



State Investment Commission
Monthly Meeting Minutes
Monday, March 19, 2012
9:00 a.m.
Room 313, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:09 a.m., Monday, March 19, 2012 in Room 313, 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. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo.

Also in attendance: Mr. Joe Rodio Jr. and Mr. Joseph Pezze, of Rodio & Ursillo Legal Counsel to the Commission; Mr. John Burns, of Pension Consulting Alliance (PCA), General Policy Consultant to the Commission; Mr. Nick Katsikis, of State Street Corporation; Mr. Darren Lopes and Mr. Tim Walsh of TIAA-CREF, defined contribution plan vendor; Mr. Frank Picarelli and Mr. Craig Chaikin of Segal Advisors; Mr. Kenneth Goodreau, chief investment officer and members of the Treasurer's staff.

Treasurer Raimondo called the meeting to order at 9:09 a.m.

II. Approval of Minutes

On a motion by Ms. Reback and seconded by Mr. Giudici it was unanimously

VOTED: To approve the draft of the minutes of the February 14, 2012 meeting of the State Investment Commission.

III. Investment Fund Review

Mr. Mark Dingley, Treasury legal counsel introduced TIAA-CREF to review the staff recommendation for the investment fund lineup.

Mr. Walsh described the specific criterion each fund should have including low-cost, brand name recognition for participants and be strategic and long-term orientated. He explained even though this is not an ERISA plan, this plan is designed to follow ERISA standards including prudent process, appropriate consideration and documentation. He said the plan must meet the goal of *all* participants. Best practice is 15-20 options investment products for participants to choose from. Mr. Walsh reviewed the *do it yourself* investment menu and the default lineup in extensive detail. Mr. Walsh explained participants have full liquidity subject to a 90-day equity-wash rule to protect all participants. They are never restricted from changing their investment account. Mr. Dingley pointed out none of these products are providing TIAA with any revenue sharing and Rhode Island is getting TIAA's most favored nation (MFN) pricing.

Mr. Walsh explained as assets in funds increase, fees and rates become more favorable. TIAA will monitor share class steps closely. He then reviewed the stable value pitch book.

Mr. Giudici asked about educating the participant and Mr. Walsh reiterated all participants can receive advice from an investment professional in person or over the phone.

Mr. Dingley said actuaries estimate \$125-\$150 million of assets into the DC plan annually. He explained this is our initial fund lineup and it will be reviewed by the vendor and the SIC board on an ongoing basis.

Mr. Chaikin and Mr. Picarelli explained Segal's assessment on the investment lineup including the TIAA Real Estate product. Segal Advisors approved of the real estate fund because of its low correlation with equities, but stressed it was difficult to benchmark because of its 20% allocation to cash. He pointed out the product is unique because it provides participants with direct investments in real estate and not REITs.

Treasurer Raimondo pointed out it is a low-fee for this type of product and Mr. Reilly said participants would not have access to a quality product like this outside the D/C plan.

Mr. Picarelli explained their scoring process and said it is difficult for a company to get an A or B rating from Segal. Having said that, he said all of the funds in the lineup were rated A or B except for the PIMCO real-return and TIAA Real Estate funds. He reiterated the fees for the plan were very low relative to other index funds in their universe. The PIMCO fund was rated lower because it was more diversified than the benchmark and has more alpha potential. It has done very well in terms of performance compared to its peers. TIAA Real Estate received a lower score because the benchmark being used is a REIT index. It would be scored higher if adjusted. Given it doesn't fit into their rating system, Mr. Picarelli said a more applicable rating would be "N/A."

Mr. Dingley reiterated this is an open platform and can change any time.

On a motion by Ms. Reback and seconded by Ms. Booth Gallogly, it was unanimously **VOTED: To approve the investment menu as presented by staff on page two of the handout.**

IV. Plan Design and Document Review

Mr. Dingley reviewed the plan feature recommendations. They are: No employee elective pre-tax or after-tax contributions; no loans or hardship distributions; rollovers permitted into and out, but transfers are not permitted; normal form of benefit is a life annuity; all IRS permissible options including annuities, lump sums and installments; joint and survivor annuity with spouse is not mandated; no contribution if no compensation for military service, but can qualify as separation from service; and participant fees of \$32 for TIAA and \$8 state administration fee subject to state legislative budget determinations.

Mr. Dingley explained the only elective contribution is a onetime irrevocable election and pointed out it is a retirement plan not a savings plan.

Mr. Dingley said staff is recommending the SIC approve the \$8 additional participant fee subject to the state legislative budget determination. He pointed out even at \$40; the fee is much lower than initially proposed from TIAA and other vendors in the RFP process.

Mr. Costello pointed out none of the decisions being made are irrevocable.

On a motion by Mr. Costello and seconded by Ms. Reback, it was unanimously **VOTED: To approve the initial plan feature recommendations.**

V. Contract Status

Mr. Dingley explained the initial service provider contract is signed. The stable value, real estate and custodial contracts are being reviewed by staff and legal counsel.

VI. Communication/Education Update

Mr. Dingley said TIAA was on hand four days last week and four this week meeting with unions, the Department of Education, The League of Cities and Towns among other interested groups to figure out how to best communicate the program. TIAA has 198 meetings across the state and 52 counselors to meet with the individual participants.

Mr. Lopes updated the committee and said education and communication is going smoothly. Treasurer Raimondo explained her office has received calls praising TIAA's initial efforts.

VII. Adjournment

There being no other business to come before the Board, on a motion by Ms. Reback and seconded by Mr. Giudici the meeting adjourned at 11:01 p.m.

Respectfully submitted,



Gina M. Raimondo
General Treasurer