



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

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FIFTIETH ANNUAL REPORT

For the Fiscal Year Ended June 30, 2000



CHRISTINE TODD WHITMAN
Governor



ROLAND M. MACHOLD
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, 2000

November 15, 2000

To The Honorable
Governor;
Legislature;
State Treasurer:

We are pleased to submit this Annual Report of the Division of Investment, Department of the Treasury, for the fiscal year ended June 30, 2000, as required by Section 13, P.L. 1950, c.270. The report is a summary of the activities of the Division during the year. A separate annual report is also prepared for the State of New Jersey Cash Management Fund, which is available upon request from the Investment Division.

The Division, under the jurisdiction of the State Investment Council, has the investment responsibility for 169 funds, including seven pension and annuity funds. The cost basis of all funds on June 30, 2000, was \$51.6 billion, compared with \$48.7 billion at the end of the prior fiscal year, and the fair (or market) value of the funds was \$94.1 billion, compared with \$86.2 billion at the end of the previous fiscal year. The Council includes eleven 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 the 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 the pension fund boards and to the Council are subject to the advice and consent of the State Senate. State law requires that no Council member shall hold any office, position or employment with any political party, and none can benefit from the transactions of the Division.

The investment of state funds by the Division benefits all citizens of the State of New Jersey. The investment 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 well in excess of actuarial guidelines in fiscal 2000, as the domestic stock market rally continued, and the international markets earned exceptionally strong returns. The estimated total return of the pension funds, which includes changes in fair (or market) values of the securities held by the funds and dividend and interest income over the year, was 11.9 percent, which compares with a 16.1 percent return in fiscal 1999. For the past five and ten fiscal years the estimated annual total return earned by the pension funds was 17.7 percent and 14.2 percent, respectively. These total returns of the pension funds ranked the Division in the top quartile of all State fund managers for both five- and ten-year time 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 March 1997, by P.L. 1997, c.26. 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 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.

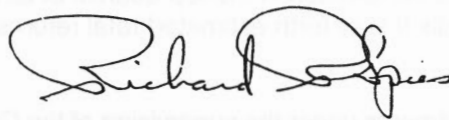
Over the years, members of the public, political figures and lobbyists have raised the question of whether investments under the jurisdiction of the Council should be guided by non-financial considerations. Such investments could be directed regionally or toward specific capital markets or could be averted 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 support 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 more 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 2000, the Council again addressed the issue of the asset allocation of the pension funds, and decided to permit up to 5 percent of the pension fund's international portfolio be invested in certain emerging markets countries.

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

Respectfully submitted,



Richard R. Spies
Chair

The State Investment Council



RICHARD R. SPIES
Chair of the Council



BARRY ROBERSON
State Police Retirement
System; Vice Chair of
the Council



RONALD J. BURTON



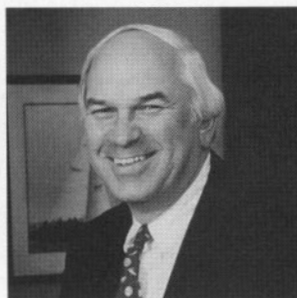
THOMAS C. GONNELLA



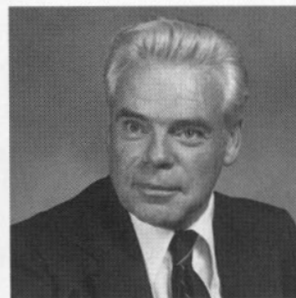
ROBERT T. HOFFMAN



CHERYL A. MILLS



J. PETER SKIRKANICH



HARRY W. BALDWIN
Teachers' Pension and
Annuity Fund



**SUZANNA M.F.
BURIANI-DESANTIS**
Public Employees'
Retirement System

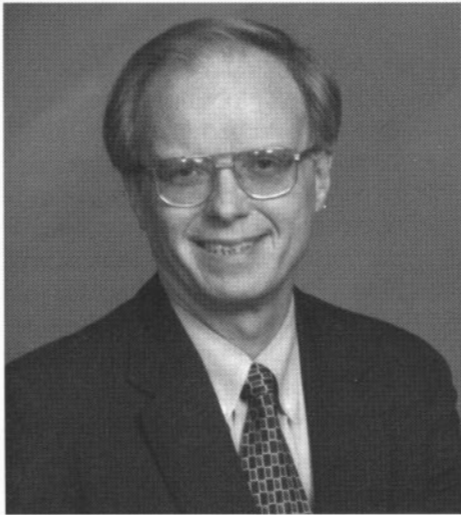


NANCY A. NAUGHTON
Consolidated Police and
Firemen's Retirement
System



KATHLEEN SWEENEY
Police and Firemen's
Pension Fund

Division of Investment



STEVEN E. KORNRUMPF
Director



WILLIAM G. CLARK
Deputy Director



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



Administration Group: Cindy Everett, Joanne Yakelewicz, Cathy Ryan, Celeste Brennan, Gilles Michel, Steven Kornrumpf, Danielle Scholl, Linda Thompson and Bill Clark.



Portfolio Management Group: Maneck Kotwal, Sandra Holmes, Jeff Lebowitz, Linda Brooks and Brian Arena. Not pictured is: Karin Hollinger.



Trading and MIS Groups: Rob Rosati, Don Sward, Sandi Beale, Rob Schragger, Ed Burns, Vince Pagnotta, Jack Jacknowitz, John Penza, Michael Wszolek and Tim Patton. Not pictured are: Ellie Chiaramonti, Celia Daino, Mary Ann Smith and Nick Maximeria.



Research Group: Linda Gaspari, Jim Vandervort, Vivian Velenger, Tom Montalto, Ed Pittman, Kevin Onderdonk, Sharon Montalto, Betty Carr and William Trent.

Division of Investment



Common Fund Accounting Group: Jeff Taylor, Elsie Lawrence, Dan Costanzo, John Jusiewicz, Manick Jhingade, Andrea Szul and Patty DiMemmo. Not pictured is: Lisa DiGiorgio.



Auditing Group: Ken Scott, Olga Grozio, Bart Pericoloso, Heather Rodriguez, Nancy Brancolino and Charles Coleman.



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



International Group: Bruce Smith, Victor Mostrowski, Vitaly Smirnov, Danielle Scholl and Kersti Alabert.

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

The Year's Activities

Presented by the Board of Directors

August 1998



International Accounting: Patti Hricak, Dolores Ewanis, Carletha Murray, Sharon Scully, Mary Vassiliou, Valerie Oscilowski and Chris Eckel.

FIVE YEAR SUMMARY

Fiscal Year Ended June 30,

	1996	1997	1998	1999	2000
	\$ Millions				
FUNDS UNDER THE SUPERVISION OF THE STATE INVESTMENT COUNCIL:					
Cost Basis at Year End (1):					
Pension Funds	\$30,067	\$34,248	\$35,988	\$39,272	\$40,688
All Funds	37,810	42,035	44,488	48,700	51,564
Fair (or Market) Value at Year End:					
Pension Funds	\$45,620	\$56,632	\$67,314	\$76,230	\$82,553
All Funds	53,505	64,693	76,243	86,246	94,064
Fair (or Market) Value of Pension Funds at Year End by Category:					
Short-term obligations	\$ 1,568	\$ 4,120	\$ 2,309	\$ 4,424	\$ 3,801
Long-term bonds	13,934	14,404	17,831	18,954	19,366
Mortgages	2,225	2,490	2,571	3,499	4,488
Stocks	27,047	34,825	43,683	49,338	54,871
Accounting differences	846	793	920	15	27
Total	\$45,620	\$56,632	\$67,314	\$76,230	\$82,553
Investment Income (1):					
Pension Funds					
Net Income and Realized Gains (Losses)	\$ 2,848	\$ 2,610	\$ 3,092	\$ 4,598	\$ 3,814
Unrealized Appreciation (Depreciation)	3,286	6,831	8,941	5,632	4,906
Total	\$ 6,134	\$ 9,441	\$12,033	\$10,230	\$ 8,720
All Funds					
Net Income and Realized Gains (Losses)	\$ 3,249	\$ 3,015	\$ 3,516	\$ 5,060	\$ 4,372
Unrealized Appreciation (Depreciation)	3,347	6,963	9,093	5,791	4,955
Total	\$ 6,596	\$ 9,978	\$12,609	\$10,851	\$9,327
Total Rate of Return (2):					
Common Pension Fund A (3)	23.4 %	32.3%	30.8%	27.4%	12.3%
Common Pension Fund B (3)	4.4	8.0	11.8	2.8	4.3
Common Pension Fund D (3)	14.0	16.2	15.6	4.9	21.1
All Pension Funds, Estimated (3)	16.1	22.1	22.7	16.1	11.9
Supplemental Annuity Collective Trust	23.8	30.2	27.7	22.6	5.4
Deferred Compensation Plan—Equity	24.4	34.3	29.3	28.7	10.3
Deferred Compensation Plan—Fixed Income	4.9	6.5	8.8	4.6	4.5
Deferred Compensation Plan—Small Cap Equity (5)	—	17.0	24.6	27.1	17.8
Returns of Various Market Indices:					
Salomon Brothers Mortgage Index	5.8 %	9.0%	8.9%	4.1%	5.1%
Lehman Government/Corporate Bond Index	4.7	7.8	11.3	2.7	4.3
S&P 500 Index	26.0	34.7	30.2	22.8	7.3
S&P 1500 Index	25.2	32.8	29.3	21.4	8.1
Dow Jones Industrial Average	27.1	38.6	18.5	24.7	-3.3
Salomon Brothers World Gov. Bond Index—Unhedged	0.4	3.9	4.3	4.9	3.2
EAFE International Stock Index	13.3	12.4	6.1	7.6	17.1
State of New Jersey Cash Management Fund:					
Book Value of Units of Participation:					
All Participants	\$ 9,753	\$12,463	\$11,838	\$14,157	\$13,811
Other-than-State Participants	2,942	2,954	3,366	3,804	3,958
Average Annualized Daily Rate of Return (4):					
State Participants	5.60 %	5.47%	5.56%	5.15%	5.58%
Other-than-State Participants	5.40	5.29	5.41	4.98	5.50
Number of Funds Under the Supervision of the State Investment Council					
Total Number of Transactions	137	149	152	160	169
	45,413	43,944	46,663	48,883	52,465

1. Fiscal years 1998 through 2000 are presented at original cost while prior years include amortization of premiums and accruals of discounts. This change conforms to Government Accounting Standards Board Statement No. 31 (GASB-31).
2. Total rate of return, income and changes in the fair (market) prices for securities held by the funds during the period shown.
3. 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 include cash equivalents held. Returns for stocks and bonds alone are shown in Appendix II.
4. Simple interest.
5. The fiscal 1997 rate of return for the Deferred Compensation Plan Small Capitalization Equity Fund is for the quarter ending June 30, 1997 only.

The Year's Activities

Summary Financial Information

The 169 investment funds under the supervision of the Council on June 30, 2000, had a cost (or book value) of \$51.6 billion. The investment funds had a fair (market) value of \$94.1 billion at June 30, 2000, an increase of 9.2 percent over the fair value of \$86.2 billion at June 30, 1999. The fair value of the seven pension funds increased from \$76.2 billion at June 30, 1999, to \$82.6 billion at June 30, 2000. The fair value of the pension funds rose in large part due to a continuing strong rally in both the domestic and international stock markets.

The total investment income for all funds for fiscal 2000 amounted to \$9.3 billion as compared with \$10.9 billion last year. These amounts include the change in fair value and realized gains by fund as required by the Government Accounting Standards Board Statement No. 31.

During the year, the Division of Investment purchased securities with a cost of \$167.9 billion. Approximately 50.6 percent of this amount, or \$84.9 billion, represented the overnight investment of surplus balances in the State's cash accounts. In fiscal 1999, the Division purchased securities with a cost of \$136.0 billion, of which \$74.6 billion was generated by overnight investments. During fiscal 2000, the Division's net holdings of mortgages increased from \$3.5 billion to \$4.5 billion.

The Division sold securities totaling \$58.9 billion in fiscal 2000, compared with sales of \$47.7 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 \$4.2 billion during the year, almost identical with the prior year. Net realized profits as a result of settlements of currency hedges in Common Pension Fund D amounted to \$10.5 million in fiscal 2000, compared with \$3.1 million for the prior year. The transaction information in this paragraph includes transactions effected within the common funds, but are not included in the financial summaries of 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 8.75 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 fair value of assets, but shall not exceed the assumed percentage rate of increase applied to salaries plus 3 percent. At present the average assumed percentage rate of increase applied to salaries is 5.95 percent.

Fixed Income

The pension fund allocation of domestic fixed income securities was increased by a net amount of \$3.7 billion in fiscal 2000 due to attractive corporate and mortgage yield spreads available in the market.

In fiscal 2000, the Division purchased \$1.3 billion of FHLMC, FNMA, and GNMA 15-year and 30-year mortgage-backed securities. Principal repayments on mortgage-backed securities held by the Division for fiscal 2000 totaled \$301 million.

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. The Division has purchased in recent years several 100 percent New Jersey mortgage pools guaranteed by FHLMC.

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 2000, the Fund purchased \$77.1 million of such mortgages.

Common Pension Fund B is the vehicle for investment by the pension funds in U.S. dollar-denominated debt securities. In fiscal 2000, the cash flow of this Fund was increasingly directed towards investment in corporate securities, due to the widening yield premiums offered on corporate debt. In fiscal 2000, the fund purchased \$2.0 billion of corporate debt securities, compared with a similar amount in the prior year.

The Division maintains a "roll" program for U.S. Treasury and Agency debt securities. A "roll" is defined as the simultaneous sale of a security coupled with its repurchase at a later date. Proceeds from the sale are invested in the State of New Jersey Cash Management Fund. In fiscal 2000, the Division "rolled" \$34.3 billion of securities at a profit of \$3.1 million, compared with \$20.3 billion of securities at a profit of \$1.3 million in fiscal 1999.

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, 2000, the fair (or market) value of the units of ownership of Common Pension Fund A, Common Pension Fund B and Common Pension Fund D were \$41.4 billion, \$17.7 billion and \$16.4 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 fair values of securities in a portfolio over a specific period of time. The calculation includes unrealized appreciation or depreciation 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. The historical returns are shown on page 8 herein.

New England Pension Consultants has provided the Division with calculations of total rates of return, and their data shows that the total rates of return for Common Pension Funds A, B and D in fiscal 2000 were 12.3 percent, 4.3 percent and 21.1 percent, respectively. The estimated total rates of return for the active pension fund portfolios were approximately 11.9 percent in fiscal 2000, compared with returns of 16.1 percent in fiscal 1999 and 22.7 percent in fiscal 1998. It is sometimes 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 \$522 million par value of assets of the mortgage loan program with an appraised value of \$479 million at June 30, 2000.

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 by the State ("Other-than-State" participants) to participate in the Fund on a voluntary basis.

The total fair value of the units of participation in the Fund decreased from \$14.1 billion at June 30, 1999 to \$13.8 billion at June 30, 2000. The fair value as required by GASB 31 of the Cash Management Fund units equates to \$0.9998 versus the historical value of \$1.00 per unit.

The total income of the Fund was \$749 million in fiscal 2000, and \$622 million in fiscal 1999.

The number of participating State funds increased from 160 to 169 in fiscal 2000. The number of "Other-than-State" participants increased from 1,051 to 1,069 during the year, and the aggregate investment of "Other-than-State" participants was \$4.0 billion at the end of fiscal 2000, compared with \$3.8 billion at the end of fiscal 1999.

The average daily annualized rate of return to participating State accounts and accounts of the pension funds was 5.58 percent during fiscal 2000, compared with 5.15 percent in fiscal 1999. The average daily annualized rate of return to "Other-than-State" participants, which is net of two small charges, was 5.50 percent in fiscal 2000, compared with 4.98 percent in fiscal 1999.

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 2000 was 5.73 percent, compared with 5.18 percent in the prior year. The higher rates of return during fiscal 2000 were the result of rising interest rates available in the markets for short-term debt investments.

Historical Background

Legislative History

Fiscal 2000 marks fifty 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 169 funds in 2000, with a book value of \$51.6 billion and a fair value of \$94.1 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 Office of Administrative Law 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, and reasonable discretion exercise (P.L. 1997, c.26).

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 by 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. 1992, 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 March 1997, Governor Whitman signed into law an act, P.L. 1997, c.26, which amended and supplemented 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 diversified pools of venture capital and securities loan transactions. Also, certain other forms of investment are permitted, including limited partnerships and investment trusts.

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. In fiscal 1996, the Council acted to increase the permissible level of aggregate pension fund stock holdings in Common Pension Funds A and D from 60 percent to 70 percent of the fair value of the active pension funds. At June 30, 2000, the aggregate common stock holdings of the pension funds were 66.5 percent of the total fair 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 Department of State.

The Council continually 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 regulatory review process in fiscal 1996 and were

readopted with various modifications and clarifications.

In fiscal 1996, the Council approved an increase in the maximum permitted investment by the pension funds in stocks from 60 percent to 70 percent of the fair value of the portfolios of the active pension funds. Studies by the Division show that investment in stocks provides higher but more volatile returns than investments in bonds over the long term.

In fiscal 1997, the Council reviewed its policies towards currency hedging in Common Pension Fund D, the pension funds' vehicle for investing in international securities. The Division's returns on currency hedging have been positive on balance since the inception of the international investment program in fiscal 1991. However, the returns were very volatile, and in July 1997, the Council modified its regulations to limit hedging of international stocks to unusual circumstances, and to state that the objective of hedging international bonds was to improve and protect the inherent returns of the portfolio.

Also, in fiscal 1997, the Division instituted a new investment option for the State's Deferred Compensation Plan, a Small Capitalization Equity Fund.

In fiscal 1999, the Division instituted an investment program for the Office of Student Assistance to provide a savings plan for higher education known as the New Jersey Better Educational Savings Trust (NJBEST).

In fiscal 2000, the Council initiated an investment program for emerging markets equities by permitting up to 5 percent of Common Pension Fund D to be invested in such securities.

Reviews of Major Policy Issues

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 non-professional 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 provide for a satisfactory range of investment opportunities within the Council's fiduciary standards, and that new investment opportunities could be considered in the traditional manner as they arose.

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

a. The company should have growth in revenues and earnings which exceed growth in the Gross 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.

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. The most significant changes permitted the Division to invest up to 60 percent of the total fair value of the assets of the active pension funds 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 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 fair value of total pension fund assets to 20 percent. As a consequence of the passage of P.L. 1995, c.48, which modified the State's prudency law, the Council also considered new asset classes, such as real estate and emerging international markets, as potential areas for further diversification of the pension funds. After careful consideration, the Council decided to defer any action on investment in either real estate or emerging markets. However, the Council acted to increase the maximum permitted investment by the active pension funds in stocks from 60 percent to 70 percent of the total fair value of the pension fund portfolios.

In fiscal 1996, the Council again reviewed all of its regulations in view of their prospective expiration under the State's Sunset Law. All regulations were

modified to add clarity where needed, and all were readopted.

In fiscal 1997, the Council reviewed its currency hedging policies, and acted to modify its policy by limiting hedging of international stocks to unusual circumstances and by stating that the objective of hedging international bonds was to improve and protect the inherent returns of the portfolio.

Also, in fiscal 1997, the Council received a report from the State Auditor, who had undertaken to determine whether the Division is properly executing its fiduciary responsibility in its portfolio management, specifically whether it properly structures, monitors and analyzes the investment portfolios and activities, controls investment risk and expense and properly measures and evaluates investment performance. The report concluded that the Division properly fulfills these functions. The report cited certain control weaknesses, which have been addressed by the Division, and also noted that the Division is not in technical compliance with the State's bank custody law. Legislation has been introduced which would remedy this problem.

In June 1997, the State issued \$2.7 billion of Pension Obligation Bonds, the proceeds of which were applied to the unfunded liabilities of the pension plans.

In fiscal 2000, the Council again reviewed the major asset allocation categories of the pension funds, and the decision to invest in emerging markets equities was approved. The maximum allocation to emerging markets equities was set at 5 percent of the assets of Common Pension Fund D and was limited to companies domiciled in the following five countries: Brazil, Mexico, Greece, Hong Kong and South Korea.

The Council also acted to increase the maximum overall exposure to international securities from 20 to 22 percent of the total portfolio.

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 the asset allocation policies of the pension funds.

Almost all of the investment transactions of the Division are effected through competitive bidding. In specific markets which require that the Division exer-

cise 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.

In fiscal 2000, the transactions of the Division generated total commissions, both actual and implied, of \$33.2 million, including \$18.0 million of domestic stock commissions. Of this amount, \$3.5 million was

directed to pay for fixed-fee charges for performance measurement and access to various economic and financial databases.

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 State's prudence law (P.L. 1997, c.26) provides that "the fiduciary shall be under a duty to manage and invest the portfolio solely in the interests of the trust and beneficiaries and for the exclusive purpose of providing financial benefits to trust participants." The Council has taken the position that the Division is bound by law to make prudent investments for the exclusive 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.

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, counterproductive. 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 took 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 1997, 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 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 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 invest-

ments 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 Investment Council and provide fair market returns.

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 2000, the Division voted on 1,318 U.S. corporate proxies. On 833 proxies, the Division voted with management on all issues. On 485 proxies the Division voted against the recommendations of corporate management on a total of 586 individual proposals. Of these proposals, 438 related to executive compensation, 88 related to corporate governance, five related to compliance of the corporation with the MacBride Principles in Northern Ireland, six related to confidential proxy voting, 42 related to the election of directors and seven related to tobacco advertising to minors.

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

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying summary of amounts invested by fund and summary of investments by major category of the Division of Investment, Department of the Treasury, State of New Jersey, including the related summary of investment income by fund as of June 30, 2000, and the summary of 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.

As described in Note 1, these summaries are not intended to be a complete presentation of the Funds' net assets or operations.

In our opinion, the summaries referred to above present fairly, in all material respects, the investments by fund and by major category of the Division of Investment, Department of the Treasury, State of New Jersey as of June 30, 2000, and the related investment income and investment activity for the year then ended, in conformity with generally accepted accounting principles.

August 18, 2000.

Ernst & Young LLP

SUMMARY OF AMOUNTS INVESTED BY FUND
as of June 30, 2000

	Par, Cost or Principal Amount— Note 1	Cost— Note 1	Fair Value— Note 1	Fair Value Over (Under) Cost
PENSION AND ANNUITY GROUP				
Consolidated Police and Firemen's Pension Fund	\$ 35,187,345	\$ 35,283,703	\$ 34,815,519	\$ (468,184)
Judicial Retirement System of New Jersey	235,548,409	234,794,554	415,387,460	180,592,906
Police and Firemen's Retirement System	9,288,995,125	9,275,749,545	18,114,528,778	8,838,779,233
Prison Officers Pension Fund	18,010,851	18,041,749	17,911,929	(129,820)
Public Employees' Retirement System	13,022,912,480	13,004,337,324	27,082,721,040	14,078,383,716
State Police Retirement System	986,071,979	984,275,256	1,970,450,976	986,175,720
Teachers' Pension and Annuity Fund	17,159,357,747	17,135,747,646	34,916,816,474	17,781,068,828
	<u>40,746,083,936</u>	<u>40,688,229,777</u>	<u>82,552,632,176</u>	<u>41,864,402,399</u>
STATIC GROUP				
Trustees for the Support of Public Schools Fund	93,594,107	92,982,219	161,835,682	68,853,463
Waste Water Treatment Fund (Act of 1985)	301,849,667	301,849,667	301,787,935	(61,732)
Waste Water Treatment Fund (Act of 1992)	2,712,911	2,712,911	2,712,357	(554)
	<u>398,156,685</u>	<u>397,544,797</u>	<u>466,335,974</u>	<u>68,791,177</u>
DEMAND GROUP				
Atlantic City Casino Parking Fund	259,933	259,933	259,879	(54)
Atlantic City Tourism Promotion Fund	205,875	205,875	205,832	(43)
Boarding House Rental Assistance Fund	2,841,291	2,841,291	2,840,709	(582)
Body Armor Replacement Fund	4,102,787	4,102,787	4,101,947	(840)
Casino Simulcasting Fund	2,062,838	2,062,838	2,062,416	(422)
Casino Simulcasting Special Fund	4,204,445	4,204,445	4,203,585	(860)
Catastrophic Illness in Children Relief Fund (Act of 1987)	11,688,292	11,688,292	11,685,900	(2,392)
Clean Communities Account Fund (Act of 1985)	6,701,667	6,701,667	6,700,297	(1,370)
Development Fund—Luxury Tax	1,644,584	1,644,584	1,644,248	(336)
Division of Motor Vehicles Surcharge Fund	3,418,573	3,418,573	3,417,874	(699)
Dredging & Containment Facility Fund	36,416,855	36,416,855	36,409,407	(7,448)
Emergency Services Fund	20,781,796	20,781,796	20,777,546	(4,250)
Enterprise Zone Assistance Fund (Act of 1983)	181,517,024	181,517,024	181,479,901	(37,123)
Hazardous Discharge Fund (Act of 1986)	9,480,422	9,480,422	9,478,483	(1,939)
Health Care Subsidy Fund	38,769,511	38,769,511	38,761,583	(7,928)
Higher Education Assistance Fund	32,726,166	32,726,166	32,719,473	(6,693)
Higher Education Assistance Operating Fund	28,108,520	28,108,520	28,102,771	(5,749)
Korean Veterans' Memorial Fund	941,779	941,779	941,587	(192)
Luxury Tax Fund	368,040	368,040	367,965	(75)
Motor Vehicle Security Responsibility Fund	142,373	142,373	142,344	(29)
New Jersey Automobile Insurance Guaranty Fund	186,161,422	186,161,422	186,123,349	(38,073)
New Jersey Insurance Development Fund	43,722,949	43,722,949	43,714,007	(8,942)
New Jersey Spill Compensation Fund	53,542,019	53,542,019	53,531,069	(10,950)
Petroleum Overcharge Reimbursement Fund	16,599,621	16,599,621	16,596,226	(3,395)
Real Estate Guaranty Fund	1,663,922	1,663,922	1,663,582	(340)
Resource Recovery Investment Tax Fund (Act of 1985)	351,501	351,501	351,429	(72)
Sanitary Landfill Facility Contingency Fund	28,001,238	28,001,238	27,995,512	(5,726)
Solid Waste Services Tax Fund (Act of 1985)	7,244,875	7,244,875	7,243,393	(1,482)
State Disability Benefits Fund	105,053,387	105,053,387	105,031,903	(21,484)
State of New Jersey Judiciary—Bail Fund	33,557,995	33,557,995	33,551,132	(6,863)
State of New Jersey Judiciary—Child Support Fund	30,325,076	30,325,076	30,318,874	(6,202)
State of New Jersey Judiciary—Probation Fund	7,723,576	7,723,576	7,721,996	(1,580)
State of New Jersey Judiciary—Special Civil Fund	2,407,973	2,407,973	2,407,480	(493)
State of New Jersey Judiciary—Superior Court/Other Misc. Fund	6,488,866	6,488,866	6,487,539	(1,327)
State Recycling Fund	9,088,285	9,088,285	9,086,426	(1,859)
Tobacco Settlement Fund	229,157,865	229,157,865	229,110,999	(46,866)
Tourism Improvement Development District Act Fund	76,954	76,954	76,938	(16)
Unclaimed Child Support Trust Fund	1,323,348	1,323,348	1,323,077	(271)
Unclaimed County Deposits Trust Fund	2,789,232	2,789,232	2,788,662	(570)
Unclaimed Insurance Payments on Deposit	1,965,644	1,965,644	1,965,242	(402)
Unclaimed Personal Property Trust Fund	177,817,644	177,817,644	177,781,278	(36,366)
Unemployment Compensation Auxiliary Fund	22,656,998	22,656,998	22,652,364	(4,634)
Unsatisfied Claim and Judgment Fund	318,642,651	318,642,651	318,577,485	(65,166)
Volunteer Emergency Service Organizations Loan Fund	1,191,694	1,191,694	1,191,450	(244)
Worker and Community Right to Know Fund	2,505,163	2,505,163	2,504,651	(512)
Workers' Compensation Security Fund—Mutual	10,310,718	10,310,718	10,308,609	(2,109)
Workers' Compensation Security Fund—Stock	80,747,097	80,747,097	80,730,584	(16,513)
Workforce Development Partnership Fund	84,626,597	84,626,597	84,609,290	(17,307)
	<u>1,852,127,081</u>	<u>1,852,127,081</u>	<u>1,851,748,293</u>	<u>(378,788)</u>

SUMMARY OF AMOUNTS INVESTED BY FUND (CONTINUED)
as of June 30, 2000

	Par, Cost or Amount— Note 1	Cost— Note 1	Fair Value— Note 1	Fair Value Over (Under) Cost
TEMPORARY RESERVE GROUP				
Alcohol Education Rehabilitation and Enforcement Fund	\$ 5,811,626	\$ 5,811,626	\$ 5,810,437	\$ (1,189)
Beaches and Harbors Fund (Act of 1977)	120,636	120,636	120,612	(24)
Capital City Redevelopment Loan and Grant Fund	2,282,891	2,282,891	2,282,424	(467)
Central Pension Fund	3,932	3,932	3,931	(1)
Clean Waters Fund (Act of 1976)	2,475,885	2,475,885	2,475,379	(506)
Community Development Bond Fund (Act of 1981)	2,555	2,555	2,554	(1)
Contributory Insurance Fund—PERS	124,411,344	124,813,688	124,021,571	(792,117)
Contributory Insurance Fund—TPAF	73,421,558	73,594,996	73,249,378	(345,618)
Correctional Facilities Construction Fund (Act of 1982)	608,504	608,504	608,380	(124)
Correctional Facilities Construction Fund (Act of 1987)	12,142,740	12,142,740	12,140,256	(2,484)
Development Disabilities Waiting List Reduction and Human Services Facilities Construction Bonds (Act of 1994)	35,725,275	35,725,275	35,717,968	(7,307)
Drinking Water State Revolving Fund	9,729,890	9,729,890	9,727,900	(1,990)
Economic Development Site Fund 1996	13,064,370	13,064,370	13,061,698	(2,672)
Emergency Flood Control Fund (Act of 1978)	357,597	357,597	357,524	(73)
Emergency Medical Technician Training Fund	9,625,314	9,625,314	9,623,346	(1,968)
Energy Conservation Fund (Act of 1980)	568,693	568,693	568,576	(117)
Farmland Preservation Fund (Act of 1981)	159,988	159,988	159,955	(33)
Farmland Preservation Fund (Act of 1989)	322,918	322,918	322,852	(66)
Farmland Preservation Fund (Act of 1992)	4,929,109	4,929,109	4,928,101	(1,008)
Farmland Preservation Fund (Act of 1995)	16,406,803	16,406,803	16,403,448	(3,355)
Garden State Farmland Preservation Trust Fund	2,531,694	2,531,694	2,531,177	(517)
Garden State Green Acres Preservation Trust Fund	13,561,321	13,561,321	13,558,548	(2,773)
General Investment Fund	2,120,556,674	2,120,556,674	2,120,122,992	(433,682)
Green Acres Cultural Centers and Historic Preservation Bond Fund (Act of 1987)	8,159,026	8,159,026	8,157,358	(1,668)
Green Trust Fund (Act of 1983)	14,986,778	14,986,778	14,983,713	(3,065)
Hazardous Discharge Fund (Act of 1981)	287,769	287,769	287,710	(59)
Hazardous Discharge Site Cleanup Fund (Act of 1985)	78,996,421	78,996,421	78,980,265	(16,156)
Higher Education Facility Renovation and Rehabilitation Fund	317,282	317,282	317,217	(65)
Historic Preservation Fund (Act of 1992)	4,668,254	4,668,254	4,667,300	(954)
Historic Preservation Fund (Act of 1995)	4,371,355	4,371,355	4,370,461	(894)
Historic Preservation Revolving Loan Fund	2,898,862	2,898,862	2,898,269	(593)
Horse Racing Injury Compensation	952,252	952,252	952,057	(195)
Housing Assistance Fund (Act of 1968)	56,938	56,938	56,926	(12)
Human Services Facilities Construction Fund (Act of 1984)	1,113,594	1,113,594	1,113,366	(228)
Institutional Construction Fund (Act of 1978)	7,019	7,019	7,018	(1)
Institutions Construction Fund (Act of 1976)	9,313	9,313	9,311	(2)
Jobs, Education, and Competitiveness Fund (Act of 1988)	7,721,244	7,721,244	7,719,665	(1,579)
Jobs, Science, and Technology Fund (Act of 1984)	44,493	44,493	44,484	(9)
Lake Restoration Fund	2,937,836	2,937,836	2,937,235	(601)
Medical Education Facilities Fund (Act of 1977)	542,321	542,321	542,210	(111)
Mortgage Assistance Fund (Act of 1976)	1,815,764	1,815,764	1,815,393	(371)
Natural Resources Fund (Act of 1980)	4,616,679	4,616,679	4,615,735	(944)
New Home Warranty Security Fund	29,742,049	29,742,049	29,735,966	(6,083)
New Jersey Bridge Rehabilitation and Improvement and Railroad Right of Way Preservation Fund	36,569,862	36,569,862	36,562,383	(7,479)
New Jersey Bridge Rehabilitation Fund (Act of 1983)	12,744,767	12,744,767	12,742,160	(2,607)
New Jersey Coastal Blue Acres Fund	3,156,019	3,156,019	3,155,373	(646)
New Jersey Dam Restoration & Clean Water Fund (Act of 1992)	10,979,638	10,979,638	10,977,393	(2,245)
New Jersey Green Acres Fund (Act of 1983)	21,600,626	21,600,626	21,596,208	(4,418)
New Jersey Green Acres Fund (Act of 1989)	8,696,761	8,696,761	8,694,982	(1,779)
New Jersey Green Acres Fund (Act of 1992)	3,849,380	3,849,380	3,848,593	(787)
New Jersey Green Acres Fund (Act of 1995)	24,682,130	24,682,130	24,677,083	(5,047)
New Jersey Green Trust Fund (Act of 1989)	32,034,522	32,034,522	32,027,971	(6,551)
New Jersey Green Trust Fund (Act of 1992)	14,921,977	14,921,977	14,918,925	(3,052)
New Jersey Green Trust Fund (Act of 1995)	19,605,541	19,605,541	19,601,532	(4,009)
New Jersey Inland Blue Acres Fund	4,376,360	4,376,360	4,375,465	(895)
New Jersey Medical Malpractice Reinsurance-Recovery Fund	13,178,366	13,178,366	13,175,671	(2,695)
New Jersey State Dental Program	7,242,971	7,242,971	7,241,489	(1,482)
Pension Adjustment Fund	4,687,732	4,687,732	4,686,773	(959)
Pension Payroll Investment Fund	77,050,573	77,050,573	77,034,815	(15,758)
Pinelands Infrastructure Trust Fund (Act of 1985)	4,029,871	4,029,871	4,029,047	(824)
Pollution Prevention Fund	3,736,027	3,736,027	3,735,263	(764)
Prescription Drug Program Fund	11,533,890	11,533,890	11,531,531	(2,359)
Public Buildings Construction Fund (Act of 1968)	3,504	3,504	3,503	(1)
Public Purpose Buildings and Community-Based Facilities Construction Fund (Act of 1989)	13,589,581	13,589,581	13,586,802	(2,779)
Public Purpose Buildings and Construction Fund (Act of 1980)	401,731	401,731	401,649	(82)

SUMMARY OF AMOUNTS INVESTED BY FUND (CONCLUDED)
as of June 30, 2000

	Par, Cost or Principal Amount— Note 1	Cost— Note 1	Fair Value— Note 1	Fair Value Over (Under) Cost
TEMPORARY RESERVE GROUP—(continued)				
Resource Recovery & Solid Waste Disposal Facilities Fund (Act of 1985)	\$ 42,349,652	\$ 42,349,652	\$ 42,340,991	\$ (8,661)
Safe Drinking Water Fund	7,291,653	7,291,653	7,290,162	(1,491)
Shore Protection Fund (Act of 1983)	10,995,796	10,995,796	10,993,547	(2,249)
State Facilities for Handicapped Fund (Act of 1973)	222,994	222,994	222,948	(46)
State Health Benefits Fund	233,406,982	233,406,982	233,359,247	(47,735)
State Land Acquisition and Development Fund (Act of 1978)	1,068,963	1,068,963	1,068,744	(219)
State Lottery Fund—Investment	152,375,179	152,375,179	152,344,016	(31,163)
State of New Jersey—Alternate Benefit Program	8,856,237	8,856,237	8,854,425	(1,812)
State of New Jersey Cash Management Fund— Administrative Expense Fund	2,243,898	2,243,898	2,243,439	(459)
State of New Jersey Cash Management Fund— Other than State Funds	3,959,159,545	3,959,159,545	3,958,349,846	(809,699)
State of New Jersey Cash Management Fund— Reserve Fund	70,244,303	70,244,303	70,229,937	(14,366)
State of New Jersey Development Potential Transfer Bank Fund	3,209,958	3,209,958	3,209,302	(656)
State Recreation and Conservation Land Acquisition and Development Fund (Act of 1974)	1,670,851	1,670,851	1,670,510	(341)
Statewide Transportation & Local Budget Fund 1999	204,841,795	204,841,795	204,799,903	(41,892)
Stormwater Management and Combined Sewer Overflow Abatement Fund	12,973,777	12,973,777	12,971,124	(2,653)
Transportation Rehabilitation and Improvement Fund (Act of 1979)	323,564	323,564	323,498	(66)
University of Medicine and Dentistry of New Jersey Self-Insurance Reserve Fund	86,097,905	85,543,666	83,604,622	(1,939,044)
Urban & Rural Centers Unsafe Buildings Demolition Revolving Loan Fund	875,367	875,367	875,188	(179)
Water Conservation Fund (Act of 1969)	1,221,911	1,221,911	1,221,661	(250)
Water Supply Fund (Act of 1981)	84,965,560	84,965,560	84,948,183	(17,377)
Water Supply Replacement Trust Fund	5,481,216	5,481,216	5,480,095	(1,121)
	<u>7,831,615,501</u>	<u>7,831,637,044</u>	<u>7,827,016,665</u>	<u>(4,620,379)</u>
TRUST GROUP				
New Jersey State Employees' Deferred Compensation Administrative Charges	762,559	762,559	762,403	(156)
New Jersey State Employees' Deferred Compensation Cash Management Fund	132,434,780	132,434,780	132,407,696	(27,084)
New Jersey State Employees' Deferred Compensation Equity Fund	332,302,735	332,302,735	767,311,304	435,008,569
New Jersey State Employees' Deferred Compensation Fixed Income Fund	122,813,990	124,608,330	122,545,197	(2,063,133)
New Jersey State Employees' Deferred Compensation Holding Account	8,714,249	8,714,249	8,712,467	(1,782)
New Jersey State Employees' Deferred Compensation Small Cap Equity Fund	96,646,400	96,646,400	106,343,407	9,697,007
Insurance Annuity Trust Fund	60,814	60,814	60,801	(13)
NJ Best Fund—Administrative Expenses	74,921	74,921	74,905	(16)
NJ Best Fund—Holding	370,506	370,506	370,430	(76)
NJ Best Fund—Investments	8,357,489	8,387,905	8,529,123	141,218
Supplemental Annuity Collective Trust Fund	89,060,089	89,060,089	218,960,928	129,900,839
Tischler Memorial Fund	660,553	658,876	663,723	4,847
	<u>792,259,085</u>	<u>794,082,164</u>	<u>1,366,742,384</u>	<u>572,660,220</u>
TOTAL AMOUNTS INVESTED BY FUNDS	<u>\$51,620,242,288</u>	<u>\$51,563,620,863</u>	<u>\$94,064,475,492</u>	<u>\$42,500,854,629</u>

See accompanying notes.

SUMMARY OF INVESTMENT INCOME BY FUND
for the Year Ended June 30, 2000

	Net Investment Earnings (Note 1)	Change in Unrealized Appreciation/ (Depreciation)	Net Gain (Loss) from Investment Transactions	Total Investment Income
PENSION AND ANNUITY GROUP				
Consolidated Police and Firemen's Pension Fund	\$ 2,177,140	\$ (347,511)	\$ 7,587	\$ 1,837,216
Judicial Retirement System of New Jersey	10,083,122	22,085,967	13,137,826	45,306,915
Police and Firemen's Retirement System	438,287,602	1,035,295,698	390,278,836	1,863,862,136
Prison Officers Pension Fund	1,130,268	(118,818)	1,882	1,013,332
Public Employees' Retirement System	646,417,319	1,520,368,363	704,745,367	2,871,531,049
State Police Retirement System	46,146,692	94,547,348	72,595,206	213,289,246
Teachers' Pension and Annuity Fund	827,007,805	2,233,991,913	662,179,057	3,723,178,775
	<u>1,971,249,948</u>	<u>4,905,822,960</u>	<u>1,842,945,761</u>	<u>8,720,018,669</u>
STATIC GROUP				
Trustees for the Support of Public Schools Fund	4,235,093	4,858,958	4,052,880	13,146,931
Waste Water Treatment Fund (Act of 1985)	15,674,706	87,876	—	15,762,582
Waste Water Treatment Fund (Act of 1992)	42,815	375	—	43,190
	<u>19,952,614</u>	<u>4,947,209</u>	<u>4,052,880</u>	<u>28,952,703</u>
DEMAND GROUP				
Atlantic City Casino Parking Fund	52,494	725	—	53,219
Atlantic City Tourism Promotion Fund	22,024	124	—	22,148
Boarding House Rental Assistance Fund	168,669	1,333	—	170,002
Body Armor Replacement Fund	108,711	153	—	108,864
Casino Simulcasting Fund	98,939	438	—	99,377
Casino Simulcasting Special Fund	288,048	2,126	—	290,174
Catastrophic Illness in Children Relief Fund (Act of 1987)	667,061	5,798	—	672,859
Clean Communities Account Fund (Act of 1985)	402,307	2,489	—	404,796
Development Fund—Luxury Tax	92,515	665	—	93,180
Division of Motor Vehicles Surcharge Fund	513,420	1,781	—	515,201
Dredging & Containment Facility Fund	1,252,439	3,948	—	1,256,387
Emergency Services Fund	692,952	(2,531)	—	690,421
Enterprise Zone Assistance Fund (Act of 1983)	9,521,950	55,143	—	9,577,093
Hazardous Discharge Fund (Act of 1986)	253,557	(157)	—	253,400
Health Care Subsidy Fund	2,542,314	29,020	—	2,571,334
Higher Education Assistance Fund	1,826,182	5,711	—	1,831,893
Higher Education Assistance Operating Fund	1,479,803	6,514	—	1,486,317
Korean Veterans' Memorial Fund	15,973	(191)	—	15,782
Luxury Tax Fund	43,529	167	—	43,696
Motor Vehicle Security Responsibility Fund	7,816	52	—	7,868
New Jersey Automobile Insurance Guaranty Fund	10,198,168	62,761	—	10,260,929
New Jersey Insurance Development Fund	2,372,837	14,613	—	2,387,450
New Jersey Spill Compensation Fund	2,771,349	24,612	—	2,795,961
Petroleum Overcharge Reimbursement Fund	1,090,807	10,489	—	1,101,296
Real Estate Guaranty Fund	91,587	538	—	92,125
Resource Recovery Investment Tax Fund (Act of 1985)	19,079	118	—	19,197
Sanitary Landfill Facility Contingency Fund	1,555,318	11,229	—	1,566,547
Solid Waste Services Tax Fund (Act of 1985)	375,348	2,023	—	377,371
State Disability Benefits Fund	4,719,335	34,405	—	4,753,740
State of New Jersey Judiciary—Bail Fund	1,733,030	11,102	—	1,744,132
State of New Jersey Judiciary—Child Support Fund	1,493,026	8,107	—	1,501,133
State of New Jersey Judiciary—Probation Fund	387,057	2,208	—	389,265
State of New Jersey Judiciary—Special Civil Fund	139,006	1,041	—	140,047
State of New Jersey Judiciary—Superior Court/ Other Miscellaneous Fund	243,104	614	—	243,718
State Recycling Fund	464,704	3,030	—	467,734
Tobacco Settlement Fund	3,354,314	(46,866)	—	3,307,448
Tourism Improvement Development District Act Fund	10,670	24	—	10,694
Unclaimed Child Support Trust Fund	71,440	214	—	71,654
Unclaimed County Deposits Trust Fund	158,305	909	—	159,214
Unclaimed Insurance Payments on Deposit	108,044	715	—	108,759
Unclaimed Personal Property Trust Fund	7,352,845	31,551	—	7,384,396
Unemployment Compensation Auxiliary Fund	1,142,985	7,173	—	1,150,158
Unsatisfied Claim and Judgment Fund	16,444,412	124,661	—	16,569,073
Volunteer Emergency Service Organizations Loan Fund	68,361	353	—	68,714
Worker and Community Right to Know Fund	44,229	172	—	44,401
Workers' Compensation Security Fund—Mutual	574,817	3,804	—	578,621
Workers' Compensation Security Fund—Stock	4,389,926	27,097	—	4,417,023
Workforce Development Partnership Fund	4,504,081	39,594	—	4,543,675
	<u>85,928,887</u>	<u>489,599</u>	<u>—</u>	<u>86,418,486</u>

SUMMARY OF INVESTMENT INCOME BY FUND (CONTINUED)
for the Year Ended June 30, 2000

	Net Investment Earnings (Note 1)	Change in Unrealized Appreciation/ (Depreciation)	Net Gain (Loss) from Investment Transactions	Total Investment Income
TEMPORARY RESERVE GROUP				
Alcohol Education Rehabilitation and Enforcement Fund	\$ 340,969	\$ 2,011	\$ —	\$ 342,980
Beaches and Harbors Fund (Act of 1977)	4,687	6	—	4,693
Capital City Redevelopment Loan and Grant Fund	127,480	930	—	128,410
Central Pension Fund	4,295	6	—	4,301
Clean Waters Fund (Act of 1976)	137,653	1,050	—	138,703
Community Development Bond Fund (Act of 1981)	433	13	—	446
Contributory Insurance Fund—PERS	6,898,507	(1,056,883)	131,640	5,973,264
Contributory Insurance Fund—TPAF	3,984,521	(565,547)	112,890	3,531,864
Correctional Facilities Construction Fund (Act of 1982)	33,527	227	—	33,754
Correctional Facilities Construction Fund (Act of 1987)	768,887	6,784	—	775,671
Development Disabilities Waiting List Reduction and Human Services Facilities Construction Bonds (Act of 1994)	1,180,349	6,378	—	1,186,727
Drinking Water State Revolving Fund	379,088	(1,989)	—	377,099
Economic Development Site Fund 1996	116,433	(2,672)	—	113,761
Emergency Flood Control Fund (Act of 1978)	17,140	53	—	17,193
Emergency Medical Technician Training Fund	506,252	2,838	—	509,090
Energy Conservation Fund (Act of 1980)	79,104	1,227	—	80,331
Farmland Preservation Fund (Act of 1981)	10,611	114	—	10,725
Farmland Preservation Fund (Act of 1989)	32,863	945	—	33,808
Farmland Preservation Fund (Act of 1992)	200,697	1,807	—	202,504
Farmland Preservation Fund (Act of 1995)	971,880	11,236	—	983,116
Garden State Farmland Preservation Trust Fund	31,694	(518)	—	31,176
Garden State Green Acres Preservation Trust Fund	86,321	(2,773)	—	83,548
General Investment Fund	68,668,549	506,458	—	69,175,007
Green Acres Cultural Centers and Historic Preservation Bond Fund (Act of 1987)	212,893	439	—	213,332
Green Trust Fund (Act of 1983)	630,432	4,375	—	634,807
Hazardous Discharge Fund (Act of 1981)	26,044	135	—	26,179
Hazardous Discharge Site Cleanup Fund (Act of 1985)	2,874,346	14,497	—	2,888,843
Higher Education Facility Renovation and Rehabilitation Fund	19,639	182	—	19,821
Historic Preservation Fund (Act of 1992)	215,155	2,288	—	217,443
Historic Preservation Fund (Act of 1995)	105,146	414	—	105,560
Historic Preservation Revolving Loan Fund	157,320	968	—	158,288
Horse Racing Injury Compensation Fund	61,777	341	—	62,118
Housing Assistance Fund (Act of 1968)	2,625	(3)	—	2,622
Human Services Facilities Construction Fund (Act of 1984)	74,890	834	—	75,724
Institutional Construction Fund (Act of 1978)	384	3	—	387
Institutions Construction Fund (Act of 1976)	510	4	—	514
Jobs, Education, and Competitiveness Fund (Act of 1988)	629,611	6,997	—	636,608
Jobs, Science, and Technology Fund (Act of 1984)	2,491	19	—	2,510
Lake Restoration Fund	98,090	1,121	—	99,211
Medical Education Facilities Fund (Act of 1977)	29,777	196	—	29,973
Mortgage Assistance Fund (Act of 1976)	108,839	879	—	109,718
Natural Resources Fund (Act of 1980)	268,108	1,985	—	270,093
New Home Warranty Security Fund	1,627,426	12,349	—	1,639,775
New Jersey Bridge Rehabilitation and Improvement and Railroad Right of Way Preservation Fund	862,461	(511)	—	861,950
New Jersey Bridge Rehabilitation Fund (Act of 1983)	783,132	6,150	—	789,282
New Jersey Coastal Blue Acres Fund	171,562	1,055	—	172,617
New Jersey Dam Restoration & Clean Water Fund (Act of 1992)	420,991	2,302	—	423,293
New Jersey Green Acres Fund (Act of 1983)	1,186,385	7,844	—	1,194,229
New Jersey Green Acres Fund (Act of 1989)	106,230	(737)	—	105,493
New Jersey Green Acres Fund (Act of 1992)	288,860	3,795	—	292,655
New Jersey Green Acres Fund (Act of 1995)	369,873	(1,082)	—	368,791
New Jersey Green Trust Fund (Act of 1989)	1,634,444	9,755	—	1,644,199
New Jersey Green Trust Fund (Act of 1992)	1,046,587	9,887	—	1,056,474
New Jersey Green Trust Fund (Act of 1995)	700,700	5,290	—	705,990
New Jersey Inland Blue Acres Fund	160,635	1,657	—	162,292
New Jersey Medical Malpractice Reinsurance-Recovery Fund	715,187	4,404	—	719,591
New Jersey State Dental Program	432,515	4,639	—	437,154
Pension Adjustment Fund	491,923	1,976	—	493,899
Pension Payroll Investment Fund	1,376,953	(10,849)	—	1,366,104
Pinelands Infrastructure Trust Fund (Act of 1985)	209,655	1,067	—	210,722
Pollution Prevention Fund	141,855	1,266	—	143,121
Prescription Drug Program Fund	553,899	(2,359)	—	551,540
Public Buildings Construction Fund (Act of 1968)	191	1	—	192
Public Purpose Buildings and Community-Based Facilities Construction Fund (Act of 1989)	653,637	4,718	—	658,355

SUMMARY OF INVESTMENT INCOME BY FUND (CONCLUDED)
for the Year Ended June 30, 2000

	Net Investment Earnings (Note 1)	Change in Unrealized Appreciation/ (Depreciation)	Net Gain (Loss) from Investment Transactions	Total Investment Income
TEMPORARY RESERVE GROUP—(continued)				
Public Purpose Buildings and Construction Fund (Act of 1980)	\$ 23,091	\$ 186	\$ —	\$ 23,277
Resource Recovery & Solid Waste Disposal Facilities Fund (Act of 1985)	2,301,826	14,311	—	2,316,137
Safe Drinking Water Fund	337,640	1,921	—	339,561
Shore Protection Fund (Act of 1983)	596,439	3,779	—	600,218
State Facilities for Handicapped Fund (Act of 1973)	12,101	74	—	12,175
State Health Benefits Fund	15,725,733	52,516	57,421	15,835,670
State Land Acquisition and Development Fund (Act of 1978)	31,342	504	—	31,846
State Lottery Fund—Investment	5,089,109	23,599	338,900	5,451,608
State of New Jersey—Alternate Benefits Program	861,401	3,448	—	864,849
State of New Jersey Cash Management Fund— Administrative Expense Fund	93,047	671	—	93,718
State of New Jersey Cash Management Fund— Other than State Funds	238,553,016	1,357,916	—	239,910,932
State of New Jersey Cash Management Fund— Reserve Fund	3,790,324	22,974	—	3,813,298
State of New Jersey Development Potential Transfer Bank Fund	174,910	1,105	—	176,015
State Recreation and Conservation Land Acquisition and Development Fund (Act of 1974)	100,245	705	—	100,950
Statewide Transportation & Local Budget Fund 1999	1,796,606	(41,893)	—	1,754,713
Stormwater Management and Combined Sewer Overflow Abatement Fund	804,996	5,933	—	810,929
Transportation Rehabilitation and Improvement Fund (Act of 1979)	17,707	115	—	17,822
University of Medicine and Dentistry of New Jersey Self-Insurance Reserve Fund	5,457,679	(1,747,235)	129,864	3,840,308
Urban & Rural Centers Unsafe Buildings Demolition Revolving Loan Fund	7,367	(179)	—	7,188
Water Conservation Fund (Act of 1969)	151,828	1,418	—	153,246
Water Supply Fund (Act of 1981)	4,611,131	30,271	—	4,641,402
Water Supply Replacement Trust Fund	300,875	1,880	—	302,755
	<u>384,873,531</u>	<u>(1,255,989)</u>	<u>770,715</u>	<u>384,388,257</u>
TRUST GROUP				
New Jersey State Employees' Deferred Compensation				
Administrative Charges	46,971	187	—	47,158
Cash Management Fund	7,179,813	41,711	—	7,221,524
Equity Fund	7,046,440	60,758,275	3,799,793	71,604,508
Fixed Income Fund	7,549,802	(2,088,221)	(2,308)	5,459,273
Holding Account	590,346	2,452	—	592,798
Small Cap Equity Fund	799,150	(6,535,799)	15,861,696	10,125,047
Insurance Annuity Trust Fund	2,992	18	—	3,010
NJBEST—Administrative Expenses	2,383	(5)	—	2,378
NJBEST—Holding	15,101	93	—	15,194
NJBEST—Investments	224,091	118,922	277,792	620,805
Supplemental Annuity Collective Trust Fund	2,809,440	(7,783,927)	15,961,256	10,986,769
Tischler Memorial Fund	37,950	(1,579)	—	36,371
	<u>26,304,479</u>	<u>44,512,127</u>	<u>35,898,229</u>	<u>106,714,835</u>
TOTAL INVESTMENT INCOME	<u>\$2,488,309,459</u>	<u>\$4,954,515,906</u>	<u>\$1,883,667,585</u>	<u>\$9,326,492,950</u>

See accompanying notes.

SUMMARY OF INVESTMENTS BY MAJOR CATEGORY
as of June 30, 2000

	Par, Cost or Principal Amount— Note 1	Cost— Note 1	Fair Value— Note 1	Fair Value Over (Under) Cost
U.S. Government and Other Government				
Bonds and Obligations	\$ 347,635,000	\$ 349,237,911	\$ 344,730,107	\$ (4,507,804)
Industrial Bonds and Commercial Paper	27,500,000	27,451,394	26,678,252	(773,142)
Telephone Bonds	1,000,000	882,570	972,420	89,850
Finance Companies Senior Debt	3,500,000	3,515,600	3,503,350	(12,250)
Mortgage-Backed Certificates	4,152,248,658	4,094,174,742	4,008,951,024	(85,223,718)
Police and Firemen's Mortgage Program	522,088,919	522,088,919	478,607,082	(43,481,837)
Common Stocks	529,357,964	529,357,982	1,172,771,534	643,413,552
Units—Common Pension Fund A	7,489,427,135	7,489,427,135	41,354,485,873	33,865,058,738
Units—Common Pension Fund B	17,378,017,540	17,378,017,540	17,693,612,070	315,594,530
Units—Common Pension Fund D	8,621,924,182	8,621,924,182	16,435,187,028	7,813,262,846
Units—Cash Management Fund	12,547,542,888	12,547,542,888	12,544,976,752	(2,566,136)
TOTAL INVESTMENTS BY MAJOR CATEGORY		<u>\$51,563,620,863</u>	<u>\$94,064,475,492</u>	<u>\$42,500,854,629</u>

See accompanying notes.

SUMMARY OF INVESTMENT ACTIVITY for the Year Ended June 30, 2000

Purchases at cost, including common funds	\$ 1,687,133,907
Purchases of units of common funds, at cost	39,186,647,188
Unrealized appreciation	4,954,515,906
Sales	(114,805,929)
Mortgage principal repayments	(301,552,443)
Redemptions	(23,416,327)
Maturities	(98,500,000)
Redemptions of units of common funds	(39,355,402,708)
Realized gains distributed to funds	<u>1,883,667,585</u>
NET INCREASE IN INVESTMENTS	7,818,287,179
Total amounts invested by funds— Beginning of year Note 2	<u>86,246,188,313</u>
Total amounts invested by funds— END OF YEAR	<u>\$94,064,475,492</u>

See accompanying notes.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Administration

The operations of the Division of Investment are governed by P.L. 1950, Chapter 270, 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 fair value.

Fair 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. Fair 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 are presented in the summaries for informational purposes.

The Police and Firemen's Retirement System (the "Fund") includes a mortgage loan program established by law in 1992. The program provides that participants 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 therefore no independent market exists for them. As of June 30, 2000, the mortgage loan program had a cost of \$522,088,919 and an appraised value of \$478,607,082, determined using market prices obtained from an independent broker.

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.

Investment Income

Investment income includes interest earned, dividends, unrealized appreciation and the gain or loss from investment transactions. Interest and dividend income is accounted for on the accrual basis. Net investment gain includes realized gains and losses on security transactions and distributed gains from the State of New Jersey Cash Management Fund.

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.

Other

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income during the reporting period. Actual results could differ from those estimates.

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.

N.J.S.A. 52:18A-8.1 requires the Division to utilize only custodian banks with a principal office located in the State of New Jersey to safeguard the securities held. At June 30, 2000, the Division was not in compliance with this requirement because of mergers and acquisitions of New Jersey banks by out-of-state banks. Legislation is pending that will amend this law with respect to banks which can be selected as custodians of the funds.

Government Accounting Standards Board ("GASB") Statement No. 3 requires disclosure of the level of investment risk assumed by the Funds at June 30, 2000. Category 1 includes investments that are insured or registered, or securities held by the Division or its agent in the counterparty's name. Category 2 includes uninsured and unregistered investments held by the Fund's trust department or agent in the counterparty's 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, 2000, all investments held by the Division were classified as Category 1.

Federal securities, including federal securities held as collateral on repurchase agreements, 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 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 \$4,287,484,001 in fiscal year 2000, 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 \$270,931,398 in fiscal year 2000 are not reflected in the Summary of Investment Income by Fund. Undistributed investment income of \$2,046,315,046 as of June 30, 2000, 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.

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, 2000, 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	Cost	Fair Value	Fair Value Over (Under) Cost
Industrial bonds and commercial paper	\$ 9,673,670,566	\$ 9,562,643,751	\$ 9,465,949,841	\$ (96,693,910)
Time certificates of deposit	3,746,800,000	3,746,800,000	3,746,800,000	—
U.S. Government and other government bonds and obligations	16,653,536,000	16,880,193,656	16,896,033,591	15,839,935
Foreign government bonds and notes	1,729,189,065	1,729,189,065	1,511,145,091	(218,043,974)
Foreign stocks	9,164,365,321	9,164,365,321	13,593,509,193	4,429,143,872
Telephone bonds	349,575,000	336,844,317	334,982,831	(1,861,486)
Gas and electric bonds	436,000,000	433,320,410	425,894,130	(7,426,280)
Common stocks	17,224,486,349	17,224,486,367	42,375,649,471	25,151,163,104
Preferred stocks	39,102,747	39,102,747	74,838,285	35,735,538
Mortgage-backed certificates	4,152,248,658	4,094,174,742	4,008,951,024	(85,223,718)
Police and Firemen's mortgage program	522,088,919	522,088,919	478,607,082	(43,481,837)
Merchant marine bonds	143,349,000	143,349,000	124,411,291	(18,937,709)
Finance companies senior debt	577,765,000	580,421,012	572,655,628	(7,765,384)
International bank bonds and notes	381,000,000	369,199,623	372,048,840	2,849,217
Total investments		64,826,178,930	93,981,476,298	29,155,297,368
Differences in accounting by unit funds:				
Other assets		1,408,865,219	1,406,698,216	(2,167,003)
Other liabilities		(3,364,439,121)	(1,323,957,428)	2,040,481,693
Undistributed realized gains and other income		(11,306,984,165)	258,406	11,307,242,571
Total amounts invested by funds		<u>\$51,563,620,863</u>	<u>\$94,064,475,492</u>	<u>\$42,500,854,629</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 28) includes the “Par, Cost, or Principal Amount” 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” of the investments held by the Unit Funds.
- II. Fair 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, 2000. The market value included in the total investments shown above reflects the fair value of the investments held by the Unit Funds.
- III. Total investments shown above do 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, 2000, Common Pension Fund D had entered into the following forward foreign currency exchange contracts which contractually obligate the fund to deliver/receive at specified future dates. The open contracts were as follows:

Contract	Foreign Currency	In Exchange For	Value	Settlement Date	Unrealized Gain (Loss)
Purchases:					
EUR	25,000,000	\$23,924,375	\$24,206,375	12/11/00	\$ 282,000
EUR	25,000,000	23,781,500	24,206,375	12/11/00	424,875
GBP	18,000,000	27,131,400	27,431,426	05/09/01	300,026
GBP	17,000,000	25,259,025	25,907,458	05/09/01	548,433
JPY	5,000,000,000	50,921,682	47,847,500	09/05/00	(3,074,182)
JPY	1,000,000,000	9,238,515	9,462,800	07/06/00	224,285
JPY	8,000,000,000	76,009,501	75,702,400	07/06/00	(307,103)
Subtotal					(1,501,666)
Sales:					
EUR	50,000,000	48,650,000	48,412,750	12/11/00	237,250
GBP	35,000,000	53,910,500	53,338,884	05/09/01	571,615
GBP	33,000,000	50,194,650	50,322,126	06/07/01	(127,476)
JPY	8,000,000,000	69,695,518	75,702,400	07/06/00	(6,006,882)
JPY	5,000,000,000	51,394,064	47,847,500	09/05/00	3,546,564
JPY	3,000,000,000	29,469,548	29,554,500	02/09/01	(84,952)
JPY	6,000,000,000	58,394,161	59,152,200	02/12/01	(758,039)
JPY	7,000,000,000	68,540,096	69,022,800	02/14/01	(482,704)
JPY	3,000,000,000	29,137,529	29,586,600	02/15/01	(449,071)
JPY	6,000,000,000	57,080,341	57,285,600	08/23/00	(205,259)
JPY	6,500,000,000	62,380,038	63,202,750	11/30/00	(822,712)
JPY	1,000,000,000	9,511,807	9,462,800	07/06/00	49,007
Subtotal					(4,532,658)
Total open forward foreign currency contracts					<u>\$ (6,034,324)</u>

APPENDIX I

UNAUDITED SUMMARY OF INVESTMENTS BY MAJOR CATEGORY OF INDIVIDUAL PENSION FUNDS CASH MANAGEMENT FUND

	Consolidated Police & Firemen's Pension Fund		Judicial Retirement System of New Jersey		Police & Firemen's Retirement System	
	Original Cost	Fair Value	Original Cost	Fair Value	Original Cost	Fair Value
SHORT-TERM OBLIGATIONS						
U.S. Government and other government securities and obligations	\$ 5,696	\$ 5,716	\$ 7,219	\$ 7,245	\$ 410,864	\$ 412,311
Commercial paper	4,684	4,724	5,937	5,986	337,870	340,714
Time certificates of deposit	3,918	3,918	4,965	4,965	282,595	282,595
	<u>14,298</u>	<u>14,358</u>	<u>18,121</u>	<u>18,196</u>	<u>1,031,329</u>	<u>1,035,620</u>
LONG-TERM OBLIGATIONS						
U.S. Government and other government securities and obligations	13,659	13,449	50,895	50,902	2,186,302	2,186,580
Industrial bonds	—	—	23,149	22,538	995,748	969,427
Gas and electric bonds	—	—	1,984	1,950	85,348	83,885
Telephone bonds	—	—	1,538	1,529	66,172	65,787
Finance companies—senior debt	—	—	2,642	2,606	113,628	112,101
Merchant marine bonds	—	—	656	570	28,234	24,504
Foreign government bonds and notes	—	—	9,504	8,305	376,951	329,404
International bank bonds and notes	—	—	2,031	2,046	80,514	81,136
	<u>13,659</u>	<u>13,449</u>	<u>92,399</u>	<u>90,446</u>	<u>3,932,897</u>	<u>3,852,824</u>
MORTGAGES						
Mortgage-backed certificates	7,183	6,928	33,883	33,043	1,514,885	1,447,851
	<u>7,183</u>	<u>6,928</u>	<u>33,883</u>	<u>33,043</u>	<u>1,514,885</u>	<u>1,447,851</u>
STOCKS						
Common stock (U.S.)	—	—	80,392	198,405	3,561,956	8,790,760
Preferred stock	—	—	188	360	8,343	15,967
Common stock (International)	—	—	50,406	74,767	1,998,549	2,964,448
	<u>—</u>	<u>—</u>	<u>130,986</u>	<u>273,532</u>	<u>5,568,848</u>	<u>11,771,175</u>
	<u>35,140</u>	<u>34,735</u>	<u>275,389</u>	<u>415,217</u>	<u>12,047,959</u>	<u>18,107,470</u>
Differences in accounting by unit funds (other assets, other liabilities, undistributed realized gains and other income)	144	81	(40,594)	170	(2,772,209)	7,059
	<u>\$35,284</u>	<u>\$34,816</u>	<u>\$234,795</u>	<u>\$415,387</u>	<u>\$9,275,750</u>	<u>\$18,114,529</u>

**INCLUDING INVESTMENTS OWNED BY THE COMMON PENSION FUNDS AND THE STATE OF NEW JERSEY
(000's Omitted) at June 30, 2000**

Prison Officers Pension Fund		Public Employees' Retirement System		State Police Retirement System		Teachers' Pension and Annuity Fund		Totals	
Original Cost	Fair Value	Original Cost	Fair Value	Original Cost	Fair Value	Original Cost	Fair Value	Original Cost	Fair Value
\$ 1,698	\$ 1,704	\$ 384,409	\$ 385,763	\$ 25,837	\$ 25,927	\$ 672,343	\$ 674,710	\$ 1,508,066	\$ 1,513,376
1,396	1,408	316,114	318,775	21,246	21,425	552,893	557,548	1,240,140	1,250,580
1,168	1,168	264,399	264,399	17,770	17,770	462,441	462,441	1,037,256	1,037,256
<u>4,262</u>	<u>4,280</u>	<u>964,922</u>	<u>968,937</u>	<u>64,853</u>	<u>65,122</u>	<u>1,687,677</u>	<u>1,694,699</u>	<u>3,785,462</u>	<u>3,801,212</u>
9,061	8,986	3,829,478	3,829,805	288,327	288,356	4,728,487	4,729,017	11,106,209	11,107,095
—	—	1,749,260	1,703,022	131,535	128,059	2,155,840	2,098,855	5,055,532	4,921,901
—	—	149,933	147,363	11,274	11,081	184,781	181,615	433,320	425,894
—	—	116,246	115,571	8,741	8,690	143,265	142,433	335,962	334,010
—	—	199,615	196,932	15,010	14,808	246,011	242,705	576,906	569,152
—	—	49,600	43,047	3,730	3,237	61,129	53,053	143,349	124,411
—	—	537,158	469,451	44,491	38,881	761,085	665,105	1,729,189	1,511,146
—	—	114,636	115,521	9,499	9,572	162,520	163,774	369,200	372,049
<u>9,061</u>	<u>8,986</u>	<u>6,745,926</u>	<u>6,620,712</u>	<u>512,607</u>	<u>502,684</u>	<u>8,443,118</u>	<u>8,276,557</u>	<u>19,749,667</u>	<u>19,365,658</u>
4,676	4,623	1,340,113	1,312,261	104,521	102,641	1,611,003	1,580,213	4,616,264	4,487,560
<u>4,676</u>	<u>4,623</u>	<u>1,340,113</u>	<u>1,312,261</u>	<u>104,521</u>	<u>102,641</u>	<u>1,611,003</u>	<u>1,580,213</u>	<u>4,616,264</u>	<u>4,487,560</u>
—	—	5,643,977	13,929,099	384,050	947,820	7,024,752	17,336,794	16,695,127	41,202,878
—	—	13,219	25,300	900	1,722	16,453	31,489	39,103	74,838
—	—	2,845,520	4,220,761	235,782	349,736	4,034,109	5,983,797	9,164,366	13,593,509
—	—	8,502,716	18,175,160	620,732	1,299,278	11,075,314	23,352,080	25,898,596	54,871,225
17,999	17,889	17,553,677	27,077,070	1,302,713	1,969,725	22,817,112	34,903,549	54,049,989	82,525,655
<u>43</u>	<u>22</u>	<u>(4,549,340)</u>	<u>5,651</u>	<u>(318,438)</u>	<u>726</u>	<u>(5,681,365)</u>	<u>13,268</u>	<u>(13,361,759)</u>	<u>26,977</u>
<u>\$18,042</u>	<u>\$17,911</u>	<u>\$13,004,337</u>	<u>\$27,082,721</u>	<u>\$984,275</u>	<u>\$1,970,451</u>	<u>\$17,135,747</u>	<u>\$34,916,817</u>	<u>\$40,688,230</u>	<u>\$82,552,632</u>

UNAUDITED COMMON PERFORMANCE DISCLOSURE FORM FOR PUBLIC FUNDS

	Avg. Annual Return 5 Years Ended 6/30/00	One Year Period Ended				
		6/30/96	6/30/97	6/30/98	6/30/99	6/30/00
TOTAL RETURN						
Aggregate of All Pension Funds	17.7%	16.1%	22.1%	22.7%	16.1%	11.9%
Consumer Price Index	2.5%	2.8%	2.3%	1.7%	2.0%	3.7%
STOCK TOTAL RETURNS						
Common Pension Fund A—All Stocks	25.3%	23.7%	32.7%	31.0%	27.6%	12.3%
Common Pension Fund A—Small Capitalization Stocks	29.0%	18.1%	14.1%	26.9%	37.0%	52.4%
Approved List	24.2%	26.4%	32.4%	29.9%	23.4%	10.1%
Dow Jones Industrial Average	20.3%	27.1%	38.6%	18.5%	24.6%	-3.3%
Standard & Poor's 500 Index	23.8%	26.0%	34.7%	30.1%	22.7%	7.3%
Russell 2000 Index	14.3%	23.8%	16.3%	16.5%	1.5%	14.3%
FIXED INCOME TOTAL RETURNS						
Common Pension Fund B and Other Bonds	6.6%	4.3%	8.0%	11.8%	2.8%	4.3%
Lehman Brothers Government/Corporate Bond Index	6.1%	4.7%	7.8%	11.3%	2.8%	4.3%
Salomon Brothers Broad Bond Index	7.8%	5.0%	8.2%	10.5%	3.1%	4.5%
MORTGAGES—TOTAL RETURNS						
Pension fund holdings	6.7%	5.5%	9.7%	10.2%	3.4%	5.2%
Salomon Brothers Mortgage Index	6.6%	5.8%	9.0%	8.9%	4.1%	5.1%
INTERNATIONAL TOTAL RETURNS						
Common Fund D Total—Hedged	14.2%	14.0%	16.2%	15.6%	4.9%	21.1%
Common Fund D Fixed Income	3.4%	7.2%	2.1%	5.4%	2.9%	-0.2%
Common Fund D Stocks	16.2%	10.6%	20.7%	19.4%	5.7%	26.3%
Salomon World Gov. Bond Index—Unhedged	3.2%	0.4%	3.9%	4.3%	4.1%	3.2%
EAFE International Stock Index	11.3%	13.3%	12.8%	6.1%	7.7%	17.1%
CASH EQUIVALENTS						
Total Returns—Cash Management Fund—Compounded	5.7%	5.8%	5.7%	5.8%	5.4%	5.8%
91-Day Treasury Bills	5.2%	5.3%	5.1%	5.3%	4.9%	5.3%

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 and comparative purposes only.

