
INVESTMENT SECTION

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State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
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www.state.nj.us/treasury/pensions

JON S. CORZINE
Governor

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BRADLEY I. ABELOW
Acting State Treasurer
FREDERICK J. BEAVER
Director

June 30, 2005

REVIEWS OF MAJOR POLICY ISSUES

The Division, under the jurisdiction of the State Investment Council, has the investment responsibility for 184 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.

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

A handwritten signature in blue ink that reads "William G. Clark".

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.
- Investment 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 BBB 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 that 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
- Division votes all proxies received, unless shares are out on loan.

INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

INVESTMENT RETURNS

	2005	ANNUALIZED	
		3-YEAR	5-YEAR
TOTAL PORTFOLIO	8.7%	8.6%	0.9%
Equity Segment			
Domestic	7.5	8.6	-3.1
S&P 1500	7.2	8.9	-1.2
S&P 500	6.3	8.3	-2.4
International	15.2	12.3	-1.7
MSCI EAFE International Stock Index (Net)	13.7	12.1	-0.5
Fixed Income Segment			
Domestic	7.7	6.5	7.9
Lehman Brothers-Govt/Credit Index	7.3	6.4	7.7
International	12.5	14.2	11.4
Citigroup Non-US World Government Bond Index	7.8	11.0	7.9
Mortgages	3.4	4.1	6.6
Lehman Mortgage Index	6.1	4.7	6.7
Cash Management Fund	2.2	1.7	2.9
91-Day Treasury Bills	2.0	1.5	2.5

Note: Performance is calculated using the time-weighted return based on the modified Dietz method.

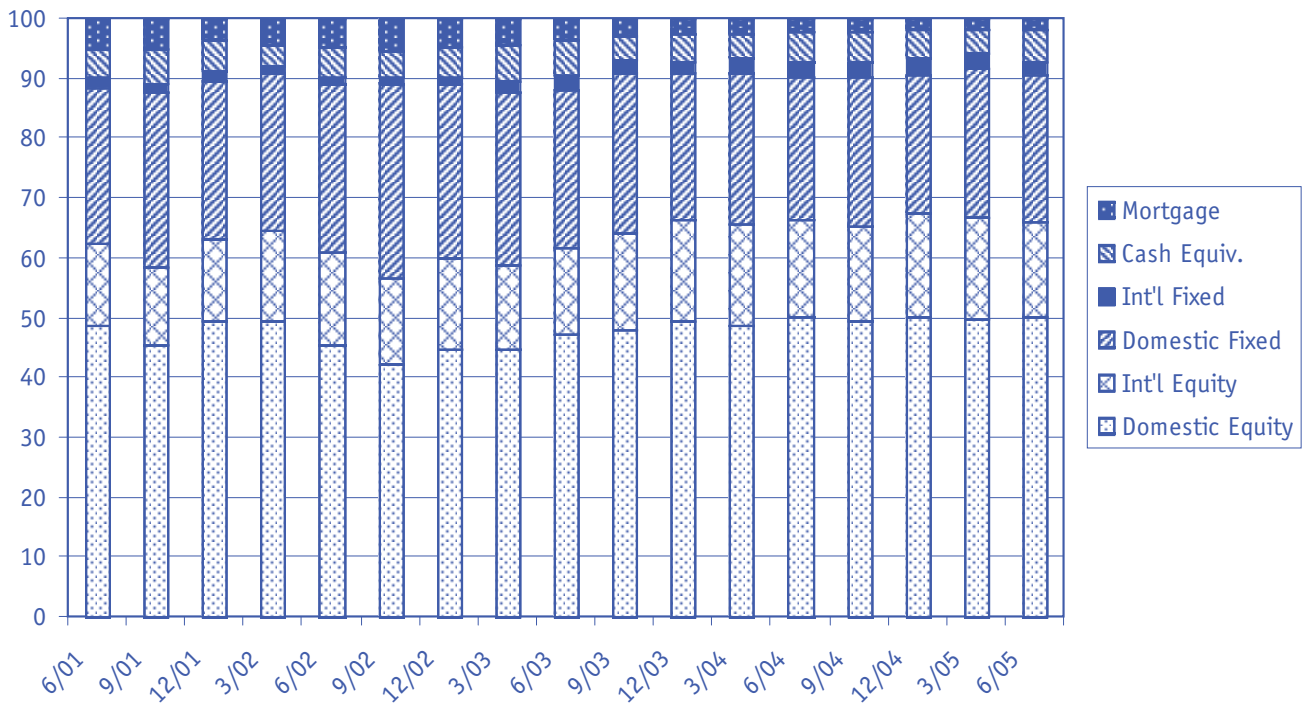
FAIR VALUE AND THE PERCENT OF TOTAL FAIR VALUE FOR EACH MAJOR TYPE OF INVESTMENT

	9/2004		12/2004		3/2005		6/2005	
	(MILS.)	%	(MILS.)	%	(MILS.)	%	(MILS.)	%
Domestic Equity	32,958	49.5	35,382	50.3	34,546	49.8	34,801	50.0
International Equity	10,571	15.9	12,064	17.2	11,797	17.0	11,232	16.2
Domestic Fixed	16,469	24.8	16,341	23.2	17,170	24.8	16,924	24.3
International Fixed	1,796	2.7	1,912	2.7	1,796	2.6	1,500	2.2
Cash Equivalents	3,355	5.0	3,270	4.7	2,749	4.0	3,832	5.5
Mortgage	1,381	2.1	1,352	1.9	1,295	1.9	1,256	1.8
Total	66,530	100.0	70,321	100.0	69,353	100.0	69,545	100.0

INVESTMENTS

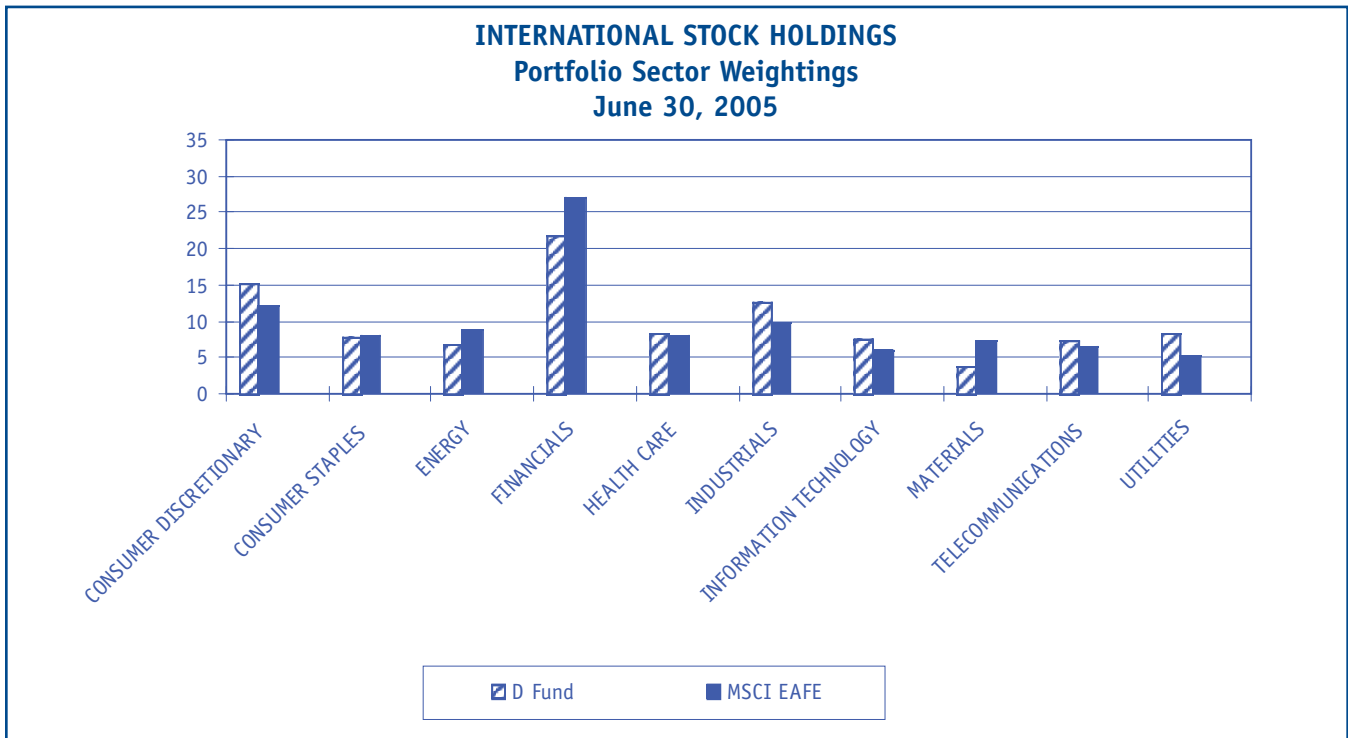
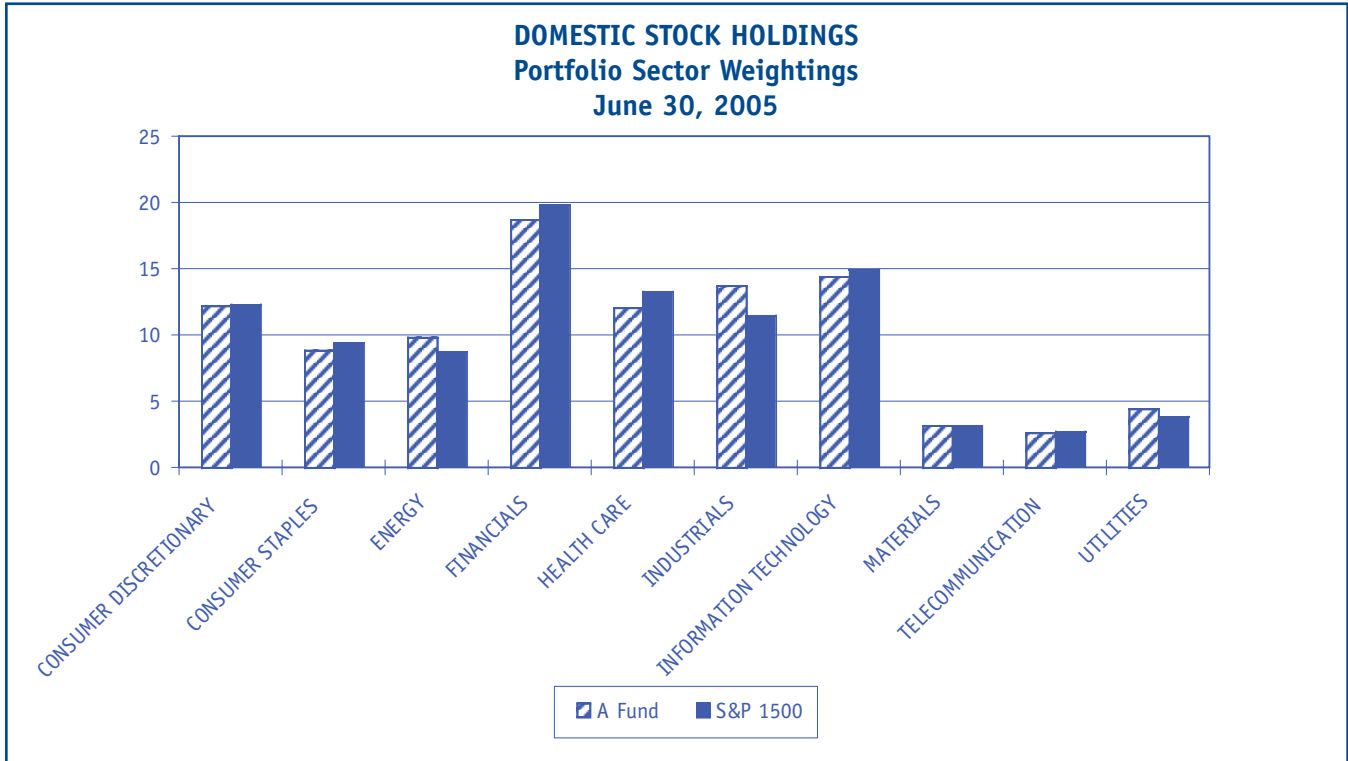
STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

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 THE LARGEST ASSETS HELD

LARGEST DOMESTIC STOCK HOLDINGS (BY MARKET VALUE)

JUNE 30, 2005

	SHARES	STOCK	MARKET VALUE (MIL)
1)	32,630,000	General Electric Co.	\$1,130.6
2)	18,357,264	Exxon Mobil Corp.	1,055.0
3)	42,000,000	Microsoft Corp.	1,043.3
4)	17,201,601	Citigroup Inc.	795.2
5)	13,836,092	Bank of America Corp.	631.1
6)	22,010,392	Pfizer Inc.	607.0
7)	10,409,000	Wal-Mart Stores, Inc.	501.7
8)	8,050,329	American International Group, Inc.	467.7
9)	23,900,000	Time Warner Inc.	399.4
10)	15,200,000	Intel Corp.	395.5

LARGEST DOMESTIC BOND HOLDINGS (BY MARKET VALUE)

JUNE 30, 2005

	PAR	BONDS	COUPON	DUE	RATING	MARKET VALUE (USD)
1)	383,200,000	US Treasury Bonds	6.250%	08/15/23	AAA	\$477,547,672
2)	220,000,000	US Treasury Bonds	6.000%	02/15/26	AAA	271,064,200
3)	250,000,000	US Treasury Notes	4.250%	08/15/13	AAA	256,250,000
4)	163,000,000	US Treasury Bonds	7.125%	02/15/23	AAA	220,279,830
5)	175,000,000	US Treasury Inflation Index Notes	3.000%	07/15/12	AAA	207,987,922
6)	120,000,000	FNMA Notes	6.625%	11/15/30	AAA	155,737,200
7)	100,000,000	US Treasury Bonds	8.125%	08/15/19	AAA	141,703,000
8)	130,000,000	US Treasury Notes	5.000%	08/15/11	AAA	138,596,900
9)	100,000,000	US Treasury Bonds	7.250%	08/15/22	AAA	136,078,000
10)	125,000,000	FPL Group Capital	6.125%	05/15/07	A2	129,443,750

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, 2005

	SHARES	STOCK	MARKET VALUE (MIL)
1)	61,500,000	Ericsson (L.M.)	\$240,836,217
2)	13,000,000	Diageo	191,800,910
3)	2,265,000	Sanofi-Aventis	186,213,222
4)	72,958,873	Vodafone Group	177,878,927
5)	15,000,000	Pearson PLC	176,804,979
6)	750,000	Total	176,443,880
7)	3,500,000	Novartis	166,842,352
8)	6,000,000	Repsol YPF	153,723,211
9)	600,000	Nestle	153,665,964
10)	14,000,000	Barclays PLC	139,418,233

LARGEST INTERNATIONAL BOND HOLDINGS (BY MARKET VALUE) JUNE 30, 2005

	PAR (LOCAL)	BONDS	COUPON	DUE	MARKET VALUE (USD)
1)	575,000,000	Government of Norway	6.500%	05/15/13	\$106,995,241
2)	45,000,000	Int'l Bank of Reconstruction and Redevelopment	5.750%	06/07/32	97,268,788
3)	65,000,000	Government of Germany	4.750%	07/04/34	93,930,863
4)	50,000,000	UK Treasury	4.250%	06/07/32	90,291,995
5)	65,000,000	Government of Finland	2.750%	09/15/10	79,531,541
6)	60,000,000	Government of Spain	4.000%	01/31/10	77,483,473
7)	55,000,000	Republic of Ireland	5.000%	04/18/13	76,215,523
8)	60,000,000	Government of France	3.500%	04/25/15	74,869,597
9)	55,000,000	Republic of Austria	3.500%	07/15/15	68,515,922
10)	300,000,000	Kingdom of Sweden	6.750%	05/05/14	49,868,703

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INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

DOMESTIC EQUITY TRADING

FISCAL YEAR 2005

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS*	COMMISSIONS PER SHARE
La Branche Financial Services	24,902,498	\$882,502	\$0.035
Westminster Research Associates	19,759,147	977,957	0.049
Susquehanna Financial Group	19,725,836	532,982	0.027
BNY	16,811,026	540,682	0.032
Prudential Equity Group	15,756,011	627,733	0.040
Bear Sterns & Co	14,319,788	685,137	0.048
Hill, Thompson, Magid & Co	13,271,572	354,693	0.027
Citigroup Global Markets	13,260,700	616,670	0.047
Griswold Company	12,581,240	314,795	0.025
Morgan Stanley	12,115,700	327,985	0.027

*Includes Listed and NASDAQ (Implied @0.05)

INTERNATIONAL EQUITY TRADING

FISCAL YEAR 2005

BROKERAGE FIRM	NUMBER OF SHARES TRADED	TOTAL COMMISSIONS	COMMISSIONS PER SHARE
Citigroup Global Markets	92,717,489	\$1,064,904	\$0.011
Credit Suisse First Boston	60,860,364	1,119,423	0.018
Nomura Securities	58,423,954	598,777	0.010
Deutsche Bank	55,239,490	1,003,072	0.018
Goldman Sachs & Co	54,918,569	997,080	0.018
Merrill Lynch	51,620,346	757,106	0.015
Dresdner Dleinwort Wasserstein	38,866,302	884,993	0.023
UBS Securities	35,219,690	594,238	0.017
Morgan Stanley	33,589,809	706,728	0.021
Mizuho Securities	33,017,859	505,548	0.015

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