



**State of New Jersey**  
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September 11, 2009

MEMORANDUM TO: State Investment Council

FROM: William G. Clark  
Director

SUBJECT: **FY 2009 Investment Performance**

I am writing this brief note to discuss New Jersey's FY2009 estimated investment performance and to present some preliminary information concerning how our performance compares to our peers.

New Jersey's estimated investment performance for the fiscal year ending on June 30, 2009 was -14.19%. This number incorporates actual investment performance for all asset classes except for private equity and real estate, where only numbers through March 31 are available at this time. This is consistent with the numbers being reported by other funds. Based on our discussions with various private equity and real estate general partners, we believe that the final June 30, 2009 performance numbers for private equity and real estate will not cause our overall fiscal year performance number to change significantly.

While one can never be pleased with such an investment loss, New Jersey's investment performance compares favorably with other pension funds. While some funds have yet to report estimated performance for FY2009, we offer the following comparable data.

- 1) **Other State Pension Funds:** Exhibit 1 presents reported FY2009 performance (if available) for each state pension fund in the country. This performance data was obtained either from the public fund's website or from newspaper stories. Of the 36 state funds that have reported estimated performance, the average return was -18.9%, and New Jersey is tied with North Carolina as the best-performing fund in the country. To quantify this difference, if we had performed in line with other public funds in FY2009, our pension fund would have been down an additional \$3.6 billion as of June 30, 2009.
- 2) **Wilshire TUCS:** Exhibit 2 presents average annualized performance for the 1-year, 3-year and 5-year periods ending on June 30, 2009. Wilshire TUCS maintains one of the largest databases of fund performance data obtained from the major bank custodians in the country. The data for

“master trusts” reflects performance of a broad range of institutional portfolios such as public funds, corporate funds, endowments and foundations. The data for “public funds” reflects performance for only state, county and municipal funds in the Wilshire database. For public funds with assets greater than \$5 billion (the most comparable data series to New Jersey), New Jersey compares favorably with the TUCS universe: -14.2% vs. -18.76% for the prior 1-year period, -0.72% vs. -2.77% for the prior 3-year period and 3.16% vs. 2.41% for the prior 5-year period.

While it is difficult to perform an attribution analysis to explain New Jersey’s outperformance relative to our peers, we believe that the following items contributed to our relative return for the 1-year period:

- Outperformance relative to the overall market in our domestic equity and international portfolios, largely the result of active, rather than indexed, management;
- Managing the domestic fixed income portfolio to a long-term benchmark (the Barclays Long/Government Credit Index) versus the Barclays Aggregate Benchmark, which is the most common among public pension funds. Long-duration bonds outperformed the overall fixed income market, given the decline in market interest rates during the fiscal year;
- A tactical asset allocation shift out of common stocks into corporate bonds in the fall of 2008, as the market began to collapse;
- A decision to enter the fiscal year with a cash position equal to more than 7 percent of the fund, well above the norm for public funds;
- Outperformance relative to other public funds in our private equity portfolio based on very preliminary information. We believe this is because New Jersey has underemphasized large buyout funds in our portfolio, which was the worst performing class within private equity during the last fiscal year; and
- A tactical decision to deploy additional capital into several bank loan funds in the fall of 2008 to avoid forcing our general partners to sell bank loan assets at the bottom of the market. These bank loan funds, including our additional capital, were up more than 50% in the first six months of 2009.

The Division participates in several industry performance surveys, and we will prepare a more formal analysis of our FY2009 performance as more information becomes available.

Attachments

**Exhibit 1**

**State Pension Fund Preliminary Performance Numbers  
FY Ending June 2009**

<u>State</u>	<u>Retirement Fund</u>	<u>FY 2009 Performance</u>
Alabama	Alabama SRS	
Alaska	Alaska PERS	
	Alaska Permanent	-17.4%
Arizona	Arizona SRS	-18.1%
	Arizona PSPRS	
Arkansas	Arkansas PERS	-20.9%
	Arkansas Teachers	
California	California PERS	-23.4%
	California STRS	-25.0%
Colorado	Colorado PERA	
Connecticut	Connecticut SRS	-17.4%
Delaware	Delaware SRS	
Florida	Florida SBA	-19.0%
Georgia	Georgia SRS	
Hawaii	Hawaii SRS	-18.7%
Idaho	Idaho PERS	-16.0%
Illinois	Illinois SERS	
	Illinois TRS	
Indiana	Indiana PERF	-20.6%
	Indiana Teachers	
Iowa	Iowa PERS	-16.3%
Kansas	Kansas PERS	-19.2%
Kentucky	Kentucky RS	
	Kentucky Teachers	-14.3%
Louisiana	Louisiana SRS	-19.2%
	Louisiana Teachers	
Maine	Maine PERS	-18.8%
Maryland	Maryland SRS	-20.0%
Massachusetts	Massachusetts PRIM/PRIT	-23.6%
Michigan	Michigan SRS	-19.3%
Minnesota	Minnesota SBI	
Mississippi	Mississippi SRS	-19.4%
Missouri	Missouri SERS	-19.1%
	Missouri PSRS/PEERS	-18.8%
Montana	Montana PERA	-20.7%
Nebraska	Nebraska PERS	
Nevada	Nevada PERS	
New Hampshire	New Hampshire SRS	-18.1%
New Jersey	New Jersey DOI	-14.2%
New Mexico	New Mexico PERA	
	New Mexico SIC	
New York	New York State CRS	N/A Fiscal year ends on 3/31
	New York State TRS	
North Carolina	North Carolina Treasury	-14.2%
North Dakota	North Dakota PERS	
Ohio	Ohio PERS	N/A Fiscal year ends on 12/31
	Ohio STRS	-21.7%

Oklahoma	Oklahoma PERS	-15.5%
	Oklahoma TRS	-16.0%
Oregon	Oregon Investment Council	-22.2%
Pennsylvania	Pennsylvania SERS	
	Pennsylvania School Employees	
Rhode Island	Rhode Island SRS	-19.2%
South Carolina	South Carolina SRS	
South Dakota	South Dakota SRS	-20.4%
Tennessee	Tennessee CRS	
Texas	Texas Municipal ERS	-14.5%
	Texas TRS	-21.9%
Utah	Utah SRS	
Vermont	Vermont SRS	-18.7%
Virginia	Virginia RS	-21.1%
Washington	Washington SIB	
West Virginia	West Virginia SRS	
Wisconsin	Wisconsin SIB	-17.7%
Wyoming	Wyoming SRS	
	Number of Funds Reporting	36
	Avg Return of Funds Reporting	-18.9%

## Exhibit 2

### Comparison with Wilshire TUCS Database Annualized Returns Through June 30, 2009

	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>
<b>New Jersey</b>	-14.20%	-0.73%	3.16%
<b><u>Wilshire TUCS Category</u></b>			
All Master Trusts	-17.00%	-2.51%	2.06%
Public Funds	-17.06%	-2.60%	2.19%
All Master Trusts wth Assets > \$1 billion	-18.13%	-2.60%	2.45%
Public Funds with Assets > \$1 billion	-18.76%	-2.69%	2.36%
All Master Trusts wth Assets > \$5 billion	-18.76%	-2.47%	2.64%
Public Funds with Assets > \$5 billion	-18.76%	-2.77%	2.41%