

THE CLOSING BELL
Report of Jim Marketti, Public Employee Committee, AFL-CIO
Representative on the State Investment Council
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The NJ State Investment Council met on Thursday, September 16, 2010. This report covers investment updates through the end of August, 2010. The pension fund was down 0.09% for the month of August. The market value of the Pension Fund on August 31, 2010 was \$68.3 billion. Domestic Equity investments (Common Pension Fund A) declined 4.93% in August. Domestic Fixed Income investments (Common Pension Fund B) increased 4.31% for the month. International Equity/Fixed Income investments (Common Pension Fund D) was down -2.83% for the month.

Among Alternative Investments (Common Pension Fund E), commodities were down -1.56% and Hedge Fund investments were up 0.26%. No updates beyond those provided last month were made available for Private Equity and Real Estate investments. A report provided to Pension Fund Boards (but not to the Investment Council) showed that Private Equity and Real Estate investments were down \$1.3 billion since inception of the Alternative Investment program.

Despite the sad record on Alternative Investments, the Council received a report from Strategic Investment Services proposing that the Council's regulations be changed to permit up to 43% of the pension fund to be invested in Alternatives (the regulations currently cap the permitted investments in Alternatives at 28% of the fund). The SIS study claimed that if NJ had increased its investments in Alternatives to 43% in 2002, the fund would be up \$10.3 billion over its current value and if such an increase had been allowed in 1999, the fund would be up \$22.2 billion. I referred to this report and its accompanying charts as a "voodoo report with voodoo charts" in open session. It is a vague report with undetailed results and many rosy assumptions. The consultant referred to his numbers as a measure of "opportunity costs lost" by not plunging further into Alternatives. I pointed out to the Council that if it had taken all the money it had invested into Alternatives and put it instead into Domestic Fixed Income investments over the past three years, the fund would be up \$35 billion over its current level (Domestic Fixed Income investments, by the Council's own reports show that those investments increased at 11.1% per year over the past three years). \$35 billion is the true opportunity cost lost by plunging into Alternatives. Division Director Walsh agreed with my analysis.

Despite the poor past experience, the dubiousness of their report, and a perfectly good counter analysis, the Council adopted the consultant's recommendations with two dissenters, I and public member James Kellog. The other members of the Council are like Tea Party ideologues: they have their opinions and they're sticking with them no matter what the facts. It will take many months for the recommendations to make their way into regulations. I expect many more opportunities to hammer home the folly being pursued.