



State Investment Commission
Monthly Meeting Minutes
Wednesday, October 25th, 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, October 25th, 2017 in Room 205, State House.

I. Roll Call of Members

The following members were present: Mr. Michael Costello, Mr. Thomas Fay, 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.

Also in attendance: Mr. Tom Lynch, Cliffwater; Mr. John Burns, Pension Consulting Alliance (PCA); Mr. David Glickman, Pension Consulting Alliance (PCA); Larry Brown and David Iden, TIAA; Mr. Alec Stais, Chief Investment Officer; Ms. Sally Dowling, Adler, Pollock & Sheehan, legal counsel; Ms. Kimberley Shockley, Associate Director College & Retirement Savings Plans; 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. Fay and seconded by Ms. Hammond it was unanimously

VOTED: to approve the draft minutes of the September 27th, 2017 meeting of the State Investment Commission.

III. 401(a) Plan Quarterly Review, TIAA

Treasurer Magaziner introduced the TIAA team of Mr. Brown and Mr. Iden. Mr. Iden spoke to the quarter's member engagement. He told the board about an event where he teamed with the Department of Administration as well as Ms. Shockley and they individually met with 178 beneficiaries. The team is on track to have more member engagement in 2017 than they did in 2016. Mr. Iden said that on the 457 side there were 25 new enrollees in TIAA on top of the Valic participants moving over on October 12th. He added that the 457 plan had about \$33 million in it as of that date. Mr. Brown recapped the plan's investment performance for the quarter. He showed that the year-to-date performance ranged from 1.5% to 23% varying by strategy. International emerging markets have been a strong performer year-to-date. They continue to monitor the net expense ratio and try to take advantage of opportunities to lower it. He noted that as the share classes have more assets under management fees fall. The 401(a) has approximately \$60 million which enables them to take advantage of the scale and offer the 457 plan participants the same 7 basis point fee.

IV. Real Estate Review

Mr. Glickman noted the three areas he would like to cover in his presentation: the current state of the domestic commercial real estate market; ERSRI's real estate portfolio; and a forward looking pacing plan

to achieve the recently adopted targets. He commented on the relative healthiness of the market and the measured construction and building that he believes the US market can sustain. He spoke to current lending standards which require between ¼ to 1/3 of a new project to be equity and the remainder to be financed with debt. He commented on how retail has been repurposed, but there has not been much expansion in the sector. He touched on more trends across different sectors of the commercial real estate market. Mr. Glickman noted that no one can predict what the future of commercial real estate will entail, but that PCA thinks returns will not be as fruitful as they have been the last few years. He differentiated his outlook on core versus non-core assets in the asset class. The last thing Mr. Glickman mentioned regarding the real estate market in general was the metrics PCA uses to judge the relative attractiveness the asset class at a certain time. Regarding ERSRI's real estate portfolio, Mr. Glickman noted that the outperformance in relation to the benchmark is due to the allocation to non-core assets. Real estate value appreciation has been a tail-wind in the last few years performance. He believes the leverage in ERSRI's portfolio is immaterial because of property occupancy and net operating income their portfolio has been achieving. Mr. Glickman recommended to reduce the core allocation to add to the non-core allocation to reach the desired balance between the two. He modeled the effect that redeeming from Prudential would have to the portfolio and how it would free capital to allocate to non-core to enhance returns. He noted PCA believes reducing the number of managers in the core real estate allocation would lessen fees while not changing the risk adjusted returns of the portfolio.

The Board asked questions.

V. Consultant Contract Extension, Capital Cities

Ms. Shockley gave a recap of the various things Capital Cities has helped ERSRI plans with since November 1st, 2014 when they were elected a fiduciary and investment consultant. Ms. Shockley asked the board to extend the contract of their services one year starting November 1st, 2017.

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

VOTED: that the Employees' Retirement System of the State of Rhode Island approve a 1-year extension of its contract with Capital cities for \$75,000 to take effect November 1st, 2017.

VI. Legal Counsel Report

Mrs. Dowling reported that an updated signatory authorization was required in connection with subscriptions to alternative investments.

On a motion by Ms. Reback , seconded by Ms. Maxfield, it was unanimously VOTED: That in connection with investments authorized by the Rhode Island State Investment Commission, Seth M. Magaziner, General Treasurer, Amy Crane, General Counsel, Patrick Marr, Chief of Staff, Kerri Baker, Cash Manager and Alec Stais, Chief Investment Officer, and each of them be, and hereby is, authorized, empowered and directed to execute and deliver by and on behalf of the Employees' Retirement System of the State of Rhode Island any and all Subscription Agreements, Side Letters, documents, instruments and other writings which each of them in the exercise of his or her sole discretion shall deem necessary or desirable and in the best interest of the Employees' Retirement System of the State of Rhode Island, the execution thereof by such authorized officer to be conclusive evidence that the same is duly authorized.

VII. Chief Investment Officer Report

Mr. Stais gave a high-level overview of the plan's performance during October. Mr. Stais gave credit to the equity markets for leading the good performance, and noted our fixed income allocations have beaten their benchmarks, as well. He spoke of macroeconomic factors that have led to strong market performances like the corporate tax rate cut which would raise corporate earnings across the country. The board inquired about the QVM Public Growth allocation which outperformed over the month. Mr. Stais mentioned the staff has been performing research on the public equity markets to see if the plan is optimally allocated. He gave an update on the progress of Aspect's funding to finalize the allocation of the Crisis Protection Class. Lastly, Mr. Stais updated the Board on the general consultant search stating that he plans on bringing a consultant or two to the next SIC Meeting.

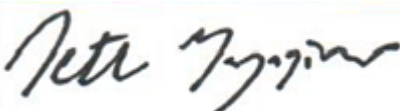
VIII. Treasurer's General Comments

The Treasurer recommended the board and staff consider Mr. Glickman's real estate portfolio recommendation in the future.

The Treasurer noted that the Collegebound plans had their strong Morningstar ratings reaffirmed. He emphasized that focus is now on sales being that the quality of the product has been reaffirmed. He brought up the possibility of moving the November meeting to December 6th.

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 10:18 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, flowing style.

**Seth Magaziner,
General Treasurer**