



State Investment Commission
Monthly Meeting Minutes
Wednesday, March 28, 2012
9:00 a.m.
Room 135, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:05 a.m., Wednesday, March 28, 2012 in Room 135, State House.

I. Roll Call of Members

The following members were present: Mr. J. Michael Costello, Mr. Robert Giudici, Ms. Paula McNamara, Ms. Marcia Reback and General Treasurer Gina Raimondo.

Also in attendance: Ms. Sally Dowling, of Adler Pollock, & Sheehan, Mr. Joe Rodio Jr. of Rodio & Ursillo Legal Counsel to the Commission; Mr. Alan Emkin, Mr. John Burns and Lindsey Sugar, of Pension Consulting Alliance (PCA), General Policy and Real Estate Consultant to the Commission; Mr. Thomas Lynch of Cliffwater, Alternative Investment Consultant to the Commission; Mr. Kenneth Goodreau, chief investment officer, members of Rhode Island's House and Senate staff and members of the Treasurer's staff.

Treasurer Raimondo called the meeting to order at 9:05 a.m.

II. Cliffwater Presentation

Mr. Lynch explained the hedge fund implementation has been completed. He continued to review the monitoring and risk analysis process, the February 2012 performance, hedge fund impact on overall asset allocation and the quarterly review procedure.

Mr. Lynch mentioned Cliffwater has a hedge fund research staff meeting weekly and also a weekly call with Treasury staff every Monday to discuss major themes from their weekly review. He described their monthly conference call process with each manager which is exhibited in the SIC book monthly and in the quarterly report. Cliffwater also has a portfolio review and investment committee meeting biweekly. They monitor pertinent news on the managers daily. Treasury staff asked them to provide transparency on the impact of the managers in terms of asset allocation and Cliffwater has worked to create a methodology to show the exposure. Mr. Lynch explained the nominal and net exposure. The main take away, Mr. Lynch said is hedge funds reduce asset class exposure and minimize volatility because of their blend of long and short positions.

Mr. Kem Edwards, Treasury analyst described Cliffwater's comparison on expected performance and risk measurements post-hedge fund implementation.

Mr. Lynch reviewed the performance and volatility of the hedge fund managers as of February 29, 2012 and noted the average manager has only been in place for two months during a major beta rally. He then reviewed the quarterly report for those funded in 2011.

III. General Consultant Presentation

Mr. Emkin recapped part one of the fixed income presentation from February's SIC meeting. He discussed the historic role of fixed income as principal and deflation protection, a liquid income stream with cash flow, as another way to diversify. He said fixed income historically returns 2% real return.

Using a graph on page 7 of the presentation Mr. Emkin explained the fixed income yield compared to the S&P dividend yield over the last eleven years. Historically fixed income yielded 6% more than dividends and now both are about 2%.

Mr. Goodreau pointed out this slide is not intended to show dividends are now good compared to fixed income yields. He said we have seen times when dividends were 5 or 6% and this slide highlights both returns are below average.

Mr. Emkin explained the portfolio must pick up more than 5% on capital appreciation to hit the 7.5% target if fixed income only yields 2%. He explained hitting 5% will be a challenge in a low growth environment especially in the developed markets.

Mr. Emkin took the committee through the roles and characteristics of fixed income in today's environment and explained if they still hold true.

Mr. Emkin cautioned there is no silver bullet to solve an issue of this magnitude, but there are solutions in the fixed income space that mitigate some of the risks. The first is to create a laddered portfolio of high-grade securities with a relatively short-duration. Another potential solution is to dedicate part of the portfolio to floating-rate instruments and absolute return products.

Treasurer Raimondo asked how this would be different from the protections in the hedge fund allocations and Mr. Emkin explained they would most likely provide different variations.

Mr. Emkin explained the next steps and opened it up for discussion.

Mr. Costello and the committee discussed shortening duration of treasuries and weighed accepting lower interest rates in the next 6-18 months to reduce risk. Mr. Goodreau explained accepting lower interest rates in the short-term should save us in the long run if and when these fixed income themes play out.

IV. Real Estate Consultant Report

Mr. Emkin explained historically, real estate was strategically put in the portfolio to eliminate risk. He gave a preliminary overview of the real estate portfolio and said there are more capital appreciation instruments than traditional low-risk core investments.

Mr. Emkin pointed out the entire portfolio is underweight real estate even though there are too many managers in the asset class.

Mr. Goodreau said his staff and Ms. Sugar are meeting with all current real estate managers over the next few weeks.

V. Legal Counsel Report

There was no legal report.

VI. Chief Investment Officer Report

Mr. Goodreau gave an overview of the RFI under review. He pointed out some of the benchmark data is incorrect because of the new hedge fund mix and staff is working to rectify the issue. Mr. Goodreau spoke about the asset liability study and the mandate to be more global and staff is working to be tighter with policy around the indexes in this regard. Mr. Costello asked about private equity managers with vintage years 2007 and 2008 and Mr. Goodreau said some will extend in 2013 and some are liquidating.

VII. Treasurer's Report

Treasurer Raimondo said her office is working hard to educate state and municipal employees on how the Retirement Security Act of 2011 affects them. She said there are 55 group presentations in the next two months. Treasurer Raimondo then praised TIAA-CREF for their efforts and explained they have been well received by the employees.

VIII. Adjournment

There being no other business to come before the Board, on a motion by Ms. Reback and seconded by Mr. Costello the meeting adjourned at 10:29 a.m.

Respectfully submitted,



Gina M. Raimondo
General Treasurer