



**State Investment Commission
Monthly Meeting Minutes
Wednesday, April 25, 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, April 25, 2012 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: Ms. Sally Dowling, of Adler Pollock, & Sheehan, Mr. Joe Rodio Jr. of Rodio & Ursillo, Legal Counsel to the Commission; Mr. John Burns of Pension Consulting Alliance (PCA), General Policy and Real Estate Consultant to the Commission; Mr. Steve Nesbitt of Cliffwater, Alternative Investment Consultant to the Commission; Ms. Lisa Tyrell of State Street Corporation; Mr. Kenneth Goodreau, chief investment officer; members of Rhode Island's House and Senate staff; the Auditor General's staff and the Treasurer's staff.

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

II. Approval of Minutes

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

VOTED: To approve the draft of the minutes of the February 27, 2012 meeting of the State Investment Commission.

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

VOTED: To approve the draft of the minutes of the March 19, 2012 meeting of the State Investment Commission.

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

VOTED: To approve the draft of the minutes of the March 28, 2012 meeting of the State Investment Commission.

III. Alternatives Presentation

Mr. Nesbitt previewed his presentation on the risk/return profile of hedge funds in the portfolio and about their performance to date. He explained hedge funds were implemented to lower volatility without forfeiture in long-term return. He reviewed PCA's capital market expectations in the different asset classes.

Mr. Goodreau pointed out these are benchmark numbers and our portfolio construction has even lower risk numbers.

Mr. Nesbit then reviewed the total fund asset allocation policy with and without hedge funds. He then used the SIC book to review performance for fixed income, global equity and absolute return hedge funds against their benchmarks. He pointed out all performance is net of fees.

Mr. Goodreau explained performance is skewed downward because capital for certain hedge funds was deployed at different times yet they are weighted equally.

The group further discussed processes of reviewing the hedge fund portfolio and individual managers. Mr. Nesbitt explained there are about 100 hedge funds their 30 clients invest in and on average they redeem about 2 per year.

Mr. Reilly asked about a key person departure at First Reserve and Mr. Kem Edwards, Treasury staff reviewed Cliffwater's recent memo on the situation.

IV. General Consultant Presentation

Treasurer Raimondo gave a brief overview of last month's fixed income presentation and introduced Mr. Burns.

Mr. Burns recommended ERSRI reduce the fixed income allocation from 20% of the portfolio to 15%. He concurrently recommended increasing the real return allocation from 11% of the portfolio to 16%.

PCA then recommended reconfiguring the fixed income to more U.S. Core and government guaranteed mortgage backed allocation. They then recommended adding more floating rate notes, senior loans, inflation-lined infrastructure investments and possibly short-term high-yield securities. Mr. Burns also recommended adding absolute return hedge funds which have already been added to the portfolio in the last few months and would be classified as absolute return not fixed income. Mr. Burns reviewed the current fixed income portfolio and recommended rebalancing by adding US Treasuries and decreasing corporate credit.

Mr. Fay expressed concern about buying overvalued US Treasuries and Mr. Burns explained they still serve a role in the portfolio and even after rebalancing it would still be less than the benchmark. Mr. Costello pointed out the more substantial move is from 20% to 15%.

Mr. Burns analyzed the portfolio duration at 4.6 years. He explained after reconfiguration it should go down to about 3.8 years and should interest rates go up we will be better positioned. The group discussed what the portfolios average duration should be and to what extent to purchase Treasuries.

Mr. Goodreau pointed out simply classifying the hedge funds from fixed income to absolute return will automatically lower fixed income from 20% to 18%.

It was determined this being an important, difficult issue, PCA would return next month with more concrete recommendations to be voted on.

Mr. Nesbit stated it is refreshing to see a board looking ahead and not behind.

V. Legal Counsel Report

There was no legal report.

VI. Chief Investment Officer Report

Mr. Goodreau updated the board on the custody RFP process and provided a timeline. Treasurer Raimondo explained the last custodian RFP was done in 2000 and whenever a contract expires an RFP should be conducted to ensure competitive pricing and top-notch services.

VII. Treasurer's Report

Treasurer Raimondo applauded TIAA-CREF for their efforts getting the plan started and said they are opening an office in downtown Providence in May. She explained OSIP was launched last week with about \$400M of its cash and said the board should look forward to updates about OSIP and the CollegeBoundfund® in coming meetings. Mr. Dingley and Treasurer Raimondo gave a brief update on AllianceBernstein, their Morningstar ratings and their new index fund with lower fees for participants.

VIII. Adjournment

There being no other business to come before the Board, on a motion by Mr. Costello and seconded by Mr. Giudici the meeting adjourned at 10:47 a.m.

Respectfully submitted,



Gina M. Raimondo
General Treasurer