

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

Regular Meeting April 19, 2006

A State Investment Commission ("SIC") meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, April 19, 2006. The Treasurer called the meeting to order at 9:00 a.m.

Membership Roll Call. Present were: Mr. Jeffrey Britt, Ms. Rosemary Booth Gallogly, Ms. Marcia Reback, Mr. John Treat and General Treasurer Paul J. Tavares. Also present were: George Carvalho, Esq., Chief of Staff, Kerry Walsh, Esq., Legal Counsel, Ms. Joan M. Caine, Deputy Treasurer for Finance, Mr. Kevin Lavelle of Wilshire Associates Incorporated, Consultant to the Commission, Ms. Tara Blackburn of Pacific Corporate Group, Alternative Investments Consultant to the Commission, Mr. Frank Blaschka of The Townsend Group, Real Estate Consultant to the Commission, and other members of the Treasurer's Staff. Mr. Michael Costello and Dr. Robert J. McKenna were absent.

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

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

Proposed Investment in Alta Partners VIII, L.P. ("Alta VIII"). Ms. Tara Blackburn of Pacific Corporate Group ("PCG") gave a brief overview of Alta. She noted that Alta is being formed to make life sciences investments. The fund will make investments in early- to late-stage private companies as well as public entities with promising product pipelines that are in need of development capital. The Employees' Retirement System of Rhode Island ("ERSRI") has invested in four prior funds: Alta BioPharma Partners, L.P., Alta BioPharma Partners III, L.P., Alta California Partners II, L.P., and Alta California Partners III, L.P.

Mr. Daniel S. Janney, Managing Director and Dr. David H. Mack, Director represented Alta VIII. Mr. Janney noted that Alta Partners was founded in 1996 and currently has \$1.5 billion of assets under management. The target size of Alta VIII is \$425 million with a \$500 million cap. Alta Partners has invested in life sciences companies over its seven prior funds and intends to maintain its focus on high growth sectors within the life sciences industry. Alta VIII will focus on the following four areas: biopharmaceutical products, drug discovery platforms, medical technology, and specialty pharmaceuticals.

Mr. Janney stated that investment size will be approximately \$12-\$20 million and estimates a total of 30 to 35 portfolio companies will make up Alta VIII's portfolio. Dr. Mack noted that the Alta funds have focused on the following therapeutic areas: oncology, pain management, cardiovascular disease, infectious disease, metabolic disease, inflammatory disease, ophthalmology and drug discovery.

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

VOTED: To invest up to \$15 million in Alta Partners VIII, L.P. contingent upon satisfactory review and negotiation of investment and other legal documents.

Proposed Investment in Catterton Partners VI, L.P. (“Catterton VI”). Ms. Blackburn gave a brief overview of Catterton. She noted that Catterton VI is being formed to pursue investments in the consumer products and services sector using a broad range of transaction structures including buyouts, recapitalizations, restructurings, and growth equity investments. The fund size is expected to be \$900 million. Catterton VIII will target investments in 15 to 18 portfolio companies principally in North America, with an average equity investment between \$25 and \$85 million.

Mr. Michael Farello, Partner and Mr. Mark Sirinyan, Client Service Representative represented Catterton VI. Mr. Farello stated that Catterton VI will invest in the following segments of the consumer sector: retail and restaurants, marketing services, food and beverage, and consumer branded products. He noted that Catterton has a clearly defined investment strategy and focus with a systematic and proactive targeting to identify proprietary opportunities. They have a disciplined and time-tested due diligence and investment underwriting process.

Mr. Farello explained that approximately 80% of Catterton VIII will be in buyout investments with the following attributes which produce superior returns with lower variability. Catterton’s strategy emphasizes a value discipline, a highly specific business plan with a lower degree of execution difficulty, and control of strategy, management and exit. He stated that approximately 20% of Catterton VIII will be invested in later stage growth investments with the following attributes which produce strong risk adjusted returns: proven business models with no concept risk, stronger management teams, along with investments where Catterton is able to exercise a high degree of control.

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

VOTED: To invest up to \$15 million in Catterton Partners VI, L.P. contingent upon satisfactory review and negotiation of investment and other legal documents.

Proposed Investment in Walton Street Real Estate Fund V, L.P. (“Walton V”). Mr. Frank Blaschka of The Townsend Group (“Townsend”) gave a brief overview of Walton V which is being formed to raise \$1.5 billion of equity. It is a high return non-core fund. Walton V intends to invest in single asset property portfolios with an emphasis on well located institutional quality assets that can be improved by redevelopment, repositioning, recapitalization or restructuring.

Mr. Eric C. Mogentale, Principal represented Walton V. He explained that Walton Street Capital is privately owned, 100% exclusively by the principals with no parent company and no affiliation with any investment banks or insurance companies. There are twenty owners of the company and there will be a direct investment by the principals of at least \$45 million. The five owners who founded the company have worked together for 18 years, each overseeing a different area within the firm. Unanimous consent is required to make an investment or exit an investment. The principals have acquired, managed and sold over \$30 billion in real estate.

Mr. Mogentale noted that targeted investments will be focused on suburban office, upscale retail, high residential and upper scale hotels. It is Walton Street’s primary focus to

invest in the US with only 8% allotted to international investments. He reviewed the realized gross IRR of the previous four funds which averaged 25%.

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

VOTED: To invest up to \$20 million in Walton Street Real Estate Fund V, L.P. contingent upon satisfactory review and negotiation of investment and other legal documents.

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

VOTED: Pursuant to R.I.G.L. § 42-46-5(5) and R.I.G.L. § 42-46-5(7), the Commission votes to close the meeting to the public to discuss the disposition of publicly held property wherein advanced public information would be detrimental to the interest of the public and to discuss the question of the investment of public funds where premature disclosure would adversely affect the public interest regarding the Gateway Eight building.

The Commission went into Executive Session at 10:10 a.m.

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

VOTED: To reconvene the meeting into Open Session.

The Commission reconvened into Open Session at 10:38 a.m. There were no votes taken while the Commission was in Executive Session.

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

VOTED: To seal the Minutes of the Executive Session held today, April 19, 2006.

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

VOTED: To authorize the General Treasurer to negotiate the offers to acquire the Gateway Eight building received from the top bidders after the national marketing campaign, as discussed by the Commission in its April 19, 2006 Executive Session, and to authorize the General Treasurer, in his sole discretion, to accept an offer from any such bidder to purchase the Gateway Eight building, provided that the Treasurer determines such offer to be the highest and best offer available.

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

VOTED: To authorize the General Treasurer to execute, acknowledge and deliver any agreements, certificates, deeds and other documents which he deems appropriate to effect the purposes of the foregoing resolution and consummate the sale of the Gateway Eight building.

Note: Mr. Britt left the meeting at 10:45 a.m.

Investment Manager Review - Wasatch Advisors (“Wasatch”). Mr. Kevin Lavelle from Wilshire Associates Incorporated gave a brief overview of Wasatch which was retained in 2002 to provide a long-term, strategic allocation to the small stock/growth-oriented segment of the US equity market. The market value of the ERSRI portfolio at 12/31/05 was \$197.3 million which comprises approximately 6.3% of the US equity composite and approximately 2.8% of the total fund. He noted that Wasatch has failed to meet their objectives but that Wilshire has faith in the firm, its process and philosophy.

Mr. Shane Calhoun, Client Service Representative and Mr. J.B. Taylor, Portfolio Manager represented Wasatch. Mr. Calhoun stated that Wasatch had \$10.7 billion of assets under management as of 3/31/06 with \$2.9 billion in the small cap core growth product. He noted that one international portfolio manager had left the firm and there have been several people promoted to portfolio manager within the firm on the international team and the global science and technology team. He also noted that Roger Edgley was named Director of International Research.

Mr. Taylor explained that the portfolio is comprised of 50-80 core stocks and Wasatch’s style has not changed in twenty years. Wasatch’s style is to own the highest quality, small cap companies in the small cap universe. The companies must have a sustainable competitive advantage, be well run by top tier management with long track records of successful results, and have demonstrated better than average financial models with higher returns on capital than their competitors. He noted that performance has been disappointing due to market conditions that are not in Wasatch’s favor, but that Wasatch is still on track for 2006. Ms. Caine expressed concern that the small cap core growth product has doubled in size from \$1.5 billion to \$2.9 billion today since hiring Wasatch in 2002 and noted that the market cap of the portfolio was \$2.9 million, more than two times the market cap of the Russell 2000 growth benchmark’s \$1.37 million.

Investment Manager Review - NorthPointe Capital (“NorthPointe”). Mr. Lavelle gave a brief overview of NorthPointe which was retained in 2002 to provide a long-term, strategic allocation to the small stock/value-oriented segment of the US equity market. The market value of the portfolio at 12/31/05 was \$349.1 million which comprises approximately 11.1% of the US equity composite and approximately 5.0% of the total fund.

Ms. Mary Champagne, Portfolio Manager represented NorthPointe. She noted that NorthPointe has approximately \$1.2 billion in assets under management. Small cap growth has continued to be ahead of large cap growth and value stocks have outperformed growth stocks over time. NorthPointe was up 14.18% for the first quarter of 2006, up 27.14% for one year, and up 31.31% for three years. Performance has been strong due to across the board stock picking and a well diversified portfolio.

Ms. Champagne noted that 28.1% of the portfolio is invested in financials, 17% in industrial, 12% in consumer discretionary, 13% in information technology, 9% in materials, and 6.2% in energy. She does not expect weightings to change considerably.

Deputy Treasurer for Finance Report. Ms. Caine noted that the pension fund is up 12.4% for the nine months ended 3/31/06 which is approximately 40 basis points ahead of the benchmark. She also noted that the pension fund has achieved an all time high of \$7.4 billion during the first quarter and is now at \$7.3 billion as of 3/31/06.

Ms. Caine reported that since MacKay Shields presented at the February SIC meeting and reported that Mr. Donald Morgan, Lead Portfolio Manager had left the firm, they have since hired three seasoned professionals. Michael Snyder came from Alliance Bernstein, James Wolfe came from First Albany, and Greg Spencer who came from Merrill Lynch.

Ms. Caine reminded Commission members that back in 2003, the Securities and Exchange Commission (“SEC”) launched an investigation into the consultant industry because of concerns of a conflict of interests which has since been completed. She noted that Wilshire, along with several other firms, never got a clean, written letter from the SEC saying that there will be no action or that the firm had been cleared of any wrong doing. Since then, the Department of Labor has launched an investigation and Wilshire has received a subpoena for certain documents relating to some congressional delegates’ concern over a conflict of interest regarding certain pension plans, particularly those of defaulted airline companies that are now under the control of the PBGC.

Mr. Lavelle stated that the subpoena was received last week requesting certain documents which Wilshire is in the process of providing. Wilshire will keep the Commission members informed of any new developments. Mr. Lavelle then distributed his Capital Market Review.

General Treasurer’s Report. Treasurer Tavares told Commission members that legislation has been submitted in both the House and the Senate to have the state divest its investments in Sudan. He noted that, while sympathetic to the human atrocities occurring in Sudan, the legislation as presented would seriously hurt the pension fund far greater than it would hurt the political activities in Sudan. He has spoken to the sponsors in the Senate and has a meeting set up with sponsors in the House to inform them that he would be opposed to that legislation.

Ms. Caine noted that several large pension funds have written letters to the U.S. State Department to have them provide guidance with regard to investments in Sudan. The federal government does have some sanctions in place regarding those investments.

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

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 11:45 a.m.

Respectfully submitted,

Paul J. Tavares
General Treasurer