



State Investment Commission

Monthly Meeting Minutes

Wednesday, June 27, 2012

9:00 a.m.

Room 135, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:09 a.m., Wednesday, June 27, 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 and General Treasurer Gina Raimondo. Mr. Giudici departed at 10:21 a.m.

Also in attendance: Mr. Thomas Lynch of Cliffwater, Alternative Investment Consultant to the Commission; Ms. Lisa Tyrell of State Street Corporation; Mr. German Hovakimian and Mr. George Mellman of Fidelity Investments; Mr. Gregory Miller and Ms. Kay Carey-Reid, of ING; Mr. Ron Sanchies, Mr. Gregg Libutti, and Mr. Mark Draud, of VALIC; Mr. Allan Emkin, Mr. John Burns, Mr. David Glickman, and Ms. Lindsey Sugar, of Pension Consulting Alliance (PCA), General Policy and Real Estate Consultant to the Commission; Mr. Larry Brown and Mr. Tim Walsh of TIAA-CREF; Ms. Deborah Blair and Ms. Susan Rodriguez, of the Department of Administration; Ms. Sally Dowling, of Adler Pollock Legal Counsel to the Commission; Kenneth Goodreau, chief investment officer and members of the Treasurer's staff and the Office of the Auditor General.

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

II. Approval of Minutes

On a motion by Ms. Booth Gallogly and seconded by Mr. Fay, it was unanimously **VOTED: To approve the draft of the minutes of the May 23, 2012 meeting of the State Investment Commission.**

III. 457 Plan

Mr. Goodreau explained there is significant overlap with current 457 plan offerings, so while participants might think they are diversified, they might have funds which are highly correlated. He explained the newly proposed plans present a better balance of higher performing funds with lower fees as well as low fee index options in each category.

Mr. Hovakimian introduced Mr. Mellman and himself, of Fidelity Investments. He explained they removed the annual per participant fee. Mr. Mellman walked through the changes in the fund menu, mentioning that redundancies had been removed.

Mr. Giudici asked about customer service over the phone. Mr. Mellman explained strong suggestions are made regarding the choice of funds. Ms. Gallogly asked how many people are going to be impacted, and Mr. Mellman answered that more than half will be impacted from

the changes. Mr. Fay asked if there is a default switch. Mr. Mellman responded target date funds are the default option, but self-directed brokerage is also an option.

Treasurer Raimondo asked how long it would take to get everything switched over if voted on today. Mr. Hovakimian responded that it would take about 120 days.

Ms. McNamara asked how often the plan will be revisited. Mr. Goodreau responded staff will meet semi-annually and they will update the SIC annually.

Treasurer Raimondo asked when the last time changes were made, and Mr. Goodreau responded these plans have not been reviewed in a very long time.

Mr. Miller introduced Ms. Carey-Reid and himself, of ING. He explained the customer service model and pointed out there were about 300 new enrollments this year. He mentioned the proposed plan reduces fund overlap. Ms. Carey-Reid walked through the fund changes, adding there is no self-directed brokerage option.

Mr. Costello asked if one could participate in all three plans, and General Treasurer Raimondo answered affirmatively, adding to consolidate plans into one administrator would require legislative change.

Ms. Carey-Reid mentioned the ING plan has \$106 million in assets and 3100 participants.

Ms. Reback asked if participants can stay where they are, and Ms. Carey-Reid responded negatively. Mr. Goodreau stressed that change is a good thing in this situation, citing lower costs and better funds.

Mr. Sanchies introduced Mr. Libutti, Mr. Draud, and himself, of VALIC. Mr. Draud mentioned the proposed plan was streamlined. He also mentioned the average expense ratio with the proposed plan is .4%, compared to the current 1%.

Mr. Costello asked about the size of the plan, and Mr. Sanchies responded there were \$32 million in assets and 900 participants. Mr. Draud added only 10.8% of the assets will be moved. Ms. Reback asked if a participant can stay in a deleted fund, and Mr. Sanchies responded it is not an option. Mr. Fay asked when the last change had happened, and Mr. Sanchies responded the current plan is almost the original lineup from 1999.

General Treasurer Raimondo thanked VALIC for much reduced fees.

Mr. Fay asked about doing an overall communication, and Ms. Rodriguez, of the Department of Administration, introduced herself. Ms. Rodriguez mentioned while this was a lot of change, it is ultimately beneficial.

On a motion by Mr. Thomas Fay and seconded by Ms. Marcia Reback, it was unanimously **VOTED: to approve changes to the 457 plan as suggested, subject to the board finalizing all documentation, also subject to the vendors precisely clarifying each party's fiduciary duty.**

IV. Pension Consulting Alliance—Real Estate Presentation

Mr. Emkin introduced Mr. Glickman, Ms. Sugar, and himself, as representatives of Pension Consulting Alliance.

Mr. Glickman explained the board should revise its real estate investment policy and add more description to risk by adopting a leverage standard and expanding possible investment options to include vehicles like REITs.

Mr. Glickman mentioned it would be advisable to make larger investments with fewer managers relying on current income and reliability of income. Current returns in the portfolio do not warrant current levels of risk, he added.

Mr. Goodreau recommended letting the market dictate the speed at which these transactions are made, and Mr. Glickman, on behalf of PCA, concurred.

Ms. Gallogly asked about secondary sales, and Ms. Sugar said they recommend 7, and she would be happy to go into the details at another time.

Mr. Glickman further cited the diversification advantage with adding REITs to the portfolio. General Treasurer Raimondo asked PCA to redraft the policy statement and get back to the board, but there was no current need for a vote.

V. Wellington Technical Equity

Mr. Goodreau mentioned he had spoken with PCA about the Wellington Technical Equity holding. He explained the initial reasoning behind deploying capital in the fund was a need for more hedge-like, flexible, less-market-correlated assets. He said priorities must be kept clear, and alpha generation lies with hedge funds now. With public equity, the goal is low costs and exposure management.

General Treasurer Raimondo added Wellington's fees are high, and without this holding, about \$1 million will be saved each year.

On a motion by Mr. Michael Costello and seconded by Mr. Thomas Fay, it was unanimously **VOTED: to terminate Wellington Technical Equity and unwind the current holding.** Mr. Giudici was not present.

VI. CIO Report

Mr. Goodreau thanked his staff for their work on the 457 plan changes, and mentioned there were 4 custodians under review for pension custody services, but that State Street and Bank of New York Mellon were the finalists.

Mr. Goodreau mentioned it is not just an absolute cost analysis, but that limited staffing resources should be considered, encouraging the board to talk to staff about changes and their opinions.

General Treasurer Raimondo added the defined contribution plan would be going live in the upcoming week, and mentioned folks from TIAA-CREF would be hosting a fiduciary training session following adjournment.

Mr. Goodreau concluded by mentioning the plan was outperforming all its benchmarks and that volatility was down.

VII. Legal Counsel Report

There was no legal update.

VIII. Adjournment

There being no other business to come before the Board, on a motion by Ms. Gallogly and seconded by Ms. Reback the meeting adjourned at 10:58 a.m.

Respectfully submitted,

A handwritten signature in black ink that reads "Gina Raimondo". The signature is written in a cursive style with a loop at the end of the last name.

Gina M. Raimondo
General Treasurer