

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

Monthly Meeting March 23, 2011

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, March 23, 2011. General Treasurer Raimondo called the meeting to order at 9:08 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Mr. Thomas Fay, Mr. Robert Gaudreau Jr., Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo, establishing a quorum. Ms. Rosemary Booth Gallogly arrived after the vote on the minutes and left prior to the vote on the alternative consultants. Also present were: Ms. Sally Dowling, of Adler Pollock, Legal Counsel to the Commission; Mr. John Burns and Mr. Alan Emkin of Pension Consulting Alliance (PCA), General Policy Consultant to the Commission; Ms. Lisa Tyrrell of State Street Corporation; Steve Nesbitt and Thomas Lynch of Cliffwater and members of the Treasurer's staff.

State Investment Commission Minutes. Treasurer Raimondo entertained a motion for approval of the minutes for the meeting of February 23, 2011. Ms. Reback moved, Mr. Costello seconded, and the subsequent motion passed. The following members voted in favor: Mr. Michael Costello, Mr. Thomas Fay, Mr. Robert Gaudreau Jr., Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo.

VOTED: To approve the Minutes of the February 23, 2011 monthly meeting.

Update on Asset Liability Study. Treasurer called upon Pension Consulting Alliance (PCA) to update the board on the asset liability study. Mr. Emkin reviewed the presentation and provided a brief review of the asset liability process. Mr. Emkin pointed out this fund hasn't gone through an asset liability study in 8 years. He gave a history of the study in 2003 and talked about the changing market. He explained the portfolio went through a terrific time in the capital markets in the last 25 years. Mr. Emkin discussed low returns on bonds, but explained bonds were needed to diversify the portfolio. As a result he predicted a lower return going forward than in the previous 25 years. Mr. Emkin went on to explain that all academic work has found greater than 90% of the return and the risk of the investment portfolio will be driven by asset allocation. For years, clients concentrated on the return part of the equation. What the industry found in 2008 was a need to study risk. PCA will help the board determine a philosophy on risk.

Treasurer Raimondo commented that she is looking forward to the process and believes the study is critical. The Treasurer conducted due diligence and spoke with the executive vice president of EFI Actuaries who will calculate the liability side of the study. They have 30 years of experience with public pensions. She believes this study will serve as a roadmap the board can use going forward.

Cliffwater Presentation:

Treasurer Raimondo asked Cliffwater to leave the room and called upon Mr. Emkin for an update on PCG and his views on Cliffwater. Mr. Emkin disclosed that he and Steve Nesbitt worked together at Wilshire 28 years ago, but they have no economic relationships today. He explained that PCG has not worked out their business challenges and has lost a large amount of business. Mr. Emkin believes Michelle Davidson is a talented consultant, but the organization, in PCA's opinion, is unstable. Mr. Emkin stated that Cliffwater has excellent clients with highly experienced staff and thinks they will do a commendable job. Treasurer Raimondo welcomed

Cliffwater and introduced Steve Nesbitt as the CEO. The Treasurer turned it over to Cliffwater to make a brief presentation and take questions.

Mr. Nesbitt introduced Thomas Lynch who he has worked with for 20 years. He has a great background in private equity and is the managing director of the firm. Steve Nesbitt reviewed the presentation. He explained that Cliffwater, founded in 2004, is an independent alternative consulting firm that is 100% employee owned. They are SEC registered and accept fiduciary responsibility. They are headquartered in Los Angeles and Rhode Island would be serviced from their New York City location. Cliffwater is considered one of the largest in the alternative space, with \$27 billion of total assets under advisement; over \$15 billion in hedge fund, over \$10 billion in private equity and about \$2 billion in real assets. They only deal with institutional clients and do not deal with high net-worth or taxable investors. They have 28 clients including large retirement systems, state retirement systems, corporate retirement systems, endowments and foundations. Total staff number 36 of which 32 are seasoned investment professionals. Cliffwater has individual teams focused on private equity, hedge funds and real assets.

Mr. Lynch explained that the senior team under investment research, together with Steve Nesbitt, comprises their investment committee.

Mr. Costello asked if Cliffwater had a chance to look at the private equity of the portfolio and if they recommend the vast majority of them?

Mr. Lynch says they would recommend about a third of them.

Mr. Fay asked if they lost any key individuals since inception and are there any large clients that have left?

Mr. Lynch said no one at a director level or higher has left since inception. The largest client Cliffwater lost was Alcatel-Lucent in Boston, because they brought that effort in-house.

Treasurer Raimondo said she spoke to someone from Alcatel-Lucent and she affirmed it was to bring the effort in-house to save money.

Mr. Reilly asked how Cliffwater would recommend a different allocation, how they execute it and at what pace.

Mr. Lynch said Cliffwater could recommend where the portfolio should be in 60 days. They would pick out top-tier general partners and strategies they think would fit in Rhode Island's portfolio and determine when these managers are coming back to the market to raise more funds.

Treasurer Raimondo asked if there were any other questions. There were none and Cliffwater left the room.

Treasurer Raimondo, having formally been in the business, shared her own due diligence and reported that of those she spoke with, all had positive comments toward Cliffwater. Cliffwater has been very responsive and this is the third time their CEO has come to Rhode Island. The Treasurer explained this is a big piece of business for Cliffwater. She also spoke with a representative from Maine who said out of all their consultants, Cliffwater is the best in terms of customer service. The Treasurer likes the hunger of the new business along with the 30 plus years of experience of the senior team. The Treasurer stated she was comfortable proceeding with this firm. The Treasurer then asked Mr. Goodreau to review the due diligence process.

Mr. Goodreau reviewed the process starting with board approval of the RFP in May of 2010. The board received responses from a variety of firms on June 2010. In July and August the Treasurer's office spent 2 months reviewing RFPs and consulted with board members and people to narrow the list. During the August meeting, the firms were narrowed down to Cliffwater, Hamilton Lane and PCG. Since that time, the three firms have presented to the board and subsequently met with staff and the newly elected Treasurer. Staff proceeded to do extensive diligence.

Treasurer Raimondo thanked Mr. Emkin and Mr. Burns for going above and beyond in this process.

Treasurer Raimondo asked for the scope of services.

Mr. Goodreau said Cliffwater is willing to provide complete alternate investment consulting (hedge, private equity, real estate) for \$450,000. He explained that the Cliffwater mandate would offer a complete alternatives solution for slightly more than what we pay PCG for just private equity.

Treasurer Raimondo confirmed that Cliffwater was willing to be the board's complete alternatives advisor for \$450,000 for one year. Their strength is private equity, hedge funds and real assets.

Treasurer Raimondo said Cliffwater is a good fit for the portfolio at this time, because it has no hedge fund, commodity or real asset exposure.

Mr. Goodreau said everything is subject to contract negotiations. The fee structure and scope of services will be negotiated and the contract will only be signed if the structure is beneficial and cost-efficient.

Mr. Emkin explained the board reserves the right to terminate on 30 days notice.

Treasurer Raimondo entertained a motion to terminate PCG and hire Cliffwater for the entire alternative asset space. Ms. Costello moved, Ms. Reback seconded, and the subsequent motion passed. The following members

voted in favor: Mr. Michael Costello, Mr. Thomas Fay, Mr. Robert Gaudreau Jr., Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo.

VOTED: To terminate PCG and hire Cliffwater for the entire alternative asset space.

Short Term Investments: Cash Manager Vincent Izzo was looking for a point of clarification and reaffirmation by the board. Last year, Federal Home Loan Bank (FHLB) letters of credit were approved as a method of collateral for the short-term investment portfolio. One of Rhode Island's banks was going to use one of these vehicles and it was discovered that something brought forward in a previous presentation to the board needed to be clarified. Mr. Izzo stated these letters of credit were the joint liabilities of all 12 FHLBs, according to a white paper from the FHLB of Pittsburg, however in reality the letters of credit are the exclusive responsibility of the issuing FHLB.

Treasurer Raimondo entertained a motion to reaffirm the use of FHLBs as collateral for short-term investments. Ms. Reilly moved, Mr. Costello seconded, and the subsequent motion passed. The following members voted in favor: Mr. Michael Costello, Mr. Robert Gaudreau Jr., Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo. Mr. Fay recused out of any type of conflict of interest with RBS Citizens.

VOTED: To reaffirm the use of FHLBs as collateral for short-term investments.

Legal Counsel Report. Legal Counsel had no other report.

Chief Investment Officer Report. Mr. Goodreau had no other report.

Treasurer's Report. Treasurer Raimondo reported that the first fiduciary training session at the Retirement Board was held and Ms. Booth Gallogly attended. It was successful and Retirement Board was pleased. She shared that the SIC board will continue to receive training invitations and encouraged participation.

New Business. There was no new business.

There being no new business, Ms. Reback moved to adjourn, Mr. Reilly seconded and the subsequent motion passed. The following members voted in favor: Mr. Michael Costello, Mr. Thomas Fay, Mr. Robert Gaudreau Jr., Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 10:41 a.m.

Respectfully submitted,

A handwritten signature in black ink that reads "Gina Raimondo". The signature is written in a cursive, flowing style.

Gina M. Raimondo
General Treasurer