



State Investment Commission

Monthly Meeting Minutes

Wednesday, September 28, 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, September 28, 2011 in Room 135, State House.

I. Roll Call of Members

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

Also in attendance: Mr. Dennis Costello, Mr. Scott DePasquale and Mr. Neil Suslak from Braemar Energy Ventures; Mr. James Freeland, Mr. Todd Hearle and Mr. Tom Roberts from Summit Partners; Ms. Sally Dowling, of Adler Pollock, & Sheehan, and Mr. Joe Rodio Jr., of Rodio & Ursillo, Legal Counsel to the Commission; Mr. John Burns, of Pension Consulting Alliance (PCA), General Policy Consultant to the Commission; Thomas Lynch, Steve Nesbitt and Daniel Stern, of Cliffwater; Ms. Lisa Tyrell, of State Street Corporation and members of the Treasurer's staff.

Treasurer Raimondo called the meeting to order at 9:02

III. Approval of Minutes

On a motion by Mr. Costello and seconded by Mr. Giudici, it was unanimously approved **VOTED: To approve the draft of the minutes of the July 22, 2011 meeting of the State Investment Commission.**

IV. Braemar Energy Ventures

Treasurer Raimondo welcomed new board member Ms. McNamara to the group, who spoke briefly on her background. Mr. Lynch provided background on venture capital firm, Braemar Energy Ventures. He explained Rhode Island's venture exposure is 7% and they need another venture capital mandate to maintain that exposure.

Mr. Costello asked why this was such a direct area of focus?

Mr. Lynch explained they are focused on energy efficiency and generation. Cliffwater expects a lot of growth in this area and companies can go from technology to commercialization rather quickly.

Mr. Suslak introduced Braemar as an energy technology fund with a great track record since the mid-1980's. They've invested in 55 companies, 24 exits, 12 IPOS and 12 trade sales. Braemar is raising capital for their third fund and listed investors to-date. Mr. Suslak provided background on their staff which has experience in the energy business and a strategic board of advisors to support them further.

Mr. Dennis Costello continued through the presentation and stated there are secular long-term drivers to energy that will continue to produce opportunities for venture capital, early and mid stage private companies. He discussed energy storage, the electric grid and other opportunities. He explained the growth in solar and wind power relative to overall energy use and the majority of their focus will be on energy efficiency instead of generation. Braemar has a diverse portfolio even though they are focused on a single sector. Mr. Dennis Costello explained their venture fund and corporation co-investors.

Mr. Suslak concluded the presentation by going through their investments in companies and their historical performance.

Mr. Fay asked about the average time to exit and Mr. Suslak responded usually 4 years, but about 5-7 years in this market.

After a few questions from Mr. Reilly, Braemar discussed the makeup of their team, explained they do not cross pollinate funds and spoke about the underwriting process.

Braemar representatives left the room and Mr. Lynch elaborated on Cliffwater's recommendation to invest in Braemar Energy Ventures III. This would add a direct exposure to the portfolio in an area they think is attractive.

Mr. Costello noted Mr. Dennis Costello is not related and Mr. Reilly fully disclosed he is on the University of Rhode Island School of Oceanography board together, but there is no conflict.

On a motion by Mr. Costello and seconded by Mr. Giudici, it was unanimously

VOTED: To invest \$10 million in Braemar Energy Ventures III subject to negotiation and finalization of documentation after legal counsel review.

V. Summit Partners Presentation

Mr. Lynch and Treasurer Raimondo introduced Summit Partners, a firm with a private debt strategy.

Mr. Roberts introduced himself and gave details on Summit's history and business model. He then explained their process for cold-calling and targeted leads. He introduced Mr. Freeland and Mr. Hearle who joined Summit to provide credit to the companies they had called to provide equity.

Mr. Hearle explained their role at Summit and why they joined Summit. They target companies with cash flow generation of \$15 to \$20 million that do not have access to public market solutions, but need long-term solutions.

Responding to Mr. Giudici's request about how they evaluate their companies, Mr. Roberts described the calls build a relationship and therefore Summit has a detailed database. They then do 6-8 weeks of extensive due diligence with the guidance of outside counsel and audits to confirm numbers.

Treasurer Raimondo and Mr. Reilly asked about the make-up of the team and how smooth the teaming-up of the two companies is going. Mr. Freeland explained they teamed up for sourcing and that has exceeded expectations. He explained the last two years has proved to be a great cultural match and their philosophies have overlapped well.

Treasurer Raimondo asked if they have economics in the whole firm and Mr. Freeland confirmed they do.

The Treasurer then asked what IRR they expect and Mr. Roberts said their target is 15 net, 14 with an equity kicker. The Summit team fielded a few more questions and then left the room. Mr. Lynch elaborated on Cliffwater's recommendation on Summit as an organization and the credit space in general. He explained it is a shorter duration strategy and only a 7 year term, so there will be more liquidity. They recommend \$20 million, because it is a lower risk strategy and it is a diversification issue.

Treasurer Raimondo explained it also makes sense because of the cash flow characteristics.

On a motion by Ms. Reback and seconded by Mr. Reilly, it was unanimously **VOTED: To invest \$20 million in Summit Partners Credit Fund subject to negotiation and finalization of documentation after legal counsel review.**

VI. Cliffwater Presentation

Mr. Nesbitt first explained Cliffwater's phase one hedge fund implementation plan and provided allocations within the allocations; 2% in fixed income, 5% in real return and 8% in global equity. He then gave a short- presentation on hedge fund monitoring. He gave an overview of their staff and their specialties in different areas. Cliffwater routinely monitors the funds, the portfolio and the performance.

Treasurer Raimondo asked if this will be specific to our portfolio and Mr. Nesbitt confirmed it. Ms. Reback raised ethical concerns about hedge funds in general.

After addressing Ms. Reback's question, Mr. Nesbitt began speaking about the 6 hedge fund managers. The funds are divided into two groups, global equity and absolute return.

The global equity managers are Ascend partners, Davidson Kempner and Elliott. When ERSRI was down 6% in August, they were down only 2% and this can reduce risk from the portfolio. The absolute return managers/real return managers are Brevan Howard, DE Shaw and Och Ziff were up 1.1% in August when the market was down.

Mr. Fay asked if we are investing in A or B class of Brevan Howard and Mr. Stern answered the B, as it is the only fund that is open now.

Ms. Booth Gallogly asked about event driven funds and Mr. Nesbitt explained it is a short-term strategy with a specific date.

Ms. McNamara referenced that these funds do well during distressed markets, but what about when the market is on an up-swing.

Mr. Nesbitt expects comparable return similar to equities, possibly better, but with a significantly lower level of risk.

Mr. Stern went through each individual fund in detail and fielded questions.

On a motion by Mr. Reilly and seconded by Mr. Costello, it was unanimously
**VOTED: to approve all funds on page two of the presentation, subject to negotiation
and finalization of documentation after legal counsel review. Ms. Reback abstained.**

VII. Legal Counsel Report

Legal Counsel had no other report.

VIII. Chief Investment Officer Report

Mr. Goodreau had no report. Treasurer Raimondo mentioned we have a strong cash position.

IX. Treasurer's Report

Treasurer Raimondo asked about the real estate diagnostic and Mr. Nesbitt said they would give a diagnostic in October or November. The Treasurer asked Ken to introduce new investments staff member Kerri Baker.

X. New Business

None this month

XI. Adjournment

There being no other business to come before the Board, on a motion by Ms. Reback and seconded by Ms. Booth Gallogly the meeting adjourned at 11:07 a.m.

Respectfully submitted,

Gina M. Raimondo
General Treasurer