
INVESTMENT SECTION

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State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
(609) 292-7524 TDD (609) 292-7718
www.state.nj.us/treasury/pensions

JON S. CORZINE
Governor

Mailing Address:
PO Box 295
Trenton, NJ 08625-0295
Location:
50 West State Street
Trenton, New Jersey
R. DAVID ROUSSEAU
Acting State Treasurer
FREDERICK J. BEAVER
Director

June 30, 2007

REVIEWS OF MAJOR POLICY ISSUES

The Division, under the jurisdiction of the State Investment Council (the "Council"), has the investment responsibility for over 180 funds, including seven pension and annuity funds. Effective July 28, 2007, the Council includes thirteen persons appointed to fixed terms. Four employee representatives are appointed by their respective pension fund boards (Public Employees' Retirement System, State Police Retirement System, Teachers' Pension and Annuity Fund and the Police and Fireman's Retirement System of New Jersey) for three-year terms. Two additional employee representatives will be appointed by the Governor from candidates nominated by the Public Employee Committee of the State AFL-CIO (to nominate three candidates) and the NJEA (to nominate three candidates) for terms of five years. Six members are appointed by the Governor for staggered five-year terms. In addition, one member is 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. All gubernatorial appointments 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 returns generated by the pension funds contribute directly to the assets of the various pension funds and the retirement security of pension fund beneficiaries.

All investments under the supervision of the Council must conform to the standards of prudence set by state law, which mandate that the Division make investments in which fiduciaries of trust estates may legally invest. 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 law provides for the "whole plan" principle, which permits a broad spectrum of investments. The law also states the fiduciary shall be under a duty to invest the portfolio solely in the interests of the trust beneficiaries and for the exclusive purpose of providing financial benefits to trust participants.

The investment information provided in this section is presented in accordance with the standards of the Association for Investment Management and Research. Performance is calculated using the time-weighted return based on the modified Dietz method

William G. Clark

Director, Division of Investment

INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

STATE INVESTMENT COUNCIL KEY REGULATIONS PERTAINING TO PENSION FUND ASSETS

- Public equity investments are limited to no more than 70 percent of the portfolio, including both domestic and international equities.
- Investments in international securities are limited to 30 percent of the portfolio, including both international equities and fixed income obligations.
- The market value of securities of companies in emerging markets is limited to 1.5 times the percentage derived by (1) dividing the total market capitalization of companies included in the MSCI Emerging Market Index by (2) the total market capitalization of the companies included in the MSCI All-Country World Ex-United States Index of the total market value of the assets held by Common Pension Fund D.
- The currency exposure on international investments may be hedged through currency transactions.
- Unlimited investment is permitted in securities issued by the U.S. Government and designated agencies.
- Investment in domestic corporate obligations, finance company debt, bank debentures, international corporate obligations and collateralized mortgage obligations are subject to a minimum rating requirement of Baa3 by Moody's, BBB- by Standard & Poor's and BBB- by Fitch Ratings. Investment in mortgage backed senior debt securities are subject to a minimum rating requirement of A3 by Moody's, A- by Standard & Poor's and A- by Fitch Ratings. Up to five percent of the pension assets may be invested in these securities not meeting the minimum rating requirements.
- Up to 3 percent of the domestic equity portfolio may consist of debt in lieu of common stock, regardless of the credit rating of the issuing company.
- Investments in international government and agency obligations are limited to direct debt obligations of a sovereign government or its political subdivisions, debt obligations of agencies of a sovereign government which are unconditionally guaranteed as to principal and interest by the sovereign government's full faith and credit, and debt obligations of international agencies that are directly backed by the collective credit of multiple sovereign governments.
- Investments in municipal bonds, commercial paper, repurchase agreements, certificates of deposit, bankers acceptances, etc. are all permitted by specific regulations which specify high credit standards and conservative investment limits.
- Subject to limitations established by the State Investment Council, futures contracts, certain options contracts and exchange-traded funds may be utilized in the management of the portfolios.
- The Council regulations contain limits on (1) the percentage of the portfolio that can be invested in any one security and (2) the percentage of the outstanding amount of any one security that can be owned by the portfolio. These limits help to insure that the portfolio is adequately diversified and that competitive market pricing is obtained.

PROXY VOTING

- Proxy voting policy addresses key issues.
- The Division seeks to vote all proxies received, unless shares are out on loan. Under certain circumstances, the Division may restrict shares from being loaned, or recall loaned shares in order to preserve the right to vote on proxy issues.

INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

INVESTMENT RETURNS

	2007	ANNUALIZED	
		3-YEAR	5-YEAR
TOTAL PORTFOLIO	17.1%	11.8%	10.5%
Equity Segment			
Domestic Equities (Common Pension Fund A)	20.6	12.7	11.2
S&P 1500 Index	20.2	12.1	11.1
S&P 1500 Index ex-Prohibited	19.6	11.9	11.0
S&P 500 Index	20.6	11.7	10.7
International Equities (Common Pension Fund D)	28.0	23.6	18.4
MSCI EAFE Index ex-Prohibited ¹	27.3	22.4	17.8
Fixed Income Segment			
Domestic Fixed Income (Common Pension Fund B)	5.2	3.9	4.7
Lehman—U.S. Government/Credit Index	6.0	3.8	4.7
Lehman—Long Govt/Credit Index	7.0	5.4	6.6
Mortgages	6.6	4.1	4.2
Lehman Mortgage Index	6.7	5.1	4.6
Cash Management Fund	5.5	4.0	3.0
91-Day Treasury Bills	5.1	3.7	2.7

Note: Performance is calculated using the time-weighted return based on the modified Dietz method. Certain benchmarks have been customized to give effect to divestment legislation ("ex-Prohibited").

¹MSCI EAFE ex-Prohibited return for 2007. Annualized 3-year and 5-year returns are based on MSCI EAFE returns for 2003 and 2006 and MSCI EAFE ex-Prohibited return for 2007

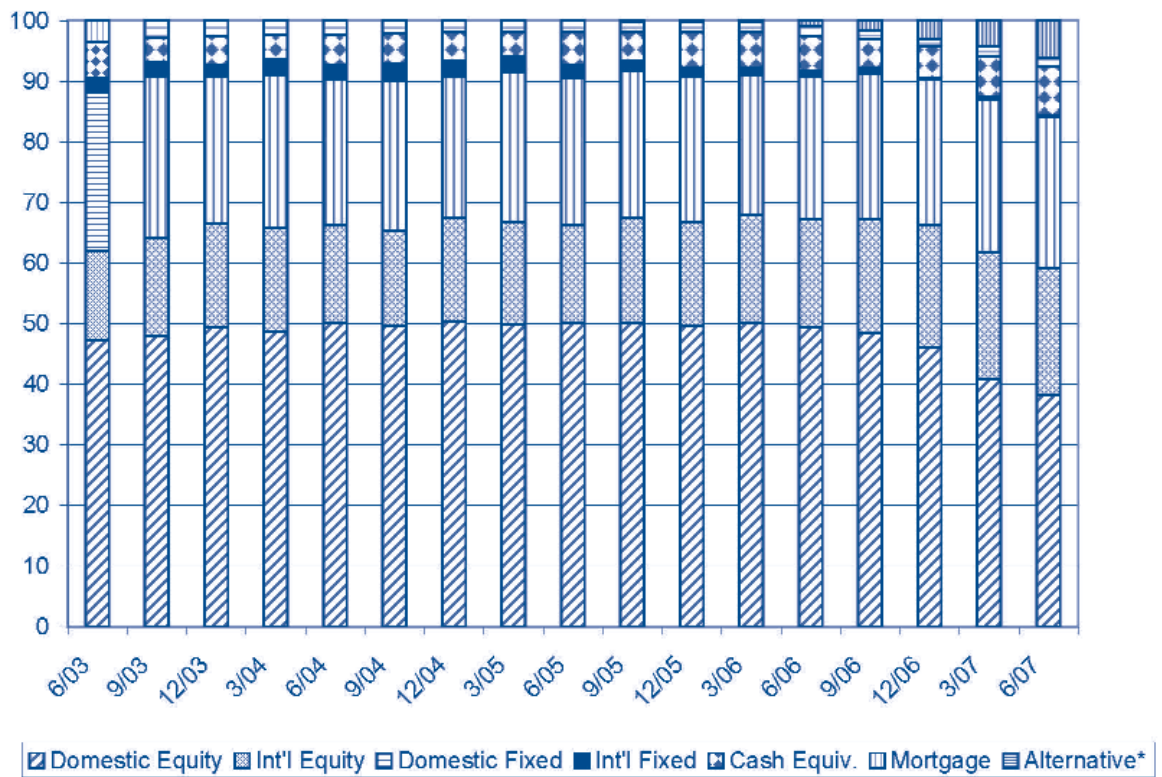
FAIR VALUE AND THE PERCENT OF TOTAL FAIR VALUE FOR EACH MAJOR TYPE OF INVESTMENT

	9/2006		12/2006		3/2007		6/2007	
	(MILS.)	%	(MILS.)	%	(MILS.)	%	(MILS.)	%
Domestic Equity	36,150	48.5	35,803	46.1	32,030	40.9	31,474	38.3
International Equity	13,885	18.6	15,746	20.3	16,381	20.9	17,175	20.9
Domestic Fixed Income	17,978	24.1	18,595	23.9	19,750	25.2	20,367	24.8
International Fixed Income	614	0.8	276	0.4	279	0.4	278	0.3
Alternative Investments	1,216	1.6	2,263	2.9	3,389	4.3	5,008	6.1
Cash Equivalents	3,621	4.9	3,883	5.0	5,317	6.8	6,694	8.2
Police and Firemen's Mortgages	1,021	1.4	1,107	1.4	1,158	1.5	1,109	1.4
Total	74,485	100.0	77,673	100.0	78,304	100.0	82,105	100.0

INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

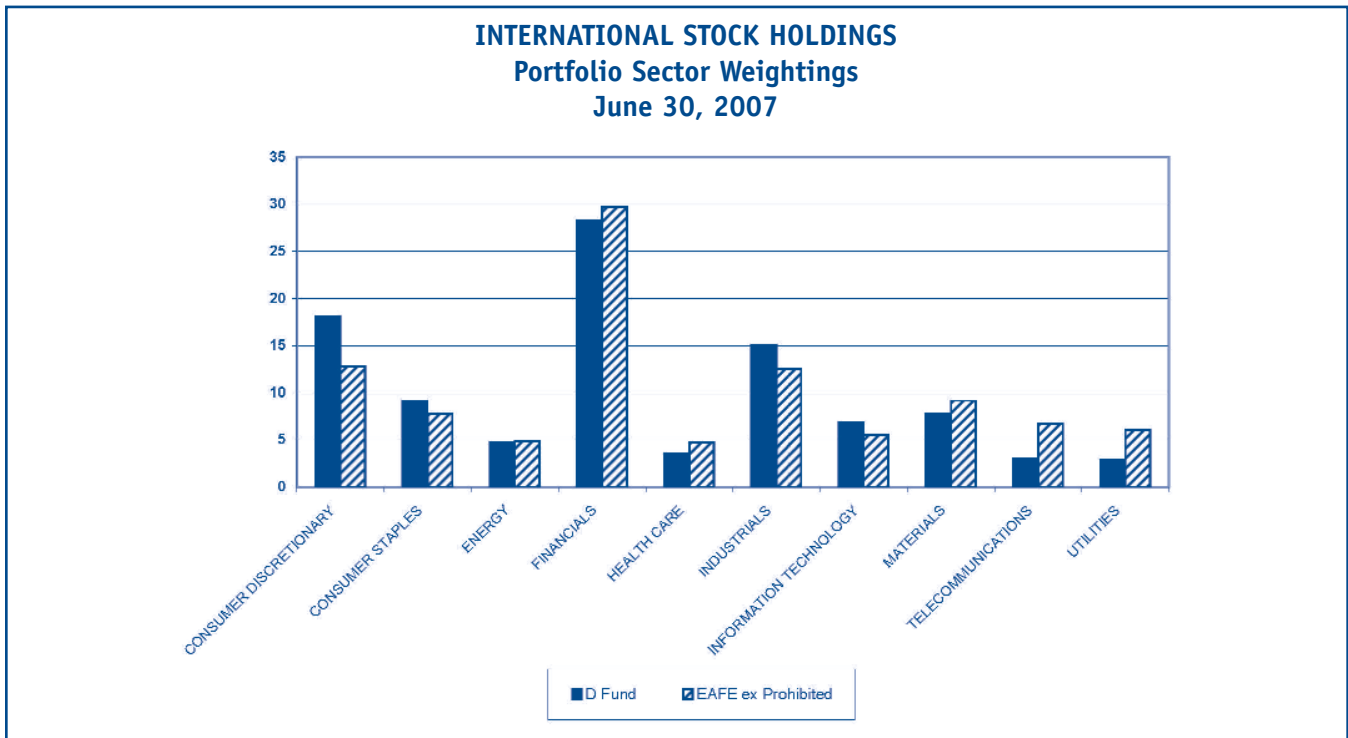
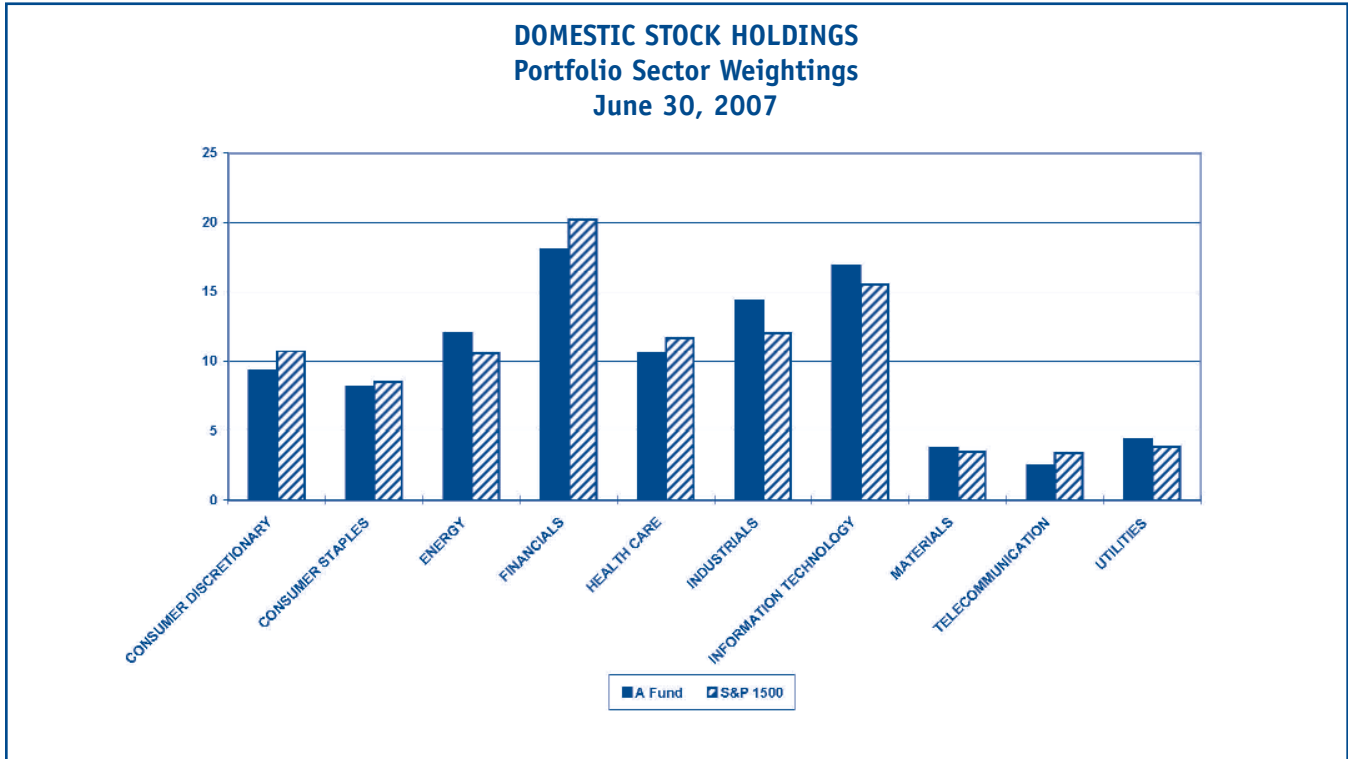
STATE OF NEW JERSEY COMPOSITE ASSET ALLOCATION HISTORY



*Alternative Investment Program started 9/05

INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS



INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

LIST OF THE LARGEST ASSETS HELD

LARGEST DOMESTIC STOCK HOLDINGS (BY MARKET VALUE)

JUNE 30, 2007

	SHARES	STOCK	MARKET VALUE (MIL)
1)	12,613,264	Exxon Mobil Corp.	\$1,058.0
2)	21,250,000	General Electric Co.	813.5
3)	26,000,000	Microsoft Corp.	766.2
4)	11,576,601	Citigroup Inc.	593.8
5)	10,549,615	Bank of America Corp.	515.8
6)	8,123,370	Proctor & Gamble Co.	497.1
7)	9,546,154	J.P. Morgan Chase & Co.	462.5
8)	6,400,329	American International Group Inc.	448.2
9)	5,242,000	Chevron Corp.	441.6
10)	15,000,000	Cisco Systems, Inc.	417.8

LARGEST DOMESTIC BOND HOLDINGS (BY MARKET VALUE)

JUNE 30, 2007

	PAR	BONDS	COUPON	DUE	RATING	MARKET VALUE (USD)
1)	635,000,000	US Treasury Bonds	6.000%	02/15/26	AAA	\$693,140,600
2)	605,000,000	US Treasury Bonds	5.250%	02/15/29	AAA	609,162,400
3)	590,000,000	US Treasury Bonds	5.375%	02/15/31	AAA	605,859,200
4)	385,000,000	US Treasury Bonds	5.500%	08/15/28	AAA	399,406,700
5)	358,200,000	US Treasury Bonds	6.250%	08/15/23	AAA	397,741,698
6)	405,000,000	US Treasury Bonds	4.500%	02/15/36	AAA	366,715,350
7)	325,000,000	US Treasury Notes	2.375%	01/15/25	AAA	342,588,924
8)	300,000,000	US Treasury Notes	4.250%	08/15/13	AAA	289,665,000
9)	200,000,000	US Treasury Bonds	7.250%	08/15/22	AAA	242,110,000
10)	188,000,000	US Treasury Bonds	7.125%	02/15/23	AAA	225,688,360

A complete list of the portfolio holdings is available from the
Division of Investment, P.O. Box 290, Trenton, NJ 08625-0290.

INVESTMENTS

STATE OF NEW JERSEY
DIVISION OF PENSIONS AND BENEFITS

LARGEST INTERNATIONAL STOCK HOLDINGS (BY MARKET VALUE)
JUNE 30, 2007

	SHARES	STOCK	MARKET VALUE (USD)
1)	1,400,000	Allianz SE (REG)	\$328,255,153
2)	4,770,500	Toyota Motor Corp.	304,479,131
3)	25,000,000	BP PLC	302,495,209
4)	5,500,000	SAP AG	282,816,263
5)	15,226,971	Pearson PLC	257,574,150
6)	5,555,555	AXA S.A.	240,199,411
7)	18,000,000	Reuters Group PLC (Tendered)	223,575,564
8)	3,057,436	Julius Baer Holding AG - B	219,332,918
9)	7,500,000	Investor AB B Shares	194,739,836
10)	9,095,758	Diageo PLC	189,268,715

LARGEST INTERNATIONAL BOND HOLDINGS (BY MARKET VALUE)
JUNE 30, 2007

	PAR (LOCAL)	BONDS	COUPON	DUE	MARKET VALUE (USD)
1)	65,000,000	Finland, Government of	2.750%	09/15/10	\$83,256,456
2)	35,000,000	Netherlands, Government of	3.000%	01/15/10	45,589,628
3)	30,000,000	Belgium, Kingdom of	3.750%	03/28/09	40,027,041
4)	25,000,000	Ireland, Republic of	5.000%	04/18/13	34,477,286
5)	25,000,000	Spain, Government of	4.000%	01/31/10	33,339,321
6)	16,227,326	Spain, Government of	6.000%	01/31/08	22,117,263
7)	15,000,000	Denmark, Kingdom of	3.250%	11/14/08	19,935,730

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INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

DOMESTIC EQUITY TRADING

FISCAL YEAR 2007

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSIONS PER SHARE
Bear, Stearns & Co. Inc.	25,457,708	\$1,152,940	\$0.045
Citigroup Global Markets, Inc.	15,538,075	473,295	0.030
Cowen and Co., LLC	11,551,711	493,000	0.043
JP Morgan Securities Inc.	12,333,941	530,600	0.043
Labranche Financial Services, Inc.	15,025,075	546,255	0.036
Lehman Brothers Inc.	26,426,575	813,046	0.031
Prudential Equity Group, LLC	27,766,323	1,209,229	0.044
Sanford C. Bernstein & Co., LLC	14,253,518	586,001	0.041
Soleil Securities Corp.	14,976,062	555,346	0.037
Westminster Research Associates	12,867,400	643,370	0.050

INTERNATIONAL EQUITY TRADING

FISCAL YEAR 2007

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSIONS PER SHARE
Bear, Stearns & Co., Inc.	28,861,312	\$640,160	\$0.022
Citigroup Global Markets, Inc.	30,962,364	512,289	0.017
Credit Agricole Chevreux North America	7,101,785	554,623	0.078
Credit Suisse Securities (USA) LLC	55,416,795	1,467,857	0.026
Goldman, Sachs & Co.	37,378,738	756,730	0.020
Merrill Lynch, Pierce, Fenner & Smith, Inc.	51,492,650	946,891	0.018
Mizuho Securities (USA) Inc.	41,271,000	785,249	0.019
Morgan Stanley & Co.	49,151,010	903,000	0.018
Nomura Securities International, Inc.	32,806,344	575,895	0.018
UBS Securities LLC	44,539,168	879,589	0.020

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