

THE CLOSING BELL
Report of Jim Marketti, Public Employee Committee, AFL-CIO
Representative on the State Investment Council
October 25, 2010

The NJ State Investment Council met on Thursday, October 21, 2010. This report covers investment updates through the end of September, 2010. The pension fund was up 4.19% for the month of September. The market value of the pension fund on September 30, 2010 was \$70.2 billion. Domestic Equity investments (Common Pension Fund A) were up 9.41% in September. Domestic Fixed Income investments (Common Pension Fund B) were down 0.14% for the month. International Equity/Fixed Income investments (Common Pension Fund D) were up 9.14% for the month.

Among Alternative Investments (Common Pension Fund E), commodities were up 7.05% and Hedge Fund investments were up 0.87%. The reality is that Hedge Fund investments are just equity investments handled by private managers and consistently lag behind the equity returns made by the Division of Investment's in-house investment professionals. The rationale behind using Hedge Fund private managers was that it spread the risk of equity investments over different kinds of managers. However, when the equity market crashed in 2008, so did Hedge Fund returns. The real winners in this strategy are the Hedge Fund private managers who reaped millions in management fees. The Council voted (I dissented) to pour another \$200 million into the Private Equity and Real Estate rat hole. These latter two asset classes have lost \$1.3 billion since the Alternative Investment program was started in 2006.

The proposed amendments to the state Administrative Code which will raise the upper limit on the amount of the pension fund which may be invested in Alternatives from the current 28% to 38% was passed with two "No" votes and one "Abstained". You know what I voted. The amendment must now be approved by the Governor's office and Smartgrowth Ombudsman, and then published for public comment before final approval. It will probably take six months before the amendment is finally adopted.