

THE CLOSING BELL
Report of Jim Marketti, Public Employee Committee, AFL-CIO
Representative on the State Investment Council
July 9, 2011

The NJ State Investment Council met on Thursday, June 30, 2011. This report covers investment updates through the end of May, 2011. The Pension Fund was down -0.33% for the month of May. The market value of the Pension Fund on May 31, 2011 was \$74.7 billion. Domestic Equity investments (Common Pension Fund A) decreased -1.02% in May. Domestic Fixed Income investments (Common Pension Fund B) increased 1.92% for the month. International Equity/Fixed Income investments (Common Pension Fund D) declined -2.74% for the month. Alternative Asset Class investments (Common Pension Fund E) were reported as losing -0.27% for the month, although the report should be taken with a grain of salt due to time lags for the reporting periods. Real Estate investments are reported to have produced a net internal rate of return of -8.2% since inception. However, an appendix to the investment report shows that real estate investments have lost -17% of value since inception. When I asked the Division Director to explain the difference, he admitted the lower loss value had to do with the method used to calculate the internal rate of return. Go figure.

Two developments of note should also be reported. All of the employee representatives from the various pension boards (PERS, TPAF, Police & Fire, and the State Troopers) were removed from the Council for the May meeting due to the passage of the Christie/Sweeney/Oliver pension reform bill. I believe the pension boards are being reorganized and will eventually send employee representatives to the Council (I have not yet read the new legislation to verify this). Also, three additional representatives will be added to the Council representing the Senate, the Assembly and one additional gubernatorial appointee. This will dilute employee representation on the Council.

The Council approved a new set of benchmarks to measure investment performance against. The new benchmarks redefine asset classes from those I have traditionally reported to you and will be called Capital Preservation, Liquidity, Income, Real Return and Global Growth. I feared that this redefinition would make it more difficult to measure performance of the traditional asset classes over the long term. However, I was assured that the traditional asset class benchmarks and performances will continue to be reported as such. This is a development which we must keep a close eye on. I have long complained about the lack of consistent, comparable performance reports which only serve to hide the dismal performance of some asset classes (such as alternative investments).