

THE CLOSING BELL
Report of Jim Marketti, Public Employee Committee, AFL-CIO
Representative on the State Investment Council
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Pension fund investments were down 0.89% for the month of October, 2009 dropping from \$68.2 billion to \$66.7 billion – almost exactly where it was at the end of August, 2009. This is regarded as a “correction” of a rally in global markets from March, 2009 thru September, 2009. Division of Investment Director Bill Clark summarized the results as “consistent with recent economic data which reflects continued weakness in employment, credit growth and consumer and business spending.”

Domestic Equity investments (Common Pension Fund A) were down -2.06% for October. Domestic Fixed Income investments (Common Pension Fund B) were up 0.009% for the month. International Equity/Fixed Income investments (Common Pension Fund D) were down -1.79%. Alternative Investments (Common Pension Fund E) are not reported as a whole on a monthly basis due to the lag in receiving investment results, particularly for private equity and real estate investments. Among parts of the latter group actually reported, hedge funds were up 0.04% for the month and commodities were up 3.84%.

The Division of Investments did issue a longer term report on the return on investments for various asset classes. For the 18 months ending June 30, 2009, alternative investments as a whole (hedge funds, private equity, real estate and commodities) returned -37%. The losses were particularly drastic for real estate investments which lost -61% of their value. Total equity investments lost -39% of their value in the same period. So much for the vaunted theory that diversification in investments would save the funds from drastic losses. In big market drop offs such as the most recent one, all investments apparently go in the toilet at the same time.

One side drama developed at the November Investment Council meeting. When the Council approved alternative investments with external managers, it also adopted a set of regulations prohibiting external managers from making political contributions (N.J.A.C. 17:16-4). This was to prevent pay to play contributions from influencing investment decisions. Chair Kramer likes to proclaim that these are the strongest prohibitions in the U.S. A routine audit by the Division of Investment uncovered four recent violations of the policy by alternative investment managers. The Investment Policy Committee of the Council recommended that the Council grant an exemption (i.e., forgiveness) to these four violators. Under the regulations, the Council is required to otherwise redeem or sell the pension fund's interest in the funds in question and ban the funds from seeking business from the SIC. I spoke and voted against granting the exemptions. My view is that these external managers should know the rules and pay the price if they violate them. The majority of the Investment Council thought otherwise. So the upshot is that we have these strong anti-pay to play rules (“strongest in the land”) but the Council is reluctant to enforce them. (FYI, the illegal contributions went to Corzine, Christie and Loneyan. Wall Street likes to spread its money around.)