
INVESTMENT SECTION

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State of New Jersey
DEPARTMENT OF THE TREASURY
DIVISION OF PENSIONS AND BENEFITS
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R. DAVID ROUSSEAU
Acting State Treasurer
FREDERICK J. BEAVER
Director

June 30, 2009

REVIEWS OF MAJOR POLICY ISSUES


The Division, under the jurisdiction of the State Investment Council (the "Council"), has the investment responsibility for 196 accounts, including seven pension and annuity funds.

The Council is comprised of 13 members, elected or appointed to fixed terms. Seven members are appointed by the Governor for staggered five-year terms, and are drawn traditionally from the corporate investment community. Six of these seven hold appointments subject to the advice and consent of the Senate, and one appointee is selected by the Governor from nominees submitted jointly by the President of the Senate and the Speaker of the Assembly. Two members are appointed by the Governor for three-year terms from nominees submitted by the New Jersey State AFL-CIO and the New Jersey Education Association. Four members are elected to the Council for three-year terms by the employee pension boards of the Public Employees' Retirement System, the Police and Firemen's Retirement System, the State Police Retirement System, and the Teachers' Pension and Annuity Fund. 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.

To the best of our knowledge, 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.
- Investments in alternative investments are limited to no more than 28% of the portfolio. The individual categories of private equity, real estate, real assets, and hedge funds are limited to 7%.

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

	2009	ANNUALIZED	
		3-YEAR	5-YEAR
TOTAL PORTFOLIO	-14.27%	-0.76%	3.14%
Equity Segment			
Domestic Equities (Common Pension Fund A)	-22.71	-5.75	-0.11
S&P 1500 Index	-26.34	-8.23	-1.97
S&P 500 Index	-26.21	-8.22	-2.24
International Equities (Common Pension Fund D)	-23.98	-3.89	4.71
MSCI EAFE Index ex-Prohibited ¹	-31.17	-8.14	2.20
Fixed Income Segment			
Domestic Fixed Income (Common Pension Fund B)	4.98	6.40	5.13
Fixed Income Benchmark ²	7.38	6.19	4.85
Mortgages	12.35	5.38	4.39
Barclays Mortgage Index	9.38	7.86	5.98
Cash Management Fund	1.58	4.66	3.46
91-Day Treasury Bills	0.78	3.04	3.02

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

¹Benchmark is based on MSCI EAFE ex-Prohibited return for 2009. Annualized 3-year and 5-year returns are based on MSCI EAFE returns for 2004 to 2006 and MSCI EAFE ex-Prohibited return for 2007 to 2009.

²Benchmark is based on Lehman Long Govt/Credit returns for 2009. Annualized 3-year and 5-year returns are based on Lehman Govt/Credit returns for 2004 to 2006, and Lehman Long Govt/Credit returns for 2007 to 2009. Lehman has changed name to Barclays Capital.

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

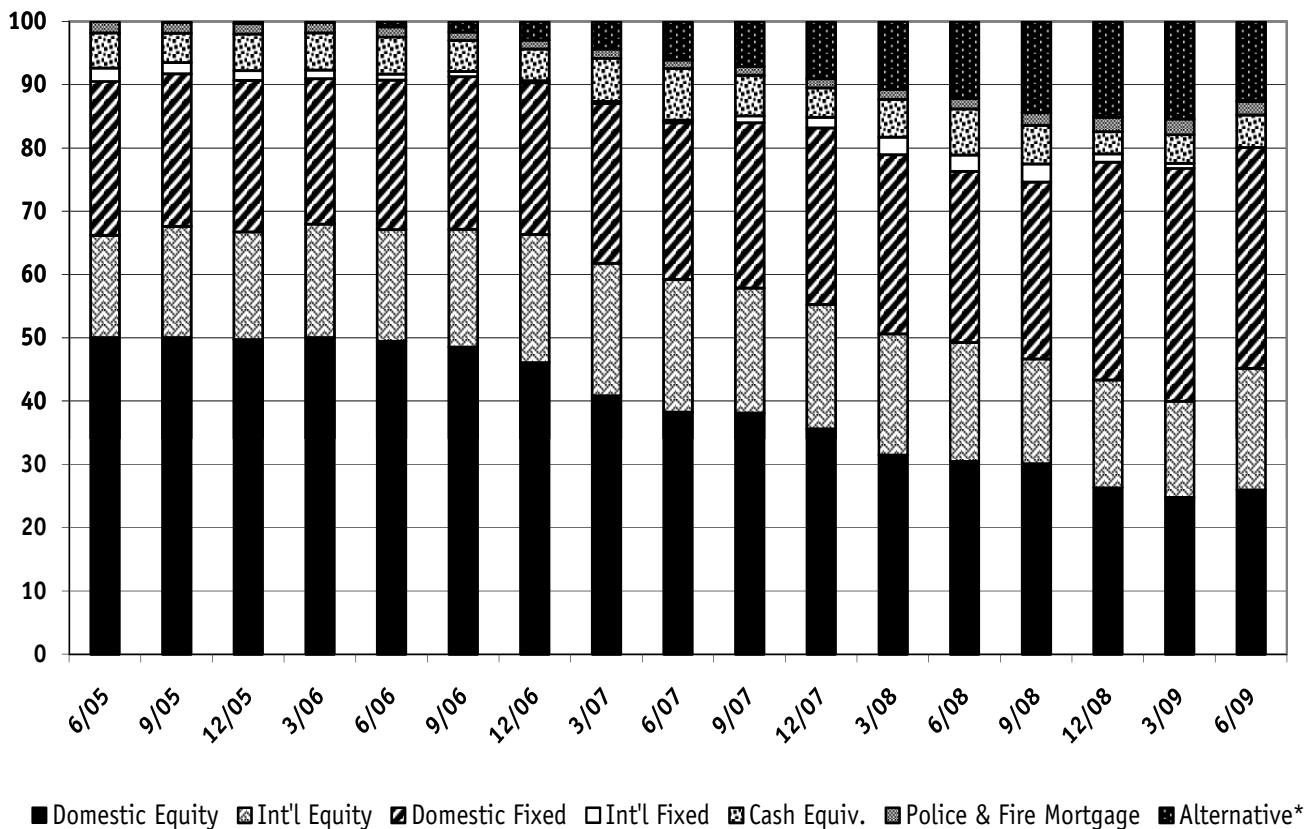
	9/2008		12/2008		3/2009		6/2009	
	(MILS.)	%	(MILS.)	%	(MILS.)	%	(MILS.)	%
Domestic Equity	21,312	30.1	16,559	26.4	14,323	24.8	16,368	26.0
International Equity Income	11,748	16.6	10,715	17.1	8,777	15.2	12,089	19.2
Domestic Fixed Income	19,707	27.9	21,569	34.4	21,244	36.8	21,950	34.9
International Fixed Income	2,060	2.9	824	1.3	467	0.8	15	0.0
Alternative Investments	10,188	14.4	9,471	15.1	8,887	15.4	7,955	12.6
Cash Equivalents*	4,313	6.1	2,189	3.5	2,631	4.6	3,235	5.1
Police & Fire Mortgage	1,417	2.0	1,436	2.3	1,469	2.5	1,368	2.2
Total	70,745	100.0	62,763	100.0	57,798	100.0	62,980	100.0

* Including net payable on securities purchased but not settled and other miscellaneous receivables and payables.

INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

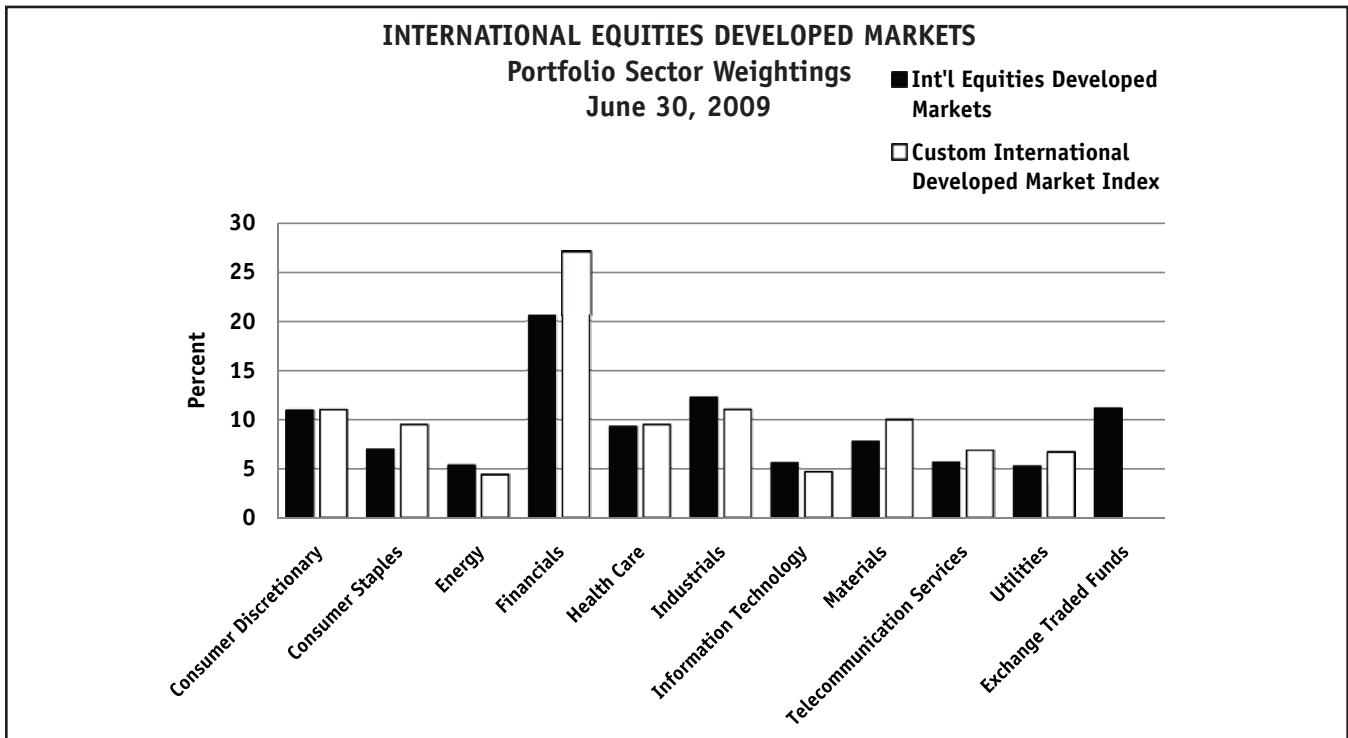
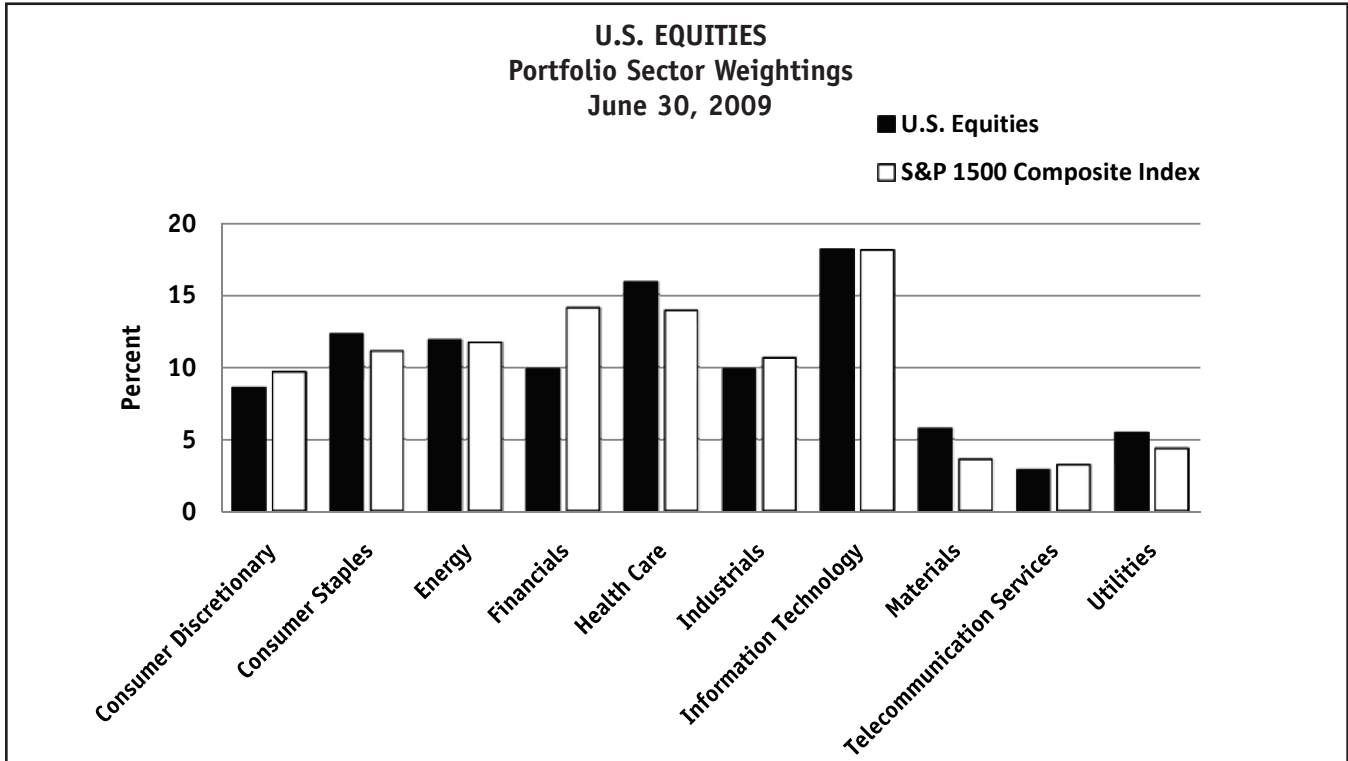
STATE OF NEW JERSEY COMPOSITE ASSET ALLOCATION HISTORY



**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, 2009

	SHARES	STOCK	MARKET VALUE (MIL)
1)	7,820,000	Exxon Mobil Corp.	\$546.7
2)	22,000,000	Microsoft Corp.	522.9
3)	11,183,200	Schering Plough Corp.	280.9
4)	1,950,000	Apple Inc.	277.7
5)	5,077,245	Proctor & Gamle Co.	259.4
6)	5,440,000	Wyeth	246.9
7)	5,000,000	Citigroup NC CONV	227.7
8)	6,528,154	J.P. Morgan Chase & Co.	222.7
9)	4,501,000	Wal-Mart Stores, Inc.	218.0
10)	3,618,600	Johnson & Johnson	205.5

LARGEST DOMESTIC BOND HOLDINGS (BY MARKET VALUE)

JUNE 30, 2009

	PAR	BONDS	COUPON	DUE	RATING	MARKET VALUE (USD)
1)	635,000,000	US Treasury Bonds	2.000%	01/15/26	AAA	\$667,889,425
2)	410,000,000	US Treasury Bonds	3.625	04/15/28	AAA	657,727,289
3)	515,000,000	US Treasury Bonds	2.375	01/15/25	AAA	598,753,338
4)	450,000,000	US Treasury Bonds	6.000	02/15/26	AAA	542,740,500
5)	465,000,000	US Treasury Bonds	2.375	01/15/27	AAA	509,009,283
6)	269,000,000	US Treasury Bonds	3.875	04/15/29	AAA	442,668,232
7)	460,000,000	US Treasury Bonds	1.750	01/15/28	AAA	441,843,740
8)	358,200,000	US Treasury Bonds	6.250	08/15/23	AAA	436,334,166
9)	260,000,000	US Treasury Bonds	5.500	08/15/28	AAA	300,422,200
10)	600,000,000	US Treasury Strips	0.000	02/15/27	AAA	271,584,000

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, 2009

	SHARES	STOCK	MARKET VALUE (USD)
1)	120,000,000	IShares MSCI Japan Index Fund	\$1,131,600,000
2)	51,138,012	BP PLC	402,447,954
3)	37,000,000	HSBC Holdings PLC	306,236,906
4)	1,750,000	Roche Holding AG	237,721,880
5)	5,500,000	SAP AG	220,660,439
6)	110,196,910	Vodafone Gr PLC US	212,724,135
7)	9,000,000	AXA	169,051,427
8)	3,000,000	Bayer AG Ord NPV	160,845,047
9)	8,491,875	Albertis Infraestructuras	159,685,751
10)	1,500,000	Allianz SE (REG)	138,098,645

LARGEST INTERNATIONAL BOND HOLDINGS (BY MARKET VALUE)
JUNE 30, 2009

	PAR (LOCAL)	BONDS	COUPON	DUE	MARKET VALUE (USD)
1)	10,868,000	German Treasury Bills		02/24/10	\$15,173,802
2)	10,000,000	Ireland, Republic of	5.00%	04/18/13	14,711,584
3)	14,902,138	Metro Debenture SDR (Exp 12/18/13)		12/18/13	875,363

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INVESTMENTS

STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

DOMESTIC EQUITY TRADING FISCAL YEAR 2009

<u>DOMESTIC EQUITY BROKERS (1)</u>	<u>SHARES (2)</u>	<u>TOTAL COMMISSIONS</u>	<u>COMMISSIONS PER SHARE</u>
JP Morgan Securities	47,269,819.00	\$1,260,016.09	\$0.028
Capis/Capital Institutional Services	20,849,750.00	1,042,487.50	0.050
Labranche Financial Services	25,160,180.00	865,653.01	0.034
Instinet LLC	57,901,942.00	854,182.35	0.015
Sanford C. Bernstein & Co.	20,803,600.00	831,944.00	0.040
Citigroup Global Markets	21,249,931.00	765,938.98	0.036
Goldman, Sachs & Company	67,555,500.00	754,104.14	0.011
Barclays Capital	18,949,040.00	695,999.12	0.037
Merrill Lynch, Pierce, Fenner & Smith	13,809,400.00	550,776.00	0.040
Cowen and Co., LLC	13,104,700.00	523,188.00	0.040

(1) Includes International Company ADR's executed in U.S. dollars

(2) Excludes options written on approximately 166.8 million shares

INTERNATIONAL EQUITY TRADING FISCAL YEAR 2009

<u>INTERNATIONAL EQUITY BROKERS (1)</u>	<u>SHARES</u>	<u>TOTAL COMMISSIONS</u>	<u>COMMISSIONS PER SHARE</u>
Credit Suisse Securities (USA) LLC	124,779,759	\$2,365,104.22	\$0.019
Morgan Stanley & Co.	76,342,027	1,124,349.49	0.015
Goldman, Sachs & Co.	118,875,061	1,016,003.45	0.009
Macquarie Capital (USA), Inc.	77,431,839	859,306.92	0.011
Nomura Securities International	124,616,369	710,251.64	0.006
Credit Agricole Chevreux North America	12,316,640	698,655.94	0.057
Merrill Lynch, Pierce, Fenner & Smith, Inc.	37,479,400	660,875.37	0.018
Citigroup Global Markets Inc.	27,650,664	625,545.41	0.023
Exane Inc.	12,284,265	580,720.36	0.047
Seb Enskilda, Inc.	34,480,417	562,319.10	0.016

(1) International Company ADR's executed in U.S. dollars are included in the Domestic Equity Brokers report

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