State Investment Commission
Monthly Meeting Minutes
Wednesday, February 28th, 2018
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 AM, Wednesday, February 28th, 2018 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. Karen Hammond, Ms. Sylvia Maxfield, Mr. Thomas Mullaney, 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. Ted Patton and Mr. Joe Conlon, Hastings; Roland Reynolds, Industry Ventures; and other members of the Treasurer's staff.

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

II. Approval of Minutes

On a motion by Mr. Fay and seconded by Ms. Langlois it was unanimously
VOTED: to approve the draft minutes of the January 24th, 2018 meeting of the State Investment Commission.

III. General Consultant Recommendation

Treasurer Magaziner recapped last month's proposal to commission both NEPC and PCA; hiring NEPC as the Plan's General Consultant due, in part, to the resources and analytical tools that they have to offer, while retaining PCA in a limited capacity to provide for a smooth transition. Mr. Stais directed meeting participants towards NEPC's 90-day Work Plan, while elaborating on the nature of NEPC's expected relationship with the Plan. Mr. Stais reiterated the fact that NEPC would serve as the lead advisor on the implementation of the existing asset allocation and attend 8 to 10 SIC meetings per year. The action plan was then broken down into goals and objectives by month; March involved filling out the Plan's roster of managers per the existing asset allocation, as voted on by the Board in 2016, rather than making near-term tactical decisions. May and June involved a deeper dive into the Plan's liability structure and the implementation of stress tests. Mr. Stais discussed PCA's proposed role as a senior advisor to the Board. It was stated that Mr. Emkin would be attending 2 to 3 SIC meetings per year to counsel on a macro and strategic level. Mr. Stais emphasized the value of retaining PCA to help the Staff monitor the structure of the Crisis Protection Class. He then directed the Board's attention towards an overview of the proposed pricing structure, while highlighting the opportunity for the Staff and Board to take advantage of NEPC's annual conferences and connect with other plans across the country.

The Board asked questions.

On a motion by Ms. Langlois and seconded by Ms. Hammond, it was unanimously **VOTED: to engage NEPC as the General Consultant to the Plan and PCA as Senior Advisor to the Plan and that Alec Stais be authorized to enter into written agreement with NEPC and PCA under the terms that had been previously outlined.**

IV. Private Equity Investment Recommendation, Hastings Equity Fund IV

Mr. Lynch introduced Ted Patton and Joe Conlon from Hastings. The founder, Mr. Patton, noted that the Houston based Hastings focuses on lower-middle market energy services and equipment companies, before highlighting Hasting's primary differentiators. He explained that Hastings always partners with business owners rather than retiring them, evidenced by the fact that they always buy a 51% to 70% controlling interest and never 100%. Mr. Patton then stressed that Hastings has maintained a top quartile track record since the 2005 inception of Fund I. He then proceeded to describe the functional organization of the firm, illustrating the investment process from business development and sourcing through post-LOI portfolio management. Mr. Patton emphasized that Hastings always directly contacts business owners rather than going through Investment Banks, allowing them to take their time evaluating businesses. Consequently, Mr. Patton elaborately described the background of select firm personnel with strong energy service backgrounds and roots in the Texas area. He then detailed his own personal and professional experiences that had ultimately inspired the founding of Hastings, before quantifying the firm's strong track record. Mr. Conlon, a Managing Director, subsequently delved into his background and path towards working with entrepreneurs and small businesses. He described his team as one that is driven by optimism in the entrepreneurial space. Mr. Patton provided insight into the services equipment business, mentioning that there are 30,000 companies operating in an industry in which the vast majority of functions are outsourced. Mr. Conlon went on to outline the sourcing, LOI, and diligence processes, emphasizing the fact that closing, on average, takes about 5 to 6 months. He then referenced Hastings' role in the diligence process, which starts roughly 2 months prior to closing, making the entrepreneur dependent upon what Hastings is providing to the company. He mentioned that this head start ultimately prevents re-trade and repricing and makes for a smooth transition once the deal closes. Mr. Conlon directed the Board's attention to his firm's positive performance through the downturn in the energy space, which started in 2014. He attributed this performance to the fact that Hastings strategically moderated their bets on drilling sensitive businesses while focusing on production activity. He also accredited Hasting's anticipation skills, which caused them to go into companies and force rank employees while industry conditions were favorable, allowing them to execute their action plans immediately upon reaching established downturn-signaling revenue triggers. Mr. Conlon noted that Hastings realized outperformance during the successive recovery because they retained assets on their balance sheet during the downturn and, thus, did not require more capital. Mr. Conlon provided examples of specific investments that demonstrate the firm's overall strategy. Mr. Patton referenced Hastings' standard 2 and 20 terms, and alluded to Fund IV's $250 million target and $300 million hard cap.

The Board asked questions.

Mr. Costello recused himself from participating in the consideration of an investment in Hastings. On a motion by Ms. Langlois which was seconded by Ms. Maxfield, it was unanimously **VOTED: that the Employees' Retirement System of the State of Rhode Island make a commitment up to a $25 million investment in Hastings Fund IV, subject to legal and investment staff review.**

V. Private Equity Investment Recommendation, Industry Ventures Partnership Holdings V

Mr. Lynch introduced Roland Reynolds, Managing Director, from Industry Ventures. Mr. Lynch presented Industry Ventures Partnership Holdings Fund V as a good opportunity in the venture capital space, noting that the Plan has invested in their 2 prior funds. Mr. Reynolds classified Industry Ventures Partnership Holdings Fund V as a hybrid fund of funds before recapping the Plan's investment performance in Partnership Holdings III, III-C, and IV. Mr. Reynolds proceeded to cover Industry Ventures as a firm, defining them as a San Francisco headquartered and SEC registered venture capital specialist firm with $3 billion AUM. He mentioned that the firm heavily collaborates with pension investment staff members not just to drive returns, but to share their expertise in the venture space and make introductions to venture funds in case the Plan desires additional venture exposure in the future. Mr. Reynolds boasted the fact that the firm's investments in over 240 companies and 275 funds have helped create a deep information advantage in an industry known for a lack of information availability, evidenced by the firm's 18% net IRR track record. He then progressed through a general team overview, highlighting their robust size and experience level relative to industry peers. Mr. Reynolds declared that Industry Ventures' track record over the past 18 years supports the idea that they have served as a pioneer in the inefficient areas of VC, resulting in the development of deep personal and professional relationships within the ecosystem. The Board's attention was directed to the firm's structure as a venture platform, comprised of hybrid fund of funds, secondary liquidity, and direct co-investments, before Mr. Reynolds took a deeper dive into the hybrid fund of funds model that is Partnership Holdings. He characterized Partnership Holdings as, "not your typical" VC fund. Through this unique hybrid strategy, Mr. Reynolds stated that they build diversified portfolios of early stage VC companies and assets with downside protection, while providing faster liquidity and preserving upside potential. He then discussed the target allocations for various strategies within the hybrid fund (40% primary commitments to underlying small VC funds at inception, 40% early secondary transactions and SPVs, 20% direct co-investments). Mr. Reynolds discussed the proposed terms, which reflect a blended fee structure that is no different from what existed for the prior fund. He elaborated on the fee structure, which in addition to fees paid to underlying managers, includes a 1% management fee and a bifurcated carry based on the type of investment (5% primary, 10% for early secondary/SPVs, 20% for direct co-investments). Mr. Reynolds suggested that the blended fees, given the target allocation, resembles a favorable fully-loaded 1.9% management fee with 23% carry. He also alluded to their 6% preferred return, meaning that Industry Ventures doesn't share in the carry until a 6% return to investors is satisfied. A question from Ms. Hammond prompted Mr. Reynolds to clarify that there is a catchup once the 6% return is achieved, but never such that it would push investors below 6%. Mr. Reynolds then declared that the GP commitment to these funds is 2%, paid in cash, before concluding the presentation.

The Board asked questions.

On a motion by Ms. Hammond and seconded by Ms. Langlois, it was unanimously **VOTED: that the Employees' Retirement System of the State of Rhode Island make a commitment up to a $30 million investment in Industry Ventures Partnership Holdings V, subject to legal and investment staff review.**

VI. Legal Counsel Report

There was no legal counsel report.

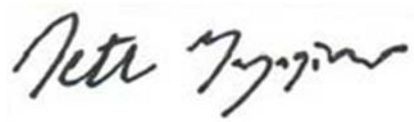
VII. Chief Investment Officer Report

Mr. Stais discussed the Plan's total performance during the month of January, noting its outperformance versus both the Plan benchmark and the 60/40 global equity to fixed income blend. Mr. Stais complemented the QVM public equity allocation, crediting momentum as the strategy's return driver. Mr. Stais reviewed the performance of the Crisis Protection Class, specifically noting the trend-follower's strong January performance. He did note that the strategy's Long Duration managers have lagged due to Treasury repricing since the start of the calendar year. Mr. Stais then discussed the annualized risk objectives of the Crisis Protection Class, noting that its realized annual volatility has behaved as expected. He mentioned that the portfolio's trend-followers capitalized on equity market gains in January, though disclosed that their high global equity beta has hurt their performance in the beginning of February. Nevertheless, Mr. Stais noted that the portfolio's trend-followers have still achieved positive returns since inception. Mr. Stais concluded that, in aggregate, the Crisis Protection Class is still well behaved and has delivered in a manner that is consistent with expectations.

VIII. Treasurer's General Comments

Treasurer Magaziner stated that the portfolio's performance has been sufficient, despite the rocky start to February. Referencing external inquiries from interested parties, Treasurer Magaziner reminded the Board that the Crisis Protection Class was not designed to provide protection through early February's market movements, since we did not experience a crisis. He noted that there is a separate bucket of the portfolio that is specifically designed to protect against short-term volatility. Treasurer Magaziner commented on the fact that, despite February's difficult start, the portfolio is beating its discount rate and the Plan buckets are performing according to the manner in which they're supposed to. He then complemented the staff for remaining disciplined and staying the course, given the market conditions. With that, the meeting adjourned at 11:08 AM.

Respectfully submitted,



Seth Magaziner,
General Treasurer