

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

Monthly Meeting January 26, 2011

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, January 26, 2011. General Treasurer Raimondo called the meeting to order at 9:02 a.m.

Membership Roll Call. Present were: Ms. Rosemary Booth Gallogly, Mr. Michael Costello, Mr. Thomas Fay, Mr. Robert Giudici, Mr. Andrew Reilly and General Treasurer Gina Raimondo, 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; Mr. Scott Paton and Ms. Lisa Tyrrell of State Street Corporation, Ms. Michelle Davidson of Pacific Corporate Group and members of the Treasurer's staff. Mr. Robert Gaudreau, Dr. Robert McKenna and Ms. Marcia Reback were not present.

State Investment Commission Minutes. Treasurer Raimondo entertained a motion for approval of the minutes for the meeting of November 17, 2010. Mr. Reilly moved, Ms. Booth Gallogly seconded, and the subsequent motion passed. The following members voted in favor: Ms. Booth Gallogly, Mr. Costello, Mr. Fay, Mr. Giudici, Mr. Reilly and Treasurer Raimondo.

VOTED: To approve the Minutes of the November 17, 2010 monthly meeting.

General Consultant Report. Mr. Burns introduced the discussion on risk and asked the committee to look at the first page and noted five of the six bullet points are related to fixed income. He thinks there will be a significant issue in 2011 and 2012 and we should start taking a good look at inflation risk and interest rate risk in this portfolio. Mr. Burns said that risk permeates the whole fixed income portfolio especially if interest rates rise quickly. Our goal to combat this risk is to build out a real return portfolio.

Treasurer Raimondo asked if there were any questions and Ms. Booth Gallogly inquired how these concepts apply to hedge funds.

Mr. Burns replied that hedge funds include many different types of investments. An absolute return component of a real return portfolio would be designed to achieve improved performance without adding significant volatility.

Mr. Goodreau added that an appropriate hedge fund is one that not only lowers risk from a volatility standpoint but also provides some kind of correlation benefit.

Mr. Fay asked if there are any capital market assumptions that have changed and Mr. Burns replied that at mid-year, for the first time ever, PCA adjusted their assumptions because interest rates

have gone down so fast and so low. Equity return premiums are the same or higher and long-term these assumptions tend to be stable.

Mr. Costello then asked if there are any managers on a watch list. Mr. Burns replied no, but last year the committee reviewed fixed income. There was nothing critical at the time and the managers performed according to mandate.

Mr. Costello talked about the 529 program and stated that although Alliance said they wouldn't have moving parts they were in the news because a chief financial officer left. Treasurer Raimondo mentioned that during her report she will talk about launching a full review into the 529 program as well as reviewing the entire portfolio top-to-bottom.

Legal Counsel Report. Legal Counsel had no report.

Chief Investment Officer Report. Mr. Goodreau reported that the portfolio has beaten its benchmark across most time periods. The only exception is the 2-year period. Alternatives, due to accounting and liquidity, have hindered performance. The private equity benchmark is S&P plus 300 basis points and the 2 year benchmark is 24% where private equity is up only 5% during that period. This has been a drag on the portfolio and if we strip out private equity and real estate, the rest of the portfolio is performing well against the benchmarks.

Mr. Fay asked for peer review comparisons, because in November, 2010 three-quarters of managers were underperforming their benchmark. Mr. Goodreau answered that most of the fund's active management is in fixed income where the numbers look good compared to the benchmark now, but the volatility is high which is his concern.

Treasurer's Report. Treasurer Raimondo described her first three weeks in office. She brings with her an investment background in alternatives and wants to put that experience to work for the portfolio. She plans to meet individually with all the board members to review the current state of the program. The Treasurer's priorities are to address the allocation for absolute returns, complete the RFP process for an alternatives consultant and do a top-to-bottom review concentrating on the pension portfolio and the 529 account.

New Business. There was no new business.

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

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 9:27 a.m.

Respectfully submitted,



Gina M. Raimondo
General Treasurer