

State of Rhode Island and Providence Plantations

STATE INVESTMENT COMMISSION

Monthly Meeting August 25, 2010

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, August 25, 2010. The Treasurer called the meeting to order at 9:07 a.m.

Membership Roll Call. Present were: Ms. Rosemary Booth Gallogly, Mr. Michael Costello, Mr. Robert Gaudreau, Mr. Robert Giudici, Mr. Andrew Reilly and General Treasurer Frank T. Caprio, establishing a quorum. Also present were: Ms. Sally Dowling, of Adler Pollock, & Sheehan, and Mr. David Ursillo, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. John Burns of Pension Consulting Alliance (PCA), General Policy Consultant to the Commission; Ms. Lisa Tyrrell of State Street Corporation, Ms. Michelle Davidson of Pacific Corporate Group, and members of the Treasurer's staff. Mr. Fay, Ms. Marcia Reback and Dr. Robert McKenna were not present.

State Investment Commission Minutes. Treasurer Caprio entertained a motion for approval of the minutes for the meeting of July 28, 2010. Mr. Gaudreau moved, Mr. Costello seconded, and the subsequent motion passed. The following members voted in favor: Ms. Booth Gallogly, Mr. Costello, Mr. Gaudreau, Mr. Giudici, Mr. Reilly and General Treasurer Caprio.

VOTED: To approve the Minutes of the July 28, 2010 monthly meeting.

General Consultant Report. Mr. Burns introduced the private equity consultant search topic. He stated that the board authorized the staff to issue a request for proposals (RFP) for a private equity consultant. PCA worked with the staff to develop the RFP tailored to Rhode Island specifications and a scoring process for responses. He turned to Mr. Goodreau to provide details on the responses and further action to complete the process.

Mr. Goodreau stated that there were 11 respondents which are listed in the handout. The fees and scope of services greatly vary. Several of the listed firms should not be considered further because they are extremely expensive and inflexible. Therefore, the suggestion today is to narrow this list down to three or four candidates for the next part of the process. The (staff) recommendation is that the focus be on three firms for further due diligence. These firms are: PCG, Hamilton Lane, and Cliffwater.

Mr. Reilly commented that like the process the that board went through for general consultant selection, narrowing the field down for further review will simplify the process into something the board is comfortable with.

The group briefly discussed the current private equity portfolio, the current consultant and investment staff structure.

Mr. Costello and Mr. Reilly commended PCG for their service.

Mr. Burns stated that PCG, Hamilton Lane and Cliffwater conform very well to the current structure of the non-discretionary model. He noted that among PCA's clients that this is the model predominantly used.

Treasurer Caprio entertained a motion to continue the RFP, narrowing the search to three or more entities as staff and consultant advise with no decision to eliminate any entity unless it is brought back to the board. Ms. Booth Gallogly moved, Mr. Costello seconded, and the subsequent motion passed. The following members voted in favor: Ms. Booth Gallogly, Mr. Costello, Mr. Gaudreau, Mr. Giudici, Mr. Reilly and General Treasurer Caprio.

VOTED: To approve to continue the RFP, narrowing the search to three or more entities as staff and consultant advise with no decision to eliminate any entity unless it is brought back to the board.

Legal Counsel Report. Legal Counsel had no report.

Cash Management Report. Mr. Izzo asked the group to refer to the current collateral policy that was distributed. He said that the request today is to increase the collateral pool so that letters of credit issued by any of the twelve regional Federal Home Loan Banks (FHLB) become an acceptable form of collateral. He stressed that this request is in line with Treasurer Caprio's directive that safety of the fund's assets is the primary concern. The cost to the bank for this type of collateral is about one-third of a regular traditional discount

note and the fund would benefit from the savings.

Treasurer Caprio asked about the process should recovery of assets be necessary.

Mr. Marr stated that if the counterparty were to default, the fund would immediately receive payment from the FHLB. This is much simpler when compared to the current structure of obtaining possession of pledged securities and arranging for liquidation. Further, the Letters of Credit (LOC) issued by a Federal Home Loan Bank are the joint and several liabilities of the 12 Federal Home Loan Banks. Even if the FHLB that issued the LOC were to fail, the FHLB system would assume the liability. And of course, there is also the implicit guarantee from the Federal government over the entire system—the FHLB system is integral to the operation of the country’s banking system. From an asset protection and recovery standpoint, this method of collateralization is just as secure as current practices and would potentially result in faster recovery in the event of default. Treasurer Caprio entertained a motion to approve the revised policy on collateralization of deposits as presented by Mr. Izzo and Mr. Marr. Mr. Costello moved, Ms. Booth Gallogly and Mr. Gaudreau seconded and the subsequent motion passed. The following members voted in favor: Ms. Booth Gallogly, Mr. Costello, Mr. Gaudreau, Mr. Giudici, Mr. Reilly and General Treasurer Caprio.

VOTED: To approve the revised policy on collateralization of deposits as presented by Mr. Izzo and Mr. Marr.

Alliance Bernstein Modification Global REIT Allocation Update. Mr. Dingley asked the group to turn to the Alliance Bernstein document Migrating Global Real Estate to Multi-Asset Inflation Strategy. He explained that Alliance Bernstein is taking their global REIT allocation and diversifying it to include commodity stocks and commodity futures.

This allocation is similar to what this board is doing with the real return allocation in order to lower the correlation in the class, therefore reducing risk in the event of another downturn.

Chief Investment Officer Report. Mr. Goodreau stated that the investment program for the fund has been simplified by moving to the indexes. However, there are not a lot of options to invest money currently because fixed income is at the maximum and a product that really fits the total return portfolio has not been identified. As an alternative, until there is a total return mechanism, a product that is already in the existing allocation policy might be worth considering.

He said that State Street Global Advisors, with whom the SIC has an existing relationship, offers ETFs that are like our S&P 500 index. One that is worth considering is the SDY. The SDY is a basket of the S&P 500 stocks that pay a high quality, consistent dividend similar to that of a total return product. He reviewed a fact sheet and a report compiled by Ned Davis Research that was included in the Board packet. He concluded by asking the group to consider dividend strategies for further discussion at a future meeting.

Ms. Booth Gallogly commented that this would be an interesting

option to pursue and that she would provide an article from Fortune on a similar product.

Treasurer's Report. Treasurer Caprio asked that Treasury and PCA staffs continue the review process in the private equity consultant search and update the board next month.

New Business. There was no new business.

There being no new business, the Treasurer entertained a motion to adjourn. Mr. Giudici moved, Ms. Booth Gallogly seconded and the subsequent motion passed. The following members voted in favor: Ms. Booth Gallogly, Mr. Costello, Mr. Gaudreau, Mr. Giudici, Mr. Reilly and General Treasurer Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 9:54 a.m.

Respectfully submitted,

**Frank T. Caprio
General Treasurer**