

S&P Downgrades New Jersey's General Obligation Debt

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On February 9, 2011, Standard and Poor's (S&P) downgraded New Jersey's general obligation debt to AA- from AA due to concerns regarding the state's pension system, post-employment benefit obligations and above-average debt levels. The downgrade impacts \$2.6 billion of general obligation debt, \$27.8 billion of appropriation-backed debt and \$2.5 billion of moral obligation debt.

After persistent underfunding (including no contributions in 2010 and 2011), benefit enhancements and market losses, New Jersey's unfunded pension liability is approximately \$30.7 billion. In addition, the state's actuarially accrued retiree-health-benefits liability sits at \$57 billion. While the S&P acknowledges that New Jersey continues to have a diverse economic base coupled with high wealth and income levels, it believes the budget pressure will continue despite recent cuts.

Our Portfolios

SEI Fixed Income Portfolio Management still views the state of New Jersey's general obligation debt as a viable investment. We feel that the recent backup in spreads and ratings actions have created buying opportunities within the market, including certain debt issued within the state. As such, we continue to hold New Jersey general obligation debt. In an effort to mitigate risk, though, we will adhere to a moratorium on adding New Jersey's general obligation debt within the national, specific and focused mandates. The current amount of this debt within our portfolios represents a negligible position.

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