



State Investment Commission
Monthly Meeting Minutes
Wednesday, November 19, 2014
9:00 a.m.
Room 205, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:00 a.m., Wednesday, November 19, 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, and Mr. Mark Dingley as designee for General Treasurer Gina Raimondo.

Also in attendance: Ms. Jennifer Delong, Mr. Christopher Nikolich and Ms. Patricia Roberts of AllianceBernstein, 529 fund manager for the State; Mr. John Burns, Ms. Judy Chambers and Mr. Alan Emkin of Pension Consulting Alliance (PCA), general consultant; Mr. Anthony Sibia of Neuberger Berman; Mr. Larry Brown, Mr. Darren Lopes and Mr. David Iden TIAA-CREF, defined contribution plan administrator; Mr. Thomas Lynch of Cliffwater, alternative investment consultant; Ms. Sally Dowling of Adler Pollock & Sheehan P.C., legal counsel; Ms. Gail Mance-Rios of Rhode Island Higher Education Assistance Authority (RIHEAA); Gregory Balewicz of State Street Global Advisors, index manager; Kerri Hepburn of Invesco, Ms. Anne-Marie Fink, chief investment officer, and members of the Treasurer's staff.

Ms. Marcia Reback and Mr. Andrew Reilly were absent. Ms. Paula McNamara and Mr. Frank Karpinski arrived at 9:01 a.m. Mr. J. Michael Costello left at 9:58 a.m.

II. Approval of Minutes

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

VOTED: to approve the draft of the minutes of the October 22, 2014 meeting of the State Investment Commission.

Ms. McNamara was not present for this vote.

A motion was then made by Mr. Mullaney and seconded by Mr. Fay, and it was unanimously

VOTED: to move the Treasurer Report to second on the agenda

Ms. McNamara was not present for this vote.

III. Treasurer Report

Mr. Dingley said that due to scheduling conflicts the December SIC Meeting would need to be rescheduled to Tuesday, December 16, 2014 at 2 p.m.

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

VOTED: to reschedule the SIC meeting to Tuesday, December 16, 2014 at 2 pm.

IV. CollegeBoundfund Review

Ms. Roberts reviewed the changes made in the plan over the last year. She gave an overview of the current statistics of the plan. The plan remains one of the largest advisor-sold programs in the nation.

Mr. Nikolich reviewed the performance of the plan as of September 30, 2014. He noted that performance versus peers gets progressively better. The fact that the plan is well-diversified has contributed to some relative underperformance in the short-term. He gave an overview of the different portfolio options. He reviewed how the plan compares to competitor plans over the long-term. The board asked questions.

V. CollegeBound*baby* Account Default Option

Mr. Mark Rhoads, of the Treasurer's Office, gave a brief overview of the CollegeBound*baby* program. Under the program, Rhode Island families who open an account receive a \$100 start-up grant. This is part of the current contract with AllianceBernstein and funds have been allocated specifically for these grants. He said RIHEAA along the Treasurer's Office have worked on a more streamlined for parents to sign up for the grant as part of filling out forms at the hospital after a child is born. The funds will be held by RIHEAA in an escrow account that will need to be invested. The Treasurer's Office recommended the funds be invested in the Morningstar glide path, which is a low-fee option with competitive performance. He asked the SIC for approval of this investment selection. The board asked questions and discussed.

On a motion by Mr. Mullaney and seconded by Mr. Fay, it was unanimously
VOTED: to approve the Morningstar Age-Based Glide Path as the default investment option for the RIHEAA CollegeBound*baby* program.

VI. MLP Briefing Part 2

Ms. Chambers introduced Mr. Sibiliala, a research analyst, to give an overview of the Master Limited Partnership (MLP) sector.

Mr. Sibiliala said in general, the market believes that the outlook for MLPs is very robust. He reviewed the growth and performance of MLPs.

He noted that the best MLPs are midstream pipelines with guaranteed contracted projects. Ms. Chambers said Rhode Island will be focusing more on the midstream MLPs because there is a more favorable risk-reward balance.

Mr. Sibiliala agreed with this strategy. He went on to review how MLPs work. One benefit of MLPs is of their growing backlogs of projects mean they are able to consistently grow their annual distributions.

He reviewed the current yield of MLPs. He noted that distributions have grown well ahead of inflation.

Historically the dividend yield has been around 7%. The average return has been about 7.14%

He went on to review the risks of MLPs. A capital market crisis is the biggest long-term risk. Another big risk would be changes to the tax status of MLPs. As far as regulatory risks, some MLPs have regulated assets and have seen that the regulated rates have fallen as interest rates have come down.

He explained the structure of MLPs and how distributions are made. He noted that the backlog of new projects and the spending outlook are robust.

The board asked questions.

Ms. Fink added that she believes this is a growth opportunity. She noted there will be volatility because they are publicly traded assets. As long as SIC is comfortable with the volatility, she recommends moving forward.

Ms. Chambers said she and staff finalized the RFP process for MLPs and are planning to bring an MLP manager for approval to the next meeting.

VII. Defined Contribution Plan—Quarterly Update

Mr. Lopes reviewed the engagement metrics of the plan. As of September 30, there was \$290 million in assets. He said most of the assets are in Vanguard target-date funds. Account balances continue to trend upwards.

He went on to review the FICA alternative plan. As of September 30, there was \$265,000 in the plan. Account balances are small.

Mr. Brown reviewed the performance of the plan as of September 30. All the portfolios sit atop their respective benchmarks. He reviewed the peer group ranking for all the options. All the options are in the top half of their respective peer groups with one exception being the bond index.

Mr. Brown said the S&P 500 Index in the Admiral Share class moved to the institutional level. That generated a decrease in fees from 0.05% to 0.04% and is reflected in performance.

VIII. Hedge Fund Portfolio Review

Mr. Lynch said the hedge fund portfolio continues to work as intended. The strategic purpose of the hedge fund allocation is to improve the overall ratio of return to risk in the portfolio. He reviewed the current structure of the hedge fund portfolio and the different sub-strategies.

He reviewed the performance through September 30. All allocations exceeded their respective benchmarks. Since inception, the portfolios have outperformed the HFRI Index with a return of 7.53% versus 5.05% for the benchmark. They have also produced that return at a better ratio of return to risk than the benchmark. The equity hedge fund portfolio produced a return of 9.03% and the real return hedge fund portfolio produced 5.74% return. Both allocations outperformed their respective benchmarks at a better ratio of return to risk. He went on to review the alpha, beta and risk-free rate components of return for each allocation. The board asked questions.

A motion was then made by Mr. Mullaney and seconded by Ms. McNamara to convene into executive session pursuant to Rhode Island General Law §42-46-5 (a) (7) as the discussion may relate to the investment of public funds, the premature disclosure of which may adversely affect the public interest. A roll call vote was taken to enter executive session and the following members were present and voted Yea: Mr. Thomas Fay, Mr. Robert Giudici, Ms. Faith Lasalle, Ms. Paula McNamara, Mr. Thomas Mullaney, and Mr. Mark Dingley

It was then unanimously

VOTED: To convene into executive session pursuant to Rhode Island General Law §42-46-5 (a) (7) as the discussion may relate to the investment of public funds, the premature disclosure of which may adversely affect the public interest.

On a motion made by Mr. Mullaney and seconded by Mr. Fay, to exit executive session pursuant to Rhode Island General Law §42-46-5 (a) (7). A roll call vote was taken and it was unanimously

VOTED: To exit executive session and return to open session.

It was reported to the public that one vote was taken, and a vote to seal the minutes pursuant to Rhode Island General Law §42-46-5 (a) (7).

Mr. Costello was not present for these votes.

IX. Private Equity Portfolio Review

Mr. Lynch reviewed the performance of the Private Equity Portfolio as of June 30, 2014. The portfolio has an annualized net IRR of 13.9% since inception.

He summarized the commitments made over the past year. Strategically, the plan has been to increase geographic diversification with exposure to Asia and do more smaller-oriented buy-out funds.

He notified the board that the previously approved commitment to Bearings Asia was reduced to by the firm to \$15 million instead of \$30 million due to oversubscription. He recommended that the investment for \$15 million should still be made because they are a quality manager and the allocation would provide more exposure to Asia.

He went on to review the performance of the portfolio by vintage year. For the most part the portfolio has outperformed the benchmark. He talked about the positive and negative drivers of performance. He reviewed distribution and contribution activity. He noted that there is a high volume of distributions from older funds. He said the portfolio is well diversified by fund and by manager as well as by economic sector.

X. Addition to List of Short-Term Investment Providers: Customers Bank

Mr. Izzo said there is an opportunity for short-term investments with Customer's Bank. Customer's Bank meets all the criteria in the investment policy. They have offered three different investment products: CDARs, image cash sweep accounts, and guaranteed overnight deposit. They are offering rates of 0.50%. The investments would be fully collateralized.

He then asked the board for approval to add Customer's Bank to the short-term investment line-up.

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

VOTED: to approve the addition of Customer's Bank to the short-term investment line-up.

Mr. Costello was not present for this vote.

XI. Legal Counsel Report

Mr. Dingley updated the board on a securities class action lawsuit against British Petroleum. He said Rhode Island has agreed to be lead plaintiff, because the court had adjusted the timeframe, which excluded the previous lead plaintiff. There are no expenses to Rhode Island on this action.

Ms. Malone gave an update on the Royal Bank of Scotland foreign securities action. The estimated trial date is 2015 and the plaintiffs' counsel believes their position has strengthened. There is no liability at this point to Rhode Island with respect to the litigation.

XII. CIO Report

Ms. Fink reviewed the performance of the portfolio and the market environment for the month of October. The portfolio was up 0.5% which was better than the bottom-up benchmark. The portfolio is performing as expected on a long-term basis, performing in line with the benchmark and better than the 60/40 and with less risk than both. She reviewed the performance by asset class.

She noted that there was a change in the fees with PIMCO. Given the portfolio's recent underwhelming performance staff has negotiated a reduction in fees. The fees will go from 0.43% to a new structure that is 0.25% plus 25% of their outperformance relative to an index.

There being no other business to come before the Board, on a motion by Mr. Mullaney and seconded by Mr. Fay the meeting adjourned at 11:17 a.m.

Respectfully submitted,



Gina M. Raimondo
General Treasurer