



State Investment Commission
Monthly Meeting Minutes
Wednesday, April 27, 2016
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, April 27, 2016 in Room 205, State House.

I. Roll Call of Members

The following members were present: Mr. Robert Benson, Mr. J. Michael Costello, Mr. Thomas Fay, Ms. Marie Langlois, Ms. Faith LaSalle, Mr. Thomas Mullaney, Ms. Marcia Reback, Ms. Paula McNamara and Treasurer Seth Magaziner. Mr. Frank Karpinski arrived at 9:06.

Also in attendance: Joyce Marsilia, Steven Johnson and Kerri Polk of Fidelity; Allan Emkin and John Burns of Pension Consulting Alliance (PCA), general consultant; Mr. David Iden and Mr. Larry Brown of TIAA; Ms. Sally Dowling of Adler Pollock & Sheehan P.C., legal counsel; Ms. Anne-Marie Fink, Chief Investment Officer; Mr. Jeff Padwa, Chief of Staff; Kerri Baker, Interim Cash Manager and members of the Treasurer's office staff.

Treasurer Magaziner called the meeting to order at 9:04 a.m.

II. Approval of Minutes

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

VOTED: to approve the draft of the minutes of the March 23, 2016 meeting of the State Investment Commission.

III. Defined Contribution Plan Quarterly Performance Review

Mr. Iden began by drawing attention to the rebranding of TIAA CREF, which will now be known simply as TIAA. Ms. McNamara asked if the rebranding or name change was indicative of a management change and Mr. Iden responded there had been no changes of this type, rather the company wanted to return to basics based on the marketplace demands.

Mr. Iden summarized investment performance of the plans over the past 12 months. In response to a question from Mr. Benson, Mr. Brown stated that \$454 million have been contributed by employer and employee since the program's inception. Turning to employee engagement, Mr. Iden characterized it as "very robust" with 655 people attending seminars and workshops. Mr. Iden also noted that as members are becoming more aware of services, they are utilizing them more.

Mr. Brown then began describing the investments. He highlighted that 97% of the plan's total assets are in index strategies with only one actively managed mutual fund in the mix. He reminded the SIC that the money market option is being eliminated and assets remapped to the stable value fund with an expected 6-8 weeks to complete the process.

Mr. Fay asked how TIAA's stable value returns compare to competitors. Mr. Brown did not have the information, but would look into it. Ms. Fink said the crediting rate was comparable to those of the stable value funds in the state's 529 plan and its 457s.

Mr. Brown continued his summation of performance. He noted that the biggest return this year, which is a complete reversal from last year, is the emerging market stock index up 13% in March alone.

The board asked questions.

IV. Ocean State Investment Pool (OSIP) Annual Review

Steve Johnson, Kerri Polk and Joyce Marsilia represented Fidelity.

Mr. Johnson explained that given GASB (Government Accounting Standards Board) Statement 79, the rules regarding accounting for Local Government Investment Pools (LGIPs), such as OSIP, have changed, and Fidelity must adapt their strategy on how the pool is managed to comply and maintain the current accounting treatment.

Mr. Johnson outlined the new requirements and noted the requirements are similar to how OSIP is currently managed. One rule change that will impact OSIP is that all investments in the LGIPs now have to be all Tier 1 securities, which means Fidelity can no longer buy non-traditional repurchase agreements for the fund. The other main change is relates the one-week liquidity. Currently the pool is managed with 20% one week liquidity in the pool and the new guidelines increase that to 30%.

Mr. Johnson concluded by noting this pool is doing “extremely well”.

The board asked questions.

V. Short-Term Investment Policy Change Recommendation

Treasurer Magaziner introduced Ms. Baker and her new role as the Interim Cash Manager. Ms. Baker then recommended a change to the Short Term Investment Policy that would add a requirement that OSIP conform to the requirements in GASB Statement 79, as well as the current requirement in the policy that all the holdings in OSIP conform with Rule 2a7 requirements that governs money market accounts.

Ms. Fink added that after the SIC changed the policy, the investment staff would then work with Fidelity to implement the change in the State’s investment management agreement with the manager. Additionally, Ms. Fink asked to change the incorrect usage of “principle” (pointed out by Mr. Mullaney and Mr. Fay) throughout the document to reflect the correct “principal” spelling. Also, the 2a7 rule spells out a 397 day maximum term for investments, whereas the policy says 365 days. Ms. Fink requested that if the 365 day limit is not specified in the legislation, the policy be changed to coincide with the 397 day as outlined in the 2a7 rule.

The board asked questions.

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

VOTED: to approve changes in the short term investment policy statement to conform with GASB 79, the correct the spelling of “principal” and to allow investments up to 397 days, if consistent with the law governing OSIP.

Treasurer Magaziner concluded the short-term investment policy discussion by stating that staff will be evaluating, over the next month, further updates to the policy as some of the verbiage is out of date. He specifically identified the standard requiring banks to have a AA rating, since there are very few AA-rated banks any more, and the restriction from investing with credit unions, which might be a viable option to obtain better rates.

VI. Legal Counsel Report

There was no legal counsel report.

VII. Chief Investment Officer Report

Ms. Fink reviewed the performance of the portfolio for March.

She described strong market performance in March due in part to dovish statements from the Federal Reserve and more optimistic sentiment in the markets, as well as stabilization and recovery in oil prices. Overall, the

fund returned 4% for the month, trimming fiscal year-to-date losses to -2.1%. She noted that performance on a relative basis, however, was disappointing. The fund underperformed both the bottom-up benchmark and the basic 60/40 allocation. Hedge funds and private infrastructure were the worst performers. Ms. Fink stated an asset allocation study in the second half of the year is forthcoming and the office will continue to evaluate these allocations. She also noted that while the month was disappointing for hedge funds, the funds have provided good downside protection in the three substantial market drops since the allocation was added. On a more positive note, Ms. Fink highlighted the MLPs, which were up 8%, benefitting from the aforementioned increase in oil prices. Emerging markets were up 13%. On a longer term perspective, the fund is outperforming the basic 60/40 on a 3- and 5-year basis.

Next, Ms. Fink explained the 529 Plan transition is ongoing, moving apace with still much work to do, including creating lots of new documentation and setting up the process to move more than \$6 billion in assets and hundreds of thousands of account records. She said the program management agreement with Ascensus has been signed and the actual transition date has been set for July 8th in order to account for the July 4th holiday.

Ms. Fink disclosed the office has received a large public records request for documents related to the State's real estate investment from 2006 to present. The request required the office to search, retrieve and redact as necessary more than 30,000 documents. Ms. Fink noted that this request coupled with the CollegeBound*fund* transition will preoccupy the office for the next couple months. Treasurer Magaziner confirmed the tremendous workload of the staff and pledged completion of the request.

Ms. Fink reiterated her earlier statement that the office is seeking to start an asset allocation study in the summer, when the substantial public records request and 529 conversion projects will be completed.

VIII. Treasurer's General Comments

Treasurer Magaziner affirmed the full workload of the office and praised the staff for their hardwork.

There being no other business to come before the Board, on a motion by Ms. Reback and seconded by Mr. Fay the meeting adjourned at 10:01 a.m.

Respectfully submitted,

**Seth Magaziner,
General Treasurer**