State of New Jersey

Department of the Treasury

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For Information Contact:
Tom Vincz
(609) 633-6565

NJ Pension Fund FY 08 Performance Adjusted Higher; 09 Returns Exceeding Benchmarks

TRENTON – State Division of Investment Director William Clark announced upwardly revised performance figures for the fiscal year ended June 30, 2008 and indicated that returns to date for FY 09 have exceeded market averages, notwithstanding the ongoing and extreme volatility in the financial services sector.

"We have said all along that given New Jersey's diverse mix of investments, the State pension fund is positioned to perform as well or better than its peer funds during these enormously complex times for the market," Clark said. "While every effort is made to achieve optimal returns on investments, we realistically measure performance relative to the market. From this universal barometer, New Jersey is holding its own, largely because of its unique balance of internal management and outside expertise," he said.

Based on updated information on returns, the FY 08 total fund performance, initially -3.1 percent, has been revised to -2.9 percent. Director Clark, who will present a complete report to the State Investment Council at its regular meeting tomorrow, noted that the upward revision takes into account better than anticipated performance in domestic equities, international equities and domestic bonds. "While we are never content with a negative return, we outperformed the average pension return, as measured by Wilshire Associates, of -4.5 percent. In dollar terms, this out-performance means the pension fund was $1.3 billion higher than if we had returns in line with the average fund," Clark said.

For the first two months of FY 09, Director Clark said the total fund return was -0.94 percent, which exceeded the council benchmark of -2.21. For the month of August, the fund was up 0.24, versus -0.54 for the council benchmark. The portfolio, valued at $76 billion, saw strong performance in Domestic Equities, which returned 1.36 percent, versus 0.74 percent for the benchmark of the S&P 1500 Index.

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Domestic Fixed Income returned 1.87 percent through the first two months compared to a benchmark of 1.00 percent. International Equity returned -6.29 for the period, compared to a benchmark of -6.67. Fiscal YTD returns for Common Fund E (alternatives) are unavailable at this time.

Director Clark explained that the return figures tell only a small part of the pension fund's performance story.

"The performance figures reflect a large number of trade decisions, and we're gratified that so many of those decisions ultimately reduced the pension fund's exposure to several market forces that dragged down our peers and other investors."

Over the last year and a half, Clark noted that New Jersey did not own any bonds backed by sub-prime mortgages; did not own any CDOs (collateralized debt obligations); SIVs (structured investment vehicles), and sold all of the portfolio's asset-backed commercial paper by the spring of 2007 – prior to turmoil that gripped that market. In the equity portfolios, New Jersey avoided exposure to Freddie Mac and Fannie Mae, mortgage brokers, monoline insurers, student loan issuers, and automaker stocks that experienced significant losses over the last 15 months. (GM, Ford), "And, most importantly, we were underexposed to financial sector stocks in a significant way -- between $1 and $2 billion -- for all of the fiscal year ended June, 2008. As of August 31, 2008, our underexposure was $1.7 billion" he said.

Clark also noted that the pension fund had net sales of stocks in the financial services sector of $3.5 billion since July 2006.

"As all investors seek strategies to navigate through a period of historic market unrest, New Jersey will continue to play an activist role in identifying opportunities and mitigating risks on behalf of all beneficiaries. A balanced diversified portfolio, with continued under-exposure to sectors incurring significant losses, is the best tool for safeguarding the integrity of the State pension fund," he said.

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