



State Investment Commission
Monthly Meeting Minutes
Wednesday, June 22, 2016
9:00 a.m.
Room 205, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:03 a.m., Wednesday, June 22, 2016 in Room 205, State House.

I. Roll Call of Members

The following members were present: Mr. Robert Benson, Mr. Thomas Fay, Ms. Marie Langlois, Ms. Sylvia Maxfield, Mr. Thomas Mullaney, Ms. Marcia Reback, and Treasurer Seth Magaziner.

Also in attendance: Mr. Daniel Schmitz from Stonepeak Infrastructure Partners; Ms. Denise Olson and Mr. Barry Malkin from GEM Realty; Ms. Judy Chambers, Mr. David Glickman, Mr. John Burns and Mr. Allen Emkin of Pension Consulting Alliance (PCA), general consultants; Ms. Sally Dowling of Adler Pollock & Sheehan P.C., legal counsel; Ms. Anne-Marie Fink, Chief Investment Officer; Mr. Patrick Marr, Chief of Staff; and members of the Treasurer's Office staff.

Treasurer Magaziner called the meeting to order at 9:03 a.m.

II. Approval of Minutes

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

VOTED: to approve the draft minutes of the May 25th, 2016 meeting of the State Investment Commission.

III. Review of Infrastructure Allocation

Ms. Chambers of PCA led the discussion on the Infrastructure Allocation, beginning with the breakdown of the Infrastructure portfolio. There are four infrastructure investments; the first is the core investment in IFM Global Infrastructure Fund. This fund invests in larger, core infrastructure transactions in the U.S and Europe. The current commitment amount is \$50 million with a target net return of 10%. Since inception there has been a return of 6.7% net IRR. The second fund is iSquared Global Infrastructure. \$50 million was committed to the fund late last year. Because it is so early in the investment period, there are no meaningful returns to report at this time. Harvest MLP currently has a 2% allocation. The last fund is Stonepeak Infrastructure Partners. ERSRI initially committed \$50 million late last year to this fund; however, the amount was later reduced to \$43 million due to oversubscription. Again, because it is early in the fund's investment period, there are no meaningful returns to report.

Ms. Chambers also summarized broad market trends and the status of the marketplace.

Ms. Chambers noted there is an increase in public pension plans investing in infrastructure. She stated that investors have been relatively pleased with infrastructure performance, particularly as it relates to cash yields, which hovers between 4-7%, and overall investment performance returns.

Ms. Chambers indicated that PCA is working with staff to look at attractive investment opportunities, focusing more on value-added versus core infrastructure opportunities.

Ms. Fink explained that the current private infrastructure allocation, which does not include MLPs, will not exceed 3% and currently is at 1%. New infrastructure commitments will take place gradually. More detailed discussions surrounding these allocations will be held during the summer's asset allocation study.

Ms. Chambers then introduced Mr. Schmitz, from Stonepeak Infrastructure Partners. Mr. Schmitz provided background on the fund and summarized current investments. He noted that to date roughly \$25 to \$26 million of RI's initial commitment has been invested, not including a new investment announced earlier in the week which would bring the total up to \$30 million. He confirmed that Stonepeak does not take direct commodity risk and attempts to be well insulated against those types of risks. Mr. Schmitz said that current investments are well positioned to protect against downside scenarios.

Mr. Schmitz proceeded to discuss the sidecar vehicle. Any investment in the sidecar vehicle not exceed 25% of the \$10 million dollars that is proposed. This option would translate into increased exposure on a fee free basis.

The board asked questions.

IV. Recommendation for Infrastructure Overage Fund

Ms. Chambers expressed that PCA was pleased with Stonepeak Infrastructure Partners, particularly in their transparency efforts.

Ms. Fink added that Stonepeak Infrastructure Partners had much better timing than their peers as it related to investing in MLPs, noting they had been patient last year as energy prices continued to fall and have since become more active in deploying capital.

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

VOTED: to approve a \$10 million commitment to the Infrastructure Overage Fund pending successful negotiation with Stonepeak Infrastructure Partners

V. Recommendation for Real Estate Fund

Mr. Glickman led the discussion on the recommendation for a commitment to GEM Realty VI. Mr. Glickman began by explaining that the opportunity being presented is a non-core capital appreciation-focused closed-end fund. The firm's strategy to identify properties in which management and extra attention can change the character, the risk profile and ultimately the value of the property. In 2013, \$50 million was committed to GEM Realty Fund V, with the commitment period set to expire later this year.

Mr. Glickman then introduced Mr. Malkin and Ms. Olson from GEM Realty. Mr. Malkin gave a brief history of GEM Realty before discussing their investment approach. He explained that GEM looks to invest in those assets that are underperforming or non-conforming, and bring them back into a "conforming state". He notes this has been a successful approach for their firm.

Ms. Reback asked Mr. Glickman if there were hidden fees in this fund, which had been a public concern. Mr. Glickman said GEM discloses fees; there are no known hidden fees. Ms. Olson added that GEM Realty follows the ILPA standards when it comes to fee reporting and fee transparency, and will do the same for Fund VI. Treasurer Magaziner interjected that with the current commitment in Fund V, GEM complies with all of Rhode Island's transparency guidelines, which are among the strictest in the country.

Mr. Glickman noted that real estate comprises 8% of the portfolio and suggested there be up to a \$30 million commitment to Fund VI.

Mr. Glickman described GEM Realty as "sharp shooters" rather than "generalists", with their advantages being they invest in all types of real estate and they do so over a longer period of time, diluting the concentration of vintage year risk. They are well aligned and have good continuity.

Ms. Fink suggested a \$20 million commitment because although the portfolio is underweighted in real estate, the risk must be balanced, particularly as it relates to vintage year exposure. She also pointed to the evolution over time and GEM's ability to improve the value of their assets.

After initial discussion, Treasurer Magaziner drew Mr. Malkin and Ms. Olson's attention to the hotel workers union members that were present at the meeting, telling Mr. Malkin and Ms. Olson that the group had recently expressed concern about an issue at one of GEM Realty's properties in Los Angeles, CA. Treasurer Magaziner afforded GEM the opportunity to discuss their approach to labor relation management. Mr. Malkin stated there were good relations with both union and non-union employees (from the perspective of an investor and a service provider). Mr. Malkin noted that GEM does not undertake property management at the assets they own, and therefore, GEM is not the employer of any employees at the hotels they own. Clear delineations exist between the asset manager and the actual underlying management company, and under this contract they are given no rights to negotiate or make decisions regarding the employees. He goes on to say that, as a firm, they value fair treatment of employees by their employers and often speak with those employers regarding the importance of maintaining sound labor relations. Ms. Reback asked GEM about the relationships they have with certain firms that are known to be hostile toward unionized workers. She noted one in particular, at which time Mr. Malkin stated they no longer did business with that organization.

The board asked questions.

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

VOTED: to approve a \$20 million dollar commitment to the GEM Realty Real Estate Fund VI

VI. Update on the Community Deposit Program

Mr. Marr provided an update on the newly established Community Deposit Program. Mr. Marr said Treasury has engaged 5 or 6 banks and credit unions. Thus far, 2 have agreed to participate, Washington Trust and Customers Bank, both of which are approved SIC banks. The office is following up with these two institutions regarding next steps. Additionally, the office received commitments from 3 other banks – People's Credit Union, Navigant Bank and Centreville Bank– that they plan on participating in the near future. Due diligence is currently being conducted, and findings will be presented at a future meeting.

VII. Recommendation for SIC meeting schedule

In order to accommodate additional discussions surrounding the asset liability study, it is necessary to amend the existing SIC meeting schedule as well as add some meetings. Additional meeting dates include July 13th and September 8th. The July and August meetings as currently scheduled will be canceled and will be substituted with an all-day meeting on August 1st.

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

VOTED: to approve changes to the SIC meeting schedule.

VIII. Briefing: Survey of Asset Allocation Approaches of Institutional Investors

Mr. Emkin and Mr. Burns reviewed the process of the upcoming asset/liability study. Mr. Emkin expressed the importance of the study, saying the implication would reverberate through the next 30-40 years. Mr. Emkin gave historical information to provide a baseline for expected volatility, highlighting possible trends to consider during the asset liability study.

Mr. Emkin pointed out that the public pension plan currently has a 1:1 payout ratio meaning for every one person paying in to the system, there is another receiving payment from the system. He says this is important to note because the plan must stay well-funded or there will be increased reliance on the state to then generate lost returns. He went on to say that traditional thinking was that capital markets would fill in those gaps. Typically, 60% of funding for pension plans comes from investment returns. If not coming from the market, the only other source to make up for these short comings is by way of contributions.

Mr. Emkin noted that the state of Rhode Island has met the responsibility to fund the public pension plan, meeting its employee contributions on a yearly basis for the past 25 years. For PCA, the problem area centers on the issue of an unfunded liability.

Mr. Emkin touched on the current market conditions and highlighted the reality of negative interest rates. This development is unprecedented. As such, investment decision-making and generating high investment returns will prove most challenging moving forward.

The board asked questions.

IX. Legal Counsel Report

There was no legal counsel report.

X. Chief Investment Officer Report

Ms. Fink described May as a solid month for performance. The portfolio was up 0.4%, outperforming the bottom-up benchmark, which was up 0.3%, and the 60/40, which was up 0.1%. Ms. Fink noted that U.S. equities and credit did well due to slow and steady domestic growth; however, international markets fell due continued concerns about growth in Europe, Japan and emerging markets. The portfolio outperformed in fund selection and asset allocation. MLPs, U.S. domestic stocks and equity hedge funds were the outperformers for the month. QVM also had a strong May following a weak April. The returns on QVM since inception have exceeded expectations and continue to get good returns. The portfolio's lagging areas on the month are international stocks and TIPS.

Ms. Fink pointed out that over a long-term period, the ERSRI portfolio is outperforming the basic 60/40 allocation on both the risk and return basis.

Ms. Fink also spoke about the 529 transition, which was proceeding at pace. Ascensus has opened their Rhode Island facility, creating 35 local jobs. The transition will take place the weekend of July 9th. Alliance Bernstein's last day will be July 8th and Ascensus and Invesco will be live July 13th.

Ms. Fink then talked about her own professional transition back to the private sector. She will be leaving Treasury in mid-July.

Treasurer Magaziner noted what a valuable member Ms. Fink has been to the Treasury team. Mr. Tim Nguyen was then introduced as the Interim Chief Investment Officer.

XI. Treasurer's General Comments

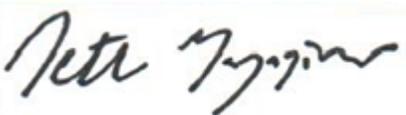
Treasurer Magaziner welcomed new member Sylvia Maxfield to the board.

He also spoke to several staff changes including the promotion of Mr. Patrick Marr from Chief Operating Officer to Chief of Staff and Ms. Amy Crane from Deputy General Counsel to General Counsel.

Treasurer Magaziner highlighted the massive undertaking relating to the 529 conversion. The tasks associated with such a change have been demanding particularly during the same time as the asset liability study and the recent staff changes. He expressed his excitement to have the conversion complete. He offered his thanks to the board for their willingness to participate in the long and impending asset liability study throughout the course of summer 2016.

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 11:57 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Seth Magaziner". The signature is written in a cursive style with a prominent initial "S".

**Seth Magaziner,
General Treasurer**