



State Investment Commission
Monthly Meeting Minutes
August 1, 2016
9:00 a.m.
Brown University, 200 Dyer St. Providence

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:05 a.m., Monday, August 1, 2016 at Brown University's School of Professional Studies located at 200 Dyer St. in Providence.

I. Roll Call of Members

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

Also in attendance: 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; Mr. Tim Nguyen, Chief Investment Officer (interim); Mr. Patrick Marr, Chief of Staff; Ms. Kerri Baker, Cash Manager, and members of the Treasurer's staff.

Treasurer Magaziner called the meeting to order at 9:05 a.m.

II. Asset Liability Study Discussion

Treasurer Magaziner framed the discussion noting the purpose of the day's meeting was to talk about risk tolerance and set parameters around those targeted areas of risk, as well as make assumptions for asset classes. The goal was to establish criteria to create a portfolio with the best expected return within an acceptable level of risk.

Mr. Emkin and Mr. Burns then began to discuss risk preferences. Mr. Emkin explained what is currently in place and has been done to date in order to provide context within the risk framework.. Additionally, using historical returns can help in determining helpful correlations for future risk. Mr. Emkin noted that contribution and liquidity are the most important considerations.

The board asked questions.

The model would take into the following constraints: a low probability of having the funding ratio drop below 50%, a low probability of the employer contribution rate rising above 30% of payroll, and maintaining sufficiently liquidity to meet obligations in a stressed environment.

Mr. Emkin transitioned to speaking about how to categorize asset classes and what role the different strategies are supposed to play. He explained it will be important to define and categorize these classes in order to make clear which role each will play, which will increase transparency and aid the public in understanding the purpose each strategy is intended to play within the larger portfolio.

Mr. Emkin outlined the current portfolio structure, including its current target allocation, outlining the role each asset plays. He then delved into the possible portfolio structure and framework models that could be used going forward, detailing the strengths and weaknesses of each and spending a considerable amount of

time going over a new type of asset category, the 'Risk Mitigation Portfolio'. Regardless of the structure selected, Mr. Emkin cautioned that its development should be a phased process to account for the implementation risk of such change.

The board asked questions.

Mr. Emkin said it is worth considering a functional class for crisis protection because ERSRI has a large negative cash flow and the new class would offset economic growth risk and provide significant positive returns and liquidity during a significant market downturn. PCA advised it might be prudent to explore an allocation to alternative premia (also known as alternative beta), long-term treasuries, and systematic trend strategies in the model as they would provide diversification benefits.

These strategies could be obtained in a cost effective manner and have monthly liquidity.

The board asked questions.

The board settled on testing models with and without the new functional class, and staff will examine further pros and cons of its implementation based on model results.

Mr. Emkin presented capital market assumptions and asset class constraints to the board. He explained that inflation and real return assets will be what gives expected return going forward. He then went into great detail regarding the preliminary capital market assumptions and constraints as outlined by PCA.

The board asked questions.

The board directed PCA to alter several areas of the modeling constraints in order to coincide with its goals. The selected constraints will be used to run the initial model and results will be presented at the September 8th meeting.

III. Community Deposit Program Update

Ms. Baker presented information on People's Credit Union, an institution that would like to participate in the Community Deposit Program. The office has done its due diligence on People's Credit Union and has found that it meets the criteria set forth in the SIC investment policy, making it eligible for participation.

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

VOTED: to approve People's Credit Union as an investment bank

IV. 529 Plan Audit Update: Agreed Upon Procedures

Mr. Marr spoke to the SIC in May 2016 regarding the retention of Marcum LLP for the FY 2016 financial statement audit due to the transitions taking place between both RIHEAA to Treasury and Alliance Bernstein to Ascensus. At the time, Mr. Marr asked the board to approve entering a contract with Marcum for an amount not to exceed \$30,000. The SIC voted unanimously to do so at that time. Furthermore, Mr. Marr explained that the Auditor General and the Treasury also find it prudent to perform an Agreed Upon Procedures engagement with respect to the asset transition in addition to the financial audit statement because all of the assets did not transfer in the same fiscal year. The Agreed Upon Procedures engagement would evaluate specific items related to the cross-receipts of assets through July 8th, when the transition was completed. It is best to do so at this time as it forms a stronger basis for next year's financial

statement audit since the termination of the contract with Alliance Bernstein would make it more difficult to gather contacts and good information to properly execute certain audit activities in 2017.

On a motion by Mr. Mullaney and seconded by Ms. Reback, it was unanimously **VOTED: to approve contracting Marcum LLP for an Agreed Upon Procedures engagement not to exceed \$20,000.**

V. Legal Counsel Report

Ms. Dowling informed the Board that a vote to approve the minutes had been inadvertently left out of the agenda and asked that a motion to approve the minutes be taken.

On a motion by Mr. Costello and seconded by Ms. Reback, it was unanimously **VOTED: to approve the minutes of the June SIC meeting.**

VI. Chief Investment Officer Report

Mr. Nguyen gave the performance report for June, noting BREXIT as the key influential factor on the markets for the month. The overall portfolio saw a 0.17% increase for the month, just missing the benchmark of 0.18% and beating the 60/40 benchmark, which decreased by 0.36%. Some notable performers on the month include North American Equities and Emerging Market Equities while International Equities and Equity Hedge Fund program (not to be confused with the Real Return Hedge Fund program, which posted a positive return on the month) underperformed.

Mr. Nguyen then explored the fiscal year numbers, saying it was a mixed year for plan performance as it outperformed the policy benchmark while protecting against steep investment losses in a very challenging year. Using the Sortino Ratio, which is a measure used to understand the downside protection of a portfolio, the plan's 5 and 10 year returns demonstrated great downside protection against the benchmark and the 60/40. For example, the plan declined 0.27% down on the year while equity lost significantly more for the year.

Illiquid strategies such as real estate and infrastructure, performed well, both having had strong returns. Private equity also did well on the year.

Low oil prices affected energy MLPs, which has declined on the year. Emerging markets index funds were also lackluster as they dropped more than 20% in the first two quarters of the year alone due to falling commodity prices and social and political unrest.

Mr. Nguyen also issued an investment administration update: PIMCO experienced an executive change. Although it is not likely to affect the portfolio, it is something to note.

VII. Treasurer's General Comments

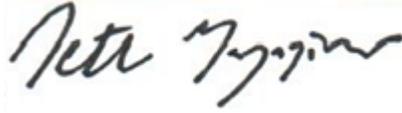
Treasurer Magaziner observed the plan beat out the benchmark for the year by about 10 basis points. He credited this to the staff's manager selection in private equity and real estate.

He stated he looks forward to seeing the model outputs in September and went on to thank the staff and board for navigating a difficult environment over the past year.

Raised by Ms. McNamara, Treasurer Magaziner also addressed the fact that Mr. Nguyen is an interim Chief Investment Officer and that there will be a search for a permanent CIO come September. He stated there would be further discussion on that topic when the search begins.

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 3:38 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Seth Magaziner", written in a cursive style.

**Seth Magaziner,
General Treasurer**