

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

**Regular Meeting August 24, 2005**

A State Investment Commission ("SIC") meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, August 24, 2005. The Treasurer called the meeting to order at 9:03 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. James E. Thorsen, Mr. John Treat, and General Treasurer Paul J. Tavares. Also present were: Mr. William Bensus and Mr. Kevin Lavelle of Wilshire Associates Incorporated, Consultant to the Commission, Ms. Tara Blackburn and Ms. Michelle Davidson of Pacific Corporate Group, Alternative Investments Consultant to the Commission, Mr. Frank Blaschka and Mr. Anthony Frammartino of The Townsend Group, Real Estate Consultant to the Commission, Jayne Donegan, Esq. of Brown Rudnick Berlack Israels, Legal Counsel to the Commission, Kerry Walsh, Esq., Chief Legal Counsel, and other members of the Treasurer's Staff. Ms. Marcia Reback and Dr. Robert J. McKenna were absent.

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

**VOTED: To approve the Minutes of the June 22, 2005 regular meeting.**

Proposed Investment in Avenue Special Situations Fund IV, L.P. ("Avenue IV"). Ms. Tara Blackburn of Pacific Corporate Group gave a brief overview of Avenue IV noting that the fund is being formed primarily to make non-controlling investments in debt, equity securities or other obligations of companies in financial distress.

Ms. Julie Baumann, Portfolio Manager and Mr. Alexander Wolfman, Director of Business Development represented Avenue IV. Mr. Wolfman noted that Avenue Capital Partners is a global investment firm with approximately \$7 billion of assets under management. Avenue IV is a US focused distressed investment fund. It has a unique structure designed to take advantage of the cyclical nature of distressed investing. Up to 20% of the fund may be invested in European investment opportunities. Some industries to be invested in are airlines, auto parts, independent power producers, drug retailers, paper and packaging, specialty chemicals, lodging and gaming, and health care.

Ms. Baumann noted that Avenue IV will continue to utilize the top-down, value investing approach employed through their three prior distressed funds. The fund will invest in companies in which a turnaround is anticipated, companies trading below liquidation value, or companies that are undervalued because of discrete extraordinary events. Target fund size is approximately \$1 billion. Avenue III returned gross IRR of 23.5%. Avenue IV believes that current market dynamics are setting up an ideal environment for distressed investing.

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

**VOTED: To invest up to \$20 million in Avenue Special Situations Fund IV, L.P., contingent upon satisfactory review and negotiation of investment and other legal documents.**

The Townsend Group (“Townsend”) - Real Estate Consultant - Portfolio Overview. Mr. Frank Blaschka and Mr. Anthony Frammartino represented The Townsend Group. Mr. Frammartino noted that the allocation to real estate is targeted at 5% or \$340 million based on the plan assets of \$6.8 billion. Approximately \$105 million remains to be committed for investment at this time. The allocation target for the core portfolio is 65%, or approximately \$221 million of the total real estate allocation of \$340 million. Four commitments have been made to the core portfolio totaling \$170 million, leaving approximately \$51 million for new or additional stable return funds in order to reach the target set forth in the Investment Policy Statement.

He noted that approximately \$65 million has been committed to non-core investments. The non-core investments are part of the 35% targeted allocation (currently \$119 million). If approved, the \$35 million commitment to the two funds brought before the Commission today will leave approximately \$19 million to commit to future investments.

Proposed Investment in JP Morgan Alternative Property Fund (“APF”). Mr. Frammartino gave a brief overview of APF, which is an open-end fund that invests in alternative property types. APF has established diversification limitations to ensure a somewhat broader level of diversification than most close end funds. Exposure limitations include 35% in hospitality properties, 20% in condos and for-sale housing, 30% in non-income producing investments in development and or redevelopment, and up to 15% in both core and alternative investments in Canada and Mexico.

Mr. David J. Gilbert, Portfolio Manager, Mr. George Ochs, Portfolio Manager, and Mr. John T. O’Shea, Client Advisor represented APF. Mr. Ochs gave an overview of JP Morgan Asset Management and its investment philosophy. Mr. Gilbert stated that most institutional investors focus on four main property types: office, industrial, retail and multi-family. He noted that there is a substantial universe of alternatives which are institutional quality real estate, and income producing. They include: senior living, hospitality, condominium/residential development, medical office, self-storage, student housing, parking, manufactured housing, and land/single family development.

Mr. Gilbert noted that approximately one-third of the wealth in the US real estate markets is in alternatives. APF is classified by Townsend as an enhanced return or value-added fund that is targeting 12-15% gross returns utilizing up to 60% leverage. Alternatives have offered investors the opportunity to raise risk-adjusted returns versus a pure core portfolio. APF expects to exploit emerging demographic trends, seeking value-added opportunities. The target fund size is approximately \$500 million.

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

**VOTED: To invest up to \$20 million in JP Morgan Alternative Property Fund, contingent upon satisfactory review and negotiation of investment and other legal documents.**

Proposed Investment in Westbrook Real Estate Fund VI (“Westbrook”). Mr. Frammartino gave a brief overview of Westbrook noting that it is a global high return fund that will pursue opportunistic real estate investing within the following areas: undervalued assets and portfolios; corporate and government divestitures; urgent recapitalizations; dysfunctional ownership; non-performing loans, and single family residential development. Up to 45% of the fund may be invested in Europe and Asia and 55% in the United States.

Mr. Jeffrey M. Kaplan, Managing Principal and Mr. Paul D. Kazilionis, Managing Principal and CEO represented Westbrook. Mr. Kazilionis noted that Westbrook Partners was founded in 1994 and through its past six funds has invested \$4.8 billion of equity (185 investments) in more than \$20.7 billion of real estate transactions. All 185 investments are projected to achieve an IRR of 35.6%. Of those, 111 investments have been realized producing an IRR of 45.9%. The target fund size was originally \$750 million, but will be increased to approximately \$850-\$875 million because of demand.

Mr. Kaplan stated that Westbrook is a value buyer focusing on high quality, well-located and liquid assets. Westbrook follows a historically successful investment philosophy that consists of a set of guiding principles that define attractive qualities of a transaction without regard to market, asset class or economic cycle. The Westbrook funds are known for their early return of capital to investors. Westbrook will concentrate on major gateway cities where they have offices: New York, London, Paris and Tokyo.

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

**VOTED: To invest up to \$15 million in Westbrook Real Estate Fund VI, contingent upon satisfactory review and negotiation of investment and other legal documents.**

Investment Manager Review - Mondrian Investment Partners Ltd. (“Mondrian”). Mr. Bensur of Wilshire Associates Incorporated (“Wilshire”) gave a brief overview noting that Mondrian was retained in April 2004 to provide a long-term, strategic allocation to the non-US equity market (all country world ex-US market). Market value at 6/30/05 was \$509.7 million representing 33.5% of the Non-US equity composite and 7.6% of the total fund. Investment performance, net of fees, for one year is 3.95% ahead of the benchmark.

Ms. Laura A. Conlon, Senior Vice President, Ms. Fiona Barwick, Director of Regional Research (London Office) represented Mondrian. Ms. Conlon introduced Mr. John C. E. Campbell, President of Global Institutional Services at Delaware International Investments (“Delaware”). She noted that Mondrian went through a management buyout last year and became independent from Delaware. However, the emerging markets portfolio remained with Delaware and Mondrian was retained as sub-advisor for that portfolio.

Ms. Barwick stated that Mondrian is an owner-operated business with \$35 billion of assets under management: approximately \$31 billion in various equity products and approximately \$4 billion in fixed income. Mondrian is a value-oriented defensive manager investing in stocks where rigorous dividend discount analysis isolates value in terms of the long-term flow of dividends. Dividend yield and future real growth play a central role in its decision making process and over time the dividend component will be a meaningful portion of expected total return.

Ms. Barwick noted that Mondrian uses a top-down and bottom-up process. She also noted that the currency contribution has had a big impact on performance this year. The largest contributor being a partial hedge on sterling along with an underweighting to Japan. Stock selection had a positive effect on the portfolio.

Wilshire Associates Incorporated - Capital Market Review. Mr. Bensus noted that economic growth continues but that inflation is rising. The unemployment rate is down 5% and new and existing home sales rose in June. The S&P is up 1.5% year-to-date (8/23/05) and the Wilshire 5000 is up 2.3%. Non-US equities have continued to outperform US equities. Fixed income is up 2% year-to-date. Mr. Bensus also noted that the fund is 1.35% ahead of the benchmark for calendar year-to-date.

Legal Counsel Report - Brown Rudnick Berlack Israels, LLP ("Brown Rudnick"). Ms. Donegan updated the Commission on the Gateway Eight bankruptcy. She noted that on August 17<sup>th</sup> a hearing was held to consider the Disclosure Statement and Auction and Bidding Procedures which were proposed for the sale of the Gateway property. Capital Properties, the ground lessor, made one objection to the Disclosure Statement. They requested that the Judge modify the Disclosure Statement to avoid giving the potential purchaser of the building the right to seek recharacterization of the ground lease as a loan secured by a first priority lien on the land.

Judge Hillman denied this motion, saying that this issue is a matter of state law and a purchaser would be free to attempt to recharacterize the lease in state court. Ultimately the amended Disclosure Statement and Auction and Bidding Procedures were approved and the auction was scheduled for September 27, 2005. The voting package for the Plan will be sent out on August 25, 2005 with objections to the Plan confirmation and votes on the Plan being due by September 20, 2005.

Treasurer Tavares noted that the auction has been advertised and interested parties have responded and been qualified. A confidentiality agreement has been signed by all interested parties. The minimum bid allowable is \$17.9 million.

Treasurer's Report. Treasurer Tavares noted that the Separation of Powers legislation has made no further progress leaving nothing significant to report.

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