



State Investment Commission
Monthly Meeting Minutes
Wednesday, October 22, 2014
9:00 a.m.
Room 205, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:04 a.m., Wednesday, October 22, 2014 in Room 205, State House.

I. Roll Call of Members

The following members were present: Mr. J. Michael Costello, Mr. Thomas Fay, Mr. Robert Giudici, Ms. Faith LaSalle, Ms. Paula McNamara, Mr. Thomas Mullaney, Ms. Marcia Reback, Mr. Andrew Reilly, Mr. Frank Karpinski, and General Treasurer Gina Raimondo. Also in attendance: Mr. Joe Bill Wiley and Ms. Tiffany Spudich of Capital Cities; Mr. Thomas Lynch of Cliffwater, alternative investment consultant; Mr. Kosmo Kalliareko of Baring Private Equity Asia; Mr. John Burns, Mr. Alan Emkin and Mr. David Glickman of Pension Consulting Alliance (PCA), general and real estate consultants; Ms. Sally Dowling of Adler Pollock & Sheehan P.C., legal counsel; Ms. Gail Mance-Rios of Rhode Island Higher Education Assistance Authority (RIHEAA); Ms. Anne-Marie Fink, chief investment officer, and members of the Treasurer's staff.

II. Approval of Minutes

On a motion by Mr. Fay and seconded by Mr. Mullaney, it was unanimously **VOTED: to approve the draft of the minutes of the September 24, 2014 meeting of the State Investment Commission.**

III. 529 Consultant Recommendation

Ms. Fink said the RFP process for 529 investment consultant was successful. She introduced Capital Cities as the recommended consultant.

Mr. Wiley gave a brief review of the firm. Their sole focus is the institutional, tax-exempt marketplace. They are completely independent and evaluate investments from a third-party perspective. They focus clients on customized solutions.

They work with 30 clients and are a full-service firm. They provide a full spectrum of services that an investing consulting firm would provide. Their main goal is to fulfill fiduciary obligations and exceed client expectations.

Ms. Spudich gave an overview of their current clients, particularly their other 529 clients, and what the firm has accomplished with them.

Mr. Wiley added that they are continually working behind the scenes for their clients.

The board asked questions.

Ms. Fink noted that the current program manager AllianceBernstein has to be notified in 2015 whether their contract will be terminated or renewed. In the event that an RFP process is initiated, the consultant would be able to conduct a more complete process. She added that the state does not have sufficient staff resources to do such a process justice.

Mr. Wiley and Ms. Spudich left the room.

The board discussed the recommendation.

On a motion by Mr. Costello and seconded by Ms. Reback, it was unanimously
VOTED: to approve Capital Cities as investment consultant to the 529 plan, for a term of no less than one year subject to contract negotiations.

IV. Private Equity Recommendation—The Baring Asia Private Equity Fund VI

Mr. Kalliarekos introduced the firm and explained they have seven offices throughout Asia. They have had 71 historical portfolio companies and several successful IPOs. They have a seventeen year track record through several local and global business cycles. Their past funds have consistently been top quartile performers.

He gave a brief overview of their strategy. He reviewed their performance. He said their realized and unrealized performance is significantly higher than the S&P 500 or the Asian equity index. Their main measure of success is distributions to their limited partners.

He reviewed the presence of the firm in Asia and went on to review the team. The firm is a global, Asian-focused organization bringing us institutional-oriented culture to investing in Asia.

He noted that they don't have a top-down allocation. They focus on regions where there are opportunities. He added that their investments are fairly well distributed across ASIA Pacific including South Asia, which is often underrepresented in Asian funds. As far as investment types, they are balanced between minority, growth and buyouts.

He went on to review the terms for the current fund.

The board asked questions.

Mr. Kallariekos left the room.

Mr. Lynch explained how this fund fits into the overall private equity strategy. He said allocation to non-US in the private equity portfolio is approximately 23%, but the exposure to Asia is only 3%. This allocation would increase diversification internationally. Cliffwater believes Baring is a top-tier firm that should continue to produce top-tier results. He recommended a \$30 million investment. The board discussed.

On a motion by Mr. Reilly and seconded by Mr. Mullaney, it was unanimously
VOTED: to approve a \$30 million investment in the Baring Asia Private Equity Fund VI.

V. Real Estate Investment Trust (REIT) Briefing

Mr. Glickman explained the structure of Real Estate Investment Trusts (REITs). REITs are corporations or trusts that are taxed like partnerships rather than corporations.

The underlying business of REITs is very similar to open-end core private real estate funds in the portfolio. The investments are not developmental or value-add assets. REITs would be another way to participate in lower-risk real estate that provides diversification from equities and other fixed income securities. It also allows for current income and the prospect for appreciation.

Mr. Glickman explained that there are periods of time when REITs performance will behave like small and mid-cap stocks. Those tend to be shorter periods of time. Beyond two or three years, REITs will perform more like the benchmark index of real estate holdings.

He added that parts of the real estate market are dominated by REITs, which ERSRI would not have access to by only investing in private real estate. The portfolio also would not have access to management teams who are highly skilled and whose interests are highly aligned with performance. He added that the broad REITs index is fairly priced. He reviewed the pricing process of REITs nationally and globally.

He said that though there is more volatility with REITs, it is worth the risk to achieve less correlated returns. He said it is reasonable to include some REITs in the portfolio along with private real estate. He noted that the portfolio has been consistently underinvested to the target in real estate. He said the board may want to consider putting the money in the REITs to get real estate exposure quickly, and liquidate the REITs as private real estate commitments are called. He said this is one way to get closer to the target asset allocation. He said another possibility is to make a dedicated investment to a passive index. The third possibility is to invest in an active manager who could add some extra return and reduce risk.

The board asked questions.

Ms. Fink asked for direction from the board as to how to proceed with REITs. She asked if the board would want to accelerate reaching the target allocation to real estate with a more volatile asset. Treasurer Raimondo suggested the board continue to consider this option and present it to the incoming treasurer in the beginning of next year.

Mr. Emkin suggested that PCA present a concrete recommendation to the board at a later meeting.

VI. MLP Briefing Part 2

This presentation was postponed.

VII. Legal Counsel Report

There was no legal counsel report.

VIII. CIO Report

Ms. Fink reviewed the performance of the portfolio and each asset class. In September, the portfolio fell 1.8%, but outperformed the 60/40 benchmark which was down 2.2%. She noted that over the last three years, the portfolio is up 11.9% with 6.3% risk compared to the 60/40 up 10.9% with 7.3% risk.

The overweight to equities was the biggest detractor for the month. The best performers were the absolute return hedge funds, which were up 1.2%. The equity hedge funds were up 0.5%.

She informed the board that staff and consultants are assessing the situation at PIMCO as the founder has left the firm. Staff has been spending time determining the impact this will have on investments. She noted the largest exposure to the manager, the \$200M in loans and short dated high yield, was not managed by the individual who left. She also noted other portfolios have limited exposure to PIMCO. They will continue to monitor the situation to determine if any changes are warranted.

IX. Treasurer Report

Treasurer Raimondo thanked the Board and commended them for their continued work.

There being no other business to come before the Board, on a motion by Mr. Costello and seconded by Mr. Mullaney the meeting adjourned at 11:09 a.m.

Respectfully submitted,

Gina M. Raimondo
General Treasurer