

**THE CLOSING BELL**  
**Report of Jim Marketti, Public Employee Committee, AFL-CIO**  
**Representative on the State Investment Council**  
**September 20, 2009**

The State Investment Council does not hold a meeting in August. This is a two month report – for July, 2009 and August, 2009. Both months' results were reported at the September, 2009 meeting.

Since June 30, 2009, the pension fund was up 8.43% (two month return). For the month of August alone, the fund was up 2.98%. Total pension fund assets as of August 31, 2009 were \$66.7 billion, up from \$63.2 billion as of June 30, 2009, an increase of \$3.5 billion. This makes six consecutive months of increases in pension fund assets. While good news, the fund is still down \$15.8 billion from its value of \$82.5 billion on June 30, 2007.

The advance in pension asset values is a direct result of advances seen in the stock market for domestic equities and overseas investments. Since June 30, 2009, domestic equity returns were 10.75% and the international portfolio was up 14.43%. For the same period, hedge funds are up 4.19% (but are down 4.4% since the hedge fund program first began). Private equity and real estate investments are only valued periodically, so no current data is available for those investments. For the first quarter of calendar year 2009, private equity was down 2.77% and real estate was down 12.10%. That was on top of substantial two digit losses as of December 31, 2009.

In a memorandum from Director Clark to the Council, he reported that a recent study by the Division of Investment showed that of 36 state pension funds examined, New Jersey tied North Carolina as the best performing fund in the country in investment performance through June 30, 2009. Both funds in those two states only lost 14.2% of assets in the fiscal year ending June 30, 2009, while the average of all 36 states showed an average loss of 18.9%. Council Chairman Kramer takes the position that these superior results (less losses) are due to the Council's decision to diversify investments into alternatives (hedge funds, private equity, real estate). While there is some justification in his argument, it is a little like arguing "my dog has fleas but it has fewer fleas than your dog". Perhaps all the dogs need a bath.

I find it interesting that the investment chiefs want to be judged on the comparison of New Jersey's performance with that of their peers. The alternative investments did, in my opinion, moderate the extent of New Jersey's losses (by keeping money out of the stock market which showed drastic losses last year). But when and if the market fully recovers, the stock market will lead the recovery and alternative investment returns will also moderate the gains. Then, New Jersey's returns will not rank as high as many of the peers who rely more heavily on stock market returns. How will the investment chiefs want to be judged then? I predict that they will attempt to move our eyes to another set of standards which puts them in a better light.