



State Investment Commission

Monthly Meeting Minutes

Wednesday, December 6th, 2017

9:00 a.m.

Executive Conference Room, Department of Administration

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:03, Wednesday, December 6th, 2017 in the Executive Conference Room, Department of Administration.

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. Alec Stais, Chief Investment Officer; Ms. Sally Dowling, Adler, Pollock & Sheehan, legal counsel; Mr. Doug Moseley, Mr. William Forde, Mr. Kevin Leonard and Mr. Phil Nelson, NEPC; Mr. Patrick Siewert, and Ms. Jessica Brennan, Carlyle; Mr. Doug Ostrover and Ms. Natalie Oelkers, Owl Rock; Tiffany Spudich and Peter Harvey, Capital Cities; and other members of the Treasurer's staff.

Treasurer Magaziner called the meeting to order at 9:03 a.m.

II. Approval of Minutes

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

VOTED: to approve the draft minutes of the October 25th, 2017 meeting of the State Investment Commission.

III. Private Credit Investment Recommendation, Owl Rock

Treasurer Magaziner introduced Doug Ostrover and Natalie Oelkers from Owl Rock. Mr. Lynch explained how Owl Rock was an opportunity for the Private Credit bucket filling a Direct Lending allocation. He highlighted the sponsored lending nature of Owl Rock. Mr. Ostrover gave a brief overview of the past thirty years of his professional career, most of it in alternative financing before he founded Owl Rock. He gave a description of Direct Lending and why he became so excited about it that he wanted to start Owl Rock. Based on where the market is today, Mr. Ostrover's belief is that Private Equity firms will need over one trillion dollars of debt over the next five years. Mr. Ostrover gave the history of the members of his team to emphasize their abilities. He added that his firm joined a space in the market lending to larger companies which gives them fewer competitors. Mr. Ostrover mentioned the importance of his portfolio's loan to value ratio and the goal to keep their portfolio ratio at or below 50%. He wrapped his presentation up explaining where the attribution of their returns would come from. Mr. Lynch added that Owl Rock is a Business Development Company and different than a typical fund with their exit strategy of going public.

The Board asked questions.

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

VOTED: that the Employees' Retirement System of the State of Rhode Island make a commitment up to \$50 million in Owl Rock, subject to legal and investment staff review and submission of required Subscription documents following the date of this resolution.

IV. Private Equity Investment Recommendation, Carlyle Asia V

Mr. Lynch introduced Jessica Brennan and Patrick Siewert from Carlyle. Ms. Brennan thanked the Plan for their ongoing partnership and support since 2014. She continued to give some history on Carlyle Asia and describe Mr. Siewert's background to the Board. Mr. Siewert gave the numbers behind the impressive track record of their Asian funds. He commented on how their portfolio's realized losses have been very low over their history and industry leading. He also noted on how their cash distributions are industry leading, which is unique in Asia. He highlighted that their team has had great longevity at the firm working together since Carlyle Asia II. Mr. Siewert explained that the strategy and sectors the fund will invest in will be the same as previous funds. He noted that a differentiator of their strategy is exiting to trade buyers and not exiting with an IPO into the public markets. He associated attribution to 2/3 revenue growth and 1/3 cost reduction. Furthermore, he explained how in each fund they have been able to find some cheaper purchase price multiples around the 6-7X EBITDA range, much less expensive than the US. He predicted that 50% of the world's GDP growth will come from Asia within the next decade and that investing in their fund will give the Plan exposure to that. Mr. Siewert explained that they plan to participate in the growth by implementing disciplined systems at their portfolio companies. Mr. Siewert noted that there is such rapid growth in Asia, he does not remember the last time that a portfolio company let employees go. Mr. Siewert stated that a good opportunity lies in partnering with multinationals that are attempting to expand their Asian footprint. He concluded by noting the loosely defined geographic breakdown of their portfolio.

The Board asked questions.

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 make a commitment up to \$50 million in Carlyle Asia V, subject to legal and investment staff review and submission of required Subscription documents following the date of this resolution.

V. 529 Plan Semiannual Update, Capital Cities

Treasurer Magaziner invited Tiffany Spudich to speak to the Board. Ms. Spudich gave an overview of Capital Cities relationship with the Plan. She noted that they oversaw the transition of the 529 Plan to Invesco a year ago. Ms. Spudich highlighted the strong performance of momentum stocks over the past year and the mute returns of bonds. She noted that the easy to understand menu of investment options follows best practice for direct plans. She touched on how different target-based funds had varying performance depending on their allocations. Also, she commented that returns were in line with expectations.

The Board asked questions. Ms. Spudich noted that in the advisor plans there are more active strategies than in direct plans. Treasurer Magaziner applauded the 529 Plan's Silver and Bronze MorningStar ratings and he and Ms. Spudich are hopeful that the ratings will increase with more consistency over time.

VI. General Consultant Search

Treasurer Magaziner explained that it's good practice to put vendor and consultant relationships out to bid periodically. As a result, he had vowed to do that during his term. He noted that the discussion would focus

on the post currently manned by PCA as the General Consultant to the Defined Benefit Plan. He thanked Mr. Fay and Ms. Maxfield for being part of the committee that analyzed and vetted applicant proposals. Treasurer Magaziner explained that the committee's findings led to bringing NEPC to the meeting today. Consequently, Doug Moseley, Kevin Leonard, Will Forde and Phil Nelson from NEPC gave an overview of their firm. Together they explained the asset allocation strategy NEPC believes in, the processes the group implements, and the various types of research they perform.

The Board asked questions.

The Employees' Retirement System of the State of Rhode Island decided to postpone any decision on the general consultant to the Defined Benefit Plan, pending further review of the matter.

VII. Consideration of 2018 Meeting Schedule

The Board reviewed proposed dates for 2018 meetings.

On a motion by Mr. Fay and seconded by Ms. Hammond, it was unanimously **VOTED: that the Employees' Retirement System of the State of Rhode Island schedule their meetings for calendar year 2018 at the proposed dates.**

VIII. Legal Counsel Report

There was no legal counsel report.

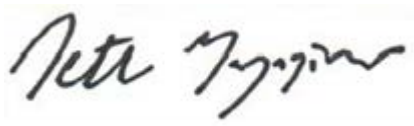
IX. Chief Investment Officer Report

Mr. Stais noted that we are making progress towards our actual allocations hitting our targets. He gave credit for the plan's positive performance to the continued strong performance of equity markets. He highlighted that we have beaten our benchmark across different lookback periods, but it has been harder to beat the 60/40 equities to bonds index because of our diversification. He commented that our Quality Value Momentum factor tilt has been carried by momentum as the driving factor of performance. His last remark was that our Crisis Protection Class would be fully funded the next week.

X. Treasurer's General Comments

Treasurer Magaziner thanked the Board and Staff for their hard work over the year and accredited the Plan's strong performance to them. He noted that the execution of the asset allocation transition is on target as well as the plan to add more staff to the investment team. 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 12:04 P.M.

Respectfully submitted,



**Seth Magaziner,
General Treasurer**