

**State of Rhode Island and Providence Plantations  
STATE INVESTMENT COMMISSION**

**Regular Meeting February 23, 2005**

A State Investment Commission (“SIC”) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, February 23, 2005. The Treasurer called the meeting to order at 9:05 a.m.

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

State Investment Commission Minutes. Dr. McKenna moved, Mr. Thorsen seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Dr. McKenna, Ms. Reback, Mr. Thorsen, Mr. Treat and Treasurer Tavares.

**VOTED: To approve the Minutes of the January 26, 2005 Regular Meeting and the Minutes of the January 26, 2005 Executive Session.**

Pacific Corporate Group (“PCG”) - Annual Strategy Review – 2005. Mr. Peter Martenson began with a review of performance through September 30, 2004. At that time the fund size was \$6.1 billion and the alternative investments portfolio totaled \$328 million which represented 5% of the 7.5% allocation to alternative investments. PCG was hired in 1995 and the portfolio’s IRR since inception is 13.4%. There are 55 active investments, comprised of 60% in corporate finance, 13% in venture capital, and 27% in special situations.

Mr. Martenson noted that PCG expects to reach the target allocation size of 7.5% in 2009 by investing up to approximately \$100 - \$125 million per year until then. The focus for 2005 is on existing relationships and selectively expanding venture capital exposure. A large number of current relationships are presently in the market or are expected to be in the market again in 2005. They include the following: Apollo Investment Fund, Blackstone Capital Partners, CVC European Equity Partners, Fenway Partners, Harvest Partners, Nautic Partners, Parthenon Investors, Wellspring Capital Partners, Avenue Special Situations, Boston Ventures, Collier International Partners, and VS&A Communications Partners.

PCG recommends targeting \$75 million in corporate finance reups, targeting \$25 million in two new venture capital relationships, and targeting \$25 million in special situations in either new relationships or potential reups in 2005. These potential commitments were selected in order to manage the portfolio’s sub-sector allocation by strategy, and are subject to full PCG due diligence and SIC approval.

Treasurer Tavares requested that the order of the Agenda be amended to have the next item be Wilshire Associates’ Capital Market Review prior to the Gateway Eight discussion.

Wilshire Associates Incorporated – Capital Market Review. Mr. Lindberg stated that the equity market was strong in the last quarter of 2004. January 2005 was slow with a slight recovery in February. However, yesterday the market was hit hard with the news of rising oil prices and was down 1.5%. Year-to-date equity markets are down approximately 2%. He noted that inflation for 2004 was 3.3% and economic growth was 4.4%.

In the US equity market, large stocks are outperforming small stocks. In the international market, emerging markets continue to outperform. The Fed has been slowly raising short-term interest rates. Ms. Lindberg noted that through 2/18/05 the S&P was down 60 basis points, but after yesterday's sell-off is now down approximately 2%. Nasdaq is also down 6.7%. Internationally, markets are up approximately 1.5%. The Lehman Aggregate was up 4.3% in 2004 and is up .5% year-to-date.

Executive Session. Treasurer Tavares requested a motion to convene in Executive Session, pursuant to R.I.G.L. § 42-46-5(2) to discuss litigation regarding the Gateway Eight mortgage; and pursuant to R.I.G.L. § 42-46-5(7) to discuss the investment of public funds regarding the Gateway Eight mortgage, and to permit members to obtain in confidence advice of counsel as to the Commission's legal strategies in that regard. Ms. Reback moved, Dr. McKenna seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Dr. McKenna, Ms. Reback, Mr. Thorsen, Mr. Treat, and Treasurer Tavares.

**VOTED: Pursuant to R.I.G.L. § 42-46-5(2) and R.I.G.L. § 42-46-5(7), the Commission voted to close the meeting to the public to discuss litigation regarding the Gateway Eight mortgage; and to discuss the investment of public funds regarding the Gateway Eight mortgage.**

The Commission went into Executive Session at 9:20 a.m.

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

**VOTED: To reconvene the meeting into Open Session.**

The Commission reconvened into Open Session at 10:12 a.m.

The Treasurer asked that the Minutes reflect that no votes were taken in Executive Session.

Deputy Treasurer for Finance Report. Ms. Caine noted that seven months into the fiscal year the fund is up 7.5 %, approximately 45 basis points ahead of the benchmark. For the calendar year-end 12/31/04, the fund is up 13.1%. She also stated that Rhode Island is ranked second in the country for the CollegeBound*fund* with \$5.4 billion of assets under management in the 529 plan.

Treasurer's Report. Treasurer Tavares asked for support for two pieces of legislation that the Treasurer's Office is introducing this year. The first is regarding the tax exemption for RI residents who participate in the CollegeBound*fund*. Presently, the tax exemption is offered to a single filer up to \$500 per year; and he is suggesting it be raised to \$1,000 per year. For those married and filing jointly, the exemption would be raised to \$2,000 per year. He noted that New York's plan has an exemption of \$10,000 per year.

The second piece of legislation is regarding tax parity for RI residents who participate in any state sponsored 529 Plan. The Treasurer believes this is an issue of fairness. Presently the \$500 exemption is for anyone participating in the Rhode Island plan, but he'd like to see that expanded for RI residents regardless of which 529 plan they participate in. He believes that it is more important that participants save for college than what plan they participate in. Therefore, the new legislation would allow a Rhode Island resident the same exemption if they participate in an out-of-state plan. The overwhelming majority of Rhode Islanders are participating in the Rhode Island plan. When Treasurer Tavares took office there were \$4 million in RI deposits and currently there are \$125 million in deposits.

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

**VOTED: To adjourn the meeting.**

There being no further business, the meeting was adjourned at 10:17 a.m.

Respectfully submitted,

Paul J. Tavares  
General Treasurer