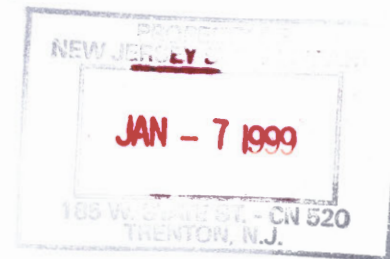


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**STATE INVESTMENT COUNCIL
DEPARTMENT OF THE TREASURY
STATE OF NEW JERSEY**



FORTY-EIGHTH ANNUAL REPORT

For the Fiscal Year Ended June 30, 1998



CHRISTINE TODD WHITMAN
Governor



JAMES A. DILEUTERIO, 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, 1998

November 15, 1998

To The Honorable
Governor;
Legislature;
State Treasurer:

We are pleased to submit this Annual Report of the Division of Investment, Department of the Treasury, for the fiscal year ended June 30, 1998, 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 Division, under the jurisdiction of the State Investment Council, has the investment responsibility for 152 funds, including seven pension and annuity funds. The cost basis of all funds on June 30, 1998, was \$44.5 billion, compared with \$42.0 billion at the end of the prior year, and the fair (or market) value of the funds was \$76.2 billion, compared with \$64.7 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 1998, 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 fair (or market) values of the securities held by the funds and dividend and interest income over the year, was 22.7 percent, which compares with a 22.1 percent return in fiscal 1997. For the past five and ten fiscal years the estimated annual total return earned by the pension funds was 15.6 percent and 14.1 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.

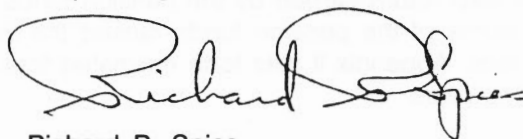
Over the years, members of the public, political figures and lobbyists have raised the question of whether investments under the jurisdiction of the Council should be guided by non-financial considerations. Such investments could be directed regionally or toward specific capital markets or could be averted 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 more favorable interest rates to borrowers.

Over the years, the Council has addressed the major issues which concern fiduciaries, such as the standards for investment, the allocation of invested funds among asset classes and the resources available to the Division of Investment. In fiscal 1998, the Council again addressed the issue of the asset allocation of the pension funds, and decided to retain existing asset allocation guidelines.

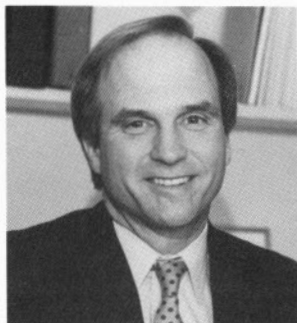
For each of the past forty-eight years, the Council has requested and obtained a review of the records and procedures of the Division by an independent accountant. The accountant's report for the current year is included in this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard R. Spies". The signature is fluid and cursive, with a large, stylized "R" at the beginning.

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



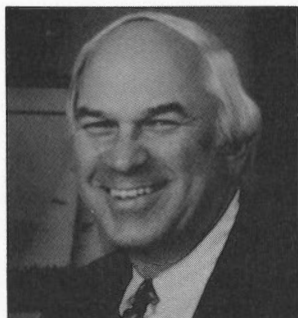
THOMAS C. GONNELLA



ROBERT T. HOFFMAN



CHERYL A. MILLS



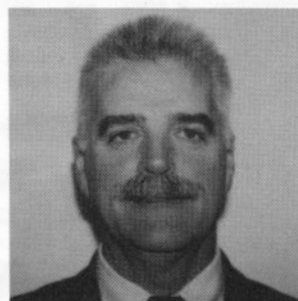
J. PETER SKIRKANICH



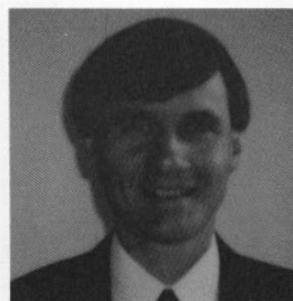
ARTHUR W. WHITE, JR.



HARRY W. BALDWIN
Teachers' Pension and
Annuity Fund



PATRICK B. DOHERTY
Police and Firemen's
Retirement System

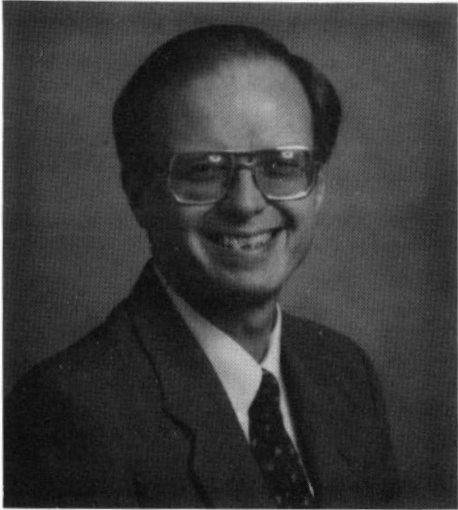


EDWARD BESKO
Public Employees'
Retirement System



BARRY ROBERSON
State Police Retirement
System

Division of Investment



STEVEN E. KORNRUMPF
Director



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



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



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



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



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



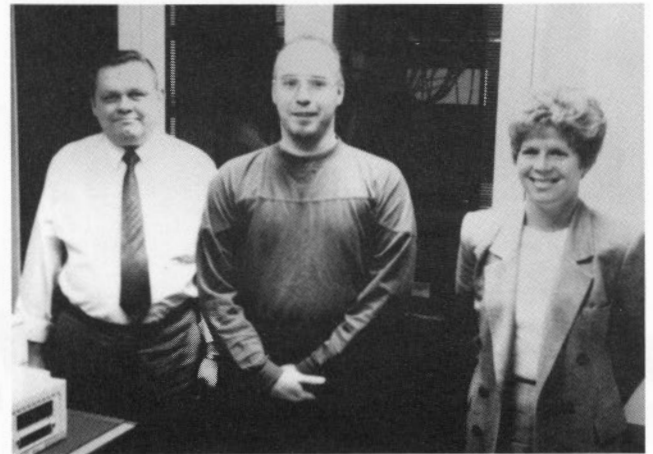
Common Fund Accounting Group: Dan Costanzo, Joe Adubato, Elsie Lawrence, Andrea Szul, Manick Jhingade, John Jusiewicz, Valerie Oscilowski, Jeff Taylor, Carletha Murray, Mary Vassiliou and Madeline Amico.



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



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



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

FIVE YEAR SUMMARY

Fiscal Year Ended June 30,					
	1994	1995	1996	1997	1998
	\$ Millions				
FUNDS UNDER THE SUPERVISION OF THE STATE INVESTMENT COUNCIL:					
Cost Basis at Year End (1):					
Pension Funds	\$ 27,394	\$28,240	\$30,067	\$34,248	\$35,988
All Funds	35,990	35,955	37,810	42,035	44,488
Fair (or Market) Value at Year End:					
Pension Funds	\$ 35,166	\$40,508	\$45,620	\$56,632	\$67,314
All Funds	43,787	48,304	53,505	64,693	76,243
Fair (or Market) Value of Pension Funds at Year End by Category:					
Short-term obligations	\$ 410	\$ 1,420	\$ 1,568	\$ 4,120	\$ 2,309
Long-term bonds	12,836	13,018	13,934	14,404	17,831
Mortgages	2,104	1,947	2,225	2,490	2,571
Stocks	19,351	23,408	27,047	34,825	43,683
Accounting differences	465	715	846	793	920
Total	\$ 35,166	\$40,508	\$45,620	\$56,632	\$67,314
Investment Income (1):					
Pension Funds					
Net Income and Realized Gains (Losses)	\$ 1,522	\$ 2,081	\$ 2,848	\$ 2,610	\$ 3,092
Unrealized Appreciation (Depreciation)	(1,728)	4,494	3,286	6,831	8,941
Total	\$ (206)	\$ 6,575	\$ 6,134	\$ 9,441	\$12,033
All Funds					
Net Income and Realized Gains (Losses)	\$ 1,823	\$ 2,485	\$ 3,249	\$ 3,015	\$ 3,516
Unrealized Appreciation (Depreciation)	(1,770)	4,552	3,347	6,963	9,093
Total	\$ 53	\$ 7,037	\$ 6,596	\$ 9,978	\$12,609
Total Rate of Return (2):					
Common Pension Fund A (3)	(0.7)%	25.9%	23.4%	32.3%	30.8%
Common Pension Fund B (3)	(1.7)	13.6	4.4	8.0	11.8
Common Pension Fund D (3)	2.7	9.1	14.0	16.2	15.6
All Pension Funds, Estimated (3)	(0.7)	19.7	16.1	22.1	22.7
Supplemental Annuity Collective Trust	(0.7)	22.8	23.8	30.2	27.7
Deferred Compensation Plan—Equity	(0.1)	24.1	24.4	34.3	29.3
Deferred Compensation Plan—Fixed Income	0.1	9.6	4.9	6.5	8.8
Deferred Compensation Plan—Small Cap Equity (5)	—	—	—	17.0	24.6
Returns of Various Market Indices:					
Salomon Brothers' Mortgage Index	(0.9)%	12.1%	5.8%	9.0%	8.9%
Lehman Government/Corporate Bond Index	(1.5)	12.7	4.7	7.8	11.3
S&P 500 Index	1.4	26.1	26.0	34.7	30.2
S&P 1500 Index	1.3	25.4	25.2	32.8	29.3
Dow Jones Industrial Average	6.0	29.2	27.1	38.6	18.5
Salomon Brothers' World Gov. Bond Index—Unhedged	5.1	18.8	0.4	3.9	4.3
EAFE International Stock Index	17.0	1.7	13.3	12.4	6.1
State of New Jersey Cash Management Fund:					
Book Value of Units of Participation:					
All Participants	\$ 9,023	\$ 9,944	\$ 9,753	\$12,463	\$11,838
Other-than-State Participants	3,488	2,755	2,942	2,954	3,366
Average Annualized Daily Rate of Return (4):					
State Participants	3.46%	5.27%	5.60%	5.47%	5.56%
Other-than-State Participants	3.30	5.13	5.40	5.29	5.41
Number of Funds Under the Supervision of the State Investment Council	126	134	137	149	152
Total Number of Transactions	44,544	48,208	45,413	43,944	46,663

1. Fiscal year 1998 is presented at original cost while prior years include amortization of premiums and accruals of discounts. This change conforms to Government Accounting Standards Board Statement No. 31 (GASB-31).
2. Total rate of return income and changes in the fair value for securities held by the funds during the period shown.
3. Common Pension Funds A, B and D are the principal vehicles for investment by the pension funds in domestic stocks, domestic bonds, and international securities, respectively. The returns cited are for the whole portfolios and reflect cash equivalents. Returns for stocks and bonds alone are shown in Appendix II.
4. Simple interest.
5. The fiscal 1997 rate of return for the Deferred Compensation Plan Small Capitalization Equity Fund is for the second quarter ending June 30, 1997 only.

The Year's Activities

Summary Financial Information

The 152 investment funds under the supervision of the Council on June 30, 1998, had a cost (or book value) of \$44.5 billion. The investment funds had a fair (market) value of \$76.2 billion at June 30, 1998, an increase of 17.8 percent over the fair value of \$64.7 billion at June 30, 1997. The fair value of the seven pension funds increased from \$56.6 billion at June 30, 1997, to \$67.3 billion at June 30, 1998. The fair value of the pension funds rose in large part due to a continuing strong rally in the domestic stock market.

The total investment income for all funds for fiscal 1998 amounted to \$12.6 billion as compared with \$9.9 billion last year. Income rose due to rising equity prices and higher available fund balances.

During the year, the Division of Investment purchased securities with a par value of \$122.8 billion. Approximately 25.2 percent of this amount, or \$31.0 billion, represented the overnight investment of surplus balances in the State's cash accounts. In fiscal 1997, the Division purchased securities with a par value of \$110.7 billion, of which \$26.8 billion was generated by overnight investments. During fiscal 1998, the Division's net holdings of mortgages increased from \$2.5 billion to \$2.6 billion.

The Division sold securities totaling \$28.2 billion in fiscal 1998, compared with sales of \$31.4 billion in the prior year. Many of the sales were made to meet cash requirements or to take advantage of market opportunities. Such sales resulted in net realized profits of \$2.7 billion during the year, compared with \$3.0 billion for the prior year. Net realized profits as a result of settlements of currency hedges in Common Pension Fund D amounted to \$154.0 million in fiscal 1998, compared with \$106.0 million for the prior year. The transaction information in this paragraph includes transactions effected within the common funds, but are not included in the financial summaries in this report.

Changes in Accounting Practices

As required by the Government Accounting Standards Board Statement No. 31, the change in fair value is recognized and included in the Summary of Investment Income by fund. The total investment income earned for all funds in fiscal year 1998 amounted to \$12.6 billion, comprised of net investment earnings of \$2.1 billion, unrealized appreciation of \$9.1 billion and the net realized gain from investment transactions of \$1.4 billion.

"Regular Interest Rates"

The pension revaluation law which was enacted in June, 1993, sets the "regular interest rate" of the pension funds at 8.75 percent, which reflects expected income and market returns of the funds over time. The law further provides that the "regular interest rate" shall bear a reasonable relationship to the rate of earnings on investments, based on the fair value of assets, but shall not exceed the assumed percentage rate of increase applied to salaries plus 3 percent. At present the average assumed percentage rate of increase applied to salaries is 5.95 percent.

Fixed Income

The pension fund allocation of domestic fixed income securities was increased by a net amount of \$2.8 billion in fiscal 1998 due to attractive corporate yield spreads available in the market.

In fiscal 1998, the Division purchased \$332 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 1998 totaled \$286 million.

In fiscal 1998, the Division sold \$29 million of GNMA mortgages and realized net gains of \$4.1 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. During the year, an FHLMC pool consisting of 100 percent New Jersey mortgages was purchased, with a par value of \$2.0 million.

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 1998, the Fund purchased \$9.6 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 1998, 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 1998, the fund purchased \$1.8 billion of corporate debt securities, compared with \$1.2 billion in the prior year.

The Division maintains a "roll" program for U.S. Treasury and Agency debt securities. A "roll" is de-

financed 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 1998, the Division "rolled" \$14.5 billion of securities at a profit of \$1.0 million, compared with \$11.2 billion of securities at a profit of \$0.4 million in fiscal 1997.

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, 1998, the fair (or market) value of the units of ownership of Common Pension Fund A, Common Pension Fund B and Common Pension Fund D were \$34.0 billion, \$14.2 billion and \$13.2 billion, respectively. The State of New Jersey Cash Management Fund provides a vehicle for the pension funds and other state and municipal funds to make short-term investments.

Total Rate of Return Calculations for Select Portfolios

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

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 rates of return, and their data shows that the total rates of return for Common Pension Funds A, B and D in fiscal 1998 were 30.8 percent, 11.8 percent and 15.6 percent, respectively. The estimated total rates of return for the

active pension fund portfolios were approximately 22.7 percent in fiscal 1998, compared with returns of 22.1 percent in fiscal 1997 and 16.1 percent in fiscal 1996. 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 \$540 million par value of assets of the mortgage loan program with an appraised value of \$525 million at June 30, 1998.

The State of New Jersey Cash Management Fund

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

The total fair value of the units of participation in the Fund decreased from \$12.5 billion at June 30, 1997 to \$11.8 billion at June 30, 1998.

The total income of the Fund was \$604 million in fiscal 1998, and \$497 million in fiscal 1997.

The number of participating State funds increased from 149 to 152 in fiscal 1998. The number of "Other-than-State" participants increased from 995 to 1,022 during the year, and the aggregate investment of "Other-than-State" participants was \$3.4 billion at the end of fiscal 1998, compared with \$3.0 billion at the end of fiscal 1997.

The average daily annualized rate of return to participating State accounts and accounts of the

pension funds was 5.56 percent during fiscal 1998, compared with 5.47 percent in fiscal 1997. The average daily annualized rate of return to "Other-than-State" participants, which is net of two small charges, was 5.41 percent in fiscal 1998, compared with 5.29 percent in fiscal 1997.

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 1998 was 5.64 percent, compared with 5.51 percent in the prior year. The higher rates of return during fiscal 1998 were the result of higher interest rates available in the markets for short-term debt investments.

Changes in Accounting Practices

In March, 1997, the Government Accounting Standards Board issued Statement Number 31, *Account-*

ing and Financial Reporting for Certain Investments and for External Investment Pools. The Division adopted the new standard in its financial statements for the year ended June 30, 1998. As required by GASB Statement No. 31, the value of the investments and investment funds contained in this annual report are stated at fair value. Fair value is defined by the Government Accounting Standards Board as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. For investment purposes, if a quoted market price is available, fair value and market value would be equal. The only basic change in the current reporting of fair value is that the Cash Management Fund units are presented at the fair value of the underlying portfolio. The value of the Cash Management Fund units presented, equates to \$1.000125 versus the historical value of \$1.000000 per unit.

Historical Background

Legislative History

Fiscal 1998 marks forty-eight 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 152 funds in 1998, with a book value of \$44.5 billion and a fair value of \$76.2 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 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 fair value of the active pension funds. At June 30, 1998, the aggregate common stock holdings of the pension funds were 64.9 percent of the total fair value of the funds. Attached hereto as Appendix I is an unaudited summary of

investments by major category for individual pension funds.

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

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

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

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

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

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

Reviews of Major Policy Issues

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

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

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

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

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

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

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

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

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

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

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

f. The company should have conservative accounting practices.

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

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

In fiscal 1990, the Council continued to review the legislative and regulatory definitions of risk and return for the pension funds and studied various asset allocation and portfolio optimization simulations. As a result of these reviews and studies, in July 1990, the

Council approved four new regulations which enabled the Division to invest in international stocks and bonds. In doing so, the Council acknowledged that the world is approaching a global economy, wherein large corporations based abroad have major manufacturing plants and significant numbers of employees in the United States, and, conversely, many corporations based in the United States maintain substantial operations abroad. Finally, the studies showed that international investments in developed countries had historically provided higher returns with lower levels of risk than had investments limited to the United States.

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

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

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

Also, in both fiscal 1993 and 1994, the Council reviewed the asset allocation policies set forth in the Council regulations for the State-administered

pension funds, and decided that such policies continued to be appropriate.

In fiscal 1995, the Council again reviewed the asset allocation policies set forth in the Council Regulations, and acted to increase the permitted allocation of pension fund assets to international securities from 15 percent of the fair value of total pension fund assets to 20 percent. As a consequence of the passage of P.L. 1995, c.48, which modified the State's prudence law, the Council also considered new asset classes, such as real estate and emerging international markets, as potential areas for further diversification of the pension funds. After careful consideration, the Council decided to defer any action on investment in either real estate or emerging markets. However, the Council acted to increase the maximum permitted investment by the active pension funds in stocks from 60 percent to 70 percent of the total fair value of the pension fund portfolios.

In fiscal 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.

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 1998, the transactions of the Division generated total commissions, both actual and implied, of \$30.4 million, including \$9.2 million of 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.

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

Social Investment

There has been a spirited public debate for many years on the subject of "strategic" or "targeted" investment, whereby investments are either directed towards areas which are deemed to be socially desirable or withheld from areas which are deemed to be socially undesirable. The State's prudence law (P.L. 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.

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

Reports of Gubernatorial Commissions

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

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

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

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

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

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

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

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

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

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

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

The Council has responded in full to those recommendations over which the Council has jurisdiction, such as the appropriate asset allocation and breadth of potential investment of the pension funds. However, the Council cannot independently respond to recommendations regarding staffing, compensation and budget support, which are the prerogative of the Legislature. During fiscal 1994, the Council again reviewed these issues and took them up with the appropriate authorities. As a result of these concerns, recent budgets have provided incremental funding for the Division for certain investment programs. Furthermore, in fiscal 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 1998, the Division voted on 1,123 U.S. corporate proxies. On 751 proxies, we voted with management on all issues. On 372 proxies the Division voted against the recommendations of corporate management on a total of 448 individual proposals. Of these proposals, 345 related to executive compensation, 61 related to corporate governance, three related to compliance of the corporation with the MacBride Principles in Northern Ireland, six related to confidential proxy voting, 30 related to the election of directors, one related to tobacco advertising to minors, one related to an environmental issue, and one related to contract supplier standards.

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

INDEX TO INVESTMENT SUMMARIES

Report of Independent Auditors	19
Summary of Amounts Invested by Fund as of June 30, 1998	20
Summary of Investment Income by Fund for the Year Ended June 30, 1998	23
Summary of Investments by Major Category as of June 30, 1998	26
Summary of Investment Activity for the Year Ended June 30, 1998	27
Notes to Investment Summaries—June 30, 1998	28

OTHER FINANCIAL INFORMATION

Appendix I: Unaudited Summary of Investments by Major Category of Individual Pension Funds at June 30, 1998	32
Appendix II: Unaudited Common Performance Disclosure Form for Public Funds	34

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying summary of amounts invested by fund and summary of investments by major category of the Division of Investment, Department of the Treasury, State of New Jersey, including the portfolio of investments as of June 30, 1998, 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. The financial summaries of the Division of Investment for the year ended June 30, 1997 were audited by other auditors whose report, dated August 15, 1997, expressed an unqualified opinion on those summaries.

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 Fund's 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, 1998, and the related investment income and investment activity for the year then ended, in conformity with generally accepted accounting principles.

August 28, 1998

Ernst & Young LLP

SUMMARY OF AMOUNTS INVESTED BY FUND
as of June 30, 1998

	Par, Cost Or Principal Amount— Note 1	Cost— Note 1	Fair Value— Note 1	Fair Value Over (Under) Cost
PENSION AND ANNUITY GROUP				
Consolidated Police and Firemen's Pension Fund	\$ 53,868,458	\$ 53,747,385	\$ 53,973,833	\$ 226,448
Judicial Retirement System of New Jersey	235,457,932	234,575,368	357,104,294	122,528,926
Police and Firemen's Retirement System	7,881,162,065	7,873,084,111	14,489,226,421	6,616,142,310
Prison Officers Pension Fund	20,265,355	20,265,355	20,267,893	2,538
Public Employees' Retirement System	11,714,973,268	11,700,691,016	22,355,452,520	10,654,761,504
State Police Retirement System	881,100,087	879,566,258	1,620,134,060	740,567,802
Teachers' Pension and Annuity Fund	15,245,321,553	15,226,221,631	28,418,156,771	13,191,935,140
		35,988,151,124	67,314,315,792	31,326,164,668
STATIC GROUP				
Trustees for the Support of Public Schools Fund	86,583,965	86,504,700	139,717,154	53,212,454
Waste Water Treatment Fund (Act of 1985)	207,327,648	207,327,648	207,353,616	25,968
Waste Water Treatment Fund (Act of 1992)	3,050,167	3,050,167	3,050,550	383
Waste Water Treatment Trust Fund (Act of 1992)	87	87	87	—
		296,882,602	350,121,407	53,238,805
DEMAND GROUP				
Atlantic City Casino Parking Fund	1,482,763	1,482,763	1,482,948	185
Atlantic City Tourism Promotion Fund	166,133	166,133	166,154	21
Boarding House Rental Assistance Fund	6,945,051	6,945,051	6,945,921	870
Body Armor Replacement Fund	1,183,898	1,183,898	1,184,046	148
Casino Simulcasting Fund	3,395,397	3,395,397	3,395,822	425
Casino Simulcasting Special Fund	3,199,306	3,199,306	3,199,706	400
Catastrophic Illness in Children Relief Fund (Act of 1987)	16,331,679	16,331,679	16,333,724	2,045
Clean Communities Account Fund (Act of 1985)	8,037,576	8,037,576	8,038,582	1,006
Development Fund—Luxury Tax	1,870,781	1,870,781	1,871,015	234
Division of Motor Vehicles Surcharge Fund	4,842,889	4,842,889	4,843,496	607
Emergency Services Fund	1,432,579	1,432,579	1,432,759	180
Enterprise Zone Assistance Fund (Act of 1983)	138,380,444	138,380,444	138,397,776	17,332
Hazardous Discharge Fund (Act of 1986)	4,076,805	4,076,805	4,077,315	510
Health Care Subsidy Fund	49,402,827	49,402,827	49,409,015	6,188
Higher Education Assistance Fund	40,058,918	40,058,918	40,063,935	5,017
Korean Veterans' Memorial Fund	10,310	10,310	10,311	1
Luxury Tax Fund	185,740	185,740	185,763	23
Motor Vehicle Security Responsibility Fund	142,351	142,351	142,368	17
New Jersey Automobile Insurance Guaranty Fund	186,981,070	186,981,070	187,004,489	23,419
New Jersey Insurance Development Fund	39,275,180	39,275,180	39,280,099	4,919
New Jersey Spill Compensation Fund	42,389,466	42,389,466	42,394,776	5,310
Petroleum Overcharge Reimbursement Fund	25,940,285	25,940,285	25,943,534	3,249
Real Estate Guaranty Fund	1,441,201	1,441,201	1,441,381	180
Resource Recovery Investment Tax Fund (Act of 1985)	316,521	316,521	316,561	40
Sanitary Landfill Facility Contingency Fund	29,442,068	29,442,068	29,445,755	3,687
Solid Waste Services Tax Fund (Act of 1985)	5,654,728	5,654,728	5,655,437	709
State Disability Benefits Fund	97,742,138	97,742,138	97,754,380	12,242
State of New Jersey Judiciary—Bail Fund	31,658,410	31,658,410	31,662,375	3,965
State of New Jersey Judiciary—Child Support Fund	22,326,921	22,326,921	22,329,717	2,796
State of New Jersey Judiciary—Probation Fund	5,331,996	5,331,996	5,332,664	668
State of New Jersey Judiciary—Special Civil Fund	3,669,686	3,669,686	3,670,145	459
State of New Jersey Judiciary—Superior Court/Other/Misc. Fund	3,545,202	3,545,202	3,545,646	444
State Recycling Fund	8,664,986	8,664,986	8,666,071	1,085
Tourism Improvement Development District Act Fund	38,983	38,983	38,989	6
Unclaimed Child Support Trust Fund	1,187,307	1,187,307	1,187,456	149
Unclaimed County Deposits Trust Fund	2,540,792	2,540,792	2,541,110	318
Unclaimed Insurance Payments on Deposit	1,985,546	1,985,546	1,985,795	249
Unclaimed Personal Property Trust Fund	41,002,963	41,004,214	41,006,675	2,461
Unemployment Compensation Auxiliary Fund	9,768,865	9,768,865	9,770,089	1,224
Unsatisfied Claim and Judgment Fund	347,754,763	347,754,763	347,798,319	43,556
Volunteer Emergency Service Organizations Loan Fund	823,274	823,274	823,377	103
Worker and Community Right to Know Fund	3,561,222	3,561,222	3,561,668	446
Workers' Compensation Security Fund—Mutual	9,003,824	9,003,824	9,004,954	1,130
Workers' Compensation Security Fund—Stock	74,308,450	74,315,951	74,309,206	(6,745)
Workforce Development Partnership Fund	100,430,472	100,430,472	100,443,050	12,578
		1,377,940,518	1,378,094,374	153,856

SUMMARY OF AMOUNTS INVESTED BY FUND (CONTINUED)
as of June 30, 1998

	Par, Cost Or Principal Amount— Note 1	Cost— Note 1	Fair Value— Note 1	Fair Value Over (Under) Cost
TEMPORARY RESERVE GROUP				
Alcohol Education Rehabilitation and Enforcement Fund	\$ 5,757,115	\$ 5,757,115	\$ 5,757,836	\$ 721
Beaches and Harbors Fund (Act of 1977)	1,169,865	1,169,865	1,170,012	147
Capital City Redevelopment Loan and Grant Fund	2,714,390	2,714,390	2,714,729	339
Central Pension Fund	29,445	29,445	29,448	3
Clean Waters Fund (Act of 1976)	2,660,579	2,660,579	2,660,912	333
Community Development Bond Fund (Act of 1981)	16,772	16,772	16,774	2
Contributory Insurance Fund—PERS	87,572,305	86,439,493	87,793,058	1,353,565
Contributory Insurance Fund—TPAF	63,824,355	63,158,730	64,002,512	843,782
Correctional Facilities Construction Fund (Act of 1982)	881,993	881,993	882,103	110
Correctional Facilities Construction Fund (Act of 1987)	22,798,394	22,798,394	22,801,249	2,855
Development Disabilities Waiting List Reduction and Human Services Facilities Construction Bonds (Act of 1994)	5,488,395	5,488,395	5,489,082	687
Emergency Flood Control Fund (Act of 1978)	602,354	602,354	602,429	75
Emergency Medical Technician Training Fund	7,255,169	7,255,169	7,256,077	908
Energy Conservation Fund (Act of 1980)	2,802,243	2,802,243	2,802,594	351
Farmland Preservation Fund (Act of 1981)	338,470	338,470	338,512	42
Farmland Preservation Fund (Act of 1989)	1,971,115	1,971,115	1,971,362	247
Farmland Preservation Fund (Act of 1992)	2,996,032	2,996,032	2,996,407	375
Farmland Preservation Fund (Act of 1995)	11,845,295	11,845,295	11,846,779	1,484
General Investment Fund	1,700,219,459	1,700,219,459	1,700,432,410	212,951
Green Acres Cultural Centers and Historic Preservation Bond Fund (Act of 1987)	5,069,259	5,069,259	5,069,894	635
Green Trust Fund (Act of 1983)	11,540,370	11,540,370	11,541,815	1,445
Hazardous Discharge Fund (Act of 1981)	5,204,500	5,204,500	5,205,152	652
Hazardous Discharge Site Cleanup Fund (Act of 1985)	36,921,149	36,921,149	36,925,773	4,624
Higher Education Facility Renovation and Rehabilitation Fund	706,048	706,048	706,136	88
Historic Preservation Fund (Act of 1992)	1,857,064	1,857,064	1,857,296	232
Historic Preservation Revolving Loan Fund	3,106,509	3,106,509	3,106,898	389
Horse Racing Injury Compensation Fund	893,284	893,284	893,395	111
Housing Assistance Fund (Act of 1968)	56,967	56,967	56,974	7
Human Services Facilities Construction Fund (Act of 1984)	2,023,893	2,023,893	2,024,146	253
Institutional Construction Fund (Act of 1978)	7,019	7,019	7,020	1
Institutions Construction Fund (Act of 1976)	9,311	9,311	9,313	2
Jobs, Education, and Competitiveness Fund (Act of 1988)	3,495,928	3,495,928	3,496,366	438
Jobs, Science, and Technology Fund (Act of 1984)	218,012	218,012	218,040	27
Medical Education Facilities Fund (Act of 1977)	542,234	542,234	542,301	68
Mortgage Assistance Fund (Act of 1976)	1,818,278	1,818,278	1,818,506	228
Natural Resources Fund (Act of 1980)	5,821,686	5,821,686	5,822,415	729
New Home Warranty Security Fund	38,975,373	38,622,248	38,975,376	353,128
New Jersey Bridge Rehabilitation and Improvement and Railroad Right-of-Way Preservation Fund	4,360,967	4,360,967	4,361,513	546
New Jersey Bridge Rehabilitation Fund (Act of 1983)	2,893,631	2,893,631	2,893,993	362
New Jersey Dam Restoration & Clean Water Fund (Act of 1992)	2,447,383	2,447,383	2,447,690	307
New Jersey Green Acres Fund (Act of 1983)	21,685,724	21,685,724	21,688,440	2,716
New Jersey Green Acres Fund (Act of 1989)	4,477,776	4,477,776	4,478,336	560
New Jersey Green Acres Fund (Act of 1992)	6,870,000	6,870,000	6,870,861	861
New Jersey Green Acres Fund (Act of 1995)	7,192,622	7,192,622	7,193,523	901
New Jersey Green Trust Fund (Act of 1989)	3,984,400	3,984,400	3,984,899	499
New Jersey Green Trust Fund (Act of 1992)	1,582,945	1,582,945	1,583,143	198
New Jersey Green Trust Fund (Act of 1995)	3,865,451	3,865,451	3,865,935	484
New Jersey Medical Malpractice Reinsurance-Recovery Fund	25,899,948	25,899,948	25,903,192	3,244
New Jersey State Dental Program	7,816,830	7,816,830	7,817,809	979
Pension Adjustment Fund	2,845,748	2,845,748	2,846,105	357
Pension Payroll Investment Fund	1,481,845	1,481,845	1,482,031	186
Pinelands Infrastructure Trust Fund (Act of 1985)	2,885,113	2,885,113	2,885,475	362
Pollution Prevention Fund	3,928,134	3,928,134	3,928,626	492
Prescription Drug Program Fund	5,870,312	5,870,312	5,871,047	735
Public Buildings Construction Fund (Act of 1968)	3,504	3,504	3,504	—
Public Purpose Buildings and Community-Based Facilities Construction Fund	3,632,591	3,632,591	3,633,046	455
Public Purpose Buildings and Construction Fund (Act of 1980)	1,312,006	1,312,006	1,312,170	164
Resource Recovery & Solid Waste Disposal Facilities Fund (Act of 1985)	19,914,403	19,914,403	19,916,897	2,494
Safe Drinking Water Fund	6,005,694	6,005,694	6,006,446	752
Shore Protection Fund (Act of 1983)	10,743,625	10,743,625	10,744,970	1,345

SUMMARY OF AMOUNTS INVESTED BY FUND—(CONCLUDED)
as of June 30, 1998

	Par, Cost Or Principal Amount— Note 1	Cost— Note 1	Fair Value— Note 1	Fair Value Over (Under) Cost
TEMPORARY RESERVE GROUP—(continued)				
State Facilities for Handicapped Fund (Act of 1973)	\$ 224,695	\$ 224,695	\$ 224,723	\$ 28
State Health Benefits Fund	312,255,541	311,861,401	312,356,146	494,745
State Land Acquisition and Development Fund (Act of 1978)	211,016	211,016	211,044	28
State Lottery Fund—Investment	89,332,644	89,332,644	89,343,834	11,190
State of New Jersey 1989 Development Potential Transfer Bank Fund	2,980,861	2,980,861	2,981,235	374
State of New Jersey Cash Management Fund— Administrative Expense Fund	1,780,879	1,780,879	1,781,103	224
State of New Jersey Cash Management Fund— Other than State Funds	3,365,965,956	3,365,965,956	3,366,387,539	421,583
State of New Jersey Cash Management Fund— Reserve Fund	57,822,688	57,822,688	57,829,930	7,242
State of New Jersey—Alternate Benefits Program	12,772,390	12,772,390	12,773,990	1,600
State Recreation and Conservation Land Acquisition and Development Fund (Act of 1974)	2,291,006	2,291,006	2,291,293	287
State Recreation and Conservation Land Acquisition Fund (Act of 1971)	241	241	241	—
Stormwater Management and Combined Sewer Overflow Abatement Fund	12,664,880	12,664,880	12,666,468	1,588
Transportation Rehabilitation and Improvement Fund (Act of 1979)	293,316	293,316	293,354	38
University of Medicine and Dentistry of New Jersey— Self Insurance Reserve Fund	97,146,646	96,437,003	97,773,586	1,336,583
Water Conservation Fund (Act of 1969)	3,716,713	3,716,713	3,717,179	466
Water Supply Fund (Act of 1981)	75,139,176	75,139,176	75,148,588	9,412
Water Supply Replacement Trust Fund	5,252,147	5,252,147	5,252,805	658
		<u>6,227,506,731</u>	<u>6,232,593,810</u>	<u>5,087,079</u>
TRUST GROUP				
New Jersey State Employees' Deferred Compensation— Administrative Charges	727,701	727,701	727,793	92
New Jersey State Employees' Deferred Compensation— Cash Management Fund	102,989,596	102,989,596	103,002,495	12,899
New Jersey State Employees' Deferred Compensation— Equity Fund	254,346,367	254,346,366	496,893,896	242,547,530
New Jersey State Employees' Deferred Compensation— Fixed Income Fund	108,730,948	109,236,178	111,368,930	2,132,752
New Jersey State Employees' Deferred Compensation— Holding Account	6,677,271	6,677,271	6,678,108	837
New Jersey State Employees' Deferred Compensation— Small Cap Equity Fund	35,252,729	35,252,729	42,084,408	6,831,679
Insurance Annuity Trust Fund	41,505	41,505	41,510	5
Supplemental Annuity Collective Trust Fund	88,121,820	88,121,823	206,918,891	118,797,068
Tischler Memorial Fund	607,132	604,768	614,087	9,319
		<u>597,997,937</u>	<u>968,330,118</u>	<u>370,332,181</u>
TOTAL AMOUNTS INVESTED BY FUND		<u><u>\$44,488,478,912</u></u>	<u><u>\$76,243,455,501</u></u>	<u><u>\$31,754,976,589</u></u>

See accompanying notes.

SUMMARY OF INVESTMENT INCOME BY FUND
for the Year Ended June 30, 1998

	Net Investment Earnings— Note 1	Unrealized Appreciation/ (Depreciation)	Net Gain (Loss) from Investment Transactions	Total Investment Income
PENSION AND ANNUITY GROUP				
Consolidated Police and Firemen's Pension Fund	\$ 2,954,060	\$ 196,905	\$ 3,887	\$ 3,154,852
Judicial Retirement System of New Jersey	9,975,388	46,435,018	19,993	56,430,399
Police and Firemen's Retirement System	361,869,582	2,025,653,772	148,027,636	2,535,550,990
Prison Officers Pension Fund	1,149,312	2,538	—	1,151,850
Public Employees' Retirement System	553,792,290	2,811,200,346	731,338,511	4,096,331,147
State Police Retirement System	41,772,475	227,530,656	13,424,126	282,727,257
Teachers' Pension and Annuity Fund	709,659,389	3,829,536,098	518,029,146	5,057,224,633
	<u>1,681,172,496</u>	<u>8,940,555,333</u>	<u>1,410,843,299</u>	<u>12,032,571,128</u>
STATIC GROUP				
Trustees for the Support of Public Schools Fund	5,294,496	17,345,278	613,449	23,253,223
Waste Water Treatment Fund (Act of 1985)	6,619,337	25,968	—	6,645,305
Waste Water Treatment Fund (Act of 1992)	225,961	383	—	226,344
Waste Water Treatment Trust Fund (Act of 1985)	32,104	—	—	32,104
Waste Water Treatment Trust Fund (Act of 1992)	<u>3,007</u>	<u>—</u>	<u>—</u>	<u>3,007</u>
	<u>12,174,905</u>	<u>17,371,629</u>	<u>613,449</u>	<u>30,159,983</u>
DEMAND GROUP				
Atlantic City Casino Parking Fund	38,165	185	—	38,350
Atlantic City Tourism Promotion Fund	15,351	21	—	15,372
Boarding House Rental Assistance Fund	388,018	870	—	388,888
Body Armor Replacement Fund	8,898	148	—	9,046
Casino Simulcasting Fund	165,706	425	—	166,131
Casino Simulcasting Special Fund	311,455	400	—	311,855
Catastrophic Illness in Children Relief Fund (Act of 1987)	893,626	2,045	—	895,671
Clean Communities Account Fund (Act of 1985)	470,960	1,006	—	471,966
Development Fund—Luxury Tax	101,632	234	—	101,866
Division of Motor Vehicles Surcharge Fund	462,906	607	—	463,513
Emergency Services Fund	138,550	180	—	138,730
Enterprise Zone Assistance Fund (Act of 1983)	7,158,677	17,332	—	7,176,009
Hazardous Discharge Fund (Act of 1986)	323,978	510	—	324,488
Health Care Subsidy Fund	2,928,088	6,188	—	2,934,276
Higher Education Assistance Fund	2,112,350	5,017	—	2,117,367
Korean Veterans' Memorial Fund	310	1	—	311
Luxury Tax Fund	19,483	23	—	19,506
Motor Vehicle Security Responsibility Fund	7,794	17	—	7,811
New Jersey Automobile Insurance Guaranty Fund	12,448,281	23,419	—	12,471,700
New Jersey Insurance Development Fund	2,123,357	4,919	—	2,128,276
New Jersey Spill Compensation Fund	1,734,987	5,310	—	1,740,297
Petroleum Overcharge Reimbursement Fund	1,472,388	3,249	—	1,475,637
Real Estate Guaranty Fund	78,918	180	—	79,098
Resource Recovery Investment Tax Fund (Act of 1985)	23,386	40	—	23,426
Safe Neighborhoods' Services Fund	153,493	—	—	153,493
Sanitary Landfill Facility Contingency Fund	1,582,585	419,671	—	2,002,256
Solid Waste Services Tax Fund (Act of 1985)	430,347	709	—	431,056
State Disability Benefits Fund	3,838,489	12,242	—	3,850,731
State of New Jersey Judiciary—Bail Fund	1,795,410	3,965	—	1,799,375
State of New Jersey Judiciary—Child Support Fund	1,359,921	2,796	—	1,362,717
State of New Jersey Judiciary—Probation Fund	270,996	668	—	271,664
State of New Jersey Judiciary—Special Civil Fund	173,686	459	—	174,145
State of New Jersey Judiciary—Superior Court/ Other/Misc. Fund	238,202	444	—	238,646
State Recycling Fund	501,091	1,085	—	502,176
Tourism Improvement Development District Act Fund	5,661	6	—	5,667
Unclaimed Child Support Trust Fund	64,189	149	—	64,338
Unclaimed County Deposits Trust Fund	138,523	318	—	138,841
Unclaimed Insurance Payments on Deposit	110,546	249	—	110,795
Unclaimed Personal Property Trust Fund	2,100,459	8,718	—	2,109,177
Unemployment Compensation Auxiliary Fund	529,948	1,224	—	531,172
Unsatisfied Claim and Judgment Fund	15,695,234	43,556	—	15,738,790
Volunteer Emergency Service Organizations Loan Fund	44,508	103	—	44,611
Worker and Community Right to Know Fund	141,411	446	—	141,857
Workers' Compensation Security Fund—Mutual	504,832	1,130	—	505,962
Workers' Compensation Security Fund—Stock	3,892,863	85,355	—	3,978,218
Workforce Development Partnership Fund	<u>5,287,480</u>	<u>12,577</u>	<u>—</u>	<u>5,300,057</u>
	<u>72,287,138</u>	<u>668,196</u>	<u>—</u>	<u>72,955,334</u>

SUMMARY OF INVESTMENT INCOME BY FUND—(CONTINUED)
for the Year Ended June 30, 1998

	Net Investment Earnings— Note 1	Unrealized Appreciation/ (Depreciation)	Net Gain (Loss) from Investment Transactions	Total Investment Income
TEMPORARY RESERVE GROUP				
Alcohol Education Rehabilitation and Enforcement Fund	\$ 300,943	\$ 721	\$ —	\$ 301,664
Beaches and Harbors Fund (Act of 1977)	65,100	147	—	65,247
Capital City Redevelopment Loan and Grant Fund	153,867	339	—	154,206
Central Pension Fund	7,082	3	—	7,085
Clean Waters Fund (Act of 1976)	104,719	333	—	105,052
Community Development Bond Fund (Act of 1981)	144,839	2	—	144,841
Contributory Insurance Fund—PERS	4,955,044	274,262	—	5,229,306
Contributory Insurance Fund—TPAF	3,472,009	68,666	—	3,540,675
Correctional Facilities Construction Fund (Act of 1982)	57,016	110	—	57,126
Correctional Facilities Construction Fund (Act of 1987)	780,480	2,855	—	783,335
Development Disabilities Waiting List Reduction and Human Services Facilities Construction Bonds (Act of 1994)	302,125	687	—	302,812
Emergency Flood Control Fund (Act of 1978)	38,272	75	—	38,347
Emergency Medical Technician Training Fund	351,666	908	—	352,574
Energy Conservation Fund (Act of 1980)	89,909	351	—	90,260
Farmland Preservation Fund (Act of 1981)	19,589	42	—	19,631
Farmland Preservation Fund (Act of 1989)	135,487	247	—	135,734
Farmland Preservation Fund (Act of 1992)	341,726	375	—	342,101
Farmland Preservation Fund (Act of 1995)	212,474	1,484	—	213,958
General Investment Fund	41,529,744	212,951	—	41,742,695
Green Acres Cultural Centers and Historic Preservation Bond Fund (Act of 1987)	507,927	635	—	508,562
Green Trust Fund (Act of 1983)	270,589	1,445	—	272,034
Hazardous Discharge Fund (Act of 1981)	297,416	652	—	298,068
Hazardous Discharge Site Cleanup Fund (Act of 1985)	1,984,613	4,624	—	1,989,237
Higher Education Facility Renovation and Rehabilitation Fund	27,539	88	—	27,627
Historic Preservation Fund (Act of 1992)	126,149	232	—	126,381
Historic Preservation Revolving Loan Fund	136,509	389	—	136,898
Horse Racing Injury Compensation	16,293	111	—	16,404
Housing Assistance Fund (Act of 1968)	16,730	7	—	16,737
Human Services Facilities Construction Fund (Act of 1984)	124,716	253	—	124,969
Institutional Construction Fund (Act of 1978)	384	1	—	385
Institutions Construction Fund (Act of 1976)	509	2	—	511
Jobs, Education and Competitiveness Fund (Act of 1988)	124,117	438	—	124,555
Jobs, Science and Technology Fund (Act of 1984)	26,011	28	—	26,039
Medical Education Facilities Fund (Act of 1977)	29,690	67	—	29,757
Mortgage Assistance Fund (Act of 1976)	111,925	228	—	112,153
Natural Resources Fund (Act of 1980)	348,317	729	—	349,046
New Home Warranty Security Fund	2,241,754	(42,826)	—	2,198,928
New Jersey Bridge Rehabilitation and Improvement and Railroad Right-of-Way Preservation Fund	194,235	546	—	194,781
New Jersey Bridge Rehabilitation Fund (Act of 1983)	550,797	362	—	551,159
New Jersey Dam Restoration & Clean Water Fund (Act of 1992)	168,478	307	—	168,785
New Jersey Green Acres Fund (Act of 1983)	452,654	2,716	—	455,370
New Jersey Green Acres Fund (Act of 1989)	240,231	560	—	240,791
New Jersey Green Acres Fund (Act of 1992)	303,782	861	—	304,643
New Jersey Green Acres Fund (Act of 1995)	476,323	901	—	477,224
New Jersey Green Trust Fund (Act of 1989)	178,339	499	—	178,838
New Jersey Green Trust Fund (Act of 1992)	241,595	198	—	241,793
New Jersey Green Trust Fund (Act of 1995)	227,970	484	—	228,454
New Jersey Local Development Financing Fund	177,921	—	—	177,921
New Jersey Medical Malpractice Reinsurance-Recovery Fund	1,370,080	3,244	—	1,373,324
New Jersey State Dental Program	529,363	979	—	530,342
Pension Adjustment Fund	653,143	357	—	653,500
Pension Payroll Investment Fund	1,028,291	186	—	1,028,477
Pinelands Infrastructure Trust Fund (Act of 1985)	141,863	362	—	142,225
Pollution Prevention Fund	174,399	492	—	174,891
Prescription Drug Program Fund	364,824	735	—	365,559
Public Buildings Construction Fund (Act of 1968)	191	—	—	191
Public Purpose Buildings and Community-Based Facilities Construction Fund (Act of 1989)	149,329	455	—	149,784
Public Purpose Buildings and Construction Fund (Act of 1980)	93,365	164	—	93,529
Resource Recovery & Solid Waste Disposal Facilities Fund (Act of 1985)	1,073,629	2,494	—	1,076,123
Safe Drinking Water Fund	287,417	752	—	288,169

SUMMARY OF INVESTMENT INCOME BY FUND—(CONCLUDED)
for the Year Ended June 30, 1998

	Net Investment Earnings— Note 1	Unrealized Appreciation/ (Depreciation)	Net Gain (Loss) from Investment Transactions	Total Investment Income
TEMPORARY RESERVE GROUP—(continued)				
Shore Protection Fund (Act of 1983)	\$ 476,010	\$ 1,345	\$ —	\$ 477,355
State Facilities for Handicapped Fund (Act of 1973)	13,413	28	—	13,441
State Health Benefits Fund	22,473,368	(169,521)	—	22,303,847
State Land Acquisition and Development Fund (Act of 1978)	58,936	28	—	58,964
State Lottery Fund—Investment	4,072,748	11,190	—	4,083,938
State of New Jersey Cash Management Fund— Administrative Expense Fund	74,168	224	—	74,392
State of New Jersey Cash Management Fund— Other than State Funds	187,173,038	421,582	—	187,594,620
State of New Jersey Cash Management Fund— Reserve Fund	3,045,969	7,241	—	3,053,210
State of New Jersey Development Potential Transfer Bank Fund	128,317	373	—	128,690
State of New Jersey—Alternate Benefits Program	563,919	1,600	—	565,519
State Recreation and Conservation Land Acquisition and Development Fund (Act of 1974)	128,992	286	—	129,278
State Recreation and Conservation Land Acquisition Fund (Act of 1971)	1,163	—	—	1,163
Stormwater Management and Combined Sewer Overflow Abatement Fund	511,468	1,588	—	513,056
Transportation Rehabilitation and Improvement Fund (Act of 1979)	16,413	38	—	16,451
University of Medicine and Dentistry of New Jersey—Self Insurance Reserve Fund	5,576,322	1,775,016	—	7,351,338
Water Conservation Fund (Act of 1969)	195,380	466	—	195,846
Water Supply Fund (Act of 1981)	1,716,366	9,412	—	1,725,778
Water Supply Replacement Trust Fund	288,306	665	—	288,971
	<u>295,045,794</u>	<u>2,610,876</u>	<u>—</u>	<u>297,656,670</u>
TRUST GROUP				
New Jersey State Employees' Deferred Compensation— Administrative Charges	27,688	92	—	27,780
New Jersey State Employees' Deferred Compensation— Cash Management Fund	5,771,596	12,899	—	5,784,495
New Jersey State Employees' Deferred Compensation— Equity Fund	5,939,160	92,936,039	9,604,635	108,479,834
New Jersey State Employees' Deferred Compensation— Fixed Income Fund	6,414,459	2,397,331	(16,791)	8,794,999
New Jersey State Employees' Deferred Compensation— Holding Account	472,589	837	—	473,426
New Jersey State Employees' Deferred Compensation— Small Cap Equity Fund	260,641	5,095,979	325,153	5,681,773
Insurance Annuity Trust Fund	1,758	5	—	1,763
Supplemental Annuity Collective Trust Fund	3,250,764	31,550,107	11,582,686	46,383,557
Tischler Memorial Fund	33,509	156	—	33,665
	<u>22,172,164</u>	<u>131,993,445</u>	<u>21,495,683</u>	<u>175,661,292</u>
TOTAL INVESTMENT INCOME	<u>\$2,082,852,497</u>	<u>\$9,093,199,479</u>	<u>\$1,432,952,431</u>	<u>\$12,609,004,407</u>

See accompanying notes.

SUMMARY OF INVESTMENTS BY MAJOR CATEGORY
as of June 30, 1998

	Par, Cost or Principal Amount— Note 1	Cost— Note 1	Fair Value— Note 1	Fair Value Over (Under) Cost
U.S. Government and Other Government				
Bonds and Obligations	\$ 384,735,000	\$ 382,019,175	\$ 389,704,218	\$ 7,685,043
Industrial Bonds and Commercial Paper	13,000,000	12,892,940	13,000,636	107,696
Gas and Electric Bonds	1,500,000	1,542,660	1,552,920	10,260
Telephone Bonds	1,000,000	882,570	1,014,330	131,760
Finance Companies Senior Debt	3,500,000	3,515,600	3,621,498	105,898
Mortgage-Backed Certificates	2,024,529,073	1,980,590,540	2,046,662,189	66,071,649
Police and Firemen's Mortgage Program	540,172,453	540,172,453	524,758,021	(15,414,432)
Preferred Stocks	79,759	79,759	135,000	55,241
Common Stocks	378,804,027	378,804,027	798,648,856	419,844,829
Units—Common Pension Fund A	8,466,518,630	8,466,518,631	34,005,894,228	25,539,375,597
Units—Common Pension Fund B	13,026,728,338	13,026,728,338	14,231,726,215	1,204,997,877
Units—Common Pension Fund D	8,680,222,208	8,680,222,209	13,210,847,824	4,530,625,615
Units—Cash Management Fund	11,014,510,010	11,014,510,010	11,015,889,566	1,379,556
TOTAL INVESTMENTS BY MAJOR CATEGORY		<u>\$44,488,478,912</u>	<u>\$76,243,455,501</u>	<u>\$31,754,976,589</u>

See accompanying notes.

SUMMARY OF INVESTMENT ACTIVITY

for the Year Ended June 30, 1998

Purchases at cost, excluding common funds:		
Bonds	\$ 78,315,367	
Mortgages	356,331,112	
Stocks	<u>89,612,275</u>	\$ 524,258,754
Purchases of units of common funds, at cost		35,859,177,037
Unrealized appreciation		9,093,199,479
Sales		(103,964,297)
Mortgage principal repayments		(235,405,970)
Redemptions		(60,141,410)
Maturities		(101,067,336)
Redemptions of units of common funds		(34,858,769,532)
Realized gains distributed to funds		<u>1,432,952,431</u>
NET INCREASE IN INVESTMENTS		11,550,239,156
Total amounts invested by funds		
Beginning of year—Note 2		<u>64,693,216,345</u>
Total amounts invested by funds—		
END OF YEAR		<u>\$76,243,455,501</u>

See accompanying notes.

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 fair value.

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

The Police and Firemen's Retirement System (the "Fund") includes a mortgage loan program established by law in 1992. The program provides that participants of the Fund may receive mortgages from the Fund at rates which are fixed by formula. The law further provides that the Fund may not sell the mortgages, and therefore no independent market exists for them. As of June 30, 1998 the mortgage loan program had a cost of \$540,172,453 and an appraised value of \$524,758,021, determined using market prices obtained from an independent broker.

Investment Transactions

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

Investment Income

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

Administrative Expenses

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

Other

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

NOTE 2—INVESTMENT ACTIVITY

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

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

N.J.S.A. 52:18A-8.1 requires the Division to utilize only custodian banks with a principal office located in the State of New Jersey to safeguard the securities held. At June 30, 1998 the Division was not in compliance with this requirement. Legislation is pending that will amend this law with respect to banks which can be selected as custodians of the funds.

Government Accounting Standards Board ("GASB") Statement No. 3 requires disclosure of the level of investment risk assumed by the Funds at June 30, 1998. 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, 1998, 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 \$2,915,659,635 in fiscal year 1998, are not reflected in the Summary of Investment Income by Fund. Realized losses arising from foreign currency related transactions by Common Pension Fund D of \$50,391,044 in fiscal year 1998 are not reflected in the Summary of Investment Income by Fund. Undistributed investment income of \$1,548,746,190 as of June 30, 1998, 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.

Investment technology software packages, which have been certified as Year 2000 compliant by the software vendors. The total cost to update these software packages was not significant to the Division's operations.

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, 1998, including investments owned by the Common Pension Funds and the State of New Jersey Cash Management Fund, the "Unit Funds." In the Total Amounts Invested by Funds shown in the investment summaries, the Common Pension Funds and the State of New Jersey Cash Management Fund are shown at their unit value.

	Par, Cost Or Principal Amount	Cost	Fair Value	Fair Value Over (Under) Cost
Industrial bonds and commercial paper	\$ 6,575,635,144	\$ 6,564,116,475	\$ 6,707,925,830	\$ 143,809,355
Time certificates of deposit	1,181,000,000	1,181,000,000	1,181,000,000	—
U.S. Government and other government bonds and obligations	16,326,197,000	16,477,154,482	17,076,941,986	599,787,504
Foreign government bonds and notes	2,820,024,162	2,848,917,010	2,827,926,190	(20,990,820)
Foreign stocks	7,576,121,116	7,576,121,114	10,149,256,341	2,573,135,227
Telephone bonds	281,075,000	274,965,655	291,294,697	16,329,042
Gas and electric bonds	405,215,000	397,551,052	412,138,577	14,587,525
Common stocks	15,270,422,577	15,270,422,574	34,252,190,852	18,981,768,278
Preferred stocks	39,182,506	39,182,506	80,184,491	41,001,985
Mortgage-backed certificates	2,024,529,073	1,980,590,540	2,046,662,189	66,071,649
Police and Firemen's mortgage program	540,172,453	540,172,453	524,758,021	(15,414,432)
Merchant marine bonds	8,472,000	8,472,000	9,061,987	589,987
Finance companies senior debt	482,965,000	486,027,243	498,609,230	12,581,987
International bank bonds and notes	55,000,000	53,795,313	56,707,900	2,912,587
Total investments		53,698,488,417	76,114,658,291	22,416,169,874
Differences in accounting by unit funds:				
Other assets		2,251,779,654	2,247,898,474	(3,881,180)
Other liabilities		(2,170,649,212)	(2,118,998,124)	51,651,088
Undistributed realized gains and other income		(9,291,139,947)	(103,140)	9,291,036,807
Total amounts invested by funds		<u>\$44,488,478,912</u>	<u>\$76,243,455,501</u>	<u>\$31,754,976,589</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" of the units of participation at the total purchase price of the units by the participating funds. The total investments shown above reflects the "Par, Cost, or Principal Amount" of the investments held by the Unit Funds.
- II. Fair value as shown for total amounts invested by fund represents the net asset value of the Common Pension Funds and the State of New Jersey Cash Management Fund as of June 30, 1998. The market value included in the total investments shown above reflects the fair value of the investments held by the Unit Funds.
- III. Total investments shown above 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, 1998, 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	Unrealized Gain (Loss)
Purchases:					
ESP	6,000,000,000	\$ 39,192,600	\$ 39,267,016	07/01/98	\$ (74,416)
JPY	5,500,000,000	39,997,100	42,114,291	08/31/98	(2,117,191)
JPY	5,000,000,000	36,781,500	37,874,484	11/16/98	(1,092,984)
JPY	2,000,000,000	14,793,600	14,839,658	12/22/98	(46,058)
Subtotal					<u>(3,330,649)</u>
Sales:					
AUD	25,000,000	15,892,500	15,548,118	05/26/99	344,382
AUD	45,000,000	27,810,000	27,991,345	06/09/99	(181,345)
CHF	30,000,000	20,873,922	19,834,014	07/27/98	1,039,908
CHF	50,000,000	34,776,561	33,112,665	08/13/98	1,663,896
CHF	35,000,000	24,332,592	23,224,646	09/02/98	1,107,946
CHF	30,000,000	20,442,930	19,950,186	09/24/98	492,744
DEM	40,000,000	22,439,763	22,198,588	07/27/98	241,175
DEM	100,000,000	55,962,841	55,623,660	09/04/98	339,181
DEM	120,000,000	67,620,872	66,951,168	10/27/98	669,704
DKK	290,000,000	42,072,277	42,262,135	08/19/98	(189,858)
DKK	325,000,000	47,045,540	47,407,132	09/09/98	(361,592)
ESP	6,000,000,000	41,237,113	39,192,600	07/01/98	2,044,513
ESP	4,000,000,000	26,904,322	26,249,200	10/28/98	655,122
ESP	7,000,000,000	47,119,009	46,405,800	06/02/98	713,209
ESP	6,000,000,000	39,860,488	39,483,000	06/25/99	377,488
FRF	360,000,000	60,723,111	59,618,988	07/20/98	1,104,123
FRF	400,000,000	66,727,834	66,422,880	09/04/98	304,954
FRF	150,000,000	24,817,385	24,928,680	09/18/98	(111,295)
FRF	150,000,000	25,329,281	24,998,535	11/06/98	330,746
GBP	65,000,000	104,110,500	108,245,533	08/03/98	(4,135,033)
GBP	55,000,000	88,518,100	91,146,424	10/27/98	(2,628,324)
GBP	15,000,000	25,069,500	24,827,586	11/17/98	241,914
GBP	15,000,000	24,954,750	24,826,134	11/18/98	128,616
ITL	23,000,000,000	12,807,591	13,064,000	04/08/99	(256,409)
ITL	32,000,000,000	18,166,336	18,185,600	04/22/99	(19,264)
JPY	5,500,000,000	48,737,262	39,997,100	08/31/98	8,740,162
JPY	8,000,000,000	70,921,986	58,312,800	09/16/98	12,609,186
JPY	2,000,000,000	15,326,845	14,426,200	07/07/98	900,645
JPY	4,000,000,000	30,752,672	28,857,200	07/08/98	1,895,472
JPY	6,000,000,000	46,403,353	43,292,400	07/09/98	3,110,953
JPY	2,000,000,000	15,588,465	14,430,800	07/09/98	1,157,665
JPY	2,000,000,000	15,484,670	14,439,600	07/13/98	1,045,070
JPY	4,000,000,000	31,165,998	28,879,200	07/13/98	2,286,798
JPY	2,000,000,000	15,744,312	14,457,400	07/21/98	1,286,912
JPY	4,000,000,000	33,057,851	29,000,800	08/10/98	4,057,051
JPY	3,500,000,000	27,731,559	25,519,200	09/18/98	2,212,359
JPY	2,500,000,000	19,267,823	18,362,750	11/06/98	905,073
JPY	6,000,000,000	46,511,628	44,733,000	02/16/99	1,778,628
JPY	5,000,000,000	38,218,265	36,781,500	11/16/98	1,436,765
JPY	6,000,000,000	46,044,932	44,151,000	11/18/98	1,893,932
JPY	6,000,000,000	44,729,387	44,232,000	11/30/98	497,387
JPY	6,500,000,000	48,121,414	47,976,500	12/08/98	144,914
JPY	2,000,000,000	14,877,078	14,793,600	12/22/98	83,478
SEK	450,000,000	57,997,165	57,024,135	03/10/99	<u>973,030</u>
Subtotal					<u>50,931,981</u>
Total open forward foreign currency contracts					<u><u>\$47,601,332</u></u>

NOTE 5—YEAR 2000 ISSUE (UNAUDITED)

The Division has updated its principal information technology software packages, which have been certified as Year 2000 compliant by the respective software vendors. The total cost to update these software packages was not significant to the Division's operations.

APPENDIX I

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

	Consolidated Police & Firemen's Pension Fund		Judicial Retirement System of New Jersey		Police & Firemen's Retirement System	
	Original Cost	Fair Value	Original Cost	Fair Value	Original Cost	Fair Value
SHORT-TERM OBLIGATIONS						
U.S. Government and other government securities and obligations	\$14,186	\$14,410	\$ 9,930	\$ 9,881	\$ 258,440	\$ 259,789
Commercial paper	10,417	10,537	7,292	7,226	189,784	189,969
Time certificates of deposit	4,094	4,133	2,866	2,834	74,576	74,521
	<u>28,697</u>	<u>29,080</u>	<u>20,088</u>	<u>19,941</u>	<u>522,800</u>	<u>524,279</u>
LONG-TERM BONDS						
U.S. Government bonds and other government securities and obligations	13,939	13,972	46,534	48,789	1,836,269	1,935,808
Industrial bonds	168	170	10,645	11,092	445,012	463,793
Gas and electric bonds	115	116	1,677	1,740	69,138	71,799
Telephone bonds	—	—	1,206	1,277	50,632	53,615
Finance companies—senior debt	—	—	2,123	2,178	89,135	91,424
Intermediate-term corporate notes	1,221	1,233	4,166	4,318	161,261	167,980
International Government bonds and notes	—	—	16,109	16,110	624,845	620,203
Other	—	—	635	700	26,112	28,245
	<u>15,443</u>	<u>15,491</u>	<u>83,095</u>	<u>86,204</u>	<u>3,302,404</u>	<u>3,432,867</u>
MORTGAGES						
Mortgage-backed certificates	9,274	9,399	32,885	33,699	920,616	917,283
STOCKS						
Common stock (U.S.)	—	—	68,889	153,886	3,195,302	7,179,130
Preferred stock	—	—	181	368	8,390	17,179
Common stock (International)	—	—	42,862	57,851	1,662,293	2,226,747
	<u>—</u>	<u>—</u>	<u>111,932</u>	<u>212,105</u>	<u>4,865,985</u>	<u>9,423,056</u>
	<u>53,414</u>	<u>53,970</u>	<u>248,000</u>	<u>351,949</u>	<u>9,611,805</u>	<u>14,297,485</u>
Difference due to accounting practices	333	4	(13,425)	5,155	(1,738,721)	191,741
	<u>\$53,747</u>	<u>\$53,974</u>	<u>\$234,575</u>	<u>\$357,104</u>	<u>\$7,873,084</u>	<u>\$14,489,226</u>

**INCLUDING INVESTMENTS OWNED BY THE COMMON PENSION FUNDS AND THE STATE OF NEW JERSEY
(000's Omitted) at June 30, 1998**

Prison Officers Pension Fund		Public Employees' Retirement System		State Police Retirement System		Teachers' Pension and Annuity Fund		Totals	
Original Cost	Fair Value	Original Cost	Fair Value	Original Cost	Fair Value	Original Cost	Fair Value	Original Cost	Fair Value
\$ 7,006	\$ 6,999	\$ 362,827	\$ 364,775	\$ 24,898	\$ 25,114	\$ 460,317	\$ 463,174	\$ 1,137,604	\$ 1,144,142
5,145	5,118	266,440	266,739	18,284	18,365	338,032	338,692	835,394	836,646
2,022	2,008	104,698	104,637	7,185	7,204	132,830	132,863	328,271	328,200
<u>14,173</u>	<u>14,125</u>	<u>733,965</u>	<u>736,151</u>	<u>50,367</u>	<u>50,683</u>	<u>931,179</u>	<u>934,729</u>	<u>2,301,269</u>	<u>2,308,988</u>
5,185	5,068	3,385,774	3,576,893	245,372	259,474	4,217,161	4,454,334	9,750,234	10,294,338
83	82	841,784	877,622	61,266	63,906	1,046,917	1,091,312	2,405,875	2,507,977
57	57	129,990	135,066	9,451	9,826	161,724	168,013	372,152	386,617
—	—	95,946	101,627	6,985	7,402	119,314	126,359	274,083	290,280
—	—	168,909	173,295	12,297	12,622	210,048	215,468	482,512	494,987
603	599	294,660	307,484	21,322	22,272	367,212	383,137	850,445	887,023
—	—	877,275	870,733	71,802	71,266	1,258,886	1,249,614	2,848,917	2,827,926
—	—	43,597	47,411	3,314	3,611	57,419	62,306	131,077	142,273
<u>5,928</u>	<u>5,806</u>	<u>5,837,935</u>	<u>6,090,131</u>	<u>431,809</u>	<u>450,379</u>	<u>7,438,681</u>	<u>7,750,543</u>	<u>17,115,295</u>	<u>17,831,421</u>
—	—	657,548	679,115	63,607	65,340	836,833	866,584	2,520,763	2,571,420
—	—	5,070,191	11,390,931	344,690	772,777	6,212,547	13,956,818	14,891,619	33,453,542
—	—	13,313	27,257	905	1,849	16,313	33,397	39,102	80,050
—	—	2,332,152	3,123,941	190,937	255,761	3,347,877	4,484,956	7,576,121	10,149,256
<u>—</u>	<u>—</u>	<u>7,415,656</u>	<u>14,542,129</u>	<u>536,532</u>	<u>1,030,387</u>	<u>9,576,737</u>	<u>18,475,171</u>	<u>22,506,842</u>	<u>43,682,848</u>
20,101	19,931	14,645,104	22,047,526	1,082,315	1,596,789	18,783,430	28,027,027	44,444,169	66,394,677
164	337	(2,944,413)	307,927	(202,749)	23,345	(3,557,208)	391,130	(8,456,019)	919,639
<u>\$20,265</u>	<u>\$20,268</u>	<u>\$11,700,691</u>	<u>\$22,355,453</u>	<u>\$ 879,566</u>	<u>\$1,620,134</u>	<u>\$15,226,222</u>	<u>\$28,418,157</u>	<u>\$35,988,150</u>	<u>\$67,314,316</u>

UNAUDITED COMMON PERFORMANCE DISCLOSURE FORM FOR PUBLIC FUNDS

	Avg. Annual Return 5 Years Ended 6/30/98	One Year Period Ended				
		6/30/94	6/30/95	6/30/96	6/30/97	6/30/98
TOTAL RETURN						
Aggregate of All Pension Funds	15.6%	-0.7%	19.7%	16.1%	22.1%	22.7%
Consumer Price Index	2.4%	2.5%	3.0%	2.8%	2.3%	1.7%
STOCK TOTAL RETURNS						
Common Pension Fund A—All Stocks	21.9%	-0.7%	26.0%	23.7%	32.7%	31.0%
Common Pension Fund A—Small Capitalization Stocks	18.1%	5.9%	27.1%	18.1%	14.1%	26.9%
Approved List—Before Divestment	22.9%	1.6%	27.0%	26.4%	32.4%	29.9%
Approved List—South Africa Free	22.8%	1.1%	27.0%	26.4%	32.4%	29.9%
Dow Jones Industrial Average	23.4%	6.0%	29.2%	27.1%	38.6%	18.5%
Standard & Poor's 500 Index	23.1%	1.4%	26.1%	26.0%	34.7%	30.1%
Russell 2000 Index	16.1%	4.4%	20.1%	23.8%	16.3%	16.5%
FIXED INCOME TOTAL RETURNS						
Common Pension Fund B and Other Bonds	7.1%	-1.4%	13.6%	4.3%	8.0%	11.8%
Lehman Brothers Government/Corporate Bond Index	6.9%	-1.5%	12.7%	4.7%	7.8%	11.3%
Salomon Brothers Broad Bond Index	6.9%	-1.2%	12.6%	5.0%	8.2%	10.5%
MORTGAGES—TOTAL RETURNS						
Pension fund holdings	7.3%	-1.6%	13.9%	5.5%	9.7%	10.2%
Salomon Brothers Mortgage Index	6.9%	-0.9%	12.1%	5.8%	9.0%	8.9%
INTERNATIONAL TOTAL RETURNS						
Common Fund D Total—Hedged	11.4%	2.7%	9.1%	14.0%	16.2%	15.6%
Common Fund D Fixed Income	7.1%	-0.1%	20.6%	7.2%	2.1%	5.4%
Common Fund D Stocks	14.5%	13.3%	10.1%	10.6%	20.7%	19.4%
Approved List—International Stocks	11.3%	13.7%	6.2%	13.8%	16.1%	7.1%
Salomon World Gov. Bond Index—Unhedged	6.3%	5.1%	18.8%	0.4%	3.9%	4.3%
EAFE International Stock Index	10.0%	17.0%	1.7%	13.3%	12.8%	6.1%
CASH EQUIVALENTS						
Total Returns—Cash Management Fund—Compounded	5.3%	3.6%	5.5%	5.8%	5.7%	5.8%
91-Day Treasury Bills	4.8%	3.2%	4.9%	5.3%	5.1%	5.3%

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

The aggregate total returns shown on the above table are estimates, and are shown for illustrative 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.



Director Roland M. Machold retired on June 30, 1998, after 23 years of service with the Division of Investment, and was honored and congratulated by his colleagues and friends.

