



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

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FIFTY-SECOND ANNUAL REPORT

For the Fiscal Year Ended June 30, 2002



JAMES E. MCGREEVEY
Governor



JOHN E. MCCORMAC, CPA
State Treasurer

A Report to
Governor James E. McGreevey
the Members of the
New Jersey Legislature
and the State Treasurer

Submitted by the
State Investment Council

For the Fiscal Year ended June 30, 2002

November 15, 2002

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, 2002, as required by Section 13, P.L. 1950, c.270. The report is a summary of the activities of the Division during the year. A separate annual report is also prepared for the State of New Jersey Cash Management Fund, which is available upon request from the Investment Division.

The Division, under the jurisdiction of the State Investment Council, has the investment responsibility for 181 funds, including seven pension and annuity funds. The cost basis of all funds on June 30, 2002 was \$49.2 billion, compared with \$52.0 billion at the end of the prior year, and the fair (or market) value of the funds was \$72.6 billion, compared with \$83.6 billion at the end of the previous fiscal year. The Council includes eleven persons appointed to fixed terms. Five employee representatives are appointed by their respective pension fund boards for one-year terms, and five members are appointed by the Governor for staggered five-year terms. In fiscal 1992, the Legislature provided for the eleventh member of the Council, to be appointed by the Governor from a list of three candidates to be nominated jointly by the President of the Senate and the Speaker of the Assembly. The new law also provided that all gubernatorial appointments to the pension fund boards and to the Council are subject to the advice and consent of the State Senate. State law requires that no Council member shall hold any office, position or employment with any political party, and none can benefit from the transactions of the Division.

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

Pension fund returns were negative in fiscal 2002, as both the domestic and international markets declined. Bonds and fixed income securities had positive returns. The estimated total return of the pension funds, which includes changes in market values of the securities held by the funds and dividend and interest income over the year, was negative 9.0 percent, which compares with a negative 10.4 percent return in fiscal 2001. For the past five fiscal years the estimated average annual total return earned by the pension funds was 5.4 percent, even including the negative return realized the last two years. These total returns of the pension funds ranked the Division in the bottom quartile of all State fund managers in fiscal 2002, but above the median fund for the five- and ten-year periods ended June 30, 2002. Appendix II sets forth estimated total returns of the State-administered pension funds for the past five years.

All investments under the supervision of the Council must conform to standards of prudence set by state law, which mandate that the Division make investments in which fiduciaries of trust estates may legally invest. State prudence law was amended in March 1997, by P.L. 1997, c.26. Eligible investments are defined as investments in property of every nature, provided the fiduciary shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The amendment to the law provides for the "whole plan" principle, which permits a broader spectrum of investments. The law also states that the fiduciary shall be under a duty to manage and invest the portfolio solely in the interests of the trust beneficiaries and for the exclusive purpose of providing financial benefits to trust participants.

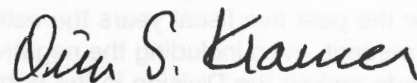
Over the years, members of the public, political figures and lobbyists have raised the question of whether investments under the jurisdiction of the Council should be guided by non-financial considerations. Such investments could be directed regionally or toward specific capital markets or could be averted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

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

Over the years, the Council has addressed the major issues which concern fiduciaries, such as the standards for investment, the allocation of invested funds among asset classes and the resources available to the Division of Investment. In fiscal 2002, the Council again addressed the issue of the asset allocation of the pension funds, and considered but deferred action on initiating an investment program for venture capital.

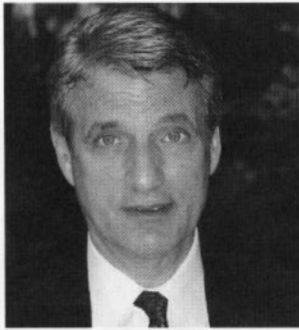
For each of the past fifty-two years, the Council has requested and obtained a review of the records and procedures of the Division by an independent accounting firm. The accountant's report for the current year is included in this report.

Respectfully submitted,



Orin S. Kramer
Chair

The State Investment Council



ORIN S. KRAMER
Chair of the Council



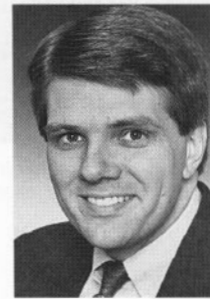
GEORGE A. CASTRO II
Consolidated Police &
Fireman's Pension Fund;
Vice Chair of the Council



RONALD J. BURTON



JAMES M. FARRELL, ESQ.



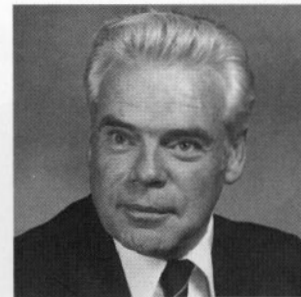
ROBERT T. HOFFMAN



CHERYL A. MILLS



DR. DOUGLAS A. LOVE



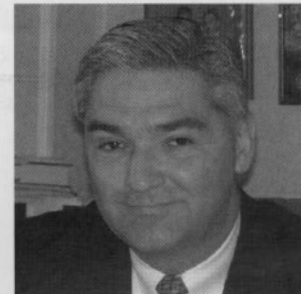
HARRY W. BALDWIN
Teachers' Pension and
Annuity Fund



SUZANNA M.F.
BURIANI-DeSANTIS
Public Employees'
Retirement System



MARC KANDRAC
Police and Firemen's
Retirement System



JOHN K. SAYERS
State Police Retirement
System

Division of Investment



STEVEN E. KORNRUMPF
Director



WILLIAM G. CLARK
Deputy Director



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



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



Trading Group: Rob Rosati, John Penza, Angel Rodriguez, Don Sward, Mary Ann Smith, Ed Burns, Rob Schragger, Michael Wszolek and Tim Patton. Not pictured are: Ellie Chiaramonti and Vince Pagnotta.



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

Division of Investment



Common Fund Accounting Group: Jeffrey Grossman, Patty DiMemmo, Andrea Szul, Manick Jhingade, Jeffrey Taylor and Krystal Paquette. Not pictured: Kevin Sullivan.



Auditing Group: Ken Scott, Nancy Brancolino, Olga Grozio and Bart Pericoloso.



Cashier Group: Ron Hentnik, John Giovannetti, Roxanne Tyner, Heather Rodriguez, Arlene Patel, Rosetta Muccie and Melissa Cook. Not pictured: Kass Cole.



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

The Board Activities

INTERNATIONAL ACCOUNTING



International Accounting: Patti Hricak, Cynthia Caporale-Kroes, Kathleen Warchol, Sharon Scully, Chris Eckel, Valerie Oscilowski and Mary Vassiliou.

FIVE YEAR SUMMARY

	Fiscal Year Ended June 30,				
	1998	1999	2000	2001	2002
			\$ Millions		
FUNDS UNDER THE SUPERVISION OF THE STATE INVESTMENT COUNCIL:					
Cost Basis at Year End: (1)					
Pension Funds	\$35,988	\$39,272	\$40,688	\$40,971	\$40,119
All Funds	44,488	48,700	51,564	51,997	49,210
Fair (or Market) Value at Year End:					
Pension Funds	\$67,314	\$76,230	\$82,553	\$72,166	\$63,318
All Funds	76,243	86,246	94,064	83,632	72,674
Fair (or Market) Value of Pension Funds at Year End by Category:					
Short-term obligations	\$ 2,309	\$ 4,424	\$ 3,801	\$ 3,299	\$ 3,120
Long-term bonds	17,831	18,954	19,366	20,160	18,595
Mortgages	2,571	3,499	4,488	3,716	3,157
Stocks	43,683	49,338	54,871	45,258	38,459
Accounting differences	920	15	20	(267)	(131)
Total	\$67,314	\$76,230	\$82,553	\$ 72,166	\$63,318
Investment Income: (1)					
Pension Funds					
Net Income and Realized Gains (Losses)	\$ 3,092	\$ 4,598	\$ 3,814	\$ 2,732	\$ 2,038
Unrealized Appreciation (Depreciation)	8,941	5,632	4,906	(10,670)	(7,996)
Total	\$12,033	\$10,230	\$ 8,720	\$ (7,938)	\$ (5,958)
All Funds					
Net Income and Realized Gains (Losses)	\$ 3,516	\$ 5,060	\$ 4,372	\$ 3,339	\$ 3,369
Unrealized Appreciation (Depreciation)	9,093	5,791	4,955	(10,866)	(8,172)
Total	\$12,609	\$10,851	\$ 9,327	\$ (7,527)	\$ (5,803)
Total Rate of Return: (2)					
Common Pension Fund A (3)	30.8%	27.4%	12.3%	-16.1%	-20.3%
Common Pension Fund B (3)	11.8	2.8	4.3	10.9	9.2
Common Pension Fund D (3)	15.6	4.9	21.1	-24.5	-6.8
All Pension Funds, Estimated (3)	22.7	16.0	12.0	-10.4	-9.0
Supplemental Annuity Collective Trust	27.7	22.6	5.4	-8.8	-19.1
Deferred Compensation Plan—Equity	29.3	28.7	10.3	-16.5	-18.9
Deferred Compensation Plan—Fixed Income	8.8	4.6	4.5	10.3	8.2
Deferred Compensation Plan—Small Cap Equity	24.6	27.1	17.8	1.6	-3.6
Returns of Various Market Indices:					
Lehman Brothers' Mortgage Index	8.9%	4.1%	5.1%	10.5%	9.0%
Lehman Government/Credit Bond Index	11.3	2.7	4.3	11.1	8.2
S&P 500 Index	30.2	22.8	7.3	-14.8	-18.6
S&P 1500 Index	29.3	21.4	8.1	-12.8	-16.5
Dow Jones Industrial Average	18.5	24.7	-3.3	-4.5	-10.3
Salomon Brothers' Non-US World Gov. Bond Index—Unhedged	0.9	4.9	2.4	7.4	15.7
EAFE International Stock Index	6.1	7.6	17.1	-23.8	-9.0
State of New Jersey Cash Management Fund:					
Book Value of Units of Participation:					
All Participants	\$11,838	\$14,157	\$13,811	\$13,408	\$ 11,105
Other-than-State Participants	3,366	3,804	3,958	4,647	4,924
Average Annualized Daily Rate of Return: (4)					
State Participants	5.56%	5.15%	5.58%	5.94%	2.93%
Other-than-State Participants	5.41	4.98	5.50	5.78	2.75
Number of Funds Under the Supervision of the State Investment Council	152	160	169	178	181
Total Number of Transactions	46,663	48,883	52,465	49,557	51,069

1. Fiscal years 1998 through 2002 are presented at original cost while fiscal year 1997 includes amortization of premiums and accruals of discounts. This change conforms to the Government Accounting Standards Board Statement No. 31 (GASB-31).
2. Total rate of return income and changes in the fair (market) prices for securities held by the funds during the period shown.
3. Common Pension Funds A, B and D are the principal vehicles for investment by the pension funds in domestic stocks, domestic bonds, and international securities, respectively. The returns cited are for the whole portfolios and include cash equivalents held. Returns for stocks and bonds alone are shown in Appendix II.
4. Simple interest.

The Year's Activities

Summary Financial Information

The 181 investment funds under the supervision of the Council on June 30, 2002, had a cost (or book value) of \$49.2 billion. The investment funds had a fair (market) value of \$72.7 billion at June 30, 2002, a decrease of 13.1 percent from the fair value of \$83.6 billion at June 30, 2001. The fair value of the seven pension funds decreased from \$72.2 billion at June 30, 2001, to \$63.3 billion at June 30, 2002. The fair value of the pension funds declined, in large part, due to slowing economic and corporate profit growth in both the domestic and international stock markets.

The total investment income for all funds for fiscal 2002 amounted to (\$5.9) billion as compared with (\$7.5) billion last year. These amounts include the change in fair value and realized gains or losses by fund as required by the Government Accounting Standards Board Statement No. 31.

During the year, the Division of Investment purchased securities with a cost of \$145.3 billion. Approximately 53.9 percent of this amount, or \$78.3 billion, represented the overnight investment of surplus balances in the State's cash accounts. In fiscal 2001, the Division purchased securities with a cost of \$119.7 billion, of which \$63.4 billion was generated by overnight investments. During fiscal 2002, the Division's net holdings of mortgages decreased from \$3.7 billion to \$3.1 billion as refinancings and prepayments rose.

The Division sold securities totaling \$44.9 billion in fiscal 2002, compared with sales of \$37.9 billion in the prior year. Many of the sales were made to meet cash requirements or to take advantage of market opportunities. Such sales resulted in net realized losses of \$602 million during the year, compared with \$2.5 billion for the prior year. The transaction information in this paragraph includes transactions effected within the common funds, but are not included in the financial summaries of this report.

"Regular Interest Rates"

The pension revaluation law which was enacted in June, 1993, sets the "regular interest rate" of the pension funds at 8.75 percent, which reflects expected income and market returns of the funds over time. The law further provides that the "regular interest rate" shall bear a reasonable relationship to the rate of

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

Fixed Income

The pension fund allocation of domestic fixed income securities was reduced by a net amount of \$1.4 billion in fiscal 2002 after being increased by \$4.0 billion in the prior two fiscal years.

In fiscal 2002, the Division purchased \$461.6 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 2002 totaled \$742 million as refinancings rose.

In October 1985, the Division developed a program for the state pension funds to purchase eligible mortgage pools from interested New Jersey financial institutions. The Division calls such institutions on a monthly basis and offers to purchase eligible mortgage pools at the prevailing market prices for similar pools. The Division has purchased in the past years several 100 percent-New Jersey mortgage pools guaranteed by FHLMC.

In fiscal 1992, a law was enacted which allocated up to 10 percent of the Police and Firemen's Retirement System Fund to mortgages for members of the System. In fiscal 2002, the Fund held \$845.6 million of such mortgages, an increase from \$467.5 million in fiscal 2001.

Common Pension Fund B is the vehicle for investment by the pension funds in U.S. dollar-denominated debt securities. In fiscal 2002, 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 2002, the fund purchased \$2.4 billion of corporate debt securities, compared with \$2.6 billion in the prior year.

The Division maintains a "roll" program for U.S. Treasury and Agency debt securities. A "roll" is defined as the simultaneous sale of a security coupled with its repurchase at a later date. Proceeds from the sale are invested in the State of New Jersey Cash Management Fund. In fiscal 2002, the Division "rolled" \$13.5 billion of securities at a profit of \$1.6 million.

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, 2002, 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 \$29.0 billion, \$18.5 billion and \$11.0 billion, respectively. The State of New Jersey Cash Management Fund provides a vehicle for the pension funds and other state and municipal funds to make short-term investments.

Total Rate of Return Calculations for Select Portfolios

Calculations of total rate of return reflect both income and changes of fair values of securities in a portfolio over a specific period of time. The calculation includes unrealized appreciation or depreciation and thus is not indicative of the cash returns on the portfolio. It would be indicative of cash returns if the portfolio were liquidated at the end of each period of measurement, but such liquidation would be impractical for portfolios of the size managed by the Division. Furthermore, the calculation is historical and is not predictive of future returns. However, the calculation of total rate of return is a means of comparing returns of varying types of portfolios by a common standard. The historical returns are shown on page 8 herein.

New England Pension Consultants has provided the Division with calculations of total rates of return, and their data shows that the total rates of return for Common Pension Funds A, B and D in fiscal 2002 were (20.3) percent, 9.2 percent and (6.8) percent, respectively. The estimated total rates of return for the active pension fund portfolios were approximately (9.0) percent in fiscal 2002, compared with returns of (10.4) percent in fiscal 2001 and 11.9 percent in fiscal 2000. For the past 5, 10 and 20 years, the average annualized returns have been 5.4 percent, 9.4 percent and 12.5 percent, respectively. It is sometimes difficult for public pension funds to find a common basis for reporting. However, several states have developed a format for common reporting practices and the Investment Division has provided these estimates in response to this format in Appendix II to this report.

The estimated total returns for the pension funds do

not include the mortgage loan program of the Police and Firemen's Retirement System. This program was established by law in fiscal 1992, and provides that members of the system 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 \$839.7 million par value of assets of the mortgage loan program with an appraised value of \$845.6 million at June 30, 2002.

The State of New Jersey Cash Management Fund

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

The total fair value of the units of participation in the Fund decreased from \$13.4 billion at June 30, 2001 to \$11.1 billion at June 30, 2002. The fair value as required by GASB Statement No. 31 of the Cash Management Fund units equates to \$1.0026 versus the historical value of \$1.00 per unit.

The total income of the Fund was \$349 million in fiscal 2002, compared with \$760 million in fiscal 2001.

The number of participating State funds increased from 178 to 181 in fiscal 2002. The number of "Other-than-State" participants increased from 1,099 to 1,123 during the year, and the aggregate investment of "Other-than-State" participants was \$4.9 billion at the end of fiscal 2002, compared with \$4.6 billion at the end of fiscal 2001.

The average daily annualized rate of return to participating State accounts and accounts of the pension funds was 2.93 percent during fiscal 2002, compared with 5.94 percent in fiscal 2001. The average daily annualized rate of return to "Other-than-State" participants, which is net of two small charges, was 2.75 percent in fiscal 2002, compared with 5.78 percent in fiscal 2001.

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 2002 was 2.87 percent, compared with 6.03

percent in the prior year. The lower rates of return during fiscal 2002 were the result of lower interest rates available in the markets for short-term debt investments.

Historical Background

Legislative History

Fiscal 2002 marks fifty-two 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 181 funds in 2002, with a book value of \$49.2 billion and a fair value of \$72.7 billion.

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

The statute provides for a State Investment Council and a Director. The original legislation provided that the Council consisted of ten members, five appointed for staggered five-year terms by the Governor and five appointed for one-year terms by the boards of trustees of five of the pension systems. The statute was amended by P.L. 1992, c.41, §32, to provide for an eleventh member of the Council, to be appointed by the Governor from among three persons nominated jointly by the President of the Senate and the Speaker of the General Assembly. The eleventh member serves for a five-year term. P.L. 1992, c.41, §37, provided that all gubernatorial appointments to the Council and the pension fund boards are subject to the advice and consent of the Senate. The statute provides that no member of the Council shall hold any office, position or employment in any political party, nor shall any member benefit directly or indirectly from any transaction made by the Director of the Division. Members of the Council serve without compensation.

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

The role of the Council is to formulate investment procedures and policies to be followed by the Director. State legislation provides that the Council may issue regulations which specifically approve and authorize any form of investment. New regulations adopted by the Council from time to time are formal documents which are filed with the Office of Administrative Law and reported in the *New Jersey Register*.

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

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

Such legislation broadened the authority of the Division to include investment in short-term debt obligations, including commercial paper and certificates of deposit, and certain Canadian government and provincial obligations payable in U.S. dollars (P.L. 1952, c.17, and P.L. 1971, c.176), and subsequently, investment in property of every nature, provided the fiduciary shall exercise care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and reasonable discretion exercise (P.L. 1997, c.26).

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

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

In July 1987, Governor Kean signed into law an act,

P.L. 1987, c.177, which directs the Director of the Division of Investment to investigate the extent to which United States corporations doing business in Northern Ireland, in which the assets of any State pension or annuity fund are invested, adhere to principles of non-discrimination in employment and freedom of workplace opportunity, as defined in the law by various standards commonly referred to as the MacBride Principles. Furthermore, the law requires the Director to file an annual report with the Legislature and to initiate and support shareholder petitions or initiatives requiring adherence to the MacBride Principles. Subsequent to the enactment of the law, the Council adopted procedures to comply with the law, and the Director has filed the required reports, copies of which are available upon request.

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

In June 1992, Governor Florio signed an act, P.L. 1992, c.41, which provided for the revaluation of the pension funds from a book valuation basis to a market valuation basis for the purposes of actuarial calculations. The act changed the economic assumptions of the funds to reflect market valuations and modified the actuarial methodologies for the funds.

In March 1997, Governor Whitman signed into law an act, P.L. 1997, c.26, which amended and supplemented the State's prudence law. The new law provides for the "whole plan" principle, whereby the fiduciary may consider the whole portfolio, rather than any individual investments, in determining the prudent level of expected risk and return of the pension fund. The "whole plan" principle has the effect of permitting a balance of high and low risk investments in the portfolio, rather than requiring that all investments must approach a common standard of expected risk and return. The new law also expands the investments that are listed as examples of eligible investment to include diversified pools of venture

capital and securities loan transactions. Also, certain forms of investment are permitted, including limited partnerships and investment trusts.

During the fiscal year, a bank custody law was enacted, P.L. 2001, c.286, which permits a wider range of eligible banks to provide bank custody and safekeeping services.

Regulations of the State Investment Council

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

Present regulations of the State Investment Council limit the authority of the Director to invest in common stock. In fiscal 1996, the Council acted to increase the permissible level of aggregate pension fund stock holdings in Common Pension Funds A and D from 60 percent to 70 percent of the fair value of the active pension funds. At June 30, 2002, the aggregate common stock holdings of the pension funds were 60.7 percent of the total fair value of the funds. Attached hereto as Appendix I is an unaudited summary of investments by major category for individual pension funds.

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

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

All of the regulations of the State Investment Council, including the regulations which pertain to the common funds, have been published in the New Jersey Administrative Code (*N.J.A.C. 17:16-3.1 et seq.*).

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

As a consequence of the State's Sunset Law, all of the regulations of the Council were resubmitted to the regulatory review process in fiscal 2001 and were

readopted with various modifications and clarifications.

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

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

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

In fiscal 1999, the Division instituted an investment program for the Office of Student Assistance to provide a savings plan for higher education known as the New Jersey Better Educational Savings Trust (NJBEST). In fiscal 2001 the program was enhanced, providing among other benefits, improved scholarship opportunities and age-sensitive portfolios.

In fiscal 2001, the Council initiated an investment program for emerging markets equities by permitting up to 5 percent of Common Pension Fund D to be invested in such securities.

Reviews of Major Policy Issues

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

The Council members agreed that the salary structure, budget limitations of the Division, lack of personnel depth and the inflexibility of the Civil Service system posed grave dangers for the successful management of State funds and State-administered pension plans. The Council agreed that any complete solution to the budgeting, staffing, salary and Civil Service issues would provide that: (a) funding of the Division's

budget would be made from pension fund income and other fees, with all expenses of the Division subject to the discretion of the Council; (b) all professional employees would serve at the pleasure of the Council, although non-professional employees could remain in the Civil Service salary structure and system; (c) professional salaries would be set by the Council and possibly could be designed to incorporate performance bonuses; and (d) the Council would have the flexibility to provide necessary personnel depth for the Division. The Council has taken these matters up with appropriate State officials, but, to date, only the first part of item (a) and part of item (c) above have been implemented.

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

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

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

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

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

Domestic Product;

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

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

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

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

f. The company should have conservative accounting practices.

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

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

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

During fiscal 1990, the Council received the reports of two independent actuarial firms, Buck Consultants and Actuarial Science Associates (ASA), which had

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

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

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

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

In fiscal 1995, the Council again reviewed the asset allocation policies set forth in the Council Regulations, and acted to increase the permitted allocation of pension fund assets to international securities from 15 percent of the fair value of total pension fund assets to 20 percent. As a consequence of the passage of P.L. 1997, c.26, §26 effective June 5, 1997, which modified the State's prudency law, the Council also considered new asset classes, such as real estate and emerging international markets, as potential areas for further diversification of the pension funds. After careful consideration, the Council decided to defer any action on investment in either real estate or emerging

markets. However, the Council acted to increase the maximum permitted investment by the active pension funds in stocks from 60 percent to 70 percent of the total fair value of the pension fund portfolios.

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

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

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

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

In fiscal 2001, the Council received a report from the State Auditor, who had undertaken to determine whether the Division is properly executing its fiduciary responsibility in its portfolio management, specifically whether it properly structures, monitors and analyzes the investment portfolios and activities, controls investment risk and expense and properly measures and evaluates investment performance. The report concluded that the Division properly fulfills these functions. The report also cited certain internal controls, which have been addressed by the Division, and also urged that the Division continue its efforts to have the State's bank custody law revised. Legislation was enacted which revised this law, (P.L. 2001, c.286).

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 2002, the transactions of the Division generated total commissions both actual and implied, of

\$40.6 million, including \$21.6 million of domestic stock commissions. Of this amount, \$4.0 million was directed to pay for fixed-fee charges for performance measurement and access to various economic and financial databases.

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

Social Investment

There has been a spirited public debate for many years on the subject of "strategic" or "targeted" investment, whereby investments are either directed towards areas which are deemed to be socially desirable or withheld from areas which are deemed to be socially undesirable. The State's prudence law (P.L. 1997, c.26) provides that "the fiduciary shall be under a duty to manage and invest the portfolio solely in the interests of the trust and beneficiaries and for the exclusive purpose of providing financial benefits to trust participants." The Council has taken the position that the Division is bound by law to make prudent investments for the exclusive financial benefit of the beneficiaries of the various funds under its supervision and that the Division may not make any concession as to rate, risk or terms which would benefit any other party at the expense of the beneficiaries of the funds.

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

In fiscal 1982, the Council reviewed two investment concepts which would have directed pension fund assets to mortgage markets in New Jersey. The Council found that one of these was concessionary

and thus was prohibited by State law. In the second instance, the Council reviewed a complex concept for investing in growing equity mortgages and concluded that the concept was feasible; however, no investments were initiated due to changing market conditions.

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

Reports of Gubernatorial Commissions

In fiscal 1982, former Governor Brendan Byrne created a task force to study the use of state pension funds to spur economic activity within the State. The task force did not find evidence that pension funds can be invested to achieve secondary objectives without compromising the primary goal of maximizing the

investment return for the beneficiaries, and the task force concluded that no formal change in investment policy should be made. The report of this task force is described in greater detail in annual reports of prior years.

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

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

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

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

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

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

5. The Investment Council should consider non-economic criteria in its decision-making process only insofar

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

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

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

The Council has responded in full to those recommendations over which the Council has jurisdiction, such as the appropriate asset allocation and breadth of potential investment of the pension funds. However, the Council cannot independently respond to recommendations regarding staffing, compensation and budget support, which are the prerogative of the Legislature. During fiscal 1994, the Council again reviewed these issues and took them up with the appropriate authorities. As a result of these concerns, recent budgets have provided incremental funding for the Division for certain investment programs. Furthermore, in fiscal 1997, State prudence law was amended to codify the sole benefit provision.

Policies of the Council Towards Social Investment

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

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

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

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

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

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

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

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

8. The Division of Investment should prefer investments in companies which advance the economic development of New Jersey, support alternative ener-

gy sources, provide for improvement of the environment, or are controlled by economically disadvantaged individuals, provided such investments meet the fiduciary standards of the Investment Council and provide fair market returns.

Voting of Proxy Statements

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

During fiscal 2002, the Division voted on 1,289 U.S. corporate proxies. On 865 proxies, the Division voted with management on all issues. On 424 proxies the Division voted against the recommendations of corporate management on a total of 534 individual proposals. Of these proposals, 369 related to executive compensation, 79 related to corporate governance, six related to compliance of the corporation with the MacBride Principles in Northern Ireland, three related to confidential proxy voting, 40 related to the election of directors and one each related to reincorporation in Bermuda and Chinese slave labor.

During fiscal 2002, the Division also voted on 427 international proxies with confirmation received on 381. The Division voted 39 times against management proposals involving an increase of shares available for stock option plans.

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

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DEPARTMENT OF THE TREASURY
BUREAU OF INVESTIGATION
UNIT OF NEW YORK

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Investment Summary

The following is a summary of the investment activities of the Bureau of Investigation, Unit of New York, for the year 1964. The summary is divided into two main sections: "Investment Summary" and "Other Financial Information". The "Investment Summary" section contains a table of investment activities, and the "Other Financial Information" section contains a table of other financial information.

Investment Summary	Other Financial Information
1. Investment in U.S. Government Securities	1. Investment in U.S. Government Securities
2. Investment in U.S. Corporate Securities	2. Investment in U.S. Corporate Securities
3. Investment in Foreign Securities	3. Investment in Foreign Securities
4. Investment in Real Estate	4. Investment in Real Estate
5. Investment in Other Assets	5. Investment in Other Assets

OTHER FINANCIAL INFORMATION

The following is a summary of the other financial information of the Bureau of Investigation, Unit of New York, for the year 1964. The summary is divided into two main sections: "Investment Summary" and "Other Financial Information". The "Investment Summary" section contains a table of investment activities, and the "Other Financial Information" section contains a table of other financial information.

Investment Summary	Other Financial Information
1. Investment in U.S. Government Securities	1. Investment in U.S. Government Securities
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3. Investment in Foreign Securities	3. Investment in Foreign Securities
4. Investment in Real Estate	4. Investment in Real Estate
5. Investment in Other Assets	5. Investment in Other Assets

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying summary of amounts invested by fund and summary of investments by major category of the Division of Investment, Department of the Treasury, State of New Jersey, including the related summary of investment income by fund as of June 30, 2002, and the summary of investment activity for the year then ended. These summaries are the responsibility of the Division of Investment's management. Our responsibility is to express an opinion on these summaries based on our audit.

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

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

In our opinion, the summaries referred to above present fairly, in all material respects, the investments by fund and by major category of the Division of Investment, Department of the Treasury, State of New Jersey as of June 30, 2002, and the related investment income and investment activity for the year then ended, in conformity with accounting principles generally accepted in the United States.

August 22, 2002

Ernst + Young LLP

SUMMARY OF AMOUNTS INVESTED BY FUND as of June 30, 2002

	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	\$ 22,281,763	\$ 22,183,606	\$ 22,600,893	\$ 417,287
Judicial Retirement System of New Jersey	217,350,514	216,881,309	305,721,863	88,840,554
Police and Firemen's Retirement System	9,343,614,269	9,337,646,812	14,137,090,368	4,799,443,556
Prison Officers Pension Fund	16,919,802	16,964,314	17,826,682	862,368
Public Employees' Retirement System	12,707,872,102	12,705,850,845	20,679,860,804	7,974,009,959
State Police Retirement System	982,085,508	981,273,393	1,529,600,374	548,326,981
Teachers' Pension and Annuity Fund	16,850,368,656	16,838,844,599	26,625,667,265	9,786,822,666
		40,119,644,878	63,318,368,249	23,198,723,371
STATIC GROUP				
Trustees for the Support of Public Schools Fund	94,709,467	96,380,702	128,686,153	32,305,451
Waste Water Treatment Fund (Act of 1985)	247,256,095	247,256,095	247,895,547	639,452
Waste Water Treatment Fund (Act of 1992)	1,398,591	1,398,591	1,402,208	3,617
		345,035,388	377,983,908	32,948,520
DEMAND GROUP				
Atlantic City Casino Parking Fund	1,708,752	1,708,752	1,713,171	4,419
Atlantic City Tourism Promotion Fund	240,302	240,302	240,924	622
Board of Bar Examiners Fund	2,556,221	2,556,221	2,562,831	6,610
Boarding House Rental Assistance Fund	1,085,630	1,085,630	1,088,437	2,807
Body Armor Replacement Fund	5,107,098	5,107,098	5,120,306	13,208
Casino Simulcasting Fund	1,455,669	1,455,669	1,459,434	3,765
Casino Simulcasting Special Fund	7,399,748	7,399,748	7,418,885	19,137
Catastrophic Illness in Children Relief Fund (Act of 1987)	9,547,065	9,547,065	9,571,755	24,690
Development Fund—Luxury Tax	1,620,908	1,620,908	1,625,100	4,192
Division of Motor Vehicles Surcharge Fund	4,325,514	4,325,514	4,336,701	11,187
Dredging & Containment Facility Fund	7,855,169	7,855,169	7,875,484	20,315
Emergency Services Fund	14,660,545	14,660,545	14,698,460	37,915
Enterprise Zone Assistance Fund (Act of 1983)	191,941,675	191,941,675	192,438,074	496,399
Environmental Clean Up Fund (Act of 1996)	489,450	489,450	490,716	1,266
Hazardous Discharge Fund (Act of 1981)	212,047	212,047	212,596	549
Hazardous Discharge Fund (Act of 1986)	11,387,077	11,387,077	11,416,526	29,449
Hazardous Discharge Site Cleanup Fund (Act of 1985)	66,411,479	66,411,479	66,583,232	171,753
Health Care Subsidy Fund	20,220,755	20,220,755	20,273,050	52,295
Higher Education Assistance Fund	38,518,169	38,518,169	38,617,784	99,615
Higher Education Assistance Operating Fund	27,261,312	27,261,312	27,331,815	70,503
Jobs, Science, and Technology Fund (Act of 1984)	43,285	43,285	43,397	112
Korean Veterans' Memorial Fund	3,324	3,324	3,333	9
Luxury Tax Fund	445,573	445,573	446,726	1,153
Motor Vehicle Security Responsibility Fund	241,667	241,667	242,292	625
New Jersey Automobile Insurance Guaranty Fund	200,810,164	200,810,164	201,329,499	519,335
New Jersey Spill Compensation Fund	21,721,758	21,721,758	21,777,935	56,177
Petroleum Overcharge Reimbursement Fund	13,127,606	13,127,606	13,161,557	33,951
Real Estate Guaranty Fund	1,957,111	1,957,111	1,962,173	5,062
Resource Recovery Investment Tax Fund (Act of 1985)	383,258	383,258	384,249	991
Sanitary Landfill Facility Contingency Fund	11,307,295	11,307,295	11,336,538	29,243
Solid Waste Services Tax Fund (Act of 1985)	8,441,238	8,441,238	8,463,069	21,831
Spinal Cord Research Fund	6,899,282	6,899,282	6,917,125	17,843
State Disability Benefits Fund	45,137,965	45,137,965	45,254,701	116,736
State of New Jersey Judiciary—Bail Fund	30,949,623	30,949,623	31,029,665	80,042
State of New Jersey Judiciary—Child Support Fund	31,848,434	31,848,434	31,930,800	82,366
State of New Jersey Judiciary—Probation Fund	8,345,072	8,345,072	8,366,654	21,582
State of New Jersey Judiciary—Special Civil Fund	2,927,657	2,927,657	2,935,229	7,572
State of New Jersey Judiciary—Superior Court/Other Misc. Fund	3,173,429	3,173,429	3,181,636	8,207
State Recycling Fund	3,251,059	3,251,059	3,259,467	8,408
Supplemental Workforce Fund for Basic Skills	12,992,736	12,992,736	13,026,337	33,601
Tobacco Settlement Fund	28,285,940	28,285,940	28,359,093	73,153
Tourism Improvement Development District Act Fund	202,200	202,200	202,723	523
Trial Attorney Certification Fund	135,690	135,690	136,041	351
Unclaimed Child Support Trust Fund	1,977,251	1,977,251	1,982,364	5,113
Unclaimed County Deposits Trust Fund	5,405,434	5,405,434	5,419,413	13,979
Unclaimed Insurance Payments on Deposit	2,004,916	2,004,916	2,010,102	5,186
Unclaimed Personal Property Trust Fund	83,916,592	83,916,592	84,133,617	217,025
Unclaimed Utility Deposits Trust Fund	1,788,369	1,788,369	1,792,944	4,625
Unemployment Compensation Fund	53,047,591	53,047,591	53,184,782	137,191
Unemployment Compensation Auxiliary Fund	1,139,927	1,139,927	1,142,875	2,948
Unsatisfied Claim and Judgment Fund	214,381,774	214,381,774	214,936,208	554,434
Volunteer Emergency Service Organizations Loan Fund	1,272,409	1,272,409	1,275,700	3,291
Worker and Community Right to Know Fund	63,035	63,035	63,198	163
Workers' Compensation Security Fund—Mutual	10,340,905	10,340,905	10,367,649	26,744
Workers' Compensation Security Fund—Stock	60,003,857	60,003,857	60,159,039	155,182
Workforce Development Partnership Fund	49,921,770	49,921,770	50,050,877	129,107
		1,331,899,781	1,335,344,338	3,444,557

SUMMARY OF AMOUNTS INVESTED BY FUND (CONTINUED)
as of June 30, 2002

	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	5,937,064	5,937,064	5,952,419	15,355
Beaches and Harbors Fund (Act of 1977)	4,327	4,327	4,338	11
Capital City Redevelopment Loan and Grant Fund	1,434,423	1,434,423	1,438,133	3,710
Central Pension Fund	11,246	11,246	11,276	30
Clean Communities Account Fund (Act of 1985)	1,438,668	1,438,668	1,442,388	3,720
Clean Waters Fund (Act of 1976)	2,235,881	2,235,881	2,241,663	5,782
Contributory Insurance Fund—PERS	171,836,593	173,038,418	174,121,903	1,083,485
Contributory Insurance Fund—TPAF	98,734,602	99,023,361	99,427,120	403,759
Correctional Facilities Construction Fund (Act of 1982)	592,554	592,554	594,086	1,532
Correctional Facilities Construction Fund (Act of 1987)	5,410,582	5,410,582	5,424,574	13,992
Development Disabilities Waiting List Reduction and Human Services Facilities Construction Bonds (Act of 1994)	9,821,952	9,821,952	9,847,354	25,402
Drinking Water State Revolving Fund	37,283,112	37,283,112	37,379,533	96,421
Economic Development Site Fund 1996	2,153,960	2,153,960	2,159,530	5,570
Emergency Flood Control Fund (Act of 1978)	350,863	350,863	351,771	908
Emergency Medical Technician Training Fund	10,055,225	10,055,225	10,081,230	26,005
Energy Conservation Fund (Act of 1980)	61,617	61,617	61,776	159
Farmland Preservation Fund (Act of 1989)	325,874	325,874	326,717	843
Farmland Preservation Fund (Act of 1992)	4,205,641	4,205,641	4,216,517	10,876
Farmland Preservation Fund (Act of 1995)	12,556,501	12,556,501	12,588,975	32,474
Garden State Farmland Preservation Trust Fund	26,043,761	26,043,761	26,111,115	67,354
Garden State Green Acres Preservation Trust Fund	2,602,826	2,602,826	2,609,558	6,732
Garden State Historic Preservation Trust Fund	17,335,526	17,335,526	17,380,359	44,833
General Investment Fund	392,982,810	392,982,810	393,999,140	1,016,330
Green Acres Cultural Centers and Historic Preservation Bond Fund (Act of 1987)	4,111,750	4,111,750	4,122,384	10,634
Green Trust Fund (Act of 1983)	16,723,619	16,723,619	16,766,870	43,251
Higher Education Facility Renovation and Rehabilitation Fund	312,211	312,211	313,018	807
Historic Preservation Fund (Act of 1992)	1,670,503	1,670,503	1,674,823	4,320
Historic Preservation Fund (Act of 1995)	1,418,330	1,418,330	1,421,998	3,668
Historic Preservation Revolving Loan Fund	3,342,678	3,342,678	3,351,323	8,645
Horse Racing Injury Compensation	3,616,837	3,616,837	3,626,191	9,354
Housing Assistance Fund (Act of 1968)	4,179,466	4,179,466	4,190,275	10,809
Human Services Facilities Construction Fund (Act of 1984)	239,233	239,233	239,852	619
Institutional Construction Fund (Act of 1978)	6,837	6,837	6,854	17
Institutions Construction Fund (Act of 1976)	9,071	9,071	9,094	23
Jobs, Education, and Competitiveness Fund (Act of 1988)	4,431,184	4,431,184	4,442,644	11,460
Lake Restoration Fund	1,436,304	1,436,304	1,440,018	3,714
Medical Education Facilities Fund (Act of 1977)	528,212	528,212	529,578	1,366
Mortgage Assistance Fund (Act of 1976)	1,909,942	1,909,942	1,914,881	4,939
Natural Resources Fund (Act of 1980)	4,297,731	4,297,731	4,308,846	11,115
New Home Warranty Security Fund	29,868,872	29,868,872	29,946,119	77,247
New Jersey Bridge Rehabilitation and Improvement and Railroad Right of Way Preservation Fund	1,375,267	1,375,267	1,378,824	3,557
New Jersey Bridge Rehabilitation Fund (Act of 1983)	65,811	65,811	65,981	170
New Jersey Coastal Blue Acres Fund	1,210,054	1,210,054	1,213,183	3,129
New Jersey Cultural Trust Fund	11,932,728	11,932,728	11,963,588	30,860
New Jersey Dam Restoration & Clean Water Fund (Act of 1992)	6,750,788	6,750,788	6,768,246	17,458
New Jersey Green Acres Fund (Act of 1983)	15,624,786	15,624,786	15,665,195	40,409
New Jersey Green Acres Fund (Act of 1989)	6,753,049	6,753,049	6,770,514	17,465
New Jersey Green Acres Fund (Act of 1992)	2,774,830	2,774,830	2,782,006	7,176
New Jersey Green Acres Fund (Act of 1995)	1,811,857	1,811,857	1,816,543	4,686
New Jersey Green Trust Fund (Act of 1989)	32,721,942	32,721,942	32,806,567	84,625
New Jersey Green Trust Fund (Act of 1992)	2,003,108	2,003,108	2,008,289	5,181
New Jersey Green Trust Fund (Act of 1995)	885,470	885,470	887,760	2,290
New Jersey Health Maintenance Organization Assistance Fund	12,973,475	12,973,475	13,007,027	33,552
New Jersey Inland Blue Acres Fund	2,241,920	2,241,920	2,247,718	5,798
New Jersey State Dental Program	17,262,555	17,262,555	17,307,200	44,645
Pension Adjustment Fund	3,863,860	3,863,860	3,873,852	9,992
Pension Payroll Investment Fund	11,251,222	11,251,222	11,280,320	29,098
Pinelands Infrastructure Trust Fund (Act of 1985)	2,245,283	2,245,283	2,251,090	5,807
Pollution Prevention Fund	4,021,544	4,021,544	4,031,945	10,401
Prescription Drug Program Fund	24,999,725	24,999,725	25,064,379	64,654
Public Buildings Construction Fund (Act of 1968)	3,413	3,413	3,422	9
Public Purpose Buildings and Community-Based Facilities Construction Fund (Act of 1989)	2,456,196	2,456,196	2,462,548	6,352
Public Purpose Buildings and Construction Fund (Act of 1980)	272,901	272,901	273,607	706

SUMMARY OF AMOUNTS INVESTED BY FUND (CONTINUED)
as of June 30, 2002

	Par, Cost or Principal Amount— Note 1	Cost— Note 1	Fair Value— Note 1	Fair Value Over (Under) Cost
TEMPORARY RESERVE GROUP—(continued)				
Resource Recovery & Solid Waste Disposal Facilities Fund (Act of 1985)	71,025	71,025	71,209	184
Safe Drinking Water Fund	5,137,418	5,137,418	5,150,705	13,287
Shore Protection Fund (Act of 1983)	10,658,175	10,658,175	10,685,740	27,565
State Facilities for Handicapped Fund (Act of 1973)	243,674	243,674	244,304	630
State Health Benefits Fund	78,548,569	78,548,569	78,751,711	203,142
State Land Acquisition and Development Fund (Act of 1978)	59,688	59,688	59,843	155
State Lottery Fund—Investment	141,740,467	120,693,384	122,849,469	2,156,085
State of New Jersey—Alternate Benefit Program	12,239,795	12,239,795	12,271,450	31,655
State of New Jersey Cash Management Fund— Administrative Expense Fund	1,309,402	1,309,402	1,312,789	3,387
State of New Jersey Cash Management Fund— Other than State Funds	4,912,109,490	4,912,109,490	4,924,813,159	12,703,669
State of New Jersey Cash Management Fund— Reserve Fund	37,636,732	37,636,732	37,734,068	97,336
State of New Jersey Development Potential Transfer Bank Fund	3,375,558	3,375,558	3,384,288	8,730
State Recreation and Conservation Land Acquisition and Development Fund (Act of 1974)	1,599,163	1,599,163	1,603,299	4,136
Statewide Transportation & Local Budget Fund 1999	9,918,819	9,918,819	9,944,471	25,652
Stormwater Management and Combined Sewer Overflow Abatement Fund	3,900,978	3,900,978	3,911,066	10,088
Transportation Rehabilitation and Improvement Fund (Act of 1979)	322,176	322,176	323,009	833
University of Medicine and Dentistry of New Jersey Self-Insurance Reserve Fund	52,788,752	52,487,467	54,443,341	1,955,874
Urban & Rural Centers Unsafe Buildings Demolition Revolving Loan Fund	67,233	67,233	67,407	174
Water Conservation Fund (Act of 1969)	987,449	987,449	990,002	2,553
Water Supply Fund (Act of 1981)	17,928,990	17,928,990	17,975,358	46,368
Water Supply Replacement Trust Fund	164,052	164,052	164,476	424
		6,317,969,993	6,338,757,211	20,787,218
TRUST GROUP				
New Jersey State Employees' Deferred Compensation Administrative Charges	646,320	646,320	647,992	1,672
New Jersey State Employees' Deferred Compensation Cash Management Fund	172,710,393	172,710,393	173,157,055	446,662
New Jersey State Employees' Deferred Compensation Equity Fund	391,720,219	391,720,219	538,693,842	146,973,623
New Jersey State Employees' Deferred Compensation Fixed Income Fund	178,570,383	182,854,628	190,891,954	8,037,326
New Jersey State Employees' Deferred Compensation Holding Account	10,689,590	10,689,590	10,717,235	27,645
New Jersey State Employees' Deferred Compensation Small Cap Equity Fund	143,439,735	143,439,735	145,084,482	1,644,747
Insurance Annuity Trust Fund	78,659	78,659	78,863	204
NJ Best Fund—Administrative Expenses	523,669	523,669	525,023	1,354
NJ Best Fund—Core Bond Fund	11,747,912	12,048,253	11,264,356	(783,897)
NJ Best Fund—Portfolio A	7,514,315	7,864,432	7,823,658	(40,774)
NJ Best Fund—Portfolio B	20,607,374	21,033,895	20,544,964	(488,931)
NJ Best Fund—Portfolio C	24,397,016	25,042,004	24,116,041	(925,963)
NJ Best Fund—Portfolio D	18,742,626	19,496,677	18,422,842	(1,073,835)
NJ Best Fund—Portfolio E	21,226,349	21,651,663	19,903,299	(1,748,364)
Supplemental Annuity Collective Trust Fund	85,767,197	85,767,197	140,797,686	55,030,489
Tischler Memorial Fund	677,774	676,097	683,586	7,489
		1,096,243,431	1,303,352,878	207,109,447
TOTAL AMOUNTS INVESTED BY FUNDS	\$49,242,643,856	\$49,210,793,471	\$72,673,806,584	\$23,463,013,113

See accompanying notes.

SUMMARY OF INVESTMENT INCOME BY FUND
for the Year Ended June 30, 2002

	Net Investment Earnings (Note 1)	Change in Unrealized Appreciation/ (Depreciation)	Net Gain (Loss) from Investment Transactions	Total Investment Income
PENSION AND ANNUITY GROUP				
Consolidated Police and Firemen's Pension Fund	\$ 942,669	\$ 196,858	\$ 14,701	\$ 1,154,228
Judicial Retirement System of New Jersey	8,731,533	(38,827,372)	1,342,429	(28,753,410)
Police and Firemen's Retirement System	407,907,759	(1,756,394,486)	50,687,282	(1,297,799,445)
Prison Officers Pension Fund	940,244	344,739	9,310	1,294,293
Public Employees' Retirement System	599,918,564	(2,618,152,743)	69,216,861	(1,949,017,318)
State Police Retirement System	43,473,248	(186,650,133)	6,835,148	(136,341,737)
Teachers' Pension and Annuity Fund	748,270,744	(3,396,586,636)	99,507,774	(2,548,808,118)
	<u>1,810,184,761</u>	<u>(7,996,069,773)</u>	<u>227,613,505</u>	<u>(5,958,271,507)</u>
STATIC GROUP				
Trustees for the Support of Public Schools Fund	4,981,152	(19,922,702)	5,991,523	(8,950,027)
Waste Water Treatment Fund (Act of 1985)	8,278,010	503,403	—	8,781,413
Waste Water Treatment Fund (Act of 1992)	24,527	3,198	—	27,725
	<u>13,283,689</u>	<u>(19,416,101)</u>	<u>5,991,523</u>	<u>(140,889)</u>
DEMAND GROUP				
Atlantic City Casino Parking Fund	32,542	3,770	—	36,312
Atlantic City Tourism Promotion Fund	13,534	529	—	14,063
Board of Bar Examiners Fund	27,080	6,611	—	33,691
Boarding House Rental Assistance Fund	55,774	1,943	—	57,717
Body Armor Replacement Fund	132,607	11,814	—	144,421
Casino Simulcasting Fund	38,939	2,660	—	41,599
Casino Simulcasting Special Fund	79,474	18,054	—	97,528
Catastrophic Illness in Children Relief Fund (Act of 1987)	314,899	20,128	—	335,027
Development Fund—Luxury Tax	50,862	3,500	—	54,362
Division of Motor Vehicles Surcharge Fund	283,562	9,121	—	292,683
Dredging & Containment Facility Fund	817,046	6,270	—	823,316
Emergency Services Fund	445,898	30,325	—	476,223
Enterprise Zone Assistance Fund (Act of 1983)	2,954,934	419,086	—	3,374,020
Environmental Clean Up Fund (Act of 1996)	14,450	1,068	—	15,518
Hazardous Discharge Fund (Act of 1981)	5,956	470	—	6,426
Hazardous Discharge Fund (Act of 1986)	313,883	25,325	—	339,208
Hazardous Discharge Site Cleanup Fund (Act of 1985)	1,751,949	144,791	—	1,896,740
Health Care Subsidy Fund	797,474	15,278	—	812,752
Higher Education Assistance Fund	1,054,833	83,028	—	1,137,861
Higher Education Assistance Operating Fund	714,052	59,220	—	773,272
Jobs, Science and Technology Fund (Act of 1984)	1,283	95	—	1,378
Korean Veterans' Memorial Fund	2,250	(59)	—	2,191
Luxury Tax Fund	26,517	986	—	27,503
Motor Vehicle Security Responsibility Fund	7,110	528	—	7,638
New Jersey Automobile Insurance Guaranty Fund	3,848,354	440,959	—	4,289,313
New Jersey Insurance Development Fund	845,787	(18,400)	—	827,387
New Jersey Spill Compensation Fund	1,011,958	33,821	—	1,045,779
Petroleum Overcharge Reimbursement Fund	413,923	27,834	—	441,757
Real Estate Guaranty Fund	56,798	4,327	—	61,125
Resource Recovery Investment Tax Fund (Act of 1985)	11,108	844	—	11,952
Sanitary Landfill Facility Contingency Fund	554,895	17,606	—	572,501
Solid Waste Services Tax Fund (Act of 1985)	258,345	18,710	—	277,055
Spinal Cord Research Fund	110,918	16,271	—	127,189
State Disability Benefits Fund	2,989,579	62,241	—	3,051,820
State of New Jersey Judiciary—Bail Fund	947,658	66,932	—	1,014,590
State of New Jersey Judiciary—Child Support Fund	846,384	69,721	—	916,105
State of New Jersey Judiciary—Probation Fund	248,554	18,419	—	266,973
State of New Jersey Judiciary—Special Civil Fund	78,690	6,429	—	85,119
State of New Jersey Judiciary—Superior Court/ Other Miscellaneous Fund	127,667	6,869	—	134,536
State Recycling Fund	109,906	6,391	—	116,297
Supplemental Workforce Fund for Basic Skills	67,736	33,602	—	101,338
Tobacco Settlement Fund	725,661	33,468	—	759,129
Tourism Improvement Development District Act Fund	9,977	481	—	10,458
Trial Attorney Certification Fund	2,570	351	—	2,921
Unclaimed Child Support Trust Fund	58,587	4,209	—	62,796
Unclaimed County Deposits Trust Fund	133,451	12,402	—	145,853
Unclaimed Insurance Payments on Deposit	57,316	4,406	—	61,722
Unclaimed Personal Property Trust Fund	1,840,930	128,467	—	1,969,397
Unclaimed Utility Deposits Trust Fund	52,369	3,933	—	56,302
Unemployment Compensation Auxiliary Fund	174,836	(2,590)	—	172,246
Unemployment Compensation Fund	649,524	136,380	—	785,904
Unsatisfied Claim and Judgment Fund	4,674,577	447,200	—	5,121,777
Volunteer Emergency Service Organizations Loan Fund	36,838	2,819	—	39,657
Worker and Community Right to Know Fund	17,570	50	—	17,620
Workers' Compensation Security Fund—Mutual	295,818	22,754	—	318,572
Workers' Compensation Security Fund—Stock	1,530,989	122,223	—	1,653,212
Workforce Development Partnership Fund	1,231,722	100,227	—	1,331,949
	<u>33,957,903</u>	<u>2,693,897</u>	<u>—</u>	<u>36,651,800</u>

SUMMARY OF INVESTMENT INCOME BY FUND (CONCLUDED)
for the Year Ended June 30, 2002

	Net Investment Earnings (Note 1)	Change in Unrealized Appreciation/ (Depreciation)	Net Gain (Loss) from Investment Transactions	Total Investment Income
TEMPORARY RESERVE GROUP				
Alcohol Education Rehabilitation and Enforcement Fund	143,053	12,590	—	155,643
Beaches and Harbors Fund (Act of 1977)	412	10	—	422
Capital City Redevelopment Loan and Grant Fund	58,832	2,885	—	61,717
Central Pension Fund	1,681	24	—	1,705
Clean Communities Account Fund (Act of 1985)	96,022	2,147	—	98,169
Clean Waters Fund (Act of 1976)	69,603	4,788	—	74,391
Contributory Insurance Fund—PERS	5,560,386	794,202	11,232,459	17,587,047
Contributory Insurance Fund—TPAF	2,569,088	292,987	11,589,944	14,452,019
Correctional Facilities Construction Fund (Act of 1982)	17,577	1,289	—	18,866
Correctional Facilities Construction Fund (Act of 1987)	198,223	11,111	—	209,334
Development Disabilities Waiting List Reduction and Human Services Facilities Construction Bonds (Act of 1994)	477,766	17,145	—	494,911
Drinking Water State Revolving Fund	925,703	87,193	—	1,012,896
Economic Development Site Fund 1996	84,529	3,485	—	88,014
Emergency Flood Control Fund (Act of 1978)	10,406	764	—	11,170
Emergency Medical Technician Training Fund	291,810	21,993	—	313,803
Energy Conservation Fund (Act of 1980)	1,876	101	—	1,977
Farmland Preservation Fund (Act of 1981)	48	(2)	—	46
Farmland Preservation Fund (Act of 1989)	8,663	734	—	9,397
Farmland Preservation Fund (Act of 1992)	128,942	9,050	—	137,992
Farmland Preservation Fund (Act of 1995)	397,007	26,662	—	423,669
Garden State Farmland Preservation Trust Fund	525,566	65,775	—	591,341
Garden State Green Acres Preservation Trust Fund	520,124	2,239	—	522,363
Garden State Historic Preservation Trust Fund	543,676	39,670	—	583,346
General Investment Fund	16,889,686	360,729	—	17,250,415
Green Acres Cultural Centers and Historic Preservation Bond Fund (Act of 1987)	146,119	8,354	—	154,473
Green Trust Fund (Act of 1983)	554,009	35,729	—	589,738
Higher Education Facility Renovation and Rehabilitation Fund	9,184	675	—	9,859
Historic Preservation Fund (Act of 1992)	75,503	3,086	—	78,589
Historic Preservation Fund (Act of 1995)	60,226	2,774	—	63,000
Historic Preservation Revolving Loan Fund	95,560	7,385	—	102,945
Horse Racing Injury Compensation Fund	93,178	8,312	—	101,490
Housing Assistance Fund (Act of 1968)	122,665	9,145	—	131,810
Human Services Facilities Construction Fund (Act of 1984)	14,072	376	—	14,448
Institutional Construction Fund (Act of 1978)	201	15	—	216
Institutions Construction Fund (Act of 1976)	268	20	—	288
Jobs, Education, and Competitiveness Fund (Act of 1988)	131,380	9,650	—	141,030
Lake Restoration Fund	52,051	2,954	—	55,005
Medical Education Facilities Fund (Act of 1977)	15,668	1,150	—	16,818
Mortgage Assistance Fund (Act of 1976)	59,408	4,171	—	63,579
Natural Resources Fund (Act of 1980)	128,258	9,300	—	137,558
New Home Warranty Security Fund	738,547	65,027	—	803,574
New Jersey Bridge Rehabilitation and Improvement and Railroad Right of Way Preservation Fund	596,120	(7,575)	—	588,545
New Jersey Bridge Rehabilitation Fund (Act of 1983)	102,176	(1,914)	—	100,262
New Jersey Coastal Blue Acres Fund	61,244	1,800	—	63,044
New Jersey Cultural Trust Fund	189,116	30,012	—	219,128
New Jersey Dam Restoration & Clean Water Fund (Act of 1992)	207,514	14,413	—	221,927
New Jersey Green Acres Fund (Act of 1983)	581,985	31,963	—	613,948
New Jersey Green Acres Fund (Act of 1989)	221,802	14,320	—	236,122
New Jersey Green Acres Fund (Act of 1992)	83,313	6,129	—	89,442
New Jersey Green Acres Fund (Act of 1995)	282,288	(1,205)	—	281,083
New Jersey Green Trust Fund (Act of 1989)	1,012,390	71,847	—	1,084,237
New Jersey Green Trust Fund (Act of 1992)	314,516	763	—	315,279
New Jersey Green Trust Fund (Act of 1995)	22,582	2,255	—	24,837
New Jersey Health Maintenance Organization Assistance Fund	513,475	28,251	—	541,726
New Jersey Inland Blue Acres Fund	90,772	4,310	—	95,082
New Jersey Medical Malpractice Reinsurance-Recovery Fund	307,760	(5,546)	—	302,214
New Jersey State Dental Program	453,944	39,797	372,580	866,321
Pension Adjustment Fund	250,583	8,262	—	258,845
Pension Payroll Investment Fund	687,210	(3,206)	—	684,004
Pinelands Infrastructure Trust Fund (Act of 1985)	144,283	3,933	—	148,216
Pollution Prevention Fund	101,612	8,811	—	110,423

SUMMARY OF INVESTMENT INCOME BY FUND (CONCLUDED)
for the Year Ended June 30, 2002

	Net Investment Earnings (Note 1)	Change in Unrealized Appreciation/ (Depreciation)	Net Gain (Loss) from Investment Transactions	Total Investment Income
TEMPORARY RESERVE GROUP—(continued)				
Prescription Drug Program Fund	453,433	62,824	—	516,257
Public Buildings Construction Fund (Act of 1968)	100	8	—	108
Public Purpose Buildings and Community-Based Facilities Construction Fund (Act of 1989)	147,212	3,782	—	150,994
Public Purpose Buildings and Construction Fund (Act of 1980)	9,261	565	—	9,826
Resource Recovery & Solid Waste Disposal Facilities Fund (Act of 1985)	529,024	(12,817)	—	516,207
Safe Drinking Water Fund	179,073	10,486	—	189,559
Shore Protection Fund (Act of 1983)	319,687	23,193	—	342,880
State Facilities for Handicapped Fund (Act of 1973)	7,059	537	—	7,596
State Health Benefits Fund	3,369,910	135,890	—	3,505,800
State Land Acquisition and Development Fund (Act of 1978)	6,208	(7)	—	6,201
State Lottery Fund—Investment	3,200,150	2,302,275	208,387	5,710,812
State of New Jersey—Alternate Benefits Program	424,809	25,520	1,793,550	2,243,879
State of New Jersey Cash Management Fund— Administrative Expense Fund	2,913,634	2,491	—	2,916,125
State of New Jersey Cash Management Fund— Other than State Funds	153,923,736	10,860,317	—	164,784,053
State of New Jersey Cash Management Fund— Reserve Fund	10,600,644	65,990	—	10,666,634
State of New Jersey Development Potential Transfer Bank Fund	98,527	7,405	—	105,932
State Recreation and Conservation Land Acquisition and Development Fund (Act of 1974)	47,315	3,486	—	50,801
Statewide Transportation & Local Budget Fund 1999	985,311	(4,214)	—	981,097
Stormwater Management and Combined Sewer Overflow Abatement Fund	203,770	5,941	—	209,711
Transportation Rehabilitation and Improvement Fund (Act of 1979)	9,513	703	—	10,216
University of Medicine and Dentistry of New Jersey Self-Insurance Reserve Fund	4,013,428	1,424,537	83,878	5,521,843
Urban & Rural Centers Unsafe Buildings Demolition Revolving Loan Fund	9,233	(93)	—	9,140
Water Conservation Fund (Act of 1969)	30,476	2,157	—	32,633
Water Supply Fund (Act of 1981)	2,026,212	13,608	—	2,039,820
Water Supply Replacement Trust Fund	115,799	(1,766)	—	114,033
	<u>221,665,185</u>	<u>17,105,932</u>	<u>25,280,798</u>	<u>264,051,915</u>
TRUST GROUP				
New Jersey State Employees' Deferred Compensation				
Administrative Charges	26,715	1,365	—	28,080
Cash Management Fund	4,907,691	383,226	—	5,290,917
Equity Fund	8,226,054	(129,674,027)	(1,227,529)	(122,675,502)
Fixed Income Fund	9,796,497	5,175,413	(485,703)	14,486,207
Holding Account	386,819	23,900	—	410,719
Small Cap Equity Fund	1,604,132	(1,322,725)	(4,784,267)	(4,502,860)
Insurance Annuity Trust Fund	2,115	175	—	2,290
NJ Best Fund—Administrative Expenses	9,410	1,271	—	10,681
NJ Best Fund—Core Bond Fund	340,960	(665,149)	(31,233)	(355,422)
NJ Best Fund—Portfolio A	157,582	(39,093)	(9,139)	109,350
NJ Best Fund—Portfolio B	314,007	(474,343)	912	(159,424)
NJ Best Fund—Portfolio C	332,198	(912,860)	(55)	(580,717)
NJ Best Fund—Portfolio D	228,180	(1,046,298)	—	(818,118)
NJ Best Fund—Portfolio E	163,251	(1,746,558)	—	(1,583,307)
Supplemental Annuity Collective Trust Fund	2,422,740	(45,698,304)	8,384,485	(34,891,079)
Tischler Memorial Fund	22,996	967	—	23,963
	<u>28,941,347</u>	<u>(175,993,040)</u>	<u>1,847,471</u>	<u>(145,204,222)</u>
TOTAL INVESTMENT INCOME	<u>\$2,108,032,885</u>	<u>\$(8,171,679,085)</u>	<u>\$260,733,297</u>	<u>\$(5,802,912,903)</u>

See accompanying notes.

SUMMARY OF INVESTMENTS BY MAJOR CATEGORY as of June 30, 2002

	Par, Cost or Principal Amount— Note 1	Cost— Note 1	Fair Value— Note 1	Fair Value Over (Under) Amortized Cost
U.S. Government and Other Government				
Bonds and Obligations	\$ 663,970,000	\$ 660,984,881	\$ 679,368,794	\$ 18,383,913
Industrial Bonds and Commercial Paper	8,500,000	8,485,542	8,803,260	317,718
Telephone Bonds	1,000,000	882,570	1,054,950	172,380
Finance Companies Senior Debt	5,000,000	5,031,700	5,479,550	447,850
Mortgage-Backed Certificates	2,259,241,659	2,230,476,594	2,311,134,042	80,657,448
Police and Firemen's Mortgage Program	839,778,996	839,778,996	845,652,901	5,873,905
Common Stocks	602,987,350	602,987,350	836,522,827	233,535,477
Units—Common Pension Fund A	10,154,085,254	10,154,085,254	28,915,692,631	18,761,607,377
Units—Common Pension Fund B	16,699,920,063	16,699,920,063	18,230,583,039	1,530,662,976
Units—Common Pension Fund D	8,278,621,939	8,278,621,939	11,091,308,266	2,812,686,327
Units—Cash Management Fund	9,685,773,516	9,685,773,516	9,710,822,825	225,049,309
Units—NJ Best—Pooled Equity Fund	43,765,066	43,765,066	37,383,499	(6,381,567)
TOTAL INVESTMENTS BY MAJOR CATEGORY		<u>\$49,210,793,471</u>	<u>\$72,673,806,584</u>	<u>\$23,463,013,113</u>

See accompanying notes.

SUMMARY OF INVESTMENT ACTIVITY for the Year Ended June 30, 2002

Purchases at cost, including common funds	\$ 1,307,090,900
Purchases of units of common funds, at cost	48,204,662,836
Unrealized appreciation	(8,171,679,085)
Sales	(1,002,927,251)
Mortgage principal repayments	(742,840,106)
Redemptions	(27,943,375)
Maturities	(88,118,000)
Redemptions of units of common funds	(50,696,806,945)
Realized gains distributed to funds	<u>260,733,297</u>
NET INCREASE IN INVESTMENTS	(10,957,827,729)
Total amounts invested by funds— Beginning of year Note 2	<u>83,631,634,313</u>
Total amounts invested by funds— END OF YEAR	<u>\$ 72,673,806,584</u>

See accompanying notes.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Administration

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

Investment Valuation

Investments are stated at fair value.

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

The Police and Firemen's Retirement System (the "Fund") includes a mortgage loan program established by law in 1992. The program provides that participants of the Fund may receive mortgages from the Fund at rates which are fixed by formula. The law further provides that the Fund may not sell the mortgages, and therefore no independent market exists for them. As of June 30, 2002, the mortgage loan program had a cost of \$839,778,996 and an appraised value of \$845,652,901, determined using market prices obtained from an independent broker.

Investment Transactions

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

Investment Income

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

Administrative Expenses

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

Other

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

NOTE 2—INVESTMENT ACTIVITY

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

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

Government Accounting Standards Board ("GASB") Statement No. 3 requires disclosure of the level of investment risk assumed by the Funds at June 30, 2001. Category 1 includes investments that are insured or registered, or securities held by the Division or its agent in the Funds' name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Funds' name. Category 3 includes uninsured and unregistered investments held by a broker or dealer, or held by the counterparty's trust department or agent but not in the Funds' name. As of June 30, 2001, all investments held by the Division were classified as Category 1.

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

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

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

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

Realized gains and losses arising from investment activity by Common Pension Fund A, Common Pension Fund B and Common Pension Fund D, and NJBEST Pooled Equity Fund consisting of net losses of (\$277,068,026) in fiscal year 2002, 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 (\$461,624,784.12) in fiscal year 2002 are not reflected in the Summary of Investment Income by Fund. Undistributed investment income of \$3,840,068,820 as of June 30, 2002, arising from investment activity by Common Pension Fund D is not reflected in the Summary of Investment Income by Fund. These amounts are not reflected as they were not distributed to the holders of the Funds.

NOTES TO INVESTMENT SUMMARIES

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

The following is a summary of investments by major category at June 30, 2002, including investments owned by the Common Pension Funds, NJBEST Pooled Equity Fund and the State of New Jersey Cash Management Fund, the “Unit Funds.” In the Total Amounts Invested by Funds shown in the investment summaries, the Common Pension Funds, NJBEST Pooled Equity Fund and the State of New Jersey Cash Management Fund are shown at their unit value.

	Par, Cost Or Principal Amount	Cost	Fair Value	Fair Value Over (Under) Cost
Industrial bonds and commercial paper	\$ 8,856,953,935	\$ 8,847,762,878	\$ 9,081,663,332	\$ 233,900,454
Time certificates of deposit	3,036,200,000	3,036,200,000	3,036,200,000	—
U.S. Government and other government bonds and obligations	12,659,990,000	13,087,452,018	13,582,617,391	495,165,373
Foreign government bonds and notes	709,029,838	709,029,838	714,451,192	5,421,354
Foreign stocks	10,889,593,356	10,889,593,356	9,855,461,583	(1,034,131,773)
Telephone bonds	796,672,678	770,575,583	752,612,601	(17,962,982)
Gas and electric bonds	399,500,000	396,657,195	415,355,565	18,698,370
Common stocks	20,799,895,807	20,799,895,807	29,476,780,052	8,676,884,245
Mortgage-backed certificates	2,259,241,659	2,230,476,594	2,311,134,042	80,657,448
Police and Firemen's mortgage program	839,778,996	839,778,996	845,652,901	5,873,905
Merchant marine bonds	136,164,000	136,164,000	138,153,356	1,989,356
Finance companies senior debt	1,820,490,000	1,831,564,497	1,883,656,598	52,092,101
International bank bonds and notes	550,000,000	551,569,810	563,499,500	11,929,690
Total investments		64,126,720,572	72,657,238,113	8,530,517,541
Differences in accounting by unit funds:				
Other assets		825,810,543	829,494,341	3,683,798
Other liabilities		(5,092,904,926)	(809,327,507)	4,283,577,419
Undistributed realized gains and other income		(10,648,832,718)	(3,598,363)	10,645,234,355
Total amounts invested by funds		<u>\$49,210,793,471</u>	<u>\$72,673,806,584</u>	<u>\$23,463,013,113</u>

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

- I. The summary of investments by major category (page 28) includes the “Par, Cost, or Principal Amount” of the units of participation at the total purchase price of the units by the participating funds. The total investments shown above reflect the “Par, Cost, or Principal Amount” of the investments held by the Unit Funds.
- II. Fair value as shown for total amounts invested by fund represents the net asset value of the Common Pension Funds, NJBEST Pooled Equity Fund and the State of New Jersey Cash Management Fund as of June 30, 2002. The market value included in the total investments shown above reflects the fair value of the investments held by the Unit Funds.
- III. Total investments shown above do not reflect the other assets and liabilities of the Unit Funds, e.g., cash, accrued interest receivable, amounts due for investments sold or owed for investments purchased, and undistributed income due to participants. These items are included in calculating the net asset value of the Unit Funds.
- IV. Total amounts invested by funds do not reflect cumulative net realized gains from Unit Funds’ investment transactions which have not been distributed to the participating funds. Common Pension Funds A, B and D cumulative net realized gains are distributed at the discretion of the State Investment Council.

NOTES TO INVESTMENT SUMMARIES

NOTE 4—COMMITMENTS

As of June 30, 2002, Common Pension Fund D had entered into the following forward foreign currency exchange contracts which contractually obligate the fund to deliver/receive at specified future dates. The open contracts were as follows:

Contract	Foreign Currency	In Exchange For	Value	Settlement Date	Unrealized Gain (Loss)
Sales:					
JPY	\$6,000,000,000	\$ 50,536,955	\$ 50,175,600	08/12/02	\$ 361,355
JPY	6,000,000,000	51,840,332	50,203,800	08/23/02	1,636,532
JPY	2,500,000,000	21,393,120	20,960,750	10/01/02	432,370
JPY	2,500,000,000	21,218,808	20,970,500	10/09/02	248,308
JPY	2,500,000,000	21,258,503	20,964,500	10/04/02	294,003
JPY	2,500,000,000	21,175,673	20,980,250	10/17/02	195,423
JPY	7,000,000,000	59,116,629	58,837,800	11/13/02	278,829
JPY	5,000,000,000	39,875,588	42,353,000	03/11/03	(2,477,412)
JPY	2,748,350,000	22,000,000	23,281,823	03/12/03	(1,281,823)
JPY	6,500,000,000	53,630,363	55,367,650	05/30/03	(1,737,287)
EUR	30,000,000	28,710,000	29,205,222	06/30/03	(495,222)
Purchases:					
JPY	2,500,000,000	20,980,250	20,174,957	10/17/02	805,293
JPY	2,748,350,000	23,281,823	21,490,792	03/12/03	1,791,031
Total Forwards		\$435,018,044	\$434,966,645		<u>\$ 51,400</u>

APPENDIX I

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

	Consolidated Police & Firemen's Pension Fund		Judicial Retirement System of New Jersey		Police & Firemen's Retirement System	
	Original Cost	Fair Value	Original Cost	Fair Value	Original Cost	Fair Value
SHORT-TERM OBLIGATIONS						
U.S. Government and other government securities and obligations	\$ 5,370	\$ 5,391	\$ 5,591	\$ 5,612	\$ 225,149	\$ 225,990
Commercial paper	4,891	4,902	5,092	5,104	205,044	205,506
Time certificates of deposit	3,994	3,994	4,158	4,158	167,431	167,431
	<u>14,255</u>	<u>14,287</u>	<u>14,841</u>	<u>14,874</u>	<u>597,624</u>	<u>598,927</u>
LONG-TERM OBLIGATIONS						
U.S. Government and other government securities and obligations	3,441	3,640	35,669	37,642	1,626,774	1,716,747
Industrial bonds	—	—	24,250	25,264	1,105,989	1,152,222
Gas and electric bonds	—	—	1,696	1,776	77,337	80,982
Telephone bonds	—	—	3,290	3,213	150,068	146,532
Finance companies—senior debt	263	268	7,227	7,437	328,163	337,694
Merchant marine bonds	—	—	582	591	26,548	26,936
Foreign government bonds and notes	—	—	3,917	3,947	150,834	151,998
	<u>3,704</u>	<u>3,908</u>	<u>76,631</u>	<u>79,870</u>	<u>3,465,713</u>	<u>3,613,111</u>
MORTGAGES						
Mortgage-backed certificates	4,173	4,353	21,139	22,237	1,405,173	1,428,655
	<u>4,173</u>	<u>4,353</u>	<u>21,139</u>	<u>22,237</u>	<u>1,405,173</u>	<u>1,428,655</u>
STOCKS						
Common stock (U.S.)	—	—	93,925	133,291	4,502,251	6,389,256
Preferred stock	—	—	—	—	—	—
Common stock (International)	—	—	61,331	55,506	2,333,331	2,111,746
	<u>—</u>	<u>—</u>	<u>155,256</u>	<u>188,797</u>	<u>6,835,582</u>	<u>8,501,002</u>
	<u>22,132</u>	<u>22,548</u>	<u>267,867</u>	<u>305,778</u>	<u>12,304,092</u>	<u>14,141,695</u>
Differences in accounting by unit funds (other assets, other liabilities, undistributed realized gains and other income)	<u>52</u>	<u>53</u>	<u>(50,986)</u>	<u>(56)</u>	<u>(2,966,445)</u>	<u>(4,605)</u>
	<u>\$22,184</u>	<u>\$22,601</u>	<u>\$216,881</u>	<u>\$305,722</u>	<u>\$9,337,647</u>	<u>\$14,137,090</u>

**INCLUDING INVESTMENTS OWNED BY THE COMMON PENSION FUNDS AND THE STATE OF NEW JERSEY
(000's Omitted) at June 30, 2002**

Prison Officers Pension Fund		Public Employees' Retirement System		State Police Retirement System		Teachers' Pension and Annuity Fund		Totals	
Original Cost	Fair Value	Original Cost	Fair Value	Original Cost	Fair Value	Original Cost	Fair Value	Original Cost	Fair Value
\$ 1,968	\$ 1,975	\$ 351,755	\$ 353,069	\$ 36,706	\$ 36,843	\$ 546,422	\$ 548,465	\$ 1,172,961	\$ 1,177,345
1,792	1,796	320,344	321,067	33,428	33,503	497,629	498,751	1,068,220	1,070,629
<u>1,463</u>	<u>1,463</u>	<u>261,581</u>	<u>261,581</u>	<u>27,296</u>	<u>27,296</u>	<u>406,346</u>	<u>406,346</u>	<u>872,269</u>	<u>872,269</u>
5,223	5,234	933,680	935,717	97,430	97,642	1,450,397	1,453,562	3,113,450	3,120,243
9,061	9,757	3,034,252	3,197,527	211,995	223,720	3,547,995	3,744,228	8,469,187	8,933,261
—	—	1,986,050	2,069,073	144,128	150,153	2,412,163	2,512,998	5,672,580	5,909,710
—	—	138,875	145,422	10,078	10,553	168,671	176,622	396,657	415,355
—	—	269,480	263,131	19,556	19,095	327,298	319,586	769,692	751,557
96	98	586,717	603,782	43,126	44,375	718,436	739,275	1,684,028	1,732,929
—	—	47,673	48,369	3,460	3,510	57,901	58,747	136,164	138,153
—	—	<u>224,655</u>	<u>226,352</u>	<u>18,647</u>	<u>18,790</u>	<u>310,977</u>	<u>313,363</u>	<u>709,030</u>	<u>714,450</u>
9,157	9,855	6,287,702	6,553,656	450,990	470,196	7,543,441	7,864,819	17,837,338	18,595,415
<u>2,565</u>	<u>2,717</u>	<u>675,566</u>	<u>702,759</u>	<u>45,627</u>	<u>47,791</u>	<u>916,014</u>	<u>948,274</u>	<u>3,070,257</u>	<u>3,156,786</u>
2,565	2,717	675,566	702,759	45,627	47,791	916,014	948,274	3,070,257	3,156,786
—	—	6,622,016	9,397,467	460,875	654,039	8,476,634	12,029,402	20,155,701	28,603,455
—	—	—	—	—	—	—	—	—	—
—	—	<u>3,418,972</u>	<u>3,094,288</u>	<u>287,232</u>	<u>259,955</u>	<u>4,788,728</u>	<u>4,333,966</u>	<u>10,889,594</u>	<u>9,855,461</u>
—	—	10,040,988	12,491,755	748,107	913,994	13,265,362	16,363,368	31,045,295	38,458,916
16,945	17,806	17,937,936	20,683,887	1,342,154	1,529,623	23,175,214	26,630,023	55,066,340	63,331,360
<u>19</u>	<u>21</u>	<u>(5,232,085)</u>	<u>(4,026)</u>	<u>(360,881)</u>	<u>(23)</u>	<u>(6,336,369)</u>	<u>(4,356)</u>	<u>(14,946,695)</u>	<u>(12,992)</u>
<u>\$16,964</u>	<u>\$17,827</u>	<u>\$12,705,851</u>	<u>\$20,679,861</u>	<u>\$ 981,273</u>	<u>\$1,529,600</u>	<u>\$16,838,845</u>	<u>\$26,625,667</u>	<u>\$40,119,645</u>	<u>\$63,318,368</u>

APPENDIX II

UNAUDITED COMMON PERFORMANCE DISCLOSURE FORM FOR PUBLIC FUNDS

	Avg. Annual Return 5 Years Ended 6/30/02	One Year Period Ended				
		6/30/98	6/30/99	6/30/00	6/30/01	6/30/02
TOTAL RETURN						
Aggregate of All Pension Funds	5.4%	22.7%	16.0%	12.0%	-10.4%	-9.0%
Consumer Price Index	2.3%	1.7%	2.0%	3.7%	3.2%	1.1%
STOCK TOTAL RETURNS						
Common Pension Fund A—All Stocks	4.6%	31.0%	27.6%	12.3%	-16.4%	-20.3%
Common Pension Fund A—Small Capitalization Stocks	19.3%	26.9%	37.0%	52.4%	1.0%	-9.6%
Standard & Poor's 1500	4.3%	29.4%	21.4%	8.1%	-12.8%	-16.5%
Approved List	3.8%	29.9%	23.4%	10.1%	-17.2%	-17.8%
Dow Jones Industrial Average	4.1%	18.5%	24.6%	-3.3%	-4.5%	-10.3%
Standard & Poor's 500 Index	3.7%	30.1%	22.7%	7.3%	-14.8%	-18.0%
Russell 2000 Index	4.5%	16.5%	1.5%	14.3%	0.6%	-8.4%
FIXED INCOME TOTAL RETURNS						
Common Pension Fund B and Other Bonds	7.7%	11.8%	2.8%	4.3%	10.9%	9.2%
Lehman Brothers Government/Credit Bond Index	7.5%	11.3%	2.8%	4.3%	11.1%	8.2%
Salomon Brothers Broad Bond Index	7.9%	10.5%	3.1%	4.5%	13.1%	8.5%
MORTGAGES TOTAL RETURNS						
Pension Fund Holdings	8.0%	10.2%	3.4%	5.2%	11.4%	9.9%
Salomon Brothers Mortgage Index	7.9%	8.9%	4.1%	5.1%	12.3%	9.1%
INTERNATIONAL TOTAL RETURNS						
Common Fund D Total—Hedged	0.7%	15.6%	4.9%	21.1%	-24.5%	-6.8%
Common Fund D Fixed Income	3.4%	5.4%	2.9%	-0.2%	-4.6%	16.6%
Common Fund D Stocks	0.5%	19.4%	5.7%	26.3%	-28.8%	-9.7%
EAFE International Stock Index	3.5%	6.1%	7.7%	17.1%	-23.8%	-9.0%
Salomon World Gov. Non-U.S. Bond Index—Unhedged	3.0%	0.9%	4.9%	2.4%	-7.4%	15.7%
CASH EQUIVALENTS						
Total Returns—Cash Management Fund—Compounded	5.3%	5.8%	5.4%	5.8%	6.2%	3.1%
91-Day Treasury Bills	4.7%	5.3%	4.9%	5.3%	5.6%	2.7%

Several public funds have voluntarily undertaken to create common standards for reporting returns. This table is provided in accordance with the Division's desire to further comparability of public fund reporting. The aggregate total returns shown on the above table are estimates, and are shown for illustrative and comparative purposes only.

