State Investment Commission

Monthly Meeting Minutes
Wednesday, November 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, November 28, 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. Robert Giudici, Ms. Paula McNamara, Ms. Marcia Reback, General Treasurer Gina Raimondo and Mr. Frank Karpinksi.
Also in attendance: Mr. Thomas Lynch of Cliffwater, Alternative Investment Consultant to the Commission; Mr. Allan Emkin and Ms. Judy Chambers, of Pension Consulting Alliance (PCA), General Policy Consultant to the Commission; Ms. Sally Dowling, of Adler Pollock, Legal Counsel to the Commission; Mr. Mark Sullivan, of Bank New York (BNY) Mellon, Custodian Bank to the Commission; Mr. Laurence Brown, Mr. Mark Fraser and Mr. Darren Lopes, of TIAA-CREF, D/C Plan Manager; Anne-Marie Fink, chief investment officer and members of the Governor's, Treasurer's and Auditor General's staff.

Treasurer Raimondo called the meeting to order at 9:03 a.m.

II. Approval of Minutes

On a motion by Mr. Giudici and seconded by Ms. Paula McNamara, it was unanimously
VOTED: To approve the draft of the minutes of the October 24, 2012 meeting of the State Investment Commission.

III. Infrastructure Education

Ms. Fink explained, when the board decided to take funds out of fixed income, 3% was designated for infrastructure which offers fixed income cash flow with higher yields, but with less liquidity.
Ms. Chambers described infrastructure as investing in essential assets in the community such as energy or utilities, telecommunications, transportation and social infrastructure such as hospitals or schools.
She explained infrastructure assets tend to have a lower correlation to public equities and bonds. These products also offer inflation protection and some underlying projects offer job creation opportunities.
Ms. Chambers explained different vehicles to look at including comingled funds, direct deals or co-investments. When starting a new program she recommends starting with comingled funds. She then described CALPERS, CALSTERS and OMERS robust infrastructure programs.

Ms. Chambers explained public-private partnerships (PPPs.)
Mr. Costello asked which part of the return is from asset appreciation and which is from cash flow and Ms. Chambers confirmed almost all is from cash flow. He then asked about the legal structure and MLPs.
Mr. Giudici asked about liquidity issues and Mr. Emkin explained that due to some illiquidity the fund will get a “liquidity premium.” He explained these types of investments are uniquely suited for pension plans.
Ms. Fink pointed out it is only 3% of the portfolio and the low-volatility cash flows help absorb some of the liquidity risk.
Mr. Giudici asked about the probability of returns and Ms. Chambers explained the portfolio would invest in less economically sensitive assets.
Ms. Reback asked if this includes privatizing public entities. Ms. Chambers said yes, in PPPs there can be, but it is not privatizing because the government still owns the entity and oversees the assets.
Ms. Reback asked about union representation and Mr. Emkin explained all of their clients using this asset have a policy preventing outsourcing of jobs and the vendors are sensitive to labor issues. Mr. Emkin encouraged the board to make this part of their policies.
Ms. Chambers discussed the risk-adjusted returns of different infrastructure asset classes.
Ms. Fink discussed potential energy efficiency projects.
Mr. Costello mentioned our rate of return and Ms. Fink agreed that it doesn’t make sense unless we hit our 7.5% plus a margin of safety.
Mr. Emkin pointed out it is a very specialized, but global field.
Treasurer Raimondo concluded next meeting the board will vote on draft policy statements and then the RFP should go out at the end of the year.
Mr. Emkin briefly reviewed the monthly risk metrics presentation.

IV. Custodian Transition Update

Treasurer Raimondo said the transition is complete, it happened on time and the savings are over $200,000 per year.
Mr. Sullivan introduced himself. He pointed out they are the biggest global custodian with 181 public clients investing over $1.8 trillion in assets. They are considered one of the highest rated financial institutions in the country with a very liquid balance sheet.
He reviewed the client team, the structure and their individual background.
He explained the process and weekly meetings with Treasury staff. He explained the first close after transition takes a bit longer because of reconciliation and laid out the ongoing timeline for reporting.
He explained BNY has visited on-site and had several WebExs to train staff and they will continue these efforts.
Ms. Fink lauded their reporting technology and said there will be improvements in the next couple months.

V. D/C Plan Update

Mr. Lopes reviewed the plan by assets and stated as of Monday, November 26 the total plan assets were $38 million. He explained about 93% of participants are in the lifecycle funds.
Ms. Gallogly asks how fast the portfolio grows monthly with the teachers in the plan and Mr. Lopes states $9.4-$9.5 million. He said infusion of capital tapers off in June or July and yearly it is about $100 million per year.
Mr. Lopes described the approximately 30,000 participants by age with the average age of 47. He explained people are starting to pay more attention to the plan as balances grow and as they become aware the $8 quarterly fee. To-date there have been 169 one-on-one conversations and they would like to see that rise because they now have 4 full-time investment professionals in the new Providence office. Mr. Lopes also reviewed phone calls and website visit metrics as well as general service and advice data.
Ms. Booth Gallogly asked if there has been any feedback on the lineup in general and Mr. Lopes said they are satisfied with the very low costs compared to the universe.
Mr. Brown reviewed the breadth of the investment lineup. He pointed out that as fiduciaries the board must look at fees, performance and risk. He reviewed each investment product through these lenses compared to benchmark and peers. He pointed out the board has offered participants an extraordinarily low cost menu. He reviewed each individual funds performance. He said risk metrics are in line, and maybe a little above other peers.
Ms. Fink pointed out our Sharpe ratios are better than our peers in the target date funds.
Mr. Brown reviewed the recent Vanguard announcement and explained they are changing the underlying indices against which their index funds are measured. Vanguard is eliminating all MSCI indices and moving to FTSC for international and the CRSP for domestic. Mr. Brown explained Vanguard is switching to make it more cost effective, because they pay for the license to use their indexes.
He concluded saying this is one of the most cost-effective straightforward plans he has seen.

VI. Legal Counsel Report

There was no legal update.

VII. CIO Report

Ms. Fink explained in October the plan was down 13 bps, beating the policy index and this positively illustrated the board's initiatives the past year to diversify risk. She pointed out the move to diversify equity more globally also helped this month. She pointed out the managers who were able to create significant alpha in October and reviewed the performance of each asset class. She then reviewed performance through the lens of fiscal year-to-date.
Ms. Fink said the board was correct to worry about the market from October 10-15 because it sold off 5%. She believes it was also correct to not put on a portfolio hedge because it would only be cost-effective if the market fell 12%.
Ms. Fink explained her review of LIBOR exposure and had almost none except for a de minimus amount in fixed income. On the cash side there was also no exposure.
Ms. Fink touched on hedge fund oversight and reporting and Treasurer Raimondo thanked Cliffwater for their efforts.

Ms. Fink expressed concerns about Wexford and described why the plan elected not to use the side-pocket. She explained most-likely the reason they are requesting a side-pocket is because they are receiving a lot of redemptions and this concerns her.
Ms. Fink then discussed asset allocation with regard to the fixed income transition as well as the recent RFP. She touched on infrastructure and also said PCA will present on real estate in December.

VIII. Treasurer's Report

Treasurer Raimondo asked the board to move the December 26th meeting to December 19th and the board agreed.
Treasurer Raimondo thanked Mr. Goodreau for his two years of service under her administration and listed his high-level accomplishments. The board applauded his efforts. Mr. Goodreau thanked the board, Treasury staff and said the portfolio is in good hands with Ms. Fink.

IX. Adjournment

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

Respectfully submitted,

Gina M. Raimondo
General Treasurer