



State Investment Commission

Monthly Meeting Minutes

Wednesday, June 22, 2011

9:00 a.m.

Room 135, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:00 a.m., Wednesday, June 22, 2011 in Room 135, State House.

I. Roll Call of Members

The following members were present at roll call: Ms. Rosemary Booth Gallogly, Mr. J. Michael Costello, Mr. Thomas Fay, Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo.

Also in attendance: Ms. Sally Dowling, of Adler Pollock, & Sheehan, and Mr. Joe Rodio Jr., of Rodio & Ursillo, Legal Counsel to the Commission; Mr. Nicholas Katsikis of State Street Corporation; Mr. John Burns and Mr. Alan Emkin of Pension Consulting Alliance (PCA), General Policy Consultant to the Commission; Thomas Lynch and Steve Nesbitt of Cliffwater; Mr. Christopher Nikolich and Ms. Patricia Roberts of AllianceBernstein and members of the Treasurer's staff.

Recognizing a quorum, Treasurer Raimondo called the meeting to order.

II. Approval of Minutes

On a motion by Ms. Gallogly and seconded by Mr. Costello, it was unanimously **VOTED: To approve the draft of the minutes of the May 25, 2011 meeting of the State Investment Commission.**

III. Update on Asset Liability Study

Treasurer Raimondo called upon Mr. Emkin and Mr. Burns to update the board on the asset liability study.

Mr. Emkin gave background information on the difference in the economy of today versus over 10 years ago and explained the state lacks the diversification in its portfolio is necessary to succeed in the market with steady returns. Mr. Emkin said investments will not solve the financial challenges facing the state currently. Mr. Emkin recommended the state adopt a policy with a similar rate of return while assuming a lower level of risk, achieving this through a more diversified portfolio.

Mr. Fay expressed that the newly built portfolio may be too short-term and modeled around avoiding the tail-risk, which can be very significant.

Mr. Burns explained the plan is optimized on a ten year tail.

Ms. Gallogly and Mr. Emkin discussed the level of risk involved in real estate and the role it should play in the new portfolio.

Treasurer Raimondo asked Mr. Emkin what type of return stream he was assuming.

Mr. Emkin said he expected a lower return stream which was less correlated.

Treasurer Raimondo asked for PCA to bring an implementation plan to the next meeting.

Mr. Costello, Mr. Fay, and Mr. Emkin discussed the differences between the recommended plan, plan 10, and a similar plan with a different level of private equity and global exposure, plan 17. Mr. Emkin defended plan 10 as the best option for the state at this time, but agreed the situation down the road may be different.

Mr. Kenneth Goodreau prefers to use ranges of target returns in discussion as opposed to overly specific percentages to avoid the rounding errors as well as to address the true nature of the market which in reality is not going to be able to hit an exact percentage consistently, there needs to be flexibility. The discussion needs to include what the states range of tolerance will be for this new plan.

Mr. Emkin said there can be a target and a range.

Treasurer Raimondo explained this is a dynamic process and it does not have to be a static, unchanging process.

Mr. Emkin recommended the board adopt the policy and then they can change implementation any way they choose at a later time. Mr. Emkin recommended plan 10.

Treasurer Raimondo entertained a motion to adopt allocation plan 10, as recommended by PCA. Mr. Costello moved, Ms. Gallogly seconded, and the subsequent motion passed. The following members voted in favor: Ms. Rosemary Booth Gallogly, Mr. J. Michael Costello, Mr. Thomas Fay, Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo.

VOTED: To adapt allocation plan 10, as recommended by PCA.

IV. AllianceBernstein Presentation

Treasurer Raimondo asked Josh Brumberger to give an overview of the current state of the CollegeBoundfund.

Mr. Brumberger said after a thorough review of the 529 industry, he found

CollegeBoundfund to have a higher equity exposure in two of the age based glide-paths, and it's those paths which represent a bulk of the assets. Mr. Brumberger stated he believes the fund would benefit from additional international equity exposure as well as additional low cost index and conservative options and more robust and descriptive language around the product offerings specifically around age based paths. Mr. Brumberger said the program is a strong program, but he wants to make sure the program remains proactive instead of reactive.

Mr. Nikolich said it would make sense to de-risk from the asset allocation and this would enhance the strength of the fund with volatility management.

Mr. Fay and Mr. Nikolich discussed the mechanics of volatility management for the fund.

Mr. Brumberger and Treasurer Raimondo stressed the importance of protecting families from losing all of their savings in a volatile market and then not being able to send their child to college as a result.

Treasurer Raimondo said she would like to make sure people have options so they can choose a low level of risk or a higher level of risk depending on their situation.

Mr. Costello and Mr. Nikolich discussed the assumptions made in projections of the fund in the future versus the assumptions made in previous projections.

Ms. Gallogly expressed interest in a no risk option but asked about how that would be marketed versus the conservative risk option.

Mr. Fay asked for an overview of what the average account looks like, since there are 500,000 accounts approximately. Mr. Fay also asked how the board and the account owners could measure the success of the fund.

Mr. Emkin suggested the board use an up-side capture and a down-side capture because it's easy to understand.

Treasurer Raimondo said the board needs to keep in mind that the account owners are not always thinking long term, as they get closer and closer to college age children they become more and more short-term thinkers.

Treasurer Raimondo thanked AllianceBernstein for being a good partner and also offering two Vanguard products as options. Treasurer Raimondo entertained a motion to adopt the proposed changes from AllianceBernstein. Ms. Reback moved, Mr. Fay seconded, and the subsequent motion passed. The following members voted in favor: Ms. Rosemary Booth Gallogly, Mr. J. Michael Costello, Mr. Thomas Fay, Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo

VOTED: To adopt the proposed changes as recommended on pages 6 and 7 of the AllianceBernstein presentation.

V. Cliffwater Presentation

Mr. Lynch said the main point of the presentation for this meeting would be hedge strategies and hedge funds in the asset allocations and the equity portfolio of the state.

Mr. Nesbitt said hedge funds would be a great implementation tool for the asset allocation. Mr. Nesbitt explained hedge funds have become very popular to use for pension funds. Mr. Nesbitt pointed out the attractiveness of hedge funds comes from their equity like returns but with low levels of risk. Mr. Nesbitt recommends the state invests directly into hedge funds and not through a fund of funds system to avoid an intermediary fee.

Mr. Goodreau gave more examples of why direct investment into hedge funds is more advantageous for the state than going through a fund of funds and explained there's more control for the manager.

Mr. Lynch pointed out hedge funds are not immune to risk and losses, but even in the crisis of 2008 the losses were predictable given the risk level.

Mr. Goodreau emphasized the importance of recognizing that hedge funds are different than anything else and it becomes dangerous if you start grouping it together with other completely different products.

Mr. Emkin and Mr. Fay acknowledged the most important thing about hedge funds to remember is active management and leverage.

Mr. Lynch broke down hedge funds into six different categories and explained which ones would go into which asset class. Mr. Lynch said he would like PCA to make a recommendation for percentages of global equity and hedge funds so they can make an implementation plan to make it clear.

Treasurer Raimondo said next month the board will expect an implementation strategy and the board can pick some managers.

Mr. Lynch said he hopes the board can have this fully implemented by year end.

VI. Legal Counsel Report

Legal Counsel had no other report.

VII. Chief Investment Officer Report

Mr. Goodreau pointed out two extremes on page two under other historical metrics to pay attention to in PCA's risk overview monthly report; one extreme was the slope of the yield curve and one was the interest rate risk. Mr. Goodreau also noted US private equity and real estate are approaching unfavorable pricing. Mr. Goodreau said these are the things the board needs to spend time on and discuss when they are building the new portfolio.

VIII. Treasurer's Report

Treasurer Raimondo noted the contract with State Street is finishing up at the end of July so they're going to go ahead and put out an RFP for a new custodian contract.

Mr. Dingley added they are extending the State Street contract for another six months.

Treasurer Raimondo said she will be working with Mr. Goodreau to change the way the state does its benchmarking so benchmarks can be more productive for the pension fund.

Treasurer Raimondo also told the board about her pension advisory group with governor and invited anyone to discuss that with her at anytime.

IX. New Business

None this month

X. Adjournment

There being no other business to come before the Board, on a motion by Mr. Fay and seconded by Mr. Costello the meeting adjourned at 10:50 a.m.

Respectfully submitted,



Gina M. Raimondo
General Treasurer