

**James Marketti
4 Llanfair Lane
Ewing, N.J. 08618**

March 16, 2010

Orin Kramer, Chair
N.J. State Investment Council
c/o Boston Provident
600 Madison Avenue, 18th Floor
New York, N. Y. 10022

Ray Joseph, Acting Director
N.J. Division of Investment
50 West State Street, 9th Floor
P.O. Box 290
Trenton, N.J. 08625-0290

Dear Sirs,

Soon after my appointment to the N.J. State Investment Council (Fall, 2008), I requested that the Division of Investment provide to me a listing of management and partnership expenses paid to external managers of the alternative investment classes (hedge, private equity, and real estate). On January 27, 2010, I was provided with a listing of such fees paid to each of the various Hedge Funds owned by the Division for FY2008 and FY2009. However, I was only provided a grand total of fees paid for all management and partnership expenses of Private Equity and Real Estate Funds owned by the Division for FY2008 and FY2009.

Fees paid for management of Private Equity and Real Estate Funds for FY2009 totaled \$65.8 million or 55.8% of the total of \$118 million spent for external management fees in FY2009.

Upon a further request for a break out of the fees paid to each Private Equity and Real Estate Fund, I was informed that the Division's accountant has no means to tabulate the individual fund fee payouts and in fact, derives the stated management fees by relying on other information and using a formula to estimate the fees paid. I find this very unusual and wonder how, if the Division does not have a trail which links the fees paid to each individual fund, can the Division audit the fees paid to ensure that they are proper and in accordance with the contracts with each Fund. Moreover, how are we on the Council to determine whether the Pension Fund is receiving good value in performance by the respective Funds if the fees charged by individual funds are unknown to us?

By the end of FY2009, investments in the alternative investment classes lost \$2 billion (see Independent Auditors' Report for FY2009, page 123). The Division has paid \$285 million for management and partnership expenses since June 30, 2006 for those investments or \$1 for every \$7 lost. This does not seem like a good deal to me. Whatever "J" curve exists for anticipated returns on alternative investments apparently does not exist for the external management fees to support them. Win or lose, external managers collect.

Please regard this letter as a written formal request for a full listing of management and partnership fees paid to individual Private Equity and Real Estate Funds in FY2008 and FY2009. I do not believe that I can fulfill my fiduciary responsibilities to Fund beneficiaries without access to such information.

Sincerely,

Jim Marketti
Member, N.J. State Investment Council

cc: N.J. State Investment Council Members
Paula T. Dow, Attorney General, State of New Jersey
Andrew P. Sidamon-Eristoff, Treasurer, State of New Jersey
Steve Weissman, Esq., Weissman & Mintz