



Employees' Retirement Board of Rhode Island
Monthly Meeting Minutes
Wednesday, November 12, 2014
9:00 a.m.
2nd Floor Conference Room, 50 Service Avenue

The Monthly Meeting of the Retirement Board was called to order at 9:00 a.m. Wednesday, November 12, 2014, in the 2nd Floor Conference Room, 50 Service Avenue, Warwick, RI.

I. Roll Call of Members

The following members were present at roll call: Deputy Treasurer Mark A. Dingley, Esq., designee for General Treasurer Gina M. Raimondo; Vice Chair William B. Finelli; Gary R. Alger, Esq.; Daniel L. Beardsley; Roger P. Boudreau; Michael R. Boyce; Mark A. Carruolo; Steven T. Hartford; John P. Maguire; John J. Meehan; Thomas A. Mullaney; Claire M. Newell; Louis M. Prata and Jean Rondeau.

Also in attendance: Frank J. Karpinski, ERSRI Executive Director and Attorney Michael P. Robinson, Board Counsel.

Recognizing a quorum, Vice Chairman Finelli called the meeting to order.

II. Approval of Minutes

On a motion by Jean Rondeau and seconded by Roger P. Boudreau, it was unanimously **VOTED: To approve the draft minutes and executive session minutes of the October 8, 2014 meeting of the Retirement Board of the Employees' Retirement System of Rhode Island.**

Mark A. Carruolo abstained from this vote as he was not present at the October 8, 2014 Board meeting.

III. Chairperson's Report

Director Karpinski asked Deputy Treasurer Mark Dingley, Esq., if he could provide the Board with an update on the pension reform litigation. Attorney Dingley said there was little to update other than what has been released in the newspaper. He said the parties argued a motion for a jury trial and a hearing is set for next month in December.

Director Karpinski apprised the Board that Chief Investment Officer Anne-Marie Fink will provide the quarterly September 30 performance update on the defined benefit (DB) plan portfolio as well as an update on the defined contribution (DC) plan performance on behalf of program manager TIAA-CREF.

Ms. Fink noted that the DB Plan fiscal year-to-date was down 1.8% through September 2014, noting it still is substantially better than the -2.2% that the 60% equities/40% bond portfolio is down. Ms. Fink noted that a correction is not unexpected given two consecutive years of substantially better-than-expected returns in the markets; she said the market generally consolidates gains after such a strong period. Ms. Fink noted that

global equity markets were down 2.3% in the quarter and bond markets were up 0.2%. She noted the portfolio's lower risk approach is advantageous as the risk control allowed the portfolio to outperform by 30% during this downturn. Ms. Fink said the risk or standard deviation of the portfolio was 7.8% compared to the 8.4% of the 60% equities/40% bond portfolio. She said the best performers by asset class were private equity and absolute return hedge funds, which were each up about by 1.9%. She explained private equity benefited from strong capital markets that have allowed sales and other monetization opportunities. Ms. Fink said absolute return hedge funds benefited from positioning in currencies and interest rates. Ms. Fink said those investments that lagged behind were driven by equity markets, especially international equities, which fell 5.25% in the quarter. She noted that the other laggard was inflation-linked bonds as signs of inflation are not presently evident. Overall, Ms. Fink was pleased with the portfolio's allocations, while expecting some upcoming additions of publicly traded real estate and infrastructure assets.

She also noted that staff has been spending time re-underwriting the PIMCO exposure of about \$200 million in loans or floating-rate corporate credit securities. She said the investment is not directly affected by the management changes at PIMCO, but still the SIC is keeping a close watch on the allocation.

Ms. Fink then discussed the investment portion of the DC Portfolio. She highlighted two positives. First, she said the 2025 target date fund, which is the tranche in the middle of the range and has the single most assets, was down 1% for the quarter and performed decently compared to the 60% equities/40% bond portfolio, which was down 1.3%. Given the recent volatility, Ms. Fink said the target date funds that have shorter time to retirement, and therefore more fixed income, performed better. Those with more time to recover had challenges given the correction in the equity markets. Second, Ms. Fink said overall the low fee index-based approach is working well with target-date fund fees coming in at 0.11%. When benchmarked, the fees were lower than 97% of peers.

Next, Ms. Fink spoke about the individual funds' calendar 2014 year-to-date performance, stating there was better-than-average performance in all cases except for the *Vanguard Total Bond Market* option, which was in the 64th percentile; Ms. Fink noted that this passive approach is being reviewed by the SIC in conjunction with TIAA-CREF. She noted the SIC is also looking at the *PIMCO Real Return Fund*; while the firm has had management changes, the portfolio manager who oversees this fund is still with PIMCO. She apprised the Board that the SIC will continue to monitor the fund with TIAA-CREF, but said there is nothing imminent to alter the investment line-up. Ms. Fink then concluded her comments.

IV. Executive Director's Report

Director Karpinski apprised the Board that they were in possession of the Pension Application Report, the Disability Subcommittee Report and the Insight Service Group (ISG) fee information.

The Director reminded the Board that the meeting date for next month will be December 17, 2014. He said their attendance is important as Gabriel, Roeder, Smith and Company (GRS) will be at the meeting to present the June 30, 2014 valuations.

Director Karpinski apprised the Board that he has received 3 responses for the Board Governance review and will provide relevant information to the full Board for their decision.

Director Karpinski updated the Board on the “*Report of Contributions*” delinquency report in the Board book. He noted that the Town of North Kingstown, Scituate School Department (NC) and the Warwick School Department are now current; and as is standard practice, those remaining delinquent will be addressed using the normal collection of funds procedure.

The Director apprised the Board about the *Cyber Liability and Privacy Insurance* revised quotes and said he is still waiting for one carrier to provide updated information.

Director Karpinski reminded the Board that at last month’s Board meeting, there was a presentation on disability with a discussion on the ISG Group (ERSRI’s disability investigator). He noted that the contract was negotiated for a one year period with a 1-year extension. The Director reminded the Board that Deputy Treasurer Malone noted that there was \$33,000 in fees rendered for services. Director Karpinski asked the Board to consider the extension and noted that there was no change in the contract fees.

On a motion by Roger P. Boudreau and seconded by Louis M. Prata, it was unanimously

VOTED: To approve the extension of the 1-year contract with Insight Service Group (ISG)

Director Karpinski then discussed the Fiscal Year 2016 proposed Budget and apprised the Board that it was separated into two parts. He noted that consistent with ERSRI Regulation 1 (A) 5 (10) *Board Authority and Duties*, the Board must approve a budget. He then asked for a motion to accept the budget, excluding the *Legal Special Counsel Amount* of \$1,005,000 thus approving the remaining budget total of \$10,220,508. The Director said the budget is being presented for a vote today so the budget office can submit it to the General Assembly for approval. He noted that Mr. Maguire asked prior to any voting last month if Board Counsel could seek an ethics advisory opinion from the Ethics Commission. Attorney Robinson said he did submit a request to the Ethics Commission, which acknowledged receipt of the request but had not yet provided a substantive response.

On a motion by Roger P. Boudreau and seconded by John P. Maguire, it was unanimously

VOTED: To approve FY2016 Proposed Budget of \$10,220,508 exclusive of the proposed Legal Special Counsel Amount of \$1,005,000.

Director Karpinski then discussed with the Board the potential approval of the *Legal Special Counsel Amount* and said that it was perfectly acceptable to recuse from that vote. Attorney Robinson said that he had researched advisory opinions issued in the past, and the Ethics Commission has historically noted that if a member recuses or is required to recuse from participating in an underlying substantive matter, he or she should also recuse from participating or voting on a line item budget related to that same matter. Thus, Attorney Robinson said he felt it was in the best interest of affected Board Members to abstain or recuse from participating in this budgetary matter. Attorney Robinson said the remaining Board members can proceed with the budget approval. At the conclusion of the discussion, a motion was made by Thomas A. Mullaney and seconded by Jean Rondeau to approve the FY2016 proposed budget relating to the *Legal Special Counsel* amount of \$1,005,000. A roll call was taken and the following members voted Yea: Deputy Treasurer Mark A. Dingley, Esq., designee for

General Treasurer Gina M. Raimondo; Gary R. Alger, Esq.; Daniel L. Beardsley; Mark A. Carruolo; Steven T. Hartford; Thomas A. Mullaney and Jean Rondeau. The following members recused from the vote: Vice Chair William B. Finelli; Roger P. Boudreau; Michael R. Boyce; John P. Maguire; John J. Meehan; Claire M. Newell and Louis M. Prata.

There being 14 members and a quorum present, 7 votes were cast and 7 voted in the affirmative. Seven members recused, therefore consistent with Rhode Island General Laws §36-8-6, *Votes of the Board – Record of Proceedings*, there being a majority vote of the members present and voting at which a quorum is present, it was then

VOTED: To approve the Fiscal Year 2016 Proposed Budget Relating to Legal Special Counsel Amount of \$1,005,000.

Attorney Dingley then apprised the Board that there was a class action on British Petroleum plc. relating to their Alaskan oil fields where a rusted pipeline had burst. Even though that one pipeline was reported as an isolated issue, six months later entire oil fields were closed for related issues. A class action was brought in California reaching the 9th Circuit Court who ruled against the motion to dismiss the matter. Also, the 9th Circuit narrowed the time period during which damages could be sought taking the then lead plaintiff out of the case. Consequently, Rhode Island became the plaintiff with the largest damages. Attorney Dingley felt it was a favorable situation for Rhode Island to become the lead plaintiff.

Mr. Boudreau asked if there is any estimate of what a settlement will bring, and Attorney Dingley said damages were in the \$250,000 to \$300,000 range but settlement could be less. Attorney Dingley also noted that there are no out of pocket costs for the Retirement Fund.

V. Administrative Decisions

Disability Appeal – Linda M. Rose vs. ERSRI

Included in Board Members' Books, under separate cover, were the Findings of Fact as concluded by the Disability Subcommittee, transcripts from the appeal to the Disability Subcommittee, medical and supporting information in the matter of *Linda M. Rose vs. ERSRI*. Attorney Robinson asked if consistent with Regulation Number 9, *Rules pertaining to the application to receive an Ordinary or Accidental Disability Pension*, there were any written briefs, legal memoranda, or exceptions to the conclusions and recommendation of the Disability Subcommittee, which must have been submitted to the Executive Director not later than 10 days prior to the hearing. Director Karpinski apprised the Board that all the information that was received relative to the case from the Disability Subcommittee was included in the Board members' books. Attorney Robinson then said that pursuant to ERSRI's regulations, each party to the proceeding has the right to appear and to make oral arguments before the Retirement Board. Consistent with the Board's long standing policy, he apprised the appellant's attorney that this is not an opportunity to present new factual material or evidence to the Board, and that pursuant to ERSRI's regulations and Rhode Island case law, the Board owes deference to the Disability Subcommittee on factual determinations and questions of credibility, and will not overturn those determinations of fact or credibility unless such determinations are found to be clearly wrong. Ms. Rose was being represented by Attorney John Toro. There being a stenographer present, Attorney Robinson then

provided a synopsis of the matter. The parties thereafter presented their respective positions.

John J. Meehan recused on the matter of *Linda M. Rose vs. ERSRI*.

At the conclusion of the presentations, a motion was made by Michael R. Boyce and seconded by Roger P. Boudreau to overturn the decision of the Disability Subcommittee and award the accidental disability application. A roll call was taken, and the following members voted Yea: Vice Chair William B. Finelli; Roger P. Boudreau; Michael R. Boyce; John P. Maguire; Claire M. Newell and Louis M. Prata. The following members voted Nay: Deputy Treasurer Mark A. Dingley, Esq; Gary R. Alger, Esq.; Daniel L. Beardsley; Mark A. Carruolo; Steven T. Hartford; Thomas A. Mullaney and Jean Rondeau.

There being 13 votes cast, 6 voted in the affirmative, and 7 voted in the negative consistent with Rhode Island General Laws §36-8-6, *Votes of the Board -- Record of Proceedings*, and there being a quorum present, the motion failed.

A motion was then made by Deputy Treasurer Dingley and seconded by Jean Rondeau to affirm the decision of the Disability Subcommittee in denying Ms. Rose an accidental disability benefit. A roll call was taken, and the following voted yea: Mark A. Dingley, Esq; Gary R. Alger, Esq.; Daniel L. Beardsley; Mark A. Carruolo; Steven T. Hartford; Thomas A. Mullaney and Jean Rondeau. The following voted nay: Vice Chair William B. Finelli; Roger P. Boudreau; Michael R. Boyce; John P. Maguire; Claire M. Newell and Louis M. Prata.

There being 13 votes cast, 7 voted in the affirmative, and 6 voted in the negative consistent with Rhode Island General Laws §36-8-6, *Votes of the Board -- Record of Proceedings*, there being a majority vote of the members present and voting at which a quorum is present, it was then

VOTED: To affirm the decision of the Disability Subcommittee in the matter of *Linda M. Rose vs. ERSRI* denying her application for an accidental disability benefit.

VI. Approval of the October Pensions as Presented by ERSRI

On a motion by Roger P. Boudreau and seconded by Claire M. Newell, it was unanimously

VOTED: To approve the October pensions as presented.

VII. Legal Counsel Report

Attorney Robinson had no updates to report to the Board at the meeting and there were no questions from the Board.

VIII. Committee Reports

Disability Subcommittee:

The Disability Subcommittee recommended the following actions on disability applications for approval by the full Board as a result of its meeting on Friday, November 7, 2014:

Name	Membership Group	Type	Action
1. Eubalda Coates	State	Accidental	Member canceled due to illness—to be rescheduled
2. Michael Stevens	Municipal	Accidental	Postpone
3. Francis Perry	State	Ordinary	Report Accepted
4. Janet Delmastro-Gough	State	Accidental	Approved at 50%
5. Augusta Socree	State	Accidental	Postpone
6. George Fry, Jr.	State	Accidental	Deny
7. Ichael Mcdonald	State	Accidental	Deny
8. Emile Ziadeh	State	Accidental	Deny
9. Norbert Farias	State	Accidental	Approved at 50%
10. Daniel Cook	State	Accidental	Postpone
11. Darin Lucas	State	Accidental	Deny
12. Jason Lavallee	Municipal	Accidental	Deny
13. Wilmot Howard	State	Ordinary	Approve
14. Wendy Karspeck	Teacher	Ordinary	Approve

Name	Membership Group	Type	Action
15. Kathy Farwell	State	Ordinary	Approve
16. Rosalind Green	Municipal	Ordinary	Postpone
17. Ann Jennings	Municipal	Ordinary	Approve

On a motion by Michael R. Boyce and seconded by Roger P. Boudreau, it was unanimously

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, November 7, 2014 on items 1, 4, 5, 6, 7, 10, 11, 13 and 16.

Claire M. Newell recused herself from the vote on numbers 1, 4, 5, 6, 7, 10, 11, 13 and 16.

On a motion by Michael R. Boyce and seconded by Roger P. Boudreau, it was unanimously

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, November 7, 2014 on item 14.

John P. Maguire recused himself from the vote on number 14.

On a motion by Michael R. Boyce and seconded by Roger P. Boudreau, it was unanimously

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, November 7, 2014 on items 2, 3, 8, 9, 12, 15 and 17.

IX. Adjournment

There being no other business to come before the Board, on a motion by Roger P. Boudreau and seconded by Louis M. Prata, the meeting adjourned at 9:52 a.m.

Respectfully submitted,

Frank J. Karpinski

Executive Director