

974.901  
I92  
C3

NEW JERSEY STATE LIBRARY



3 3009 00687 1943



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

**FIFTY-FIRST ANNUAL REPORT**

**For the Fiscal Year Ended June 30, 2001**



DONALD T. DiFRANCESCO  
Acting Governor



PETER R. LAWRANCE  
Acting State Treasurer

A Report to  
Acting Governor Donald T. DiFrancesco  
the Members of the  
New Jersey Legislature  
and the State Treasurer

Submitted by the  
State Investment Council

For the Fiscal Year ended June 30, 2001

November 15, 2001

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, 2001, 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 178 funds, including seven pension and annuity funds. The cost basis of all funds on June 30, 2001, was \$52.0 billion, compared with \$51.6 billion at the end of the prior year, and the fair (or market) value of the funds was \$83.6 billion, compared with \$94.1 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 negative in fiscal 2001, as both the domestic and international markets declined. Bonds and fixed income securities had positive returns. The estimated total return of the pension funds, which includes changes in market values of the securities held by the funds and dividend and interest income over the year, was negative 10.4 percent, which compares with a positive 11.9 percent return in fiscal 2000. For the past five fiscal years the estimated average annual total return earned by the pension funds was 11.8 percent, even including the negative return realized this last year. These total returns of the pension funds ranked the Division in the bottom quarter of all State fund managers in fiscal 2001, but in the top quarter for the five- and ten-year periods ended June 30, 2001. 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.

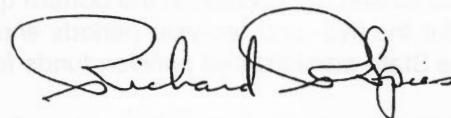
Over the years, members of the public, political figures and lobbyists have raised the question of whether investments under the jurisdiction of the Council should be guided by non-financial considerations. Such investments could be directed regionally or toward specific capital markets or could be averted 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 that do make such loans. 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 2001, the Council again addressed the issue of the asset allocation of the pension funds, and decided to initiate an investment program to permit up to 5 percent of the pension fund's international portfolio be invested in certain emerging market countries.

For each of the past fifty-one 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.

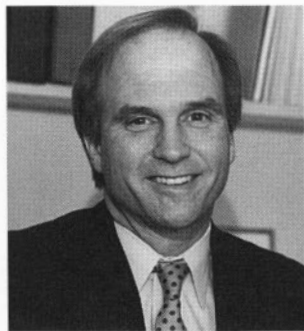
Respectfully submitted,



Richard R. Spies  
Chair

# The State Investment Council

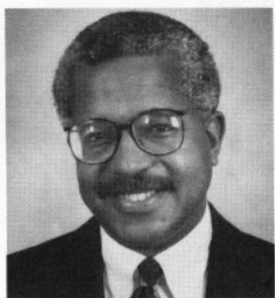
---



**RICHARD R. SPIES**  
Chair of the Council



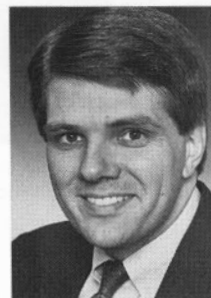
**KATHLEEN SWEENEY**  
Police and Firemen's  
Pension Fund; Vice  
Chair of the Council



**RONALD J. BURTON**



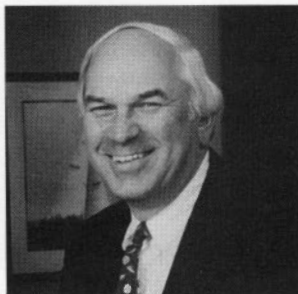
**THOMAS C. GONNELLA**



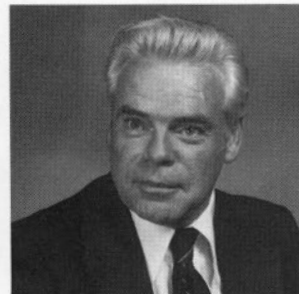
**ROBERT T. HOFFMAN**



**CHERYL A. MILLS**



**J. PETER SKIRKANICH**



**HARRY W. BALDWIN**  
Teachers' Pension and  
Annuity Fund



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



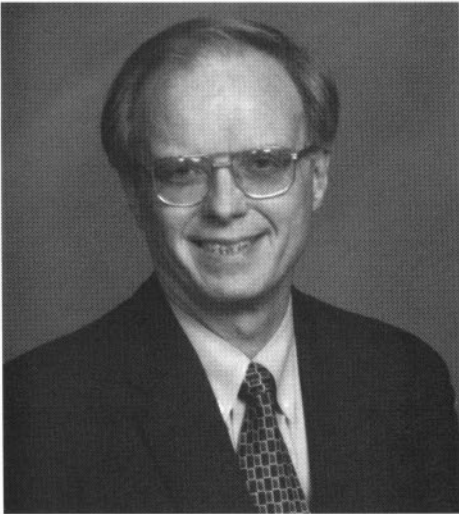
**NANCY A. NAUGHTON**  
Consolidated Police and  
Firemen's Retirement  
System



**RICHARD WILSON**  
State Police Retirement  
System

# 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 Maximenia.



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



Common Fund Accounting Group: Curtis Glenn, John Jusiewicz, Jeffrey Grossman, Manick Jhingade, Jeffrey Taylor, Patty DiMemmo and Andrea Szul.



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.

# The Year's Activities

## INTERNATIONAL ACCOUNTING



International Accounting: Eileen Dambroski, Valerie Oscilowski, Chris Eckel, Sharon Scully, Carletha Murray, Mary Vassiliou, and Dolores Ewanis. Not pictured Patti Hricak.

## FIVE YEAR SUMMARY

	Fiscal Year Ended June 30,				
	1997	1998	1999	2000	2001
			\$ Millions		
<b>FUNDS UNDER THE SUPERVISION OF THE STATE INVESTMENT COUNCIL:</b>					
Cost Basis at Year End: (1)					
Pension Funds	\$34,248	\$35,988	\$39,272	\$40,688	\$ 40,971
All Funds	42,035	44,488	48,700	51,564	51,997
Fair (or Market) Value at Year End:					
Pension Funds	\$56,632	\$67,314	\$76,230	\$82,553	\$ 72,166
All Funds	64,693	76,243	86,246	94,064	83,632
Fair (or Market) Value of Pension Funds at Year End by Category:					
Short-term obligations	\$ 4,120	\$ 2,309	\$ 4,424	\$ 3,801	\$ 3,299
Long-term bonds	14,404	17,831	18,954	19,366	20,160
Mortgages	2,490	2,571	3,499	4,488	3,716
Stocks	34,825	43,683	49,338	54,871	45,258
Accounting differences	793	920	15	27	(267)
Total	<u>\$56,632</u>	<u>\$67,314</u>	<u>\$76,230</u>	<u>\$82,553</u>	<u>\$ 72,166</u>
Investment Income: (1)					
Pension Funds					
Net Income and Realized Gains (Losses)	\$ 2,610	\$ 3,092	\$ 4,598	\$ 3,814	\$ 2,732
Unrealized Appreciation (Depreciation)	6,831	8,941	5,632	4,906	(10,670)
Total	<u>\$ 9,441</u>	<u>\$12,033</u>	<u>\$10,230</u>	<u>\$ 8,720</u>	<u>\$ (7,938)</u>
All Funds					
Net Income and Realized Gains (Losses)	\$ 3,015	\$ 3,516	\$ 5,060	\$ 4,372	\$ 3,339
Unrealized Appreciation (Depreciation)	6,963	9,093	5,791	4,955	(10,866)
Total	<u>\$ 9,978</u>	<u>\$12,609</u>	<u>\$10,851</u>	<u>\$ 9,327</u>	<u>\$ (7,527)</u>
Total Rate of Return: (2)					
Common Pension Fund A (3)	32.3%	30.8%	27.4%	12.3%	-16.1%
Common Pension Fund B (3)	8.0	11.8	2.8	4.3	10.9
Common Pension Fund D (3)	16.2	15.6	4.9	21.1	-24.5
All Pension Funds, Estimated (3)	22.1	22.7	16.1	11.9	-10.4
Supplemental Annuity Collective Trust	30.2	27.7	22.6	5.4	-8.8
Deferred Compensation Plan—Equity	34.3	29.3	28.7	10.3	-16.5
Deferred Compensation Plan—Fixed Income	6.5	8.8	4.6	4.5	10.3
Deferred Compensation Plan—Small Cap Equity (5)	17.0	24.6	27.1	17.8	1.6
Returns of Various Market Indices:					
Lehman Brothers' Mortgage Index	9.0%	8.9%	4.1%	5.1%	10.5%
Lehman Government/Credit Bond Index	7.8	11.3	2.7	4.3	11.1
S&P 500 Index	34.7	30.2	22.8	7.3	-14.8
S&P 1500 Index	32.8	29.3	21.4	8.1	-12.8
Dow Jones Industrial Average	38.6	18.5	24.7	-3.3	-4.5
Salomon Brothers' World Gov. Bond Index—Unhedged	3.9	4.3	4.9	3.2	6.7
EAFE International Stock Index	12.4	6.1	7.6	17.1	-23.8
State of New Jersey Cash Management Fund:					
Book Value of Units of Participation:					
All Participants	\$12,463	\$11,838	\$14,157	\$13,811	\$ 13,408
Other-than-State Participants	2,954	3,366	3,804	3,958	4,647
Average Annualized Daily Rate of Return: (4)					
State Participants	5.47%	5.56%	5.15%	5.58%	5.94%
Other-than-State Participants	5.29	5.41	4.98	5.50	5.78
Number of Funds Under the Supervision of the State Investment Council	149	152	160	169	178
Total Number of Transactions	43,944	46,663	48,883	52,465	49,557

1. Fiscal years 1998 through 2001 are presented at original cost while fiscal year 1997 includes 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 178 investment funds under the supervision of the Council on June 30, 2001, had a cost (or book value) of \$52.0 billion. The investment funds had a fair (market) value of \$83.6 billion at June 30, 2001, a decrease of 11.1 percent over the fair value of \$94.1 billion at June 30, 2000. The fair value of the seven pension funds decreased from \$82.6 billion at June 30, 2000, to \$72.2 billion at June 30, 2001. The fair value of the pension funds declined, in large part, due to slowing economic and corporate profit growth in both the domestic and international stock markets.

The total investment income for all funds for fiscal 2001 amounted to (\$7.5) billion as compared with \$9.3 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 \$119.7 billion. Approximately 53.0 percent of this amount, or \$63.4 billion, represented the overnight investment of surplus balances in the State's cash accounts. In fiscal 2000, the Division purchased securities with a cost of \$167.9 billion, of which \$84.9 billion was generated by overnight investments. During fiscal 2001, the Division's net holdings of mortgages decreased from \$4.7 billion to \$3.7 billion as refinancings and prepayments rose.

The Division sold securities totaling \$37.9 billion in fiscal 2001, compared with sales of \$58.9 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 \$2.5 billion during the year, compared with \$4.2 billion for the prior year. Net realized profits as a result of settlements of currency hedges in Common Pension Fund D amounted to \$37.0 million in fiscal 2001, compared with \$10.5 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 and \$300 million in fiscal 2000 and fiscal 2001, respectively, due to attractive corporate and mortgage yield spreads available in the market.

In fiscal 2001, the Division purchased \$151.3 million 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 2001 totaled \$497 million as refinancings rose.

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 the past 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 2001, the Fund purchased \$15.1 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 2001, 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 2001, the fund purchased \$2.6 billion of corporate debt securities, compared with \$2.0 billion 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 2001, the Division "rolled" \$7.1 billion of securities at a profit of \$812,000, compared with \$34.3 billion of securities at a profit of \$3.1 million in fiscal 2000.

## 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, 2001, 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 \$35.3 billion, \$18.8 billion and \$11.9 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 2001 were (16.1) percent, 10.9 percent and (24.5) percent, respectively. The estimated total rates of return for the active pension fund portfolios were approximately (10.4) percent in fiscal 2001, compared with returns of 11.9 percent in fiscal 2000 and 16.1 percent in fiscal 1999. 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 \$491 million par value of assets of the mortgage loan program with an appraised value of \$468 million at June 30, 2001.

## 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 \$13.8 billion at June 30, 2000 to \$13.4 billion at June 30, 2001. The fair value as required by GASB Statement No. 31 of the Cash Management Fund units equates to \$1.0004 versus the historical value of \$1.00 per unit.

The total income of the Fund was \$760 million in fiscal 2001, compared with \$749 million in fiscal 2000.

The number of participating State funds increased from 169 to 178 in fiscal 2001. The number of "Other-than-State" participants increased from 1,069 to 1,099 during the year, and the aggregate investment of "Other-than-State" participants was \$4.6 billion at the end of fiscal 2001, compared with \$4.0 billion at the end of fiscal 2000.

The average daily annualized rate of return to participating State accounts and accounts of the pension funds was 5.94 percent during fiscal 2001, compared with 5.58 percent in fiscal 2000. The average daily annualized rate of return to "Other-than-State" participants, which is net of two small charges, was 5.78 percent in fiscal 2001, compared with 5.50 percent in fiscal 2000.

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 2001 was 6.03 percent, compared with 5.73

percent in the prior year. The higher rates of return during fiscal 2001 were the result of somewhat higher interest rates available in the markets for short-term debt investments.

---

## Historical Background

---

### Legislative History

Fiscal 2001 marks fifty-one 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 178 funds in 2001, with a book value of \$52.0 billion and a fair value of \$83.6 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. 41, §§32, 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. 125, 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 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, 2001, the aggregate common stock holdings of the pension funds were 62.7 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 Administrative Code (N.J.A.C. 17:16-3.1 et seq.).

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 2001 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 2001 the program was enhanced, providing among other benefits, improved scholarship opportunities and age-sensitive portfolios.

In fiscal 2001, 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 Domestic Product;

b. The company should have a strong market franchise, unique products and proven marketing capability;

c. The company's management should have demonstrated the ability to preserve profit margins, to avoid earnings surprises and to take the needed initiatives to preserve and improve upon the company's strengths;

d. The company should have a capitalization which is not heavily leveraged, thereby allowing it more flexibility to finance future expansion; the company should not be 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 prudence 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 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.

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.

In fiscal 2001, 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 also cited certain internal controls, which have been addressed by the Division, and also urged that the Division continue its efforts to have the State's bank custody law revised. Legislation has been introduced which would revise this law.

## **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 exercise discretion in the choice of a bank or broker, such discretion is exercised according to an allocation plan prepared by the Director on the basis of the Division's evaluation of the merits of the services provided by each bank or broker. The allocation plan is reviewed by the State Investment Council, and the final allocation of commissions is audited by the Division's independent accountants.

In fiscal 2001, the transactions of the Division generated total commissions both actual and implied, of

\$39.7 million, including \$20.8 million of domestic stock commissions. Of this amount, \$4.0 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 investments in companies which advance the economic development of New Jersey, support alternative ener-

gy 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 2001, the Division voted on 1,298 U.S. corporate proxies. On 877 proxies, the Division voted with management on all issues. On 421 proxies the Division voted against the recommendations of corporate management on a total of 493 individual proposals. Of these proposals, 411 related to executive compensation, 24 related to corporate governance, three related to compliance of the corporation with the MacBride Principles in Northern Ireland, six related to confidential proxy voting, 47 related to the election of directors and two related to tobacco advertising to minors.

During fiscal 2001, the Division also voted on 282 international proxies with confirmation received on 257. The Division voted 25 times against management proposals involving an increase of shares available for stock option plans.

---

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

**INDEX TO INVESTMENT SUMMARIES**

Report of Independent Auditors.....	21
Summary of Amounts Invested by Fund as of June 30, 2001 .....	22
Summary of Investment Income by Fund for the Year Ended June 30, 2001 .....	25
Summary of Investments by Major Category as of June 30, 2001 .....	28
Summary of Investment Activity for the Year Ended June 30, 2001 .....	29
Notes to Investment Summaries—June 30, 2001 .....	30

**OTHER FINANCIAL INFORMATION**

Appendix I: Unaudited Summary of Investments by Major Category of Individual Pension Funds at June 30, 2001 .....	34
Appendix II: Unaudited Common Performance Disclosure Form for Public Funds .....	36

INTENTIONALLY BLANK

---

## 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, 2001, 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 auditing standards generally accepted in the United States. 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, 2001, and the related investment income and investment activity for the year then ended, in conformity with accounting principles generally accepted in the United States.

August 17, 2001

*Ernst & Young LLP*

**SUMMARY OF AMOUNTS INVESTED BY FUND**  
as of June 30, 2001

	Par, Cost or Principal Amount— Note 1	Cost— Note 1	Fair Value— Note 1	Fair Value Over (Under) Cost
<b>PENSION AND ANNUITY GROUP</b>				
Consolidated Police and Firemen's Pension Fund	\$ 22,933,952	\$ 22,821,093	\$ 23,041,522	\$ 220,429
Judicial Retirement System of New Jersey	227,194,521	226,517,782	354,185,707	127,667,925
Police and Firemen's Retirement System	9,431,342,300	9,420,665,585	15,976,503,628	6,555,838,043
Prison Officers Pension Fund	17,488,453	17,523,655	18,041,284	517,629
Public Employees' Retirement System	13,004,889,760	12,996,506,134	23,588,668,835	10,592,162,701
State Police Retirement System	985,772,658	984,198,899	1,719,176,013	734,977,114
Teachers' Pension and Annuity Fund	17,323,839,869	17,303,104,723	30,486,514,026	13,183,409,303
		<u>40,971,337,871</u>	<u>72,166,131,015</u>	<u>31,194,793,144</u>
<b>STATIC GROUP</b>				
Trustees for the Support of Public Schools Fund	94,311,505	95,383,881	147,612,034	52,228,153
Waste Water Treatment Fund (Act of 1985)	343,033,085	343,033,085	343,169,135	136,050
Waste Water Treatment Fund (Act of 1992)	1,057,494	1,057,494	1,057,913	419
		<u>439,474,460</u>	<u>491,839,082</u>	<u>52,364,622</u>
<b>DEMAND GROUP</b>				
Atlantic City Casino Parking Fund	1,636,209	1,636,209	1,636,858	649
Atlantic City Tourism Promotion Fund	231,768	231,768	231,860	92
Boarding House Rental Assistance Fund	2,182,856	2,182,856	2,183,721	865
Body Armor Replacement Fund	3,514,491	3,514,491	3,515,885	1,394
Casino Simulcasting Fund	2,786,730	2,786,730	2,787,835	1,105
Casino Simulcasting Special Fund	2,730,273	2,730,273	2,731,356	1,083
Catastrophic Illness in Children Relief Fund (Act of 1987)	11,503,187	11,503,187	11,507,750	4,563
Clean Communities Account Fund (Act of 1985)	3,967,645	3,967,645	3,969,219	1,574
Development Fund—Luxury Tax	1,745,046	1,745,046	1,745,738	692
Division of Motor Vehicles Surcharge Fund	5,209,252	5,209,252	5,211,318	2,066
Dredging & Containment Facility Fund	35,413,123	35,413,123	35,427,168	14,045
Emergency Services Fund	19,137,647	19,137,647	19,145,237	7,590
Enterprise Zone Assistance Fund (Act of 1983)	194,936,316	194,936,316	195,013,629	77,313
Environmental Clean Up Fund (Act of 1996)	499,941	499,941	500,139	198
Hazardous Discharge Fund (Act of 1986)	10,398,194	10,398,194	10,402,318	4,124
Health Care Subsidy Fund	93,334,756	93,334,756	93,371,773	37,017
Higher Education Assistance Fund	41,823,336	41,823,336	41,839,924	16,588
Higher Education Assistance Operating Fund	28,447,260	28,447,260	28,458,543	11,283
Korean Veterans' Memorial Fund	170,998	170,998	171,066	68
Luxury Tax Fund	419,056	419,056	419,222	166
Motor Vehicle Security Responsibility Fund	244,189	244,189	244,286	97
New Jersey Automobile Insurance Guaranty Fund	197,611,810	197,611,810	197,690,185	78,375
New Jersey Insurance Development Fund	46,393,858	46,393,858	46,412,258	18,400
New Jersey Spill Compensation Fund	56,367,097	56,367,097	56,389,453	22,356
Petroleum Overcharge Reimbursement Fund	15,423,683	15,423,683	15,429,800	6,117
Real Estate Guaranty Fund	1,850,314	1,850,314	1,851,048	734
Resource Recovery Investment Tax Fund (Act of 1985)	372,579	372,579	372,726	147
Sanitary Landfill Facility Contingency Fund	29,341,336	29,341,336	29,352,973	11,637
Solid Waste Services Tax Fund (Act of 1985)	7,869,074	7,869,074	7,872,195	3,121
Spinal Cord Research Fund	3,963,363	3,963,363	3,964,935	1,572
State Disability Benefits Fund	137,401,719	137,401,719	137,456,214	54,495
State of New Jersey Judiciary—Bail Fund	33,054,546	33,054,546	33,067,656	13,110
State of New Jersey Judiciary—Child Support Fund	31,881,392	31,881,392	31,894,037	12,645
State of New Jersey Judiciary—Probation Fund	7,975,964	7,975,964	7,979,127	3,163
State of New Jersey Judiciary—Special Civil Fund	2,883,606	2,883,606	2,884,749	1,143
State of New Jersey Judiciary—Superior Court/Other Misc. Fund	3,372,325	3,372,325	3,373,663	1,338
State Recycling Fund	5,085,336	5,085,336	5,087,353	2,017
Tobacco Settlement Fund	100,061,106	100,061,106	100,100,791	39,685
Tourism Improvement Development District Act Fund	106,223	106,223	106,265	42
Unclaimed Child Support Trust Fund	2,282,399	2,282,399	2,283,304	905
Unclaimed County Deposits Trust Fund	3,978,983	3,978,983	3,980,561	1,578
Unclaimed Insurance Payments on Deposit	1,963,798	1,963,798	1,964,577	779
Unclaimed Personal Property Trust Fund	223,287,772	223,287,772	223,376,330	88,558
Unclaimed Utility Deposits Trust Fund	1,744,252	1,744,252	1,744,944	692
Unemployment Compensation Fund	2,044,446	2,044,446	2,045,257	811
Unemployment Compensation Auxiliary Fund	13,963,867	13,963,867	13,969,405	5,538
Unsatisfied Claim and Judgment Fund	270,376,198	270,376,198	270,483,431	107,233
Volunteer Emergency Service Organizations Loan Fund	1,190,572	1,190,572	1,191,044	472
Worker and Community Right to Know Fund	285,465	285,465	285,578	113
Workers' Compensation Security Fund—Mutual	10,060,087	10,060,087	10,064,077	3,990
Workers' Compensation Security Fund—Stock	83,102,869	83,102,869	83,135,828	32,959
Workforce Development Partnership Fund	72,816,015	72,816,015	72,844,895	28,880
		<u>1,828,444,327</u>	<u>1,829,169,504</u>	<u>725,177</u>

**SUMMARY OF AMOUNTS INVESTED BY FUND (CONTINUED)**  
as of June 30, 2001

	Par, Cost or Principal Amount— Note 1	Cost— Note 1	Fair Value— Note 1	Fair Value Over (Under) Cost
<b>TEMPORARY RESERVE GROUP</b>				
Alcohol Education Rehabilitation and Enforcement Fund	\$ 6,967,766	\$ 6,967,766	\$ 6,970,530	\$ 2,764
Beaches and Harbors Fund (Act of 1977)	3,915	3,915	3,916	1
Capital City Redevelopment Loan and Grant Fund	2,078,269	2,078,269	2,079,094	825
Central Pension Fund	11,667	11,667	11,672	5
Clean Waters Fund (Act of 1976)	2,507,020	2,507,020	2,508,014	994
Community Development Bond Fund (Act of 1981)	108	108	108	—
Contributory Insurance Fund—PERS	139,697,779	140,163,404	140,452,687	289,283
Contributory Insurance Fund—TPAF	78,488,402	78,704,027	78,814,799	110,772
Correctional Facilities Construction Fund (Act of 1982)	611,127	611,127	611,370	243
Correctional Facilities Construction Fund (Act of 1987)	7,266,462	7,266,462	7,269,344	2,882
Development Disabilities Waiting List Reduction and Human Services Facilities Construction Bonds (Act of 1994)	20,814,982	20,814,982	20,823,238	8,256
Drinking Water State Revolving Fund	23,267,409	23,267,409	23,276,637	9,228
Economic Development Site Fund 1996	5,259,430	5,259,430	5,261,516	2,086
Emergency Flood Control Fund (Act of 1978)	361,779	361,779	361,922	143
Emergency Medical Technician Training Fund	10,117,831	10,117,831	10,121,843	4,012
Energy Conservation Fund (Act of 1980)	144,868	144,868	144,926	58
Farmland Preservation Fund (Act of 1981)	4,186	4,186	4,188	2
Farmland Preservation Fund (Act of 1989)	277,107	277,107	277,216	109
Farmland Preservation Fund (Act of 1992)	4,607,768	4,607,768	4,609,595	1,827
Farmland Preservation Fund (Act of 1995)	14,654,494	14,654,494	14,660,306	5,812
Garden State Farmland Preservation Trust Fund	3,979,079	3,979,079	3,980,658	1,579
Garden State Green Acres Preservation Trust Fund	11,325,328	11,325,328	11,329,820	4,492
Garden State Historic Preservation Trust Fund	13,017,850	13,017,850	13,023,013	5,163
General Investment Fund	1,653,023,785	1,653,023,785	1,653,679,387	655,602
Green Acres Cultural Centers and Historic Preservation Bond Fund (Act of 1987)	5,748,968	5,748,968	5,751,248	2,280
Green Trust Fund (Act of 1983)	18,964,640	18,964,640	18,972,162	7,522
Hazardous Discharge Fund (Act of 1981)	196,450	196,450	196,528	78
Hazardous Discharge Site Cleanup Fund (Act of 1985)	67,981,686	67,981,686	68,008,648	26,962
Higher Education Facility Renovation and Rehabilitation Fund	333,027	333,027	333,159	132
Historic Preservation Fund (Act of 1992)	3,109,999	3,109,999	3,111,233	1,234
Historic Preservation Fund (Act of 1995)	2,253,103	2,253,103	2,253,997	894
Historic Preservation Revolving Loan Fund	3,177,118	3,177,118	3,178,378	1,260
Horse Racing Injury Compensation	2,628,659	2,628,659	2,629,701	1,042
Housing Assistance Fund (Act of 1968)	4,195,141	4,195,141	4,196,805	1,664
Human Services Facilities Construction Fund (Act of 1984)	612,785	612,785	613,028	243
Institutional Construction Fund (Act of 1978)	7,051	7,051	7,054	3
Institutions Construction Fund (Act of 1976)	9,355	9,355	9,358	3
Jobs, Education, and Competitiveness Fund (Act of 1988)	4,563,877	4,563,877	4,565,687	1,810
Jobs, Science, and Technology Fund (Act of 1984)	44,643	44,643	44,660	17
Lake Restoration Fund	1,919,253	1,919,253	1,920,014	761
Medical Education Facilities Fund (Act of 1977)	544,765	544,765	544,981	216
Mortgage Assistance Fund (Act of 1976)	1,936,483	1,936,483	1,937,251	768
Natural Resources Fund (Act of 1980)	4,577,554	4,577,554	4,579,369	1,815
New Home Warranty Security Fund	30,811,228	30,811,228	30,823,448	12,220
New Jersey Bridge Rehabilitation and Improvement and Railroad Right of Way Preservation Fund	28,068,938	28,068,938	28,080,070	11,132
New Jersey Bridge Rehabilitation Fund (Act of 1983)	5,254,618	5,254,618	5,256,702	2,084
New Jersey Coastal Blue Acres Fund	3,348,809	3,348,809	3,350,138	1,329
New Jersey Cultural Trust Fund	2,138,612	2,138,612	2,139,460	848
New Jersey Dam Restoration & Clean Water Fund (Act of 1992)	7,680,231	7,680,231	7,683,277	3,046
New Jersey Green Acres Fund (Act of 1983)	21,295,459	21,295,459	21,303,905	8,446
New Jersey Green Acres Fund (Act of 1989)	7,931,247	7,931,247	7,934,392	3,145
New Jersey Green Acres Fund (Act of 1992)	2,639,496	2,639,496	2,640,543	1,047
New Jersey Green Acres Fund (Act of 1995)	14,854,569	14,854,569	14,860,460	5,891
New Jersey Green Trust Fund (Act of 1989)	32,218,295	32,218,295	32,231,073	12,778
New Jersey Green Trust Fund (Act of 1992)	11,137,577	11,137,577	11,141,994	4,417
New Jersey Green Trust Fund (Act of 1995)	87,888	87,888	87,923	35
New Jersey Health Maintenance Organization Assistance Fund	13,365,543	13,365,543	13,370,844	5,301
New Jersey Inland Blue Acres Fund	3,751,148	3,751,148	3,752,636	1,488
New Jersey Medical Malpractice Reinsurance-Recovery Fund	13,983,394	13,983,394	13,988,940	5,546
New Jersey State Dental Program	12,220,709	12,220,709	12,225,556	4,847
Pension Adjustment Fund	4,365,088	4,365,088	4,366,819	1,731
Pension Payroll Investment Fund	81,449,709	81,449,709	81,482,013	32,304
Pinelands Infrastructure Trust Fund (Act of 1985)	4,726,000	4,726,000	4,727,874	1,874
Pollution Prevention Fund	4,010,193	4,010,193	4,011,783	1,590

**SUMMARY OF AMOUNTS INVESTED BY FUND (CONTINUED)**  
as of June 30, 2001

	Par, Cost or Principal Amount— Note 1	Cost— Note 1	Fair Value— Note 1	Fair Value Over (Under) Cost
<b>TEMPORARY RESERVE GROUP—(continued)</b>				
Prescription Drug Program Fund	\$ 4,612,636	\$ 4,612,636	\$ 4,614,466	\$ 1,830
Public Buildings Construction Fund (Act of 1968)	3,520	3,520	3,521	1
Public Purpose Buildings and Community-Based Facilities Construction Fund (Act of 1989)	6,479,432	6,479,432	6,482,002	2,570
Public Purpose Buildings and Construction Fund (Act of 1980)	356,193	356,193	356,334	141
Resource Recovery & Solid Waste Disposal Facilities Fund (Act of 1985)	32,780,081	32,780,081	32,793,082	13,001
Safe Drinking Water Fund	7,060,073	7,060,073	7,062,873	2,800
Shore Protection Fund (Act of 1983)	11,022,156	11,022,156	11,026,527	4,371
State Facilities for Handicapped Fund (Act of 1973)	236,615	236,615	236,708	93
State Health Benefits Fund	169,570,115	169,570,115	169,637,367	67,252
State Land Acquisition and Development Fund (Act of 1978)	405,955	405,955	406,116	161
State Lottery Fund—Investment	183,272,317	156,645,743	156,499,544	(146,199)
State of New Jersey—Alternate Benefit Program	15,469,059	15,469,059	15,475,194	6,135
State of New Jersey Cash Management Fund— Administrative Expense Fund	2,255,913	2,255,913	2,256,808	895
State of New Jersey Cash Management Fund— Other-than-State Funds	4,647,815,709	4,647,815,709	4,649,659,070	1,843,361
State of New Jersey Cash Management Fund— Reserve Fund	79,036,088	79,036,088	79,067,434	31,346
State of New Jersey Development Potential Transfer Bank Fund	3,340,788	3,340,788	3,342,113	1,325
State Recreation and Conservation Land Acquisition and Development Fund (Act of 1974)	1,638,495	1,638,495	1,639,145	650
Statewide Transportation & Local Budget Fund 1999	75,303,508	75,303,508	75,333,374	29,866
Stormwater Management and Combined Sewer Overflow Abatement Fund	10,457,207	10,457,207	10,461,355	4,148
Transportation Rehabilitation and Improvement Fund (Act of 1979)	328,526	328,526	328,656	130
University of Medicine and Dentistry of New Jersey Self-Insurance Reserve Fund	82,613,347	82,256,925	82,788,262	531,337
Urban & Rural Centers Unsafe Buildings Demolition Revolving Loan Fund	672,773	672,773	673,040	267
Water Conservation Fund (Act of 1969)	1,001,636	1,001,636	1,002,033	397
Water Supply Fund (Act of 1981)	82,601,655	82,601,655	82,634,415	32,760
Water Supply Replacement Trust Fund	5,522,080	5,522,080	5,524,270	2,190
		<u>7,824,185,850</u>	<u>7,827,892,619</u>	<u>3,706,769</u>
<b>TRUST GROUP</b>				
New Jersey State Employees' Deferred Compensation Administrative Charges	773,595	773,595	773,902	307
New Jersey State Employees' Deferred Compensation Cash Management Fund	159,948,734	159,948,734	160,012,171	63,437
New Jersey State Employees' Deferred Compensation Equity Fund	366,088,133	366,088,133	642,735,783	276,647,650
New Jersey State Employees' Deferred Compensation Fixed Income Fund	161,210,773	164,603,455	167,465,368	2,861,913
New Jersey State Employees' Deferred Compensation Holding Account	9,441,818	9,441,818	9,445,563	3,745
New Jersey State Employees' Deferred Compensation Small Cap Equity Fund	119,226,908	119,226,908	122,194,380	2,967,472
Insurance Annuity Trust Fund	70,544	70,544	70,572	28
NJBEST Fund—Administrative Expenses	209,043	209,043	209,126	83
NJBEST-Pooled Equity				
NJBEST Fund—Core Bond Fund	6,554,923	10,481,040	10,362,292	(118,748)
NJBEST Fund—Portfolio A	1,472,817	1,523,624	1,521,943	(1,681)
NJBEST Fund—Portfolio B	3,251,022	3,414,650	3,400,062	(14,588)
NJBEST Fund—Portfolio C	4,670,829	4,883,193	4,870,090	(13,103)
NJBEST Fund—Portfolio D	3,478,446	3,728,718	3,701,181	(27,537)
NJBEST Fund—Portfolio E	3,874,556	4,061,602	4,059,796	(1,806)
Supplemental Annuity Collective Trust Fund	84,368,449	84,368,449	185,097,242	100,728,793
Tischler Memorial Fund	677,779	676,101	682,622	6,521
		<u>933,499,607</u>	<u>1,316,602,093</u>	<u>383,102,486</u>
<b>TOTAL AMOUNTS INVESTED BY FUNDS</b>		<u>\$51,996,942,115</u>	<u>\$83,631,634,313</u>	<u>\$31,634,692,198</u>

*See accompanying notes.*

**SUMMARY OF INVESTMENT INCOME BY FUND**  
for the Year Ended June 30, 2001

	Net Investment Earnings (Note 1)	Change in Unrealized Appreciation/ (Depreciation)	Net Gain (Loss) from Investment Transactions	Total Investment Income
<b>PENSION AND ANNUITY GROUP</b>				
Consolidated Police and Firemen's Pension Fund	\$ 1,836,597	\$ 688,613	\$ (209,217)	\$ 2,315,993
Judicial Retirement System of New Jersey	10,168,725	(52,924,981)	2,358,111	(40,398,145)
Police and Firemen's Retirement System	472,174,702	(2,282,941,190)	145,341,229	(1,665,425,259)
Prison Officers Pension Fund	1,142,269	647,449	4,304	1,794,022
Public Employees' Retirement System	674,879,508	(3,486,221,015)	193,591,176	(2,617,750,331)
State Police Retirement System	49,331,632	(251,198,606)	9,711,740	(192,155,234)
Teachers' Pension and Annuity Fund	861,839,930	(4,597,659,525)	309,291,319	(3,426,528,276)
	<u>2,071,373,363</u>	<u>(10,669,609,255)</u>	<u>660,088,662</u>	<u>(7,938,147,230)</u>
<b>STATIC GROUP</b>				
Trustees for the Support of Public Schools Fund	4,806,867	(16,625,310)	4,800,121	(7,018,322)
Waste Water Treatment Fund (Act of 1985)	18,903,418	197,782	—	19,101,200
Waste Water Treatment Fund (Act of 1992)	85,634	973	—	86,607
	<u>23,795,919</u>	<u>(16,426,555)</u>	<u>4,800,121</u>	<u>12,169,485</u>
<b>DEMAND GROUP</b>				
Atlantic City Casino Parking Fund	76,276	703	—	76,979
Atlantic City Tourism Promotion Fund	25,893	135	—	26,028
Boarding House Rental Assistance Fund	155,556	1,447	—	157,003
Body Armor Replacement Fund	211,704	2,234	—	213,938
Casino Simulcasting Fund	143,891	1,527	—	145,418
Casino Simulcasting Special Fund	275,828	1,943	—	277,771
Catastrophic Illness in Children Relief Fund (Act of 1987)	665,330	6,955	—	672,285
Clean Communities Account Fund (Act of 1985)	405,978	2,944	—	408,922
Development Fund—Luxury Tax	100,462	1,028	—	101,490
Division of Motor Vehicles Surcharge Fund	524,679	2,765	—	527,444
Dredging & Containment Facility Fund	2,119,883	21,493	—	2,141,376
Emergency Services Fund	1,155,332	11,840	—	1,167,172
Enterprise Zone Assistance Fund (Act of 1983)	11,080,457	114,436	—	11,194,893
Environmental Clean Up Fund (Act of 1996)	24,941	198	—	25,139
Hazardous Discharge Fund (Act of 1986)	592,332	6,063	—	598,395
Health Care Subsidy Fund	2,349,370	44,945	—	2,394,315
Higher Education Assistance Fund	2,197,170	23,281	—	2,220,451
Higher Education Assistance Operating Fund	1,278,241	17,032	—	1,295,273
Korean Veterans' Memorial Fund	34,219	260	—	34,479
Luxury Tax Fund	51,016	241	—	51,257
Motor Vehicle Security Responsibility Fund	9,632	126	—	9,758
New Jersey Automobile Insurance Guaranty Fund	11,375,389	116,448	—	11,491,837
New Jersey Insurance Development Fund	2,670,909	27,342	—	2,698,251
New Jersey Spill Compensation Fund	2,917,183	33,306	—	2,950,489
Petroleum Overcharge Reimbursement Fund	974,062	9,512	—	983,574
Real Estate Guaranty Fund	106,392	1,074	—	107,466
Resource Recovery Investment Tax Fund (Act of 1985)	21,459	219	—	21,678
Sanitary Landfill Facility Contingency Fund	1,729,199	17,363	—	1,746,562
Solid Waste Services Tax Fund (Act of 1985)	462,730	4,603	—	467,333
Spinal Cord Research Fund	120,363	1,572	—	121,935
State Disability Benefits Fund	6,103,189	75,979	—	6,179,168
State of New Jersey Judiciary—Bail Fund	2,009,581	19,973	—	2,029,554
State of New Jersey Judiciary—Child Support Fund	1,769,343	18,847	—	1,788,190
State of New Jersey Judiciary—Probation Fund	479,445	4,743	—	484,188
State of New Jersey Judiciary—Special Civil Fund	144,639	1,636	—	146,275
State of New Jersey Judiciary—Superior Court/ Other Miscellaneous Fund	256,563	2,665	—	259,228
State Recycling Fund	552,480	3,876	—	556,356
Tobacco Settlement Fund	5,674,893	86,551	—	5,761,444
Tourism Improvement Development District Act Fund	12,869	58	—	12,927
Unclaimed Child Support Trust Fund	90,901	1,176	—	92,077
Unclaimed County Deposits Trust Fund	189,751	2,148	—	191,899
Unclaimed Insurance Payments on Deposit	116,198	1,181	—	117,379
Unclaimed Personal Property Trust Fund	9,454,715	124,924	—	9,579,639
Unclaimed Utility Deposits Trust Fund	18,252	692	—	18,944
Unemployment Compensation Fund	387,338	811	—	388,149
Unemployment Compensation Auxiliary Fund	845,657	10,172	—	855,829
Unsatisfied Claim and Judgment Fund	15,233,547	172,399	—	15,405,946
Volunteer Emergency Service Organizations Loan Fund	73,878	716	—	74,594
Worker and Community Right to Know Fund	113,507	625	—	114,132
Workers' Compensation Security Fund—Mutual	599,369	6,099	—	605,468
Workers' Compensation Security Fund—Stock	4,910,771	49,472	—	4,960,243
Workforce Development Partnership Fund	3,842,726	46,187	—	3,888,913
	<u>96,735,488</u>	<u>1,103,965</u>	<u>—</u>	<u>97,839,453</u>

**SUMMARY OF INVESTMENT INCOME BY FUND (CONCLUDED)**  
for the Year Ended June 30, 2001

	Net Investment Earnings (Note 1)	Change in Unrealized Appreciation/ (Depreciation)	Net Gain (Loss) from Investment Transactions	Total Investment Income
<b>TEMPORARY RESERVE GROUP</b>				
Alcohol Education Rehabilitation and Enforcement Fund	\$ 458,443	\$ 3,953	—	\$ 462,396
Beaches and Harbors Fund (Act of 1977)	5,047	25	—	5,072
Capital City Redevelopment Loan and Grant Fund	128,908	1,292	—	130,200
Central Pension Fund	4,501	6	—	4,507
Clean Waters Fund (Act of 1976)	147,697	1,500	—	149,197
Community Development Bond Fund (Act of 1981)	141	1	—	142
Contributory Insurance Fund—PERS	7,800,369	1,081,400	\$ 63,281	8,945,050
Contributory Insurance Fund—TPAF	4,375,465	456,390	42,188	4,874,043
Correctional Facilities Construction Fund (Act of 1982)	36,150	367	—	36,517
Correctional Facilities Construction Fund (Act of 1987)	603,609	5,366	—	608,975
Development Disabilities Waiting List Reduction and Human Services Facilities Construction Bonds (Act of 1994)	1,677,865	15,563	—	1,693,428
Drinking Water State Revolving Fund	1,072,519	11,218	—	1,083,737
Economic Development Site Fund 1996	412,997	4,758	—	417,755
Emergency Flood Control Fund (Act of 1978)	21,322	216	—	21,538
Emergency Medical Technician Training Fund	590,486	5,980	—	596,466
Energy Conservation Fund (Act of 1980)	18,392	175	—	18,567
Farmland Preservation Fund (Act of 1981)	4,897	35	—	4,932
Farmland Preservation Fund (Act of 1989)	19,188	175	—	19,363
Farmland Preservation Fund (Act of 1992)	284,338	2,835	—	287,173
Farmland Preservation Fund (Act of 1995)	888,820	9,167	—	897,987
Garden State Farmland Preservation Trust Fund	302,385	2,096	—	304,481
Garden State Green Acres Preservation Trust Fund	579,007	7,265	—	586,272
Garden State Historic Preservation Trust Fund	517,850	5,163	—	523,013
General Investment Fund	71,550,134	1,089,284	—	72,639,418
Green Acres Cultural Centers and Historic Preservation Bond Fund (Act of 1987)	410,069	3,948	—	414,017
Green Trust Fund (Act of 1983)	992,862	10,587	—	1,003,449
Hazardous Discharge Fund (Act of 1981)	14,363	137	—	14,500
Hazardous Discharge Site Cleanup Fund (Act of 1985)	4,253,408	43,118	—	4,296,526
Higher Education Facility Renovation and Rehabilitation Fund	10,745	197	—	10,942
Historic Preservation Fund (Act of 1992)	223,168	2,188	—	225,356
Historic Preservation Fund (Act of 1995)	178,043	1,788	—	179,831
Historic Preservation Revolving Loan Fund	178,256	1,853	—	180,109
Horse Racing Injury Compensation Fund	126,407	1,237	—	127,644
Housing Assistance Fund (Act of 1968)	136,291	1,676	—	137,967
Human Services Facilities Construction Fund (Act of 1984)	48,311	471	—	48,782
Institutional Construction Fund (Act of 1978)	416	4	—	420
Institutions Construction Fund (Act of 1976)	552	5	—	557
Jobs, Education, and Competitiveness Fund (Act of 1988)	418,652	3,389	—	422,041
Jobs, Science, and Technology Fund (Act of 1984)	2,641	26	—	2,667
Lake Restoration Fund	138,485	1,362	—	139,847
Medical Education Facilities Fund (Act of 1977)	32,222	327	—	32,549
Mortgage Assistance Fund (Act of 1976)	120,927	1,139	—	122,066
Natural Resources Fund (Act of 1980)	272,207	2,759	—	274,966
New Home Warranty Security Fund	1,777,217	18,303	—	1,795,520
New Jersey Bridge Rehabilitation and Improvement and Railroad Right of Way Preservation Fund	2,115,175	18,611	—	2,133,786
New Jersey Bridge Rehabilitation Fund (Act of 1983)	535,984	4,691	—	540,675
New Jersey Coastal Blue Acres Fund	192,791	1,975	—	194,766
New Jersey Cultural Trust Fund	103,612	848	—	104,460
New Jersey Dam Restoration & Clean Water Fund (Act of 1992)	535,069	5,291	—	540,360
New Jersey Green Acres Fund (Act of 1983)	1,271,218	12,864	—	1,284,082
New Jersey Green Acres Fund (Act of 1989)	495,812	4,924	—	500,736
New Jersey Green Acres Fund (Act of 1992)	189,094	1,834	—	190,928
New Jersey Green Acres Fund (Act of 1995)	1,197,626	10,938	—	1,208,564
New Jersey Green Trust Fund (Act of 1989)	1,973,773	19,329	—	1,993,102
New Jersey Green Trust Fund (Act of 1992)	775,600	7,469	—	783,069
New Jersey Green Trust Fund (Act of 1995)	628,451	4,044	—	632,495
New Jersey Health Maintenance Organization Assistance Fund	665,543	5,301	—	670,844
New Jersey Inland Blue Acres Fund	235,807	2,383	—	238,190
New Jersey Medical Malpractice Reinsurance-Recovery Fund	805,027	8,241	—	813,268
New Jersey State Dental Program	593,486	6,329	—	599,815
Pension Adjustment Fund	513,635	2,690	—	516,325
Pension Payroll Investment Fund	1,260,427	48,062	—	1,308,489
Pinelands Infrastructure Trust Fund (Act of 1985)	261,129	2,698	—	263,827
Pollution Prevention Fund	205,228	2,354	—	207,582

**SUMMARY OF INVESTMENT INCOME BY FUND (CONCLUDED)**  
for the Year Ended June 30, 2001

	Net Investment Earnings (Note 1)	Change in Unrealized Appreciation/ (Depreciation)	Net Gain (Loss) from Investment Transactions	Total Investment Income
<b>TEMPORARY RESERVE GROUP—(continued)</b>				
Prescription Drug Program Fund	\$ 752,203	\$ 4,189	—	\$ 756,392
Public Buildings Construction Fund (Act of 1968)	207	2	—	209
Public Purpose Buildings and Community-Based Facilities Construction Fund (Act of 1989)	612,931	5,349	—	618,280
Public Purpose Buildings and Construction Fund (Act of 1980)	22,553	223	—	22,776
Resource Recovery & Solid Waste Disposal Facilities Fund (Act of 1985)	2,122,903	21,662	—	2,144,565
Safe Drinking Water Fund	425,880	4,291	—	430,171
Shore Protection Fund (Act of 1983)	656,823	6,620	—	663,443
State Facilities for Handicapped Fund (Act of 1973)	13,621	139	—	13,760
State Health Benefits Fund	13,810,688	114,987	—	13,925,675
State Land Acquisition and Development Fund (Act of 1978)	59,178	380	—	59,558
State Lottery Fund—Investment	7,668,138	(115,036)	—	7,553,102
State of New Jersey—Alternate Benefits Program	919,218	7,947	—	927,165
State of New Jersey Cash Management Fund— Administrative Expense Fund	133,478	1,354	—	134,832
State of New Jersey Cash Management Fund— Other-than-State Funds	246,104,701	2,653,060	—	248,757,761
State of New Jersey Cash Management Fund— Reserve Fund	4,383,619	45,712	—	4,429,331
State of New Jersey Development Potential Transfer Bank Fund	194,159	1,981	—	196,140
State Recreation and Conservation Land Acquisition and Development Fund (Act of 1974)	98,957	991	—	99,948
Statewide Transportation & Local Budget Fund 1999	8,666,901	71,758	—	8,738,659
Stormwater Management and Combined Sewer Overflow Abatement Fund	713,431	6,801	—	720,232
Transportation Rehabilitation and Improvement Fund (Act of 1979)	19,327	196	—	19,523
University of Medicine and Dentistry of New Jersey Self-Insurance Reserve Fund	5,128,295	2,470,381	\$ 347,134	7,945,810
Urban & Rural Centers Unsafe Buildings Demolition Revolving Loan Fund	34,773	446	—	35,219
Water Conservation Fund (Act of 1969)	67,318	647	—	67,965
Water Supply Fund (Act of 1981)	4,924,394	50,137	—	4,974,531
Water Supply Replacement Trust Fund	330,860	3,311	—	334,171
	<u>413,254,815</u>	<u>8,327,148</u>	<u>452,603</u>	<u>422,034,566</u>
<b>TRUST GROUP</b>				
New Jersey State Employees' Deferred Compensation				
Administrative Charges	57,506	463	—	57,969
Cash Management Fund	8,441,598	90,521	—	8,532,119
Equity Fund	7,776,345	(158,360,919)	22,393,468	(128,191,106)
Fixed Income Fund	8,582,553	4,925,046	40,898	13,548,497
Holding Account	704,342	5,527	—	709,869
Small Cap Equity Fund	1,638,417	(6,729,535)	7,432,779	2,341,661
Insurance Annuity Trust Fund	3,730	41	—	3,771
NJBEST—Administrative Expenses	7,543	99	—	7,642
NJBEST—Pooled Equity	—	(141,218)	—	(141,218)
NJBEST—Holding	1,342	76	—	1,418
NJBEST—Core Bond Fund	314,972	(118,748)	(6,478)	189,746
NJBEST—Portfolio A	29,514	(1,681)	(526)	27,307
NJBEST—Portfolio B	52,425	(14,588)	(1,089)	36,748
NJBEST—Portfolio C	64,941	(13,103)	(3,525)	48,313
NJBEST—Portfolio D	42,208	(27,537)	(959)	13,712
NJBEST—Portfolio E	30,512	(1,806)	(1,487)	27,219
Supplemental Annuity Collective Trust Fund	2,535,150	(29,172,046)	8,383,631	(18,253,265)
Tischler Memorial Fund	41,226	1,674	—	42,900
	<u>30,324,324</u>	<u>(189,557,734)</u>	<u>38,236,713</u>	<u>(120,996,698)</u>
<b>TOTAL INVESTMENT INCOME</b>	<u>\$2,635,483,909</u>	<u>\$(10,866,162,431)</u>	<u>\$703,578,098</u>	<u>\$(7,527,100,424)</u>

See accompanying notes.

**SUMMARY OF INVESTMENTS BY MAJOR CATEGORY**  
as of June 30, 2001

	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	\$ 519,625,000	\$ 506,871,995	\$ 510,907,994	\$ 4,035,999
Industrial Bonds and Commercial Paper	8,500,000	8,485,542	8,535,905	50,363
Telephone Bonds	1,000,000	882,570	1,023,870	141,300
Finance Companies Senior Debt	8,500,000	8,547,300	8,852,630	305,330
Mortgage-Backed Certificates	3,246,307,924	3,196,266,952	3,248,238,917	51,971,965
Police and Firemen's Mortgage Program	491,143,598	491,143,598	467,541,501	(23,602,097)
Common Stocks	582,328,308	582,328,308	1,013,335,161	431,006,853
Units—Common Pension Fund A	8,734,564,864	8,734,564,864	35,259,408,788	26,524,843,924
Units—Common Pension Fund B	17,712,387,310	17,712,387,310	18,751,084,633	1,038,697,323
Units—Common Pension Fund D	8,278,623,355	8,278,623,355	11,881,094,279	3,602,470,924
Units—Cash Management Fund	12,466,006,794	12,466,006,794	12,470,950,912	4,944,118
Units—NJ Best—Pooled Equity	10,833,527	10,833,527	10,659,723	(173,804)
<b>TOTAL INVESTMENTS BY MAJOR CATEGORY</b>		<u>\$51,996,942,115</u>	<u>\$83,631,634,313</u>	<u>\$31,634,692,198</u>

*See accompanying notes.*

**SUMMARY OF INVESTMENT ACTIVITY**  
for the Year Ended June 30, 2001

Purchases at cost, including common funds	\$ 585,690,920
Purchases of units of common funds, at cost	40,791,800,732
Unrealized appreciation (or depreciation)	(10,866,162,431)
Sales	(685,947,339)
Mortgage principal repayments	(543,294,921)
Redemptions	(48,901,247)
Maturities	(104,115,000)
Redemptions of units of common funds	(40,265,489,991)
Realized gains distributed to funds	<u>703,578,098</u>
NET INCREASE (OR DECREASE) IN INVESTMENTS	(10,432,841,179)
Total amounts invested by funds— Beginning of year Note 2	<u>94,064,475,492</u>
Total amounts invested by funds— END OF YEAR	<u><u>\$ 83,631,634,313</u></u>

*See accompanying notes.*

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Administration**

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

**Investment Valuation**

Investments are stated at 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, Common Pension Fund D, Cash Management Fund and NJBEST Pooled Equity Fund 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, 2001, the mortgage loan program had a cost of \$491,143,598 and an appraised value of \$467,541,501, 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 accounting principles generally accepted in the United States 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.

Government Accounting Standards Board ("GASB") Statement No. 3 requires disclosure of the level of investment risk assumed by the Funds at June 30, 2001. Category 1 includes investments that are insured or registered, or securities held by the Division or its agent in the Funds' name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Funds' name. Category 3 includes uninsured and unregistered investments held by a broker or dealer, or held by the counterparty's trust department or agent but not in the Funds' name. As of June 30, 2001, 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, and NJBEST Pooled Equity Fund consisting of net gains of \$2,911,571,759 in fiscal year 2001, 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 \$449,845,424 in fiscal year 2001 are not reflected in the Summary of Investment Income by Fund. Undistributed investment income of \$3,561,751,377 as of June 30, 2001, arising from investment activity by Common Pension Fund D is not reflected in the Summary of Investment Income by Fund. These amounts are not reflected as they were not distributed to the holders of the Funds.

**NOTES TO INVESTMENT SUMMARIES**

**NOTE 3—SUMMARY OF INVESTMENTS BY MAJOR CATEGORY INCLUDING INVESTMENTS OWNED BY THE COMMON PENSION FUNDS, NJBEST POOLED EQUITY FUND 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, 2001, including investments owned by the Common Pension Funds, NJBEST Pooled Equity Fund 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, NJBEST Pooled Equity Fund 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	\$10,032,041,095	\$ 9,945,105,086	\$10,052,001,533	\$ 106,896,447
Time certificates of deposit	2,434,495,000	2,434,495,000	2,434,495,000	—
U.S. Government and other government bonds and obligations	16,139,762,000	16,518,788,177	16,852,167,941	333,379,764
Foreign government bonds and notes	1,612,640,065	1,612,640,065	1,325,429,616	(287,210,449)
Foreign stocks	10,320,057,271	10,320,057,271	10,145,164,934	(174,892,337)
Telephone bonds	729,122,020	708,950,597	729,478,963	20,528,366
Gas and electric bonds	470,500,000	476,014,555	488,295,220	12,280,665
Common stocks	20,064,389,002	20,064,389,002	36,091,122,532	16,026,733,530
Preferred stocks	39,102,747	39,102,747	45,535,920	6,433,173
Mortgage-backed certificates	3,246,307,924	3,196,266,952	3,248,238,917	51,971,965
Police and Firemen's mortgage program	491,143,598	491,143,598	467,541,501	(23,602,097)
Merchant marine bonds	139,871,000	139,871,000	134,018,378	(5,852,622)
Finance companies senior debt	1,485,015,000	1,487,598,051	1,522,989,733	35,391,682
International bank bonds and notes	300,000,000	302,462,810	305,229,250	2,766,440
<b>Total investments</b>		<b>67,736,884,911</b>	<b>83,841,709,438</b>	<b>16,104,824,527</b>
Differences in accounting by unit funds:				
Other assets		990,818,458	988,837,053	(1,981,405)
Other liabilities		(4,786,428,739)	(1,198,538,401)	3,587,890,338
Undistributed realized gains and other income		(11,944,332,515)	(373,777)	11,943,958,738
<b>Total amounts invested by funds</b>		<b>\$51,996,942,115</b>	<b>\$83,631,634,313</b>	<b>\$31,634,692,198</b>

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 reflect 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, NJBEST Pooled Equity Fund and the State of New Jersey Cash Management Fund as of June 30, 2001. 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, 2001, 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)
<b>Sales:</b>					
JPY	6,000,000,000	\$52,915,885.79	\$48,340,800.00	08/13/01	\$ 4,575,085.79
JPY	7,000,000,000	62,112,627.94	56,959,700.00	11/13/01	5,152,927.94
JPY	6,000,000,000	53,114,971.78	48,386,400.00	08/22/01	4,728,571.78
JPY	2,500,000,000	20,989,001.76	20,246,500.00	10/01/01	742,501.76
JPY	2,500,000,000	20,368,258.11	20,255,500.00	10/05/01	112,758.11
EURO	100,000,000	90,330,000.00	84,525,050.00	04/08/02	5,804,950.00
JPY	2,500,000,000	20,502,726.86	20,264,250.00	10/09/01	238,476.86
JPY	2,500,000,000	20,697,248.92	20,282,250.00	10/17/01	414,998.92
JPY	6,500,000,000	56,277,056.28	54,141,100.00	05/31/02	2,135,956.28
EURO	75,000,000	64,530,000.00	63,429,255.00	06/28/02	1,100,745.00
EURO	75,000,000	64,453,125.00	63,429,255.00	06/28/02	1,023,870.00
Total forward foreign currency contracts					<u>\$26,030,842.44</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
<b>SHORT-TERM OBLIGATIONS</b>						
U.S. Government and other government securities and obligations	\$ 5,766	\$ 5,794	\$ 4,087	\$ 4,106	\$ 407,688	\$ 409,633
Commercial paper	4,845	4,875	3,433	3,455	342,526	344,665
Time certificates of deposit	2,435	2,436	1,725	1,726	172,127	172,195
	<u>13,046</u>	<u>13,105</u>	<u>9,245</u>	<u>9,287</u>	<u>922,341</u>	<u>926,493</u>
<b>LONG-TERM OBLIGATIONS</b>						
U.S. Government and other government securities and obligations	3,441	3,600	45,826	47,160	2,094,554	2,155,495
Industrial bonds	—	—	22,122	22,463	1,011,130	1,026,724
Gas and electric bonds	—	—	2,068	2,121	94,522	96,961
Telephone bonds	—	—	3,076	3,165	140,601	144,649
Finance companies—senior debt	240	241	5,554	5,701	263,026	269,828
Merchant marine bonds	—	—	608	582	27,774	26,612
Foreign government bonds and notes	—	—	9,069	7,452	345,387	283,846
	<u>3,681</u>	<u>3,841</u>	<u>88,323</u>	<u>88,644</u>	<u>3,976,994</u>	<u>4,004,114</u>
<b>MORTGAGES</b>						
Mortgage-backed certificates	5,971	6,028	30,254	30,791	1,263,399	1,247,645
	<u>5,971</u>	<u>6,028</u>	<u>30,254</u>	<u>30,791</u>	<u>1,263,399</u>	<u>1,247,645</u>
<b>STOCKS</b>						
Common stock (U.S.)	—	—	93,971	169,234	4,256,937	7,666,394
Preferred stock	—	—	189	220	8,549	9,955
Common stock (International)	—	—	58,123	57,138	2,211,321	2,173,847
	<u>—</u>	<u>—</u>	<u>152,283</u>	<u>226,592</u>	<u>6,476,807</u>	<u>9,850,196</u>
	<u>22,698</u>	<u>22,973</u>	<u>280,106</u>	<u>355,315</u>	<u>12,639,541</u>	<u>16,028,448</u>
Differences in accounting by unit funds (other assets, other liabilities, undistributed realized gains and other income)	123	69	(53,588)	(1,129)	(3,218,875)	(51,944)
	<u>\$22,821</u>	<u>\$23,042</u>	<u>\$226,518</u>	<u>\$354,186</u>	<u>\$9,420,666</u>	<u>\$15,976,504</u>

**INCLUDING INVESTMENTS OWNED BY THE COMMON PENSION FUNDS AND THE STATE OF NEW JERSEY  
(000's Omitted) at June 30, 2001**

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
\$ 1,915	\$ 1,925	\$ 351,313	\$ 352,989	\$ 26,210	\$ 26,335	\$ 654,519	\$ 657,641	\$ 1,451,499	\$ 1,458,423
1,609	1,619	295,162	297,005	22,021	22,158	549,905	553,339	1,219,502	1,227,116
809	809	148,325	148,384	11,066	11,070	276,339	276,449	612,826	613,069
4,333	4,353	794,801	798,378	59,297	59,564	1,480,763	1,487,428	3,283,826	3,298,608
9,061	9,466	3,749,622	3,854,311	268,610	276,425	4,502,598	4,633,601	10,673,712	10,980,056
—	—	1,755,544	1,782,618	129,669	131,669	2,173,594	2,207,117	5,092,059	5,170,591
—	—	164,111	168,345	12,122	12,434	203,191	208,434	476,015	488,295
—	—	244,114	251,143	18,031	18,550	302,246	310,948	708,068	728,455
80	80	441,840	453,561	32,646	33,512	556,189	570,755	1,299,574	1,333,678
—	—	48,222	46,204	3,562	3,413	59,705	57,207	139,871	134,018
—	—	506,626	416,450	42,527	34,951	709,031	582,731	1,612,640	1,325,430
9,141	9,546	6,910,079	6,972,632	507,166	510,954	8,506,555	8,570,792	20,001,939	20,160,524
4,009	4,119	1,010,449	1,028,468	82,273	84,000	1,291,056	1,314,729	3,687,411	3,715,780
4,009	4,119	1,010,449	1,028,468	82,273	84,000	1,291,056	1,314,729	3,687,411	3,715,780
—	—	6,487,726	11,683,862	445,705	802,678	8,187,536	14,745,079	19,471,875	35,067,247
—	—	13,028	15,172	895	1,042	16,442	19,147	39,103	45,536
—	—	3,240,128	3,185,218	272,208	267,595	4,538,276	4,461,366	10,320,057	10,145,165
—	—	9,740,883	14,884,252	718,808	1,071,315	12,742,253	19,225,592	29,831,035	45,257,948
17,483	18,019	18,456,212	23,683,730	1,367,545	1,725,834	24,020,627	30,598,541	56,804,211	72,432,860
41	22	(5,459,706)	(95,061)	(383,346)	(6,658)	(6,717,523)	(112,028)	(15,832,873)	(266,729)
<u>\$17,524</u>	<u>\$18,041</u>	<u>\$12,996,506</u>	<u>\$23,588,669</u>	<u>\$ 984,199</u>	<u>\$1,719,176</u>	<u>\$17,303,104</u>	<u>\$30,486,513</u>	<u>\$40,971,338</u>	<u>\$72,166,131</u>

**UNAUDITED COMMON PERFORMANCE DISCLOSURE FORM  
FOR PUBLIC FUNDS**

	Avg. Annual Return 5 Years Ended 6/30/01	One Year Period Ended				
		6/30/97	6/30/98	6/30/99	6/30/00	6/30/01
<b>TOTAL RETURN</b>						
Aggregate of All Pension Funds	11.8%	22.1%	22.7%	16.1%	11.9%	-10.4%
Consumer Price Index	2.6%	2.3%	1.7%	2.0%	3.7%	3.2%
<b>STOCK TOTAL RETURNS</b>						
Common Pension Fund A—All Stocks	15.8%	32.7%	31.0%	27.6%	12.3%	-16.4%
Common Pension Fund A—Small Capitalization Stocks	25.0%	14.1%	26.9%	37.0%	52.4%	1.0%
Standard & Poor's 1500 Approved List	14.5%	32.5%	29.4%	21.4%	8.1%	-12.8%
Dow Jones Industrial Average	14.1%	32.4%	29.9%	23.4%	10.1%	-17.2%
Standard & Poor's 500 Index	13.6%	38.6%	18.5%	24.6%	-3.3%	-4.5%
Russell 2000 Index	14.5%	34.7%	30.1%	22.7%	7.3%	-14.8%
	9.6%	16.3%	16.5%	1.5%	14.3%	0.6%
<b>FIXED INCOME TOTAL RETURNS</b>						
Common Pension Fund B and Other Bonds	7.5%	8.0%	11.8%	2.8%	4.3%	10.9%
Lehman Brothers Government/Credit Bond Index	7.4%	7.8%	11.3%	2.8%	4.3%	11.1%
Salomon Brothers Broad Bond Index	7.8%	8.2%	10.5%	3.1%	4.5%	13.1%
<b>MORTGAGES—TOTAL RETURNS</b>						
Pension Fund Holdings	8.0%	9.7%	10.2%	3.4%	5.2%	11.4%
Salomon Brothers Mortgage Index	7.8%	9.0%	8.9%	4.1%	5.1%	12.3%
<b>INTERNATIONAL TOTAL RETURNS</b>						
Common Fund D Total—Hedged	5.2%	16.2%	15.6%	4.9%	21.1%	-24.5%
Common Fund D Fixed Income	1.3%	2.1%	5.4%	2.9%	-0.2%	-4.6%
Common Fund D Stocks	6.4%	20.7%	19.4%	5.7%	26.3%	-28.8%
Salomon World Gov. Bond Index—Unhedged	4.4%	3.9%	4.3%	4.1%	3.2%	6.7%
EAFE International Stock Index	2.8%	12.8%	6.1%	7.7%	17.1%	-23.8%
<b>CASH EQUIVALENTS</b>						
Total Returns—Cash Management Fund—Compounded	5.8%	5.7%	5.8%	5.4%	5.8%	6.2%
91-Day Treasury Bills	5.2%	5.1%	5.3%	4.9%	5.3%	5.6%

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.

