State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting October 27, 2004

A State Investment Commission ("SIC") meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, October 27, 2004. There being a quorum present, the Treasurer called the meeting to order at 9:05 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Dr. Robert McKenna, Mr. James E. Thorsen, Mr. John Treat and General Treasurer Paul J. Tavares. Senator Daniel DaPonte joined the meeting at 9:07 a.m. Ms. Marcia Reback was absent. Also present were: Mr. George Carvalho, Chief of Staff, Ms. Joan M. Caine, Deputy Treasurer for Finance, Mr. William G. Bensur and Mr. David Lindberg of Wilshire Associates Incorporated, Consultant to the Commission, Mr. Peter Martenson of Pacific Corporate Group, Alternative Investments Consultant to the Commission, Jayne Donegan, Esq. of Brown Rudnick Berlack Israels, Legal Counsel to the Commission, and other members of the Treasurer's Staff.

State Investment Commission Minutes. Mr. Costello moved, Ms. Gallogly seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Dr. McKenna, Mr. Thorsen, Mr. Treat and Treasurer Tavares. Note: Sen. DaPonte was not present for this vote.

VOTED: To approve the Minutes of the September 22, 2004 Regular Meeting.

Proposed Alternative Investment – Granite Global Ventures II, L.P. ("Granite Global"). Mr. Martenson of Pacific Corporate Group ("PCG") gave a brief overview of Granite Global, which will focus on expansion stage venture capital investments in information technology and, to a lesser extent, health-care companies. Granite Global will target investments backed by top tier early stage venture firms where the company's profile shows a clear path to liquidity, a stable management team, a proven product line, customer traction and a scaleable sales process. The targeted size of the fund is $225 million.

Mr. Joel Kellman, Managing Director and Mr. Hany Nada, Managing Director represented Granite Global. Mr. Kellman explained that Granite Global was developed by Tony Sun of Venrock Associates ("Venrock") to create an expansion stage venture firm for Venrock's early stage investments, but avoid the conflicts of interest and cultural differences that would result from being captive within Venrock. Granite Global was created as an independent entity with preferred access to Venrock's top portfolio companies and with Venrock Managing Directors Tony Sun and Ray Rothrock acting as members of the fund's investment committee.

Mr. Kellman stressed the strengths and capabilities of the team noting that they have skills specifically assembled for expansion stage investments and have diversified backgrounds. Mr. Nada stated that the fund will provide expansion stage funding for companies located in North America and Asia as they have roots in China and Singapore. The four criteria for an investment include: 1) a stable management team; 2) a proven product line/technology; 3) customer traction; and 4) a scaleable sales process. The fund wants a clear liquidity path in 18-30 months.

Mr. Thorsen moved, Dr. McKenna seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Sen. DaPonte, Ms. Gallogly, Dr. McKenna, Mr. Thorsen, Mr. Treat and Treasurer Tavares.

VOTED: To invest up to $15 million in Granite Global Ventures II, L.P., contingent upon satisfactory review and negotiation of investment and other legal documents.

Pacific Corporate Group – Review for Period Ended June 30, 2004. Mr. Martenson gave a brief overview of the June 30, 2004 quarterly report. He noted that during the second quarter the portfolio's IRR increased from 12.8% to 13.4%. He highlighted three partnerships: 1) Providence Equity Partners III, L.P.'s IRR has increased from 2.2% to 12.4%; 2) CVC European Funds II and III had a number of realizations that occurred which drove their IRR up as well; and 3) First Reserve Fund IX had their first realization which drove their IRR up also. He expects to bring an energy-focused fund to the December meeting.

Non-US Equity Portfolio - Bank of Ireland Asset Management ("BIAM"). Mr. Bensur reminded Commission members that BIAM was hired in June, 2001 to manage a non-US equity mandate. In September of 2004, BIAM announced that four senior members of the investment management team resigned to join a competing investment management organization. Wilshire believes that the recent departures will represent a challenge to BIAM with respect to the firm's ability to attract and retain key investment professionals on a going forward basis.

Also, since inception, the performance of the portfolio has been below expectations and poor relative to the non-US equity benchmark and to other peer group portfolios. BIAM's client service has also been below expectations. Based on recent organizational developments (Iridian acquisition that seems to have been a distraction), personnel changes and poor performance, Wilshire recommends that the Commission terminate the investment relationship with BIAM.

Mr. Bensur recommended retaining The Boston Company ("TBC"), a finalist in the recent search for a non-US equity manager conducted earlier this year, to replace BIAM. TBC is a high quality, institutionally oriented investment management firm that met all of the criteria of the RFP process from the recent search. He noted that the BIAM product has a mega-market capitalization profile and that TBC's product emphasizes smaller capitalization stocks. The two other existing non-US equity managers are Goldman Sachs and Mondrian Investment Partners Ltd. Wilshire's recommendation is to divide the BIAM assets as follows: 50% to Goldman Sachs, 25% to Mondrian Investment Partners and 25% to The Boston Company.

The Boston Company. Mr. D. Kirk Henry, Senior Vice President and Director of International Equities and Mr. Michael P. Palermo, Senior Vice President for Client Service/Business Development represented the firm. Mr. Palermo stated TBC was established in 1970 and that Mellon Financial Company has been the parent company since 1993. TBC has $38.9 billion of assets under management, $23 billion in international strategies of which $2.8 billion is in the ACWI ex-US portfolio. The ACWI ex-US strategy year-to-date through 9/30/04 is up 7% versus the benchmark 5.2%. TBC has outperformed the benchmark every year since the product began in 1999.

Mr. Henry noted that TBC believes successful international investing is achieved through a program that is a value-oriented approach, research driven, and risk averse. TBC is a bottom-up stock picker driven by stock selection. They buy stocks that exhibit good value characteristics,

strong business fundamentals, and a positive business momentum. They sell stocks that violate any one of those three characteristics. At present they are slightly underweighted in the UK and slightly overweighted in Japan. He stated that TBC diversifies by country and sector weights and maintains a maximum of 5% in any one stock.

Mr. Costello moved, Ms. Gallogly seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Sen. DaPonte, Ms. Gallogly, Dr. McKenna, Mr. Thorsen, Mr. Treat and Treasurer Tavares.

VOTED: To terminate Bank of Ireland Asset Management effective immediately based on significant changes to investment personnel, organizational structure and poor performance.

A discussion followed noting that the portfolio transition should take place without market disruption and at the lowest possible cost while maintaining market exposure. Commission members decided to divide the assets of the RIERS international portfolio (currently $1.4 billion) equally among the 3 investment managers (33.3% target allocation each).

Ms. Gallogly moved, Sen. DaPonte seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Sen. DaPonte, Ms. Gallogly, Dr. McKenna, Mr. Thorsen, Mr. Treat and Treasurer Tavares.

VOTED: To retain The Boston Company for a non-US equity assignment based on the non-US equity RFP process that was completed on 2/25/04 and to reallocate the non-US equity assets formerly held by Bank of Ireland Asset Management such that the entire non-US equity portfolio will be divided equally among the three investment managers (The Boston Company, Mondrian Investment Partners, and Goldman Sachs).

Deferred Compensation Program (457) – ING (Aetna). Ms. Caine reminded Commission members that the 457 Plan has three providers each offering twenty options in which to invest. She stated that ING has recommended three substitutions to the products they currently offer. The three funds they plan to eliminate are all Janus funds. The reasons for elimination are because of organizational issues as well as poor performance.

Ms. Marlene K. Oien, Regional Manager, Mr. Michael C. Eldredge, Certified Fund Analyst, and Mr. Richard T. Mason, Vice President and General Manager of Northeast Region Institutional Markets represented ING. Mr. Eldredge noted that terminating the Janus relationship is requested because of performance deterioration as well as a style drift. Janus was also involved in the market timing issues. He stated that the substitutions will provide a more streamlined, standardized, simplified and consolidated array of funds available.

He also noted that including too many different funds with different investment advisers makes those products more costly to administer. These substitutions will lead to increased efficiencies, greater influence over the administrative aspects of the funds and reduced costs.

Ms. Oien noted the three proposed replacement options are as follows: 1) Janus Aspen Series Worldwide would be replaced by the ING Oppenheimer Global Portfolio (representing approximately $1.9 million of assets and impacting 313 plan participants); 2) Janus Aspen Series Mid Cap Growth would be replaced by the ING T. Rowe Price Diversified Mid Cap Growth

Portfolio (representing approximately $3.75 million of assets and impacting 465 plan participants); and 3) Janus Aspen Series Balanced would be replaced by the ING Van Kampen Equity & Income Portfolio (representing approximately $908,000 and impacting 142 plan participants).

Ms. Oien stated that ING would be sending out one mailing to all plan participants. Ms. Caine requested that ING send a draft of the communication to the Treasurer's Office for approval prior to distribution. The Treasurer and Ms. Caine recommended approval of the requests.

Mr. Costello moved, Sen. DaPonte seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Sen. DaPonte, Ms. Gallogly, Dr. McKenna, Mr. Thorsen, Mr. Treat and Treasurer Tavares.

VOTED: To approve ING's recommended changes to three of the investment options offered in the 457 plan as outlined in ING's presentation dated October 27, 2004. Specifically, to replace Janus Aspen Series Worldwide with ING Oppenheimer Global Portfolio, to replace Janus Aspen Series Mid-Cap Growth with ING T. Rowe Price Diversified Mid-Cap Growth Portfolio, and to replace Janus Aspen Series Balanced with ING Van Kampen Equity & Income Portfolio.

Wilshire Associates Incorporated – Capital Market Review. Mr. Lindberg noted that there are signs of economic expansion in the manufacturing and industrial production levels. Consumers are continuing to spend and unemployment is coming down a bit. Larger stocks are beginning to outperform small stocks (which outperformed in 2003). Through October 26, 2004 the S&P 500 is up 1.2%, the NASDAQ is down 3.7%. International stocks are up 6.5% and bonds are up 4.2%.

Deputy Treasurer for Finance Report. Ms. Caine reported that the pension fund is up .05% for the first quarter of the fiscal year. For the twelve months ended September 30, 2004, the fund is up 14%. She stated that Thomas Silvia, the fund's Portfolio Manager at Fidelity Management Trust Co. has been promoted within the department and will be less involved going forward on a day-to-day basis. Fidelity will be coming in for a manager review at the December meeting. She noted that December 8th had been set for the December meeting but that the date needed to be changed to December 1st or 15th. The Commission decided to change the date of the December meeting to Wednesday, December 1, 2004.

General Treasurer's Report. The Treasurer told Commission members that the Separation of Powers issue will appear as a ballot question for the November election and indications are that it should pass overwhelmingly. Passage of that ballot question will mean that legislators will not be allowed to serve on state Boards and Commissions. The SIC is presently a nine member board. The Senate has introduced legislation to simply eliminate the legislators from the SIC which would leave only seven members. The Treasurer has requested of the Senate and the House that the SIC remain at nine members, with two public members replacing the legislators. Also, it is unclear if the ballot question passes, when it will take effect.

Mr. Thorsen moved, Dr. McKenna seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Sen. DaPonte, Ms. Gallogly, Dr. McKenna, Mr. Thorsen, Mr. Treat and Treasurer Tavares.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 11:10 a.m.

Respectfully submitted,

Paul J. Tavares
General Treasurer