



State Investment Commission
Monthly Meeting Minutes
Wednesday, July 13th, 2016
1:30 p.m.
50 Service Avenue, Warwick RI 02886

A meeting of the State Investment Commission (SIC) was called to order at 1:31 p.m., Wednesday, July 13th, 2016 in the large conference room at 50 Service Avenue, Warwick RI 02886

I. Roll Call of Members

The following members were present: Mr. Thomas Fay, Mr. Frank Karpinski, Ms. Sylvia Maxfield, Mr. Thomas Mullaney, Ms. Marcia Reback, and Treasurer Seth Magaziner. Ms. Marie Langlois arrived at 1:37 p.m.

Also in attendance: Mr. John Burns and Mr. Allen Emkin of Pension Consulting Alliance (PCA), general consultants; Mr. Joe Newton and Mr. Paul Wood of Gabriel Roeder Smith & Company (GRS), actuaries; Ms. Sally Dowling of Adler Pollock & Sheehan P.C., legal counsel; Ms. Anne-Marie Fink, Chief Investment Officer; Ms. Kerri Baker, Cash Manager; and members of the Treasurer's Office staff. Treasurer Magaziner called the meeting to order at 1:31 p.m.

II. Asset Liability Study Overview

Treasurer Magaziner framed the discussion, explaining that the main purpose of the meeting was to determine risk appetite from the perspective of the Retirement Board/Members. He explained the relationship between risk and return, and desired to understand how much volatility the pension plan is able and willing to take. Once that is understood, the SIC and Investment Consultant (Pension Consulting Alliance) will finalize assumptions relating to different asset classes with expected returns. The SIC's goal is to build a portfolio which would generate the highest return for the level of risk the board is willing to take. If the preference is to take absolutely no risk, then investment returns will suffer. If the preference is to get as much return as possible, then there may be undue risk taken. In sum, finding the right balance is critical.

Mr. Emkin and Mr. Burns gave an overview of the relationship between assets and liabilities. They pointed out that the SIC and the Retirement Board would have to reconcile these perspectives of risk in order to come up with the appropriate amount of risk for the pension plan going forward.

Mr. Emkin summarized the current state of the portfolio. Specifically, he highlighted the fact the fund is spending 5% more than it takes in on an annual basis (the average for other plans is 2.7%). This presents an investment challenge.

He pointed out that the plan sponsors make their required contribution, which helps the fund maintain its financial condition. However, relative to its peers, the plan is still underfunded. Mr. Paul Dion of the Retirement Board asked how it occurred that the plan is relatively underfunded compared to peers when plan contributions had been made consistently for over 20 years. Several reasons were offered. Mr. Emkin also pointed out that it goes back to the issue of unfunded liability. Ms. Reback spotlighted the amortization schedule and that the plan is on its way to being fully funded. She also pointed out that at a certain point, benefits simply were not funded, which put a strain on the plan.

Mr. Emkin talked about the variety of ways to look at risk. He said the boards should be concerned with how comfortable they would be with the funding ratio going under a certain percentage level because these are precisely the decisions that will have to be made during the asset liability study. For instance, if the board did not want funding to dip below 50%, then certain portfolios would be eliminated. Treasurer Magaziner expressed this is exactly the kind of feedback he wanted from the Retirement Board: to understand the boundaries within which the SIC should act when constructing the asset allocation.

Mr. Burns spoke about low interest rates and in some cases negative interest rates, and how this would affect the study. He commented that interest rates are vital as they are the bedrock of all investments.

The boards asked questions.

Following PCA's presentation, Mr. Newton presented hypothetical examples of various portfolios in order to help illustrate what the portfolio would look like under different what-if scenarios. He explained how GSA sets different assumptions, and how they set investment return assumptions.. Mr. Newton provided details regarding each fictional scenario, and how the decisions of the board would directly impact what type of investment portfolio could be created based on each investment return assumptions.

The boards asked questions.

III. Community Deposit Program Update

Ms. Baker told the board of new interest in the program, with Navigant Credit Union expressing interest to participate. Ms. Baker indicated the staff has conducted due diligence on Navigant based on the investment policy statement set forth by the State Investment Commission. Ms. Baker said after reviewing its audited financials, staff has found Navigant is well capitalized, had positive return on assets for 6/6 quarters, has a federal reserve rate capital ratio of almost 12% and has been established for over 100 years.

On a motion by Ms. Maxfield and seconded by Ms. Langlois, it was unanimously
VOTED: to approve Navigant Credit Union as a short term investment lender

IV. Legal Counsel Report

Ms. Dowling suggested that due to staffing changes, the authorized signatures in connection with investments must be updated.

Accordingly, on a motion by Ms. Langlois and seconded by Ms. Maxfield, it was unanimously
VOTED: that in connection with investments authorized by the Rhode Island State Investment Commission, Seth M. Magaziner, General Treasurer, Amy Crane, General Counsel, Patrick Marr, Chief of Staff, Kerri Baker, Cash Manager and Thanh (Tim) Nguyen, Interim Chief Investment Officer, and each of them be, and hereby is authorized, empowered and directed to execute and deliver by and on behalf of the Employees' Retirement System of the State of Rhode Island any and all Subscription Agreements, Side Letters, documents, instruments and other writings which each of them in the exercise of his or her sole discretion shall deem necessary or desirable and in the best interest of the Employees' Retirement System of the State of Rhode Island, the execution thereof by such authorized officer to be conclusive evidence that the same is duly authorized.

V. Chief Investment Officer Report

Ms. Fink spoke about the successful 529 conversion that was completed on July 12th. This was the largest 529 conversion ever, with all 275,000 accounts transferred and balanced to the penny. The website and call center are currently up and running. Ms. Fink commended the board for making the decision to convert to Ascensus and Invesco and lauded the staff for all their hard work during the transition.

Ms. Fink then talked about the newly established State Police Retirement Fund Trust, which is now the 7th subcomponent of the portfolio. The Trust is funded by \$16 million dollars received from Google and the state will make contributions yearly.

Ms. Fink reported that a Request for Proposal (RFP) has been issued to provide digital board books for both the Retirement Board and the SIC. She asked the members to provide opinions and consideration as to what features they may like to see in the software to enhance the user experience.

Ms. Fink then gave a performance preview. With the meeting being held mid-month, there were no final numbers to report. She noted what an unusual month it has been thus far. BREXIT was a significant factor in the markets; there was a 5% selloff after the vote but it balanced on the rebound. Interestingly, she noted that both risky and safe stocks did well, which is unusual as it is usually one or the other. If performance holds, Ms. Fink said there would be modest positive returns for the month but flat on the fiscal year.

Ms. Fink then expressed the bittersweet moment it was to have her time at the Treasury come to an end. She said it was a pleasure to work with the board and thanked everyone. She also said she was confident the board is in good hands under the direction of Mr. Nguyen.

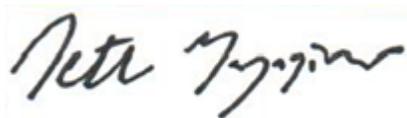
VI. Treasurer's General Comments

Treasurer Magaziner summarized overall performance of the portfolio under the leadership of Ms. Fink. He highlighted her achievements including the cumulative return of 2.04% outperformance on the 60/40, translating to \$150 million in excess investment gains during her tenure. The Treasurer said Ms. Fink will be greatly missed and thanked her for her years of service.

Treasurer Magaziner also spoke to the 529 conversion. He was very pleased with the success of the conversion and believes it will lead to a bright future of one of the SIC's most important programs. He also thanked the board for their participation in the rigorous schedule they have this summer due to the asset liability study.

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 4:11p.m.

Respectfully submitted,



**Seth Magaziner,
General Treasurer**