State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting December 6, 2006

A State Investment Commission ("SIC") meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, December 6, 2006. The Treasurer called the meeting to order at 9:20 a.m.

Commission members present were: Mr. Michael Costello, Dr. Robert J. McKenna, Ms. Marcia Reback and General Treasurer Paul J. Tavares. Also present were: Ms. Joan M. Caine, Deputy Treasurer for Finance, Mr. George Carvalho, Chief of Staff, Jayne Donegan, Esq., of Brown Rudnick Berlack Israels, Legal Counsel to the Commission, Mr. William Bensur, of Wilshire Associates Incorporated, General Consultant to the Commission, Ms. Michelle Davidson of Pacific Corporate Group ("PCG"), 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. Ms. Rosemary Booth Gallogly, Mr. Jeffrey Britt and Mr. John Treat were absent.

Treasurer Tavares announced that for the first time in his eight-year term of office only four members of the SIC were in attendance which meant that there was not a quorum for voting purposes. He explained that all three private equity groups and the two real estate groups in attendance today will be heard but that a vote on the investments will have to be taken at a subsequent meeting.

Ms. Caine asked Ms. Davidson if a delay on the votes for the three groups PCG brought today would effect the Employees' Retirement System of Rhode Island's ("ERSRI") ability to invest in the funds. Ms. Davidson indicated that she did not believe the delay would cause ERSRI to forfeit participation in the funds, but would confirm with each fund.

Providence Equity Partners VI, L.P. ("PEP VI"). Ms. Davidson gave a brief overview of PEP VI noting that it is a "re-up" as ERSRI has invested in four previous PEP funds. Target size of PEP VI is approximately $8 billion. She noted that net performance across PEP's four funds is 50%. PEP has a solid reputation in the media and communications fields which attracts good deal flow. Ms. Julie Fisher, Head of Investor Relations and Mr. Mark Pelson, Managing Director represented PEP VI.

PEP VI will pursue the same investment strategy as its prior private equity funds by acquiring either a controlling interest or a non-controlling interest, accompanied by certain negative control features and board representation. The fund will focus on wireless telephony (cellular, personal communication systems and enhanced specialized mobile radio systems), competitive local and long distance telephone networks, internet service providers, cable television systems and networks, paging/advance messaging systems, wireless data networks, newspaper and magazine publishing, radio and television broadcasting, in-store advertising, directories, and other media and communications sub-sectors.

Mr. Pelson reported that PEP is the largest private equity firm specializing in the media, communications and information services sectors with approximately $9 billion of equity capital under management. Ms. Fisher noted that PEP now has offices in New York and London. He noted that PEP I had a realized IRR of 47%, and PEP II a realized IRR of 117%. Mr. Pelson stressed that PEP III returned 21% which was during an extremely difficult investment period.

PEP IV has an IRR of 59% and still holds some investments. PEP V has no realized investments as of yet.

PEP VI will pursue opportunities on a global scale, targeting individual investments of $500 million on average. The General Partner and its affiliates will make a commitment of at least $200 million to PEP VI, a portion of which will be paid in cash and a portion funded by a reduction in the management fee otherwise payable by the limited partners.

Ms. Caine distributed PCG's general Client Alert Memorandum regarding the antitrust class-action lawsuit and Department of Justice investigation of certain private equity funds. She noted that it is a sensitive legal matter, but requested that PEP and PCG discuss their perspective on the trend and what we can expect going forward. Ms. Davidson noted that the memo was informational only and that most private equity firms do not believe anything will come of it. Ms. Fisher noted that PEP is not involved in the Dept. of Justice investigation. As far as the class-action lawsuit, PEP was named along with a dozen or so other general partners. PEP believes the lawsuit is without merit and intends to contest the lawsuit vigorously.

Treasurer Tavares requested that to the extent possible PEP keep the lines of communication open and keep the SIC informed of any and all information available. He also noted that the SIC has had a very successful relationship with PEP for many years and both PCG and staff recommend a $25 million investment in PEP VI. The Treasurer noted the intent will be to approve the investment at a subsequent meeting and thanked Mr. Pelson and Ms. Fisher for their presentation.

Green Equity Investors V, L.P. ("GEI V"). Ms. Davidson gave a brief overview of GEI V noting that it is a "re-up" as ERSRI invested in GEI IV. Target size of GEI V is approximately $4 billion. GEI are value investors with a partnership approach of teaming up with management. She noted that since 1989 GEI has invested approximately $2.5 billion in forty deals and has a net return of 28%.

Mr. Jonathan D. Sokoloff, Managing Partner and Mr. Timothy J. Flynn, Partner represented GEI V. Mr. Sokoloff noted that the GEI V will pursue a wide range of investments primarily in US-based upper middle-market companies. GEI V will follow the value-oriented investment strategy pursued by its former funds. GEI V will utilize a generalist strategy with a preference for consumer related companies in the retail, consumer products, distribution, media, business services, and healthcare sectors.

GEI V will pursue control acquisitions of established middle market companies across North America, and expects to deploy approximately $500 million to $1 billion per year over the six-year investment period. Mr. Sokoloff stated that approximately three quarters of the funds are expected to come from existing limited partners. The general partner and its affiliates will make a commitment of at least $175 million to GEI V, a portion of which will be paid in cash and a portion funded by a reduction in the management fees.

Mr. Flynn noted that realized and publicly traded investments have a gross IRR of 41.1%. GEI V will focus on growth companies at the upper end of middle market. He reiterated the six areas of focus noting that they represent 98% of invested equity with 45%of domestic GDP. GEI portfolios grew at nearly 2x the market growth.

Mr. Sokoloff noted that most transactions in today's environment require 30% - 40% equity contributions. Due to their focus on growth companies and conservative leverage, GEI's transactions typically require higher equity contributions. They have limited their commitment in each deal to no more than 10% of the fund size in order to achieve diversification.

Treasurer Tavares stated that both PCG and staff recommend a $15 million investment in GEI V. He noted that the intent will be to approve the investment at a subsequent meeting because of quorum problems and thanked Mr. Sokoloff and Mr. Flynn for their presentation.

Lighthouse Capital Partners VI, L.P. ("LCP VI"). Ms. Davidson gave a brief overview of LCP VI noting that it is a "re-up" as ERSRI invested in LCP V. She noted that LCP has raised five funds focused exclusively on venture lending, with total investments of approximately $1.2 billion. She stated that this strategy was pioneered by LCP and has the benefits and upside of investing in the venture space but with lower risk and volatility given that they have a debt component. The two earliest funds have had strong net returns of 37% and the other over 70%. The other three funds are still in the early stage.

Mr. Ned Hazen, Managing Director represented LCP VI. Mr. Hazen stated that LCP is the leader in this venture/debt market measured by returns, by the experience of the team, by the track record of returning capital to the limited partners, by the size of their funds, and by their deal referral network. He explained that LCP lends money to companies that are cash flow negative.

Mr. Hazen noted that LCP VI will utilize a variety of equity-oriented debt instruments, including secured loans coupled with warrants and/or rights to purchase stock, and secured convertible debt. These instruments will generally have terms ranging from 24 to 48 months and feature a current income stream of principal and interest payments, as well as an equity component with long-term capital appreciation potential. They typically invest in early to expansion stage venture capital backed companies alongside their series A or B equity financings.

LCP VI will build a diversified portfolio of investments across the information technology and life science venture sectors. The information technology strategy will include infrastructure software, datacenter systems, data storage products and services, communications equipment, semiconductors, and the Internet. The life science investments will focus on diagnostic and therapeutic biotechnology, biotechnology tools, and medical devices. LCP VI will also opportunistically invest in alternative energy companies. Target size of LCP VI is approximately $350 million with a hard-cap of $400 million.

Treasurer Tavares stated that both PCG and staff recommend a $15 million investment in LCP VI. He noted that the intent will be to approve the investment at a subsequent meeting because of quorum problems.

Ms. Caine distributed copies of PCG's CEO Chris Bower's letter to the Treasurer and Commission regarding CalPERS review of the PCG relationship and its decision to continue to work with PCG and asked Ms. Davidson for an update. Ms. Davidson stated that PCG has been talking to clients and a number of them have positively voted to continue their relationship with PCG. She noted that PCG is working on formalizing the structure separating capital partners and asset management into two legal entities, which she expects to take place in early 2007.

Ms. Davidson stated that PCG has two clients that have issued a Request for Proposal ("RFP"). Colorado Fire & Police issued an RFP as a natural progression because PCG's contract is due to expire at the end of this year. The State of Oregon, a very long time client, issued an RFP and invited PCG to re-bid. That decision will be made in early 2007. PCG has also added a managing director focusing primarily on the venture space. She also noted that one marketing professional has since left the firm.

Treasurer Tavares asked that Ms. Davidson communicate to Mr. Bower that it would be in PCG's best interests to continue to keep the lines of communication open and to document any changes in writing especially in light of a new administration coming in.

Treasurer Tavares explained to Mr. Blaschka that because of the lack of a quorum, the Commission will hear the real estate fund presentations, but is unable to take any official action on the proposed real estate investments today.

AEW Core Open-End Fund ("AEW"). Mr. Frank Blaschka gave a brief overview of AEW which is an open-end core fund. This is newly established core fund which will be structured as a perpetual life vehicle, open to investors for quarterly contributions and redemptions of capital. AEW seeks to raise up to $800 million of seed capital from a select group of investors which exclusively includes The Townsend Group and its clients.

In order to compensate for the likely underperformance in the initial period and concentration risks inherent in a start up core fund compared to the existing open-end core funds, Townsend noted the following comparative advantages of the AEW fund: a substantial reduction in fees, a strong firm composite performance, and an experienced fund team and platform.

Mr. Daniel J. Bradley, Principal and Portfolio Manager, Mr. Renny Merritt, Principal and Mr. Robert J. Plumb, Principal and Head of Acquisitions represented AEW. Mr. Merritt noted that this open-end core fund is AEW's most important new strategic initiative. The fund will focus on four major property types: office, retail, industrial and multi-family and invest in top-tier markets across the US. AEW will utilize a modest level of leverage of up to 30% and will make investments that range in size of $50 - $100 million. AEW's benchmark will be the NCREIF Open-end Diversified Core Equity Index (NECREIF-ODCE).

Mr. Merritt noted that AEW has $37.3 billion in property and securities under management in North America and Europe (including $6.4 billion of core assets in North America). AEW's core investments have outperformed the benchmark by 800 basis points over five years and 250 basis points over ten years.

Mr. Bradley described the fund's team and explained that they have a long history of executing core real estate strategies with a seasoned acquisition team based in Boston and Los Angeles. He stressed that AEW has one of the most experienced and integrated research teams in the industry. AEW has a 25-year history of core investing with a disciplined investment process.

Mr. Plumb described AEW's research-driven investment principals. AEW invests in markets where supply constraints work to keep the market in equilibrium and allow for growth in rent and thus, value. AEW invests in markets with educated populations and strong job growth seeking America's changing demographics and the impact they will have for economic growth and demand for real estate. They take advantage of trends and markets that are affected by an increasingly globalized world economy. He noted that the portfolio will be diversified by economic drivers as the composition of the industry drivers of a metro area will substantially define that area's economic growth and thus, real estate values.

Treasurer Tavares explained that a formal vote could not be taken today, but he noted the intent will be to approve the investment at a subsequent meeting. He then thanked Mr. Bradley, Mr. Merritt and Mr. Plumb for their presentation.

Heitman Value Partners II ("HVP II"). Mr. Blaschka gave a brief overview of HVP II which is an enhanced return, closed-end commingled fund seeking to raise $800 million. HVP II will seek to create a diversified portfolio of investments in traditional as well as specialty

property types using joint ventures with local operators, consisting primarily of public or private real estate firms. He noted the HVP II is an experienced joint venture investor with favorable firm performance. HVP II will invest in the traditional types of real estate such as retail, office, industrial and multi-family; but they may also invest in specialty property types which include medical office space, senior housing, self-storage, and student housing.

Mr. Maury Tognarelli, President and CEO and Ms. Kathy Sandstrom, Senior Vice President represented HVP II. Mr. Tognarelli noted that Heitman has approximately $16.5 billion of assets under management and is 50% employee-owned with a 50% financial partner. The Heitman value-added track record includes 31 separate ventures over the last 13 years and has $2.4 billion of equity invested or committed in $7.4 billion of real estate. Realized net returns on liquidated investments is 16.7%.

Ms. Sandstrom stated that the greatest risk in this specific strategy is execution risk. One of the ways HVP has found to help mitigate the risk in value-added investing is by pairing up with operating partners. HVP II will partner with the best operators in either a specific market that they think is worthy of investment or in a specific sector where they are a specialist in executing this strategy. She noted that HVP II expects to renovate apartment buildings and re-organize office space to be more efficient and more attractive to users. They will also take an under-managed asset and put in a new management and leasing team.

HVP's operating partners are required to be co-investors which is an incentive for success. Their track record has proven that their strategy makes for a better chance of reaching stated results, which for this fund is approximately 12-14% net of all fees. Target size of the fund is $800 million to be deployed in 15 - 20 joint ventures diversified by both property type and geography. Each investment will hold multiple assets. No more than 40% of equity will be invested in any one property type and no more than 25% of equity will be invested in any one investment. Heitman is investing $15 million in HVP II.

Treasurer Tavares apologized for the unique situation today with the SIC's quorum problem and noted the intent will be to approve the investment at a subsequent meeting.

Treasurer Tavares requested a recess from 11:25 a.m to 11:30 a.m.

Wilshire Associates Incorporated - Capital Market Review. Mr. Bensur stated that he was honored to have been able to work with Treasurer Tavares and his Staff for the last eight years noting that under the Treasurer's leadership the pension fund has done extremely well. In his capital market review he noted that economic growth continues and inflation concerns seem to have diminished. Through 12/5/06 the S&P 500 is up 15.2%. Smalls stocks have come back strongly to 18.4%. The DJ Wilshire 5000 is up 15.5% through 12/5/06. Non-US equity has outperformed US equity. The EAFE (developed markets) and the All Country World ex-US markets are up approximately 23%. Emerging markets are up approximately 27% though 12/1/06. Fixed income is up 5% to date and High Yield is up 11% year-to date.

Deputy Treasurer for Finance Report. Ms. Caine gave an update on the ING investigation noting that she met with the Department of Regulation ("DBR") and has distributed copies of Treasury's ING files to DBR, DOA and legal counsel. She distributed copies of an article from Pensions & Investments that indicates ERSRI is far from the only plan sponsor dealing with this issue. There are nine corporate 401K plans that have filed class action lawsuits alleging conflicts of interests and fiduciaries failing to scrutinize and disclose fees.

The Department of Labor has issued a guidance report that provides fiduciaries a checklist of questions that should be asked of financial institutions before being hired. The

revenue sharing issue is a common one. Florida just filed suit against its 457 provider. Based on her conversation with DBR, she expects the investigation will be prolonged as it is not clear cut. She noted that while ING has stated it complied with the SEC Rules and Regulations with regard to fee disclosure, they admit they probably could have done a better job.

Ms. Caine reminded Commission members that Ms. Gallogly had requested that this administration provide SIC members with a book with all information pertinent to the SIC. She distributed books to all members in attendance and described the comprehensive package: Section I includes the general laws that apply to the SIC's fiduciary responsibility, Section II focuses on the existing Asset Allocation Policy, Section III includes the Investment Manager Investment Policy Statements, Section IV includes the Manager Continuation Policy, Section V includes the details on the Alternative Program's policies, procedures and strategy, Section VI is the guidelines for hiring the investment managers, along with the Manager Watch List, and Proxy Voting Policy. The last section includes the Cash Management Short-Term investment guidelines.

She noted that she is in the process of updating the Investment Policy Statements of both the CollegeBound*fund* manager, Alliance Capital, and Mondrian Investment Partners. Treasurer Tavares thanked Ms. Caine and Jan Roberts for their efforts in putting this book together.

Ms. Caine distributed a list of proposed meeting dates for 2007 which is based on the same schedule of the last few years, with meetings on the fourth Wednesday of every month, subject to the review and approval of the Treasurer-Elect.

Treasurer's Report. Treasurer Tavares reminded Commission members that his campaign slogan was "No tricks, no gimmicks just a Treasurer who will do what is right", which became a mantra for how he operated. He stated that he had surrounded himself with an extremely competent staff, great consultants and dedicated, hard-working board and commission members. He thanked all for their committed time and energy which has been a valuable part of how the system has progressed.

He stated he was proud and honored to have had the opportunity to work with everyone present. He personally thanked Mr. Bensur for his efforts and tenacity in keeping the pension fund growing. He also thanked Mr. Blaschka for his help with the Gateway Eight building and its ultimate sale. He then thanked Ms. Caine and her staff. He noted that it has been very rewarding to be surrounded by true professionals who dedicated their time above and beyond expectations. He stated he was proud of how everyone dealt with the challenges they faced.

Ms. Reback suggested the SIC hold a special meeting later in December to vote on the proposals presented today and Mr. Costello concurred.

Treasurer Tavares distributed a report on Investment Portfolio Highlights that Ms. Caine had prepared noting that the pension fund was valued at $6.2 billion as of 12/31/98 and presently has a market value of $7.8 billion. Ms. Caine noted that funds asset allocation decisions are based on a long-term and thoughtful process based on the asset/liability studies that Wilshire conducts along with the plan's actuary. The SIC has made strategic decisions based on Wilshire's recommendation to reduce the active market exposure in efficient markets where it's difficult to beat the index over long periods of time and increase active management in inefficient markets. The key drivers impacting recent performance have been the non-US equity portfolio, the re-activated private equity portfolio and the real estate portfolio.

Treasurer Tavares noted a seven-year superior performance which replaced sub-par historical performance. Over the last seven years, the fund's investment performance has

improved relative to its peer universe. For the last one, three and five year periods, the fund has ranked in the top 13th, 9th and 28th percentile respectively. This is a dramatic improvement over the fund's 10-year rank of 84th percentile. The fund's performance also compares favorably to the TUCS and Compass public fund universes.

Ms. Caine noted that it takes time to move a $7 billion portfolio. It took nearly two years to complete RFPs and replace several legacy active managers that were underperforming and to increase our exposure and reallocate assets to international equities, domestic small-cap stocks, high yield bonds and establish index and enhanced index mandates. She noted that with the completion of the portfolio's major restructuring in 2002, it has been outperforming its benchmark on a consistent basis. Treasurer Tavares summarized other cost reduction and revenue enhancement initiatives that resulted in an annual savings of over $7 million. The Treasurer also noted that he has prepared a Term-End Report which is presently being printed and will be distributed as soon as possible.

Treasurer Tavares distributed Citations to Ms. Reback, Dr. McKenna and Mr. Costello.

Mr. Costello stated that he has been on the Commission for the Treasurer's entire term of eight years and it has been an honor and a privilege to serve with the Treasurer. He thanked Ms. Caine, Ms. Roberts and staff for their honest and forthright approach. He noted that being a member of the SIC has been a tremendously positive experience and he applauds all the work of the Treasurer and staff.

Dr. McKenna thanked the Treasurer for his fine leadership and thanked staff for their hard work. He noted that the CollegeBound*fund* has been enormously successful and Rhode Island's CollegeBound*fund* ranks second in the country after leading for the last few years. He thanked Treasurer Tavares for his commitment to higher education.

Ms. Reback stated that she has served on many boards and commissions which have been led by politicians and that Treasurer Tavares has run the State Investment Commission and the Retirement Board scrupulously. There have been no political considerations that have interfered with your work or interfered with the work of the people. She noted that the Treasurer has been extraordinary in selecting people to work for him who have done an incredible job.

Treasurer Tavares thanked everyone for their kind words noting that it means a lot to him. He values the friendships made during his term in office.

The meeting ended at 12:10 p.m.

Respectfully submitted,

Paul J. Tavares
General Treasurer