



State of New Jersey

Department of the Treasury

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NJ Pension Fund Fluctuating Amid Volatile Markets *Long-term Investing, Diversification Strategy Remain Keys to Portfolio Management*

TRENTON – New Jersey’s pension fund is weathering the rough economic climate with a better-than-average investment performance among public pension funds, underscoring the value of maintaining an active, diversified portfolio in navigating the volatility currently cycling through global financial markets, Investment officials said today.

“Recent market conditions have yielded sobering returns for all investors, New Jersey included,” said William Clark, Director of the New Jersey Division of Investment. “While we’ve seen an unprecedented period of market unrest, we also recognize that opportunities abound to offset risks and position New Jersey’s fund favorably for the long-term. We’re identifying these opportunities and carefully structuring the portfolio accordingly,” he said.

In a presentation to the State Investment Council today, Director Clark noted that measured against other funds around the county, New Jersey is outperforming its peers. For the fiscal year ended June 30, 2008, New Jersey’s return of -2.9 percent exceeded the institutional average of -5 percent, according to Wilshire Associates.

Following an October in which both domestic and international equity performance fell well into negative double digit territory; New Jersey’s pension fund performance dipped -12.72 percent during the month. This performance compares favorably to the performance of equity market indexes, such as the Standard and Poor’s 1500, which fell -17.3 percent during this period. At the same time, the overall performance exceeded the Investment Council benchmark for the period of -13.71 percent.

Total pension fund assets as of October 31 were \$61.9 billion, compared to \$77.7 billion at the start of the fiscal year on July 1. Note that roughly \$1.6 billion of the reduction is attributable to net benefit payments to beneficiaries in the various pension plans. Most of the market decline has come over the past two months. The pension fund's value dropped by 18.6 percent since August, Clark said. That compares to a decline of -24.7 for the Standard and Poor's index of 1,500 companies.

“While these losses are disappointing, we recognize that we have methodically reduced the pension fund's holdings in equities since diversifying the portfolio in 2005, and thus reduced our risk.” He noted that prior to diversification in June 2005, equities constituted more than 66 percent of the pension portfolio (50 percent US; 16.2 percent International). That allocation fell to about 48 percent (30.8 percent US; 17.4 percent International) as of June 2008.

“As we've reduced this exposure, we have found new opportunities in other classes, including investment grade corporate bonds and other fixed income securities, where current yields exceed the long term expected returns from common stocks,” he said. Clark noted that nearly 37 percent of the portfolio is in bonds and money market securities which is the highest level in recent times.

Clark stressed, however, that stock investments remain an integral part of New Jersey's investment and diversification strategies.

“Over the last five years, New Jersey has experienced an annualized return of 9.2 percent, thanks in no small part to equity investments. This performance measurably exceeds the annual assumed rate of return of 8.25 percent. Historic trends show that stocks have consistently and robustly rebounded following cyclical market declines.”

“We recognize that these trends reinforce the state's position that the best strategy during these times is to avoid over-reacting to day to day developments, as this could lead to New Jersey missing opportunities and locking in losses. We're focused on strengthening a well-balanced portfolio, continuing a long-term view and adjusting the mix of diversified assets to capitalize on market changes.”

Director Clark's full presentation to the State Investment Council can be viewed at www.state.nj.us/treasury/doinvest.

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