



State Investment Commission
Monthly Meeting Minutes
Wednesday, February 25, 2015
9:00 a.m.
Room 205, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:11 a.m., Wednesday, February 25, 2015 in Room 205, State House.

I. Roll Call of Members

The following members were present: Mr. J. Michael Costello, Mr. Robert Giudici, Ms. Faith LaSalle, Mr. Thomas Mullaney, Ms. Marcia Reback, Mr. Andrew Reilly, Mr. Frank Karpinski and Treasurer Seth Magaziner.

Also in attendance: Mr. Thomas Lynch of Cliffwater, alternative investment consultant; Mr. John Burns and Mr. Alan Emkin of Pension Consulting Alliance (PCA), general consultant; Mr. David Iden and Mr. Lawrence Brown of TIAA-CREF; Mr. Joe Bill Wiley and Ms. Tiffany Spudich of Capital Cities, 529 plan consultant; Mr. Jeff Schoenfeld and Mr. John Ackler of Brown Brothers; Ms. Gail Mance-Rios of RIHEAA; Ms. Patricia Roberts and Mr. Vadim Zlotnikov of AllianceBernstein; Mr. Roland Reynolds of Industry Ventures; Ms. Sally Dowling of Adler Pollock & Sheehan P.C., legal counsel; Mr. Gregory Balewicz of State Street Global Advisors, index manager; Ms. Maura Martinelli of Nixon Peabody; Mr. Jeffrey Padwa, General Counsel to Treasurer Magaziner; Ms. Anne-Marie Fink, chief investment officer, and members of the Treasurer's staff. Treasurer Magaziner called the meeting to order at 9:11 a.m. Mr. Thomas Fay was absent. Mr. Giudici arrived at 9:17am. Mr. Mullaney departed at 10:30 and Ms. LaSalle departed at 11:45.

II. Treasurer Report

Treasurer Magaziner welcomed the board to the first meeting of 2015. He reminded members that the work of the commission is important to Rhode Islanders.

Treasurer Magaziner introduced treasury staff to the commission members. He then explained that he is excited to begin working with the commission and turned to the approval of minutes from December 2014.

III. Approval of Minutes

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

VOTED: to approve the draft of the minutes of the December 16, 2014 meeting of the State Investment Commission.

Mr. Giudici was not in attendance for this vote.

IV. Defined Contribution Plan – Quarterly Report

Ms. Fink introduced Mr. Brown and Mr. Iden of TIAA-CREF. She explained that Mr. Iden would be replacing Mr. Darren Lopes in his former role.

Mr. Iden explained that as of December 31, 2014 there was approximately \$338m in assets combined in the 401(a) and FICA plans. Mr. Iden noted that a majority of these assets are in Vanguard target-date funds. Account balances are trending upwards.

Mr. Iden provided an overview of participant engagement efforts. 707 individual counseling sessions were offered in 2014.

Ms. Reback asked why there was a difference in offered sessions among counselors. Mr. Iden explained that some staff members provided sessions for longer periods during the year.

Treasurer Magaziner asked how TIAA-CREF initiates contact with participants to schedule counseling sessions. Mr. Iden explained that staff will plan a site visit and use email and other communication to encourage individuals to sign up for a session on that date.

Mr. Brown reviewed the performance of the plan as of December 31, 2014. 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 international index.

Mr. Costello asked about the similar rates of return on Vanguard 2020-2060 target date real estate funds. Mr. Brown and Ms. Fink explained that differences in domestic and international real estate returns resulted in similar expected returns.

Mr. Reilly asked if the total number of participants and the average account balance were in line with initial expectations. Mr. Iden and Ms. Fink agreed that the plan has met expectations.

V. 529 Plan Review – Capital Cities

Treasurer Magaziner introduced Mr. Wiley and Ms. Spudich of Capital Cities, the consultant reviewing AllianceBernstein.

Mr. Wiley began by noting that the 529 Collegeboundfund provides a comprehensive menu of investment choices. He noted that a majority of the individual funds perform well at an individual and peer group basis.

A fee assessment found some funds that were eligible for fee reductions by moving into new share classes. These changes have been implemented and will result in a cost savings of \$270,000 to participants.

Ms. Spudich provided an overview of the individual funds provided in the portfolio. She also compared the various investment options available to participants, which Capital Cities approved of. Ms. Spudich noted that the plan's quarterly updates to the age-based glide paths are a good benefit for participants.

Mr. Wiley concluded by reviewing management fees within the plan. He described the 529 program fees as similar to national averages. A draft Investment Policy Statement was provided to members by Capital Cities.

Mr. Costello asked if Morningstar's rating of the 529 has changed. Ms. Spudich explained that because the plan now utilizes a Morningstar index, the group would no longer be rating the Collegeboundfund. Treasurer Magaziner asked why past Morningstar analyses were negative. Ms. Spudich said she could not speak to ratings made previously, but that a number of recent positive changes were made by the Commission that could have altered Morningstar's future ratings.

Ms. LaSalle asked how many other plans are not ranked due to Morningstar index use. Ms. Spudich explained that no other states encounter this; Rhode Island is the only state currently using the Morningstar index.

Mr. Costello asked how advisors sell the Collegeboundfund product. Ms. Spudich noted that advisors have a strong relationship with AllianceBernstein. Ms. Roberts added that advisors know the needs of their clients best, and have a strong understanding of the product.

Treasurer Magaziner has asked if there has been any analysis of state-to-state comparisons by year.

Ms. Roberts has noted that the plan has performed well compared to other states according to AllianceBernstein analysis. Because an independent comparison has not been made, Ms. Fink suggested that Capital Cities conduct a review of performance compared to other states.

Treasurer Magaziner asked why AllianceBernstein was not aware of the cheaper share classes sooner, and proposed looking at whether participants could be reimbursed for this period. Mr. Zlotnikov

explained that the delay was unacceptable and that measures have been put in place to make future changes immediate. AllianceBernstein is examining a potential process for reimbursing participants.

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

VOTED: to approve moving multiple Collegebound fund share classes into the cheaper Z share class.

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

VOTED: to approve discontinuing the small-cap growth fund and map those assets into the discovery growth fund.

VI. Recommendation on Inflation-Linked Bonds

Ms. Fink introduced Mr. Schoenfeld and Mr. Ackler of Brown Brothers. Mr. Schoenfeld provided an overview of the firm and its activities. Mr. Ackler described recent state performance since a more international focus was implemented in 2012.

Mr. Schoenfeld explained that with recent developments in Europe, Brown Brothers considers the U.S. TIPS market to be a better value for clients today.

Treasurer Magaziner asked how quickly Brown Brothers could move into a more domestic focused plan. Mr. Schoenfeld explained that it could be done quickly – as soon as one or two days.

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

VOTED: to approve moving from a global inflation-linked index to a U.S. intermediate TIPS index.

VII. Hedge Fund Review – Samlyn & BlueCrest

Treasurer Magaziner asked Ms. Dowling to review the requirements and practices of entering executive session. Treasurer Magaziner noted that he would like the commission to discuss topics in open session unless it is clear that executive session is necessary.

Treasurer Magaziner introduced Mr. Lynch. Mr. Lynch reviewed the hedge fund portfolio performance in 2014. Equity and real return portfolios have outperformed their respective benchmarks, and noted that long-term results are as expected.

Ms. Reback asked how the hedge fund portfolio compares to other states' portfolios. Mr. Lynch explained that he could only speak to other Cliffwater clients, but that Rhode Island's performance is in line with other public funds.

Mr. Lynch provided an overview of the Samlyn fund. He shared Cliffwater's recommendation that the state accept Samlyn's offer to change share class in exchange for a fee reduction. The state would move from a six month "lock-up" to a one year agreement. Ms. Fink explained that the state was comfortable with this manager, and that the trade-off of liquidity for reduced fees was advantageous.

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

VOTED: to approve reducing fees in the Samlyn fund by moving from a six-month to an annual lock-up agreement.

Mr. Lynch shared Cliffwater's recommendation to redeem from the BlueCrest fund. The long-term performance has not met expectations. He explained that this recommendation is not the result of a single event, but rather an overall projection of risk management and performance.

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

VOTED: to redeem from BlueCrest, effective June 30, 2015.

VIII. Private Equity Recommendation – Industry Ventures Partnership Holdings III Overage Fund

Mr. Lynch introduced Mr. Reynolds, Managing Director of Industry Ventures. Mr. Reynolds provided an overview of the firm, its venture capital strategy, and the fund Rhode Island is invested in, Industry Ventures Partnership Holdings III (main fund). A majority of Industry Venture’s clients are public pension plans that invest in venture capital.

Mr. Reynolds noted that early returns in the main fund are as expected. He went on to provide details on the current status of the venture capital investment climate.

Mr. Reilly asked what the distribution “lag” is from when Industry Ventures receives notice from a fund manager. Mr. Reynolds answered that distributions are typically done on a quarterly basis.

Mr. Reynolds explained that there is an opportunity for the State to invest in an overage fund. The overage fund is a separately managed account that will have the opportunity to invest in deals that have gone over the concentration limits in the main fund at half the fee and half the carry interest charge.

Mr. Costello asked if a decision was made as to which funds will be invested in. Ms. Fink explained that discretion would be with Industry Ventures, and that limitations have been established as to how much is allotted per fund.

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

VOTED: to approve investing in the Industry Ventures Partnership Holdings III Overage Fund.

IX. Legal Counsel Report

There was no legal counsel report.

X. Chief Investment Officer Report

Ms. Fink reviewed the performance of the portfolio and the market environment for the month of December. The portfolio outperformed the 60/40 blend for the month of December.

For the calendar year, the portfolio is up 4.5%, ahead of the bottom-up benchmark. January was a challenging month, with the portfolio down .3%. Fiscal year to date the portfolio is down .7%.

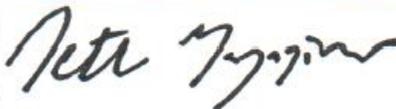
Portfolio risk is as expected and is lower than both the 60/40 blend and the bottom-up benchmark. On a three year look-back, the portfolio is generating good performance with low levels of risk.

Ms. Fink noted that the allocation schedule for the Harvest fund has been completed since the previous commission meeting. \$20 million will be allocated to Harvest per quarter, for a total of \$80 million.

Additionally, the bottom-up benchmark has been adjusted following the inclusion of the Harvest MLP.

There being no other business to come before the Board, on a motion by Mr. Reilly and seconded by Ms. Reback the meeting adjourned at 11:58 a.m.

Respectfully submitted,



Seth Magaziner,
General Treasurer