

*Investment  
Section*

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State of New Jersey  
DEPARTMENT OF THE TREASURY  
DIVISION OF INVESTMENT  
PO Box 290  
TRENTON, NJ 08625-0290

JAMES E. MCGREEVEY  
*Governor*

JOHN E. MCCORMAC, CPA  
*State Treasurer*

June 30, 2003

### REVIEWS OF MAJOR POLICY ISSUES

The Division, under the jurisdiction of the State Investment Council, has the investment responsibility for 181 funds, including seven pension and annuity funds. 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 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 income generated by the pension funds contributes 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 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.

Peter A. Langerman

A handwritten signature in blue ink that reads "Peter A. Langerman".

Director, Division of Investment



# INVESTMENTS

## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

### STATE INVESTMENT COUNCIL

#### REGULATIONS PERTAINING TO PENSION FUND ASSETS

- 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 22 percent of the portfolio, including both international equities and bonds.
- International investments are limited to countries that have at least one AA sovereign rating, except for five emerging markets countries. No more than five percent of the portfolio's international investments may consist of stocks issued by corporations domiciled in emerging markets countries.
- 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 bonds is permitted subject to the following minimum rating requirements: A/A for bank and finance companies, and Baa/BBB for all other companies.
- Up to three percent of the domestic equity portfolio may consist of debt in lieu of common stock, regardless of the credit rating of the issuing company.
- Investment by the pension funds in mortgages is limited to mortgages that are secured by the Federal Housing Administration (FHA) and mortgage-backed securities with a rating of AA or higher.
- Investments in securities backed by underlying collateral such as mortgage-backed securities and various forms of receivables are permitted, but such investments cannot exceed more than ten percent of the overall fixed income portfolio.
- Investments in international fixed income securities are limited to bonds issued or guaranteed by foreign governments and designated agencies.
- 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 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.



# INVESTMENTS

## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

### INVESTMENT RETURNS

	2003	<u>Annualized</u>	
		3-Year	5-Year
<b>TOTAL PORTFOLIO</b>	3.3%	-5.6%	1.8%
<b>Equity Segment</b>			
Domestic	-0.2	-12.6	-1.0
Approved List (US)	1.4	-11.6	-1.3
S&P 1500	0.1	-10.0	-0.9
S&P 500	0.3	-11.2	-1.6
International	-6.7	-15.7	-4.4
EAFE-USD	-6.5	-13.4	-3.9
<b>Fixed Income Segment</b>			
Domestic	13.0	11.0	8.0
Lehman Brothers-Govt/Credit Index	13.2	10.8	7.9
International	20.3	11.5	7.3
SB World Govt Non US-Unhedged	17.9	8.1	6.3
Mortgages	6.4	9.2	7.2
Lehman Mortgage Index	5.8	8.4	6.8
Cash Management Fund	1.9	3.7	4.5
91-Day Treasury Bills	1.4	3.2	3.9

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

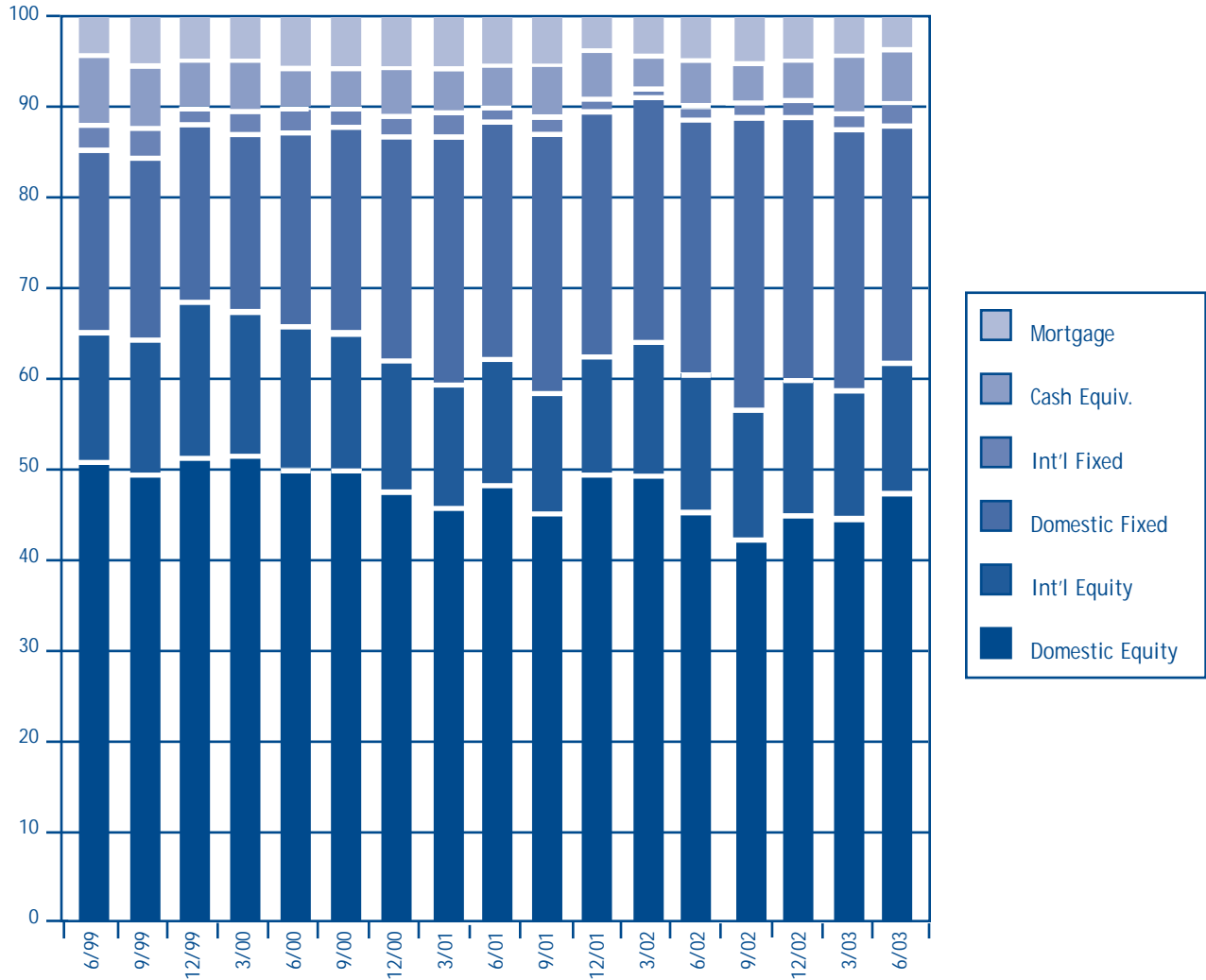
	9/2002		12/2002		3/2003		6/2003	
	(MILS.)	%	(MILS.)	%	(MILS.)	%	(MILS.)	%
Domestic Equity	23,883	42.4	26,060	44.8	25,234	44.8	29,394	47.2
International Equity	8,111	14.4	8,784	15.1	7,942	14.1	9,154	14.7
Domestic Fixed	18,250	32.4	17,044	29.3	16,335	29.0	16,316	26.2
International Fixed	620	1.1	698	1.2	1,014	1.8	1,557	2.5
Cash Equivalents	2,478	4.4	2,850	4.9	3,323	5.9	3,674	5.9
Mortgage	2,985	5.3	2,734	4.7	2,478	4.4	2,180	3.5
Total	56,327	100.0	58,170	100.0	56,327	100.0	62,275	100.0



# INVESTMENTS

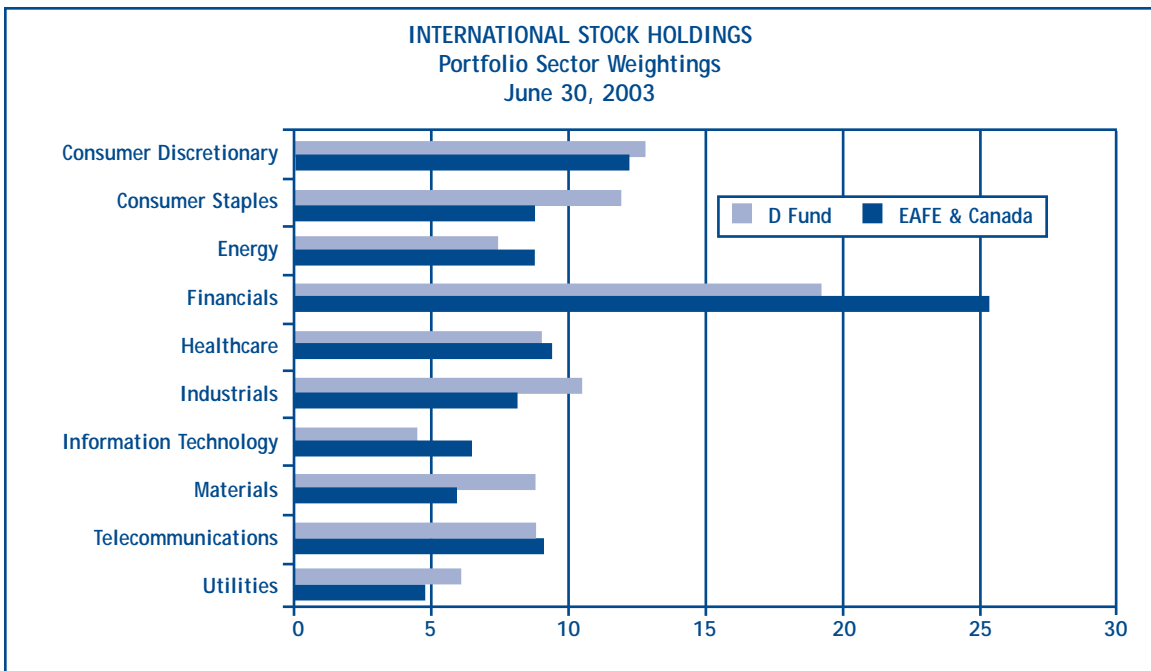
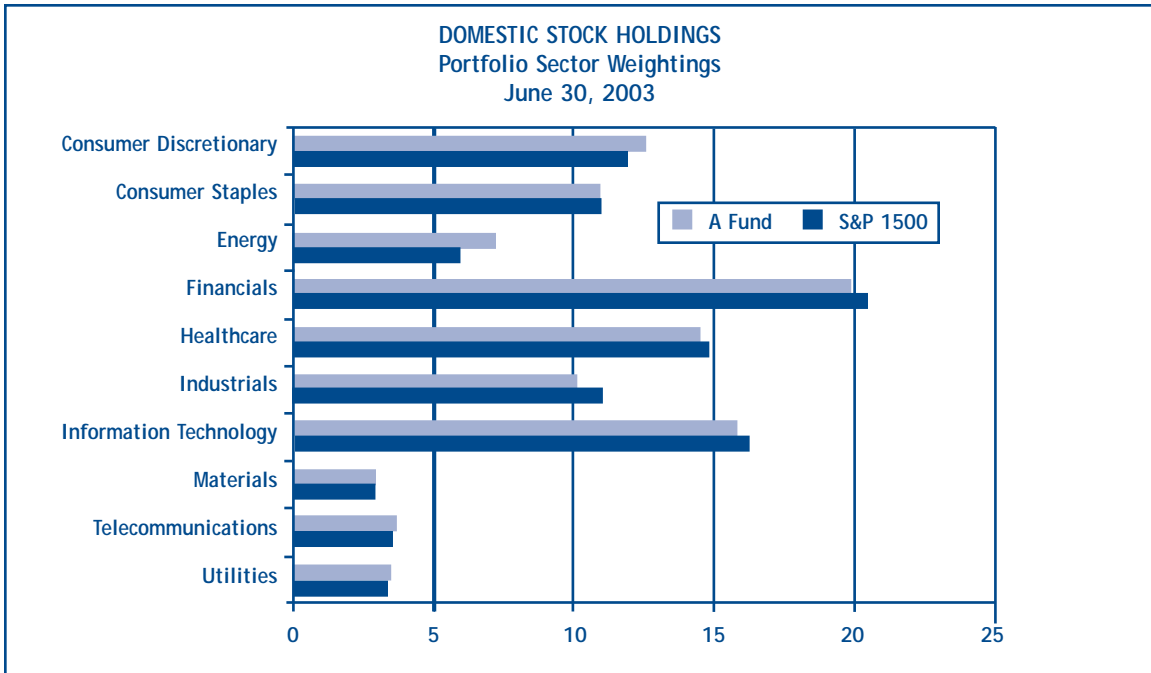
## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

STATE OF NEW JERSEY  
COMPOSITE ASSET ALLOCATION HISTORY



# INVESTMENTS

## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS



# INVESTMENTS

## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

### LIST OF LARGEST ASSETS HELD

#### Largest Domestic Stock Holdings (by Market Value)

June 30, 2003

	Shares	Stock	Market Value (Mil)
1)	39,728,000	Microsoft Corp.	\$1,018.6
2)	26,985,392	Pfizer, Inc.	921.6
3)	27,851,712	General Electric Co.	798.8
4)	17,594,601	Citigroup, Inc.	753.0
5)	13,484,000	Wal-Mart Stores, Inc.	723.7
6)	19,667,264	Exxon Mobil Corp.	706.3
7)	8,993,329	American International Group, Inc.	496.3
8)	7,873,000	Merck & Co., Inc.	476.7
9)	5,500,000	International Business Machines Corp.	453.8
10)	5,195,867	Bank of America Corp.	410.6

#### Largest Domestic Bond Holdings (by Market Value)

June 30, 2003

	Par	Bonds	Coupon	Due	Rating	Market Value (USD)
1)	424,600,000	US Treasury Bonds	7.250%	05/15/16	AAA	\$564,718,000
2)	384,000,000	US Treasury Bonds	7.500%	11/15/16	AAA	521,280,000
3)	258,200,000	US Treasury Bonds	6.250%	08/15/23	AAA	316,295,000
4)	163,000,000	US Treasury Bonds	7.125%	02/15/23	AAA	218,420,000
5)	175,000,000	US Treasury Bonds	9.375%	02/15/06	AAA	210,329,000
6)	200,000,000	General Motors Acpt. Corp.	4.680%	08/13/03	BBB	200,687,500
7)	180,000,000	US Treasury Notes	7.500%	02/15/05	AAA	198,225,000
8)	145,000,000	US Treasury Bonds	6.000%	02/15/26	AAA	173,319,950
9)	135,000,000	US Treasury Notes	6.500%	02/15/10	AAA	163,772,550
10)	150,000,000	Minnesota Mining & Mfg.	4.900%	05/10/04	AA	155,625,000

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, 2003

	Shares	Stock	Market Value (USD)
1)	112,020,439	Vodafone Group	\$219,046,149
2)	900,000	Groupe Danone	124,539,208
3)	600,000	Nestle SA	123,804,525
4)	1,100,000	Gucci Group NV (NY)	107,800,000
5)	14,000,000	Barclays PLC	103,843,121
6)	2,125,000	Royal Dutch Petrol	98,635,168
7)	3,500,000	Royal Bank of Scotland	98,183,151
8)	2,000,000	Carrefour	98,023,668
9)	9,000,000	Diageo	96,235,990
10)	14,000,000	National Grid Transco PLC	94,948,883

### Largest International Bond Holdings (by Market Value) June 30, 2003

	Par (Local)	Bonds	Coupon	Due	Market Value (USD)
1)	135,000,000	Government of Italy	3.500%	01/15/08	\$158,748,733
2)	100,000,000	German Government Bond	4.500%	01/04/13	120,830,018
3)	12,000,000,000	Spain, Kingdom of	3.100%	09/20/06	109,431,602
4)	85,000,000	Ireland, Republic of	5.000%	04/18/13	106,639,209
5)	55,000,000	UK Treasury	7.250%	12/07/07	103,581,575
6)	12,000,000,000	Government of Italy	0.375%	10/10/06	100,687,068
7)	50,000,000	UK Treasury Gilt	7.500%	12/07/06	92,729,449
8)	10,000,000,000	Intl Bank of Reconstruction & Development	4.750%	12/20/04	89,277,532
9)	50,000,000	UK Treasury	4.250%	06/07/32	78,596,025
10)	45,000,000	UK Treasury Bond	6.750%	11/26/04	77,753,630

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# INVESTMENTS

## STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

### DOMESTIC EQUITY TRADING

Fiscal Year 2003

<u>Brokerage Firm</u>	<u>Number of Shares Traded</u>	<u>Total Commissions*</u>	<u>Commissions Per Share</u>
Griswold	30,017,440	\$800,436	\$0.026
Lehman Brothers	15,190,300	759,515	0.050
BNY ESI Soft	14,684,460	734,223	0.050
Merrill Lynch	13,846,960	692,348	0.050
Susquehanna Financial	25,170,200	679,255	0.026
BNY Direct Execution	23,980,000	649,500	0.027
Thomson Financial Soft	12,697,640	634,882	0.050
Princeton Securities	22,015,000	600,375	0.027
Instinet Group	32,101,444	577,826	0.180
Morgan Stanley	10,308,620	515,431	0.050

*\*Includes Listed and NASDAQ (Implied @ 0.05)*

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