



**State Investment Commission**  
**Monthly Meeting Minutes**  
**Wednesday, March 22, 2017**  
**9:00 a.m.**  
**Room 205, State House**

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:02, Wednesday, March 22<sup>nd</sup>, 2017 in Room 205, State House.

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

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

The following members were absent: Ms. Marie Langlois, Ms. Paula McNamara.

Also in attendance: Mr. John Burns and Mr. John Linder, Pension Consulting Alliance (PCA), general consultants; Mr. Darren Wolf, Mr. Justin Sheehan and Mr. Greg Strassberg, Aberdeen Asset Management; Mr. Andrew Lapkin and Ms. Maxine Alexis, Hedgemark International, LLC; Mr. Tim Nguyen, Treasury Chief Investment Officer (interim); Ms. Sally Dowling, Adler, Pollock & Sheehan, legal counsel; and other members of the Treasurer's staff.

Treasurer Magaziner called the meeting to order at 9:02 a.m.

## **II. Approval of Minutes**

On a motion by Mr. Mullaney and seconded by Mr. Costello, it was unanimously **VOTED: to approve the draft minutes of the February 22nd, 2017 meeting of the State Investment Commission.**

## **III. Crisis Protection Class Global Remarks**

Mr. Burns recapped the purpose of implementing the Crisis Protection Class (CPC).

During the Asset Allocation Study, it was determined something should be put in the place to protect against down markets and produce appreciation during a growth crisis. The Board approved a CPC portfolio that was structured 50/50 between Treasury Duration and Systematic Trend Following that has similar volatility to the rest of the portfolio at a relatively simple and low cost structure. The long duration managers have been selected and the systematic trend following manager recommendations are scheduled for April. There will be one platform manager that oversee the entire CPC, which is 8% of total assets. The platform manager acts as a fiduciary and conducts operational due diligence of systemic trend managers, as well as performs custodial functions. Additionally, the platform manager assists in risk management and will be involved the creation of a risk dashboard.

Ms. Maxfield expressed interest in the risk dashboard being created by the platform manager noting it would be beneficial for board members to view the dashboard upon completion to ensure its usefulness and help understand the information being produced. Both Treasurer Magaziner and Mr. Nguyen agreed.

The Treasurer noted an important function of the platform manager will be the intra class rebalancing aspect. This is particularly important with a new class whose underlying strategies are somewhat volatile and can be rebalanced daily rather than monthly to ensure the allocation stays at 8% and is evenly distributed between treasuries and systematic trend following.

Treasury investment staff and PCA recommend Aberdeen – Hedgemark as the CPC platform Manager.

#### **IV. Crisis Protection Class Manager Presentation**

Mr. Wolf provided an organization overview of Aberdeen. He then proceeded to explain their responsibilities, as previously outlined by Mr. Burns, and expanded on their processes to meet those duties, specifically regarding operational due diligence, risk assessment and performance analytics.

Mr. Lapkin provided an organization overview of Hedgemark. He explained the organization's specialty is assisting institutional investors in the setup and operation of funds that don't readily fit in traditional long custody accounts, a category in which the systematic trend following strategy falls. Their responsibility will involve only the core, non-investment functions of the CPC portfolio.

The board asked questions.

#### **V. Crisis Protection Class Manager Recommendation**

Mr. Linder summarized the platform manager selection process. He reported the services and fees associated with the product under the negotiated terms with Aberdeen/Hedgemark. He made a clear distinction between Aberdeen and Hedgemark, explaining that Aberdeen acts a fiduciary and overall manager of the CPC while Hedgemark acts as a platform infrastructure provider, giving Aberdeen necessary data to makes its decisions on risk and rebalancing.

He then provided an anticipated timeline to implement the Crisis Protection Class should the recommendation be approved.

The board asked questions.

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

**VOTED: to approve the engagement of Aberdeen and Hedgemark, and the creation of the Crisis Protection Class platform in accordance with the presentation materials furnished to the SIC members.**

**Mr. Fay recused himself from the vote**

#### **VI. Legal Counsel Report**

There was no legal counsel report.

#### **VII. Chief Investment Officer Report**

Mr. Nguyen provided the performance update for February. The total portfolio value increased \$93.3 million to rest at \$7.9 billion. The month's increase comes from \$128.5 million of positive investment performance (which put the portfolio's 12-month investment earnings over the \$1 billion mark) offset by \$35.2 million of transfers to meet pension payroll in excess of pension contributions. On a percentage basis, the portfolio increased 1.66%, lagging both the plan benchmark of 1.70% and basic 60% global equity/40% fixed income allocation of 1.95%. Global equity markets, emerging market equities, global sovereign and corporate bonds all performed well.

Mr. Nguyen then apprised the Board that over the next month, staff and PCA will be working to develop an Investment Policy Statement (IPS) for the CPC and will bring forth three recommendations for systematic trend following managers.

The board asked questions.

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

Treasurer Magaziner acknowledged the progress being made as the portfolio shifts to the new asset allocation. He thanked everyone for their time.

There being no other business to come before the Board, on a motion by Ms. Reback and seconded by Mr. Mullaney the meeting adjourned at 10:04 a.m.

Respectfully submitted,

**Seth Magaziner,  
General Treasurer**