T. HOFFMAN



LESTER Z. LIEBERMAN



WILLIAM W. PRIEST, JR.



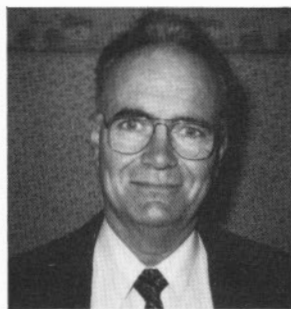
ARTHUR W. WHITE, JR.



NANCY A. NAUGHTON
Consolidated Police and
Firemen's Pension Fund;
Vice Chair of the Council



HARRY W. BALDWIN
Teachers' Pension and
Annuity Fund



JAMES COYLE
Public Employees'
Retirement System



M. MICHAEL DI SALVO
Police and Firemen's
Retirement System



KEVIN MCPARTLAND
State Police Retirement
System

Division of Investment



ROLAND M. MACHOLD
Director



STEVEN E. KORNRUMPF
Deputy Director



Staff of the Division on the steps of the State Street Square, 50 West State St., Trenton, New Jersey.



Administration Group: Celeste Brennan, Steve Kornrumpf, Cindy Everett, Cathy Ryan, Roland Machold, Gilles Michel and Pat Osvai.



Portfolio Management Group: Bruce Smith, Chris Eckel, Linda Brooks, Sandra Holmes, Maneck Kotwal, Linda Thompson, Kersti Alabert and Victor Yu.



Trading Group: Tim Patton, Jack Jacknowitz, Helen Imbalzano, Mary Ann Smith, Rob Schragger, Patti Hricak, Vince Pagnotta, Mike Wszolek and John Penza.



Research Group: Jeff Lebowitz, Ed Pittman, Brian Arena, Denise Szeker, Karin Hollinger, Jim Vandervort, Betty Carr, Sanjiv Jhaveri, Sharon Harden and Tom Montalto.



Common Fund Accounting Group: Dan Costanzo, Mindi Garrahan, Elsie Lawrence, Andrea Szul, Patty DiMemmo, John Jusiewicz, Madeline Amico, Carletha Murray, Mary Vassiliou and Joe Adubato.



Bookkeeping Group: Deanna Massey, Ken Scott, Olga Grozio, Charles Coleman and Nancy Brancolino.



Cashier Group: Roxanne Tyner, Bea Wolfe, Joanne Yakelewicz, Ron Hentnik, John Giovannetti, Melissa Cook, Kass Cole and Loretta Sytnik.



Data Processing Group: Ed Meyers, Sandi Beale, Karen Consalvi and Nick Maximenia.

FIVE YEAR SUMMARY

	Fiscal Year Ended June 30,				
	1991	1992	1993	1994	1995
	\$ Millions				
FUNDS UNDER THE SUPERVISION OF THE STATE INVESTMENT COUNCIL:					
Book Value at Year End:					
Pension Funds	\$24,081	\$26,223	\$26,911	\$27,394	\$28,240
All Funds	29,924	32,981	35,309	35,990	35,955
Market Value at Year End:					
Pension Funds	\$29,272	\$33,490	\$36,413	\$35,167	\$40,508
All Funds	35,166	40,313	44,875	43,787	48,304
Market Value of Pension Funds at Year End by Category:					
Short-term obligations	\$ 1,011	\$ 1,006	\$ 671	\$ 411	\$ 1,420
Long-term bonds	10,139	11,794	13,673	12,836	13,018
Mortgages	3,951	3,787	2,662	2,104	1,947
Stocks	13,977	16,379	18,633	19,351	23,408
Accounting differences	194	524	774	465	715
Total	\$29,272	\$33,490	\$36,413	\$35,167	\$40,508
Investment Income:					
Pension Funds	\$ 1,653	\$ 1,829	\$ 1,721	\$ 1,522	\$ 2,081
All Funds	2,011	2,166	2,053	1,823	2,485
Total Rate of Return (1):					
Common Pension Fund A (2)	8.0%	12.6%	12.2%	(0.7)%	25.9%
Common Pension Fund B (2)	10.3	14.5	14.0	(1.6)	13.6
Common Pension Fund D (2)	—	22.3	9.8	2.7	9.1
All Pension Funds, Estimated (2)	9.3 (3)	13.8	12.5	(0.7)	19.7
Supplemental Annuity Collective Trust	5.8	12.9	13.4	(0.7)	22.8
Deferred Compensation Plan—Equity	5.3	10.6	11.9	(0.1)	24.1
Deferred Compensation Plan—Debt	10.5	14.7	10.5	0.1	9.6
Returns of Various Market Indices:					
Salomon Brothers' Mortgage Index	12.0%	14.0%	9.1%	(0.9)%	12.1%
Salomon Brothers' High Grade Corporate Bond Index	10.6	16.8	16.3	(3.6)	17.6
Lehman Government/Corporate Bond Index	10.2	14.2	13.2	(1.5)	12.7
S&P's 500 Index	7.4	13.4	13.6	1.4	26.1
Dow Jones Industrials Average	4.7	17.1	9.2	6.0	29.2
Salomon Brothers' World Gov. Bond Index—Unhedged	10.0	20.5	10.9	5.1	18.8
EAFE International Stock Index	(11.5)	(0.7)	20.3	17.0	1.7
State of New Jersey Cash Management Fund:					
Book Value of Units of Participation:					
All Participants	\$ 6,946	\$ 8,045	\$ 9,570	\$ 9,023	\$ 9,944
Other-than-State Participants	2,130	3,111	4,018	3,488	2,755
Average Annualized Daily Rate of Return (4):					
State Participants	7.47%	5.30%	3.63%	3.46%	5.27%
Other-than-State Participants	7.30	5.12	3.42	3.30	5.13
Number of Funds Under the Supervision of the State Investment Council	115	117	121	126	134
Total Number of Transactions	38,298	40,534	39,282	44,544	48,208

1. Total rate of return includes income and changes in market prices for securities held by the funds during the period shown.
2. Common Pension Funds A, B and D are the principal vehicles for investment by the pension funds in domestic stocks, domestic bonds, and international securities, respectively. The returns cited are for the whole portfolios and reflect cash equivalents. Returns for stocks and bonds alone are shown in Appendix II.
3. In the course of fiscal 1991, the Division initiated a new Common Pension Fund D for the purpose of pooling investments of the pension funds in international securities. The estimated return of the pension funds for fiscal 1991 reflects the initial return of investment in the new fund.
4. Simple interest.

The Year's Activities

Summary Financial Information

The 134 investment funds under the supervision of the Council on June 30, 1995, had a book value of \$36.0 billion, unchanged from the prior year. The investment funds had a market value of \$48.3 billion at June 30, 1995, an increase of 10.3 percent over the market value of \$43.8 billion at June 30, 1994. The market value of the seven pension funds increased from \$35.2 billion at June 30, 1994, to \$40.5 billion at June 30, 1995. The market value of the pension funds rose sharply due to rising securities markets during the year.

Investment income for all funds for fiscal 1995 amounted to \$2.5 billion as compared with \$1.8 billion last year. Income improved as interest rates rose during the year.

During the year, the Division of Investment purchased securities with a par value of \$92.1 billion. Approximately 26.7 percent of this amount, or \$24.6 billion, represented the overnight investment of surplus balances in the State's cash accounts. In fiscal 1994, the Division purchased securities with a par value of \$82.3 billion, of which \$20.6 billion was generated by overnight investments. During fiscal 1995, the Division's net holdings of mortgages decreased from \$2.1 billion to \$1.9 billion.

The Division sold securities totaling \$20.8 billion in fiscal 1995, compared with sales of \$13.8 billion in the prior year. Many of the sales were made to meet cash requirements or to take advantage of market opportunities. Such sales resulted in net realized profits of \$1.7 billion during the year, compared with \$1.2 billion for the prior year. The transactions information in this paragraph includes transactions effected within the common funds, which are not included separately in the financial summaries in this report.

"Regular Interest Rates"

The pension revaluation law which was enacted in June, 1993 sets the "regular interest rate" of the pension funds at 8¾ percent, which reflects expected income and market returns of the funds over time. The law further provides that the "regular interest rate" shall bear a reasonable relationship to the rate of earnings on investments, based on the market value of assets, but shall not exceed the assumed percentage rate of increase applied to salaries plus 3 percent. At present the average of the assumed

percentage rate of increase applied to salaries is 5.95 percent.

Fixed Income

The pension fund holdings of domestic fixed income securities were reduced by a net amount of \$400 million in fiscal 1995. The liquidation of bonds in Common Pension Fund B was due to sharply lower cash flows into the pension funds and the strategic decision to increase international investments in Common Pension Fund D.

In fiscal 1995, the Division purchased \$409 million of FHLMC and GNMA 15-year and 30-year mortgage-backed securities. Principal repayments on mortgage-backed securities held by the Division for fiscal 1995 totaled \$97 million.

In fiscal 1995, the Division sold \$610 million of FHLMC and GNMA mortgages and realized net losses of \$32.7 million on the sales.

In October 1985, the Division developed a program for the state pension funds to purchase eligible mortgage pools from interested New Jersey financial institutions. The Division calls such institutions on a monthly basis and offers to purchase eligible mortgage pools at the prevailing market prices for similar pools.

In fiscal 1992, a law was enacted which allocated up to 10 percent of the Police and Firemen's Retirement Fund to mortgages for members of the Fund. In fiscal 1995, the fund purchased \$89.4 million of such mortgages.

Common Pension Funds

Under the authority granted by P.L. 1970, c. 270, the Division has created Common Pension Fund A, Common Pension Fund B and Common Pension Fund D to consolidate investments of five of the pension systems in domestic stocks, domestic bonds and international investments, respectively. At June 30, 1995, the market value of the units of ownership of Common Pension Fund A, Common Pension Fund B and Common Pension Fund D were \$21.2 billion, \$10.9 billion and \$4.4 billion, respectively. The State of New Jersey Cash Management Fund provides a vehicle for the pension funds and other state and municipal funds to make short-term investments.

Total Rate of Return Calculations for Select Portfolios

Calculations of total rate of return reflect both income and changes of market values of securities in a portfolio over a specific period of time. The calculation includes unrealized market gains or losses and thus is not indicative of the cash returns on the portfolio. It would be indicative of cash returns if the portfolio were liquidated at the end of each period of measurement, but such liquidation would be impractical for portfolios of the size managed by the Division. Furthermore, the calculation is historical and is not predictive of future returns. However, the calculation of total rate of return is a means of comparing returns of varying types of portfolios by a common standard.

At the present time the Division is only able to calculate total rate of return for the pension fund portfolios and selected other portfolios. These historical returns are shown on page 7 herein.

SEI Evaluation Services has provided the Division with calculations of total return, and their data shows that the total returns for Common Pension Funds A, B and D in fiscal 1995 were 25.9 percent, 13.6 percent and 9.1 percent, respectively. The estimated total return of the aggregate pension fund portfolios was approximately 19.7 percent in fiscal 1995, compared with returns of (0.7) percent in fiscal 1994 and 12.5 percent in fiscal 1993. It is difficult for public pension funds to find a common basis for reporting. However, several states have developed a format for common reporting practices and the Investment Division has provided these estimates in response to this format in Appendix II to this report.

The estimated total returns for the pension funds do not include the mortgage loan program of the Police and Firemen's Retirement System. This program was established by law in fiscal 1992, and provides that members of the fund may receive mortgages from the fund at rates which are fixed by formula. The law further provides that the fund may not sell the mortgages, and no independent market exists for them. Consequently, the Council has taken action to exclude the program from calculations of the total return for the fund. The attached financial statements include \$554.1 million of assets of the mortgage loan program at both book and market value at June 30, 1995.

The State of New Jersey Cash Management Fund

The Division initiated the first investment in the State of New Jersey Cash Management Fund in May 1977. The fund provides the state and its municipalities with a vehicle for short term investment. At that time state statutes provided that only certain state funds were eligible to participate in the fund, but, in November 1977, legislation was enacted (P.L. 1977, c. 281), which permitted counties, municipalities, school districts and the agencies and authorities created by any of these entities or the state ("Other-than-State" participants) to participate in the fund on a voluntary basis.

The total book value of the units of participation in the fund increased from \$9.0 billion at June 30, 1994 to \$9.9 billion at June 30, 1995, due to increased investment by the State's pension accounts which offset withdrawals from the accounts of participating municipalities and state agencies.

The net investment income of the fund was \$425 million in fiscal 1995, compared with \$309 million in fiscal 1994. The income of the fund increased in fiscal 1995, due to higher interest rates available in financial markets and higher balances in the fund.

The number of participating State funds increased from 126 to 134 in fiscal 1995. The number of "Other-than-State" participants increased from 881 to 926 during the year, and the aggregate investment of "Other-than-State" participants was \$2.8 billion at the end of fiscal 1995, compared with \$3.5 billion at the end of fiscal 1994.

The average daily annualized rate of return to participating state accounts and accounts of the pension funds was 5.27 percent during fiscal 1995, compared with 3.46 percent in fiscal 1994. The average daily annualized rate of return to "Other-than-State" participants, which is net of two small charges, was 5.13 percent in fiscal 1995, compared with 3.30 percent in fiscal 1994.

These rates are the average of all daily rates realized during the year and do not reflect the compounding effect of leaving moneys on deposit over time. The compound rate of return for "Other-than-State" funds in fiscal 1995 was 5.35 percent, compared with 3.46 percent in the prior year. The higher rates of return during fiscal 1995 were the result of higher interest rates available in the markets for short-term debt investments, as interest rates were raised in response to the possibility of higher inflation.

In December, 1994, Orange County, California,

declared bankruptcy due to losses incurred by its short-term investment fund. Published reports indicate that these losses were the result of borrowings by that fund and investment in long-term securities and derivatives. None of these practices are permitted

for the State of New Jersey Cash Management Fund under the Council's regulations, which only permit conservative investment practices appropriate for such a fund.

Historical Background

Legislative History

Fiscal 1995 marks forty-five years of operation of the Division of Investment of the Department of the Treasury of New Jersey. During that time the investment responsibility of the State Investment Council has increased from 20 funds in 1950, with a book value of \$350 million, to 134 funds in 1995, with a book value of \$36.0 billion and a market value of \$48.3 billion.

The Division was created by P.L. 1950, c. 270, which became effective on July 1, 1950. An important objective of the statute creating the Division was to centralize all functions relating to purchases, sales or exchanges of securities for the state's diverse funds under experienced and professional management.

The statute provides for a State Investment Council and a Director. The original legislation provided that the Council consisted of ten members, five appointed for staggered five-year terms by the Governor and five appointed for one-year terms by the boards of trustees of five of the pension systems. The statute was amended by P.L. 1992, c. 125 to provide for an eleventh member of the Council, to be appointed by the Governor from among three persons nominated jointly by the President of the Senate and the Speaker of the General Assembly. The eleventh member serves for a five year term. The new law also provides that all Gubernatorial appointments to the Council are subject to the advice and consent of the Senate. The statute provides that no member of the Council shall hold any office, position or employment in any political party, nor shall any member benefit directly or indirectly from any transaction made by the Director of the Division. Members of the Council serve without compensation.

The statute vests investment authority in the Director of the Division. The Director is appointed by the State Treasurer from candidates for the office selected by the Council.

The role of the Council is to formulate investment procedures and policies to be followed by the Director. State legislation provides that the Council may issue regulations which specifically approve and authorize any form of investment. New regulations adopted by the Council from time to time are formal documents which are filed with the Secretary of State and reported in the New Jersey Register.

The Council periodically reviews the investment objectives of all of the individual funds under its supervision. With respect to the pension funds, the 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 determinations 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.

Prior to 1950, investment was limited by law to United States Government and municipal obligations. P.L. 1950, c. 270, provided that investment could also be made in obligations which are legal investments for savings banks within the state. Since 1950 the Council has requested and obtained a number of amendments to P.L. 1950, c. 270, which were designed to increase the scope of potential investment opportunities and provide a foundation for achieving better portfolio balance and diversification.

Such legislation broadened the authority of the Division to include investment in short-term debt obligations, including commercial paper and certificates of deposit, and certain Canadian government and provincial obligations payable in U.S. dollars (P.L. 1952, c. 17, and P.L. 1971, c. 176), and subsequently, investment in property of every nature, provided the fiduciary shall exercise 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 (P.L. 1995, c. 48).

The Legislature has also enacted laws which permit the operation of common funds. P.L. 1970, c. 270, permits the Director to combine, for the purpose of investment, money and property belonging to the various funds in the custody of the State Treasurer. Under this authority the Council and the Division have established Common Pension Fund A, Common Pension Fund B and Common Pension Fund D, which pool a portion of the investments of five pension funds in domestic stocks, domestic bonds and international investments, respectively. This law also authorized the creation of the State of New Jersey Cash Management Fund, which was created in 1977 to pool investments in short-term debt obligations by certain state funds, including the pension funds. In fiscal 1978, legislation (P.L. 1977, c. 281) was enacted which permits counties, municipalities, school districts and the agencies and authorities created by any of these entities or the state to participate in the fund. Such participation began in January 1978.

In August 1985, Governor Kean signed into law an act, P.L. 1985, c. 308, which states that "no assets of any pension and annuity fund shall be invested in any bank or financial institution which directly or through a subsidiary has outstanding loans to the Republic of South Africa or its instrumentalities, and no assets shall be invested in the stocks, securities or other obligations of any company engaged in business in or with the Republic of South Africa." Furthermore, the Council and the Division shall effect divestment "within three years of the effective date of the act." The final report to the Legislature for the period July 1, 1988 through August 27, 1988, and cumulatively for the period August 27, 1985 through August 27, 1988 was attached in full as Appendix II to the Council's Annual Report for fiscal 1988. This report showed that the Division's divestment program was completed in full, and the Division remained in compliance with the law. In April 1994, Governor Whitman signed legislation which repealed the state's South African sanctions.

In July 1987, Governor Kean signed into law an act, P.L. 1987, c. 177, which directs the Director of the Division of Investment to investigate the extent to which United States' corporations doing business in Northern Ireland, in which the assets of any State

pension or annuity fund are invested, adhere to principles of non-discrimination in employment and freedom of workplace opportunity, as defined in the law by various standards commonly referred to as the MacBride principles. Furthermore, the law requires the Director to file an annual report with the Legislature and to initiate and support shareholder petitions or initiatives requiring adherence to the MacBride principles. Subsequent to the enactment of the law, the Council adopted procedures to comply with the law, and the Director has filed the required reports, copies of which are available upon request.

In December 1991, Governor Florio signed into law an act, P.L. 1991, c. 414, which provides that up to 10 percent of the assets of the Police and Firemen's Retirement System may be made available to eligible members of that fund for mortgage loans at rates which are set by formula. The law provides that the Treasurer shall delegate the administration of the mortgage loan program to the New Jersey Housing and Mortgage Finance Agency, and, with certain advice, the Treasurer shall set the mortgage loan standards. In June 1992, this law was amended by an act (P.L. 1992, c. 78) which clarified that the mortgage loan program is an investment program to be administered as part of the state's general investment program. At its meeting in July 1992, the Council distinguished the mortgage loan program from other investment programs under the supervision of the Council and specified that the returns of the pension funds will be segregated from the mortgage loan program for the purposes of performance reporting.

In June 1992, Governor Florio signed an act, P.L. 1991, c. 41, which provided for the revaluation of the pension funds from a book valuation basis to a market valuation basis for the purposes of actuarial calculations. The act changed the economic assumptions of the funds to reflect market valuations and modified the actuarial methodologies for the funds. The act also provided for an eleventh member of the Council, to be appointed by the Governor from a list to be submitted jointly by the President of the Senate and the Speaker of the Assembly.

In April 1995, Governor Whitman signed into law an act, P.L. 1995, c. 48, which amended the state's prudence law. The new law provides for the "whole plan" principle, whereby the fiduciary may consider the whole portfolio, rather than any individual investments, in determining the prudent level of expected risk and return of the pension fund. The "whole plan" principle has the effect of permitting a balance of high

and low risk investments in the portfolio, rather than requiring that all investments must approach a common standard of expected risk and return. The new law also expands the investments that are listed as examples of eligible investment to include venture capital and securities loans. Also, certain forms of investment are permitted, including limited partnerships and investment trusts. As a result of these modifications, the Council is presently considering both real estate and emerging markets as possible areas of diversification for the pension funds, and in due course will consider other alternatives.

Regulations of the State Investment Council

In addition to the investment guidelines established by law, the State Investment Council sets specific investment policies by regulations in accordance with the authority provided to it by P.L. 1950, c. 270.

Present regulations of the State Investment Council limit the authority of the Director to invest in common stock. At present, the Council limits the permissible level of the market value of pension fund stock holdings in Common Pension Funds A and D to 60 percent of the market value of any one pension fund. At June 30, 1994, the aggregate common stock holdings of the pension funds were 57.8 percent of the total market value of the funds. Attached hereto as Appendix I is an unaudited summary of investments by major category for individual pension funds.

The regulations of the State Investment Council also set criteria for the Division's investments in long-term debt obligations. These regulations require issuers of debt to meet certain standards, which, depending on the type of security and the nature of the issuer, may refer to the capitalization, operating history, interest coverage, bond rating or other criteria relating to the issuer.

In the case of mortgages, Council regulations require, in almost all cases, that the securities be directly or indirectly supported by the Federal government. One regulation permits investment in pools of conventional mortgages which meet specific eligibility standards.

All of the regulations of the State Investment Council, including the regulations which pertain to the common funds, have been published in the New Jersey Register and are on file with the Secretary of State.

The Council constantly reviews its regulations which govern the activities of the Division. As a result, a number of regulations are revised during each year. These refinements keep the Council's policies abreast of economic, fiscal and accounting trends.

As a consequence of the State's sunset law all of the regulations of the Council were resubmitted to the legislative review process in fiscal 1991 and were readopted with various modifications and clarifications early in fiscal 1992.

In fiscal 1995, the Council acted to permit investment by Common Pension Fund A in certain international stocks which are components of the S&P 500, one of the primary benchmarks for U.S. stock markets. Common Pension Fund A is designed to invest in the U.S. stock market, but prior to the modification the returns of this fund could not be compared to the most widely cited benchmark index. The Council also acted to increase the maximum permitted investment by the pension funds in international securities from 15 percent to 20 percent of the market value of the pension fund portfolios. Studies by the Division show that such diversification tends to reduce the risk of the portfolios, as the volatility of international investments offsets, to a degree, the volatility of the domestic stock market. During the year, minor modifications were also made in the eligibility standards for the Division's investments in certificates of deposit and repurchase agreements. These modifications served to broaden the eligibility of banks to sell such securities to the Division.

Reviews of Major Policy Issues in Recent Years

During fiscal 1984 and 1985, the Council reviewed a number of major policy issues which had been raised by Governor Kean's Pension Study Commission and its own review and analysis. Early in fiscal 1985, the Council made the following findings and recommendations.

The Council members agreed that the salary structure, budget limitations of the Division, lack of personnel depth and the inflexibility of the Civil Service system posed grave dangers for the successful management of state funds and state-administered pension plans. The Council agreed that any complete solution to the budgeting, staffing, salary and Civil Service issues would provide that: (a) funding of the Division's budget would be made from pension fund

income and other fees, with all expenses of the Division subject to the discretion of the Council; (b) all professional employees would serve at the pleasure of the Council, although nonprofessional employees could remain in the Civil Service salary structure and system; (c) professional salaries would be set by the Council and possibly could be designed to incorporate performance bonuses; and (d) the Council would have the flexibility to provide necessary personnel depth for the Division. The Council has taken these matters up with appropriate State Officials, but, to date, only the first part of item (a) above has been implemented.

At that time, the Council also confirmed 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 provided 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 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 National 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 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.

The Council considered the use of outside managers. However, opinions from the Attorney General's office indicated that the use of outside managers by the Division is not legal under state law. State prudence law was modified in April, 1995 to permit the "whole plan" principle and investment in certain limited partnerships and trusts. The Council is currently considering the effects of these modifications.

In fiscal 1990, the Council continued to review the legislative and regulatory definitions of risk and return for the pension funds and studied various asset allocation and portfolio optimization simulations. As a result of these reviews and studies, in July 1990, the Council approved four new regulations which enabled the Division to invest in international stocks and bonds. In doing so, the Council acknowledged that the world is approaching a global economy, wherein large corporations based abroad have major manufacturing plants and significant numbers of

employees in the United States, and, conversely, many corporations based in the United States maintain substantial operations abroad. Finally, the studies showed that international investments in developed countries had historically provided higher returns with lower levels of risk than had investments limited to the United States.

During fiscal 1990, the Council received the reports of two independent actuarial firms, Buck Consultants and Actuarial Science Associates (ASA), which had been retained by the Treasury Department to provide comprehensive analyses of the Public Employees' Retirement System, including both benefit and investment issues. With respect to the state's investment program, Buck Consultants concluded that "the state's present portfolio appears to be carefully thought out and, in terms of modern portfolio theory, efficient within the constraints of the fund," and ASA stated that "the current asset allocation was appropriate." Both reports endorsed the concept of international investing as a means of adding diversification to the portfolio and thus reducing portfolio risk.

In fiscal 1991, the Council once again reviewed all of its regulations in view of their prospective expiration under the provisions of the State's sunset law. Many regulations were readopted without change, and others were modified in minor ways to add clarity and to modernize them in accordance with current financial practices. As was noted before, the most significant changes permitted the Division to invest up to 60 percent of total pension fund assets in stocks, and up to 15 percent of total assets in international securities.

In fiscal 1993, the Council studied the resources provided to the Division and concluded that the resources provided to the Division were not adequate to fully fund the Division's investment programs, including several programs which had the potential to provide significant additional returns to the state funds over the years. The Council discussed its concerns with the appropriate state officials and with members of the legislature, and the state's budgets for fiscal 1995 and 1996 included additional funding for the Division.

Also, in both fiscal 1993 and 1994, the Council

again reviewed the asset allocation policies set forth in the Council regulations for the state administered pension funds, and decided that such policies continued to be appropriate. In fiscal 1995, the Council again reviewed the asset allocation policies set forth in the Council regulations, and acted to increase the permitted allocation of pension fund assets to international securities from 15 percent of the market value of total assets to 20 percent. The Council also considered real estate and emerging international markets as potential areas for further diversification of the pension funds. The Council has decided to defer further action on real estate, but the study of emerging markets is continuing.

Council Procedures and Reports

The State Investment Council meets at least six times a year, and the Executive Committee of the Council may meet in intervening months. In addition to reviewing and formulating all major policy issues related to the state's investments, the Council reviews the investment programs and returns of each fund on a periodic basis. Furthermore, each year the Council reviews each of the major classes of assets held by the Division.

Almost all of the investment transactions of the Division are effected through competitive bidding. In specific markets which require that the Division exercise discretion in the choice of a bank or broker, such discretion is exercised according to an allocation plan prepared by the Director on the basis of the Division's evaluation of the merits of the services provided by each bank or broker. The allocation plan is reviewed by the State Investment Council, and the final allocation of commissions is audited by the Division's independent accountants.

The provisions of P.L. 1950, c. 270, also require that the Director of the Division prepare and make available to the public a monthly report of all transactions effected by the Division. This report lists all sales, purchases, exchanges and commissions paid by the Division for all of the Division's transactions. The report is provided to the legislature, state officials, the press and the public.

Social Investment

There has been a spirited public debate for many years on the subject of "strategic" or "targeted" investment, whereby investments are either directed towards areas which are deemed to be socially desirable or withheld from areas which are deemed to be socially undesirable. The Council has taken the position that the Division is bound by law to make prudent investments for the sole and direct financial benefit of the beneficiaries of the various funds under its supervision and that the Division may not make any concession as to rate, risk or terms which would benefit any other party at the expense of the beneficiaries of the funds.

The Council and the Division are open to any investment program which would benefit socially desirable purposes, particularly investment within the State of New Jersey. All such investment programs are reviewed by the Division and the Council on a case-by-case basis from a financial point of view, and investment decisions are made in the light of such a review and the prudence standards cited above.

In fiscal 1982, the Council reviewed two investment concepts which would have directed pension fund assets to mortgage markets in New Jersey. The Council found that one of these was concessionary and thus was prohibited by state law. In the second instance, the Council reviewed a complex concept for investing in growing equity mortgages and concluded that the concept was feasible; however, no investments were initiated due to changing market conditions.

In fiscal 1986, the Division initiated a program whereby on a monthly basis the Division offered to purchase New Jersey mortgages from New Jersey banking institutions at market rates as mandated by prudence law. Once a month the Division determines the true market level for a package of mortgages backed by any eligible agency supported by the U.S. Government. The Division immediately offers this price to interested New Jersey financial institutions for identical mortgages which originate in New Jersey. In effect, the Division creates an "open window" to buy at market prices New Jersey mortgages supported by the U.S. Government. In fiscal 1995, approximately \$1 million of New Jersey mortgages were purchased by the Division under this program.

Reports of Gubernatorial Commissions

In fiscal 1982, former Governor Brendan Byrne created a task force to study the use of state pension funds to spur economic activity within the State. The task force did not find evidence that pension funds can be invested to achieve secondary objectives without compromising the primary goal of maximizing the investment return for the beneficiaries, and the task force concluded that no formal change in investment policy should be made. The report of this task force is described in greater detail in annual reports of prior years.

During fiscal 1983, former Governor Kean created the Governor's Pension Study Commission to review all aspects of the state-administered pension funds. The Commission's conclusions relating to the policies and practices of pension fund investment, as reported on March 15, 1984, are quoted below in their entirety:

"1. The current structure within which New Jersey's pension investments are made is, in our judgment, both sensible and appropriate for the task and should not be changed in any substantive way. The balance which exists between the accountability of the pension investment fiduciaries to the beneficiaries of the funds with the insulation from political influence is of decisive importance. It is crucial that the twin pillars of fiduciary responsibility—namely, prudence and loyalty—be maintained. The current structure allows for and facilitates that to a better extent than any other we have seen or considered.

2. The Division of Investment should continue to consider investment alternatives with respect to improving potential returns. An increase in the equity allocation is an example of a positive step already taken. The Investment Council should also consider other investment options such as venture capital pools, options, commercial real estate and a broader universe of stocks as long as these investment options meet the fiduciary standards of the Council.

3. The resources of the Division of Investment are too limited. The relatively small staff of 61 is not commensurate with the responsibility of the Division. Moreover, the salaries which attract high quality investors are not currently available. We noted that the committee whose report led to the creation of the Division and the State Investment Council recommended that the investment managers be paid at a level commensurate with their responsibilities. This is not being done currently and should be addressed as soon as possible.

If the State were to allow the operation of the Division to be funded from the returns on investment, this would make available money for outside counsel of a technical sort. Legal counsel, data processing specialists, and investment advisors would be made available to the Division to enhance returns to fund the operation of the investment structure. New Jersey should take advantage of this.

4. All investment professionals of the Division of Investment should serve at the discretion of the State Investment Council. This would be consistent with the statutory purpose of the Investment Council. Current Civil Service regulations are an impediment to fostering the best investment operation.

5. The Investment Council should consider non-economic criteria in its decision-making process only insofar as these criteria have a direct impact on economic criteria. Socially dictated investments and socially sensitive investments are, in the long run, counter-productive. Nonetheless, the efforts which the Division and the Council have made to take into account non-economic criteria have been laudable. The consideration of generally accepted corporate practices, such as those covered by the Sullivan principles, have been a healthy factor in New Jersey's investment policy. These considerations should continue to be made and the Council and the Division should be alert to non-economic considerations which may adversely affect the pension portfolio.

6. The beneficiaries of the pension funds should be the sole concern of the State Investment Council and the Division. Non-beneficiaries should not be taken into account by the Council or the Division in its investment programs. Consequently, it would be appropriate for State statutes to include the ERISA language stipulating the 'sole benefit' provision of that federal law."

Studies commissioned by two governors of different political parties have reviewed and confirmed the mandate of state law that the Division make prudent investments for the sole and direct benefit of the beneficiaries of the several funds.

The Council has responded in full to those recommendations over which the Council has jurisdiction, such as the appropriate asset allocation and breadth of potential investment of the pension funds. However, the Council cannot independently respond to recommendations regarding staffing, compensation and budget support, which are the prerogative of the legislature. During fiscal 1994, the Council again reviewed these issues and has taken them up with the appropriate authorities. As a result of these concerns, recent budgets have provided incremental funding for the Division for certain investment programs. Furthermore, in fiscal 1995, state prudence law was amended to codify the sole benefit provision.

Policies of the Council Towards Social Investment

The State Investment Council has determined that social and financial considerations are not mutually exclusive, and many social considerations may have significant financial implications. Furthermore, investments which benefit the fund beneficiaries need not exclude investments in New Jersey or those which advance other social goals. All of the members of the Council are New Jersey residents, and for many years the Division and the Council have reflected concerns of New Jerseyans through internal policy guidelines. In 1984 these were codified, and they are listed below:

1. The Division of Investment should prefer investments in New Jersey in instances where such investments provide the same or better terms and returns in the marketplace as are available for out-of-state investment and where such investments meet the prudence standards set by law and the State Investment Council.

2. The Division of Investment should review all reasonable investment proposals presented by New Jersey corporations and should report any consequent investment decision to the State Investment Council at one of its regularly scheduled publicly advertised meetings.

3. The Division of Investment should prefer a New Jersey broker, bank or securities dealer in instances where identical bids are received in purchase or sale transactions involving publicly traded homogeneous securities such as money market investments, certificates of deposit and eligible mortgage pools.

4. The Division of Investment should recognize in its evaluation of corporate securities that good corporate citizenship enhances the financial prospects for a corporation, and, conversely, that poor corporate citizenship detracts from such prospects.

5. The Division of Investment should consider the financial effects of citizenship issues in the determination of proxy votes at corporate shareholder meetings.

6. The Division of Investment should prefer investments in New Jersey mortgages in instances where such mortgages meet the fiduciary standards of the Council and provide fair market returns.

7. The Division of Investment should be prepared to identify New Jersey employers on any "approved lists" provided under regulations of the State Investment Council for the purchase of common stocks, commercial paper and certificates of deposit.

8. The Division of Investment should prefer investments in companies which advance the economic development of New Jersey, support alternative energy sources, provide for improvement of the environment, or are controlled by economically disadvantaged individuals, provided such investments meet the fiduciary standards of the Council and provide fair market returns.

In April 1994, Governor Whitman signed legislation which repealed the South Africa sanctions which had been enacted in 1985. The sanctions were repealed after an historic agreement had been reached in South Africa to provide for a transition towards majority rule. The effect of the repeal of the sanctions is to permit the pension and annuity funds of the State to diversify their investments into the securities of corporations and banks which are engaged in business in South Africa. Over the ten fiscal years from 1985 through 1994, the sanctions constrained the potential returns of the pension and annuity funds. In the case of stocks, the returns of the Division's unconstrained approved list of stocks provided a return of 15.1 percent a year, which coincided with the returns of the S&P's 500 over the same period. By comparison, the return of the constrained approved list of stocks was 14.1 percent a year for the period, which coincided with the returns realized by the stock portfolios of the funds.

Voting of Proxy Statements

Each year the Division votes on issues raised in corporate proxy statements. Many of these issues deal not only with routine matters of corporate governance, but also reflect political and social issues. The Division reviews all such issues on a case-by-case basis from a financial point of view. In prior years the Division has supported shareholder resolutions which call for a report on employment practices in South Korea; require companies to leave South Africa, require compliance with World Health Organization standards for the sale of infant formula in underdeveloped countries and require compliance with the MacBride principles in Northern Ireland.

During fiscal 1995, the Division voted on 538 corporate proxies. On 190 proxies the Division voted against the recommendations of corporate management on a total of 250 individual proposals. Of these proposals, 48 concerned changes in corporate governance procedures designed to reduce shareholder voting power, 192 related to executive compensation, three related to compliance of the corporation with the MacBride principles in Northern Ireland, four related to confidential proxy voting, two related to the election of directors and one related to non-discriminatory hiring practices.

**DIVISION OF INVESTMENT
DEPARTMENT OF THE TREASURY
STATE OF NEW JERSEY**

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Members of the
State Investment Council,
Division of Investment,
Department of the Treasury,
State of New Jersey

We have audited the accompanying summaries of amounts invested by fund and investments by major category of the Division of Investment, Department of the Treasury, State of New Jersey, as of June 30, 1995, and the related summaries of investment income by fund and investment activity for the year then ended. These summaries are the responsibility of the Division of Investment's management. Our responsibility is to express an opinion on these summaries based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial summaries are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial summaries. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial summary presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the summaries referred to above present fairly, in all material respects, the investments by fund and major category of the Division of Investment, Department of the Treasury, State of New Jersey, at June 30, 1995, and the related investment income and investment activity for the year then ended, in conformity with generally accepted accounting principles.

August 18, 1995
Princeton, New Jersey

Coopers + Lybrand LLP

SUMMARY OF AMOUNTS INVESTED BY FUND
as of June 30, 1995

	Par, Cost Or Principal Amount— Note 1	Amortized Cost— Note 1	Market— Note 1	Market Over Cost
PENSION AND ANNUITY GROUP				
Consolidated Police and Firemen's Pension Fund	\$ 35,589,971	\$ 35,478,601	\$ 36,072,061	\$ 593,460
Judicial Retirement System of New Jersey	109,382,756	109,303,046	154,247,745	44,944,699
Police and Firemen's Retirement System	5,872,972,559	5,867,886,317	8,357,082,082	2,489,195,765
Prison Officers Pension Fund	703,143	703,143	703,143	—
Public Employees' Retirement System	9,758,512,562	9,750,186,303	14,050,381,503	4,300,195,200
State Police Retirement System	637,667,851	637,615,649	925,726,547	288,110,898
Teachers' Pension and Annuity Fund	11,858,385,430	11,839,265,340	16,983,397,324	5,144,131,984
		28,240,438,399	40,507,610,405	12,267,172,006
STATIC GROUP				
Trustees for the Support of Public Schools Fund	87,427,729	87,092,131	101,902,084	14,809,953
Waste Water Treatment Fund (Act of 1985)	57,837,383	57,837,383	57,837,383	—
Waste Water Treatment Trust Fund (Act of 1985)	1,568,122	1,568,122	1,568,122	—
		146,497,636	161,307,589	14,809,953
DEMAND GROUP				
Atlantic City Casino Parking Fund	6,414,097	6,414,097	6,414,097	—
Atlantic City Tourism Promotion Fund	1,312,908	1,312,908	1,312,908	—
Boarding House Rental Assistance Fund	8,571,102	8,571,102	8,571,102	—
Casino Simulcasting Special Fund	2,365,664	2,365,664	2,365,664	—
Casino Simulcasting Fund	315,532	315,532	315,532	—
Catastrophic Illness in Children Relief Fund (Act of 1987)	15,710,718	15,710,718	15,710,718	—
Clean Communities Account Fund (Act of 1985)	4,985,225	4,985,225	4,985,225	—
Development Fund—Luxury Tax	1,800,343	1,800,343	1,800,343	—
Emergency Services Fund	4,571,281	4,571,281	4,571,281	—
Enterprise Zone Assistance Fund (Act of 1983)	51,637,941	51,637,941	51,637,941	—
Hazardous Discharge Fund (Act of 1986)	21,284,446	21,284,446	21,284,446	—
Health Care Subsidy Fund	202,832,168	202,832,168	202,832,168	—
Higher Education Assistance Fund	39,502,244	39,502,244	39,502,244	—
Luxury Tax Fund	327,712	327,712	327,712	—
Motor Vehicle Security Responsibility Fund	141,930	141,930	141,930	—
New Jersey Automobile Insurance Guaranty Fund	171,098,124	171,098,124	171,098,124	—
New Jersey Insurance Development Fund	40,425,125	40,425,125	40,425,125	—
New Jersey Spill Compensation Fund	54,425,563	54,425,563	54,425,563	—
Petroleum Overcharge Reimbursement Fund	27,021,700	27,021,700	27,021,700	—
Real Estate Guaranty Fund	1,294,266	1,294,266	1,294,266	—
Resource Recovery Investment Tax Fund (Act of 1985)	24,829,791	24,829,791	24,829,791	—
Safe Neighborhoods' Services Fund	19,660,769	19,660,769	19,660,769	—
Sanitary Landfill Facility Contingency Fund	41,100,675	41,663,191	41,164,675	(498,516)
Solid Waste Services Tax Fund (Act of 1985)	10,766,717	10,766,717	10,766,717	—
State Disability Benefits Fund	117,469,644	117,320,620	117,042,094	(278,526)
State of New Jersey Judiciary—Bail Fund	33,439,551	33,439,551	33,439,551	—
State of New Jersey Judiciary—Child Support Fund	21,897,746	21,897,746	21,897,746	—
State of New Jersey Judiciary—Probation Fund	1,872,740	1,872,740	1,872,740	—
State of New Jersey Judiciary—Special Civil Fund	2,082,803	2,082,803	2,082,803	—
State of New Jersey Judiciary—Superior Court/Other/Misc. Fund	16,100,914	16,100,914	16,100,914	—
State Recycling Fund	9,618,339	9,618,339	9,618,339	—
Tourism Improvement Development District Act Fund	9,344	9,344	9,344	—
Unclaimed County Deposits Trust Fund	2,199,076	2,199,076	2,199,076	—
Unclaimed Personal Property Trust Fund	60,102,313	60,102,390	60,065,313	(37,077)
Unemployed Compensation Auxiliary Fund	20,889,904	20,889,904	20,889,904	—
Unsatisfied Claim and Judgment Fund	290,066,134	290,066,134	290,066,134	—
Volunteer Emergency Service Organizations Loan Fund	261,999	261,999	261,999	—
Worker and Community Right to Know Fund	4,600,660	4,600,660	4,600,660	—
Workers' Compensation Security Fund—Mutual	7,095,035	7,096,386	7,087,335	(9,051)
Workers' Compensation Security Fund—Stock	66,200,638	66,205,296	65,994,238	(211,058)
Workforce Development Partnership Fund	75,234,919	75,234,919	75,234,919	—
		1,481,957,378	1,480,923,150	(1,034,228)
TEMPORARY RESERVE GROUP				
Alcohol Education Rehabilitation and Enforcement Fund	7,345,864	7,388,477	7,367,664	(20,813)
Beaches and Harbors Fund (Act of 1977)	1,579,189	1,579,189	1,579,189	—
Capital City Redevelopment Loan and Grant Fund	2,934,142	2,934,142	2,934,142	—
Clean Waters Fund (Act of 1976)	4,857,440	4,857,440	4,857,440	—
Community Development Bond Fund (Act of 1981)	6,955,632	6,955,632	6,955,632	—
Contributory Insurance Fund—PERS	69,419,181	68,065,088	69,068,431	1,003,343

SUMMARY OF AMOUNTS INVESTED BY FUND—(CONTINUED)
as of June 30, 1995

	Par, Cost Or Principal Amount— Note 1	Amortized Cost— Note 1	Market— Note 1	Market Over Cost
TEMPORARY RESERVE GROUP—(continued)				
Contributory Insurance Fund—TPAF	\$ 55,896,093	\$ 54,901,339	\$ 55,717,343	\$ 816,004
Correctional Facilities Construction Fund (Act of 1982)	5,097,265	5,097,265	5,097,265	—
Correctional Facilities Construction Fund (Act of 1987)	26,832,880	26,832,880	26,832,880	—
Emergency Flood Control Fund (Act of 1978)	2,331,440	2,331,440	2,331,440	—
Emergency Medical Technician Training Fund	2,725,752	2,725,752	2,725,752	—
Energy Conservation Fund (Act of 1980)	8,740,443	8,740,443	8,740,443	—
Farmland Preservation Fund (Act of 1981)	923,639	923,639	923,639	—
Farmland Preservation Fund (Act of 1989)	5,210,309	5,210,309	5,210,309	—
General Investment Fund	1,679,777,794	1,679,776,402	1,679,776,794	392
General Trust Fund	15,504	15,504	15,504	—
Green Acres Cultural Centers and Historic Preservation Bond Fund (Act of 1987)	43,109,108	43,109,108	43,109,108	—
Green Trust Fund (Act of 1983)	7,003,073	7,003,073	7,003,073	—
Hazardous Discharge Fund (Act of 1981)	2,860,087	2,860,087	2,860,087	—
Hazardous Discharge Site Cleanup Fund (Act of 1985)	28,759,273	28,759,273	28,759,273	—
Higher Education Buildings Construction Fund (Act of 1971)	55,572	55,572	55,572	—
Higher Education Facility Renovation and Rehabilitation Fund	274,427	274,427	274,427	—
Housing Assistance Fund (Act of 1968)	533,869	533,869	533,869	—
Human Services Facilities Construction Fund (Act of 1984)	4,131,023	4,131,023	4,131,023	—
Institutional Construction Fund (Act of 1978)	86,740	86,740	86,740	—
Institutions Construction Fund (Act of 1976)	20,167	20,167	20,167	—
Jobs, Education and Competitiveness Fund (Act of 1988)	34,323	34,323	34,323	—
Jobs, Science and Technology Fund (Act of 1984)	1,813,166	1,813,166	1,813,166	—
Medical Education Facilities Fund (Act of 1977)	540,633	540,633	540,633	—
Mortgage Assistance Fund (Act of 1976)	3,296,009	3,296,009	3,296,009	—
Natural Resources Fund (Act of 1980)	9,476,949	9,476,949	9,476,949	—
New Home Warranty Security Fund	67,676,148	67,557,262	67,754,338	197,076
New Jersey Bridge Rehabilitation and Improvement and Railroad Right-of-Way Preservation Fund	1,947,522	1,947,522	1,947,522	—
New Jersey Bridge Rehabilitation Fund (Act of 1983)	17,876,229	17,876,229	17,876,229	—
New Jersey Dam Restoration & Clean Water Fund (Act of 1992)	3,744,197	3,744,197	3,744,197	—
New Jersey Farmland Preservation Fund (Act of 1992)	7,075,368	7,075,368	7,075,368	—
New Jersey Green Acres Fund (Act of 1983)	18,552,736	18,552,736	18,552,736	—
New Jersey Green Acres Fund (Act of 1989)	16,326,054	16,326,054	16,326,054	—
New Jersey Green Acres Fund (Act of 1992)	7,550,214	7,550,214	7,550,214	—
New Jersey Green Trust Fund (Act of 1989)	2,062,538	2,062,538	2,062,538	—
New Jersey Green Trust Fund (Act of 1992)	2,729,180	2,729,180	2,729,180	—
New Jersey Local Development Financing Fund	2,287,901	2,287,901	2,287,901	—
New Jersey Medical Malpractice Reinsurance Recovery Fund	17,432,722	17,432,722	17,432,722	—
New Jersey State Dental Program	16,755,840	16,755,840	16,755,840	—
Pension Adjustment Fund	1,997,061	1,997,061	1,997,061	—
Pension Payroll Investment Fund	1,938,638	1,938,638	1,938,638	—
Pinelands Infrastructure Trust Fund (Act of 1985)	7,516,155	7,516,155	7,516,155	—
Pollution Prevention Fund	2,597,607	2,597,607	2,597,607	—
Prescription Drug Program Fund	23,463,200	23,463,200	23,463,200	—
Public Buildings Construction Fund (Act of 1968)	39,355	39,355	39,355	—
Public Purpose Buildings and Community-Based Facilities Construction Fund	30,965,674	30,965,674	30,965,674	—
Public Purpose Buildings Construction Fund (Act of 1980)	4,573,006	4,573,006	4,573,006	—
Resource Recovery and Solid Waste Disposal Facilities Fund (Act of 1985)	32,026,658	32,026,658	32,026,658	—
Safe Drinking Water Fund	6,734,423	6,734,423	6,734,423	—
Shore Protection Fund (Act of 1983)	9,091,444	9,091,444	9,091,444	—
State Facilities for Handicapped Fund (Act of 1973)	1,759,379	1,759,379	1,759,379	—
State Health Benefits Fund	364,081,043	363,702,694	363,781,043	78,349
State Land Acquisition and Development Fund (Act of 1978)	4,293,968	4,293,968	4,293,968	—
State Lottery Fund—Investment	106,197,493	106,197,493	106,197,493	—
State of New Jersey—Alternate Benefit Program	5,428,167	5,428,167	5,428,167	—
State of New Jersey Cash Management Fund— Administrative Expense Fund	1,607,570	1,607,570	1,607,570	—
State of New Jersey Cash Management Fund— Other than State Funds	2,755,334,905	2,755,334,905	2,755,334,905	—
State of New Jersey Cash Management Fund— Reserve Fund	36,739,514	36,739,514	36,739,514	—

SUMMARY OF AMOUNTS INVESTED BY FUND (CONCLUDED)
as of June 30, 1995

	Par, Cost Or Principal Amount— Note 1	Amortized Cost— Note 1	Market— Note 1	Market Over Cost
TEMPORARY RESERVE GROUP—(continued)				
State Recreation and Conservation Land Acquisition and Development Fund (Act of 1974)	\$ 1,662,848	\$ 1,662,848	\$ 1,662,848	—
State Recreation and Conservation Land Acquisition Fund (Act of 1971)	241,170	241,170	241,170	—
Stormwater Management and Combined Sewer Overflow Abatement Fund	15,810,504	15,810,504	15,810,504	—
Transportation Rehabilitation and Improvement Fund (Act of 1979)	133,349	133,349	133,349	—
University of Medicine and Dentistry of New Jersey—Self-Insurance Reserve Fund	69,878,188	69,406,224	69,264,268	(141,956)
Water Conservation Fund (Act of 1969)	1,249,744	1,249,744	1,249,744	—
Water Supply Fund (Act of 1981)	15,095,018	15,095,018	15,095,018	—
Water Supply Replacement Trust Fund	15,847,699	15,847,699	15,847,699	—
		<u>5,677,680,590</u>	<u>5,679,612,985</u>	<u>1,932,395</u>
TRUST GROUP				
New Jersey State Employees' Deferred Compensation Administrative Charges	186,544	186,544	186,544	—
New Jersey State Employees' Deferred Compensation Cash Management Fund	100,451,665	100,451,665	100,451,665	—
New Jersey State Employees' Deferred Compensation Equity Fund	121,202,391	121,202,391	154,094,277	32,891,886
New Jersey State Employees' Deferred Compensation Fixed Income Fund	86,081,934	86,016,930	87,295,741	1,278,811
New Jersey State Employees' Deferred Compensation Holding Account	6,670,905	6,670,905	6,670,905	—
Supplemental Annuity Collective Trust Fund	94,132,705	94,132,705	125,553,963	31,421,258
Tischler Memorial Fund	650,750	645,835	651,500	5,665
		<u>409,306,975</u>	<u>474,904,595</u>	<u>65,597,620</u>
TOTAL AMOUNTS INVESTED BY FUND		<u><u>\$35,955,880,978</u></u>	<u><u>\$48,304,358,724</u></u>	<u><u>\$12,348,477,746</u></u>

See notes to investment summaries.

SUMMARY OF INVESTMENT INCOME BY FUND
for the Year Ended June 30, 1995

	Net Investment Earnings— Note 1	Net Gain— Notes 1 and 2	Total Investment Income
PENSION AND ANNUITY GROUP			
Consolidated Police and Firemen's Pension Fund	\$ 2,220,302	\$ —	\$ 2,220,302
Judicial Retirement System of New Jersey	6,152,923	832,533	6,985,456
Police and Firemen's Retirement System	310,794,756	20,755,857	331,550,613
Prison Officers Pension Fund	72,142	—	72,142
Public Employees' Retirement System	517,971,395	282,318,929	800,290,324
State Police Retirement System	34,538,668	1,643,191	36,181,859
Teachers' Pension and Annuity Fund	614,065,593	289,658,029	903,723,622
	<u>1,485,815,779</u>	<u>595,208,539</u>	<u>2,081,024,318</u>
STATIC GROUP			
Trustees for the Support of Public Schools	5,125,475	2,005,540	7,131,015
Waste Water Treatment Fund (Act of 1985)	4,389,467	—	4,389,467
Waste Water Treatment Trust Fund (Act of 1985)	80,444	—	80,444
	<u>9,595,386</u>	<u>2,005,540</u>	<u>11,600,926</u>
DEMAND GROUP			
Atlantic City Casino Parking Fund	559,065	—	559,065
Atlantic City Tourism Promotion Fund	30,580	—	30,580
Boarding House Rental Assistance Fund	530,550	—	530,550
Casino Simulcasting Special Fund	102,218	—	102,218
Casino Simulcasting Fund	14,063	—	14,063
Catastrophic Illness in Children Relief Fund (Act of 1987)	969,874	—	969,874
Clean Communities Account Fund (Act of 1985)	374,505	—	374,505
Development Fund—Luxury Tax	91,614	—	91,614
Emergency Services Fund	244,213	—	244,213
Enterprise Zone Assistance Fund (Act of 1983)	2,194,602	—	2,194,602
Hazardous Discharge Fund (Act of 1986)	603,428	—	603,428
Health Care Subsidy Fund	5,821,729	—	5,821,729
Higher Education Assistance Fund	1,920,363	—	1,920,363
Luxury Tax Fund	22,503	—	22,503
Motor Vehicle Security Responsibility Fund	7,373	—	7,373
New Jersey Automobile Insurance Guaranty Fund	8,984,071	—	8,984,071
New Jersey Insurance Development Fund	2,340,762	—	2,340,762
New Jersey Spill Compensation Fund	3,320,479	—	3,320,479
Outstanding Checks Account	1,196,707	—	1,196,707
Petroleum Overcharge Reimbursement Fund	1,635,462	—	1,635,462
Real Estate Guaranty Fund	69,227	—	69,227
Resource Recovery Investment Tax Fund (Act of 1985)	1,945,171	—	1,945,171
Safe Neighborhoods' Services Fund	937,371	—	937,371
Sanitary Landfill Facility Contingency Fund	2,190,448	—	2,190,448
Solid Waste Services Tax Fund (Act of 1985)	594,065	—	594,065
State Disability Benefits Fund	6,082,644	—	6,082,644
State of New Jersey Judiciary—Bail Fund	874,551	—	874,551
State of New Jersey Judiciary—Child Support Fund	597,746	—	597,746
State of New Jersey Judiciary—Probation Fund	50,740	—	50,740
State of New Jersey Judiciary—Special Civil Fund	57,803	—	57,803
State of New Jersey Judiciary—Superior Court/ Other/Misc. Fund	243,914	—	243,914
State Recycling Fund	719,866	—	719,866
Tourism Improvement Development District Act Fund	2,111	—	2,111
Unclaimed County Deposits Trust Fund	115,016	—	115,016
Unclaimed Personal Property Trust Fund	3,660,750	—	3,660,750
Unemployment Compensation Auxiliary Fund	881,263	—	881,263
Unsatisfied Claim and Judgment Fund	16,506,331	—	16,506,331
Volunteer Emergency Service Organizations Loan Fund	13,503	—	13,503
Worker and Community Right to Know Fund	223,354	—	223,354
Workers' Compensation Security Fund—Mutual	254,924	—	254,924
Workers' Compensation Security Fund—Stock	3,446,037	—	3,446,037
Workforce Development Partnership Fund	3,256,866	—	3,256,866
	<u>73,687,862</u>	<u>—</u>	<u>73,687,862</u>
TEMPORARY RESERVE GROUP			
Alcohol Education Rehabilitation and Enforcement Fund	523,459	—	523,459
Beaches and Harbors Fund (Act of 1977)	80,030	—	80,030
Capital City Redevelopment Loan and Grant Fund	154,811	—	154,811
Clean Waters Fund (Act of 1976)	275,576	—	275,576

SUMMARY OF INVESTMENT INCOME BY FUND—(CONTINUED)
for the Year Ended June 30, 1995

	Net Investment Earnings— Note 1	Net Gain— Notes 1 and 2	Total Investment Income
TEMPORARY RESERVE GROUP—(continued)			
Community Development Bond Fund (Act of 1981)	\$ 306,676	\$ —	\$ 306,676
Contributory Insurance Fund—PERS	3,234,851	—	3,234,851
Contributory Insurance Fund—TPAF	2,517,371	—	2,517,371
Correctional Facilities Construction Fund (Act of 1982)	265,757	—	265,757
Correctional Facilities Construction Fund (Act of 1987)	1,620,134	—	1,620,134
Emergency Flood Control Fund (Act of 1978)	143,312	—	143,312
Emergency Medical Technician Training Fund	106,296	—	106,296
Energy Conservation Fund (Act of 1980)	579,310	—	579,310
Farmland Preservation Fund (Act of 1981)	60,859	—	60,859
Farmland Preservation Fund (Act of 1989)	443,993	—	443,993
Farmland Preservation Fund (Act of 1992)	281,940	—	281,940
General Investment Fund	63,707,874	—	63,707,874
General Trust Fund	804	—	804
Green Acres Cultural Centers and Historic Preservation Bond Fund (Act of 1987)	2,404,964	—	2,404,964
Green Trust Fund (Act of 1983)	370,190	—	370,190
Hazardous Discharge Fund (Act of 1981)	732,049	—	732,049
Hazardous Discharge Site Cleanup Fund (Act of 1985)	1,071,941	—	1,071,941
Higher Education Buildings Construction Fund (Act of 1971)	2,958	—	2,958
Higher Education Facility Renovation and Rehabilitation Fund	50,249	—	50,249
Housing Assistance Fund (Act of 1968)	28,409	—	28,409
Human Services Facilities Construction Fund (Act of 1984)	102,761	—	102,761
Institutional Construction Fund (Act of 1978)	5,105	—	5,105
Institutions Construction Fund (Act of 1976)	1,365	—	1,365
Jobs, Education and Competitiveness Fund (Act of 1988)	550,272	—	550,272
Jobs, Science and Technology Fund (Act of 1984)	204,250	—	204,250
Medical Education Facilities Fund (Act of 1977)	28,090	—	28,090
Mortgage Assistance Fund (Act of 1976)	174,060	—	174,060
Natural Resources Fund (Act of 1980)	527,844	—	527,844
New Home Warranty Security Fund	3,842,223	—	3,842,223
New Jersey Bridge Rehabilitation Fund (Act of 1983)	944,544	—	944,544
New Jersey Bridge Rehabilitation Fund and Improvement and Railroad Right-of-Way Preservation Fund	774,553	—	774,553
New Jersey Dam Restoration & Clean Waters Fund (Act of 1992)	174,197	—	174,197
New Jersey Green Acres Fund (Act of 1983)	995,345	—	995,345
New Jersey Green Acres Fund (Act of 1989)	282,985	—	282,985
New Jersey Green Acres Fund (Act of 1992)	514,236	—	514,236
New Jersey Green Trust Fund (Act of 1989)	596,644	—	596,644
New Jersey Green Trust Fund (Act of 1992)	207,719	—	207,719
New Jersey Local Development Financing Fund	106,604	—	106,604
New Jersey Medical Malpractice Reinsurance—Recovery Fund	791,536	—	791,536
New Jersey State Dental Program	867,081	—	867,081
Pension Adjustment Fund	602,081	—	602,081
Pension Payroll Investment Fund	816,526	—	816,526
Pinelands Infrastructure Trust Fund (Act of 1985)	374,930	—	374,930
Pollution Prevention Fund	94,484	—	94,484
Prescription Drug Program Fund	1,335,468	—	1,335,468
Public Buildings Construction Fund (Act of 1968)	11,043	—	11,043
Public Purpose Buildings and Community-Based Facilities Construction Fund	2,240,365	—	2,240,365
Public Purpose Buildings and Construction Fund (Act of 1980)	361,040	—	361,040
Resource Recovery and Solid Waste Disposal Facilities Fund (Act of 1985)	1,637,027	—	1,637,027
Safe Drinking Water Fund	361,034	—	361,034
Shore Protection Fund (Act of 1983)	465,551	—	465,551
State Facilities for Handicapped Fund (Act of 1973)	95,241	—	95,241
State Health Benefits Fund	18,848,251	—	18,848,251
State Land Acquisition and Development Fund (Act of 1978)	184,146	—	184,146
State Lottery Fund—Investment	3,403,309	—	3,403,309
State of New Jersey—Alternate Benefits Program	741,653	—	741,653
State of New Jersey Cash Management Fund— Administrative Expense Fund	89,689	—	89,689
State of New Jersey Cash Management Fund— Other than State Funds	167,166,220	—	167,166,220
State of New Jersey Cash Management Fund— Reserve Fund	1,829,456	—	1,829,456

SUMMARY OF INVESTMENT INCOME BY FUND—(CONCLUDED)
for the Year Ended June 30, 1995

	Net Investment Earnings— Note 1	Net Gain— Notes 1 and 2	Total Investment Income
TEMPORARY RESERVE GROUP—(continued)			
State Recreation and Conservation Land Acquisition and Development Fund (Act of 1974)	\$ 81,717	\$ —	\$ 81,717
State Recreation and Conservation Land Acquisition Fund (Act of 1971)	33,092	—	33,092
State Transportation Fund (Act of 1968)	1,408	—	1,408
Stormwater Management and Combined Sewer Overflow Abatement Fund	821,506	—	821,506
Transportation Rehabilitation and Improvement Fund (Act of 1979)	96,407	—	96,407
University of Medicine and Dentistry of New Jersey—Self-Insurance Reserves Fund	3,779,228	—	3,779,228
Veterans' Guaranteed Loan Fund	117	—	117
Water Conservation Fund (Act of 1969)	42,644	—	42,644
Water Supply Fund (Act of 1981)	2,146,176	—	2,146,176
Water Supply Replacement Trust Fund	767,853	—	767,853
	<u>299,082,889</u>	<u>—</u>	<u>299,082,889</u>
TRUST GROUP			
New Jersey State Employees' Deferred Compensation Administrative Charges	17,779	—	17,779
New Jersey State Employees' Deferred Compensation Cash Management Fund	4,771,191	—	4,771,191
New Jersey State Employees' Deferred Compensation Equity Fund	3,318,572	270,442	3,589,014
New Jersey State Employees' Deferred Compensation Fixed Income Fund	5,503,967	—	5,503,967
New Jersey State Employees' Deferred Compensation Holding Account	301,875	—	301,875
Supplemental Annuity Collective Trust Fund	3,088,387	2,016,266	5,104,653
Tischler Memorial Fund	34,919	—	34,919
	<u>17,036,690</u>	<u>2,286,708</u>	<u>19,323,398</u>
TOTALS	<u>\$1,885,218,606</u>	<u>\$599,500,787</u>	<u>\$2,484,719,393</u>

See notes to investment summaries.

SUMMARY OF INVESTMENTS BY MAJOR CATEGORY
as of June 30, 1995

	Par, Cost or Principal Amount— Note 1	Amortized Cost— Note 1	Market— Note 1	Market Over Cost
U.S. Government and other government bonds and obligations	\$ 436,036,000	\$ 432,778,520	\$ 437,092,512	\$ 4,313,992
Industrial bonds and commercial paper	2,500,000	2,499,192	2,595,950	96,758
Telephone bonds	11,100,000	10,980,764	11,071,174	90,410
Gas, electric and water bonds	8,795,000	8,819,441	8,888,286	68,845
Common stocks	224,709,586	224,709,586	301,902,483	77,192,897
Mortgage-backed certificates	1,950,035,491	1,917,351,329	1,947,155,223	29,803,894
Units—Common Pension Fund A	10,627,430,616	10,627,430,616	21,227,073,404	10,599,642,788
Units—Common Pension Fund B	9,968,511,015	9,968,511,015	10,872,421,274	903,910,259
Units—Common Pension Fund D	3,680,171,626	3,680,171,626	4,413,529,137	733,357,511
Units—Cash Management Fund	9,082,580,281	9,082,580,281	9,082,580,281	—
Other investments	50,000	48,608	49,000	392
TOTAL INVESTMENTS BY MAJOR CATEGORY		<u>\$35,955,880,978</u>	<u>\$48,304,358,724</u>	<u>\$12,348,477,746</u>

See notes to investment summaries.

SUMMARY OF INVESTMENT ACTIVITY
for the Year Ended June 30, 1995

Purchases at cost, excluding common funds:		
Bonds	\$ 176,437,205	
Mortgages	472,489,525	
Stocks	<u>52,811,202</u>	\$ 701,737,933
Purchases of units of common funds:		
At cost	29,902,295,375	
Cost adjustment to units of Common Fund A	<u>6,510,615</u>	29,908,805,990
Unrealized appreciation		4,552,101,076
Discount accretion		3,950,019
Sales, at market		(689,159,353)
Mortgage principal payments, at amortized cost		(95,971,517)
Redemptions, at market		(22,148,683)
Maturities, at par amount		(206,115,000)
Redemptions of units of common funds		(30,234,422,466)
Premium amortization		(789,496)
Realized gains distributed to funds		<u>599,500,788</u>
NET INCREASE IN INVESTMENTS		4,517,489,291
Total amounts invested by funds—Note 2		
Beginning of year		<u>43,786,869,433</u>
Total amounts invested by funds—		
END OF YEAR		<u><u>\$48,304,358,724</u></u>

See notes to investment summaries.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Administration

The operations of the Division of Investment are governed by Chapter 270, Public Law of 1950, as amended, for the purpose of investing in securities for various funds under the jurisdiction of the Department of the Treasury, State of New Jersey. The Division acts in an investment capacity only and receipt and disbursement of cash is a direct function of the respective funds. These financial summaries present the amounts invested by the various pension and other State funds maintained by the Division and are not intended to be a complete presentation of the various funds nor the Division's financial position or results of operations.

Investment Valuation

Investments are stated at market value. State of New Jersey Cash Management Fund units are stated at a cost of a \$1.00 per unit, which approximates market value.

Market values of securities traded on a national securities exchange or reported on the NASDAQ national market are presented at the last reported sales price on the day of valuation. Other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are presented at the last quoted bid price. Other non-traded securities on the valuation date are priced by a commercial pricing service. Market values of Common Pension Fund A, Common Pension Fund B, and Common Pension Fund D are based on the net asset values of the respective fund in which the underlying investment securities are valued via the previously prescribed methods. Par, cost or principal amount, and amortized cost are presented in the summaries for informational purposes.

Investment Transactions

Investment transactions are accounted for on their trade date. Gains or losses from investment transactions are calculated on the average cost basis and recognized as investment income when they occur.

Discount and Premium

Accretion of discount and amortization of premium are recorded on the straight-line basis for investments which mature within one year. For other investments, the effective interest rate method is utilized.

Investment Income

Investment income includes interest earned, dividends, and discount accretion, reduced for premium amortization. Interest and dividend income is accounted for on the accrual basis.

Net Investment Gain

Net investment gain includes realized gains and losses on security transactions and distributed gains from the State of New Jersey Cash Management Fund. No gains were distributed from Common Pension Fund A, Common Pension Fund B or Common Pension Fund D in fiscal year 1995.

Administrative Expenses

Administrative expenses allocable to the Division are paid by the Department of the Treasury, State of New Jersey and, therefore, are not included in the accompanying Summary of Investment Income by Fund.

NOTE 2—INVESTMENT ACTIVITY

Statutes of the State of New Jersey and regulations of the State Investment Council authorize the Division of Investment to invest in obligations of the U.S. Treasury, U.S. Government agencies, and their instrumentalities; obligations of the State of New Jersey or municipal or political subdivisions of the State; commercial paper; bankers acceptances; revenue obligations of public authorities; debt instruments of banks; collateralized notes and mortgages; certificates of deposit; repurchase agreements; equity and convertible equity securities, international debt and equity securities, currencies, and currency futures, options and other common types of investment securities. Investee institutions and organizations are prescribed by the statutes and regulations based on minimum capital, credit history, and other evaluation factors.

The purchase, sale, receipt of income, and other transactions affecting investments are governed by custodial agreements between the investing funds through the State Treasurer and custodian banks as agents for the funds. State laws and policies set forth the requirements of such agreements and other particulars as to the size of the custodial institution, amount of the portfolio to be covered by the agreements, and other pertinent matters.

Government Accounting Standards Board ("GASB") Statement No. 3 requires disclosure of the level of investment risk assumed by the Funds at June 30, 1995. Category 1 includes investments that are insured or registered, or securities held by the Division or its agent in the Funds' name. Category 2 includes uninsured and unregistered investments held by the Fund's trust department or agent in the Funds' name. Category 3 includes uninsured and unregistered investments held by a broker or dealer, or held by the Fund's trust department or agent but not in the Funds' name. As of June 30, 1995, all investments held by the Funds are classified as Category 1.

Federal securities, including federal securities held as collateral on repurchase agreements (\$60,109,083 at June 30, 1995 secured by federal securities), are maintained at Federal Reserve Banks in Philadelphia and New York through the custodian banks in trust for the State of New Jersey. A significant portion of corporate equity and debt securities are maintained by the Depository Trust Company (DTC) or Participants Trust Company (PTC) through the custodian banks in trust for the State of New Jersey.

Investment securities denominated in a foreign currency are maintained by the various established book entry systems, in the countries where available, through the custodian bank in trust for the State of New Jersey. In addition, certain investment securities denominated in a foreign currency are physically maintained by sub-custodian banks within the foreign country. The custodian banks, as agents for the State funds, maintain internal accounting records identifying the securities as securities owned by or pledged to the State funds.

Domestic securities not maintained by the Federal Reserve Banks, DTC or PTC are in the name of a designated nominee representing the securities of a particular State fund which establishes the State fund's unconditional right to the securities.

The investments of the various State of New Jersey counties, municipalities and school districts and the agencies or authorities created by any of these entities, other than their investments in the Cash Management Fund, are not a direct responsibility of the State Investment Council. That investment function is being performed by the Division of Investment as a service under a provision in the law providing that each county, municipality and school district and the agencies or authorities created by any one of these entities may avail itself of the services of any State department or agency as it may require. Accordingly, the accompanying summaries do not include the investments or results of non-cash management fund investment transactions made on behalf of the authorities and agencies.

Realized gains and losses arising from investment activity by Common Pension Fund A, Common Pension Fund B, and Common Pension Fund D consisting of net gains of \$1,712,713,030 in fiscal year 1995, are not reflected in the Summary of Investment Income by Fund. Realized losses arising from foreign currency related transactions by Common Pension Fund D of \$186,918,555 in fiscal year 1995 are not reflected in the Summary of Investment Income by Fund. Undistributed investment income of \$631,212,190 as of June 30, 1995, arising from investment activity by Common Pension Fund D is not reflected in the Summary of Investment Income by Fund. These amounts are not reflected as they were not distributed to the holders of the Funds.

NOTES TO INVESTMENT SUMMARIES

NOTE 3—SUMMARY OF INVESTMENTS BY MAJOR CATEGORY INCLUDING INVESTMENTS OWNED BY THE COMMON PENSION FUNDS AND THE STATE OF NEW JERSEY CASH MANAGEMENT FUND (THE "UNIT FUNDS")

The following is a summary of investments by major category at June 30, 1995, including investments owned by the Common Pension Funds and the State of New Jersey Cash Management Fund, the "Unit Funds." In the Total Amounts Invested by Funds shown in the investment summaries, the Common Pension Funds and the State of New Jersey Cash Management Fund are shown at their unit value.

	Par, Cost Or Principal Amount	Amortized Cost	Market	Market Over (Under) Amortized Cost
U.S. Government and other government bonds and obligations	\$16,198,846,000	\$16,205,681,359	\$16,745,196,200	\$ 539,514,841
Industrial bonds and commercial paper	2,511,351,268	2,509,061,929	2,569,247,377	60,185,448
Finance companies—senior debt	27,500,000	28,189,761	30,808,525	2,618,764
Foreign government bonds and notes	1,784,787,956	1,784,787,956	1,973,245,725	188,457,769
Foreign stock	2,266,998,250	2,266,998,250	2,419,232,346	152,234,096
Telephone bonds	181,175,000	176,554,441	182,836,095	6,281,654
Gas, electric and water bonds	385,139,000	378,541,142	384,591,939	6,050,797
Common stocks	12,882,238,515	12,882,238,515	21,290,384,018	8,408,145,503
Mortgage-backed certificates	1,950,035,491	1,917,351,329	1,947,155,223	29,803,894
Time certificates of deposit	870,000,000	870,000,000	870,000,000	—
Repurchase agreements	60,000,000	60,000,000	60,000,000	—
Other investments	10,247,000	10,224,094	10,800,852	576,758
Total investments		39,089,628,776	48,483,498,300	9,393,869,524
Differences in accounting by unit funds:				
Other assets		2,813,541,259	2,713,353,331	(100,187,928)
Other liabilities		(3,516,366,510)	(2,889,403,753)	626,962,757
Undistributed realized gains and other income		(2,442,544,502)	—	2,442,544,502
Other accounting practices		11,621,955	(3,089,154)	(14,711,109)
Total amounts invested by funds		<u>\$35,955,880,978</u>	<u>\$48,304,358,724</u>	<u>\$12,348,477,746</u>

The following describes the accounting differences between the total amounts invested by Fund and total investments, primarily relating to unit funds:

- I. The summary of investments by major category (page 26) includes the "Par, Cost, or Principal Amount" and "Amortized Cost" of the units of participation at the total purchase price of the units by the participating funds. The total investments shown above reflects the "Par, Cost, or Principal Amount" and "Amortized Cost" of the investments held by the Unit Funds.
- II. Market value as shown for total amounts invested by fund represents the net asset value of the Common Pension Funds and the State of New Jersey Cash Management Fund as of June 30, 1995. The market value included in the total investments shown above reflects the market value of the investments held by the Unit Funds.
- III. Total investments shown above does not reflect the other assets and liabilities of the Unit Funds, e.g., cash, accrued interest receivable, amounts due for investments sold or owed for investments purchased, and undistributed income due to participants. These items are included in calculating the net asset value of the Unit Funds.
- IV. Total amounts invested by funds do not reflect cumulative net realized gains from Unit Funds' investment transactions which have not been distributed to the participating funds. Common Pension Funds A, B and D cumulative net realized gains are distributed at the discretion of the State Investment Council.

NOTES TO INVESTMENT SUMMARIES

NOTE 4—COMMITMENTS

As of June 30, 1995, Common Pension Fund D had entered into the following forward foreign currency exchange contracts as hedges of its investments:

	Contract To Deliver		In Exchange For		Settlement Date	Net Unrealized Appreciation (Depreciation)
	USD	26,152,543	JPY	29,537,000	7/21/95	\$ (3,384,457)
	USD	22,350,531	ESP	24,700,200	7/28/95	(2,349,669)
	USD	44,981,365	DEM	50,682,632	8/21/95	(5,701,267)
	USD	51,818,841	JPY	59,326,000	8/22/95	(7,507,159)
	USD	28,218,828	FRF	30,867,225	10/5/95	(2,648,397)
	USD	53,565,450	DEM	58,043,288	10/19/95	(4,477,838)
	DEM	50,682,632	USD	46,545,648	8/21/95	4,136,984
	JPY	59,326,000	USD	52,698,145	8/22/95	6,627,855
	USD	90,281,466	JPY	102,158,100	11/27/95	(11,876,634)
	USD	38,645,849	CHF	43,898,925	11/30/95	(5,253,076)
	USD	83,381,104	JPY	96,280,000	12/7/95	(12,898,896)
	USD	56,818,182	JPY	65,400,500	9/8/95	(8,582,318)
	USD	37,720,000	AUD	35,182,085	12/8/95	2,537,915
	USD	54,796,287	DEM	61,589,869	9/11/95	(6,793,583)
	USD	52,674,230	DKK	60,064,745	9/21/95	(7,390,515)
	USD	74,204,619	FRF	82,187,440	12/21/95	(7,982,821)
	USD	46,345,811	CAD	47,216,611	9/21/95	(870,800)
	USD	50,609,849	JPY	58,979,000	7/10/95	(8,369,151)
	USD	13,938,549	ITL	14,025,400	7/13/95	(86,851)
	USD	79,410,000	GBP	79,500,255	7/31/95	(90,255)
	USD	19,744,068	ITL	19,462,400	7/31/95	281,668
	CAD	47,216,611	USD	46,197,584	9/21/95	1,019,027
	USD	68,110,869	FRF	73,904,256	2/9/96	(5,793,387)
	USD	59,921,702	SEK	61,587,540	8/9/95	(1,665,838)
	USD	49,656,684	DKK	53,634,079	8/23/95	(3,977,395)
	USD	53,631,627	ESP	57,395,800	9/6/95	(3,764,173)
	USD	57,405,281	JPY	60,207,500	12/11/95	(2,802,219)
	ESP	24,700,200	USD	23,185,718	7/28/95	1,514,482
	USD	40,567,951	SEK	40,508,160	12/21/95	59,791
	JPY	29,489,500	USD	29,222,677	7/10/95	266,823
	JPY	29,489,500	USD	29,383,246	7/10/95	106,254
	USD	47,468,354	ESP	48,394,800	1/22/96	(926,446)
	JPY	60,207,500	USD	62,390,816	12/11/95	(2,183,316)
	USD	40,165,000	GBP	39,488,825	1/29/96	676,175
	USD	31,910,650	ESP	32,234,000	1/29/96	(323,350)
	USD	31,744,268	ESP	32,204,800	2/5/96	(460,532)
	USD	30,579,169	FRF	30,746,100	5/9/96	(166,931)
	USD	65,842,423	CAD	65,149,092	2/13/96	693,331
	USD	72,928,821	DEM	72,806,700	2/13/96	122,121
	USD	58,509,471	DEM	58,372,856	5/13/96	136,615
	USD	48,389,828	JPY	49,180,000	5/16/96	(790,172)
	USD	71,839,080	DEM	73,015,800	6/10/96	(1,176,720)
	USD	60,716,454	SEK	60,169,680	3/14/96	546,774
	JPY	96,280,000	USD	97,656,250	12/7/95	(1,376,250)
	USD	49,215,626	JPY	48,776,400	3/15/96	439,226
	USD	49,164,208	JPY	48,776,400	3/15/96	387,808
						<u>\$(102,117,567)</u>

APPENDIX I
**SUMMARY OF INVESTMENTS BY MAJOR CATEGORY OF INDIVIDUAL PENSION FUNDS (TRADE DATE)
CASH MANAGEMENT FUND**

	Consolidated Police & Firemen's Pension Fund		Judicial Retirement System of New Jersey		Police & Firemen's Retirement System	
	Amortized Cost	Quoted Market	Amortized Cost	Quoted Market	Amortized Cost	Quoted Market
SHORT-TERM OBLIGATIONS						
U.S. Government and other government securities and obligations	\$ 7,386	\$ 7,388	\$ 5,078	\$ 5,079	\$ 220,189	\$ 220,257
Commercial paper	2,421	2,422	1,664	1,665	72,169	72,204
Time certificates of deposit	1,392	1,392	957	957	41,499	41,499
	<u>11,199</u>	<u>11,202</u>	<u>7,699</u>	<u>7,701</u>	<u>333,857</u>	<u>333,960</u>
LONG-TERM BONDS						
U.S. Government bonds and other government securities and obligations	18,608	19,056	36,043	38,165	1,628,941	1,725,235
Industrial bonds	58	59	2,108	2,246	95,560	101,822
Gas and electric bonds	—	—	1,479	1,503	68,105	69,184
Telephone bonds	—	—	662	687	31,051	32,169
Finance companies—senior debt	—	—	113	123	5,116	5,592
Intermediate term corporate notes	16	16	1,731	1,830	78,549	83,021
International Government bonds and notes	—	—	5,890	6,512	330,900	365,840
Other	—	—	346	357	16,617	17,118
	<u>18,682</u>	<u>19,131</u>	<u>48,372</u>	<u>51,423</u>	<u>2,254,839</u>	<u>2,399,981</u>
MORTGAGES						
Mortgage-backed certificates	5,998	6,145	2,420	2,523	718,138	726,564
STOCKS						
Common stock (U.S.)	—	—	49,364	81,855	2,601,110	4,313,122
Common stock (International)	—	—	7,481	7,983	420,301	448,526
	<u>—</u>	<u>—</u>	<u>56,845</u>	<u>89,838</u>	<u>3,021,411</u>	<u>4,761,648</u>
	35,879	36,478	115,336	151,485	6,328,245	8,222,153
Difference due to accounting practices	(400)	(406)	(6,033)	2,763	(460,359)	134,929
	<u>\$35,479</u>	<u>\$36,072</u>	<u>\$109,303</u>	<u>\$154,248</u>	<u>\$5,867,886</u>	<u>\$8,357,082</u>

**INCLUDING INVESTMENTS OWNED BY THE COMMON FUNDS AND THE STATE OF NEW JERSEY
(000's Omitted) at June 30, 1995 (UNAUDITED)**

Prison Officers Pension Fund		Public Employees' Retirement System		State Police Retirement System		Teachers' Pension and Annuity Fund		Totals	
Amortized Cost	Quoted Market	Amortized Cost	Quoted Market	Amortized Cost	Quoted Market	Amortized Cost	Quoted Market	Amortized Cost	Quoted Market
\$462	\$462	\$ 341,131	\$ 341,237	\$ 14,772	\$ 14,776	\$ 347,132	\$ 347,240	\$ 936,150	\$ 936,439
151	151	111,809	111,863	4,841	4,844	113,776	113,831	306,831	306,980
87	87	64,293	64,293	2,784	2,784	65,424	65,424	176,436	176,436
<u>700</u>	<u>700</u>	<u>517,233</u>	<u>517,393</u>	<u>22,397</u>	<u>22,404</u>	<u>526,332</u>	<u>526,495</u>	<u>1,419,417</u>	<u>1,419,855</u>
293	294	3,216,079	3,410,014	226,780	240,835	3,685,837	3,909,888	8,812,581	9,343,487
4	4	191,678	204,292	13,815	14,729	221,085	235,658	524,308	558,810
—	—	135,888	138,071	9,798	9,956	159,997	162,505	375,267	381,219
—	—	62,133	64,400	4,388	4,552	73,938	76,554	172,172	178,362
—	—	10,306	11,264	747	816	11,907	13,014	28,189	30,809
1	1	158,002	167,004	11,431	12,083	182,447	192,846	432,177	456,801
—	—	582,733	644,265	43,370	47,950	821,895	908,680	1,784,788	1,973,247
—	—	32,908	33,911	2,306	2,378	39,798	41,005	91,975	94,769
<u>298</u>	<u>299</u>	<u>4,389,727</u>	<u>4,673,221</u>	<u>312,635</u>	<u>333,299</u>	<u>5,196,904</u>	<u>5,540,150</u>	<u>12,221,457</u>	<u>13,017,504</u>
—	—	499,730	505,962	6,978	6,882	684,088	699,079	1,917,352	1,947,155
—	—	4,407,338	7,308,178	292,390	484,835	5,307,327	8,800,493	12,657,529	20,988,483
—	—	740,175	789,879	55,088	58,787	1,043,953	1,114,056	2,266,998	2,419,231
<u>—</u>	<u>—</u>	<u>5,147,513</u>	<u>8,098,057</u>	<u>347,478</u>	<u>543,622</u>	<u>6,351,280</u>	<u>9,914,549</u>	<u>14,924,527</u>	<u>23,407,714</u>
998	999	10,554,203	13,794,633	689,488	906,207	12,758,604	16,680,273	30,482,753	39,792,228
(295)	(296)	(804,017)	255,749	(51,872)	19,520	(919,339)	303,124	(2,242,315)	715,383
<u>\$703</u>	<u>\$703</u>	<u>\$9,750,186</u>	<u>\$14,050,382</u>	<u>\$637,616</u>	<u>\$925,727</u>	<u>\$11,839,265</u>	<u>\$16,983,397</u>	<u>\$28,240,438</u>	<u>\$40,507,611</u>

UNAUDITED COMMON PERFORMANCE DISCLOSURE FORM FOR PUBLIC FUNDS

	Avg. Annual Return 5 Years Ended 6/30/95	One Year Period Ended				
		6/30/91	6/30/92	6/30/93	6/30/94	6/30/95
TOTAL RETURN						
Aggregate of All Pension Funds	10.7%	9.3%	13.8%	12.5%	-0.7%	19.7%
Consumer Price Index	3.3%	4.7%	3.0%	3.0%	2.5%	3.0%
STOCK TOTAL RETURNS						
Common Pension Fund A—All Stocks	11.4%	8.1%	12.7%	12.3%	-0.7%	26.0%
Common Pension Fund A—Small Capitalization Stocks	—	29.3% (1)	32.6%	21.2%	5.9%	27.1%
Approved List—Before Divestment	12.4%	8.6%	13.3%	13.0%	1.6%	27.0%
Approved List—South Africa Free	12.7%	7.6%	14.5%	14.6%	1.1%	27.0%
Dow Jones Industrial Average	13.0%	4.7%	17.1%	9.2%	6.0%	29.2%
Standard & Poor's 500 Index	12.1%	7.4%	13.4%	13.6%	1.4%	26.1%
FIXED INCOME TOTAL RETURNS						
Common Pension Fund B and Other Bonds	10.1%	10.3%	14.7%	14.0%	-1.4%	13.6%
Lehman Brothers Government/Corporate Bond Index	9.6%	10.2%	14.2%	13.2%	-1.5%	12.7%
Salomon Brothers High Grade Bond Index (AA and AAA)	11.2%	10.6%	16.8%	16.3%	-3.6%	17.6%
Salomon Brothers Broad Bond Index	9.5%	10.8%	14.1%	12.0%	-1.2%	12.6%
MORTGAGES—TOTAL RETURNS						
Pension fund holdings	9.7%	12.0%	15.8%	9.2%	-1.6%	13.9%
Salomon Brothers Mortgage Index	9.1%	12.0%	14.0%	9.1%	-0.9%	12.1%
INTERNATIONAL TOTAL RETURNS						
Common Fund D Total—Hedged	—	—	22.3%	9.8%	2.7%	9.1%
Common Fund D Fixed Income	—	—	23.4%	9.4%	-0.1%	20.6%
Common Fund D Stocks	—	—	NM	15.6%	13.3%	10.1%
Approved List—International Stocks	—	—	—	18.6%	13.7%	6.2%
Salomon World Gov. Bonds Index—Unhedged	12.9%	10.0%	20.5%	10.9%	5.1%	18.8%
EAFE International Stock Index	4.7%	(11.5)%	(0.7)%	20.3%	17.0%	1.7%
CASH EQUIVALENTS						
Total Returns—Cash Management Fund—Compounded	5.3%	7.9%	5.5%	3.8%	3.6%	5.5%
91-Day Treasury Bills	4.5%	6.8%	4.7%	3.1%	3.2%	4.9%

(1) For six months ended June 30, 1991

Several public funds have voluntarily undertaken to create common standards for reporting returns. This table is provided in accordance with the Division's desire to further comparability of public fund reporting.

The aggregate total returns shown on the above table are estimates, and are shown for illustrative purposes only. The Division does not have the resources to price all of its securities on a periodic basis, which would be necessary for an accurate calculation of total returns which includes both income and changes in market values.

