

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

Regular Meeting October 25, 2006

A State Investment Commission (“SIC”) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, October 25, 2006. The Treasurer called the meeting to order at 9:05 a.m.

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, Jayne Donegan, Esq., of Brown Rudnick Berlack Israels, Legal Counsel to the Commission, Mr. David Lindberg, of Wilshire Associates Incorporated, General Consultant to the Commission, Ms. Michelle Davidson and Mr. David Scopelliti of Pacific Corporate Group, Alternative Investments Consultant to the Commission, and other members of the Treasurer’s Staff. Dr. Robert McKenna was absent.

State Investment Commission Minutes. 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, Ms. Reback, Mr. Treat, and Treasurer Tavares.

VOTED: To approve the Minutes of the September 27, 2006 regular meeting.

Kayne Anderson Energy Fund IV, L.P. (“KA Fund IV”). Ms. Davidson gave a brief overview of KA Fund IV noting that it is a “re-up” as ERSRI had invested \$15 million in Kayne Anderson Fund III in 2004. KA Fund IV is being formed to pursue equity and equity-related investments in North American energy exploration and production companies.

Mr. Kevin D. Welsh, Senior Managing Director represented KA Fund IV. He noted that KA Fund IV will partner with experienced management teams and work to acquire, develop and exploit North American oil and gas assets. Investments will range from \$10 to \$100 million and look to finance an inflection point in a company’s growth through the acquisition of a property or the acceleration of a developmental drilling opportunity. Approximately 70% of investments will be in natural gas and 30% in oil.

Kayne Anderson energy has earned top quartile returns across all three of its prior funds, yielding a net IRR of 33.8% and a gross IRR of 44.5% on its realized investments. The target size of Fund IV is approximately \$850 million with a hard cap of \$950 million. Investments will be made in approximately 12 to 18 companies with enterprise values up to \$250 million at the time of investment. Typical holding period is two to six years.

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

VOTED: To invest up to \$15 million in Kayne Anderson Energy Fund IV, L.P., contingent upon satisfactory review and negotiation of investment and other legal documents.

Nautic Partners VI, L.P. (“Nautic VI”). Mr. Scopelliti gave a brief overview noting that Nautic VI is being formed to make investments primarily in North America middle-market companies. The fund will invest principally in four sectors: business services, manufacturing, healthcare, and communications. Nautic VI is a “re-up” as ERSRI had invested \$20 million in Nautic Partners V, L.P. in 2001.

Mr. Rory Smith, Managing Director and Mr. Scott Hilinski, Managing Director represented Nautic VI. Mr. Smith reminded Commission members that Nautic Partners is the successor firm to Fleet Equity Partners, the private equity arm of Fleet Bank, which was formed in 1986. Nautic VI will be the second independent fund formed since Nautic Partners spun out from Fleet Bank in 2000. Nautic VI plans to continue the investment strategy in Fund V investing between \$25 million and \$75 million per investment across a range of opportunities including growth, consolidation, recapitalization and leveraged buyout transactions.

Mr. Hilinski noted the target size of the fund is \$1.2 billion and the general partner will commit at least 2% of the aggregate capital commitments. Nautic Partners has an aggregate IRR of 35.5% on 68 realized investments, and a 52.1% IRR on 5 realized investments in Fund V. As of September 30, 2006 Fund V reported a 30% gross IRR with 17 companies remaining in the portfolio.

Ms. Gallogly 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 \$20 million in Nautic Partners VI, L.P., contingent upon satisfactory review and negotiation of investment and other legal documents.

Castile Ventures III, L.P. (“Castile III”). Ms. Davidson gave a brief overview of Castile III which is being formed to continue the same investment strategy of its two predecessor funds by investing in early stage information technology (“IT”) companies across the U.S., with a particular focus on investments in New England.

Ms. Nina F. Saberi, Founder and Partner and Mr. David Duval, Partner represented Castile III. Ms. Saberi noted that Castile III will focus on multiple sectors within IT, including communications and enterprise networking, components and subsystems, enterprise software, information technology infrastructure, and security. Castile III’s proposed early stage portfolio allocation targets are: 30% on investments at pre-plan (formation) stage, 40% in pre-product (development) stage, and 30% in pre-revenue (initial expansion) stage.

Mr. Duval stated that Castile III will invest in 15 to 18 companies, committing an average of \$6 to \$10 million per investment. Castile aims to lead or co-lead each investment with an ownership percentage of at least 20% and to obtain at least one active board seat in the majority of its portfolio companies. Target size of the fund is \$100 million with a hard-cap of \$130 million. It is expected that 60% of investments will be in New England, 20% in the New York/New Jersey area and 20% on the west coast.

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 \$5 million in Castile Ventures III, L.P., contingent upon satisfactory review and negotiation of investment and other legal documents.

Deferred Compensation (457) Plan - ING. Ms. Caine welcomed the following representatives from ING to the meeting: Ms. Marlene Oien, Regional Manager, Mr. Richard Thornburg, National Accounts Manager, Mr. James Bogoian, Senior Fund Analyst and Mr. Michael Eldredge, Investment Product Manager. She explained that she's been working the last few months with ING to enhance the investment option menu that ING offers participants. She noted that ING is one of three 457 providers, the other two being Fidelity and VALIC.

Ms. Caine noted that in October of 2004, Phase I of changes to the investment options offered in ING's 457 plan was approved by the SIC. She and ING have discussed, subject to approval by the SIC, on additional proposed changes to the fund options offered as part of Phase II, to further enhance the diversification of the menu of options, including the addition of life cycle funds.

However, prior to proposing the new options she wanted to apprise the Commission of recent regulatory developments affecting ING. She reminded Commission members that in late 2003, market-timing and frequent trading activities at numerous financial institutions was disclosed. These activities were industry-wide and included mutual fund firms the SIC has had relationships with - Putnam Investments (terminated), Alliance Capital (529 Plan) and ING.

Between 2004 and 2006 numerous conference calls with representatives of ING and written communication from ING indicated that an internal investigation uncovered isolated cases of market timing and when questioned if RI's 457 plan and its participants were affected, ING responded that they did not affect Rhode Island's plan. A 6/12/06 letter from ING states that market timing/inappropriate frequent trading arrangements did not occur in ING's retirement services business.

The second regulatory development relates to a revenue share issue. ING offers its own proprietary funds as part of the plan as well as non-proprietary funds such as Oppenheimer and Janus funds. ING receive fees, called "revenue share" from these non-proprietary fund families for including them in ING's plans. Revenue sharing has been a standard practice and not unusual in the mutual fund world. However, the issue that arose was how well those revenue share arrangements have been disclosed to plan sponsors as well as participants.

In February 2005 as these regulatory issues were coming to light, Ms. Caine conducted a survey with all three 457 providers asking them for very specific details on expense ratios, management fees, 12(b)1 fees, etc. and also asked for specific detail on the revenue generated from these plans. Staff received responses from all three providers and ING provided details on revenue and expenses which indicated a range of net income between \$90 and \$191 million annually.

This past summer two high profile investigations in the states of New Hampshire and New York regarding ING reached a critical point. In New Hampshire the issue being investigated related to market-timing and failure to disclose revenue share arrangements. In New York the investigation focused on unions and the fact that ING paid a teachers union undisclosed fees over time to represent ING funds. In early October, 2006 the press revealed that New Hampshire had settled with ING in the amount of \$3 million. In the settlement agreement, ING does not admit or deny any wrongdoing, but admits it did not retained e-mails that were necessary

or requested as part of the investigation. The New York settlement, negotiated by the NY Attorney General's Office, amounted to \$30 million.

As a result of the settlement announcements on October 10th, Ms. Caine and Chief of Staff George Carvalho, had a conference call with Ms. Oien on October 12th to again inquire how these issues affected Rhode Island's plan. Ms. Oien responded that ING did not think that the issues affected Rhode Island's plan directly. Ms. Caine asked Ms. Oien how New Hampshire and New York arrived at the settlement figures. Ms. Oien did not know how New York's settlement figure was arrived at, but knew that New Hampshire settled for 10% of the New York's figure making it more of an arbitrary determination.

On October 24th Mr. Carvalho and Ms. Caine held a meeting with the Department of Administration (DOA), as they jointly manage the 457 plan with the SIC, and the Department of Business Regulation (DBR) to share information and coordinate efforts. Representatives of the DBR indicated that the agency had issued a subpoena to ING seeking information regarding the New Hampshire and New York settlements as well as additional information concerning the Rhode Island plan. The three agencies agreed that they would work in a cooperative effort to determine whether any participants in the Rhode Island plan had been impacted.

After summarizing these allegations and settlements, Ms. Caine indicated that she would like to give ING representatives the opportunity to share their perspective on these developments, but that she does have some specific questions she would like them to address. She reminded the Commission that in October 2004 they approved ING's proposal to remove Janus funds from ING's 457 investment menu, one of which was replaced with an Oppenheimer fund based on the fact that the expense ratio was the same, it was a better performing fund and it had higher Morningstar rank. She noted that the New Hampshire plan's replacement of the Janus fund with the Oppenheimer fund and the revenue share arrangements is highlighted in the New Hampshire documents.

ING has admitted both verbally and in writing that while it complied with the disclosure rules and regulations, its disclosure probably could have been better. Ms. Caine noted she still has questions as to where the revenue share is included in the data ING has provided us – is it in the 12 (b)-1 category, or expense ratio or some other category – and would like some clarification on that particular fund (Oppenheimer) to determine if the Rhode Island plan was affected in the same way as New Hampshire. Ms. Caine then asked the ING representatives to provide their perspective and suggested we go back to these questions.

Ms. Oien indicated that there were two items that they would like to discuss: 1) to provide a regulatory update, which Rich Thornburg will cover and 2) discuss investment option proposals/changes for the SIC's consideration, which Jim Bogoian and Mike Eldredge will assist with.

Mr. Thornburg of ING explained that the settlements took place on October 10, 2006 with the New York Attorney General's Office and the State Securities Bureau of the State of New Hampshire. He noted that the findings of the NY Attorney General related to the endorsement that ING had paid to the members' benefit trust of the NY State United Teachers since the inception of the program in 1989. The NY Attorney General findings stated that ING paid the endorsement but did not properly disclose the extent of the endorsement payment to the member benefit trust. At the same time, the state of New Hampshire had approached ING with an administrative action in June 2006 which related to various allegations that ING somehow encouraged market timing or acted in a way that encouraged market timing within some of the

funds that were included in the State of New Hampshire Deferred Compensation Plan. New Hampshire also claimed that ING inadequately disclosed revenue that was received in various fund substitutions. New Hampshire's Petition also refers to ING's alleged failure to retain e-mails related to the investigation.

Mr. Thornburg stated that on October 10th ING settled these matters with the NY Attorney General's Office and with the New Hampshire Securities Bureau. As part of that settlement ING neither admits nor denies the allegations. The settlement with the New York State United Teachers was \$30 million. That amount was specifically determined as a multiple of the endorsement that had been paid by ING over the course of this arrangement beginning in 1989 and was arrived at mutually between ING and the NY Attorney General's Office. That amount will be paid in the form of restitution to New York State United Teachers as a flat dollar amount of \$100 per participant. There are approximately 66,000 current and former members in the New York State United Teachers Union. The remaining balance of the \$30 million settlement will be distributed on the basis of the average month end balance of these participants during the determination period which begins in January of 2001 through June of 2006.

In the case of New Hampshire, ING agreed to a settlement, but had initially disagreed as to the facts. Mr. Thornburg clarified that the NY State Teachers Union settled with Attorney General Spitzer in June of this year, independent of ING's settlement, for \$100,000. ING agreed to set aside its differences with New Hampshire and saw an opportunity to work constructively with the NY Attorney General's Office to dispose of the allegations. Contemporaneously, the State of New Hampshire had allied themselves with the New York Attorney General's Office. ING saw a way to dispose of both matters at the same time and did so reaching agreement in the case of New Hampshire reaching a settlement in the amount of a fraction (10%) of the amount agreed upon by the NY Attorney General's Office. In the case of New Hampshire, the settlement will be distributed with \$225,000 going to the State Securities Bureau to cover the cost of the investigation and the balance, \$2,775,000, will be distributed to approximately 5,000 participants (\$555/participant) in the State of New Hampshire Deferred Compensation Plan.

ING is obliged to create a scheme of distribution and submit it to the State of New Hampshire within 60 days of the Order and are in the process of doing so. ING expects it to be a simple ratable distribution based on month-end balances during a determination period which is deemed to begin in May of 2000 and end in May of 2006. Mr. Thornburg noted that the findings and the Consent Agreement in the case of New Hampshire are available to the public on the websites of the State of New York and the State of New Hampshire.

Ms. Caine responded that she had copies of the New Hampshire documents and noted that the Oppenheimer fund is specifically mentioned in the Order and she questioned whether or not Rhode Island plan was affected in the same way as the New Hampshire plan given that we implemented the same fund substitution (the Janus fund replaced by the Oppenheimer fund). She asked ING to tell the Commission if our 457 plan was impacted or not.

Ms. Oien responded that she was not sure exactly what document Ms. Caine was referencing related to New Hampshire. She confirmed that ING did implement a fund substitution related to the Janus fund in late 2004 in Rhode Island's plan and without knowing the details of that document she couldn't be certain if what's there is factual. Ms. Caine responded that the document she was referring to was the New Hampshire Bureau of Securities Regulation's Order. Ms. Oien asked if that was the original administrative action filed in June of 2006. Mr. Carvalho responded, yes, it was the original Complaint (June, 2006) that outlines the funds involved, specifically the Janus Aspen Series.

Ms. Oien replied that New Hampshire had alleged that by virtue of the movement from the Janus Aspen Series to the receiving of whatever the alternative option they chose, that there was a revenue component that was not clear to them? Or that they were directed? Ms. Oien then stated that the administrative action alleges that (undisclosed revenue component), but that she does not know that there was a final factual finding as it relates to that allegation.

Mr. Thornberg then stated that what ING has agreed to in the settlement is to set aside that dispute and to move forward. Mr. Thornburg added that one of the key elements of the settlements with both New York and New Hampshire involves ING's agreement to enter into a new phase of disclosures related to their retirement products. This would take the form of a one page document that outlines fees and expenses on an average basis that a participant of the plan would pay. They are settling on the actual date that ING would distribute that document. In the New York agreement it is 180 days after the settlement date of October 10, 2006, that ING would have to make that disclosure document available to participants in all of their plans which would include 401k plans, 457 deferred compensation plans and 403(b) plans in all states. This disclosure, in terms of public policy, was sought after by the New York Attorney General's office as part of the settlement.

Ms. Caine noted that the New Hampshire Order says on page 8 that ING "received greater fees (excluding supplemental payments) on the investment products that were mapped into the Plan - the ING Oppenheimer Strategic Income Portfolio, the ING Oppenheimer Global Portfolio (which is the fund that Rhode Island added as a replacement) - than on the Janus Aspen Series of funds." Ms. Oien asked Mr. Eldredge if he recalled what the revenue share was on those particular funds as part of the fund substitution effort.

Ms. Caine informed the Commission that the Rhode Island Department of Business Regulation ("DBR") issued a subpoena to ING on October 19th for document production and the deadline for receipt of those documents is in early November. DBR may also follow up and put in writing some more detailed questions that relate to those options.

Mr. Carvalho asked if ING has done an analysis of Rhode Island's plan with respect to those investments. Mr. Eldredge replied that he and Mr. Bogioian were there today to discuss the analysis from the standpoint of the quality, substance and style of the funds offered in the plan. After working for several months with Ms. Caine, they have brought an investment option proposal before the Commission today. While the plan is a good one, there is an opportunity to improve a couple of funds. This analysis is in the presentation book and in that analysis is a revenue sharing column. Mr. Eldredge noted that there has been much discussion on the revenue share, an arrangement which is standard in the industry.

Ms. Caine said that before we get into discussion of the fund option analysis, there are a few more items to cover. She explained the importance of including life cycle funds, which are currently not offered in ING's RI 457 plan. These funds have become increasingly important tool for participants and, as part of Congress' Principal Protection Act, lifecycle funds are now the fall back provision/default option, replacing money market funds. She sees the absence of life cycle funds as the biggest investment option gap in the plan.

Ms. Caine explained that the SIC, as outlined in the contract, is charged with approving all funds, additions and deletions of funds options in the 457 plan. She noted that a Legg Mason fund appears to be part of ING's Rhode Island plan but that it was never approved by the

Commission and she would like ING to explain how that fund became part of our plan without approval.

Treasurer Tavares thanked George Carvalho and specifically Joan Caine for their continued due diligence. He stated that the SIC takes very seriously its due diligence requirement as it relates to any regulatory matters. Our track record is clear with Putman and other firms in the past. He stated that the Commission would not discuss any further investment fund proposals from ING until the SIC receives satisfactory answers to any pending regulatory questions. DBR has issued a subpoena for information and the SIC will work closely with DBR as well as with the Department of Administration. He stressed that he expects the full cooperation of ING with regard to those queries, in particular any and all actions that affected the Rhode Island plan. He would like clarification on the reasons and justification for the option change/transfer to the Oppenheimer fund, which may or may not offset the revenue share issue. He would also like ING to revisit the market timing issues and confirm if Rhode Island's plan was or was not affected. He expects full cooperation on the part of ING to determine if the State of Rhode Island has been affected by these issues before going forward with future investment option changes or continuing the relationship with ING.

The Treasurer will respect the timeframe put forth from DBR to ING for the production of information. He stated that he wanted Commission members to become familiar with the situation and the challenges before them which will transfer to a new administration. He and Ms. Caine will continue to work with DBR to gather the information they will be receiving. He told ING that they will be receiving a separate inquiry from the Treasurer's Office with specific questions and he expects a full and timely response to those questions.

Ms. Oien thanked the Commission and looks forward responding in specific detail to any questions. Mr. Thornburg stated that the Commission could expect ING's full cooperation in the investigation and that ING's general counsel would be in direct contact with DBR. Ms. Reback requested that Commission members receive a copy of the letter sent to ING.

Treasurer Tavares again thanked Ms. Caine for her hard work behind the scenes in this investigation. Ms. Caine said that she would be sharing her files with DBR and noted that the State of New Hampshire was significantly helped by their consultant in this investigation and that most state plans have a consultant to help oversee their 457 plan. She noted that, in addition to her other responsibilities, it is difficult to monitor all of the investment options in the 457 plan (60) effectively.

Treasurer Tavares again stated the 457 plan falls under the direction of the Department of Administration and Rhode Island does not have a consultant to advise and assist with the 457 plan. The SIC does not have an official role as to the administration of the plan and how it's presented to employees. The SIC's role is to review investments and performance. The Treasurer stated he is on the record dating back several years stating his position that the lack of a consultant for 457 plan is a weakness and there may be some future exposure that needs to be addressed and has communicated this to two former Directors of Administration as well as the current Director. The challenge is that the SIC cannot pay for a 457 plan consultant as the assets of the pension plan (the defined benefit plan) are exclusively for benefit of the pension fund participants. The compensation would either have to be funded by DOA or by the investment providers.

At one point a firm approached the Treasurer and offered consulting services for free, requiring access to the employee base. The Treasurer stated that a Request for Proposals should

be issued if a decision is made to hire a consultant. He has made Department of Administration aware of this proposal. While the SIC is fulfilling its duty as it relates to the 457 plan, he remains concerned that the lack of consultant could be a problem at some point.

Ms. Caine noted that the three providers of the 457 plan are VALIC, Fidelity and ING and each offers 20 fund options for a total of 60 funds. The Treasurer stated that the 457 plan is regulated by legislation which states that the SIC shall select three firms to provide services to employees.

A discussion ensued regarding how employees make investment decisions in the plan. Ms. Gallogly mentioned that New Hampshire pays a consultant to assist its employees, but it's built into the fees that the participants pay. Rhode Island's three providers provide pamphlets and brochures for employees and toll-free telephone numbers and Internet services. Mr. Costello noted that one way to compensate a consultant would be to have each of the three providers pay one-third of the fees. Commission members also discussed various options for engaging a consultant to oversee and monitor the investment options of the three providers. Mr. Lindberg noted that Wilshire Associates provides investment advisory services to the state of Louisiana Deferred Compensation Program and the fee is rolled into the administrative fees.

Treasurer Tavares stated that Ms. Caine would continue to work with DBR and he will again notify the Department of Administration his concerns about oversight of the 457 plan in writing.

Brown Rudnick Berlack Israels, LLP ("Brown Rudnick") Contract. Mr. Carvalho reported that the contract with Brown Rudnick for general representation will expire on October 31, 2006. He and staff recommend renewal for one year under the current terms and conditions.

Mr. Britt suggested that perhaps the renewal should be for a shorter time period because a new administration is coming in. Treasurer Tavares stated that he didn't want to leave the new Treasurer without representation immediately upon taking office. He did not feel a one year renewal would be too long a period and is consistent with previous renewals. However, Treasurer Tavares did indicate that the SIC could recommend a shorter time period if the Commission chose to do so.

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

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, 2007 under the same terms and conditions of the existing contract.

Cash Management - Ocean Bank, FSB ("Ocean Bank"). Ms. Reback stated that she has a conflict of interest with regard to Ocean Bank. Treasurer Tavares asked that the record show that Ms. Reback will not participate in the discussions and will not vote on this issue.

Mr. Corsino Delgado, Cash Manager requested that Ocean Bank, formerly known as Home Loan and Investment Bank, headquartered in Warwick, RI be added to the approved list of short-term issuers for the State of Rhode Island. He noted that Ocean Bank is a \$300 million federal saving bank privately held by current CEO and founder John Murphy. It has a rating of

“outstanding” for Community Reinvestment Act (CRA) during the most recent regulatory examination. Ocean Bank is financially sound, with practically zero debt on its balance sheet.

He explained that Ocean Bank meets and/or exceeds all SIC criteria for short-term vendor selection except one which is that it must have a minimum investment grade credit of Aa2 and AAA from Moody’s and S&P respectively. Being that Ocean Bank is a private company, it does not have a rating. As such, Ocean Bank’s addition to the approved list of issuers requires SIC approval. Mr. Delgado noted that, if approved, the maximum amount invested would be \$1 million, initially starting with \$100,000 which is the FDIC insurance limit. No one fund would have more than \$100,000. He explained that there are other short-term vendors that offer CDs, however they are not active and their rates are not competitive.

Mr. Costello stated that he thought not having a rating agency rating was an important factor. Mr. Treat stated he was not familiar with the bank, its founder or any of its lending practices. Ms. Gallogly stated that perhaps DBR’s banking division could be helpful in this determination. In light of the Commission’s suggestions, Treasurer Tavares recommended that Mr. Delgado contact DBR and come back to the Commission in the near future with more information.

Note: Mr. Britt left the meeting at 11:00 a.m.

Wilshire Associates Incorporated - Capital Market Review. Mr. Lindberg noted that oil prices continue to drop, gasoline prices are moderating, and the Dow continues to climb and is up approximately 13% year-to-date. The US Equity market is up 12% year-to-date. Currently small cap stocks are outperforming large cap stocks. Developed markets are outperforming emerging markets with strong US equity returns across the board. In fixed income, high yield is up 8%. The pension fund is up approximately 9% through September, 2006.

Deputy Treasurer for Finance Report. Ms. Caine stated that State Street Global Advisors’ (“SSgA”) Global Markets Group handled the Wasatch Advisors transition to save on transaction costs. She noted that both the Wasatch portfolio and SSgA’s Russell 1000 portfolio have been moved to an SSgA S&P 500 index portfolio to meet Wilshire’s recommended allocations. Wilshire recommended a month ago to change the large cap exposure within the domestic equity portfolio from 70% to 75% and reduce small cap from 30% to 25%.

Ms. Caine distributed the Townsend Group’s Second Quarter Performance Report noting that the real estate investments outperformed the NPI benchmark over the past year ending 6/30/06 by 270 basis points. She noted that the pension fund is up 9% year-to-date. The return for one year is 11.5%, the two-year annualized return is 14%, the three-year return is 14%, the four-year return is almost 16%, and the five year return is 10%.

Ms. Caine reminded Commission members that the next meeting of the SIC will be held on Wednesday, December 6, 2006 at 9:00 a.m.

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

VOTED: To adjourn the meeting.

There being no further business, the meeting adjourned at 11:15 a.m.

Respectfully submitted,

Paul J. Tavares
General Treasurer