



**State Investment Commission  
Monthly Meeting Minutes  
Wednesday, August 22, 2012  
9:00 a.m.  
Room 135, State House**

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:02 a.m., Wednesday, August 22, 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, Ms. Paula McNamara, Ms. Marcia Reback, Mr. Andrew Reilly and Deputy General Treasurer Mark Dingley, designate for General Treasurer Gina Raimondo and Mr. Frank Karpinski.

Also in attendance: Mr. Allan Emkin, Mr. John Burns, Mr. David Glickman, and Ms. Lindsey Sugar of Pension Consulting Alliance (PCA), General Policy Consultant to the Commission; Ms. Lisa Tyrell and Mr. Bob Wheeler, of State Street Corporation; Ms. Sally Dowling of Adler, Pollock & Sheehan, Legal Counsel to the Commission; Kenneth Goodreau, chief investment officer, members of the Governor's staff, the Treasurer's staff and the Office of the Auditor General.

Deputy Treasurer Dingley called the meeting to order at 9:02 a.m.

**II. Approval of Minutes**

The July 25, 2012 meeting minutes were amended regarding a conversation regarding State Street issues and board members comments about State Street.

On a motion by Ms. Booth Gallogly and seconded by Ms. McNamara, it was unanimously **VOTED: To approve the draft of the minutes of the July 25, 2012 meeting of the State Investment Commission, assuming the minutes are changed accordingly.**

**III. Fixed Income Presentation - PCA**

Mr. Emkin provided a brief market overview, discussing interest rate risk and the European markets.

Mr. Dingley referenced a question regarding the RFP process from last month and he cited the third page of the SIC's guidelines for changing mandates with existing relationships. Ms. Booth Gallogly said this eases her concerns, but she wants to make sure the managers selected are the best managers for the mandate. Mr. Emkin explained the managers were not reviewed in isolation, but across the fixed income universe and they were interviewed by staff and PCA and competed for the business. He reiterated his confidence in the

managers selected and at a lower cost. He pointed out there will be a series of RFPs or RFIs for the other mandates.

Mr. Emkin reminded the board of the previous decisions to re-bucket the fixed income portfolio, establish a well-defined core portfolio which will increase the portfolio's cash flow and reduce interest rate risk sensitivity. He explained changing managers would reduce risk and decrease fees.

Mr. Goodreau added that some of the changes to the portfolio amount to re-bucketing assets and do not represent fundamental change.

Mr. Fay added he is still happy with the Barclays Aggregate Index as a benchmark.

Mr. Costello asked how long the transition will take and Mr. Goodreau said that, once initiated, with his and his staff's work, a majority of the transition will not take long.

Mr. Emkin said a big reduction will be made in corporate credit and overall portfolio quality will improve. Mr. Goodreau added the current market presents a good opportunity to sell corporate credit, as there is liquidity.

Ms. Booth Gallogly asked how much will be allocated to each manager and Mr. Goodreau responded both firms will manage the same amount and that costs will be reduced to nearly 13bp from near 23bp, a near 50% reduction.

#### **IV. Global Inflation-Linked Bond Presentation - PCA**

Mr. Burns reminded the board about the discussion to expand Brown Brothers Harriman's mandate to include global inflation-linked bonds.

He explained after conducting further due diligence, PCA recommends the board extend the mandate with the firm. He added fees will stay the same even though this is typically a more expensive mandate.

Ms. Booth Gallogly asked about risk and if Greek and other risky bonds could be purchased.

Mr. Burns said the portfolio is investment grade only, and that even Italy may not be acceptable at this point in time.

Mr. Fay asked what the real return pick-up would be with this move, and Mr. Burns responded it would not be much, but that the managers could cast a wider net and be more opportunistic with purchases around the world.

Ms. Booth Gallogly asked if the prospect of additional return is minimal then would we take more risk. Mr. Burns explained the current market is unique and the changes would provide managers with the ability to cast a wider net when it proved opportunistic to do so.

Ms. Booth Gallogly restated it did not appear that there was much return for the risk that would be assumed and Mr. Emkin responded managers should be opportunistic and that global yields move in lock-step, anyway. He added if managers do not deliver value on a global basis, the mandate could easily be switched back to US only securities.

Ms. McNamara asked how much money the portfolio would be, and Mr. Goodreau responded that the portfolio is about \$385 million, or roughly 5% of the total portfolio. He pointed out the bigger question should be whether the fund should be in TIPS as a whole, saying that now the strategy is a capital allocation exercise. The only other place to go, he added, is up the risk spectrum.

## V. Real Estate Presentation - PCA

Mr. Glickman introduced himself and Ms. Sugar. He presented a draft investment policy to the committee. He went through examples of core and non-core real estate investments. He then explained the goals of real estate within the portfolio as a diversifier, an inflation hedge. PCA recommends between 70-85% of the real estate investment be attributed to core and between 15-30% be made in non-core, non-income producing investments. He explained leverage and how much the committee might be comfortable with.

Mr. Glickman explained, the core managers keep leverage levels around 25-30%, which means the occupancy of the building could decline to about 70% and still minimize default risk. He pointed out about 4% of the portfolio is invested in real estate with a target of 8%. He referenced the pacing plan to get to 8% over the next couple years. He explained how these investments meld with the rest of the portfolio and said the majority of these new investments should be made within the United States, because unlike global TIPS, real estate is not a liquid global market. PCA recommends dispersed investments across property types and geography within the United States. They also recommend allowing up to 20% of the real estate portfolio be invested in REITs and/or real estate debt as options. He explained why these should be included as options, explained the structure to committee members and explained both would be considered non-core.

Mr. Goodreau pointed out it is more important to have liquidity as we become more fully invested in real estate and products such as this give us flexibility in the event we want to strategically be below the 8% allocation.

Mr. Reilly asked how far off we are from the 80/20% and Ms. Sugar answered the portfolio is currently roughly 67% core. Mr. Reilly then asked how we would diversify by number of managers and Ms. Sugar recommended about 4 core managers and 4 non-core.

PCA took questions and concluded the presentation.

On a motion by Mr. Costello and seconded by Ms. Booth Gallogly, it was unanimously **VOTED: To approve the real estate investment policy.**

## VI. State Street Contract

On a motion by Ms. Booth Gallogly and seconded by Mr. Reilly, it was unanimously **VOTED: To extend the State Street contract one month or until the custodian transition occurs.**

## VII. Defined Contribution Plan Policy Statement

Mr. Dingley explained the policy was developed with TIAA-CREF and reviewed by PCA. Mr. Dingley and Mr. Raucci gave a brief update on the plan.

On a motion by Mr. Costello and seconded by Ms. Booth Gallogly, it was unanimously **VOTED: To approve the defined contribution policy statement.**

### **VIII. Legal Counsel Report**

There was no legal update.

### **IX. CIO Report**

There was no CIO update.

### **X. General Treasurer Report**

Ms. Tyrell, of State Street expressed her appreciation for the opportunity to work for the State. She reiterated her commitment to make sure the transition happens as smoothly as possible. Mr. Dingley pointed out we have received nothing but great service from Ms. Tyrell and thanked her and State Street.

### **XI. Adjournment**

There being no other business to come before the Board, on a motion by Ms. Reback and seconded by Ms. McNamara the meeting adjourned at 10:33 a.m.

Respectfully submitted,

**Gina M. Raimondo**  
General Treasurer