

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

Regular Meeting May 25, 2005

A State Investment Commission (“SIC”) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, May 25, 2005. The Treasurer called the meeting to order at 9:00 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Dr. Robert McKenna, Mr. James E. Thorsen, Mr. John Treat, and General Treasurer Paul J. Tavares. Ms. Rosemary Booth Gallogly joined the meeting at 9:05 a.m. and Ms. Marcia Reback joined the meeting at 9:08 a.m. Also present were: Mr. George Carvalho, Chief of Staff, Ms. Joan M. Caine, Deputy Treasurer for Finance, William Baldiga, Esq. of Brown Rudnick Berlack Israels, Legal Counsel to the Commission, Mr. William Bensus of Wilshire Associates Incorporated, Consultant to the Commission and other members of the Treasurer’s Staff. Jayne Donegan, Esq. of Brown Rudnick Berlack Israels joined the meeting at 9:10 a.m.

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

VOTED: To approve the Minutes of the April 27, 2005 regular meeting and to approve and seal the Minutes of the April 27, 2005 Executive Session.

Investment Manager Review – Taplin Canida & Habacht (“TCH”). Mr. Bensus gave a brief overview of TCH, which was retained in 1996 to provide a strategic market allocation to the general investment characteristics of the corporate sector of the US fixed income market. As of 3/31/05 the portfolio represented 15.3% of the fixed income composite and 3.8% of the total fund. Market value at 3/31/05 was \$251.5 million.

Ms. Tere Canida and Mr. Alan Habacht represented TCH. Ms. Canida noted that TCH has over \$5.9 billion of assets under management. In 2004, assets under management grew by \$623 million. TCH has hired one new investment professional. Since March of 2004, TCH has continued to expand its in-house research and added new features to its proprietary research and trading intranet. TCH has also enhanced its risk management and analytics software for account management and compliance.

TCH’s philosophy in managing corporate bond accounts is to capture the historic performance advantage of corporate bonds and to add value above the benchmark index within a narrow duration band. That approach minimizes market timing and emphasizes attractive sector and issue spread opportunities within the corporate bond market universe.

Mr. Habacht noted that the account is a corporate bond portfolio with a duration of +/- 25% of the Lehman Brothers US Credit Index. Securities with maturities beyond 30 years are prohibited. Minimum issue quality at time of purchase is investment grade (BBB/Baa). Up to 10% non-investment grade securities may be held. Average portfolio quality must be a minimum of single A. The portfolio is diversified among the industrial, finance and utility sectors, including Yankee bonds. Up to 25% may be in US Governments/Agencies. The maximum cash position is 20%.

Mr. Habacht stated that for calendar year 2004, the portfolio was up 5.91% versus the Lehman US Credit Index which was up 5.24%. TCH has taken a defensive portfolio structure, including floating-rate notes and callable bonds and a below index duration. TCH's duration exposure to BBB's added value as credit curves flattened, BBB corporates were the best performing quality sector of the credit market over the past year, outperforming A, AA, and AAA corporates by 75, 151, and 152 basis points, respectively, on a duration-adjusted basis. TCH expects to remain positioned defensively in 2005 in anticipation of higher interest rates.

Wilshire Associates Incorporated – Capital Market Review. Mr. Bensus noted that the economy continues to be reasonably strong with solid corporate earnings growth of 18.8% in the fourth quarter. He stated that 2005 has had a rough first quarter with small stocks continuing to lag large stocks. There continue to be concerns regarding oil and gas prices. International markets are doing well, particularly emerging markets. Mr. Bensus noted that the marketplace shows 75% large stocks and 25% small stocks. He said that the portfolio's allocation was presently 70% large stocks and 30% small stocks, in line with the targeted allocation of 70/30. Ms. Caine noted that the fund is currently slightly underweight relative to the portfolio's small cap 30% targeted allocation, largely due to market conditions. The ongoing rebalancing of the international composite, which has outperformed other asset classes, will be close to complete by month-end. She noted that a \$30 million liquidation from The Boston Company requested earlier in the month will bring the international composite even with the targeted allocation. Through April the portfolio is approximately 60 basis points ahead of the benchmark.

Mr. Costello moved, Dr. McKenna seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, 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 votes to close the meeting to the public to discuss the 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 9:35 a.m.

Open Session. Ms. Reback moved, Mr. Thorsen seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, 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 10:20 a.m. Treasurer Tavares noted that no votes were taken while the Commission was in Executive Session.

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

VOTED: To seal the Minutes of the Executive Session held today, May 25, 2005.

Treasurer Tavares thanked Ms. Donegan for her efforts with the numerous private equity and real estate investments made lately. He noted that one of the principals of a recent real estate investment commended the efficiency of Ms. Donegan.

Deputy Treasurer for Finance Report. Ms. Caine stated that Pacific Corporate Group (“PCG”), the fund’s alternative investment consultant, has gone through a recent reorganization. PCG has divided its Partnership Division (“PCG Asset Management”) from its Direct Investing Division (“PCG Capital Partners”) with the goal of providing a more focused approach in each Division at the senior management level. PCG Asset Management is the consulting side of the business and PCG Capital Partners invests in funds or directly in operating companies. Mr. Monte Brem, an attorney who has been with PCG for three years, will head PCG Asset Management and Chris Bower, one of the original founders, will head PCG Capital Partners. Ms. Caine also noted since year end, PCG has experienced some staff turnover. Mr. Peter Martenson, RIIERS primary consultant, along with Mr. Scott Volmer and Mr. Eric Becker, all senior staff members have recently left PCG. PCG has recently hired one senior level professional and is in the process of hiring at least two more. Ms. Tara Blackburn, to whom Mr. Martenson reported, will now take over his responsibilities.

Ms. Caine also informed the board the SEC has completed its 18-month investigation into the pension consulting industry and on March 16th released its report. The investigation involved twenty-four consulting firms, one of which was Wilshire Associates Incorporated (“Wilshire”), out of a total of over 1,700 firms registered with the SEC as consultants. Townsend and PCG were not part of the investigation. The investigation focused on the conflicts of interest that pension consultants may or may not have and the adequacy of the disclosure of those potential conflicts of interest to their clients. The SEC reviewed the products and services offered by consultants, how they were compensated for those services, and sought to determine if compensation received from the investment management community for products such as analytics, research, brokerage services and conference fees, caused consultants to deliver biased investment advice, favoring those investment firms that generated income for the consultant.

While the report does not name any consulting firms specifically, it concluded that conflicts of interests exist in the industry, which could skew the objectivity of advice given to pension clients. Four of the firms investigated have received a clean bill of health from the SEC and written confirmation from the SEC that the investigation did not uncover any violations. She does not believe that Wilshire has provided RIIERS with biased recommendations, in part because of RIIERS Request for Proposals (“RFP”) process and staff’s involvement with the selection of investment management firms. In addition, Wilshire has disclosed the other business lines and services provided to other clients such as analytics software, performance measurement, etc. Wilshire’s brokerage operation, which was offered to clients that wanted to pay consulting fees through soft dollars, was sold last year. As part of the entire SEC investigation, Wilshire separated its investment management division from its consulting division. Ms. Caine reported that she has contacted Ms. Julia Bonafede, to whom Mr. Bensur reports, to request a written summary of Wilshire’s status in the investigation. The SEC has stated that it plans to refer some consultants to its Enforcement Division which could result in fines or remuneration among other things. Wilshire’s Form ADV (4/05) which provides information on potential conflicts is on file.

General Treasurer’s Report. Treasurer Tavares noted that with regard to the separation of powers, the Governor’s office had challenged whether qualifying members could be restricted. With regard to the SIC, the House has passed legislation and the Senate is still working on legislation that would allow the Treasurer to appoint new members of the SIC to replace the two vacancies left by the legislative members.

Ms. Reback moved, Ms. Gallogly seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, 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 10:38 a.m.

Respectfully submitted,

Paul J. Tavares
General Treasurer