



State Investment Commission
Monthly Meeting Minutes
Wednesday, August 22nd, 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 9:01 AM, Wednesday, August 22nd, 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. Erik Carleton, and Treasurer Seth Magaziner.

Also in attendance: Dan Little & Gabe Santos, Homestead Capital; Tom Lynch & Mark Williams, Cliffwater; Benjamin Levin, Level Equity; Doug Moseley, Mark Cintolo & Robert Goldthorpe, NEPC; Mr. Alec Stais, Chief Investment Officer; Ms. Sally Dowling and Ms. Nicole Verdi, Adler, Pollock & Sheehan, legal counsel; and other members of the Treasurer's staff.

Treasurer Magaziner called the meeting to order at 9:01 AM.

II. Approval of Minutes

On a motion by Mr. Mullaney and seconded by Mr. Fay, it was unanimously **VOTED: to approve the draft minutes of the June 27th, 2018 meeting of the State Investment Commission.**

III. Homestead Capital USA Farmland Fund III

Mr. Tom Lynch explained how an investment in Homestead Capital USA Farmland Fund III would fit into the Plan's Inflation Protection allocation. Mr. Gabe Santos explained that Homestead aims to bridge the farming productivity gap through value-add investments in US cropland. He noted that Homestead manages exposure to risks through strategic portfolio construction. Mr. Santos provided examples of methods for creating value according to a farm's individual characteristics. He provided a high-level overview of the key stages of Homestead's investment sourcing and diligence processes.

The Board asked questions.

Mr. Dan Little discussed performance of Homesteads prior funds. Mr. Little discussed the fund's return expectations. Mr. Santos described Homestead's thoughts regarding exit flexibility within the space and reviewed case studies.

The Board asked questions.

Mr. Tom Lynch and Mr. Mark Williams provided analysis to support Cliffwater's recommendation to invest in Homestead Capital USA Farmland Fund III.

The Board asked questions.

On a motion by Ms. Maxfield which was seconded by Mr. Benson, 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 Homestead Capital USA Farmland Fund III, subject to legal and investment staff review.**

IV. Level Equity Growth Partners IV and Opportunities Fund 2018

Mr. Tom Lynch introduced Level Equity co-founder, Benjamin Levin. Mr. Levin overviewed his personal background and described Level Equity as a lower middle market growth equity investor. He reviewed the firm's funds raised to date. Mr. Levin described the characteristics of investment opportunities targeted by Level Equity and gave examples of their style of investing in the past. He explained that Level seeks favorably priced opportunities to build value. He provided background on Level's senior team and discussed prior fund performance.

The Board asked questions.

Mr. Levin described the differences between the two different fund structures. Mr. Lynch outlined the terms of each structure.

The Board asked questions.

On a motion by Ms. Reback which was seconded by Mr. Mullaney, it was unanimously **VOTED: that the Employees' Retirement System of the State of Rhode Island make a commitment up to a \$35 million investment in Level Equity Growth Partners IV and make a commitment up to \$15 million in Level Equity Opportunities Fund 2018, subject to legal and investment staff review.**

Ms. Maxfield abstained.

V. Income Class Review - Liquid Credit

Mr. Doug Moseley provided an overview of the Plan's Income Class. He reviewed performance of each components within the Class and noted that the class's performance targets were consistent with the design of the portfolio as well as NEPC's forward looking asset class expectations.

Mr. Moseley explained how the current Liquid Credit investment guidelines could be adjusted to enhance managers' ability to meet policy objectives. He reviewed each of the Plan's Liquid Credit manager's performance and noted that NEPC would provide additional diligence and specific recommendations regarding manager selection at a future meeting.

Mr. Moseley then addressed NEPC's recommendations to adjust the Liquid Credit manager benchmark to match the 50% High Yield/50% Bank Loan Asset Class benchmark and implement more adaptable Liquid Credit investment guidelines for managers. This recommendation reflected draft IPS language included in the SIC meeting materials.

The Board asked questions.

On a motion by Mr. Fay which was seconded by Mr. Costello, it was unanimously **VOTED: that the Employees' Retirement System of the State of Rhode Island adopt the proposed adjustments to the Income Class section of the Defined Benefit Investment Policy Statement and adjust the Liquid Credit manager benchmark to match the Liquid Credit Asset Class benchmark.**

VI. Asset/Liability Stress Testing

Mr. Mark Cintolo provided an overview of NEPC's Asset/Liability review process. Mr. Robert Goldthorpe reviewed the historical progression of the Plan's funded ratio and employer contributions, noting changes to the funding ratio in recent years were largely the result of the decision to adopt updated market assumptions.

He explained that, using NEPC's long-term return assumptions, the Plan's current target allocation is expected to produce an average return that slightly exceeds the expected actuarial rate of return over the next 30 years. Mr. Goldthorpe discussed medium and long-term projections of the Plan's funded ratio, contribution rate and cash flow. Mr. Cintolo overviewed NEPC's scenario analysis process and explained how it applies to the Plan. Mr. Goldthorpe interpreted the results of NEPC's stochastic modeling, which modeled the result of varying market conditions on the plan. Mr. Moseley told the Commission that the portfolio's prudent diversification and focus on income help protect equity gains from the Plan's liquidity requirements.

VII. Cash Management and BankLocal Update

Ms. Kerri Baker overviewed the funds managed by the Treasury's Cash team and noted that the state cash IPS was last updated in May 2016. Ms. Baker explained that majority of the cash resides in the Ocean State Investment Pool (OSIP) and discussed current rates and Fiscal 2018 performance. She explained that OSIP is run as a 2a-7 style Money Market Fund designed to provide daily liquidity and communicated the staff's intent to issue a new RFP for the OSIP mandate in Fall, 2018. Ms. Baker briefly discussed OSIP AUM. Mr. Patrick Marr reminded the Board that the BankLocal program allocates up to \$30 million in matching deposits to local banks and credit unions who are providing loans to small businesses in Rhode Island. He noted that all BankLocal investments are subject to the same collateral and insurance requirements as other state deposits. Mr. Marr provided a BankLocal progress update, discussing program loan and deposit figures. He referenced feedback from participating banks and stakeholders and recommended an amendment to the BankLocal policy statement to include a 2X match to veteran-owned businesses, as it currently does for loans to women and minority owned businesses as well as first-time business owners.

On a motion by Ms. Reback which was seconded by Ms. Maxfield, it was unanimously **VOTED: that the Employees' Retirement System of the State of Rhode Island amend the BankLocal policy guidelines to offer a 2X match to veteran-owned businesses, subject to legal and investment staff review.**

VIII. Legal Counsel Report

There was no legal counsel report

IX. Chief Investment Officer Report

Mr. Alec Stais discussed the Plan's Fiscal 2018 returns, highlighting strong performance versus the

benchmark. He noted several contributors to the Plan's Fiscal Year performance. He also discussed the Plan's Fiscal Year return versus the 60/40 benchmark, attributing the excess return to the outperformance of private assets versus public assets, as well as the diversification within the Stability Composite's outperformance versus the bond market, given the rising-rate environment. Mr. Stais also noted the Plan's July performance.

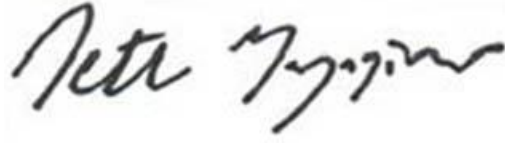
The Board asked questions.

X. Treasurer's General Comments

Treasurer Magaziner asked if there were any further comments or questions and thanked the Board and Staff.

On a motion by Mr. Costello and seconded by Mr. Benson, it was unanimously **VOTED: to adjourn the meeting at 11:45 AM.**

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Seth Magaziner". The signature is written in a cursive style with a large initial "S" and a long, sweeping underline.

**Seth Magaziner,
General Treasurer**