

RHODE ISLAND INVESTMENT COMMISSION

The meeting of the Rhode Island Investment Commission scheduled for Wednesday, December 15, 2010 was cancelled.

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

Monthly Meeting November 17, 2010

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, November 17, 2010. General Treasurer Caprio called the meeting to order at 9:03 a.m.

Membership Roll Call. Present were: Ms. Rosemary Booth Gallogly, Mr. Michael Costello, Mr. Thomas Fay, Mr. Robert Giudici, Ms. Marcia Reback and General Treasurer Frank T. Caprio, establishing a quorum. Also present were: Ms. Sally Dowling, of Adler Pollock, & Sheehan, and Mr. Michael Murphy, 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 and Ms. Kirti Patel of State Street Corporation, Ms. Michelle Davidson of Pacific Corporate Group, Mr. Peter Kerwin and Gail Mance-Rios of RI Higher Education Assistance Authority, Robert Keith, Christopher Nikolich and Patricia Roberts of AllianceBernstein and members of the Treasurer's staff. Mr. Robert Gaudreau, Mr. Andrew Reilly 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 October 27, 2010. Ms. Booth Gallogly moved, Mr. Fay seconded, and the subsequent motion passed. The following members voted in favor: Ms. Booth Gallogly, Mr. Costello, Mr. Fay, Mr. Giudici, Ms. Reback and Treasurer Caprio.

VOTED: To approve the Minutes of the October 27, 2010 monthly meeting.

General Consultant Report. Mr. Burns stated that he will comment on two documents, the fixed income Revised 2010 Ten-Year Capital Market Assumptions and the Rhode Island Fixed Income Portfolio as of September 30, 2010. He observed that in the history of PCA this is the first time that more than one fixed income capital market assumption has been calculated in a calendar year for asset allocation or liabilities studies. Conditions in the fixed income market, where yields have gone from 4.04% to 2.77%, are currently 3.0%, warranted the revised calculation. He emphasized that the important changes are TIPS going from 5% to 4% and domestic fixed income from 4% to 3%. The expected risk did not change but it probably will in January.

Mr. Burns turned to the Fixed Income Portfolio overview. He stated that based on the data as of September 30, 2010, the managers are doing exactly what they were hired to do. They are managing various risks, including interest rate and credit risk, consistent with the fund's mandate guidelines. He noted all the mandates are benchmark sensitive.

CollegeBoundfund Presentation.

Treasurer Caprio called Mr. Robert Keith, Mr. Christopher Nikolich and Ms. Patricia Roberts of AllianceBernstein to give the presentation on the CollegeBoundfund.

Ms. Roberts stated that she is the CollegeBound*fund* relationship manager for the State of Rhode Island. Ms. Roberts noted that the team was on the agenda for a program review, including performance and investment philosophy, and that the topic of the recent Morningstar analysis had been added for discussion.

Ms. Roberts asked the group to turn to page 4 of the CollegeBound*fund* presentation to review a summary of the criteria for the Morningstar analysis. She stated that CollegeBound*fund* received a favorable ranking for its "Pricing" and was ranked nationally as #13 for lowest fees out of the 33 programs in the review. She noted that although CollegeBound*fund*'s competitive pricing nationally was acknowledged, the very favorable fees for Rhode Island residents were omitted. With respect to the topic of "Performance," the CollegeBound*fund* was average in its five-year, age-based performance plans. With regard to the topic of Portfolio construction, she noted that Morningstar offered positive commentary about CollegeBound*fund*'s popular age-based tracks, calling them "well-diversified". She also indicated that CollegeBound*fund* has a variety of other options in addition to the age-based portfolios, including a popular stable value choice, risk-based portfolios and individual fund portfolios. She noted that in the "People" category, CollegeBound*fund* was also given a favorable ranking, indicating that Morningstar ranked the firm #19, a top quartile rank, for strong manager tenure out of 79 plans. Further, she noted that Morningstar ranked AllianceBernstein as #7 out of 18 plans for 5-year manager retention.

Mr. Keith stated that he met with Don Phillips, one of the founders of Morningstar, last week and had met the week prior with individuals who conducted the analysis and issued the report. Mr. Keith noted that Morningstar views corporate change as a question mark whereas AllianceBernstein views it as part of the ongoing evolution of any firm.

The group then discussed investment philosophy and the 2008 market downturn impact.

Ms. Booth Gallogly asked if Morningstar discussed age based options in a child's later years, as a child approaches 17 or 18.

Mr. Nikolich stated that the team had incorporated the following: asset allocation, college inflation, risk factors and participant behavior. There are individual and principal protected options for participants who do not want aged based options. He referred the group to page 48 and 49 in the appendix and highlighted that economic and market downturns were typically short and that markets tended to rebound prior to the bottom of the economic cycle. 2008 was no different from prior market downturns in this regard.

Mr. Costello stated that he recalled that two years ago AllianceBernstein told the board that the reason for the higher equity percentage was that there was an 11 to 12 year payout cycle. He asked if AllianceBernstein's view on that duration has changed or whether it is up to the participant to change options.

Mr. Nikolich commented that AllianceBernstein has not viewed the draw-down period as 11 or 12 years. The examination of over 17 million investor transactions demonstrated that investors typically draw down money over 4 or 5 years, not typically all monies in the beneficiary's first year of college. Therefore, a higher equity allocation can benefit participants by helping to grow their savings above the rate of college inflation as they are saving for college. This is critical as college tuition inflation has averaged over 5% per year.

Mr. Fay asked for clarification of the gain indicated in the chart on page 49.

Mr. Nikolich responded that the slide illustrated that while market downturns were severe, the length of the decline was typically short, averaging 15 months excluding the depression.

Ms. Roberts commented that the AllianceBernstein team has met several times with Mr. Dingley, Mr. Goodreau and others after the difficult time in 2008 to talk about enhancements to the current program structure that might be considered. She also noted that a decision was made by the small group to hold off on any modifications until the direction of the relationship was decided. Early 2009 was clearly not an opportune time to make any modifications to the program that might result in selling at the market bottom. AllianceBernstein will continue to work with the SIC and RIHEAA to consider and potentially implement enhancements to the program.

Treasurer Caprio commented that when we review this issue we should consider that Morningstar focused on the national portion of the program in the fee ranking and in doing so, overlooked that Rhode

Island residents who invest in the program have the lowest available fees in the country for the popular age-based investment options. He also noted the newly-launched CollegeBound*baby* fund provides \$100 for each newly born or adopted child in the state whose parents or guardians open an account within one year of birth or adoption.

Ms. Roberts stated that additionally, RI residents do not have an annual fee as their annual account maintenance fees are waived by AllianceBernstein. She asked the group to look at page 28 of the appendix for current information on the size of the program and the number of accounts established in Rhode Island and across the nation. She noted that Rhode Island's partnership with AllianceBernstein is something you should feel proud of. Treasurer Caprio mentioned that the relationship also provides substantial funding for matching grants and scholarships for Rhode Island residents.

Mr. Nikolich proceeded with a review of performance for the fund and discussed pages 13 – 16 of the presentation. Mr. Nikolich highlighted that all of the underlying components that make up the age-based and risk-based program options have good long-term track records.

Legal Counsel Report. Legal Counsel had no report.

Chief Investment Officer Report. Mr. Goodreau stated that the fund is performing very well in a year that has been hard to navigate. The one month return is up 16 basis points. The fund is 49 basis points ahead of the benchmark for the calendar year and 106 basis points up from the benchmark of 12.95% for the 12 month period ending October 31, 2010. The standard deviation numbers are down relative to peers, and where the fund was in the past. The standard deviation is 11.5 and the benchmark is 12.5. The fund is beating almost every average time period with less volatility.

Treasurer Caprio asked for the return numbers for the fiscal and calendar year to date.

Mr. Goodreau replied that calendar year to date the fund is up 8.6% which is 50 basis points ahead of the 8.1% and for the fiscal year starting July 1, 2010 the fund is up almost 11% with lower fees.

Treasurer's Report. Treasurer Caprio reported that we will keep with the past practice and not hold a December meeting. He said that he and his staff are working closely to assist in a smooth transition. The fund is in a favorable position for the start of the new administration.

New Business. There was no new business.

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

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 10:01 a.m.

Respectfully submitted,



Frank T. Caprio
General Treasurer