

**SENATE BILL NO. 2430**

To the Senate:

Pursuant to Article V, Section I, Paragraph 14 of the New Jersey Constitution, I am returning Senate Bill No. 2430 with my recommendations for reconsideration.

The Division of Investment in the Department of the Treasury is responsible for the investment management of the seven funds that comprise the New Jersey Pension Fund and the State of New Jersey Cash Management Fund. The State Investment Council ("Council") formulates the policies governing the methods, practices or procedures for investments, reinvestments, and sale or exchange transactions to be followed by the Division. The Council's expertise is vital in maximizing returns to the State from its various investments. The Council is currently tasked with periodically reporting on those investments and the returns from those investments to me, the Legislature, and the public.

This bill seeks to expand the reporting required of the Council in order to identify the fund managers and the fees they charge for their services. I agree that it is important to disclose the fees that the State pays for the services of its fund managers so that we can identify where our success in private investments is greatest and maximize our returns. However, individually identifying each fund manager and the fees they have negotiated with New Jersey will put the State in a disadvantageous position relative to other institutional investors who require no such disclosure. As such, many of the premiere fund managers may elect not to continue a relationship with the State if their confidential fee arrangements will be made public. Any resultant loss of diversity in the fund manager pool will lead to suboptimal returns.

Moreover, the disclosure of fees on a quarterly basis will lead to confusion because not all of the fee schedules are structured in the same manner. Various funds account for fees using disparate methodologies, with some funds collecting fees in advance and other funds collecting fees in arrears, some funds collecting fees on a periodic basis while other funds deduct fees from distributions upon liquidation of investments. As such, I am recommending the Council issue a unified annual report, deliverable on or before the first day of March, that will detail the fees the State paid allocated to certain asset classes. This simple change will prevent the chilling effect the original bill would have had on New Jersey's ability to select the best fund managers, but also provide the clarity and transparency the sponsors seek.

The external managers that are hired by the State to manage its investments are also subjected to stringent disclosure requirements regarding their political activity including Federal and State restrictions that prohibit or limit the types of donations they can make to State and Federal campaigns and candidates. External Managers are already required to submit annual certifications of their political contributions and are not permitted to donate to State political entities or campaigns.

This bill also seeks to apply a State limitation on campaign contributions to an area already covered by Federal law, fund managers' and investment advisors' donations to non-State political entities. The fund managers and investment advisors already must abide by Federal campaign contribution laws. Because the Federal campaign contribution laws pre-empt State law in this area, I cannot approve of such a provision.

Accordingly, I herewith return Senate Bill No. 2430 and recommend that it be amended as follows:

<u>Page 2, Title, Lines 2-3:</u>	Delete "and concerning certain political contributions by money managers"
<u>Page 2, Section 1, Line 24:</u>	Delete "January" and insert "March"
<u>Page 2, Section 1, Lines 27-30:</u>	Delete ". In addition to the reports specified above and in section 14 of P.L. 1950, c.270 (C.52:18A-92), the council shall issue a report by March 1 of each year on the investment activities"
<u>Page 2, Section 1, Line 37:</u>	After "year" insert "and a summary of fees paid for the investment of funds in commodities, hedge funds, private equity, real estate, bonds, equities, or any other asset class"
<u>Page 2, Section 1, Line 40:</u>	Delete " <u>In addition, the council shall issue a</u> "
<u>Page 2, Section 1, Lines 41-45:</u>	Delete in their entirety
<u>Page 3, Section 1, Lines 1-6:</u>	Delete in their entirety
<u>Page 3, Section 1, Lines 31-34:</u>	Delete in their entirety

Respectfully,

Chris Christie  
Governor

Attest:

Christopher S. Porrino  
Chief Counsel to the Governor