



State Investment Commission
Monthly Meeting Minutes
Wednesday, May 23rd, 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 9:05 AM, Wednesday, May 23rd, 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. Sylvia Maxfield, Mr. Thomas Mullaney, Ms. Marcia Reback, Mr. Robert Benson, Ms. Karen Hammond, Mr. Frank Karpinski, and Treasurer Seth Magaziner.

Also in attendance: Mr. Tom Lynch, Cliffwater; Mr. Dexter Paine and Mr. Matthew Hershenson, Paine Schwartz Partners; Mr. Kosmo Kalliarekos, Baring Private Equity Asia; Ms. Jennifer Bender, Mr. Taylor Famiglietti, Mr. Guarav Mallik and Mr. Kevin Smith, State Street Global Advisors; Mr. Alec Stais, Chief Investment Officer; Ms. Sally Dowling and Ms. Nicole Verdi, 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 9:05 AM.

II. Approval of Minutes

On a motion by Mr. Mullaney and seconded by Mr. Costello, it was unanimously **VOTED: to approve the draft minutes of the April 25th, 2018 meeting of the State Investment Commission.**

III. Private Equity Investment Recommendation, Paine Schwartz Food Chain Fund V

Mr. Paine discussed his background and experience in the Private Equity industry and introduced his firm's Director of Investor Relations, Mr. Matt Hershenson. Mr. Paine noted that Paine Schwartz is the leading Private Equity investor in the Food & Agribusiness space. Mr. Paine overviewed the firm's organizational structure and explained the firm's evolution towards Food and Agribusiness specialization. Mr. Paine detailed the firm's investment approach, ESG auditing process with a focus on sustainability, and approach to limiting commodity risk. He discussed how Paine's value creation process has resulted in strong multiple expansion. Mr. Paine reviewed some of the individual Fund IV portfolio companies and discussed overall Fund performance. He noted Fund V terms.

The Board asked questions.

Mr. Tom Lynch discussed Fund IV return expectations and explained Cliffwater's logic behind recommending Paine Schwartz Food Chain Fund V.

The Board asked questions.

On a motion by Ms. Hammond 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 \$50 million investment in Paine Schwartz Food Chain Fund V, subject to legal and investment staff review.**

IV. Private Equity Investment Recommendation, Baring Private Equity Asia Fund VII

Mr. Tom Lynch introduced Baring's Kosmo Kalliarekos, who provided a brief overview of his background. Mr. Kalliarekos explained that Baring provides exposure to Asian growth opportunities through a dispersed Pan-Asian approach. Mr. Kalliarekos described the firm's comprehensive regional coverage and outlined Fund VI's diverse portfolio construction by region and sector. He highlighted the firm's deep institutional capabilities, which are supported by Baring's three major executive committees. Mr. Kalliarekos highlighted Baring's stable and long-serving leadership team before illustrating the firm's fundamental focus and consistency. He described several case studies that portrayed the firm's value creation strategies. Mr. Kalliarekos described the Fund's terms and reiterated the firm's track record.

The Board asked questions.

Mr. Lynch explained how an investment in Baring Private Equity Asia Fund VII would impact the Plan's Private Equity allocation and diversification.

The Board asked questions.

On a motion by Mr. Costello which was seconded by Ms. Reback, it was unanimously **VOTED: that the Employees' Retirement System of the State of Rhode Island make a commitment up to a \$50 million investment in Baring Private Equity Asia Fund VII, subject to legal and investment staff review.**

V. General Consultant Update, NEPC

Mr. Will Forde reminded the Board that NEPC is conducting an evaluation of the Plan's existing roster of managers. He outlined the current 3-factor custom portfolio that is managed by State Street on behalf of the Plan. Mr. Doug Moseley explained that the Plan currently implements a custom Quality factor definition that differs from what is currently used in State Street's off-the-shelf factor-based product. He previewed State Street's proposed changes to the Plan's current QVM allocation.

The Board asked questions.

VI. QVM Portfolio Review, State Street Global Advisors

Mr. Taylor Famiglietti introduced the State Street team and Mr. Kevin Smith outlined the structure of the upcoming presentation and proposal. Ms. Jenn Bender recapped the decision-making process behind the implementation of the existing QVM strategy and guided the Board through the current rules-based portfolio construction process. She discussed live and back-tested performance of the current strategy. Mr. Guarav Mallik explained that an optimized portfolio construction framework considers the underlying risk makeup of the factors to effectively manage competing objectives and avoid unintended exposures. Ms. Bender clarified the optimization methodology and constraints that would be implemented under State Street's proposed adjustment to the current QVM strategy. Mr. Mallik used back-tested comparative analysis to highlight significant turnover reduction under the proposed optimized strategy. Ms. Bender

noted that optimization allows the strategy to achieve portfolio diversification with a considerably reduced number of holdings.

The Board asked questions.

On a motion by Mr. Costello which was seconded by Ms. Hammond, it was unanimously **VOTED: that the Employees' Retirement System of the State of Rhode Island implement State Street Global Advisors' proposed change to the Plan's QVM portfolio construction process, subject to legal and investment staff review.**

VII. Legal Counsel Report

There was no legal counsel report

VIII. Chief Investment Officer Report

Mr. Alec Stais discussed the Plan's Fiscal Year-to-Date performance through the end of April, highlighting strong Plan performance versus the benchmark. He noted that the Plan's allocation targets are relatively in-line and mentioned that the investment staff will continue to work with NEPC to evaluate smaller differences in portfolio weights and discuss investment manager ideas.

The Board asked questions.

IX. Treasurer's General Comments

Treasurer Magaziner briefly discussed the possibility of forgoing a July SIC meeting.

On a motion by Ms. Reback and seconded by Ms. Maxfield, it was unanimously **VOTED: to adjourn the meeting at 11:22 AM.**

Respectfully submitted,

**Seth Magaziner,
General Treasurer**

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