



State Investment Commission
Monthly Meeting Minutes
Wednesday, March 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 9:08 AM, Wednesday, March 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. Marcia Reback, Mr. Robert Benson, Ms. Karen Hammond, Mr. Frank Karpinski, and Treasurer Seth Magaziner.

Also in attendance: Mr. Tom Lynch, Cliffwater; Mr. Alec Stais, Chief Investment Officer; Ms. Lisa Churchville, Director of Participant Directed Investments; Ms. Sally Dowling, Adler, Pollock & Sheehan, legal counsel; Mr. Doug Moseley and Mr. Will Forde, NEPC; and other members of the Treasurer's staff.

Treasurer Magaziner called the meeting to order at 9:08 AM.

II. Approval of Minutes

On a motion by Ms. Reback and seconded by Ms. Hammond, it was unanimously **VOTED: to approve the draft minutes of the February 28th, 2018 meeting of the State Investment Commission.**

III. General Consultant Overview

Mr. Doug Moseley noted that NEPC, with the help of the Investment Staff, has developed a work plan covering the next several months. He informed the Board that NEPC has focused their initial work on uploading information into their performance measurement system and reaching out to some of the Plan's investment managers. Mr. Forde elaborated on the phases of the work plan. Mr. Doug Moseley then discussed NEPC's thoughts on recent market conditions. Mr. Moseley discussed the manager evaluation process and their process for evaluating opportunities to recommend improvements.

The board asked questions.

IV. Absolute Return Review

Mr. Tom Lynch stated that the Plan's absolute return allocation is designed to reduce total fund risk while providing low equity beta, equity market downside protection, and alpha generation. Mr. Lynch directed the Board's attention towards a graphic that categorized each of the portfolio's 7 managers before covering performance and risk analysis. He subsequently covered performance attribution, highlighting alpha as the primary driver of performance. Mr. Lynch referenced performance data across a universe of 30 public funds through Fiscal 2016. Mr. Lynch proceeded to illustrate that the construction of the absolute return portfolio is consistent with its low beta and high alpha objectives. Mr. Lynch noted that each of the remaining managers have provided close to Cliffwater's recommended 60% investor share of gross alpha.

The Board asked questions.

V. CollegeBound Saver and CollegeBound 529 Plan Age-Based Portfolios Update

Ms. Lisa Churchville informed the Board that, with the program approaching its 2-year anniversary with Ascensus and Invesco, the 2017-2018 age-based portfolio will be retired and rolled into the Today Portfolios, while 2037-2038 Portfolios will be introduced. She noted that CollegeBound offers Age-Based portfolios in 2-year age bands as opposed to the traditional 5-year bands. Ms. Churchville proceeded to discuss the bond market index fund allocations within the age-based portfolios, noting an opportunity to reduce management fees for the fixed income portion of the 529 plans' target date funds from 4.5 basis points to 2 basis points by replacing the iShares and Vanguard combination with 100% Vanguard Total Bond Market II Index. Ms. Churchville provided analysis from 529 advisor Capital Cities concluding that this move would provide U.S. bond market exposure comparable to the product's current offering.

On a motion by Mr. Costello and seconded by Ms. Reback, it was unanimously **VOTED: to replace Vanguard Total Bond Market Index (VBTIX) and iShares Core U.S. Aggregate Bond ETF (AGG) with Vanguard Total Bond Market II Index (VTBNX) within the Plan's Age-Based Portfolios on July 1, 2018.**

VI. Legal Counsel Report

There was no legal counsel report

VII. Alternative Investments Consultant Search Update

Mr. Alec Stais provided an update on the consultant search process, noting that due diligence was being conducted on a shortlist of candidates. Mr. Stais mentioned that the Investments Staff was reviewing the software and analytical capabilities of the shortlisted candidates and will conduct reference checks throughout the coming weeks. Mr. Stais suggested a preliminary recommendation would be made with 1 or more firms present during April's SIC meeting.

VIII. Chief Investment Officer Report

Mr. Stais discussed the Plan's total performance during the month of February, highlighting the QVM allocation's outperformance relative to its benchmark through February's challenging market environment. He noted that, despite the month's losses, the CPC Trend Program has produced positive returns since inception while outperforming its benchmark.

IX. Treasurer's General Comments

Treasurer Magaziner commented on the Plan's recent performance, stating that each bucket has performed in a manner that is consistent with expectations given the market environment. Treasurer Magaziner noted that the commission's work is on track, acknowledging the work that has been put into the Consultant searches.

On a motion by Ms. Reback and seconded by Ms. Hammond, it was unanimously **VOTED: to adjourn the meeting at 10:28 AM.**

Respectfully submitted,

**Seth Magaziner,
General Treasurer**

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