



**State Investment Commission**  
**Monthly Meeting Minutes**  
**September 8, 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., Thursday September 8, 2016 in Room 205 of the State House.

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

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

Mr. Frank Karpinski arrived at 9:06

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); and members of the Treasurer's staff.

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

## **II. Approval of Minutes**

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

**VOTED: to approve the draft of the minutes of the June 22<sup>nd</sup>, 2016 meeting of the State Investment Commission.**

## **III. Approval of Minutes**

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

**VOTED: to approve the draft of the minutes of the July 13<sup>th</sup>, 2016 meeting of the State Investment Commission.**

## **IV. Asset Liability Initial Model Review**

Mr. Emkin began by stating the goal of today's meeting was to get direction from the Board in order to hone model output, which would allow for a recommendation at the September 28<sup>th</sup> meeting. He explained that a lot of work has already been conducted with PCA and Treasury staff, developing numerous iterations to produce the initial models.

Mr. Emkin explained the models worked to solve the priorities set forth by the Board at the August meeting. This includes optimizing the long-term funding ratio and minimizing the risk of the portfolio falling beneath the 50% funding ratio in the next 5 years. Additionally, it looked to minimize the potential of costs exceeding 30% of payroll. The model was run with and without Crisis Risk Offset (CRO), whose purpose is to offset economic growth risk, and provide significant positive return and liquidity during a growth crisis.

Mr. Emkin highlighted that all versions of the model simulation produced improved results relative to the current portfolio and 60/40.

Mr. Emkin stated that the Board is primarily tasked at this meeting to determine the possible inclusion of the new CRO class, as well as rebalancing the weight assigned to each asset class.

Mr. Emkin pointed out that the model agrees with private equity and income class so these are areas for potential increase. Alternatively, inflation protection class and fixed income did not agree with the model. He went on to outline how these areas, as well as the other strategic classes, performed under the constraints in the various models.

The Board asked questions.

Mr. Burns walked the Board through the Crisis Risk Offset (CRO), a potential new functional class meant to reduce volatility. The Board was presented results from models including and excluding the CRO. The CRO was found to have a positive role in the models and the Board offered adjustments to asset class weights based on the CRO models. It was determined to balance the US Equity and Non-US Equity asset classes and increase Inflation protection when running an additional model, which is more in line with the current portfolio. The Board also asked PCA to run the model with CRO between 8-12% instead of the initially modeled 10-20%.

As part of the CRO discussion, Mr. Burns presented Alternative Risk Capture sub-element. The Alternative Risk Capture accesses the alternative risk premia. It is market neutral and is used to provide return during a non-crisis period. In this form, this sub-element is a relatively new. The Board is uncertain of its use in the new portfolio and has asked to see models with and without this sub-element when developing models with the CRO.

## **V. Legal Counsel Report**

There was no legal counsel to report.

## **VI. Chief Investment Officer Report**

Mr. Nguyen gave the performance report for July. This is the first month in Treasurer Magaziner's term that the portfolio posted positive returns across all disciplines. The portfolio saw an increase of 2.37% for the month, marginally failing to meet its benchmark of 2.48% and the 60/40 benchmark of 2.84%. On the calendar year, the portfolio increased 5.10%, exceeding the plan benchmark of 4.78% but underperforming the 5.90% on the 60/40. He explained that riskier asset classes such as emerging markets and global equities saw a rally, and MLPs and traditional fixed income also saw notable increases. These relative returns were driven by favorable security selection.

Mr. Nguyen cited the bubble chart in the SIC materials, showing that for the last 5 years, the total plan has lower portfolio volatility than the plan benchmark as well as the 60/40. During that same time frame, the portfolio's 6.34% return significantly outperformed the 60/40 benchmark of 5.64%: more return, less risk.

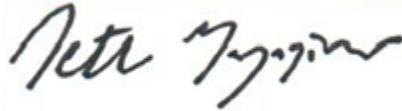
## **VII. Treasurer's General Comments**

Treasurer Magaziner noted the Asset/Liability Study is reaching its conclusion and recognized the hard work of all parties involved in the process. When asked what the course of action would be if the models returned on September 28<sup>th</sup> were not satisfactory to the Board, Treasurer Magaziner assured the group it would take as much time as necessary to develop a portfolio with which they were comfortable. He also

explained that any changes made to portfolio would be an incremental process to assure a smooth transition.

There being no other business to come before the Board, on a motion by Ms. Maxfield and seconded by Ms. Reback the meeting adjourned at 11:59 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Seth Magaziner", is centered on the page. The signature is written in a cursive style.

**Seth Magaziner,  
General Treasurer**