



**State Investment Commission**  
**Monthly Meeting Minutes**  
**Wednesday, October 28, 2015**  
**9:00 a.m.**  
**Room 205, State House**

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:08 a.m., Wednesday, October 28, 2015 in Room 205, State House.

## **I. Roll Call of Members**

The following members were present: Mr. J. Michael Costello, Mr. Thomas Fay, Ms. Marie Langlois, Ms. Faith LaSalle, Ms. Paula McNamara, Mr. Thomas Mullaney, Mr. Robert Benson, Mr. Frank Karpinski and Treasurer Seth Magaziner.

Also in attendance: Ms. Judy Chambers, Mr. John Burns and Mr. Allan Emkin of Pension Consulting Alliance (PCA), general consultant; Mr. David Iden and Mr. Larry Brown from TIAA-CREF, defined contribution plan administrator; Ms. Ellen Savary and Ms. Yvette Friberg of Fidelity Investments, 457 plan administrator; Mr. Greg Hyland and Mr. Greg Libutti of VALIC, 457 plan administrator; Mr. Greg Miller of VOYA Financial, 457 plan administrator; Ms. Frances Coombes and Mr. T.J. Settel of Western Asset Management, fixed income manager; Mr. Anthony Merhige and Mr. Eric Conklin of Harvest Fund Advisors, MLP manager; Mr. Sam Pierce and Mr. Ivo Kresta of IW Financial; Ms. Sally Dowling of Adler Pollock Sheehan; Ms. Anne-Marie Fink, chief investment officer, Amy Crane, deputy legal counsel, and other members of the Treasurer's staff.

Ms. Marcia Reback was absent.

Mr. Costello left at 11:11 a.m.

Treasurer Magaziner called the meeting to order at 9:08 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 September 22, 2015 meeting of the State Investment Commission.**

## **III. TIAA-CREF Quarterly Performance Review**

Mr. Iden reviewed the demographics of the defined contribution plan through September 30, 2015. The plan had \$404 million in total assets. About 90% of the assets are invested in the Vanguard lifecycle funds. In terms of employee engagement, website log-ins are down though they see a rise in online advice sessions. He said they have been working closely with ERSRI administrators and have attended information sessions organized by ERSRI.

He went on to review the FICA Alternative plan and its demographics. The plan has \$583,000 in total assets. Mr. Brown reviewed the performance of the plans. He reviewed the returns for each offering. The best performer this year has been the real estate account. He said all returns fall in line with their relative benchmarks.

## **IV. Annual Deferred Compensation Plans Update**

Ms. Friberg gave an update of the investments in the Fidelity 457 plan. She commented that in terms of investment line-up, RI is well ahead of the pack compared to other government plans. The plan is streamlined and has a well diversified line-up.

She reviewed the performance of the funds. Over a five-year time frame, 83% of the funds are in the top two quartiles relative to peers. Over the 5- and 3-year periods, participants have better returns than participants in government peer plans with similar risk.

Ms. Savary gave a brief overview of the plan. As of 9/30, the plan had a total of \$107 million in assets and close to 1,500 participants. They have been working closely with the Treasurer's office to offer on-on-one guidance meetings.

She went on to review the fees of the plan. The plan has 0.17% management fee currently. She proposed a fee reduction in a share class for which the plan is eligible due to growth, the Invesco diversified dividend fund. The plan is to give the excess revenue back to participants on a per-capita basis.

Mr. Hyland gave an overview of the VALIC plan statistics. The plan has \$40,507,832 in its mutual fund line-up. The average expense ratio in the line-up is 0.39%. Over a five-year period, the fund ranks in the top 26th percentile.

He went on to explain how program administration fees are gathered and a different methodology called fee equalization. With fee equalization all participants pay their equal share of the fees, rather than proportional based on the funds a participant has selected. He said they suggest that the committee consider switching the fee structure to fee equalization.

Mr. Hyland noted funds that are underperforming and said VALIC would continue to monitor them.

Mr. Libutti reviewed participant engagement activity.

Mr. Miller gave an overview of the Voya plan and the demographics, including how the average participant account balances stack up against a Voya benchmark. He noted that there is a challenge in trying to grow participants under the age of 30. He went over what Voya is doing to reach out to that age group.

He reviewed the participant engagement sessions. He then reviewed the fund line-up. All funds grade very high on the Voya fund evaluation score card. He mentioned that there is one fund that is on a watch list, and they will continue to monitor it closely.

## **V. Credit Portfolio Review- Western Asset Management Co.**

Ms. Coombes started with a brief overview of the firm. She then gave a breakdown of the portfolio and the strategy. She reviewed the strategy's returns and risk over the past five years, as represented by the index. The strategy has produced strong results with significant less risk as other strategies.

Mr. Settel gave an overview of the current market environment. They are seeing a slowdown in the global economy. He added that the US is doing better; the trend is continuing with sales growth light and earnings growth okay. They recognize the challenges. He added that volatility is higher but corporate balance sheets still remain strong and that is good for this product.

He went on to review the performance of the portfolio. The portfolio underperformed particularly in the third quarter and that is what hurting longer-term performance. Their exposure to energy is a big part of the underperformance as commodities have not yet recovered.

He said that there is some volatility but they are seeing some good opportunities as well. There seems to be a good correlation between defaults and the compensation the portfolio is getting. They are mostly maintaining the course with their strategy. They believe the portfolio will recover from the underperformance in the future. They see prices in the energy space rebounding towards the end of 2016. They are actively repositioning the energy part of the portfolio and believe they are positioned well for the future.

The commission asked questions.

## **VI. Infrastructure Allocation Review**

Ms. Chambers gave an update of the infrastructure market. She said infrastructure is still attractive and they are seeing more public pension plans in the U.S. setting up infrastructure allocations. She added that the marketplace is congested. They are seeing a better alignment of interest in terms of fees. There are more opportunities in the middle market and in value-add opportunities.

She reviewed the infrastructure portfolio. She noted that the portfolio is diverse. She went on to give an overview of the energy market and how it's affecting MLPs and the infrastructure market. The primary risk with MLPs is market beta.

Next, Mr. Merhige of Harvest reviewed the performance of the MLP portfolio. There has been extreme volatility to the downside. Harvest has been putting Rhode Island's capital to work as prices have been declining. On a net basis, they are pleased that they have been able to protect some capital relative to the index. Looking forward, the portfolio has a 7.7% yield, and Harvest has seen really strong institutional inflows into the MLP space.

Mr. Conklin gave an update on the performance of the portfolio. He commented that it is a long-term positive that the US is producing a lot of crude oil at low prices. That means volumes stays high, which supports growth for midstream assets.

Ms. Fink asked what are their return expectations for the asset class.

Mr. Conklin noted two parts to the return expectation: current yield and growth. They are still looking at 6% to 7% growth for the vast majority of MLPs. He expects that in the next year, either the MLPs will build capacity to accommodate that 6%-7% growth or they will increase distribution yields. He added that he does see yield plus growth giving mid-teens returns over the intermediate term.

The commission asked questions.

## **VII. Investment Policy Statement**

Ms. Fink presented a draft of the public equity portion of the investment policy to the committee. She invited the members of the commission to share their feedback.

## **VIII. Foreign Investment Compliance Advisor Recommendation**

Treasurer Magaziner said that the SIC has a statutory requirement to compile reports on investments in Iran, Sudan and Northern Ireland. An RFP was issued for an advisor to supply information on companies with investments in Iran, Sudan and Northern Ireland, as the contract with the previous provider expired.

Ms. Fink said they selected IW as the recommended candidate for the committee to vote on.

Mr. Pierce introduced the firm. He explained they are a leading provider of objective research on a broad range of global compliance and environmental-social-governance issues. They have extensive experience collecting relevant data, interpreting legislation and investment guidelines, and developing custom screens that will satisfy requirements.

He gave some examples of services they have previously provided to ERSRI. He then reviewed their proposal in response to the RFP. He reviewed the terms of the proposed agreement. The initial contract term they propose is for two years and includes options for renewal up to ten additional years. The proposed pricing is \$25,000 annually.

The commission asked questions.

IW left the room.

The commission discussed.

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

**VOTED: to hire IW Financial as the foreign compliance advisor**

## **IX. Training on SIC Rules and Regulations**

Ms. Amy Crane, deputy legal counsel, said that the law requires that members be trained within six months of appointment on statutory provisions. She reviewed the Open Meetings Act and how it applies to the State Investment Commission. She went on to review the policy on code of ethics and member responsibility in regards to that policy. She then reviewed the Access to Public Records Act and how it applies to members of the commission. She added that training is offered by the Attorney General's office if members are interested.

## **X. Legal Counsel Report**

There was no legal counsel report.

## **XI. Chief Investment Officer Report**

Ms. Fink reviewed the performance for the month of September. The fund was down 2.1% on the month which is 0.10% worse than the bottom-up benchmark and 0.15% worse than the 60/40 portfolio. The MLP exposure cost the fund 0.25% in the month. Calendar year-to-date, the portfolio is outperforming the 60/40 plan with less volatility. That risk mitigation is producing better returns over time.

In terms of portfolio positioning, she and staff continue to rebalance the portfolio to keep exposures within expected tolerances. She noted that there will be another \$20,000,000 being called into the MLP allocation over the course of the next two months. Additionally, with some of the market moves, staff may look to add more to rebalance allocations. She said that the first tranche was transitioned into the factor-tilt portfolio with the next one happening in December.

She notified the commission that PCA sent a notification that PIMCO has been put on their watch list. Ms. Fink updated the commission on RFP activity. The foreign investment compliance advisor RFP will move into the contractual phase. Site visits and reference calls have been completed for the 529 program RFP. She expects to have a recommendation for SIC by the November meeting. The proxy advisor RFP has been issued and submissions will be due in November. She hopes to have a recommendation at the January meeting. She said they are looking into issuing an RFP for benchmarking staffing relative to other state plans. She hopes to have a more specific proposal early next year.

## **XII. Treasurer's General Comments**

Treasurer Magaziner thanked Ms. LaSalle and Ms. Fink for their work on the 529 program manager RFP. He noted that other public plans have followed suit with Rhode Island's transparency initiative and commended the efforts of the commission.

There being no other business to come before the Board, on a motion by Mr. Benson and seconded by Mr. Mullaney the meeting adjourned at 11:54 a.m.

Respectfully submitted,

**Seth Magaziner,  
General Treasurer**