



State Investment Commission
Monthly Meeting Minutes
Tuesday, December 16, 2014
2:00 p.m.
Room 205, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 2:03 p.m., Tuesday, December 16, 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, Mr. Thomas Mullaney, Ms. Marcia Reback, Mr. Andrew Reilly, Mr. Frank Karpinski and Governor-Elect Gina Raimondo.

Also in attendance: Mr. Thomas Lynch of Cliffwater, alternative investment consultant; Mr. Chuck Bauer and Mr. Doug Swanson of EnCap Energy Capital; Mr. Dexter Paine and Ms. Natasha Sunderam of Paine & Partners, LP; Mr. John Burns and Ms. Judy Chambers of Pension Consulting Alliance (PCA), general consultant; Mr. Eric Conklin and Mr. Anthony Merhige of Harvest Fund Advisors, LLC; Mr. Andreas Moon and Mr. Adil Rahmathulla of ISQ Global Infrastructure Fund, LP; Ms. Sally Dowling of Adler Pollock & Sheehan P.C., legal counsel; Mr. Gregory Balewicz of State Street Global Advisors, index manager; Mr. Seth Magaziner, Rhode Island Treasurer-Elect; Mr. Jeffrey Padwa, General Counsel to Treasurer-Elect Magaziner; Mr. Robert Bromley, of the Senate Fiscal Office; Ms. Anne-Marie Fink, chief investment officer, and members of the Treasurer's staff.

Ms. Paula McNamara was absent.

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 November 19, 2014 meeting of the State Investment Commission.

III. Private Equity Recommendations—EnCap Energy Capital Fund X & Paine & Partners Food and Agribusiness Fund IV

Mr. Lynch introduced EnCap Energy Capital, a firm that focuses on upstream energy investments.

Mr. Bauer gave an overview of the firm. He said over the course of their 26-year history they have raised a combination of 18 funds. He said ERSRI has invested in their prior Fund IX.

Mr. Doug Swanson reviewed the performance of their previous funds. EnCap has had very consistent returns across their funds. The team focuses on capital preservation and have a very limited loss history.

He reviewed the fund being raised and their strategy. He noted that managing risk is critically important.

They maintain a very limited use of leverage in their portfolio companies. They have the ability to start small and grow organically. He said with oil prices declining, they currently see tremendous opportunity to invest.

The board asked questions.

Mr. Bauer and Mr. Swanson left the room.

Mr. Lynch added that Cliffwater recommends 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 EnCap Energy Capital Fund X.

Ms. Reback wanted the record to reflect that she voted yes with the representation they are good stewards and follow environmental best practices.

Then Ms. Fink introduced the next fund by noting changes happening in the agricultural sector. Demand for agricultural products is rising, leading to investments in research and technological breakthroughs in the space.

She introduced Paine & Partners and said they have deep expertise in the agricultural sector. Their strategy is to invest in profitable companies and to capitalize on the changes affecting the sector. They are one of, if not the only, private equity fund specializing in the agricultural space or “farm to fork” as they call it.

Mr. Paine gave an overview of the firm. They are the leaders investing in the food and agricultural space. He noted that it is a very high growth area.

He described their personnel structure. He went on to review some of their previous investment funds. Since 2010, they have been exclusively focused on the agricultural space and have provided more returns in this area than any other firm. Fund IV will be the largest fund in the space and the only one to make investments exclusively in food and agricultural business.

He reviewed some of the investments they have made in the agricultural sector. They have invested in excess of \$1 billion and have no realized losses.

He gave an outlook for the industry. He went on to review the terms of Fund IV.

The board asked questions.

Paine & Partners left the room.

Mr. Lynch explained that the recommendation for investment is up to \$30 million. He noted that the fund is oversubscribed so it's not certain how much they will take.

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

VOTED: to approve an investment of up to \$30 million in Paine & Partners Fund IV.

Ms. Reback voted nay.

IV. Master Limited Partnership Manager—Harvest Fund Advisors LLC

Ms. Chambers introduced the proposed MLP manager identified by responses to the RFP issued by the Treasurer's office. She said Harvest is a firm that focuses on mid-stream energy infrastructure.

Mr. Merhige gave an overview of the firm. They currently manage over \$7 billion exclusively for institutions in public-market infrastructure equities. He briefly reviewed some of their clients and gave an overview of the team.

Mr. Conklin reviewed the portfolio and the opportunity in the market. He noted MLPs have a tremendous growth rate due to the lack of energy infrastructure in the country. He noted there is relatively lower correlation among MLPs and other asset classes, which increases returns and lowers overall risk when MLPs are added to a broader portfolio.

He reviewed what they're seeing in terms of production growth. He went on to talk about Harvest's investment process. They populate models with best-in-class data and seek the best risk-adjusted returns. He gave some insight into the overall portfolio. They are able to achieve high growth rates because they invest in companies that have the best growth profiles.

Mr. Merhige reviewed the terms of the fund.

The board asked questions.

Harvest left the room.

Ms. Fink noted that there is a 2% allocation to MLPs in the pension fund's strategy allocation that has not been fulfilled. She mentioned this may be a good time to invest in MLPs because of the recent disruption in the energy markets.

The board discussed.

Some members of the board expressed concern over investing the entire 2% allocation into one manager.

Mr. Burns noted that these are publically traded equities and there is limited manager risk.

Mr. Costello said he would be more comfortable if the allocation was not given to the manager all at once but rather over the course of the year.

The board discussed the options for investing over a one-year period.

The board invited the firm back into the room to share their concerns and get their input.

Mr. Conklin said right now there is a good dislocation and tax considerations keep many from investing in MLPs at the end of the calendar year. His preference would be to try to capture as much of the dislocation as soon as possible. He believed it was a very good time and a rare year in that there are a lot of MLPs that are down.

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

VOTED: to commit \$160 million to Harvest Fund Advisors with up to \$80 million upfront and the rest at the manager's discretion over the course of one year and with the fee locked in based on the total commitment amount.

V. ISQ Global Infrastructure Fund, L.P.

Ms. Chambers introduced ISQ, a private infrastructure firm focused on investing in global assets. She noted that they have a great management process in place.

Mr. Rahmathulla gave an overview of the firm. They invest in energy, utilities and transportation assets in North America, Europe and Asia.

He said two critical elements to their strategy are downside protection and value creation. They focus on operations and policy considerations. They look for investments to add explicit or implicit linkage to inflation.

He said to date they have made 8 investments and have deployed over \$700 million in their current fund. He gave an overview of the team.

He talked about their overall track record. Over the team's history they have invested about \$14 billion in 21 investments and their experience has been truly global. He reviewed their risk model.

He gave a summary of the fund's current portfolio. Their target is to have 80% in US assets and 20% invested across India and China. He gave some examples of their investments.

In terms of opportunistic investments in India and China, they only make investments in which the risk-adjusted returns are higher than what they see in the US. They don't venture into large investments in these geographies.

Mr. Moon talked about the terms of the fund and the fee structure.

The board asked questions.

ISQ left the room.

The board discussed.

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

VOTED: to approve a \$50 million investment in ISQ Global Infrastructure Fund L.P.

VI. Legal Counsel Report

There was no legal counsel report.

VII. CIO Report

Ms. Fink said that the redemption for Mason Capital has been submitted and ERSRI will be out as of December 31, 2014. ERSRI also declined to roll over its investment in Perseus, a 2006 private equity fund. The firm's CEO passed away and investors were given an opportunity to either exit the fund or to invest in a new recapitalized fund for an additional eight years.

Ms. Fink went on to review the performance for the month of November. The portfolio was up 1% and 0.6% fiscal year-to-date. She reviewed the performance of each asset class. Hedge funds returned 1.3% in line with the 60/40. Since inception, the hedge funds have returned 7.4% which is 0.2% better than the 60/40. She said the overall portfolio has strong returns with less volatility than the benchmark and the 60/40 over the 3 and 5 year time frame.

Ms. Fink reviewed the performance of the portfolio for the last 3 years and 11 months or the term of the current administration. The portfolio has averaged 8.4% annual gain which compared to 8.3% for the bottom-up benchmark and 7.2% for the 60/40 basic allocation.

VIII. Treasurer Report

Governor-Elect Raimondo thanked the board for the last four years. She commended the board for all their work and contributions to the board.

There being no other business to come before the Board, on a motion by Ms. Reback and seconded by Mr. Mullaney the meeting adjourned at 4:27 p.m.

Respectfully submitted,

Gina M. Raimondo
Governor-Elect