



State Investment Commission
Monthly Meeting Minutes
Wednesday, September 27th, 2017
9:00 a.m.
Room 205, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:04, Wednesday, September 27th, 2017 in Room 205, State House.

I. Roll Call of Members

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

The following members were absent: Mr. Thomas Fay

Also in attendance: Mr. Tom Lynch, Cliffwater; Mr. Chris Solarz, Cliffwater; Mr. John Burns, Pension Consulting Alliance (PCA); Ms. Judy Chambers, Pension Consulting Alliance (PCA); Mr. Gregory Miller, Voya; Mr. Alec Stais, Chief Investment Officer, Mr. Paul Campellone, Adler, Pollock & Sheehan, legal counsel; Ms. Kerri Baker, Cash Manager; and other 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. Mullaney and seconded by Ms. Maxfield it was unanimously **VOTED: to approve the draft minutes of the August 23rd, 2017 meeting of the State Investment Commission.**

III. 457 Plan Investment Lineup Update

Treasurer Magaziner informed the board that his team has held off from signing a new contract with Voya per our August Meeting. He explained that the plan line up will consequently be staying the same. He added that the logic behind the decision is that the 3% guaranteed return fixed account would no longer be offered if the new contract was signed. Voya has the right to freeze new assets coming into the fixed account product, and has put a December 1st, 2018 stop on the account for taking new money. The Fidelity and TIAA contracts have been signed and this will not affect them.

IV. Private Asset Pacing Plan

Mr. Lynch noted the five illiquid asset classes in our portfolio: Private Equity, Non-core Real Estate and Opportunistic Private Credit within our Growth Bucket; Private Credit within our Income Bucket; and Private Infrastructure in our Stability Bucket. He noted that our target portfolio's asset allocation would increase our total illiquid allocation from 11% of our invested capital to 20.5%. Mr. Lynch added that Cliffwater has modeled the path to the desired allocation to occur by 2022. Mr. Lynch summarized the size and frequencies of cash flows between investments made and proceeds received. For each of the five illiquid asset classes, he explained the dollar amount of commitments and approximate number of funds we should invest in the next year to be on track.

The Board reviewed the Inflation Protection Class Investment Policy Statement.

The Board asked questions.

V. Private Growth Class Investment Recommendation, Virgo Societas Partnership IV

Mr. Lynch introduced Mr. Watson and Mr. Aheto from Virgo and noted Virgo's place in our asset allocation would be in Private Credit.

Mr. Watson described Virgo by explaining their vision for it when they created it. He and his team foresaw institutional investors looking for middle duration funds amid times of low interest rates and sluggish growth and a team that could find niches and invest in them across multiple markets. He continued to talk about their strategy, investing in credit and structured equity. He laid out the criteria their team looks for in businesses and specifically what makes them attractive investments for Virgo. Mr. Aheto and Mr. Watson concluded by describing examples of specific companies Virgo has invested in.

The Board asked questions.

On a motion by Ms. Reback and seconded by Ms. Langlois, it was **VOTED: that the Employees' Retirement System of the State of Rhode Island make a commitment up to \$50 million in Virgo Societas Partnership IV, subject to legal and investment staff review and submission of required Subscription documents following the date of this resolution.**

VI. Inflation Protection Class Investment Recommendation, Stonepeak III

Ms. Chambers introduced Ms. McGeough and Mr. Vichie as a re-up opportunity as ERSRI participated in Stonepeak II.

Mr. Vichie thanked the board and staff for their past commitment to Stonepeak. He gave details on the background of Stonepeak and their origin as a firm. He touched on some of the ESG worthy work they have done, including building the largest desalinization plant in the US in Carlsbad, CA. Before handing it over to Ms. McGeough, he highlighted the past performance of the firm's 15 investments. Ms. McGeough mentioned the macro-factors they see effecting each of the sectors they operate in. She mentioned that the water sector is becoming an increasingly important sector for the firm with a lot of opportunities as the US' infrastructure ages. Ms. McGeough spoke to the opportunities they see in the transportation space to which Mr. Vichie highlighted the airport terminal space. In conclusion, Mr. Vichie noted Stonepeak has about 2 investments left in Fund II.

The Board asked questions.

Ms. Chambers brought up the risks involving infrastructure investing and why she finds Stonepeak III to be a good investment.

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

VOTED: that the Employees' Retirement System of the State of Rhode Island make a commitment up to \$35 million in Stonepeak III, subject to legal and investment staff review and submission of required Subscription documents following the date of this resolution.

VII. Crisis Protection Class Investment Recommendation, Aspect Core Diversified

Mr. Stais made comments around the initial implementation of the Crisis Protection Class, noting that Aspect Capital was initially researched to be a part of the trend following allocation. Mr. Lynch introduced his colleague Mr. Solarz who in turn introduced Ms. Reynolds and Mr. Wood from Aspect.

Ms. Reynolds told the history of Aspect from their start inside AHL. She emphasized their academic pedigree, their research focus and academic culture. Ms. Reynolds explained how she believes a differentiating factor between Aspect and other trend-followers is Aspect's years of experience. Mr. Wood explained the objective behind the Core Diversified product and explained how their algorithm would handle a trend reversing in the market and the mechanics behind catching profits on the other side. Mr. Wood spoke to the importance of research in finding new signals that help the product find the optimal trends across markets. Mr. Wood explained how Aspect runs many simulations so they can see how their product will react to different possible scenarios across markets. He emphasized how the Core Diversified product does not trade obscure markets.

The Board asked questions.

Mr. Lynch further explained how Aspect spun out of AHL and his confidence in the investment.

On a motion by Ms. Langlois and seconded by Ms. Maxfield, it was **VOTED: that the Employees' Retirement System of the State of Rhode Island make an investment of up to one third of the Crisis Protection Class, Systematic Trend Following Allocation in Aspect Core Diversified, subject to attendant review and documentation following the date of this resolution.**

VIII. Short-term Vendor Lineup Addition, Societe Generale Corporate and Investment Banking // SG Americas Securities

Ms. Baker told the Board of SG Americas Securities intention to become an approved investment bank. She explained SG Americas Securities is a subsidiary of Societe Generale and that they are qualified for approval based on the criteria in the investment policy. Treasurer Magaziner asked about the process of allocating capital to which Ms. Baker explained their tiered process.

On a motion by Ms. Reback and seconded by Mr. Mullaney, it was unanimously **VOTED: to approve the addition of SG Americas Securities to the short-term vendor lineup.**

IX. Legal Counsel Report

There was no legal counsel report.

X. Chief Investment Officer Report

Mr. Stais gave a high-level overview of the plan's performance during August. Mr. Stais mentioned the possibility of editing State Street's QVM mandate. Mr. Stais presented a diagram showing how the plan

stacks up against the new asset allocation voted on last year. Mr. Stais also presented a new benchmark for the portfolio that more closely resembles the new asset allocation previously approved by the board. He explained how the weighting and components of the benchmark would change. Lastly, Mr. Stais updated the Board on the eight requests for proposals received for the general consultant search.

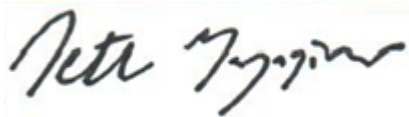
The Board asked questions.

On a motion by Mr. Benson and seconded by Ms. Hammond, it was unanimously
VOTED: that the Employees' Retirement System of the State of Rhode Island edit its benchmark as presented to more closely reflect its portfolio, which shall take effect October 1st, 2017.

XI. Treasurer's General Comments

There being no other business to come before the board, on a motion by Mr. Fay and seconded by Ms. Langlois, the meeting adjourned at 11:50 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Seth Magaziner". The signature is written in a cursive style with a large initial "S".

**Seth Magaziner,
General Treasurer**