

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

Regular Meeting October 26, 2005

A State Investment Commission ("SIC") meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, October 26, 2005. The Treasurer called the meeting to order at 9:10 a.m.

Treasurer Tavares welcomed and introduced new Commission member Jeffrey Britt to the State Investment Commission. Mr. Britt was appointed by Governor Carcieri and succeeds Mr. James E. Thorsen.

Membership Roll Call. Present were: Mr. Jeffrey Britt, Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Ms. Marcia Reback, Mr. John Treat, and General Treasurer Paul J. Tavares. Also present were: Ms. Joan M. Caine, Deputy Treasurer for Finance, Mr. David Lindberg of Wilshire Associates Incorporated, Consultant to the Commission, Jayne Donegan, Esq., of Brown Rudnick Berlack Israels, Legal Counsel to the Commission, Ms. Tara Blackburn of Pacific Corporate Group, Alternative Investments Consultant to the Commission and other members of the Treasurer's Staff. Dr. Robert J. McKenna joined the meeting at 9:25 a.m.

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

VOTED: To approve the Minutes of the September 28, 2005 regular meeting and the Minutes of the September 28, 2005 Executive Session.

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

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 9:12 a.m.

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

VOTED: To reconvene the meeting into Open Session.

The Commission reconvened into Open Session at 9:40 a.m. There were no votes taken while the Commission was in Executive Session.

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

VOTED: To seal the Minutes of the Executive Session held today, October 26, 2005.

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

VOTED: That the General Treasurer be authorized to negotiate and enter into a lease with Fidelity Investments pursuant to which Fidelity Investments would lease the Gateway building, contingent upon satisfactory review and negotiation of a lease and other legal documents.

Investment Manager Review - State Street Global Advisors ("SSgA") - Core-Oriented US Equity Portfolio. Mr. Lindberg gave a brief overview noting that SSgA was retained in 1998 to provide a strategic core-oriented allocation to the overall US equity market. As of 9/30/05 the portfolio represents approximately 10.2% of the US equity composite and 4.6% of the total fund. He also noted that SSgA was again retained in 2003 to provide a long-term strategic allocation to a passively managed representation of the large and mid capitalization segments of the US equity market. As of 9/30/05 the portfolio represents approximately 44.3% of the US equity composite and 20.1% of the total fund.

Ms. Donna Watkins, Principal/Client Service Officer, Mr. Michael J. Feehily, CFA, Principal and Mr. Michael Arone, CFA, Principal represented SSgA. Ms. Watkins noted that SSgA has \$1.4 trillion in assets under management. She stated that upon the death of SSgA's former president Mr. Timothy Harbert, Mr. William Hunt has been named President and Chief Executive Officer. She also noted that Christopher Pope, head of US Sales and Client Service has recently left SSgA. As of 9/30/05 the active US large cap core account SSgA manages for RIERS was valued at \$310.8 million and the Russell 1000 Index fund was \$1.4 billion for a total of \$1.7 billion of assets with SSgA.

Mr. Feehily noted that approximately 80% of SSgA's new business comes from existing clients. He noted that 94% of the Russell 1000 Index strategy's cash flows are traded at low or no cost because they are traded in-house. Only 6% of trades flow through the open market. He stated that the transactions over the past year for this portfolio have cost less than one basis point which is a savings of approximately \$250,000. All cap styles performed well, with mid-caps leading in the third quarter and year-to-date.

Mr. Arone stated that the core portfolio's universe is the 1000 largest securities by market cap, which includes all S&P 500 securities. He noted that April to August 2004 was a difficult performance period with the spread between volatility and correlations at unprecedented levels. More recently this spread has narrowed and since August of 2004 the fund has outperformed by 4.1%, with an absolute return of 19.8%. The portfolio's sector weights have no significant variations from the benchmark. The overweight in energy proved to contribute to the portfolio as did the underweight in financials.

Proposed Investment in Blackstone Capital Partners V, L.P. ("BCP V"). Ms. Tara Blackburn of Pacific Corporate Group ("PCG") gave a brief overview of BCP V. She noted that the fund is being formed to pursue a broad range of equity and equity-related investments,

primarily in large cap companies in the US and Western Europe. BCP V will continue the strategy implemented in the four previous funds targeting aggregate capital commitments of \$12.5 billion. BCP V will be the largest buyout fund ever raised.

Mr. Kenneth C. Whitney, Senior Managing Director represented BCP V. Mr. Whitney noted that Blackstone has demonstrated its ability to generate top quartile returns across different sectors and varying economic cycles. Blackstone's strong reputation and broad scope of relationships within the private equity space drive deal flow and provide the opportunity to appraise most deals requiring equity investments greater than \$500 million. Over a span of 17 years, Blackstone's investments have generated an overall gross IRR of 31% and an overall net IRR of 22%. BCP IV has generated an overall gross IRR of 92% and a net IRR of 71%.

Mr. Whitney noted that there are advantages in large deals as they offer very attractive risk-adjusted returns. There are fewer competing bidders, more efficient financing, more negotiated deals, more corporate partnerships available and lower relative transaction costs. Approximately 50% of transactions in BCP V will be corporate partnerships. He expects approximately \$11 billion of the fund will come from existing relationships and the other \$1.5 billion from new investors.

Mr. Costello moved, Dr. McKenna seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Britt, Mr. Costello, Dr. McKenna, Ms. Reback, Mr. Treat, and Treasurer Tavares. Ms. Gallogly recused herself from this vote.

VOTED: To invest up to \$20 million in Blackstone Capital Partners V, L.P., contingent upon satisfactory review and negotiation of investment and other legal documents.

Ms. Blackburn reported that the private equity portfolio has returned well over a 40% IRR for the last twelve months.

Brown Rudnick Berlack Israels, LLP ("Brown Rudnick") Contract. Treasurer Tavares reported that the contract with Brown Rudnick for general representation is expiring shortly. He and staff recommend renewal for one year under the current terms and conditions.

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

VOTED: To approve the engagement of Brown Rudnick Berlack Israels to serve as General Counsel to the State Investment Commission for a period of one year ending October 31, 2006 under the same terms and conditions of the existing contract.

Wilshire Associates Incorporated - Capital Market Review. Mr. David Lindberg stated that negative impacts on the market have been rising oil prices and the impact of hurricanes and concerns about inflation. Third quarter earnings are up 13% from the same time period last year. Unemployment rates have been low and job growth has been high. The Fed continues to raise rates at a quarter of a percent at each meeting. Overall inflation on an annualized basis has been approximately 4.25% this year. The S&P 500 is down 1.3% year-to-date as of 10/21/05 and small stocks were down 2%. International stocks have performed better with MSCI EAFE up 4% and MSCI ACWI up 6%.

Deputy Treasurer for Finance Report. Ms. Caine noted that the fund size is nearly \$7 billion as of 9/30/05 which is close to the all time high back in 2000. The international markets have performed very well. The pension fund continues to fund benefits by requesting drawdowns from the international managers. She noted that funds continue to be withdrawn from managers who have performed well to bring them back to allocation targets. Managers are notified of the withdrawals with enough time so that there are no market disruptions as staff continues to rebalance the portfolio. The fund is up 4.4% for fiscal year-to-date 9/30/05. International stocks have performed well on an absolute basis and the fixed income managers have also outperformed their benchmarks.

Ms. Caine noted that the securities lending program was re-established in 2000 and informed the Commission that she visited State Street's offices yesterday. She expects to recommend a change in the reinvestment pool in which the cash collateral is invested. The securities lending program generates approximately \$2 million per year. She explained that the portfolio's securities are lent out to primarily short-sellers who pay the fund a fee for lending those assets and that they are also required to put up some cash collateral. That cash collateral is then reinvested into a short-term sweep type investment. There are two collateral pools to invest in and the plan may benefit by investing in a different collateral pool. Ms. Caine stated that staff will meet with Wilshire and State Street to evaluate both pools and bring a recommendation to the Commission soon.

General Treasurer's Report. Treasurer Tavares publicly thanked and acknowledged State Investment Commission members for their support and guidance as it relates to the Gateway Eight matter. He also thanked staff for their due diligence as well.

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

VOTED: That Treasurer Tavares will write to Mr. James E. Thorsen on behalf of the State Investment Commission to thank him for his long and valued service to the Commission.

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

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 10:45 a.m.

Respectfully submitted,

Paul J. Tavares
General Treasurer