



State Investment Commission
Monthly Meeting Minutes
September 28, 2016
9:00 a.m.
Room 205, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:00 a.m., Wednesday September 28, 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 9:01

Also in attendance: Mr. David Iden and Mr. Larry Brown of TIAA; Mr. Dillon Lorda, 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 9:00 a.m.

II. Approval of Minutes

On a motion by Ms. Reback and seconded by Mr. Mullaney, it was unanimously **VOTED: to approve the draft of the minutes of the August 1st 2016 meeting of the State Investment Commission.**

III. Approval of Minutes

On a motion by Ms. Reback and seconded by Mr. Mullaney, it was unanimously **VOTED: to approve the draft of the minutes of the September 8th 2016 meeting of the State Investment Commission.**

IV. TIAA Quarterly Performance Review

Mr. Iden summarized the results for TIAA's second quarter, results ending June 30. Mr. Iden noted the plan is growing well and that plan participation has increased since 2015.

Mr. Brown then spoke about investment performance, saying the year has been a pleasant surprise. He stated that although presenting a quarterly review, the investment numbers have been updated through August 31. He notes all investment portfolios are in line with their relative indices. In reference to midcap, he explains that the state has met the minimum to move to the next lowest share class (from 8 basis points to 7 basis points), a transition that will take place in October.

V. Recommendation to the AEW Core Fund

Mr. Lorda explained there is a tactical opportunity to exchange class shares within the AEW exposure to add \$11 million to its allocation in exchange for reducing fees by \$135,000 a year. He stated this was an opportunity to meet strategic goals of reducing management costs while increasing allocation to core

portfolio. AEW, established in 2009, invests in core properties, which are income producing, high quality real estate, similar to other core managers within the portfolio, with a major difference being AEW invests in small properties and in markets that complement existing holdings.

The board asked questions.

On a motion by Mr. Fay and seconded by Ms. Maxfield, it was unanimously
VOTED: to approve an additional \$11-million-dollar commitment to AEW and change the share class to allow for lower fees

VI. Asset Liability Model Output and Asset Allocation Adoption

Mr. Emkin reviewed the parameters in which PCA ran the second model, parameters in which the Board provided at the September 8th meeting. The key priorities were to continue progress toward total plan funding, avoid funding level dropping below 50% and avoid employer contribution rising to more than 30% of payroll. Furthermore, U.S. Equity and non-U.S. Equity were equally weighted and Crisis Risk Offset (CRO) was set to 8%, with half placed in long duration U.S. Treasuries and half placed in systematic trend following. The model was run under various stress tests, which included both inflation and deflation scenarios. Mr. Emkin presented that the transition would mainly take place over the next 12-18 months but full implementation would not occur for 5 years. Treasurer Magaziner told the board it will be important to take time and care during implementation as it is necessary to do it well, not do it quickly.

Ms. McNamara asked if it were a concern that another Asset Liability study would come around in 5 years when the changes made during this study would not be fully observed. Treasurer Magaziner said the timeline is not mandated and can be adjusted. Additionally, the long-term incremental changes would only be to private equity; all other classes would have transitioned well before that time.

Ms. Maxfield asked about the approach to reducing hedge funds. Treasurer Magaziner stated that staff is still making determinations as to which hedge funds will be kept but going forward the litmus test for retaining a hedge fund will be that it provides returns and that it offers true protection against market volatility - they must be non-correlated to the market.

The board reviewed the model output and portfolio transition plan. It was advised if adopted, the next steps would be to make revisions to the Investment Policy Statement and conduct policy benchmark and investment manager reviews.

The board asked questions.

On a motion by Ms. Reback and seconded by Ms. Maxfield, it was unanimously
RESOLVED: That following an intensive Asset Liability Review, the Commission deems it prudent to adopt the strategic asset allocation policy referred to as the “Focus Portfolio” in today’s presentation by the Pension Consulting Alliance; and,
RESOLVED: That the transition of the current investment allocation to the strategic asset allocation policy be implemented over such a time period as to inure maximum benefit to the fund and as prudence requires; and,
RESOLVED: That Treasury staff revise the appropriate Investment Policy Statements previously adopted by the Commission to incorporate the new strategic asset allocation policy and the implementation

timetable and forward the revised Investment Policy Statements to the Commission for review, discussion and approval.

VII. Legal Counsel Report

There was no legal counsel to report.

VIII. Chief Investment Officer Report

Mr. Nguyen began by noting oil prices bounced back in August, causing energy stocks to rise from their July slide. He also observed the Fed again declined to raise interest rates but economic conditions are ripe for a hike soon. Against this backdrop, developed equities were flat while Emerging Markets continued their strong performance. U.S. Treasury yields inched higher but returns within Fixed Income were down slightly.

On the month, the total portfolio rose by 0.44%, significantly beating its 0.33% benchmark and the 60/40 0.16%. All disciplines posted positive returns on the month with the exception of TIPS which posted a -0.48% return versus its 0.51% benchmark. Over a 3-year time frame, when comparing to the 5.96% return of the 60/40, the portfolio slightly underperformed at 5.89%. However, during a 5-year timeframe, the portfolio considerably outperformed at 7.17% when the 60/40 posted a 6.49% return; all of this was accomplished with significantly less risk.

Mr. Nguyen said with the Asset Liability concluding, more time can be devoted to investment manager performance reviews, which will begin to occur more regularly at the October meeting.

IX. Treasurer's General Comments

Treasurer Magaziner expressed his gratitude to the Board, to Treasury staff and to PCA for their diligence, engagement and hard work throughout the Asset Liability study process. He said he felt good about the changes being made to the portfolio as it is a measured and thoughtful approach that provides diversification. He cautioned, however, that the hard work had just begun as its execution will require continued commitment and support.

Treasurer Magaziner told the board about a recent staffing survey that had been conducted that showed the Investments team was woefully understaffed; for every \$1 billion dollars of a pension plan, the average \$5 - \$15 billion public pension fund has 1 investment staff member – Treasury has three for a nearly \$8-billion-dollar fund. It will be necessary to have a discussion with the Retirement Board to fund additional analyst positions to assist not only the implementation phase but to ensure the plan is operating and performing to its best capability at all times.

There being no other business to come before the Board, on a motion by Mr. Fay and seconded by Ms. Reback the meeting adjourned at 10:41 a.m.

Respectfully submitted,

**Seth Magaziner,
General Treasurer**