State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting March 22, 2006

A State Investment Commission ("SIC") meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, March 22, 2006. The Treasurer called the meeting to order at 9:10 a.m.

Membership Roll Call. Present were: Mr. Jeffrey Britt, Mr. J. 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. William G. Bensur 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 was absent.

State Investment Commission Minutes. 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.

VOTED: To approve the Minutes of the February 22, 2006 Regular Meeting.

Proposed Investment in LNK Partners, L.P. ("LNK"). Ms. Tara Blackburn of Pacific Corporate Group ("PCG") gave a brief overview of LNK. She noted that LNK is being formed to pursue equity and equity related investments in the consumer/retail sector. The fund expects to make growth capital, recapitalization and buyout investments in established, growth-oriented companies in which it secures a controlling interest or meaningful minority position.

Mr. David Landau, Founding Partner and Mr. Henry Nasella, Founding Partner represented the fund. Mr. Landau noted that the fund will focus on middle-market, later-stage growth capital and buyouts exclusively in the consumer and retail sector. He also noted that LNK will back successful companies with proven management and growth opportunities. Mr. Landau stated that LNK has deep industry relationships and expertise. At Apax Partners his portfolio's lowest IRR was 28% and the highest IRR was 63% proving superior, consistent investment performance.

Mr. Nasella stated that LNK expects to invest between $10 million and $75 million in equity per transaction and to acquire a portfolio of approximately six to eight companies. The target fund size is $275 million with a hard cap of $425 million. Ms. Blackburn noted that LNK is a first time fund, but that as the ERSRI portfolio is becoming mature, it is a good time to bring in a new up and coming fund that is much sought after.

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, Ms. Reback, Mr. Treat, and Treasurer Tavares.

VOTED: To invest up to $12.5 million in LNK Partners, L.P. contingent upon satisfactory review and negotiation of investment and other legal documents.

Proposed Investment in MHR Institutional Partners III, L.P. ("MHR"). Ms. Blackburn gave a brief overview of MHR noting that the fund is being formed to make investments in securities of distressed and undervalued middle-market companies. MHR uses a control strategy, as used in prior funds. The target fund size is $2 billion with a cap of $2.5 billion. Their concentration is in the satellite, communications, media, energy, and biotech industries. MHR expects to hold approximately twenty companies in the portfolio.

Ms. Emily Fine, Principal and Mr. Hal Goldstein, Managing Principal represented MHR. Mr. Goldstein noted that MHR seeks to acquire either a control or blocking position in the distressed and undervalued middle-market in order to gain control or exercise significant influence on its portfolio companies. MHR will focus on individual investments that have a high degree of asset/collateral coverage. He stated that MHR Fund I was a $217 million fund formed in 1998 and had a gross annualized IRR of 17%. MHR Fund II was a $856 million fund formed in 2002 and had a gross annualized IRR of 60.3%.

Ms. Fine noted that MHR typically invests in senior unsecured and subordinated debt but will invest throughout the capital structure on an opportunistic basis. MHR believes its investment strategy and the types of securities it purchases helps to mitigate downside risk. MHR also believes that the market environment for distressed investing is expected to improve due to dramatic deterioration of credit standards over the last few years.

Mr. Britt 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.

VOTED: To invest up to $20 million in MHR Institutional Partners III, L.P. contingent upon satisfactory review and negotiation of investment and other legal documents.

Proposed Investment in TPG Partners IV, L.P. ("TPG IV"). Ms. Blackburn gave a brief overview noting that ERSRI is a limited partner in TPG II and TPG IV. She noted that TPG V is being formed to pursue a broad range of equity and equity-related investments, primarily in large cap companies in North America, Europe and Asia through acquisitions and restructurings. TPG V is targeting aggregate capital commitments in excess of $10 billion, and expects to deploy approximately $2 billion per year over the six-year investment period.

Mr. Peter McMillan represented TPG V. He noted that the fund will follow the same investment strategy of the prior funds, seeking to invest in a geographically diverse portfolio of companies across fourteen different sectors of the economy. TPG generally focuses on industries undergoing change due to secular or cyclical forces and typically rotates out of industry areas when investments become more expensive. Based on its top-down thematic research approach, TPG has identified the automobile (manufacturing), pharma/bio (restructuring), housing, and media (distribution and content) industries as potential sector candidates for TPG V.

Mr. McMillan noted that TPG V will seek investment opportunities requiring between $100 million and $500 million of equity capital in companies with market valuations of $300 million or more. He also noted that TPG Fund II had a gross IRR of 9% and TPG Fund IV had a gross IRR of 63%.

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.

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

Annual Strategy Review - 2006 - Pacific Corporate Group. Ms. Blackburn stated that the portfolio is moving ahead on a disciplined basis. The ERSRI portfolio is nearing its allocation and reaching a mature status. She noted that she expects annual commitments of $150-$175 million in 2006; annual commitments of $125 million in 2007-2009, annual commitments of $150 million in 2010-2012; and annual commitments of $175 million in 2013-2015. It is expected that the private equity allocation will reach the 7.5% target allocation in 2009. She noted that the focus for 2006 is on existing relationships coming back to market.

Pacific Corporate Group - Contract/Fee Schedule. Ms. Caine reported that a year ago Mr. Peter Martenson of PCG had approached her regarding a fee increase. At the time PCG was experiencing some staff changes and reorganizational issues and Ms. Caine had some concerns regarding PCG's stability. Since then PCG has reorganized, brought in several senior-level staff, and bifurcated their two businesses.

Ms. Caine noted that it was difficult to compare ERSRI's situation to other states as the levels of service vary greatly in each case; however, a comparison of fee schedules of other PCG clients indicates Rhode Island is paying the lowest fees. In 1997 when PCG had their last increase, there were only nine private equity funds and the size of the portfolio was $63 million. Today, we have 67 funds and the fund has grown to $382 million. The present PCG fee is $275,000 annually. The request is for $375,000 annually. Ms. Blackburn noted that the private equity portfolio has generated returns of approximately 15% since inception and created value of over $325 million. The Treasurer noted that ERSRI is paying PCG below market rates. Both the Treasurer and Ms. Caine recommended that the Commission approve the fee increase.

Mr. Costello moved, Mr. Britt 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.

VOTED: To approve Pacific Corporate Group's proposed fee schedule increase, as outlined in their letter dated March 14, 2006.

Pacific Corporate Group - Investment Policy Guidelines. Ms. Caine reported that she, Ms. Donegan and Ms. Blackburn have been working together to consider ways in which they can streamline the approval process for private equity funds and eliminate some time constraints presently facing the Commission. She recommended that the Commission consider waiving a formal presentation by the general partners or sponsors of a fund if there is already an existing relationship with that group and they meet certain criteria with regard to size of the commitment and performance. She included definitions regarding performance assessment.

A discussion followed and the Treasurer explained that the Commission would not be giving up any authority to approve a proposed investment and that groups would still be required to come before the Commission every other time a request was made. The Treasurer asked Commission members to review the proposed amendment to PCG's policies and procedures.

State Street Corporation ("State Street") - Custodial Update. Ms. Caine gave a brief overview of the types of services that State Street provides as ERSRI's custodian and reminded Commission members that when ERSRI issued an RFP for custodial services in 2000, State Street was selected. As part of the contract negotiations, State Street agreed to reduce the fee schedule saving over $1 million annually and provided several premium products at no charge to the system. She then introduced Mr. Lee Jones, Director of Public Fund Services and Ms. Lisa Tyrrell, RI Client Service Manager who represented State Street. Mr. Jones noted that State Street Corporation was founded in 1792 and has two lines of business: investment servicing and investment management. State Street has $10.2 trillion of assets under custody with offices in 26 countries. He also noted that State Street spends approximately 20% to 25% of its operating expense budget on technology and manages the world's largest pool of institutional assets.

Mr. Jones noted that State Street formed a unique commitment to the public fund marketplace in 1987 with a dedicated business focus on public fund customers. State Street provides a highly tailored service and technical solutions versus the standardized approach by others. Of the $10.2 trillion of total assets under custody, approximately $1.2 trillion of that is in public fund assets.

Ms. Tyrrell noted that State Street and ERSRI have an eighteen year relationship. She stated that State Street in its role as custodian since 1988 provides the following products and services: custody and accounting, performance measurement, investment compliance, securities lending, transition management and investment management. She noted that many of the services provided are behind the scenes and on a day-to-day basis. They include the following: trade processing, security safekeeping, income collection, corporate actions, class actions, pricing, accounting, plan accounting, performance measurement, securities lending, technology integration, and legal support.

Ms. Caine noted that State Street has been extremely responsive to the needs of ERSRI and have worked very closely with Wilshire Associates and ERSRI's auditors, which has been very helpful.

Wilshire Associates Incorporated - Manager Continuation Policy Analysis. Mr. Bensur briefly reviewed the investment managers noting that it is Wilshire's recommendation to continue to retain all of the following US Equity Managers for their current assignments: NorthPointe Capital, PIMCO StocksPlus, State Street Global Advisors, and Wellington Management Co. Wilshire recommends closely monitoring the performance of Wasatch Advisors, Inc. Wilshire also recommends continuing to retain The Boston Company Asset Management, Goldman Sachs Asset Management and Mondrian Investment Partners Ltd. for their Non-US Equity assignments.

Of the five fixed income managers, Wilshire recommends continuing to retain the following: Brown Brothers Harriman & Co., Fidelity Management Trust Co., and Taplin, Canida & Habacht. With regard to MacKay Shields, LLC, it is Wilshire's recommendation to monitor them regarding their personnel developments. With regard to Shenkman Capital Management, Ms. Caine requested that Wilshire amend its recommendation to continue to monitor their performance because they are officially on the "Watch List" based on the portfolio's underperformance. It was decided to retain Shenkman Capital on the "Watch List".

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, Mr. Treat, and Treasurer Tavares. (Note: Ms. Reback was not present for this vote)

VOTED: To accept Wilshire Associates' recommendations in the Manager Continuation Policy presented at the March 22, 2006 meeting as amended to retain Shenkman Capital Management on the "Watch List".

Wilshire Associates Incorporated - Capital Market Review. Mr. Bensur noted that interest rates are beginning to rise. The S&P 500 is up 5%, the DJ Wilshire 5000 is up 5.5%. The non-US equity markets are up 8.5% as of 3/21/06 and emerging markets are up 10% as of 3/21/06.

CollegeBound*fund* Report ("CBf"). Treasurer Tavares reported that a national website, Savingforcollege.com , that rates 529 programs has recently come out with a rating on portfolio performance and Rhode Island's CollegeBound*fund* was ranked Number One. State plan composite rankings were derived using the plans' relevant portfolio performance in six unique asset allocation categories. The asset allocation categories used were: 100% equity, mostly equity, balanced, mostly fixed, 100% fixed, and 100% short-term. The plan composite ranking is calculated by taking the weighted average of each plan's performance in the six categories. The CBf plan assets are at $6.7 billion with approximately $160 million in Rhode Island. Treasurer Tavares noted that when he took office there was only $4 million in Rhode Island.

Deputy Treasurer for Finance Report. Ms. Caine updated the Commission on the Gateway building. Fidelity's Personal Net Worth Division will be housed in the building and she recently learned that Fidelity is putting $14 million worth of tenant improvements into the building. The lease is for three years with an option to renew for an additional three years which looks likely at this point.

Ms. Caine informed the Commission that CB Richard Ellis had been hired to market the property for sale. To date, 163 institutional real estate investors have signed confidentiality agreements to receive a detailed due diligence package in order to bid on the building. Initial bids are due on Friday, April 7, 2006. Typically an additional week is needed for further negotiations for a best and final offer. She expects to know the outcome by Friday, April 14, 2006.

A discussion followed regarding authorizing the Treasurer to act on behalf of the State Investment Commission to accept a purchase offer to acquire the Gateway building, provided that such offer would result in proceeds sufficient to repay the principal balance, plus accrued interest and all expenses incurred in connection with the indebtedness formerly secured by the Gateway building. Commission members decided to move up the April Commission meeting from Wednesday, April 26th to Wednesday, April 19th, 2006.

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

VOTED: To change the date of the April State Investment Commission meeting from Wednesday, April 26, 2006 to Wednesday, April 19, 2006 at 9:00 a.m.

Ms. Caine reported that the fund is up 10.8% for the eight months ended fiscal year-to-date which is approximately 16 basis points above the benchmark. The international stocks have been the best performers.

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

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 11:55 a.m.

Respectfully submitted,

Paul J. Tavares
General Treasurer