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

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FORTY-SEVENTH ANNUAL REPORT

For the Fiscal Year Ended June 30, 1997



CHRISTINE TODD WHITMAN
Governor



JAMES A. DIELEUTERIO, JR.
State Treasurer

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

Submitted by the
State Investment Council

For the Fiscal Year ended June 30, 1997

November 15, 1997

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

We are pleased to submit this Annual Report of the Division of Investment, Department of the Treasury, for the fiscal year ended June 30, 1997, as required by Section 13, P.L. 1950, c. 270. The report is a summary of the activities of the Division during the year. Separate reports are also prepared for the Supplemental Annuity Collective Trust and the State of New Jersey Cash Management Fund, both of which are available upon request from the Investment Division.

The Investment Division, under the jurisdiction of the State Investment Council, has the investment responsibility for 149 funds, including seven pension and annuity funds. The book value of all funds on June 30, 1997, was \$42.0 billion, compared with \$37.8 billion at the end of the prior year, and the market value of the funds was \$64.7 billion, compared with \$53.5 billion at the end of the previous fiscal year. The Council includes eleven persons appointed to fixed terms. Five employee representatives are appointed by their respective pension fund boards for one-year terms, and five members are appointed by the Governor for staggered five-year terms. In fiscal 1992, the Legislature provided for the eleventh member of the Council, to be appointed by the Governor from a list of three candidates to be nominated jointly by the President of the Senate and the Speaker of the Assembly. The new law also provided that all gubernatorial appointments to the pension fund boards and to the Council are subject to the advice and consent of the State Senate. State law requires that no Council member shall hold any office, position or employment with any political party, and none can benefit from the transactions of the Division.

The investment of state funds by the Division benefits all citizens of the State of New Jersey. The investment income generated by the pension funds contributes directly to the assets of the various pension funds and the retirement security of pension fund beneficiaries. The income generated by the investment of the pension funds and other state funds also contributes to the funding of services and benefits provided by the state to its citizens and thus directly benefits the taxpayers of New Jersey.

Pension fund returns were well in excess of actuarial guidelines in fiscal 1997, as the strong domestic stock market rally continued, and the domestic bond market and international markets provided positive returns. The estimated total return of the pension funds, which includes changes in market values of the securities held by the funds and dividend and interest income over the year, was 22.1 percent, which compares with a 16.1 percent return in fiscal 1996. For the past five and ten fiscal years the estimated annual total return earned by the pension funds was 13.7 percent and 11.7 percent, respectively. These total returns of the pension funds ranked the Division in the top quartile of all State fund managers in all periods. Appendix II sets forth estimated total returns of the State-administered pension funds for the past five years.

All investments under the supervision of the Council must conform to standards of prudence set by state law, which mandate that the Division make investments in which fiduciaries of trust estates may legally invest. State prudence law was amended in April 1995, by P.L. 1995, c. 48. Eligible investments are defined as investments in property of every nature, provided the fiduciary shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The amendment to the law provides for the "whole plan" principle, which permits a broader spectrum of investments. The law also states that the fiduciary shall be under a duty to manage and invest the portfolio solely in the interests of the trust beneficiaries and for the exclusive purpose of providing financial benefits to trust participants.

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

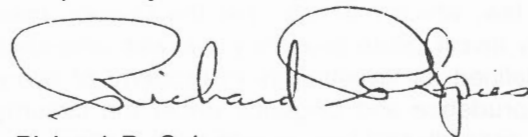
The Council is pleased to note that the majority of the corporate debt obligations and equities held by the Division have been issued by corporations which are identified as New Jersey employers. The pension funds have investments in major companies who have their headquarters in New Jersey and in out-of-state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

Over the years, the Council has addressed the major issues which concern fiduciaries, such as the standards for investment, the allocation of invested funds among asset classes and the resources available to the Division of Investment. In fiscal 1997, the Council again addressed the issue of the asset allocation of the pension funds, and decided to retain existing asset allocation guidelines.

Late in fiscal 1997, the State issued \$2.7 billion of pension obligation bonds, the proceeds of which were applied to funding the unfunded liabilities of the State-administered pension plans. The proceeds of the bond issue are reflected in the financial statements of the Division for fiscal 1997.

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

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Richard R. Spies". The signature is fluid and cursive, with the first name "Richard" being more prominent and the last name "Spies" following in a similar style.

Richard R. Spies
Chair

The State Investment Council



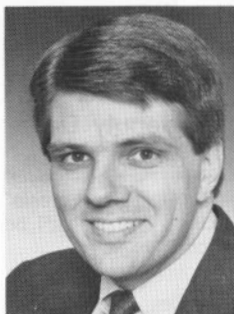
RICHARD R. SPIES
Chair of the Council



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



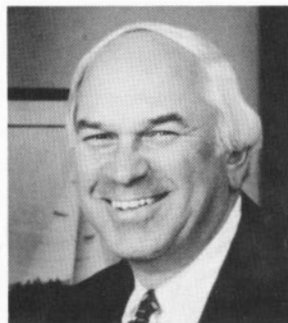
THOMAS C. GONNELLA



ROBERT T. HOFFMAN



CHERYL A. MILLS



J. PETER SKIRKANICH



ARTHUR W. WHITE, JR.



HARRY W. BALDWIN
Teachers' Pension and
Annuity Fund



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



ROCCO MAIELLANO
Public Employees'
Retirement System

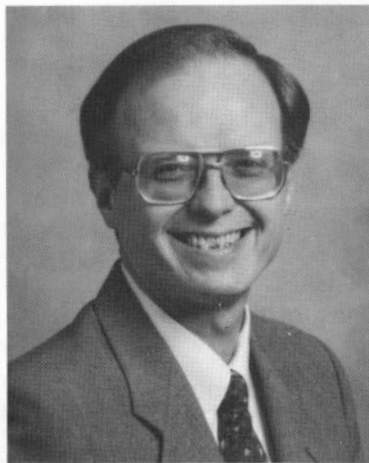


BARRY ROBERSON
State Police Retirement
System

Division of Investment



ROLAND M. MACHOLD
Director



STEVEN E. KORNRUMPF
Deputy Director



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



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



Portfolio Management Group: Kersti Alabert, Karin Hollinger, Sandra Holmes, Christine Eckel, Linda Brooks, Linda Thompson, Dolores Ewanis, Maneck Kotwal, and Brian Arena.



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



Research Group: Denise Szeke, Linda Gaspari, Sharon Montalto, Sanjiv Jhaveri, Jim Vandervort, Ed Pittman, Betty Carr, Jeff Lebowitz, and Tom Montalto.



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



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



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



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

FIVE YEAR SUMMARY

	Fiscal Year Ended June 30,				
	1993	1994	1995	1996	1997
	\$ Millions				
FUNDS UNDER THE SUPERVISION OF THE STATE INVESTMENT COUNCIL:					
Book Value at Year End:					
Pension Funds	\$26,911	\$27,394	\$28,240	\$30,067	\$34,248
All Funds	35,309	35,990	35,955	37,810	42,035
Market Value at Year End:					
Pension Funds	\$36,413	\$35,167	\$40,508	\$45,620	\$56,632
All Funds	44,875	43,787	48,304	53,505	64,693
Market Value of Pension Funds at Year End by Category:					
Short-term obligations	\$ 671	\$ 411	\$ 1,420	\$ 1,568	\$ 4,120
Long-term bonds	13,673	12,836	13,018	13,934	14,404
Mortgages	2,662	2,104	1,947	2,225	2,490
Stocks	18,633	19,351	23,408	27,047	34,825
Accounting differences	774	465	715	846	793
Total	\$36,413	\$35,167	\$40,508	\$45,620	\$56,632
Investment Income:					
Pension Funds	\$ 1,721	\$ 1,522	\$ 2,081	\$ 2,847	\$ 2,610
All Funds	2,053	1,823	2,485	3,248	3,015
Total Rate of Return (1):					
All Pension Funds, Estimated (2)	12.5%	(0.7)%	19.7%	16.1%	22.1%
Common Pension Fund A (2)	12.2	(0.7)	25.9	23.4	32.3
Common Pension Fund B (2)	14.0	(1.7)	13.6	4.4	8.0
Common Pension Fund D (2)	9.8	2.7	9.1	14.0	16.2
Supplemental Annuity Collective Trust	13.5	(0.7)	22.8	23.8	30.2
Deferred Compensation Plan—Equity	11.9	(0.1)	24.1	24.4	34.3
Deferred Compensation Plan—Fixed Income	10.5	0.1	9.6	4.9	6.5
Deferred Compensation Plan—Small Cap Equity	—	—	—	—	17.0 (4)
Returns of Various Market Indices:					
Salomon Brothers' Mortgage Index	9.1%	(0.9)%	12.1%	5.8%	9.0%
Salomon Brothers' High Grade Corporate Bond Index	16.3	(3.6)	17.6	4.4	9.3
Lehman Government/Corporate Bond Index	13.2	(1.5)	12.7	4.7	7.8
S&P 500 Index	13.6	1.4	26.1	26.0	34.7
S&P 1500 Index	—	—	—	25.4	32.9
Dow Jones Industrials Average	9.2	6.0	29.2	27.1	38.6
Salomon Brothers' World Gov. Bond Index—Unhedged	10.9	5.1	18.8	0.4	3.9
EAFE International Stock Index	20.3	17.0	1.7	13.3	12.4
State of New Jersey Cash Management Fund:					
Book Value of Units of Participation:					
All Participants	\$ 9,570	\$ 9,023	\$ 9,944	\$ 9,753	\$12,463
Other-than-State Participants	4,018	3,488	2,755	2,942	2,954
Average Annualized Daily Rate of Return (3):					
State Participants	3.63%	3.46%	5.27%	5.60%	5.47%
Other-than-State Participants	3.42	3.30	5.13	5.40	5.29
Number of Funds Under the Supervision of the State Investment Council	121	126	134	137	149
Total Number of Transactions	39,282	44,544	48,208	45,413	43,944

1. Total rate of return income and changes in market prices for securities held by the funds during the period shown.
2. Common Pension Funds A, B and D are the principal vehicles for investment by the pension funds in domestic stocks, domestic bonds, and international securities, respectively. The returns cited are for the whole portfolios and reflect cash equivalents. Returns for stocks and bonds alone are shown in Appendix II.
3. Simple interest.
4. The return of the Deferred Compensation Plan Small Capitalization Equity Fund is for the second quarter ending June 30, 1997 only.

The Year's Activities

Summary Financial Information

The 149 investment funds under the supervision of the Council on June 30, 1997, had a book value of \$42.0 billion, compared with \$37.8 billion at the end of the prior year. The investment funds had a market value of \$64.7 billion at June 30, 1997, an increase of 20.9 percent over the market value of \$53.5 billion at June 30, 1996. The market value of the seven pension funds increased from \$45.6 billion at June 30, 1996, to \$56.6 billion at June 30, 1997. The market value of the pension funds rose in large part due to a continuing strong rally in the domestic stock market and an additional \$2.7 billion received from State issued pension obligation bonds.

Investment income for all funds for fiscal 1997 amounted to \$3.0 billion as compared with \$3.2 billion last year. Income declined slightly due to decreased sales of units of participation in common funds by the pension funds.

During the year, the Division of Investment purchased securities with a par value of \$110.7 billion. Approximately 4.3 percent of this amount, or \$4.8 billion, represented the overnight investment of surplus balances in the State's cash accounts. In fiscal 1996, the Division purchased securities with a par value of \$112.1 billion, of which \$16.9 billion was generated by overnight investments. During fiscal 1997, the Division's net holdings of mortgages increased from \$2.2 billion to \$2.5 billion.

The Division sold securities totaling \$31.4 billion in fiscal 1997, compared with sales of \$34.1 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 \$3.0 billion during the year, compared with \$3.2 billion for the prior year. Net realized profits as a result of settlements of currency hedges in Common Pension Fund D amounted to \$106.0 million in fiscal 1997, compared with \$8.9 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 $8\frac{3}{4}$ percent, which reflects expected income and market returns of the funds over time. The law further provides that the "regular interest

rate" shall bear a reasonable relationship to the rate of earnings on investments, based on the market value of assets, but shall not exceed the assumed percentage rate of increase applied to salaries plus 3 percent. At present the average of the assumed percentage rate of increase applied to salaries is 5.95 percent.

Fixed Income

The pension fund allocation of domestic fixed income securities was increased by a net amount of \$750 million in fiscal 1997 due to higher interest rates available in the market.

In fiscal 1997, the Division purchased \$574 million of FHLMC, FNMA, and GNMA 15-year and 30-year mortgage-backed securities. Principal repayments on mortgage-backed securities held by the Division for fiscal 1997 totaled \$199 million.

In fiscal 1997, the Division sold \$173 million of FHLMC and GNMA mortgages and realized net gains of \$2.9 million on the sales.

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

In fiscal 1992, a law was enacted which allocated up to 10 percent of the Police and Firemen's Retirement Fund to mortgages for members of the Fund. In fiscal 1997, the fund purchased \$70.6 million of such mortgages.

Common Pension Fund B is the vehicle for investment by the pension funds in debt securities issued in the United States. In fiscal 1997, the cash flow of this fund was increasingly directed towards investment in corporate securities, due to the widening yield premiums offered on corporate debt. In fiscal 1997, the fund purchased \$1.2 billion of corporate debt securities, compared with \$316 million in the prior year.

The Division maintains a "roll" program for U.S. Treasury and Agency debt securities. A "roll" is defined as the simultaneous sale of a security coupled with its repurchase at a later date. Proceeds from the sale are invested in the State of New Jersey Cash Management Fund. In fiscal 1997, the Division "rolled" \$11.2 billion of securities at a profit of \$0.4 million, compared with \$14.2 billion of securities at a profit of \$1.9 million in fiscal 1996.

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, 1997, the market value of the units of ownership of Common Pension Fund A, Common Pension Fund B and Common Pension Fund D were \$27.9 billion, \$11.8 billion and \$9.8 billion, respectively. The State of New Jersey Cash Management Fund provides a vehicle for the pension funds and other state and municipal funds to make short-term investments.

Total Rate of Return Calculations for Select Portfolios

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

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

New England Pension Consultants 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 1997 were 32.3 percent, 8.0 percent and 16.2 percent, respectively. The estimated total return of the active pension fund portfolios was approximately 22.1 percent in fiscal 1997, compared with returns of 16.1 percent in fiscal 1996 and 19.7 percent in fiscal 1995. 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 \$570 million par value of assets of the mortgage loan program with an appraised value of \$537 million at June 30, 1997.

The State of New Jersey Cash Management Fund

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

The total book value of the units of participation in the Fund increased from \$9.8 billion at June 30, 1996 to \$12.5 billion at June 30, 1997. The increase was due in large part to the addition of the proceeds of the State's issuance of \$2.7 billion of Pension Obligation Bonds in June, 1997.

The total income of the Fund was \$497 million in fiscal 1997, and \$503 million in fiscal 1996.

The number of participating State funds increased from 137 to 149 in fiscal 1997. The number of "Other-than-State" participants increased from 953 to 995 during the year, and the aggregate investment of "Other-than-State" participants was \$3.0 billion at the end of fiscal 1997, compared with \$2.9 billion at the end of fiscal 1996.

The average daily annualized rate of return to participating state accounts and accounts of the pension funds was 5.47 percent during fiscal 1997, compared with 5.60 percent in fiscal 1996. The average daily annualized rate of return to "Other-than-State" participants, which is net of two small charges,

was 5.29 percent in fiscal 1997, compared with 5.40 percent in fiscal 1996.

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 1997 was 5.51 percent, compared with 5.63 percent in the prior year. The lower rates of return during fiscal 1997 were the result of lower interest rates available in the markets for short-term debt investments.

Historical Background

Legislative History

Fiscal 1997 marks forty-seven 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 149 funds in 1997, with a book value of \$42.0 billion and a market value of \$64.7 billion.

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

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

The statute vests investment authority in the Director of the Division. The Director is appointed by the

State Treasurer from candidates for the office selected by the Council.

The role of the Council is to formulate investment procedures and policies to be followed by the Director. State legislation provides that the Council may issue regulations which specifically approve and authorize any form of investment. New regulations adopted by the Council from time to time are formal documents which are filed with the Department 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 to provide a foundation for achieving better portfolio balance and diversification.

Such legislation broadened the authority of the Division to include investment in short-term debt obligations, including commercial paper and certificates of deposit, and certain Canadian government and provincial obligations payable in U.S. dollars

(P.L. 1952, c. 17, and P.L. 1971, c. 176), and subsequently, investment in property of every nature, provided the fiduciary shall exercise care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and reasonable discretion exercise (P.L. 1995, c. 48).

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

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

In July 1987, Governor Kean signed into law an act, P.L. 1987, c. 177, which directs the Director of the Division of Investment to investigate the extent to

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

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

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

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

requiring that all investments must approach a common standard of expected risk and return. The new law also expands the investments that are listed as examples of eligible investment to include diversified pools of venture capital and securities loan transactions. Also, certain forms of investment are permitted, including limited partnerships and investment trusts.

In July 1995, Governor Whitman signed into law an act, P.L. 1995, c. 175, which permits the pension funds to invest in bonds of Israel.

Regulations of the State Investment Council

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

Present regulations of the State Investment Council limit the authority of the Director to invest in common stock. In fiscal 1995, the Council acted to increase the permissible level of aggregate pension fund stock holdings in Common Pension Funds A and D from 60 percent to 70 percent of the market value of the active pension funds. At June 30, 1997, the aggregate common stock holdings of the pension funds were 61.5 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 Department 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 regulatory review process in fiscal 1996 and were readopted with various modifications and clarifications.

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

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

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

Reviews of Major Policy Issues

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

The Council members agreed that the salary structure, budget limitations of the Division, lack of personnel depth and the inflexibility of the Civil Service system posed grave dangers for the successful management of State funds and State-administered pension plans. The Council agreed that any complete solution to the budgeting, staffing, salary and Civil Service issues would provide that: (a) funding of the Division's budget would be made from pension fund income and other fees, with all expenses of the Division subject to the discretion of the Council; (b) all professional employees would serve at the pleasure of the Council, although non-professional

employees could remain in the Civil Service salary structure and system; (c) professional salaries would be set by the Council and possibly could be designed to incorporate performance bonuses; and (d) the Council would have the flexibility to provide necessary personnel depth for the Division. The Council has taken these matters up with appropriate State officials, but, to date, only the first part of item (a) above has been implemented.

At that time, the Council also confirmed the investment objectives for the pension funds, which are as follows: "primary investment objectives are the preservation of capital and the realization over time of earnings sufficient to meet or exceed the regular interest rate established for the actuaries in their determination of the assets and liabilities of each pension fund system. The Council sets as a further investment objective the realization of the greatest possible returns on investment commensurate with the standards of risk and prudence set forth within the Regulations of the Council."

At that time, the Council reviewed the stated objectives and discussed the possibility of amending them to include reference to specific market indices, the rate of inflation or percentile rankings of other managers. They also considered whether a higher risk profile for the portfolios would be appropriate, under the assumption that a diversified portfolio of higher risk securities could, in the aggregate, provide higher returns over the long term. The Council concluded that the pension funds' primary objectives were preservation of capital and income, and that these requirements were inherent in the state prudence and pension laws.

The Council noted that its regulations had broadened the permissible investment universe of the Division in recent years to include options, real estate, conventional mortgages and a broader list of common stocks. The Council concluded that the present investment regulations provided for a satisfactory range of investment opportunities within the Council's fiduciary standards, and that new investment opportunities could be considered in the traditional manner as they arose.

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

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

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

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

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

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

f. The company should have conservative accounting practices.

The standards are only meant to serve as guidelines. The Council agreed that not all companies on its approved list will meet all of these guidelines; however, a failure to meet most of these guidelines will be cause for concern. In addition, the Council believes that good corporate citizenship enhances the value of a company, and, conversely, that poor corporate citizenship detracts from a company's value.

The Council considered the use of outside managers. However, opinions from the Attorney General's office indicated that the use of outside managers by the Division is not legal under State law.

In fiscal 1990, the Council continued to review the legislative and regulatory definitions of risk and return for the pension funds and studied various asset allocation and portfolio optimization simulations. As a result of these reviews and studies, in July 1990, the Council approved four new regulations which enabled the Division to invest in international stocks and bonds. In doing so, the Council acknowledged that the world is approaching a global economy, wherein large corporations based abroad have major manufacturing plants and significant numbers of employees in the United States, and, conversely, many corporations based in the United States maintain substantial operations abroad. Finally, the studies showed that international investments in developed countries had historically provided higher returns with lower levels of risk than had investments limited to the United States.

During fiscal 1990, the Council received the reports of two independent actuarial firms, Buck Consultants and Actuarial Science Associates (ASA), which had been retained by the Treasury Department to provide

comprehensive analyses of the Public Employees' Retirement System, including both benefit and investment issues. With respect to the state's investment program, Buck Consultants concluded that "the state's present portfolio appears to be carefully thought out and, in terms of modern portfolio theory, efficient within the constraints of the fund," and ASA stated that "the current asset allocation was appropriate." Both reports endorsed the concept of international investing as a means of adding diversification to the portfolio and thus reducing portfolio risk.

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

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

Also, in both fiscal 1993 and 1994, the Council reviewed the asset allocation policies set forth in the Council regulations for the State-administered pension funds, and decided that such policies continued to be appropriate.

In fiscal 1995, the Council again reviewed the asset allocation policies set forth in the Council Regulations, and acted to increase the permitted allocation of pension fund assets to international securities from 15 percent of the market value of total pension fund assets to 20 percent. As a consequence of the passage of P.L. 1995, c. 48, which modified the State's prudence law, the Council also considered new asset classes, such as real estate and emerging international markets, as potential areas for further diversification of the pension funds. After careful consideration, the Council decided to defer any action on investment in either real estate or emerging markets. However, the Council acted to increase the maximum permitted investment by the active pension

funds in stocks from 60 percent to 70 percent of the total market value of the pension fund portfolios.

In fiscal 1996, the Council again reviewed all of its regulations in view of their prospective expiration under the State's Sunset Law. All regulations were modified to add clarity where needed, and all were readopted.

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

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

In June 1997, the State issued \$2.7 billion of Pension Obligation Bonds, the proceeds of which were applied to the unfunded liabilities of the pension plans. The proceeds of the issue are reflected in the accounts of the pension funds at June 30, 1997.

Council Procedures and Reports

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

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

is reviewed by the State Investment Council, and the final allocation of commissions is audited by the Division's independent accountants.

In fiscal 1997, the transactions of the Division generated total commissions, both actual and implied, of \$25.0 million, including \$11.0 million of actual domestic stock commissions. Of this amount, \$3.1 million was directed to pay for fixed-fee charges for performance measurement and access to various economic and financial databases.

Social Investment

There has been a spirited public debate for many years on the subject of "strategic" or "targeted" investment, whereby investments are either directed towards areas which are deemed to be socially desirable or withheld from areas which are deemed to be socially undesirable. The State's prudence law (P.L. 1995, c. 48) provides that "the fiduciary shall be under a duty to manage and invest the portfolio solely in the interests of the trust and beneficiaries and for the exclusive purpose of providing financial benefits to trust participants." The Council has taken the position that the Division is bound by law to make prudent investments for the exclusive financial benefit of the beneficiaries of the various funds under its supervision and that the Division may not make any concession as to rate, risk or terms which would benefit any other party at the expense of the beneficiaries of the funds.

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

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

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.

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

Reports of Gubernatorial Commissions

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

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

"1. The current structure within which New Jersey's pension investments are made is, in our judgment, both

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

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

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

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

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

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

6. The beneficiaries of the pension funds should be the sole concern of the State Investment Council and the

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

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

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

Policies of the Council Towards Social Investment

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

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

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

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

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

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

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

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

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

Voting of Proxy Statements

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

During fiscal 1997, the Division voted on 847 U.S. corporate proxies. On 506 proxies, we voted with management on all issues. On 341 proxies the Division voted against the recommendations of corporate management on a total of 414 individual proposals. Of these proposals, 341 related to executive compensation, 61 related to corporate governance, three related to compliance of the corporation with the MacBride Principles in Northern Ireland, four related to confidential proxy voting, two related to the election of directors, one related to a proposed merger and three related to tobacco advertising to minors.

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

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REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying summary of amounts invested by fund and summary of investments by major category of the Division of Investment, Department of the Treasury, State of New Jersey, as of June 30, 1997, and the related summary of investment income by fund and summary of investment activity for the year then ended. These summaries are the responsibility of the Division of Investment's management. Our responsibility is to express an opinion on these summaries based on our audit.

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

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

In our opinion, the summaries referred to above present fairly, in all material respects, the investments by fund and by major category of the Division of Investment, Department of the Treasury, State of New Jersey, as of June 30, 1997, and the related investment income and investment activity for the year then ended, in conformity with generally accepted accounting principles.

August 15, 1997
Princeton, New Jersey

Coopers + Lybrand LLP

SUMMARY OF AMOUNTS INVESTED BY FUND
as of June 30, 1997

	Par, Cost Or Principal Amount— Note 1	Amortized Cost— Note 1	Market— Note 1	Market Over (Under) Cost
PENSION AND ANNUITY GROUP				
Consolidated Police and Firemen's Pension Fund	\$ 63,046,389	\$ 62,976,625	\$ 63,013,682	\$ 37,057
Judicial Retirement System of New Jersey	229,357,847	229,281,550	305,367,380	76,085,830
Police and Firemen's Retirement System	7,476,581,978	7,468,163,219	12,058,425,534	4,590,262,315
Prison Officers Pension Fund	21,158,346	21,158,346	21,158,346	—
Public Employees' Retirement System	10,973,322,092	10,959,372,396	18,802,262,267	7,842,889,871
State Police Retirement System	848,696,985	847,894,419	1,360,931,564	513,037,145
Teachers' Pension and Annuity Fund	14,681,460,974	14,658,938,647	24,021,012,810	9,362,074,163
		34,247,785,202	56,632,171,583	22,384,386,381
STATIC GROUP				
Trustees for the Support of Public Schools Fund	86,102,802	86,034,355	121,732,049	35,697,694
Waste Water Treatment Fund (Act of 1985)	68,817,557	68,817,557	68,817,557	—
Waste Water Treatment Trust Fund (Act of 1985)	952,602	952,602	952,602	—
Waste Water Treatment Fund (Act of 1992)	7,386,029	7,386,029	7,386,029	—
Waste Water Treatment Trust Fund (Act of 1992)	60,975	60,975	60,975	—
		163,251,518	198,949,212	35,697,694
DEMAND GROUP				
Atlantic City Casino Parking Fund	1,494,598	1,494,598	1,494,598	—
Atlantic City Tourism Promotion Fund	140,782	140,782	140,782	—
Boarding House Rental Assistance Fund	7,522,033	7,522,033	7,522,033	—
Casino Simulcasting Special Fund	2,467,850	2,467,850	2,467,850	—
Casino Simulcasting Fund	2,544,691	2,544,691	2,544,691	—
Catastrophic Illness in Children Relief Fund (Act of 1987)	13,626,229	13,626,229	13,626,229	—
Clean Communities Account Fund (Act of 1985)	6,141,616	6,141,616	6,141,616	—
Development Fund—Luxury Tax	1,799,149	1,799,149	1,799,149	—
Division of Motor Vehicles Surcharge Fund	2,297,384	2,297,384	2,297,384	—
Emergency Services Fund	3,219,030	3,219,030	3,219,030	—
Enterprise Zone Assistance Fund (Act of 1983)	118,170,044	118,170,044	118,170,044	—
Hazardous Discharge Fund (Act of 1986)	3,659,945	3,659,945	3,659,945	—
Health Care Subsidy Fund	62,950,562	62,950,562	62,950,562	—
Higher Education Assistance Fund	42,746,568	42,746,568	42,746,568	—
Luxury Tax Fund	206,257	206,257	206,257	—
Motor Vehicle Security Responsibility Fund	142,198	142,198	142,198	—
New Jersey Automobile Insurance Guaranty Fund	216,857,789	216,857,789	216,857,789	—
New Jersey Insurance Development Fund	37,151,822	37,151,822	37,151,822	—
New Jersey Spill Compensation Fund	36,869,117	36,869,117	36,869,117	—
Petroleum Overcharge Reimbursement Fund	26,957,897	26,957,897	26,957,897	—
Real Estate Guaranty Fund	1,310,282	1,310,282	1,310,282	—
Resource Recovery Investment Tax Fund (Act of 1985)	975,722	975,722	975,722	—
Safe Neighborhoods' Services Fund	11,862,338	11,862,338	11,862,338	—
Sanitary Landfill Facility Contingency Fund	26,194,260	26,247,441	26,219,760	(27,681)
Solid Waste Services Tax Fund (Act of 1985)	9,568,452	9,568,452	9,568,452	—
State Disability Benefits Fund	58,230,918	58,230,918	58,230,918	—
State of New Jersey Judiciary—Bail Fund	32,302,650	32,302,650	32,302,650	—
State of New Jersey Judiciary—Child Support Fund	23,661,221	23,661,221	23,661,221	—
State of New Jersey Judiciary—Probation Fund	3,967,886	3,967,886	3,967,886	—
State of New Jersey Judiciary—Special Civil Fund	3,115,403	3,115,403	3,115,403	—
State of New Jersey Judiciary—Superior Court/Other/Misc. Fund	3,475,905	3,475,905	3,475,905	—
State Recycling Fund	14,404,894	14,404,894	14,404,894	—
Tourism Improvement Development District Act Fund	13,323	13,323	13,323	—
Unclaimed Child Support Trust Fund	1,123,118	1,123,118	1,123,118	—
Unclaimed County Deposits Trust Fund	2,432,269	2,432,269	2,432,269	—
Unclaimed Insurance Payments on Deposit	1,975,663	1,975,663	1,975,663	—
Unclaimed Personal Property Trust Fund	55,104,239	55,103,127	55,093,139	(9,988)
Unemployment Compensation Auxiliary Fund	19,744,305	19,744,305	19,744,305	—
Unsatisfied Claim and Judgment Fund	320,764,447	320,764,447	320,764,447	—
Volunteer Emergency Service Organizations Loan Fund	778,766	778,766	778,766	—
Worker and Community Right to Know Fund	2,680,549	2,680,549	2,680,549	—
Workers' Compensation Security Fund—Mutual	9,075,993	9,075,993	9,075,993	—
Workers' Compensation Security Fund—Stock	70,886,380	70,888,009	70,801,780	(86,229)
Workforce Development Partnership Fund	98,172,986	98,172,986	98,172,986	—
		1,358,841,228	1,358,717,330	(123,898)

SUMMARY OF AMOUNTS INVESTED BY FUND (CONTINUED)
as of June 30, 1997

	Par, Cost Or Principal Amount— Note 1	Amortized Cost— Note 1	Market— Note 1	Market Over (Under) Cost
TEMPORARY RESERVE GROUP				
Alcohol Education Rehabilitation and Enforcement Fund	\$ 4,799,541	\$ 4,799,541	\$ 4,799,541	\$ —
Beaches and Harbors Fund (Act of 1977)	1,248,200	1,248,200	1,248,200	—
Capital City Redevelopment Loan and Grant Fund	2,983,291	2,983,291	2,983,291	—
Central Pension Fund	66,908	66,908	66,908	—
Clean Waters Fund (Act of 1976)	691,352	691,352	691,352	—
Community Development Bond Fund (Act of 1981)	6,568,984	6,568,984	6,568,984	—
Contributory Insurance Fund—PERS	87,966,045	87,483,696	87,643,395	159,699
Contributory Insurance Fund—TPAF	62,286,592	61,985,310	62,126,942	141,632
Correctional Facilities Construction Fund (Act of 1982)	1,661,673	1,661,673	1,661,673	—
Correctional Facilities Construction Fund (Act of 1987)	22,814,236	22,814,236	22,814,236	—
Emergency Flood Control Fund (Act of 1978)	1,005,747	1,005,747	1,005,747	—
Emergency Medical Technician Training Fund	5,426,610	5,426,610	5,426,610	—
Energy Conservation Fund (Act of 1980)	2,418,421	2,418,421	2,418,421	—
Farmland Preservation Fund (Act of 1981)	418,797	418,797	418,797	—
Farmland Preservation Fund (Act of 1989)	2,068,608	2,068,608	2,068,608	—
Farmland Preservation Fund (Act of 1992)	2,528,537	2,528,537	2,528,537	—
General Investment Fund	1,547,475,019	1,547,475,019	1,547,475,019	—
Green Acres Cultural Centers and Historic Preservation Bond Fund (Act of 1987)	12,191,409	12,191,409	12,191,409	—
Green Trust Fund (Act of 1983)	2,848,892	2,848,892	2,848,892	—
Hazardous Discharge Fund (Act of 1981)	5,323,622	5,323,622	5,323,622	—
Hazardous Discharge Site Cleanup Fund (Act of 1985)	32,108,991	32,108,991	32,108,991	—
Higher Education Facility Renovation and Rehabilitation Fund	268,508	268,508	268,508	—
Historic Preservation Fund (Act of 1992)	3,642,059	3,642,059	3,642,059	—
Horse Racing Injury Compensation Fund	1,990	1,990	1,990	—
Housing Assistance Fund (Act of 1968)	356,368	356,368	356,368	—
Human Services Facilities Construction Fund (Act of 1984)	2,425,513	2,425,513	2,425,513	—
Institutional Construction Fund (Act of 1978)	7,048	7,048	7,048	—
Institutions Construction Fund (Act of 1976)	9,306	9,306	9,306	—
Jobs, Education, and Competitiveness Fund (Act of 1988)	1,771,744	1,771,744	1,771,744	—
Jobs, Science, and Technology Fund (Act of 1984)	594,163	594,163	594,163	—
Medical Education Facilities Fund (Act of 1977)	541,652	541,652	541,652	—
Mortgage Assistance Fund (Act of 1976)	1,649,991	1,649,991	1,649,991	—
Natural Resources Fund (Act of 1980)	6,926,349	6,926,349	6,926,349	—
New Home Warranty Security Fund	56,116,180	55,886,647	55,941,040	54,393
New Jersey Bridge Rehabilitation and Improvement and Railroad Right of Way Preservation Fund (Act of 1989)	268,033	268,033	268,033	—
New Jersey Bridge Rehabilitation Fund (Act of 1983)	10,849,293	10,849,293	10,849,293	—
New Jersey Dam Restoration & Clean Water Fund (Act of 1992)	3,128,905	3,128,905	3,128,905	—
New Jersey Green Acres Fund (Act of 1983)	2,456,342	2,456,342	2,456,342	—
New Jersey Green Acres Fund (Act of 1989)	4,621,926	4,621,926	4,621,926	—
New Jersey Green Acres Fund (Act of 1992)	3,444,920	3,444,920	3,444,920	—
New Jersey Green Acres Fund (Act of 1995)	3,665,030	3,665,030	3,665,030	—
New Jersey Green Trust Fund (Act of 1989)	2,433,135	2,433,135	2,433,135	—
New Jersey Green Trust Fund (Act of 1992)	2,516,464	2,516,464	2,516,464	—
New Jersey Green Trust Fund (Act of 1995)	3,502,758	3,502,758	3,502,758	—
New Jersey Local Development Financing Fund	3,904,377	3,904,377	3,904,377	—
New Jersey Medical Malpractice Reinsurance Recovery Fund	22,194,868	22,194,868	22,194,868	—
New Jersey State Dental Program	12,123,250	12,123,250	12,123,250	—
Pension Adjustment Fund	3,106,833	3,106,833	3,106,833	—
Pension Payroll Investment Fund	4,911,516	4,911,516	4,911,516	—
Pinelands Infrastructure Trust Fund (Act of 1985)	2,138,250	2,138,250	2,138,250	—
Pollution Prevention Fund	2,788,816	2,788,816	2,788,816	—
Prescription Drug Program Fund	11,184,809	11,184,809	11,184,809	—
Public Buildings Construction Fund (Act of 1968)	3,504	3,504	3,504	—
Public Purpose Buildings and Community-Based Facilities Construction Fund (Act of 1989)	2,808,591	2,808,591	2,808,591	—
Public Purpose Buildings and Construction Fund (Act of 1980)	1,922,431	1,922,431	1,922,431	—
Resource Recovery & Solid Waste Disposal Facilities Fund (Act of 1985)	18,165,774	18,165,774	18,165,774	—
Safe Drinking Water Fund	6,122,199	6,122,199	6,122,199	—

SUMMARY OF AMOUNTS INVESTED BY FUND—(CONCLUDED)
as of June 30, 1997

	Par, Cost Or Principal Amount— Note 1	Amortized Cost— Note 1	Market— Note 1	Market Over (Under) Cost
TEMPORARY RESERVE GROUP—(continued)				
Shore Protection Fund (Act of 1983)	\$ 10,215,849	\$ 10,215,849	\$ 10,215,849	\$ —
State Facilities for Handicapped Fund (Act of 1973)	351,282	351,282	351,282	—
State Health Benefits Fund	452,727,653	452,447,172	452,613,403	166,231
State Land Acquisition and Development Fund (Act of 1978)	1,283,244	1,283,244	1,283,244	—
State Lottery Fund—Investment	100,793,824	100,793,824	100,793,824	—
State of New Jersey—Alternate Benefits Program	9,002,253	9,002,253	9,002,253	—
State of New Jersey Cash Management Fund— Administrative Expense Fund	1,750,734	1,750,734	1,750,734	—
State of New Jersey Cash Management Fund— Other Than State Funds	2,953,953,116	2,953,953,116	2,953,953,116	—
State of New Jersey Cash Management Fund— Reserve Fund	51,174,088	51,174,088	51,174,088	—
State Recreation and Conservation Land Acquisition and Development Fund (Act of 1974)	2,364,479	2,364,479	2,364,479	—
State Recreation and Conservation Land Acquisition Fund (Act of 1971)	138,353	138,353	138,353	—
Stormwater Management and Combined Sewer Overflow Abatement Fund (Act of 1989)	14,917,843	14,917,843	14,917,843	—
Transportation Rehabilitation and Improvement Fund (Act of 1979)	285,111	285,111	285,111	—
University of Medicine and Dentistry of New Jersey—Self-Insurance Reserves Fund	90,119,758	89,582,808	88,959,547	(623,261)
Development Disabilities Waiting List Reduction and Human Services Facilities Construction Bonds (Act of 1994)	3,214,712	3,214,712	3,214,712	—
Water Conservation Fund (Act of 1969)	11,101,728	11,101,728	11,101,728	—
Water Supply Fund (Act of 1981)	25,670,045	25,670,045	25,670,045	—
Water Supply Replacement Trust Fund	5,113,840	5,113,840	5,113,840	—
		<u>5,739,821,687</u>	<u>5,739,720,381</u>	<u>(101,306)</u>
TRUST GROUP				
New Jersey State Employees' Deferred Compensation Administrative Charges	205,788	205,788	205,788	—
New Jersey State Employees' Deferred Compensation Cash Management Fund	105,095,605	105,095,605	105,095,605	—
New Jersey State Employees' Deferred Compensation Equity Fund	209,257,446	209,257,446	358,868,936	149,611,490
New Jersey State Employees' Deferred Compensation Fixed Income Fund	100,164,368	100,382,941	100,223,451	(159,490)
New Jersey State Employees' Deferred Compensation Holding Account	5,589,360	5,589,360	5,589,360	—
New Jersey State Employees' Deferred Compensation Small Cap Equity Fund	13,400,898	13,400,898	15,136,598	1,735,700
Insurance Annuity Trust Fund	26,847	26,847	26,847	—
Supplemental Annuity Collective Trust Fund	90,687,389	90,687,389	177,934,350	87,246,961
Tischler Memorial Fund	573,541	571,974	576,904	4,930
		<u>525,218,248</u>	<u>763,657,839</u>	<u>238,439,591</u>
TOTAL AMOUNTS INVESTED BY FUND		<u><u>\$42,034,917,883</u></u>	<u><u>\$64,693,216,345</u></u>	<u><u>\$22,658,298,462</u></u>

See notes to investment summaries.

SUMMARY OF INVESTMENT INCOME BY FUND
for the Year Ended June 30, 1997

	Net Investment Earnings— Note 1	Net Gain (Loss)— Notes 1 and 2	Total Investment Income
PENSION AND ANNUITY GROUP			
Consolidated Police and Firemen's Pension Fund	\$ 1,484,137	\$ (71,209)	\$ 1,412,928
Judicial Retirement System of New Jersey	5,724,198	2,837,354	8,561,552
Police and Firemen's Retirement System	324,127,922	226,073,819	550,201,741
Prison Officers Pension Fund	85,011	—	85,011
Public Employees' Retirement System	539,673,165	358,302,209	897,975,374
State Police Retirement System	36,031,397	22,886,506	58,917,903
Teachers' Pension and Annuity Fund	639,378,333	453,022,387	1,092,400,720
	<u>1,546,504,163</u>	<u>1,063,051,066</u>	<u>2,609,555,229</u>
STATIC GROUP			
Trustees for the Support of Public Schools Fund	5,188,073	103,389	5,291,462
Waste Water Treatment Fund (Act of 1985)	4,612,306	—	4,612,306
Waste Water Treatment Trust Fund (Act of 1985)	50,632	—	50,632
Waste Water Treatment Fund (Act of 1992)	256,029	—	256,029
Waste Water Treatment Trust Fund (Act of 1992)	60,975	—	60,975
	<u>10,168,015</u>	<u>103,389</u>	<u>10,271,404</u>
DEMAND GROUP			
Atlantic City Casino Parking Fund	37,285	—	37,285
Atlantic City Tourism Promotion Fund	13,238	—	13,238
Boarding House Rental Assistance Fund	431,893	—	431,893
Casino Simulcasting Special Fund	295,313	—	295,313
Casino Simulcasting Fund	117,312	—	117,312
Catastrophic Illness in Children Relief Fund (Act of 1987)	796,123	—	796,123
Clean Communities Account Fund (Act of 1985)	341,525	—	341,525
Development Fund—Luxury Tax	115,253	—	115,253
Division of Motor Vehicles Surcharge Fund	480,107	—	480,107
Emergency Services Fund	184,325	—	184,325
Enterprise Zone Assistance Fund (Act of 1983)	5,534,059	—	5,534,059
Hazardous Discharge Fund (Act of 1986)	232,707	—	232,707
Health Care Subsidy Fund	3,366,244	—	3,366,244
Higher Education Assistance Fund	2,232,103	—	2,232,103
Luxury Tax Fund	18,022	—	18,022
Motor Vehicle Security Responsibility Fund	7,641	—	7,641
New Jersey Automobile Insurance Guaranty Fund	12,947,964	—	12,947,964
New Jersey Insurance Development Fund	2,097,156	—	2,097,156
New Jersey Spill Compensation Fund	1,755,675	—	1,755,675
Petroleum Overcharge Reimbursement Fund	1,583,435	—	1,583,435
Real Estate Guaranty Fund	71,935	—	71,935
Resource Recovery Investment Tax Fund (Act of 1985)	321,987	—	321,987
Safe Neighborhoods' Services Fund	652,465	—	652,465
Sanitary Landfill Facility Contingency Fund	1,398,342	(24,876)	1,373,466
Solid Waste Services Tax Fund (Act of 1985)	601,838	—	601,838
State Disability Benefits Fund	3,752,279	(6,843)	3,745,436
State of New Jersey Judiciary—Bail Fund	1,841,650	—	1,841,650
State of New Jersey Judiciary—Child Support Fund	1,356,221	—	1,356,221
State of New Jersey Judiciary—Probation Fund	184,886	—	184,886
State of New Jersey Judiciary—Special Civil Fund	121,403	—	121,403
State of New Jersey Judiciary—Superior Court/ Other/Misc. Fund	397,905	—	397,905
State Recycling Fund	735,608	—	735,608
Tourism Improvement Development District Act Fund	707	—	707
Unclaimed Child Support Trust Fund	23,118	—	23,118
Unclaimed County Deposits Trust Fund	131,042	—	131,042
Unclaimed Insurance Payments on Deposit	50,663	—	50,663
Unclaimed Personal Property Trust Fund	2,601,073	—	2,601,073
Unemployment Compensation Auxiliary Fund	834,284	—	834,284
Unsatisfied Claim and Judgment Fund	14,418,660	—	14,418,660
Volunteer Emergency Service Organizations Loan Fund	38,417	—	38,417
Worker and Community Right to Know Fund	125,189	—	125,189
Workers' Compensation Security Fund—Mutual	426,367	—	426,367
Workers' Compensation Security Fund—Stock	3,767,210	—	3,767,210
Workforce Development Partnership Fund	4,540,011	—	4,540,011
	<u>70,980,640</u>	<u>(31,719)</u>	<u>70,948,921</u>

SUMMARY OF INVESTMENT INCOME BY FUND—(CONTINUED)
for the Year Ended June 30, 1997

	Net Investment Earnings— Note 1	Net Gain (Loss)— Notes 1 and 2	Total Investment Income
TEMPORARY RESERVE GROUP			
Alcohol Education Rehabilitation and Enforcement Fund	\$ 247,850	\$ —	\$ 247,850
Beaches and Harbors Fund (Act of 1977)	68,459	—	68,459
Capital City Redevelopment Loan and Grant Fund	158,569	—	158,569
Central Pension Fund	5,642	—	5,642
Clean Waters Fund (Act of 1976)	105,069	—	105,069
Community Development Bond Fund (Act of 1981)	372,604	—	372,604
Contributory Insurance Fund—PERS	5,151,746	—	5,151,746
Contributory Insurance Fund—TPAF	3,853,251	—	3,853,251
Correctional Facilities Construction Fund (Act of 1982)	246,697	—	246,697
Correctional Facilities Construction Fund (Act of 1987)	1,263,080	—	1,263,080
Emergency Flood Control Fund (Act of 1978)	64,791	—	64,791
Emergency Medical Technician Training Fund	260,147	—	260,147
Energy Conservation Fund (Act of 1980)	185,916	—	185,916
Farmland Preservation Fund (Act of 1981)	24,916	—	24,916
Farmland Preservation Fund (Act of 1989)	98,831	—	98,831
Farmland Preservation Fund (Act of 1992)	301,290	—	301,290
General Investment Fund	44,141,201	—	44,141,201
General Trust Fund	179	—	179
Green Acres Cultural Centers and Historic Preservation Bond Fund (Act of 1987)	982,687	—	982,687
Green Trust Fund (Act of 1983)	301,465	—	301,465
Hazardous Discharge Fund (Act of 1981)	229,500	—	229,500
Hazardous Discharge Site Cleanup Fund (Act of 1985)	1,441,351	—	1,441,351
Higher Education Buildings Construction Fund (Act of 1971)	2,083	—	2,083
Higher Education Facility Renovation and Rehabilitation Fund	21,208	—	21,208
Historic Preservation Fund (Act of 1992)	117,059	—	117,059
Horse Racing Injury Compensation	1,990	—	1,990
Housing Assistance Fund (Act of 1968)	19,927	—	19,927
Human Services Facilities Construction Fund (Act of 1984)	148,359	—	148,359
Institutional Construction Fund (Act of 1978)	413	—	413
Institutions Construction Fund (Act of 1976)	504	—	504
Jobs, Education and Competitiveness Fund (Act of 1988)	211,039	—	211,039
Jobs, Science and Technology Fund (Act of 1984)	32,161	—	32,161
Medical Education Facilities Fund (Act of 1977)	29,109	—	29,109
Mortgage Assistance Fund (Act of 1976)	81,169	—	81,169
Natural Resources Fund (Act of 1980)	391,327	—	391,327
New Home Warranty Security Fund	3,321,466	—	3,321,466
New Jersey Bridge Rehabilitation and Improvement and Railroad Right of Way Preservation Fund (Act of 1989)	93,312	—	93,312
New Jersey Bridge Rehabilitation Fund (Act of 1983)	602,659	—	602,659
New Jersey Dam Restoration & Clean Water Fund (Act of 1992)	170,764	—	170,764
New Jersey Green Acres Fund (Act of 1983)	486,689	—	486,689
New Jersey Green Acres Fund (Act of 1989)	259,463	—	259,463
New Jersey Green Acres Fund (Act of 1992)	407,000	—	407,000
New Jersey Green Acres Fund (Act of 1995)	215,030	—	215,030
New Jersey Green Trust Fund (Act of 1989)	295,110	—	295,110
New Jersey Green Trust Fund (Act of 1992)	249,214	—	249,214
New Jersey Green Trust Fund (Act of 1995)	102,758	—	102,758
New Jersey Local Development Financing Fund	157,844	—	157,844
New Jersey Medical Malpractice Reinsurance—Recovery Fund	1,190,595	—	1,190,595
New Jersey State Dental Program	750,365	—	750,365
Pension Adjustment Fund	490,301	—	490,301
Pension Payroll Investment Fund	714,544	—	714,544
Pinelands Infrastructure Trust Fund (Act of 1985)	138,910	—	138,910
Pollution Prevention Fund	140,488	—	140,488
Prescription Drug Program Fund	886,329	—	886,329
Public Buildings Construction Fund (Act of 1968)	191	—	191
Public Purpose Buildings and Community-Based Facilities Construction Fund (Act of 1989)	588,590	—	588,590
Public Purpose Buildings and Construction Fund (Act of 1980)	113,791	—	113,791
Resource Recovery & Solid Waste Disposal Facilities Fund (Act of 1985)	1,262,149	—	1,262,149
Safe Drinking Water Fund	308,403	—	308,403
Shore Protection Fund (Act of 1983)	544,558	—	544,558
State Facilities for Handicapped Fund (Act of 1973)	17,479	—	17,479
State Health Benefits Fund	25,238,426	—	25,238,426
State Land Acquisition and Development Fund (Act of 1978)	112,269	—	112,269

SUMMARY OF INVESTMENT INCOME BY FUND—(CONCLUDED)
for the Year Ended June 30, 1997

	Net Investment Earnings— Note 1	Net Gain (Loss)— Notes 1 and 2	Total Investment Income
TEMPORARY RESERVE GROUP—(continued)			
State Lottery Fund—Investment	\$ 4,990,096	\$ —	\$ 4,990,096
State of New Jersey—Alternate Benefits Program	684,686	—	684,686
State of New Jersey Cash Management Fund— Administrative Expense Fund	68,330	—	68,330
State of New Jersey Cash Management Fund— Other than State Funds	178,535,956	—	178,535,956
State of New Jersey Cash Management Fund— Reserve Fund	2,603,868	—	2,603,868
State Recreation and Conservation Land Acquisition and Development Fund (Act of 1974)	135,098	—	135,098
State Recreation and Conservation Land Acquisition Fund (Act of 1971)	10,275	—	10,275
Stormwater Management and Combined Sewer Overflow Abatement Fund (Act of 1989)	826,260	—	826,260
Transportation Rehabilitation and Improvement Fund (Act of 1979)	15,250	—	15,250
University of Medicine and Dentistry of New Jersey—Self-Insurance Reserves Fund	5,155,835	—	5,155,835
Development Disabilities Waiting List Reduction and Human Services Facilities Construction Bonds (Act of 1994)	305,165	—	305,165
Water Conservation Fund (Act of 1969)	163,423	—	163,423
Water Supply Fund (Act of 1981)	3,497,512	—	3,497,512
Water Supply Replacement Trust Fund	250,112	—	250,112
	<u>296,662,152</u>	<u>—</u>	<u>296,662,152</u>
TRUST GROUP			
New Jersey State Employees' Deferred Compensation Administrative Charges	13,934	—	13,934
New Jersey State Employees' Deferred Compensation Cash Management Fund	5,530,556	—	5,530,556
New Jersey State Employees' Deferred Compensation Equity Fund	5,161,172	952,856	6,114,028
New Jersey State Employees' Deferred Compensation Fixed Income Fund	6,376,019	—	6,376,019
New Jersey State Employees' Deferred Compensation Holding Account	409,962	—	409,962
New Jersey State Employees' Deferred Compensation Small Cap Equity Fund	39,655	79,914	119,569
Insurance Annuity Trust Fund	1,426	—	1,426
Supplemental Annuity Collective Trust Fund	3,326,989	5,654,097	8,981,086
Tischler Memorial Fund	39,217	—	39,217
	<u>20,898,930</u>	<u>6,686,867</u>	<u>27,585,797</u>
TOTAL INVESTMENT INCOME	<u>\$1,945,213,900</u>	<u>\$1,069,809,603</u>	<u>\$3,015,023,503</u>

See notes to investment summaries.

SUMMARY OF INVESTMENTS BY MAJOR CATEGORY

as of June 30, 1997

	Par, Cost or Principal Amount— Note 1	Amortized Cost— Note 1	Market— Note 1	Market Over Cost
U.S. Government and Other Government Bonds and Obligations	\$ 409,035,000	\$ 407,523,420	\$ 407,591,016	\$ 67,596
Finance Companies Senior Debt	2,000,000	2,014,330	2,019,063	4,733
Gas and Electric Bonds	1,500,000	1,513,474	1,583,850	70,376
Industrial Bonds and Commercial Paper	10,500,000	10,395,349	10,379,775	(15,574)
Mortgage-Backed Certificates	1,976,647,019	1,930,862,173	1,952,230,034	21,367,861
Police and Firemen's Mortgage Program	570,419,120	570,419,120	537,346,954	(33,072,166)
Telephone Bonds	4,500,000	4,405,526	4,484,520	78,994
Preferred Stocks	79,759	79,759	168,469	88,710
Common Stocks	319,641,394	319,641,394	593,198,077	273,556,683
Units—Common Pension Fund A	8,927,062,723	8,927,062,723	27,906,228,414	18,979,165,691
Units—Common Pension Fund B	11,126,717,008	11,126,717,008	11,766,610,286	639,893,278
Units—Common Pension Fund D	6,980,203,218	6,980,203,218	9,757,295,498	2,777,092,280
Units—Cash Management Fund	11,754,080,389	11,754,080,389	11,754,080,389	—
TOTAL INVESTMENTS BY MAJOR CATEGORY		<u>\$42,034,917,883</u>	<u>\$64,693,216,345</u>	<u>\$22,658,298,462</u>

See notes to investment summaries.

SUMMARY OF INVESTMENT ACTIVITY for the Year Ended June 30, 1997

Purchases at cost, including common funds:		
Bonds	\$163,440,709	
Mortgages	633,919,353	
Stocks	<u>65,226,049</u>	\$ 862,586,111
Purchases of units of common funds, at cost		38,058,795,569
Unrealized appreciation		6,963,065,130
Discount accretion		4,972,413
Sales, at market		(255,359,207)
Mortgage principal payments, at amortized cost		(145,792,164)
Redemptions, at market		(54,980,515)
Maturities, at par amount		(134,350,000)
Redemptions of units of common funds		(35,180,297,610)
Premium amortization		(581,106)
Realized gains distributed to funds		<u>1,069,809,604</u>
NET INCREASE IN INVESTMENTS		11,187,868,225
Total amounts invested by funds		
Beginning of year—Note 2		<u>53,505,348,120</u>
Total amounts invested by funds—		
END OF YEAR		<u><u>\$64,693,216,345</u></u>

See notes to investment summaries.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Administration

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

Investment Valuation

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

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

The Police and Firemen's Retirement System (the "Fund") includes a mortgage loan program established by law in 1992. The program provides that participants of the Fund may receive mortgages from the Fund at rates which are fixed by formula. The law further provides that the Fund may not sell the mortgages, and therefore no independent market exists for them. As of June 30, 1997 the mortgage loan program had a cost of \$570,419,120 and an appraised value of \$537,346,954, determined using market prices obtained from an independent broker.

Investment Transactions

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

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 1997.

Administrative Expenses

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

Other

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

NOTE 2—INVESTMENT ACTIVITY

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

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

Government Accounting Standards Board ("GASB") Statement No. 3 requires disclosure of the level of investment risk assumed by the Funds at June 30, 1997. 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, 1997, all investments held by the Division were classified as Category 1.

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

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

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

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

Realized gains and losses arising from investment activity by Common Pension Fund A, Common Pension Fund B, and Common Pension Fund D consisting of net gains of \$3,032,352,921 in fiscal year 1997 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 \$16,271,354 in fiscal year 1997 are not reflected in the Summary of Investment Income by Fund. Undistributed investment income of \$1,182,690,372 as of June 30, 1997, arising from investment activity by Common Pension Fund D is not reflected in the Summary of Investment Income by Fund. These amounts are not reflected as they were not distributed to the holders of the Funds.

NOTES TO INVESTMENT SUMMARIES

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

The following is a summary of investments by major category at June 30, 1997, 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	14,252,058,000	\$14,295,511,504	\$14,525,804,785	\$ 230,293,281
Industrial bonds and commercial paper	5,874,609,668	5,849,312,100	5,886,997,777	37,685,677
Finance Companies—Senior Debt	273,000,000	272,947,859	275,376,887	2,429,028
Foreign government bonds and notes	242,982,500,147	2,106,567,300	2,154,678,524	48,111,224
Foreign stock	5,670,217,773	5,670,217,773	7,077,691,656	1,407,473,883
Telephone bonds	218,325,000	213,478,838	216,264,850	2,786,012
Gas and electric bonds	366,043,000	362,579,219	362,655,379	76,160
Common stocks	14,854,124,607	14,854,124,607	28,286,107,496	13,431,982,889
Preferred stocks	51,658,573	51,658,573	55,010,217	3,351,644
Mortgage-backed certificates	1,976,647,019	1,930,862,173	1,952,230,034	21,367,861
Police and Firemen's mortgage program	570,419,120	570,419,120	537,346,954	(33,072,166)
Merchant Marine Bonds	9,303,000	9,303,000	9,420,193	117,193
Time certificates of deposit	3,180,000,000	3,180,000,000	3,180,000,000	—
International bank bonds and notes	55,000,000	54,977,235	54,917,100	(60,135)
Total investments		<u>49,421,959,301</u>	<u>64,574,501,852</u>	<u>15,152,542,551</u>
Differences in accounting by unit funds:				
Other assets		2,026,452,417	2,013,750,533	(12,701,884)
Other liabilities		(3,162,115,360)	(1,894,397,428)	1,267,717,932
Undistributed realized gains and other income		(6,276,795,584)	—	6,276,795,584
Other accounting practices		<u>25,417,109</u>	<u>(638,612)</u>	<u>(26,055,721)</u>
Total amounts invested by funds		<u>\$42,034,917,883</u>	<u>\$64,693,216,345</u>	<u>\$22,658,298,462</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, 1997. The market value included in the total investments shown above reflects the market value of the investments held by the Unit Funds.
- III. Total investments shown above does not reflect the other assets and liabilities of the Unit Funds, e.g., cash, accrued interest receivable, amounts due for investments sold or owed for investments purchased, and undistributed income due to participants. These items are included in calculating the net asset value of the Unit Funds.
- IV. Total amounts invested by funds do not reflect cumulative net realized gains from Unit Funds’ investment transactions which have not been distributed to the participating funds. Common Pension Funds A, B and D cumulative net realized gains are distributed at the discretion of the State Investment Council.

NOTES TO INVESTMENT SUMMARIES

NOTE 4—COMMITMENTS

As of June 30, 1997, Common Pension Fund D had entered into the following forward foreign currency exchange contracts which contractually obligate the fund to deliver/receive currency at specified future dates. The open contracts were as follows:

Contract	Foreign Currency	In Exchange For	Value	Settlement Date	Appreciation (Depreciation)
Purchases:					
CAD	887,375	\$ 642,560	\$ 643,212	07/03/97	\$ 652
CAD	896,750	648,925	650,007	07/02/97	1,082
DEM	70,000,000	45,355,882	40,266,142	08/01/97	(5,089,740)
DEM	100,000,000	65,077,686	57,571,630	08/12/97	(7,506,056)
ESP	6,000,000,000	40,887,253	40,800,600	07/11/97	(86,653)
FRF	5,210,400	896,182	887,481	07/31/97	(8,701)
FRF	7,408,541	1,266,417	1,261,887	07/31/97	(4,530)
FRF	491,851	84,654	83,776	07/31/97	(878)
FRF	1,160,795	199,803	197,717	07/31/97	(2,086)
GBP	1,040,219	1,736,385	1,731,101	07/01/97	(5,284)
GBP	20,000,000	31,873,000	33,164,340	10/28/97	1,291,340
ITL	11,968,750,000	7,038,288	7,034,034	07/08/97	(4,254)
JPY	2,500,000,000	22,168,525	21,966,500	08/05/97	(202,025)
JPY	2,000,000,000	16,874,077	17,812,800	11/05/97	938,723
NZD	3,434,766	2,350,067	2,327,866	07/01/97	(22,201)
NZD	1,269,259	861,827	860,223	07/07/97	(1,604)
NZD	1,567,245	1,076,932	1,062,179	07/03/97	(14,753)
NZD	1,893,199	1,298,640	1,283,090	07/02/97	(15,500)
Subtotal					(10,732,519)
Sales:					
AUD	25,000,000	19,202,500	18,849,868	05/27/98	352,633
CHF	50,000,000	43,495,281	34,548,880	08/29/97	8,946,401
CHF	30,000,000	22,128,381	21,115,359	01/28/98	1,013,022
CHF	35,000,000	27,546,041	24,218,184	09/10/97	3,327,858
CHF	30,000,000	24,799,537	20,828,031	10/08/97	3,971,506
DEM	100,000,000	68,115,251	57,708,950	09/12/97	10,406,301
DEM	100,000,000	68,915,613	57,571,630	08/12/97	11,343,983
DEM	1,799,644	1,030,724	1,032,735	07/02/97	(2,011)
DEM	70,000,000	48,436,203	40,266,142	08/01/97	8,170,061
DEM	40,000,000	25,178,215	23,325,352	01/28/98	1,852,863
DEM	120,000,000	75,035,173	69,492,036	10/28/97	5,543,137
DKK	290,000,000	45,601,069	44,374,466	02/23/98	1,226,603
DKK	325,000,000	55,880,330	49,241,725	09/15/97	6,638,605
ESP	4,000,000,000	30,899,484	27,244,800	10/29/97	3,654,684
ESP	6,000,000,000	46,310,590	40,800,600	07/11/97	5,509,990
ESP	6,000,000,000	41,237,113	41,172,000	07/01/98	65,113
ESP	7,000,000,000	49,122,807	47,987,800	06/02/98	1,135,007
FRF	400,000,000	70,677,622	69,335,920	03/10/98	1,341,702
FRF	150,000,000	29,900,134	25,700,520	09/26/97	4,199,614
FRF	360,000,000	72,402,558	61,485,516	08/08/97	10,917,042
FRF	150,000,000	26,371,308	26,105,925	05/05/98	265,383
FRF	1,126,250	191,572	191,833	07/02/97	(261)
GBP	75,000,000	118,725,000	124,366,275	10/28/97	(5,641,275)
ITL	622,198,011	369,042	365,666	07/01/97	3,376
ITL	23,000,000,000	13,599,007	13,468,800	04/09/98	130,207
ITL	32,000,000,000	18,816,003	18,739,200	04/23/98	76,803
ITL	797,743,776	470,229	468,834	07/03/97	1,395
ITL	297,054,800	175,949	174,579	07/03/97	1,370
ITL	998,524,098	592,814	586,833	07/02/97	5,981
JPY	8,287,500	72,317	72,424	07/02/97	(107)
JPY	112,095,337	979,901	979,601	07/02/97	300
JPY	41,987,835	366,114	366,932	07/02/97	(818)
JPY	3,500,000,000	29,915,808	31,787,700	03/19/98	(1,871,892)
JPY	2,000,000,000	17,073,150	17,812,800	11/05/97	(739,650)
JPY	2,500,000,000	20,795,209	22,861,750	05/06/98	(2,066,541)
JPY	4,000,000,000	34,281,796	36,154,000	02/13/98	(1,872,204)
JPY	8,000,000,000	76,628,352	70,719,200	09/16/97	5,909,152
JPY	2,500,000,000	22,756,235	21,966,500	08/05/97	789,735
JPY	5,500,000,000	50,187,061	48,535,300	09/04/97	1,651,761
JPY	4,000,000,000	32,967,939	35,990,800	01/12/98	(3,022,861)
SEK	450,000,000	59,844,405	58,595,355	12/12/97	1,249,050
SGD	17,760	12,361	12,421	07/02/97	(60)
Subtotal					84,482,956
Total open forward foreign currency contracts					\$73,790,437

APPENDIX I

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

	Consolidated Police & Firemen's Pension Fund		Judicial Retirement System of New Jersey		Police & Firemen's Retirement System	
	Amortized Cost	Quoted Market	Amortized Cost	Quoted Market	Amortized Cost	Quoted Market
SHORT-TERM OBLIGATIONS						
U.S. Government and other government securities and obligations	\$16,600	\$16,603	\$ 35,130	\$ 35,136	\$ 376,780	\$ 376,845
Commercial paper	16,612	16,614	35,156	35,159	377,054	377,093
Time certificates of deposit	13,674	13,674	28,938	28,938	310,368	310,368
	<u>46,886</u>	<u>46,891</u>	<u>99,224</u>	<u>99,233</u>	<u>1,064,202</u>	<u>1,064,306</u>
LONG-TERM BONDS						
U.S. Government bonds and other government securities and obligations	10,719	10,661	50,351	51,352	1,689,142	1,730,195
Industrial bonds	168	167	6,657	6,769	263,166	267,800
Gas and electric bonds	—	—	1,589	1,589	65,389	65,390
Telephone bonds	—	—	920	932	37,863	38,354
Finance companies—senior debt	—	—	1,192	1,203	49,066	49,505
Intermediate-term corporate notes	322	322	2,572	2,624	85,097	87,237
International Government bonds and notes	—	—	9,479	9,695	430,210	440,042
Other	—	—	595	607	25,553	26,049
	<u>11,209</u>	<u>11,150</u>	<u>73,355</u>	<u>74,771</u>	<u>2,645,486</u>	<u>2,704,572</u>
MORTGAGES						
Mortgage-backed certificates	4,984	5,082	2,424	2,518	922,947	894,556
STOCKS						
Common stock	—	—	49,417	94,156	3,033,347	5,779,510
Preferred stock	—	—	175	186	10,765	11,446
Common stock (international)	—	—	25,516	31,850	1,158,425	1,445,972
	<u>—</u>	<u>—</u>	<u>75,108</u>	<u>126,192</u>	<u>4,202,537</u>	<u>7,236,928</u>
	63,079	63,123	250,111	302,714	8,835,172	11,900,362
Differences due to accounting practices	(102)	(109)	(20,829)	2,653	(1,367,009)	158,064
	<u>\$62,977</u>	<u>\$63,014</u>	<u>\$229,282</u>	<u>\$305,367</u>	<u>\$7,468,163</u>	<u>\$12,058,426</u>

INCLUDING INVESTMENTS OWNED BY THE COMMON FUNDS AND THE STATE OF NEW JERSEY
(000's Omitted) at June 30, 1997 (UNAUDITED)

Prison Officers Pension Fund		Public Employees' Retirement System		State Police Retirement System		Teachers' Pension and Annuity Fund		Totals	
Amortized Cost	Quoted Market	Amortized Cost	Quoted Market	Amortized Cost	Quoted Market	Amortized Cost	Quoted Market	Amortized Cost	Quoted Market
\$ 6,563	\$ 6,564	\$ 254,404	\$ 254,448	\$ 45,167	\$ 45,175	\$ 723,835	\$ 723,960	\$ 1,458,479	\$ 1,458,731
6,568	6,568	254,589	254,615	45,200	45,205	724,361	724,435	1,459,540	1,459,689
5,406	5,406	209,562	209,562	37,206	37,206	596,250	596,250	1,201,404	1,201,404
<u>18,537</u>	<u>18,538</u>	<u>718,555</u>	<u>718,625</u>	<u>127,573</u>	<u>127,586</u>	<u>2,044,446</u>	<u>2,044,645</u>	<u>4,119,423</u>	<u>4,119,824</u>
2,361	2,363	3,213,106	3,295,595	242,366	248,344	3,890,180	3,986,115	9,098,225	9,324,625
67	66	524,708	534,060	38,264	38,940	613,816	624,660	1,446,846	1,472,462
—	—	131,645	131,647	9,532	9,532	152,911	152,914	361,066	361,072
—	—	76,228	77,215	5,519	5,591	88,543	89,689	209,073	211,781
—	—	98,782	99,666	7,153	7,217	114,740	115,767	270,933	273,358
127	127	161,530	165,845	12,215	12,528	195,943	200,950	457,806	469,633
—	—	697,508	713,428	52,884	54,092	916,487	937,421	2,106,568	2,154,678
—	—	47,029	48,033	3,468	3,540	57,410	58,573	134,055	136,802
<u>2,555</u>	<u>2,556</u>	<u>4,950,536</u>	<u>5,065,489</u>	<u>371,401</u>	<u>379,784</u>	<u>6,030,030</u>	<u>6,166,089</u>	<u>14,084,572</u>	<u>14,404,411</u>
—	—	668,704	672,513	33,795	33,768	868,428	881,139	2,501,282	2,489,576
—	—	5,098,697	9,714,673	325,572	620,321	6,027,450	11,484,249	14,534,483	27,692,909
—	—	18,094	19,238	1,155	1,229	21,390	22,743	51,579	54,842
—	—	1,876,842	2,342,716	142,323	177,650	2,467,112	3,079,504	5,670,218	7,077,692
<u>—</u>	<u>—</u>	<u>6,993,633</u>	<u>12,076,627</u>	<u>469,050</u>	<u>799,200</u>	<u>8,515,952</u>	<u>14,586,496</u>	<u>20,256,280</u>	<u>34,825,443</u>
21,092	21,094	13,331,428	18,533,254	1,001,819	1,340,338	17,458,856	23,678,369	40,961,557	55,839,254
66	64	(2,372,056)	269,008	(153,925)	20,594	(2,799,917)	342,644	(6,713,772)	792,918
<u>\$21,158</u>	<u>\$21,158</u>	<u>\$10,959,372</u>	<u>\$18,802,262</u>	<u>\$847,894</u>	<u>\$1,360,932</u>	<u>\$14,658,939</u>	<u>\$24,021,013</u>	<u>\$34,247,785</u>	<u>\$56,632,172</u>

APPENDIX II

UNAUDITED COMMON PERFORMANCE DISCLOSURE FORM FOR PUBLIC FUNDS

	Avg. Annual Return 5 Years Ended 6/30/97	One Year Period Ended				
		6/30/93	6/30/94	6/30/95	6/30/96	6/30/97
TOTAL RETURN						
Aggregate of All Pension Funds	13.7%	12.5%	-0.7%	19.7%	16.1%	22.1%
Consumer Price Index	2.7%	3.0%	2.5%	3.0%	2.8%	2.3%
STOCK TOTAL RETURNS						
Common Pension Fund A—All Stocks	18.2%	12.3%	-0.7%	26.0%	23.7%	32.7%
Common Pension Fund A—Small Capitalization Stocks	17.1%	21.2%	5.9%	27.1%	18.1%	14.1%
Approved List—Before Divestment	19.5%	13.0%	1.6%	27.0%	26.4%	32.4%
Approved List—South Africa Free	19.8%	14.6%	1.1%	27.0%	26.4%	32.4%
Dow Jones Industrial Average	21.4%	9.2%	6.0%	29.2%	27.1%	38.6%
Standard & Poor's 500 Index	19.8%	13.6%	1.4%	26.1%	26.0%	34.7%
Russell 3000 Index	19.2%	10.9%	0.2%	36.8%	21.8%	30.6%
FIXED INCOME TOTAL RETURNS						
Common Pension Fund B and Other Bonds	7.5%	14.0%	-1.4%	13.6%	4.3%	8.0%
Lehman Brothers Government/Corporate Bond Index	7.2%	13.2%	-1.5%	12.7%	4.7%	7.8%
Salomon Brothers High Grade Bond Index (AA and AAA)	8.5%	16.3%	-3.6%	17.6%	4.4%	9.3%
Salomon Brothers Broad Bond Index	7.2%	12.0%	-1.2%	12.6%	5.0%	8.2%
MORTGAGES—TOTAL RETURNS						
Pension fund holdings	6.9%	9.2%	-1.6%	13.9%	5.5%	9.7%
Salomon Brothers Mortgage Index	6.9%	9.1%	-0.9%	12.1%	5.8%	9.0%
INTERNATIONAL TOTAL RETURNS						
Common Fund D Total—Hedged	10.3%	9.8%	2.7%	9.1%	14.0%	16.2%
Common Fund D Fixed Income	8.4%	9.4%	-0.1%	20.6%	7.2%	2.1%
Common Fund D Stocks	14.0%	15.6%	13.3%	10.1%	10.6%	20.7%
Approved List—International Stocks	13.6%	18.6%	13.7%	6.2%	13.8%	16.1%
Salomon World Gov. Bonds Index—Unhedged	7.6%	10.9%	5.1%	18.8%	0.4%	3.9%
EAFE International Stock Index	12.8%	20.3%	17.0%	1.7%	13.3%	12.8%
CASH EQUIVALENTS						
Total Returns—Cash Management Fund—Compounded	4.9%	3.8%	3.6%	5.5%	5.8%	5.7%
91-Day Treasury Bills	4.3%	3.1%	3.2%	4.9%	5.3%	5.1%

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.

