



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

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FORTY-THIRD ANNUAL REPORT

For the Fiscal Year Ended June 30, 1993



JIM FLORIO
Governor



SAMUEL CRANE
State Treasurer

A Report to
Governor Jim Florio,
the Members of the
New Jersey Legislature
and the State Treasurer

Submitted by the
State Investment Council

For the Fiscal Year ended June 30, 1993

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FEB - 4 1994

November 15, 1993

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

185 W. STATE ST.
TRENTON, N.J.

We are pleased to submit the Annual Report of the Division of Investment, Department of the Treasury, for the fiscal year ended June 30, 1993, as required by Section 13, P.L. 1950, c. 170. The report is a summary of the activities of the Division during the year. Separate reports are also prepared for the Supplemental Annuity Collective Trust and the State of New Jersey Cash Management Fund, both of which are available upon request from the Investment Division.

The Investment Division, under the jurisdiction of the State Investment Council, has the investment responsibility for 121 funds, including seven pension and annuity funds. The book value of all funds on June 30, 1993, was \$35.3 billion, compared to \$33.0 billion at the end of the prior year, and the market value of the funds was \$44.9 billion, compared with \$40.3 billion at the end of the previous fiscal year. The Council includes ten persons appointed to fixed terms. Five employee representatives are appointed by their respective pension fund boards for one year terms, and five members are appointed by the Governor for staggered five year terms. In fiscal 1992, the Legislature provided for an eleventh member of the Council, to be appointed by the Governor from a list of three candidates to be nominated jointly by the President of the Senate and the Speaker of the Assembly. The new law also provided that all gubernatorial appointments to the pension fund boards and to the Council are subject to the advice and consent of the State Senate. To date, the eleventh member of the Council has not been nominated or appointed, and two gubernatorial appointees to the Council are serving beyond the expiration of their terms while they await legislative consent for their proposed reappointment. 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. The Council is pleased to note that the returns earned on the pension funds over time have resulted in significant increases in the market values of the funds; when these market values were recognized under the pension revaluation plan that was enacted in 1992, savings of almost \$1.0 billion were reflected in the state's fiscal 1993 budget, and significant savings will be realized in subsequent years. All funds have been invested in conformity with the regulations of the Council and in accordance with policies approved by the Council.

Fiscal 1993 provided strong, positive returns for the Division. 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 12.5 percent which compares with a 13.8 percent return in fiscal 1992. For the past five fiscal years the estimated average annual total return earned by the pension funds was 12.7 percent. These total returns of the pension funds ranked the Division in the second third of all balanced fund managers in fiscal 1993, and in the top quarter for the five year period ended June 30, 1993. 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. Such investments are further defined as investments in property of every nature, provided the fiduciary shall exercise care and judgment under the circumstances then prevailing, which persons of ordinary prudence and reasonable discretion exercise. The Division is bound by law to make prudent investments for the sole benefit of the beneficiaries of the various funds under the supervision of the

Council, and 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 such funds.

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 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 large 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 and loans to small businesses. The Division does not have the facilities or personnel to make such loans, but it does participate indirectly in these areas through investments in securities of U.S. Government agencies and other financial intermediaries. The Council has been asked to provide below market interest rates for New Jersey investment programs for housing and economic development, but has declined to do so since Council members believe that to do so would be a violation of their fiduciary responsibilities to the beneficiaries of the funds under their supervision. Furthermore, in many instances, such programs can be funded through tax-exempt bond financing, which generally provides favorable interest rates to borrowers.

Over the years, the Council has addressed the major issues which concern fiduciaries, such as the standards for investment, the allocation of invested funds among asset classes and the globalization of investments. In fiscal 1993, the Council addressed the issue of the Division's budget and staffing and concluded that additional resources were needed in order to support adequately the investment programs of the state. The Council addressed this issue to the appropriate state officials and members of the Legislature, and the fiscal 1994 budget provides for additional funding for the Division.

The Council members are grateful for the many years of outstanding service to the Division which were provided by Fred Lansmann and Bruce LaBar, who retired during the year.

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

Respectfully submitted,

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

Richard R. Spies
Chair

The State Investment Council



RICHARD R. SPIES
Chair of the Council



ROBERT T. HOFFMAN



LESTER Z. LIEBERMAN



WILLIAM W. PRIEST, JR.



ARTHUR W. WHITE, JR.



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



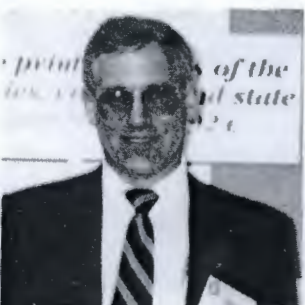
HARRY W. BALDWIN
Teachers' Pension and
Annuity Fund



ROY D. BLOOM
State Police Retirement
System



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



STEPHEN A. FLOREK II
Public Employees'
Retirement System

Division of Investment



ROLAND M. MACHOLD
Director



STEVEN E. KORNRUMPF
Deputy Director



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



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



Portfolio Management Group: Dick McGowan, Linda Thompson, Bruce Smith, Sandra Holmes, Linda Brooks and Victor Yu.



Trading Group: Rob Adriaanse, Bob Schragger, Patti Hricak, Michael Wszolek, Mary Ann Smith, Celia Daino, Jack Jacknowitz, Helen Imbalzano and Tim Patton.



Research Group: Jon Baumunk, Linda Gaspari, Ed Pittman, Brian Arena, Jim Vandervort, Karin Hollinger, Betty Carr, Denise Szeker and Anne McDermott.



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



Bookkeeping Group: Charles Coleman, Olga Grozio, Linda Coughlan, Nancy Brancolino, Ken Scott and Roxanne Tyner.



Cashier Group: Bart Pericoloso, Bea Wolfe, John Penza, Loretta Sytnik, Melissa Cook, Dolores Ewanis, Kass Cole, Rosetta Muccie and John Giovannetti.



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

FIVE YEAR SUMMARY

	Fiscal Year Ended June 30,				
	1989	1990	1991	1992	1993
	\$ Millions				
FUNDS UNDER THE SUPERVISION OF THE STATE INVESTMENT COUNCIL:					
Book Value at Year End:					
Pension Funds	\$19,517	\$21,697	\$24,081	\$26,223	\$26,911
All Funds	24,115	26,286	29,924	32,981	35,309
Market Value at Year End:					
Pension Funds	\$23,049	\$26,335	\$29,272	\$33,490	\$36,413
All Funds	27,700	30,978	35,166	40,313	44,875
Market Value of Pension Funds at Year End by Category:					
Short-term obligations	\$ 769	\$ 976	\$ 1,011	\$ 1,006	\$ 671
Long-term bonds	8,311	8,712	10,139	11,794	13,673
Mortgages	3,180	3,656	3,951	3,787	2,662
Stocks	10,505	12,725	13,977	16,379	18,633
Accounting differences	284	266	194	524	774
Total	\$23,049	\$26,335	\$29,272	\$33,490	\$36,413
Investment Income:					
Pension Funds	\$ 1,360	\$ 1,517	\$ 1,653	\$ 1,829	\$ 1,721
All Funds	1,681	1,867	2,011	2,166	2,053
Total Rate of Return (1)					
Common Pension Fund A (2)	16.6%	18.7%	8.0%	12.6%	12.3%
Common Pension Fund B (2)	13.0	7.2	10.3	14.5	14.0
Common Pension Fund D (2)	—	—	—	22.3	9.8
All Pension Funds, Estimated (3)	14.5	13.3	9.3(4)	13.8	12.5
Supplemental Annuity Collective Trust	13.5	14.7	5.8	12.9	13.4
Deferred Compensation Plan—Equity	15.1	19.7	5.3	10.6	11.9
Deferred Compensation Plan—Debt	11.5	7.1	10.5	14.7	10.5
Returns of Various Market Indices:					
Salomon Brothers' Mortgage Index	11.8%	9.7%	12.0%	14.0%	9.1%
Salomon Brothers' High Grade Corporate Bond Index	16.2	6.0	10.6	16.8	16.3
Shearson Lehman Government/Corporate Bond Index	12.3	7.1	10.2	14.2	13.2
S&P's 500	20.5	16.5	7.4	13.4	13.6
S&P's Mid-cap	22.1	15.4	12.8	18.6	22.7
Dow Jones Industrials Average	18.7	22.8	4.7	17.7	9.2
N.Y.S.E. Composite (5)	15.2	9.9	4.1	10.3	11.0
Salomon Brothers' World Gov. Bond Index—Unhedged	4.3	7.0	10.0	20.5	10.9
EAFE International Stock Index	9.5	3.3	(11.5)	(0.7)	20.3
State of New Jersey Cash Management Fund:					
Book Value of Units of Participation:					
All Participants	\$ 4,936	\$ 5,740	\$ 6,946	\$ 8,045	\$ 9,570
Other-than-State Participants	1,118	1,437	2,130	3,111	4,018
Average Annualized Daily Rate of Return:					
State Participants	8.08%	8.57%	7.47%	5.30%	3.63%
Other-than-State Participants	7.95	8.42	7.30	5.12	3.42
Number of Funds Under the Supervision of the State Investment Council	110	121	115	117	121
Total Number of Transactions	32,281	34,600	38,298	40,534	39,282

1. Total rate of return includes income and changes in market prices for securities held by the funds during the period shown.
2. Common Pension Funds A, B and D are the principal vehicles for investment by the pension funds in domestic stocks, domestic bonds, and international securities, respectively. The returns cited are for the whole portfolios and reflect a small amount of cash equivalents. Returns for stocks and bonds alone are shown in Appendix II, as are estimates of total returns for the pension funds.
3. In the course of fiscal 1991, the Division initiated a new Common Pension Fund D for the purpose of pooling investments of the pension funds in international securities. The estimated return of the pension funds for fiscal 1991 reflects the initial returns of investments in the new fund.
4. Revised from 10.0%.
5. Does not include income.

The Year's Activities

Summary Financial Information

The 121 investment funds under the supervision of the Council on June 30, 1993, had a book value of \$35.3 billion. This total represents an increase of 7.0 percent over the 1992 fiscal year-end total of \$33.0 billion held by 117 funds. The investment funds had a market value of \$44.9 billion at June 30, 1993, an increase of 11.4 percent over the market value of \$40.3 billion at June 30, 1992. The market value of the seven pension funds increased from \$33.5 billion at June 30, 1992, to \$36.4 billion at June 30, 1993. The market value of the pension funds increased due to lower interest rates, which improved the prices of the bonds held by the Division, and the continuing recovery of stock prices during the fiscal year.

Investment income for all funds for fiscal 1993 amounted to \$2.1 billion as compared with \$2.2 billion last year. Income remained stable as lower interest rates offset the effect of higher fund balances.

During the year, the Division of Investment purchased securities with a par value of \$83.2 billion. Approximately 21.6 percent of this amount, or \$18.0 billion, represented the overnight investment of surplus balances in the state's cash accounts. In fiscal 1992, the Division purchased securities with a par value of \$94.3 billion, of which \$26.4 billion was generated by overnight investments. During fiscal 1993, the Division's net holdings of mortgages decreased from \$3.8 billion to \$2.6 billion, due to substantial refunding of mortgages by home owners.

The Division sold securities totaling \$12.5 billion in fiscal 1993, compared with sales of \$7.4 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 \$443 million during the year, compared with \$195 million for the prior year. The transaction information in this paragraph includes transactions effected within the common funds, which are not included separately in the financial summaries in this report.

"Regular Interest Rates"

The pension revaluation law, which was enacted in June, 1993, sets the "regular interest rate" of the pension funds at 8¾ percent, which reflects expected income and market returns of the funds over time. The law further provides that the "regular interest rate" shall bear a reasonable relationship to the rate of earnings on investments, based on the market value of assets, but shall not exceed the assumed percentage rate of increase applied to salaries plus 3 percent. At present the assumed percentage rate of increase applied to salaries is 6¼ percent.

Fixed Income

Fixed income allocations for new investment in fiscal 1993 totalled \$1,485 million, of which \$360 million was allocated to the purchase of U.S. Government and corporate debt securities, and \$980 million was allocated for international fixed income investment through Common Pension Fund D. The remaining \$145 million of funds for new fixed income investment was allocated to the purchase of mortgage-backed securities issued by various agencies supported by the U.S. Government.

In fiscal 1993, the Division purchased \$859 million of FHLMC and GNMA 15 year and 30 year mortgage-backed securities and \$44 million of collateralized mortgage obligations (CMOs). Principal repayments on mortgage-backed securities held by the Division for fiscal 1993 totaled \$496 million.

In fiscal 1993, the Division sold \$1,824 million of FHLMC and GNMA mortgages and realized profits of \$151 million on the sales.

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

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, 1993, the market value of the units of ownership

of Common Pension Fund A, Common Pension Fund B and Common Pension Fund D were \$18.4 billion, \$11.6 billion and \$2.5 billion, respectively. The State of New Jersey Cash Management Fund provides a vehicle for the pension funds to make short-term investments.

Total Rate of Return Calculations for Select Portfolios

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

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

SEI Evaluation Services has provided the Division with calculations of total return, and their data shows that the total returns for Common Pension Funds A, B and D in fiscal 1993 were 12.3 percent, 14.0 percent and 9.8 percent, respectively. The estimated total return of the aggregate pension fund portfolios was approximately 12.5 percent in fiscal 1993, compared with returns of 13.8 percent in fiscal 1992 and 9.3 percent in fiscal 1991. It is difficult for public pension funds to find a common basis for reporting. However, several states have developed a format for common reporting practices, and the Investment Division has provided these estimates in response to this format in Appendix II to this report.

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

statements include \$317,584,015 of assets of the mortgage loan program at both book and market value. At June 30, 1993, the average coupon of mortgages issued under the program was 5.56 percent.

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 ("Other-than-State" participants) or the state to participate in the fund on a voluntary basis.

The total book value of the units of participation in the fund increased from \$8.0 billion at June 30, 1992 to \$9.6 billion at June 30, 1993, due to higher balances in the state's pension accounts and the accounts of participating municipalities and state agencies.

The net investment income of the fund was \$344 million in fiscal 1993, compared with \$405 million in fiscal 1992. The number of participating state funds increased from 117 to 121 during the year. The income of the fund fell in fiscal 1993, due to sharply lower short-term interest rates available in financial markets.

In fiscal 1993, the number of "Other-than-State" participants increased from 747 to 827, and the aggregate investment of "Other-than-State" participants was \$4.0 billion at the end of fiscal 1993, compared with \$3.1 billion at the end of fiscal 1992.

The average daily annualized rate of return to participating state accounts and accounts of the pension funds was 3.63 percent during fiscal 1993, compared with 5.30 percent in fiscal 1992. During fiscal 1993, the highest daily annualized rate of return to "Other-than-State" participants was 4.11 percent on July 1, 1992, and the lowest was 3.10 percent on several days in May, 1993. The average daily annualized rate of return to "Other-than-State" participants, which is net of two small charges, was 3.42 percent in fiscal 1993, compared with 5.12 percent in fiscal 1992.

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 1993 was 3.61 percent, compared with 5.33 percent in the prior year. The lower rates of return during fiscal 1993 were the result of

sharply lower interest rates available in the markets for short-term debt investments, as interest rates were lowered in response to a national recession.

Historical Background

Legislative History

Fiscal 1993 marks forty-three 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 121 funds in 1993, with a book value of \$35.3 billion and a market value of \$44.9 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 five of the pension systems. The statute was amended by P.L. 1992, c. 125 to provide for an eleventh member of the Council, to be appointed by the Governor from among three persons nominated jointly by the President of the Senate and the Speaker of the General Assembly. The eleventh member serves for a five year term. The new law also provides that all gubernatorial appointments to the Council are subject to the advice and consent of the Senate. The statute provides that no member of the Council shall hold any office, position or employment in any political party, nor shall any member benefit directly or indirectly from any transaction made by the Director of the Division. Members of the Council serve without compensation.

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

The role of the Council is to formulate investment procedures and policies to be followed by the Director. State legislation provides that the Council may

issue regulations which specifically approve and authorize any form of investment. New regulations adopted by the Council from time to time are formal documents which are filed with the Secretary of State and reported in the New Jersey Register.

The Council periodically reviews the investment objectives of all of the individual funds under its supervision. With respect to the pension funds, the primary investment objectives are the preservation of capital and the realization over time of earnings sufficient to meet or exceed the regular interest rate established for the actuaries in their determinations of the assets and liabilities of each pension fund system. The Council sets as a further investment objective the realization of the greatest possible returns on investment, commensurate with the standards of risk and prudence set forth within the Regulations of the Council.

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

Such legislation broadened the authority of the Division to include investment in short-term debt obligations, including commercial paper and certificates of deposit, and certain Canadian government and provincial obligations payable in U.S. dollars (P.L. 1952, c. 17, and P.L. 1971, c. 176); and, subsequently, investment in property of every nature, provided the fiduciary shall exercise care and judgment under the circumstances then prevailing, which persons of ordinary prudence and reasonable discretion exercise (P.L. 1975, c. 337).

The Legislature has also enacted laws which permit the operation of common funds. P.L. 1970, c. 270, permits the Director to combine, for the purpose of

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

In August 1985, Governor Kean signed into law an act, P.L. 1985, c. 308, which states that "no assets of any pension and annuity fund shall be invested in any bank or financial institution which directly or through a subsidiary has outstanding loans to the Republic of South Africa or its instrumentalities, and no assets shall be invested in the stocks, securities or other obligations of any company engaged in business in or with the Republic of South Africa." Furthermore, the Council and the Division shall effect divestment "within three years of the effective date of the act." The act further provided that certain reports had to be filed on a quarterly and semi-annual basis. 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 remains in compliance with the law.

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

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.

Regulations of the State Investment Council

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

Present regulations of the State Investment Council limit the authority of the Director to invest in common stock. At present, the Council limits the permissible level of the aggregate of the market value of pension fund stock holdings in Common Pension Funds A and D to 60 percent of the market value of any one pension fund. At June 30, 1993, the aggregate common stock holdings of the pension funds were 51.2 percent of the total market value of the funds. Attached hereto as Appendix I is an unaudited summary of investments by major category for individual pension funds.

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

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

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

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

As a consequence of the State's sunset law, all of the regulations of the Council were resubmitted to the legislative review process in fiscal 1991 and were readopted with various modifications and clarifications early in fiscal 1992. In fiscal 1993, the Council acted to permit up to 25 percent of the investments in the State of New Jersey Cash Management Fund to be invested in securities maturing in up to two years. The previous regulation provided that all securities had to mature within one year. This change was effected so that the Division could take advantage of any higher interest rates that might be available for the longer maturities. The Council also acted to amend its regulations to permit the Division to purchase debt obligations of certain credit-worthy subdivisions of eligible international sovereign debt issuers.

Reviews of Major Policy Issues in Recent Years

During fiscal 1984 and 1985, the Council reviewed a number of major policy issues which had been raised by Governor Kean's 1983 Pension Study Commission and by its own review and analysis. Early in fiscal 1985, the Council made the following findings and recommendations.

The Council members agreed with the conclusions of the Commission that the salary structure, budget

limitations of the Division, lack of personnel depth and the inflexibility of the Civil Service system posed grave dangers for the successful management of state funds and state-administered pension plans. The Council agreed that any complete solution to the budgeting, staffing, salary and Civil Service issues would provide that: (a) funding of the Division's budget would be made from pension fund income and other fees, with all expenses of the Division subject to the discretion of the Council; (b) all professional employees would serve at the pleasure of the Council, although nonprofessional employees could remain in the Civil Service salary structure and system; (c) professional salaries would be set by the Council and possibly could be designed to incorporate performance bonuses; and (d) the Council would have the flexibility to provide necessary personnel depth for the Division. The Council has taken these matters up with appropriate State Officials, but, to date, only the first part of item (a) above has been implemented.

The Council agreed with the Commission at that time that its objective for the active pension funds was to reach a 50 percent commitment to stocks, based on book value, with the provisos that an expansion of the stock program would not endanger the realization of the "regular interest rates" utilized by the actuaries and that expansion of the program be flexible in view of changing market conditions. In July, 1985, the Council acted to amend its regulations to permit commitment to stocks of up to 40 percent of the book value of the pension funds. However, at that time, the Council refrained from increasing the limitation to 50 percent in view of the prospective enactment of South Africa divestment legislation which would have the effect of limiting available stock investments to a universe of smaller companies with a higher risk profile. (Subsequent to 1985, the Division completed the divestment program, and the Council has increased the permitted investment in stock by the pension funds to 60% of the market value of the funds).

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 concluded that no modifications in investment objectives were warranted.

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 reviewed and confirmed the present standards for selecting stocks, which are set forth below:

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

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

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

d. The company should have a capitalization which is not heavily leveraged, thereby allowing it more flexibility to finance future expansion; the company should not be unduly capital intensive, which might expose it to the necessities of raising capital at times when capital markets were unduly expensive; and, the company should demonstrate that it can generate capital internally for growth;

e. The market for the company's shares should have enough liquidity to permit the orderly acquisition and disposition of a full position; and

f. The company should have conservative accounting practices.

The standards are only meant to serve as guidelines. The Council agreed that not all companies

on the 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. The Council concluded that it might like to use outside managers in specialized circumstances, such as equity real estate investment, but that it would be necessary to modify the state's general prudence law to permit such use. The Division has supported such legislation when it has been introduced.

The Council also considered the further pooling of direct holdings of pension fund bond assets. The Council concluded that pooling of the bonds held directly by the pension funds would permit greater operating efficiencies and better measurement of pension fund performance. By the end of fiscal 1993, only a very small percentage of pension fund assets was represented by direct bond holdings.

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 state's divestment legislation had reduced the universe available for investment. Furthermore, the studies noted that the world is approaching a global economy, wherein large corporations based abroad have major manufacturing plants and significant numbers of employees in the United States, and, conversely, many corporations based in the United States maintain substantial operations abroad. Finally, the studies showed that international investments in developed countries had historically provided higher returns with lower levels of risk than had investments limited to the United States.

During fiscal 1990, the Council received the reports of two independent actuarial firms, Buck Consultants and Actuarial Science Associates (ASA), which had been retained by the Treasury Department to provide comprehensive analyses of the Public Employees' Retirement System, including both benefit and investment issues. With respect to the state's investment program, Buck Consultants concluded that "the state's present portfolio appears to be carefully

thought out and, in terms of modern portfolio theory, efficient within the constraints of the fund," and ASA stated that "the current asset allocation was appropriate." Both reports endorsed the concept of international investing as a means of adding diversification to the portfolio and thus reducing portfolio risk.

In fiscal 1991, the Council once again reviewed all of its regulations in view of their prospective expiration under the provisions of the State's sunset law. Many regulations were readopted without change, and others were modified in minor ways to add clarity and to modernize them in accordance with current financial practices. As was noted before, the most significant changes permitted the Division to invest up to 60 percent of total pension fund assets in stocks, and up to 15 percent of total assets in international securities. These changes were initiated in order to provide greater diversification for pension fund investments and to increase access to asset classes which have historically provided slightly higher returns and lower risk than domestic 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 has discussed its concerns with the appropriate state officials and with members of the legislature, and the state's budget for fiscal 1994 includes additional funding for the Division for three specific investment programs.

Also, in fiscal 1993, the Council again reviewed the asset allocation policies set forth in the Council regulations for the state administered pension funds, and decided that such policies continued to be appropriate at this time.

Council Procedures and Reports

The State Investment Council meets at least six times a year, and the Executive Committee of the Council may meet in intervening months. In addition to reviewing and formulating all major policy issues related to the state's investments, the Council reviews the investment programs and returns of each fund on a periodic basis. Furthermore, each year the Council reviews each of the major classes of assets held by the Division, including stocks, industrial bonds, utility bonds, bank stocks and indebtedness, U.S. Government securities, mortgages and commercial paper and finance company debt. These reviews are extensive and encompass financial, economic and social factors. For instance, in fiscal 1993, the report on securities issued by utilities analyzed issues associated with corporate diversification and deregulation. Similar reports on other classes of securities analyzed the exposure of American banks to real estate loans and governmental support for mortgage and housing programs.

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

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

Social Investment

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

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

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

In fiscal 1986, the Division initiated a program whereby on a monthly basis the Division offered to purchase New Jersey mortgages from New Jersey banking institutions at market rates as mandated by prudence law. Once a month the Division determines the true market level for a package of mortgages backed by any eligible agency supported by the U.S. Government. The Division immediately offers this price to interested New Jersey financial institutions for identical mortgages which originate in New Jersey. In effect, the Division creates an "open window" to buy at market prices New Jersey mortgages supported by the U.S. Government. In fiscal 1993, approximately \$5.0 million of New Jersey mortgages were purchased by the Division under this program.

Reports of Gubernatorial Commissions

In fiscal 1982, former Governor Brendan Byrne created a task force to study the use of state pension funds to spur economic activity within the State. The task force did not find evidence that pension funds

can be invested to achieve secondary objectives without compromising the primary goal of maximizing the investment return for the beneficiaries, and the task force concluded that no formal change in investment policy should be made. The report of this task force is described in greater detail in annual reports of prior years.

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

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

2. The Division of Investment should continue to consider investment alternatives with respect to improving potential returns. An increase in the equity exposure from 25 percent of book value to 35 percent of book value is an example of a positive step already taken. A subsequent increase to 50 percent would be worthy of consideration. The Investment Council should also consider other investment options such as venture capital pools, options, commercial real estate and a broader universe of stocks as long as these investment options meet the fiduciary standards of the Council.

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

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

4. All investment professionals of the Division of Investment should serve at the discretion of the State Investment Council. This would be consistent with the statutory

purpose of the Investment Council. Current Civil Service regulations are an impediment to fostering the best investment operation.

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

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

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

The Council has responded in full to those recommendations over which the Council has jurisdiction, such as the appropriate asset allocation and breadth of potential investment of the pension funds. However, the Council cannot independently respond to recommendations regarding staffing, compensation and budget support, which are the prerogative of the legislature. During fiscal 1993, the Council again reviewed these issues and took them up with the appropriate authorities. As a result of these concerns, the fiscal 1994 budget provides incremental funding for the Division for three specific investment programs.

Policies of the Council Towards Social Investment

The State Investment Council has determined that social and financial considerations are not mutually exclusive, and many social considerations may have significant financial implications. Furthermore, investments which benefit the fund beneficiaries need not exclude investments in New Jersey or those which advance other social goals. All of the members of the Council are New Jersey residents, and for many years the Division and the Council have reflected concerns

of New Jerseyans through internal policy guidelines. In 1984 these were codified, and they are listed below:

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

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

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

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

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

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

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

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

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 1993, the Division voted on 388 cor-

porate proxies. On 94 proxies the Division voted against the recommendations of corporate management on a total of 121 individual proposals. Of these proposals, 25 concerned changes in corporate governance procedures designed to reduce shareholder voting power, eight related to corporate activities in South Africa, 77 related to executive compensation, seven related to compliance of the corporation with the MacBride principles in Northern Ireland, seven related to confidential proxy voting, and one related to plant closings.

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

INDEX TO INVESTMENT SUMMARIES

Report of Independent Accountants	19
Summary of Amounts Invested by Fund as of June 30, 1993	20
Summary of Investment Income by Fund for the Year Ended June 30, 1993	23
Summary of Investments by Major Category as of June 30, 1993	26
Summary of Investment Activity for the Year Ended June 30, 1993	27
Notes to Investment Summaries—June 30, 1993	28

OTHER FINANCIAL INFORMATION

Appendix I: Unaudited Summary of Investments by Major Category of Individual Pension Funds	32
Appendix II: Unaudited Common Performance Disclosure Form for Public Funds	34

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying summaries of amounts invested by fund and investments by major category of the Division of Investment, Department of the Treasury, State of New Jersey, as of June 30, 1993, and the related summaries of investment income by fund and investment activity for the year then ended. These summaries are the responsibility of the Division of Investment's management. Our responsibility is to express an opinion on these summaries based on our audit.

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

In our opinion, the summaries referred to above present fairly, in all material respects, the investments by fund and major category of the Division of Investment, Department of the Treasury, State of New Jersey, at June 30, 1993, and the related investment income and investment activity for the year then ended, in conformity with generally accepted accounting principles.

Princeton, New Jersey
August 27, 1993

Cooper + Lybrand

SUMMARY OF AMOUNTS INVESTED BY FUND
as of June 30, 1993

	Par, Cost Or Principal Amount— Note 1	Amortized Cost— Note 1	Market— Note 1	Market Over Amortized Cost
PENSION AND ANNUITY GROUP				
Consolidated Police and Firemen's Pension Fund	\$ 51,568,382	\$ 51,329,083	\$ 53,283,104	\$ 1,954,021
Judicial Retirement System of New Jersey	104,361,813	104,253,933	137,908,428	33,654,495
Police and Firemen's Retirement System	5,353,787,595	5,344,191,609	7,193,743,997	1,849,552,388
Prison Officers Pension Fund	678,399	678,399	678,399	—
Public Employees' Retirement System	9,346,159,931	9,335,019,060	12,743,215,899	3,408,196,839
State Police Retirement System	581,070,833	580,603,605	795,540,541	214,936,936
Teachers' Pension and Annuity Fund	11,510,830,399	11,495,045,720	15,488,535,039	3,993,489,319
		26,911,121,409	36,412,905,407	9,501,783,998
STATIC GROUP				
Trustees for the Support of Free Public Schools Fund	85,012,783	84,815,886	99,241,367	14,425,481
Waste Water Treatment Fund (Act of 1985)	76,051,025	76,051,025	76,051,025	—
Waste Water Treatment Trust Fund (Act of 1985)	1,437,167	1,437,167	1,437,167	—
		162,304,078	176,729,559	14,425,481
DEMAND GROUP				
Atlantic City Tourism Promotion Fund	1,027,317	1,027,317	1,027,317	—
Boarding House Rental Assistance Fund	20,578,055	20,578,055	20,578,055	—
Catastrophic Illness in Children Relief Fund (Act of 1987)	23,834,848	23,834,848	23,834,848	—
Clean Communities Account Fund (Act of 1985)	15,650,567	15,650,567	15,650,567	—
Development Fund—Luxury Tax	1,593,865	1,593,865	1,593,865	—
Emergency Services Fund	4,421,661	4,421,661	4,421,661	—
Enterprise Zone Assistance Fund (Act of 1983)	29,135,467	29,135,467	29,135,467	—
Health Care Cost Reduction Fund	52,995,586	52,995,586	52,995,586	—
Health Care Subsidy Fund	8,190,456	8,190,456	8,190,456	—
Higher Education Assistance Fund	30,279,219	30,279,219	30,279,219	—
Luxury Tax Fund	1,355,532	1,355,532	1,355,532	—
Motor Vehicle Security Responsibility Fund	139,632	139,632	139,632	—
New Jersey Automobile Insurance Guaranty Fund	103,968,530	103,968,530	103,968,530	—
New Jersey Health Care Trust	8,641,355	8,641,355	8,641,355	—
New Jersey Insurance Development Fund	67,512,464	67,491,922	67,599,464	107,542
New Jersey Spill Compensation Fund	79,426,943	79,426,943	79,426,943	—
Outstanding Checks Account	16,802,192	16,802,192	16,802,192	—
Real Estate Guaranty Fund	199,846	199,846	199,846	—
Resource Recovery Investment Tax Fund (Act of 1985)	55,031,563	55,031,563	55,031,563	—
Sanitary Landfill Facility Contingency Fund	45,298,460	46,517,946	46,720,860	202,914
Solid Waste Services Tax Fund (Act of 1985)	14,378,802	14,378,802	14,378,802	—
State Disability Benefits Fund	134,248,779	134,001,105	135,613,078	1,611,973
State Recycling Fund	24,701,107	24,701,107	24,701,107	—
Unclaimed County Deposits Trust Fund	735,035	735,035	735,035	—
Unclaimed Personal Property Trust Fund	69,392,696	69,383,898	69,427,595	43,697
Unemployed Compensation Auxiliary Fund	9,027,846	9,027,846	9,027,846	—
Unsatisfied Claim and Judgment Fund	278,128,246	278,128,246	278,128,246	—
Volunteer Emergency Service Organizations Loan Fund	174,196	174,196	174,196	—
Worker and Community Right to Know Fund	6,362,050	6,362,050	6,362,050	—
Worker's Compensation Security Fund—Mutual	4,496,373	4,496,218	4,498,373	2,155
Worker's Compensation Security Fund—Stock	68,875,563	68,871,684	68,925,563	53,879
Workforce Development Partnership Fund	21,976,749	21,976,749	21,976,749	—
		1,199,519,438	1,201,541,598	2,022,160
TEMPORARY RESERVE GROUP				
Alcohol Education Rehabilitation and Enforcement Fund	16,662,096	16,713,453	16,960,097	246,644
Beaches and Harbors Fund (Act of 1977)	1,478,273	1,478,273	1,478,273	—
Capital City Redevelopment Loan and Grant Fund	4,228,533	4,228,533	4,228,533	—
Clean Waters Fund (Act of 1976)	5,156,890	5,156,890	5,156,890	—
Community Development Bond Fund (Act of 1981)	5,539,013	5,539,013	5,539,013	—
Correctional Facilities Construction Fund (Act of 1982)	5,078,401	5,078,401	5,078,401	—
Correctional Facilities Construction Fund (Act of 1987)	56,783,061	56,783,061	56,783,061	—
Emergency Flood Control Fund (Act of 1978)	4,132,732	4,132,732	4,132,732	—
Energy Conservation Fund (Act of 1980)	18,629,006	18,629,006	18,629,006	—
Farmland Preservation Fund (Act of 1981)	3,015,932	3,015,932	3,015,932	—
Farmland Preservation Fund (Act of 1989)	14,419,711	14,419,711	14,419,711	—
General Investment Fund	1,310,028,875	1,310,024,887	1,310,027,375	2,488
General Trust Fund	15,253	15,253	15,253	—
Green Acres Cultural Centers and Historic Preservation Bond Fund (Act of 1987)	53,028,518	53,028,518	53,028,518	—
Green Trust Fund (Act of 1983)	19,142,307	19,142,307	19,142,307	—

SUMMARY OF AMOUNTS INVESTED BY FUND—(CONTINUED)
as of June 30, 1993

	Par, Cost Or Principal Amount— Note 1	Amortized Cost— Note 1	Market— Note 1	Market Over Amortized Cost
Hazardous Discharge Fund (Act of 1981)	26,507,588	26,507,588	26,507,588	—
Hazardous Discharge Site Cleanup Fund (Act of 1985)	9,765,020	9,765,020	9,765,020	—
Higher Education Buildings Construction Fund (Act of 1971)	358,815	358,815	358,815	—
Higher Education Facility Renovation and Rehabilitation Fund	821,108	821,108	821,108	—
Housing Assistance Fund (Act of 1968)	524,384	524,384	524,384	—
Human Services Facilities Construction Fund (Act of 1984)	4,110,947	4,110,947	4,110,947	—
Institutional Construction Fund (Act of 1978)	116,037	116,037	116,037	—
Institutions Construction Fund (Act of 1976)	38,847	38,847	38,847	—
Jobs, Education and Competitiveness Fund (Act of 1988)	127,857,778	127,857,778	127,857,778	—
Jobs, Science and Technology Fund (Act of 1984)	6,375,810	6,375,810	6,375,810	—
Medical Education Facilities Fund (Act of 1977)	531,881	531,881	531,881	—
Mortgage Assistance Fund (Act of 1976)	3,340,191	3,340,191	3,340,191	—
Natural Resources Fund (Act of 1980)	10,880,679	10,880,679	10,880,679	—
New Home Warranty Security Fund	65,548,062	65,591,936	66,907,843	1,315,907
New Jersey Bridge Rehabilitation Fund (Act of 1983)	21,147,559	21,147,559	21,147,559	—
New Jersey Bridge Rehabilitation and Improvement and Railroad Right-of-Way Preservation Fund	33,757,349	33,757,349	33,757,349	—
New Jersey Green Acres Fund (Act of 1983)	21,246,249	21,246,249	21,246,249	—
New Jersey Green Acres Fund (Act of 1989)	18,429,855	18,429,855	18,429,855	—
New Jersey Green Trust Fund (Act of 1989)	27,776,504	27,776,504	27,776,504	—
New Jersey Local Development Financing Fund	2,068,511	2,068,511	2,068,511	—
New Jersey Medical Malpractice Reinsurance Recovery Fund	12,650,173	12,650,173	12,650,173	—
New Jersey State Dental Program	12,661,780	12,661,780	12,661,780	—
Pension Adjustment Fund	2,199,553	2,199,553	2,199,553	—
Pension Payroll Investment Fund	2,159,571	2,159,571	2,159,571	—
Pinelands Infrastructure Trust Fund (Act of 1985)	7,839,854	7,839,854	7,839,854	—
Pollution Prevention Fund	2,403,161	2,403,161	2,403,161	—
Prescription Drug Program Fund	11,260,325	11,260,325	11,260,325	—
Public Buildings Construction Fund (Act of 1968)	438,321	438,321	438,321	—
Public Purpose Buildings and Community-Based Facilities Construction Fund	63,774,163	63,774,163	63,774,163	—
Public Purpose Buildings Construction Fund (Act of 1980)	13,708,615	13,708,615	13,708,615	—
Resource Recovery and Solid Waste Disposal Facility Fund (Act of 1985)	16,224,413	16,224,413	16,224,413	—
Safe Drinking Water Fund	10,798,065	10,798,065	10,798,065	—
Shore Protection Fund (Act of 1983)	9,045,178	9,045,178	9,045,178	—
State Facility/Handicapped Fund (Act of 1973)	2,000,070	2,000,070	2,000,070	—
State Health Benefits Fund	327,121,369	327,662,104	328,762,719	1,100,615
State Land Acquisition and Development Fund (Act of 1978)	1,807,628	1,807,628	1,807,628	—
State Lottery Fund—Investment	55,116,447	55,116,447	55,116,447	—
State of New Jersey—Alternate Benefit Program	15,832,926	15,832,926	15,832,926	—
State of New Jersey Cash Management Fund— Administrative Expense Fund	1,812,533	1,812,533	1,812,533	—
State of New Jersey Cash Management Fund— Other than State Funds	4,018,533,428	4,018,533,428	4,018,533,428	—
State of New Jersey Cash Management Fund— Reserve Fund	27,001,291	27,001,291	27,001,291	—
State Recreation and Conservation Land Acquisition Fund (Act of 1974)	2,633,290	2,633,290	2,633,290	—
State Recreation and Conservation Land Acquisition Fund (Act of 1971)	4,148,258	4,148,258	4,148,258	—
State Transportation Fund (Act of 1968)	127,690	127,690	127,690	—
State Water Development Fund (Act of 1958)	314	314	314	—
Stormwater Management and Combined Sewer Overflow Abatement Fund	15,550,999	15,550,999	15,550,999	—
Transportation Rehabilitation and Improvement Fund (Act of 1979)	15,823,900	15,823,900	15,823,900	—
University of Medicine and Dentistry of New Jersey—Self-Insurance Reserve Fund	45,960,977	45,262,616	46,337,918	1,075,302
Veterans' Guaranteed Loan Fund	16,716	16,716	16,716	—
Water Conservation Fund (Act of 1969)	1,114,267	1,114,267	1,114,267	—
Water Supply Fund (Act of 1981)	105,589,989	105,589,989	105,589,989	—
Water Supply Replacement Trust Fund	7,692,902	7,692,902	7,692,902	—
	<u>6,711,523,558</u>	<u>6,711,523,558</u>	<u>6,711,523,558</u>	<u>3,740,956</u>

SUMMARY OF AMOUNTS INVESTED BY FUND—(CONCLUDED)
as of June 30, 1993

	Par, Cost Or Principal Amount— Note 1	Amortized Cost— Note 1	Market— Note 1	Market Over Amortized Cost
TRUST GROUP				
New Jersey State Employees' Deferred Compensation Administrative Charges	673,559	673,559	673,559	—
New Jersey State Employees' Deferred Compensation Cash Management Fund	71,155,926	71,155,926	71,155,926	—
New Jersey State Employees' Deferred Compensation Equity Fund	81,834,684	81,834,684	95,830,202	13,995,518
New Jersey State Employees' Deferred Compensation Fixed Income Fund	69,457,048	69,607,159	73,440,323	3,833,164
New Jersey State Employees' Deferred Compensation Holding Account	3,079,424	3,079,424	3,079,424	—
Supplemental Annuity Collective Trust Fund	97,521,400	97,521,400	124,281,151	26,759,751
Tischler Memorial Fund	570,059	568,287	587,444	19,157
		<u>324,440,439</u>	<u>369,048,029</u>	<u>44,607,590</u>
TOTAL AMOUNTS INVESTED BY FUND		<u><u>\$35,308,008,022</u></u>	<u><u>\$44,875,489,107</u></u>	<u><u>\$9,566,580,185</u></u>

See notes to investment summaries.

SUMMARY OF INVESTMENT INCOME BY FUND
for the Year Ended June 30, 1993

	Net Investment Earnings— Note 1	Net Gain— Notes 1 and 2	Total Investment Income
PENSION AND ANNUITY GROUP			
Consolidated Police and Firemen's Pension Fund	\$ 2,729,060	\$ 156,872	\$ 2,885,932
Judicial Retirement System of New Jersey	6,396,377	138,397	6,534,774
Police and Firemen's Retirement System	307,749,405	30,195,766	337,945,171
Prison Officers Pension Fund	55,333	—	55,333
Public Employees' Retirement System	557,622,041	52,084,279	609,706,320
State Police Retirement System	35,368,349	689,387	36,057,736
Teachers' Pension and Annuity Fund	660,743,881	67,526,914	728,270,795
	<u>1,570,664,446</u>	<u>150,791,615</u>	<u>1,721,456,061</u>
STATIC GROUP			
Trustees for the Support of Free Public Schools Fund	5,734,999	7,740,816	13,475,815
Waste Water Treatment Fund (Act of 1985)	2,152,826	—	2,152,826
Waste Water Treatment Trust Fund (Act of 1985)	50,361	—	50,361
	<u>7,938,186</u>	<u>7,740,816</u>	<u>15,679,002</u>
DEMAND GROUP			
Atlantic City Tourism Promotion Fund	16,647	—	16,647
Boarding House Rental Assistance Fund	658,822	—	658,822
Catastrophic Illness in Children Relief Fund (Act of 1987)	851,357	—	851,357
Clean Communities Account Fund (Act of 1985)	492,039	—	492,039
Development Fund—Luxury Tax	65,508	—	65,508
Emergency Services Fund	183,941	—	183,941
Enterprise Zone Assistance Fund (Act of 1983)	913,281	—	913,281
Health Care Cost Reduction Fund	1,502,878	—	1,502,878
Health Care Subsidy Fund	194,009	—	194,009
Higher Education Assistance Fund	1,251,641	—	1,251,641
Luxury Tax Fund	399,302	—	399,302
Motor Vehicle Security Responsibility Fund	5,076	—	5,076
New Jersey Automobile Insurance Guaranty Fund	4,297,220	—	4,297,220
New Jersey Health Care Trust	698,222	—	698,222
New Jersey Insurance Development Fund	2,720,251	—	2,720,251
New Jersey Spill Compensation Fund	2,993,488	—	2,993,488
Outstanding Checks Account	581,893	—	581,893
Real Estate Guaranty Fund	12,745	—	12,745
Resource Recovery Investment Tax Fund (Act of 1985)	2,078,576	—	2,078,576
Sanitary Landfill Facility Contingency Fund	1,833,876	—	1,833,876
Solid Waste Services Tax Fund (Act of 1985)	564,787	—	564,787
State Disability Benefits Fund	6,592,860	—	6,592,860
State Recycling Fund	1,016,810	—	1,016,810
Unclaimed County Deposits Trust Fund	10,035	—	10,035
Unclaimed Personal Property Trust Fund	2,415,242	—	2,415,242
Unemployment Compensation Auxiliary Fund	230,627	—	230,627
Unsatisfied Claim and Judgment Fund	9,298,167	—	9,298,167
Volunteer Emergency Service Organizations Loan Fund	6,213	—	6,213
Worker and Community Right to Know Fund	201,425	—	201,425
Worker's Compensation Security Fund—Mutual	176,922	—	176,922
Worker's Compensation Security Fund—Stock	2,664,038	—	2,664,038
Workforce Development Partnership Fund	101,749	—	101,749
	<u>45,029,647</u>	<u>—</u>	<u>45,029,647</u>
TEMPORARY RESERVE GROUP			
Alcohol Education Rehabilitation and Enforcement Fund	814,009	—	814,009
Beaches and Harbors Fund (Act of 1977)	56,357	—	56,357
Capital City Redevelopment Loan and Grant Fund	156,335	—	156,335
Clean Waters Fund (Act of 1976)	254,464	—	254,464
Community Development Bond Fund (Act of 1981)	258,274	—	258,274
Correctional Facilities Construction Fund (Act of 1982)	186,814	—	186,814
Correctional Facilities Construction Fund (Act of 1987)	2,376,040	—	2,376,040
Emergency Flood Control Fund (Act of 1978)	164,994	—	164,994
Energy Conservation Fund (Act of 1980)	770,890	—	770,890
Farmland Preservation Fund (Act of 1981)	109,086	—	109,086
Farmland Preservation Fund (Act of 1989)	541,331	—	541,331
General Investment Fund	55,034,458	3,131	55,037,589
General Trust Fund	553	—	553
Green Acres Cultural Centers and Historic Preservation Bond Fund (Act of 1987)	2,057,736	—	2,057,736
Green Trust Fund (Act of 1983)	681,913	—	681,913

SUMMARY OF INVESTMENT INCOME BY FUND—(CONTINUED)
for the Year Ended June 30, 1993

	Net Investment Earnings— Note 1	Net Gain— Notes 1 and 2	Total Investment Income
TEMPORARY RESERVE GROUP—(continued)			
Hazardous Discharge Fund (Act of 1981)	1,266,349	—	1,266,349
Hazardous Discharge Site Cleanup Fund (Act of 1985)	463,558	—	463,558
Higher Education Buildings Construction Fund (Act of 1971)	16,201	—	16,201
Higher Education Facility Renovation and Rehabilitation Fund	16,109	—	16,109
Housing Assistance Fund (Act of 1968)	19,836	—	19,836
Human Services Facilities Construction Fund (Act of 1984)	228,100	—	228,100
Institutional Construction Fund (Act of 1978)	4,903	—	4,903
Institutional Construction Fund (Act of 1976)	2,044	—	2,044
Jobs, Education and Competitiveness Fund (Act of 1988)	6,047,671	—	6,047,671
Jobs, Science and Technology Fund (Act of 1984)	257,383	—	257,383
Medical Education Facilities Fund (Act of 1977)	19,337	—	19,337
Mortgage Assistance Fund (Act of 1976)	116,166	—	116,166
Natural Resources Fund (Act of 1980)	488,043	—	488,043
New Home Warranty Security Fund	3,236,048	—	3,236,048
New Jersey Bridge Rehabilitation Fund (Act of 1983)	799,126	—	799,126
New Jersey Bridge Rehabilitation Fund and Improvement and Railroad Right-of-Way Preservation Fund	1,332,349	—	1,332,349
New Jersey Green Acres Fund (Act of 1983)	816,480	—	816,480
New Jersey Green Acres Fund (Act of 1989)	1,120,768	—	1,120,768
New Jersey Green Trust Fund (Act of 1989)	1,124,023	—	1,124,023
New Jersey Local Development Financing Fund	102,939	—	102,939
New Jersey Medical Malpractice Recovery Fund	300,433	—	300,433
New Jersey State Dental Program	424,624	—	424,624
Pension Adjustment Fund	552,528	—	552,528
Pension Payroll Investment Fund	191,787	—	191,787
Pinelands Infrastructure Trust Fund (Act of 1985)	297,196	—	297,196
Pollution Prevention Fund	49,369	—	49,369
Prescription Drug Program Fund	272,301	—	272,301
Public Buildings Construction Fund (Act of 1968)	20,008	—	20,008
Public Purpose Buildings and Community-Based Facilities Construction Fund	2,468,927	—	2,468,927
Public Purpose Buildings and Construction Fund (Act of 1980)	513,177	—	513,177
Resource Recovery and Solid Waste Disposal Facilities Fund (Act of 1985)	1,071,855	—	1,071,855
Safe Drinking Water Fund	371,113	—	371,113
Shore Protection Fund (Act of 1983)	334,679	—	334,679
State Facilities/Handicapped Fund (Act of 1973)	74,015	—	74,015
State Health Benefits Fund	11,427,663	—	11,427,663
State Land Acquisition and Development Fund (Act of 1978)	101,729	—	101,729
State Lottery Fund—Investment	1,481,825	—	1,481,825
State of New Jersey—Alternate Benefits Program	460,400	—	460,400
State of New Jersey Cash Management Fund— Administrative Expense Fund	51,118	—	51,118
State of New Jersey Cash Management Fund— Other than State Funds	133,054,422	—	133,054,422
State of New Jersey Cash Management Fund— Reserve Fund	853,148	—	853,148
State Recreation and Conservation Land Acquisition Development Fund (Act of 1974)	106,787	—	106,787
State Recreation and Conservation Land Acquisition Fund (Act of 1971)	170,047	—	170,047
State Transportation Fund (Act of 1968)	7,224	—	7,224
State Water Development Fund (Act of 1958)	575	—	575
Stormwater Management and Combined Sewer Overflow Abatement Fund	565,999	—	565,999
Transportation Rehabilitation and Improvement Fund (Act of 1979)	605,011	—	605,011
University of Medicine and Dentistry of New Jersey—Self-Insurance Reserves Fund	2,203,245	—	2,203,245
Veterans' Guaranteed Loan Fund	596	—	596
Water Conservation Fund (Act of 1969)	136,356	—	136,356
Water Supply Fund (Act of 1981)	3,178,281	—	3,178,281
Water Supply Replacement Trust Fund	275,065	—	275,065
	<u>242,562,190</u>	<u>3,131</u>	<u>242,565,321</u>

SUMMARY OF INVESTMENT INCOME BY FUND—(CONCLUDED)
for the Year Ended June 30, 1993

	Net Investment Earnings— Note 1	Net Gain— Notes 1 and 2	Total Investment Income
TRUST GROUP			
New Jersey State Employees' Deferred Compensation Administrative Charges	25,117	—	25,117
New Jersey State Employees' Deferred Compensation Cash Management Fund	2,687,141	—	2,687,141
New Jersey State Employees' Deferred Compensation Equity Fund	2,371,195	3,179,653	5,550,848
New Jersey State Employees' Deferred Compensation Fixed Income Fund	3,977,703	—	3,977,703
New Jersey State Employees' Deferred Compensation Holding Account	153,356	—	153,356
Supplemental Annuity Collective Trust Fund	3,644,066	12,382,043	16,026,109
Tischler Memorial Fund	40,746	—	40,746
	<u>12,899,324</u>	<u>15,561,696</u>	<u>28,461,020</u>
TOTALS	<u><u>\$1,879,093,793</u></u>	<u><u>\$174,097,258</u></u>	<u><u>\$2,053,191,051</u></u>

See notes to investment summaries.

SUMMARY OF INVESTMENTS BY MAJOR CATEGORY
as of June 30, 1993

	Par, Cost or Principal Amount— Note 1	Amortized Cost— Note 1	Market— Note 1	Market Over (Under) Amortized Cost
U.S. Government and other government bonds and obligations	\$ 573,819,000	\$ 581,536,337	\$ 611,239,614	\$ 29,703,277
Industrial bonds and commercial paper	5,656,000	5,656,238	6,012,871	356,633
Telephone bonds	12,694,000	12,678,317	12,817,312	138,995
Gas, electric and water bonds	17,230,000	17,263,129	17,471,899	208,770
Common stocks	183,214,378	183,214,378	233,733,005	50,518,627
Mortgage-backed certificates	2,572,757,993	2,528,514,511	2,663,122,629	134,608,118
Units—Common Pension Fund A	10,710,419,565	10,710,419,565	18,387,121,999	7,676,702,434
Units—Common Pension Fund B	10,279,340,226	10,279,340,226	11,625,183,781	1,345,843,555
Units—Common Pension Fund D	2,180,145,279	2,180,145,279	2,508,642,567	328,497,288
Units—Cash Management Fund	8,810,094,930	8,810,094,930	8,810,094,930	—
Other investments	50,000	46,012	48,500	2,488
TOTAL INVESTMENTS BY MAJOR CATEGORY		<u><u>\$35,308,338,322</u></u>	<u><u>\$44,875,489,107</u></u>	<u><u>\$9,566,580,185</u></u>

See notes to investment summaries.

SUMMARY OF INVESTMENT ACTIVITY for the Year Ended June 30, 1993

Purchases at cost, excluding common funds:		
Bonds	\$ 444,387,973	
Mortgages	1,361,040,290	
Stocks	<u>80,342,095</u>	\$ 1,885,770,358
Purchases of units of common funds, at cost		34,182,012,178
Unrealized appreciation		2,408,369,149
Discount accretion		13,503,387
Sales, at market		(2,205,358,208)
Mortgage principal payments, at amortized cost		(483,901,375)
Redemptions, at market		(26,453,837)
Maturities, at par amount		(119,450,000)
Redemptions of units of common funds		(31,091,405,469)
Premium amortization		<u>(1,014,254)</u>
NET INCREASE IN INVESTMENTS		4,562,071,929
Total amounts invested by funds—Note 2		
Beginning of year		<u>40,313,417,178</u>
END OF YEAR		<u>\$44,875,489,107</u>

See notes to investment summaries.

NOTES TO INVESTMENT SUMMARIES

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Administration

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

Investment Valuation

Investments are stated at market value. During 1993, the method of reporting investments was changed to the market value method from the cost method. The Division believes the market value method more appropriately reflects the value of the assets of the fund. As a result of this change, the investments at the beginning of the year have been restated by \$7,332,308,295. State of New Jersey Cash Management Fund units are stated at a cost of a \$1.00 per unit, which approximates market value.

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

Investment Transactions

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

Discount and Premium

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

Investment Income

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

Net Investment Gain

Net investment gain includes realized gains and losses on security transactions and distributed gains from the State of New Jersey Cash Management Fund. No gains were distributed from Common Pension Fund A, Common Pension Fund B or Common Pension Fund D in fiscal year 1993.

Administrative Expenses

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

NOTE 2—INVESTMENT ACTIVITY

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

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

GASB Statement No. 3 requires disclosure of the level of investment risk assumed by the Division at June 30, 1993. Category 1 includes investments that are insured or registered, or securities held by the Division or its agent in the Funds' name. Category 2 includes uninsured and unregistered investments held by the Fund's trust department or agent in the Funds' name. Category 3 includes uninsured and unregistered investments held by a broker or dealer, or held by the Fund's trust department or agent but not in the Funds' name. As of June 30, 1993, all investments held by the Division are classified as Category 1.

Federal securities, including federal securities held as collateral on repurchase agreements (\$415,000,000 at June 30, 1993 secured by federal securities), are maintained at Federal Reserve Banks in Philadelphia and New York through the custodian banks in trust for the State of New Jersey. A significant portion of corporate equity and debt securities are maintained by the Depository Trust Company (DTC) through the custodian banks in trust for the State of New Jersey. Investment securities denominated in a foreign currency are maintained by the United Kingdom Central Gilts Office (CGO), Euroclear, and the Cedel book entry system through the custodian bank in trust for the State of New Jersey. In addition, certain investment securities denominated in a foreign currency are physically maintained by sub-custodian banks within the foreign country. The custodian banks, as agents for the State funds, maintain internal accounting records identifying the securities as securities owned by or pledged to the State funds.

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

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

Realized gains and losses arising from investment activity by Common Pension Fund A, Common Pension Fund B, and Common Pension Fund D consisting of net gains of \$262,165,905 in fiscal year 1993, are not reflected in the Summary of Investment Income by Fund. Realized gains arising from foreign currency related transactions by Common Pension Fund D of \$26,185,990 in fiscal year 1993 are not reflected in the Summary of Investment Income by Fund. Undistributed investment income of \$216,880,968 as of June 30, 1993, arising from investment activity by Common Pension Fund D is not reflected in the Summary of Investment Income by Fund.

NOTES TO INVESTMENT SUMMARIES

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

The following is a summary of investments by major category at June 30, 1993 including investments owned by the Common Pension Funds and the State of New Jersey Cash Management Fund, the “Unit Funds.” In the Total Amounts Invested by Funds shown in the investment summaries, the Common Pension Funds and the State of New Jersey Cash Management Fund are shown at their unit value.

	Par, Cost Or Principal Amount	Amortized Cost	Market	Market Over (Under) Amortized Cost
U.S. Government and other government bonds and obligations	\$15,255,986,000	\$15,397,953,881	\$16,468,106,814	\$1,070,152,933
Industrial bonds and commercial paper	3,237,665,595	3,228,350,184	3,328,158,221	99,808,037
Foreign government bonds and notes	1,743,002,793	1,743,002,793	1,776,465,052	33,462,259
Foreign stock	258,084,137	258,084,137	281,889,693	23,805,556
Telephone bonds	235,454,000	227,995,158	243,636,073	15,640,915
Gas, electric and water bonds	426,214,000	409,667,997	438,240,978	28,572,981
Common stocks	11,097,166,640	11,097,166,640	18,584,772,035	7,487,605,395
Mortgage-backed certificates	2,572,757,993	2,528,514,511	2,663,122,629	134,608,118
Time certificates of deposit	415,000,000	415,000,000	415,000,000	—
Repurchase agreements	415,000,000	415,000,000	415,000,000	—
Other investments	172,110,000	172,454,515	199,089,666	26,635,151
Total investments		35,893,189,816	44,813,481,161	8,920,291,345
Differences in accounting by unit funds:				
Other assets		1,306,602,166	1,306,602,166	—
Other liabilities		(1,501,501,350)	(1,245,261,567)	256,239,783
Undistributed realized gains and other income		(383,644,973)	—	383,644,973
Other accounting practices		(5,736,737)	667,347	6,404,084
Total amounts invested by funds		<u>\$35,308,908,922</u>	<u>\$44,875,489,107</u>	<u>\$9,566,580,185</u>

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

- I. The summary of investments by major category (page 26) includes the “Par, Cost, or Principal Amount” and “Amortized Cost” of the units of participation at the total purchase price of the units by the participating funds. The total investments shown above reflects the “Par, Cost, or Principal Amount” and “Amortized Cost” of the investments held by the Unit Funds.
- II. Market value as shown for total amounts invested by fund represents the net asset value of the Common Pension Funds and the State of New Jersey Cash Management Fund as of June 30, 1993. The market value included in the total investments shown above reflects the market value of the investments held by the Unit Funds.
- III. Total investments shown above does not reflect the other assets and liabilities of the Unit Funds, e.g., cash, accrued interest receivable, amounts due for investments sold or owed for investments purchased, and undistributed income due to participants. These items are included in calculating the net asset value of the Unit Funds.
- IV. Total amounts invested by funds do not reflect cumulative net realized gains from Unit Funds’ investment transactions which have not been distributed to the participating funds. Common Pension Funds A, B and D cumulative net realized gains are distributed at the discretion of the State Investment Council.

NOTES TO INVESTMENT SUMMARIES

NOTE 4—SOUTH AFRICAN DIVESTITURE

By act of the New Jersey State Legislature (P.L. 1985, c.308), the Division of Investment is prohibited from holding securities of companies with a presence in the Republic of South Africa for any pension or annuity fund it manages. Under the current Attorney General's ruling, the Division is allowed three years from the date of determination of South African status to effect divestment. The aggregate book value and market value of such investments in these companies was \$189,704,732 and \$426,838,099 at June 30, 1993, respectively.

NOTE 5—COMMITMENTS

As of June 30, 1993, Common Pension Fund D had entered into the following forward foreign currency exchange contracts as hedges of its investments:

	Contract To Deliver	In Exchange For	Settlement Date	Net Unrealized Appreciation (Depreciation)
SKR	\$ 300,000,000	\$39,685,164	7/12/93	\$ 988,468
SKR	150,000,000	19,526,165	7/12/93	177,817
SKR	300,000,000	39,510,075	7/13/93	818,370
BFR	500,000,000	14,654,162	7/19/93	416,976
FFR	150,000,000	26,327,337	7/19/93	322,240
SKR	100,000,000	13,380,611	7/19/93	494,013
LIT	23,000,000,000	14,892,033	7/26/93	86,826
£	50,000,000	72,030,000	8/4/93	(2,340,000)
LIT	32,000,000,000	20,214,782	8/4/93	(362,841)
PTA	3,000,000,000	24,598,229	8/4/93	1,743,176
FFR	150,000,000	25,922,406	8/5/93	(34,540)
£	25,000,000	35,793,750	8/9/93	(1,381,250)
BFR	900,000,000	26,147,589	9/30/93	668,439
FFR	200,000,000	35,092,645	9/30/93	669,237
DM	75,000,000	45,366,562	10/1/93	1,913,491
YEN	5,000,000,000	43,748,359	10/8/93	(2,948,026)
YEN	5,000,000,000	43,970,733	10/12/93	(2,727,122)
BFR	600,000,000	17,521,062	10/15/93	551,872
PTA	4,000,000,000	30,947,776	11/17/93	1,055,739
PTA	4,000,000,000	31,077,616	11/22/93	1,210,621
FFR	150,000,000	26,877,385	11/29/93	1,172,207
FFR	200,000,000	35,649,353	11/29/93	1,375,782
DM	75,000,000	45,950,251	12/7/93	2,744,997
SFR	50,000,000	34,828,643	12/7/93	2,026,701
DM	85,000,000	50,236,407	12/20/93	1,323,989
FFR	400,000,000	71,035,340	1/7/94	2,649,271
DM	85,000,000	48,416,496	6/29/94	(186,827)
				<u>\$12,521,426</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	
	Amortized Cost	Quoted Market	Amortized Cost	Quoted Market	Amortized Cost	Quoted Market
SHORT-TERM OBLIGATIONS						
U.S. Government and other government securities and obligations	\$12,810	\$12,808	\$ 1,653	\$ 1,653	\$ 53,721	\$ 53,710
Commercial paper	7,184	7,183	927	927	30,126	30,124
Time certificates of deposit	1,287	1,286	166	166	5,395	5,395
	<u>21,281</u>	<u>21,277</u>	<u>2,746</u>	<u>2,746</u>	<u>89,242</u>	<u>89,229</u>
LONG-TERM BONDS						
U.S. Government bonds and other government securities and obligations	21,977	23,529	40,365	45,232	1,703,081	1,909,295
Industrial bonds	—	—	2,250	2,500	95,300	105,895
Gas and electric bonds	400	402	1,844	1,978	80,378	86,023
Telephone bonds	—	—	1,012	1,085	44,478	47,564
Finance companies—senior debt	—	—	—	—	—	—
Intermediate term corporate notes	31	31	1,962	2,180	83,087	92,329
International Government bonds and notes	—	—	4,532	4,619	293,870	299,512
Other	—	—	903	996	49,169	54,726
	<u>22,408</u>	<u>23,962</u>	<u>52,868</u>	<u>58,590</u>	<u>2,349,363</u>	<u>2,595,344</u>
MORTGAGES						
Mortgage-backed certificates	<u>7,069</u>	<u>7,472</u>	<u>6,205</u>	<u>6,561</u>	<u>704,535</u>	<u>732,377</u>
STOCK						
Common stock (U.S.)	—	—	39,290	66,064	2,130,403	3,582,123
Common stock (International)	—	—	671	733	43,513	47,526
	<u>—</u>	<u>—</u>	<u>39,961</u>	<u>66,797</u>	<u>2,173,916</u>	<u>3,629,649</u>
	50,758	52,711	101,780	134,694	5,317,056	7,046,599
Difference due to accounting practices	<u>571</u>	<u>572</u>	<u>2,474</u>	<u>3,214</u>	<u>27,136</u>	<u>147,145</u>
	<u>\$51,329</u>	<u>\$53,283</u>	<u>\$104,254</u>	<u>\$137,908</u>	<u>\$5,344,192</u>	<u>\$7,193,744</u>

**INCLUDING INVESTMENTS OWNED BY THE COMMON PENSION FUNDS AND THE STATE OF NEW JERSEY
(000's Omitted) at June 30, 1993**

Prison Officers Pension Fund		Public Employees' Retirement System		State Police Retirement System		Teachers' Pension and Annuity Fund		Totals	
Amortized Cost	Quoted Market	Amortized Cost	Quoted Market	Amortized Cost	Quoted Market	Amortized Cost	Quoted Market	Amortized Cost	Quoted Market
\$413	\$413	\$ 111,574	\$ 111,551	\$ 4,132	\$ 4,132	\$ 219,429	\$ 219,383	\$ 403,732	\$ 403,650
232	232	62,569	62,564	2,318	2,317	123,053	123,044	226,409	226,391
42	42	11,205	11,205	415	415	22,037	22,036	40,547	40,545
687	687	185,348	185,320	6,865	6,864	364,519	364,463	670,688	670,586
264	264	3,164,464	3,541,664	227,528	255,286	3,710,946	4,144,677	8,868,625	9,919,947
—	—	170,880	189,878	12,828	14,254	197,554	219,506	478,812	532,033
—	—	142,720	152,844	10,516	11,277	170,026	181,716	405,884	434,240
—	—	78,466	84,004	6,056	6,472	94,494	100,898	224,506	240,023
—	—	—	—	—	—	—	—	—	—
1	1	149,018	165,588	11,177	12,420	172,362	191,504	417,638	464,053
—	—	597,676	609,150	35,557	36,240	811,368	826,944	1,743,003	1,776,465
—	—	94,843	105,943	6,070	6,750	122,809	137,592	273,794	306,007
265	265	4,398,067	4,849,071	309,732	342,699	5,279,559	5,802,837	12,412,262	13,672,768
—	—	764,729	811,953	18,061	19,466	1,027,219	1,084,602	2,527,818	2,662,431
—	—	3,883,184	6,529,300	239,015	401,888	4,622,059	7,771,665	10,913,951	18,351,040
—	—	88,497	96,660	5,265	5,750	120,138	131,220	258,084	281,889
—	—	3,971,681	6,625,960	244,280	407,638	4,742,197	7,902,885	11,172,035	18,632,929
952	952	9,319,825	12,472,304	578,938	776,667	11,413,494	15,154,787	26,782,803	35,638,714
(274)	(274)	15,194	270,912	1,666	18,874	81,552	333,748	128,319	774,191
\$678	\$678	\$9,335,019	\$12,743,216	\$580,604	\$795,541	\$11,495,046	\$15,488,535	\$26,911,122	\$36,412,905

APPENDIX II

UNAUDITED COMMON PERFORMANCE DISCLOSURE FORM FOR PUBLIC FUNDS

	Avg. Annual Return 5 Years Ended 6/30/93	One Year Period Ended				
		6/30/89	6/30/90	6/30/91	6/30/92	6/30/93
TOTAL RETURN						
Aggregate of All Pension Funds	12.7%	14.5%	13.3%	9.3%	13.8%	12.5%
Consumer Price Index	4.1%	5.2%	4.7%	4.7%	3.0%	3.0%
EQUITY TOTAL RETURNS						
Common Pension Fund A Equities	13.7%	16.9%	18.6%	8.1%	12.7%	12.3%
Approved List—Before Divestment	14.1%	20.1%	17.3%	8.6%	13.3%	13.0%
Approved List—South Africa Free	13.8%	18.7%	14.0%	7.6%	14.5%	14.6%
Dow Jones Industrial Average	14.4%	18.7%	22.8%	4.7%	17.7%	9.2%
Standard & Poor's 500 Index	14.2%	20.5%	16.5%	7.4%	13.4%	13.6%
Standard & Poor's Mid Cap	18.3%	22.1%	15.4%	12.8%	18.6%	22.7%
FIXED INCOME TOTAL RETURNS						
Common Pension Fund B and Other Bonds	11.9%	13.0%	7.2%	10.3%	14.7%	14.0%
Shearson Lehman Government/Corporate Bond Index	11.4%	12.3%	7.1%	10.2%	14.2%	13.2%
Salomon Brothers High Grade Bond Index (AA and AAA)	13.1%	16.2%	6.0%	10.6%	16.8%	16.3%
Salomon Brothers Broad Bond Index	11.4%	12.2%	7.7%	10.8%	14.2%	12.0%
MORTGAGES—TOTAL RETURNS						
Pension fund holdings	11.5%	12.1%	9.2%	12.0%	15.8%	9.2%
Salomon Brothers Mortgage Index	11.3%	11.8%	9.7%	12.0%	14.0%	9.1%
INTERNATIONAL TOTAL RETURNS						
Common Fund D Total	—	—	—	—	22.3%	9.8%
Common Fund D Fixed Income	—	—	—	—	23.4%	9.4%
Common Fund D Equities	—	—	—	—	NM	15.6%
Salomon World Gov. Bonds Index—Unhedged	10.4%	4.3%	7.0%	10.0%	20.5%	10.9%
EAFE Stock Index	3.6%	9.5%	3.3%	(11.5)%	(0.7)%	20.3%
CASH EQUIVALENTS						
Total Returns—Cash Management Fund	6.9%	8.4%	8.9%	7.9%	5.5%	3.8%
91-Day Treasury Bills	6.0%	7.8%	7.9%	6.8%	4.7%	3.1%

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

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

