STATE OF RHODE ISLAND

ANNUAL REPORT OF THE TREASURY DEPARTMENT

FISCAL YEAR 2009

THE HONORABLE FRANK T. CAPRIO, GENERAL TREASURER

State of Rhode Island and Providence Plantations
Office of the General Treasurer
Room 102 State House
Providence, Rhode Island 02903

Frank T. Caprio
General Treasurer

September 30, 2010

To The Honorable General Assembly and the People of Rhode Island:

I am pleased to submit to you the annual report of the Office of the General Treasurer for fiscal year ending June 30, 2009 pursuant to Section 42-10-17 of the General Laws of Rhode Island.

The report summarizes revenues and expenditures, cash investments, activity involving the state and municipal retirement funds, as well as debt issues and payments.

I want to thank the board and commission members with whom I serve and the staff of the Treasury Department. Without them we would not be able to achieve our common goal of efficient management of state finances in the best interests of all Rhode Islanders.

Sincerely,

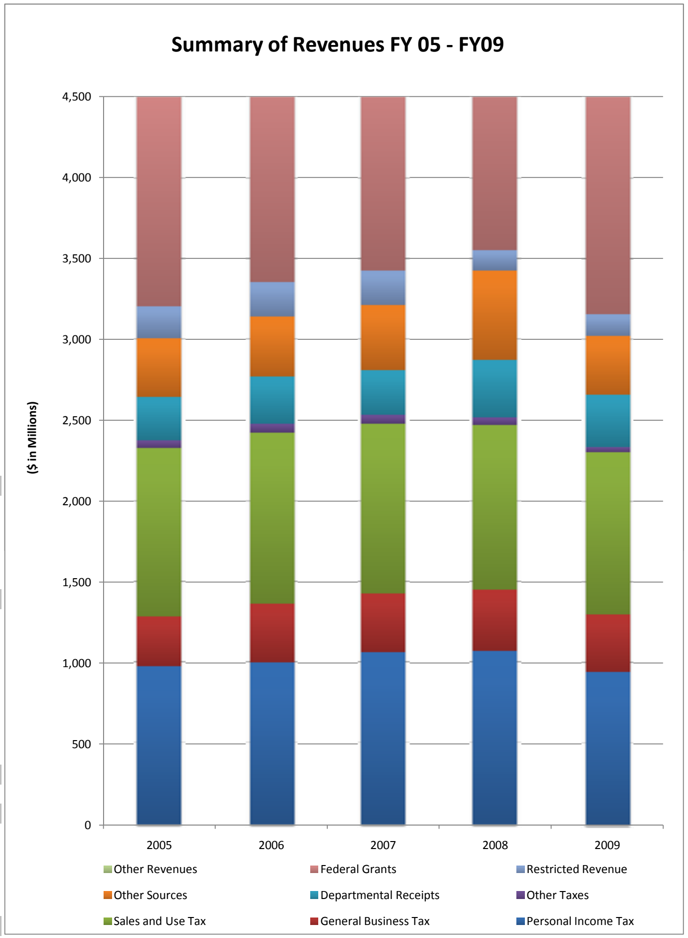
Frank T. Caprio

Frank T. Caprio
General Treasurer

REVENUES AND EXPENDITURES

State of Rhode Island
Summary of Revenues
June 30, 2009

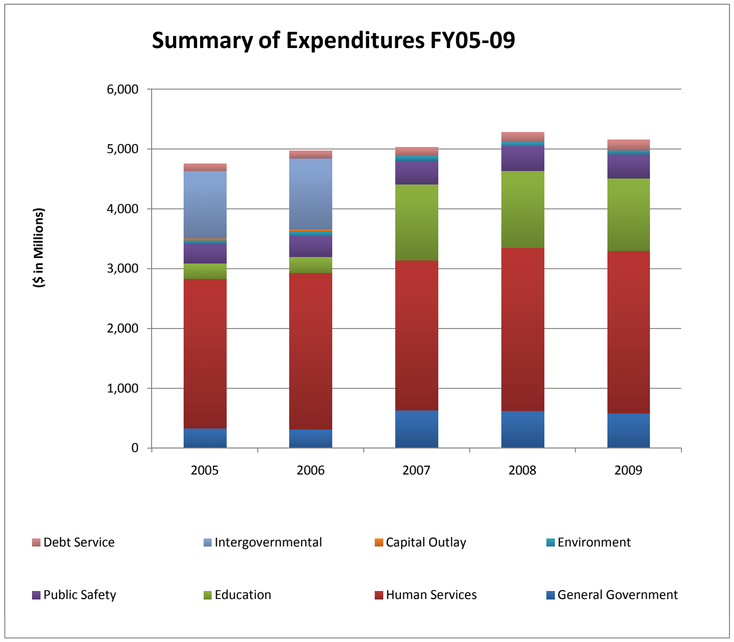
		2009		2008		2007		2006		2005
PERSONAL INCOME TAX	$	940,513,781.00	$	1,073,617,000.00	$	1,065,367,000	$	996,792,000	$	979,082,000
GENERAL BUSINESS TAXES:										
Business Corporations Franchise	$	104,436,811.00	$	150,469,000.00	$	148,149,000	$	165,054,000	$	116,026,000
Gross Earnings Tax-Public Utilities	$	126,664,890.00	$	99,437,000.00	$	102,109,000	$	96,027,000	$	86,358,000
Income Tax-Financial Institutions	$	5,358,740.00	$	1,830,000.00	$	4,423,000	$	3,989,000	$	(1,480,000)
Tax on Insurance Companies	$	78,016,930.00	$	67,997,000.00	$	56,624,000	$	52,878,000	$	53,333,000
Tax on Deposits-Banking Institutions	$	1,802,796.00	$	1,710,000.00	$	1,674,000	$	1,494,000	$	1,524,000
Health Care Provider Assessment	$	46,030,570.00	$	53,357,000.00	$	47,970,000	$	47,002,000	$	46,827,000
SALES AND USE TAXES:										
Sales and Use Tax	$	807,946,985.00	$	844,197,000.00	$	873,204,000	$	869,163,000	$	847,727,000
Motor Vehicle Tax	$	47,925,805.00	$	48,610,000.00	$	46,879,000	$	52,626,000	$	47,137,000
Gasoline Tax	$	1,325,034.00	$	991,000.00	$	1,312,000	$	31,000	$	1,961,000
Cigarette Tax	$	130,503,213.00	$	114,675,000.00	$	120,481,000	$	126,341,000	$	136,342,000
Alcohol	$	10,811,831.00	$	11,141,000.00	$	10,706,000	$	10,870,000	$	10,537,000
Controlled Substances	$	-	$	-			$	-	$	-
OTHER TAXES:										
Inheritance and Gift	$	28,096,912.00	$	35,334,000.00	$	34,684,000	$	39,204,000	$	32,981,000
Racing and Athletics	$	2,450,809.00	$	2,813,000.00	$	2,921,000	$	3,490,000	$	3,991,000
Realty Transfer Tax	$	6,811,322.00	$	10,223,000.00	$	12,737,000	$	14,592,000	$	14,423,000
	$	2,338,696,429.00	$	2,516,401,000.00	$	2,529,240,000	$	2,479,553,000	$	2,376,769,000
DEPARTMENTAL RECEIPTS	$	318,804,246.00	$	356,546,000.00	$	277,790,000	$	287,315,000	$	267,953,000
Total Taxes and Departmentals	$	2,657,500,675	$	2,872,947,000	$	2,807,030,000	$	2,766,868,000	$	2,644,722,000
OTHER SOURCES										
Gas Tax Transfer	$	4,327,710	$	4,514,000	$	4,705,000	$	4,322,000	$	9,023,000
Other Miscellaneous	$	17,813,994	$	181,810,000	$	67,471,000	$	31,163,000	$	28,197,000
Lottery	$	337,515,478	$	354,321,000	$	320,990,000	$	323,899,000	$	307,550,000
Unclaimed Property	$	8,044,126	$	15,387,000	$	11,457,000	$	14,243,000	$	15,618,000
Total Other Sources	$	367,701,308	$	556,032,000	$	404,623,000	$	373,627,000	$	360,388,000
Total General Revenues	$	3,025,201,983	$	3,428,979,000	$	3,211,653,000	$	3,140,495,000	$	3,005,110,000
Restricted Revenue/Other	$	133,872,448	$	126,090,000	$	215,061,000	$	216,018,000	$	200,547,000
Federal Grants	$	2,001,605,092	$	1,740,283,000	$	1,629,715,000	$	1,713,287,000	$	1,655,563,000
Other Revenues	$	57,659,514								
	$	5,218,339,037	$	5,295,352,000	$	5,056,429,000	$	5,069,800,000	$	4,861,220,000



Source Data: This data is sourced from the Comprehensive Annual Financial Report prepared by the Office of Accounts and Controls, page titled Schedule of Revenues, Expenditures and Changes in Fund Balance, published at http://controller.admin.ri.gov/Financial Reports/index.php

State of Rhode Island
Summary of Expenditures
June 30, 2008

	2009	2008	2007	2006	2005
General Government	**$586,628,000**	**$626,052,000**	**$633,893,000**	**$318,675,000**	**$329,197,000**
Human Services	**$2,711,167,000**	**$2,727,534,000**	**$2,512,286,000**	**$2,614,712,000**	**$2,504,107,000**
Education	**$1,217,271,000**	**$1,289,124,000**	**$1,267,255,000**	**$263,735,000**	**$255,762,000**
Public Safety	**$401,976,000**	**$410,605,000**	**$396,029,000**	**$361,567,000**	**$328,824,000**
Environment	**$68,932,000**	**$72,982,000**	**$81,518,000**	**$69,538,000**	**$62,338,000**
Capital Outlay				**$35,479,000**	**$33,105,000**
Intergovernmental				**$1,186,887,000**	**$1,121,818,000**
Debt Service	**$169,956,000**	**$160,555,000**	**$141,350,000**	**$125,081,000**	**$125,141,000**
Total Expenditures	**$5,155,930,000**	**$5,286,852,000**	**$5,032,331,000**	**$4,975,674,000**	**$4,760,292,000**



Source Data: This data is sourced from the Comprehensive Annual Financial Report prepared by the Office of Accounts and Controls published at http://controller.admin.ri.gov/Financial **Reports/index.php**

Note: For 2007 and subsequent years, the Intergovernmental and Capital Outlay line-items have been removed. Instead expenses are shown under the appropriate specific line item to which they relate. (e.g. in previous reports aid to local governments for schools was presented in the Intergovernmental line--since 2007 it is included in the Education line)

SHORT TERM CASH AND INVESTMENTS

State of Rhode Island
Office of the General Treasurer
Schedule of Interest Earned
FY 2009

Fund	Count		Amt. Purchased		Interest Earned	Interest Rate	(W)Avg Duration
GENERAL FUND	275	$	2,466,715,873.09	$	844,751.31	1.06%	1.91
H.A.V.A	19	$	989,815.58	$	3,209.88	2.09%	1.00
PENSION C	52	$	45,296,511.84	$	4,192.75	2.04%	1.48
PAYROLL A	57	$	70,669,234.63	$	6,876.93	1.84%	1.63
GENERAL FUND (HIST PRES)	6	$	3,189,631.11	$	6,721.88	1.28%	57.34
TANS PROCEEDS	54	$	1,724,018,273.91	$	1,046,088.03	1.38%	1.09
HIGHWAY FUND	190	$	664,133,144.15	$	304,328.08	1.36%	2.08
T.D.I. RESERVE (DET)	163	$	716,016,461.61	$	1,120,130.58	1.26%	5.82
EMPLOYER PENSION CONTRIBUTION	15	$	65,642,015.61	$	42,015.61	0.69%	1.00
RICAP GL FUND 21	39	$	111,842,309.75	$	110,721.59	2.08%	3.86
BOND CAPITAL FUND	67	$	179,584,672.16	$	131,332.65	1.50%	1.30
R.I. CLEAN WATER ACT	16	$	2,674,143.64	$	17,839.93	1.47%	1.00
STATE LOTTERY FUND	256	$	962,767,630.54	$	423,095.87	1.39%	3.17
ASSESSED FRINGE BEN ADM	29	$	28,224,977.62	$	38,207.19	1.27%	1.00
AUTO EQUIPMENT SERVICE	21	$	3,730,234.49	$	4,724.61	1.21%	1.00
HEALTH INSURANCE FUND	71	$	291,444,633.18	$	192,195.91	1.21%	4.36
FLEET REVOLVING LOAN FUND	12	$	10,387,449.82	$	52,912.00	1.41%	1.00
EMPLOYEES RETIREMENT	183	$	450,257,231.02	$	260,949.95	1.41%	7.46
MUNICIPAL EMPLOYEES RET.	132	$	56,558,809.53	$	37,180.37	1.41%	7.96
RETIREE HEALTH FUND	41	$	44,591,039.02	$	44,860.50	1.32%	1.00
BOG RETIREE FUND	14	$	1,546,583.84	$	5,322.39	1.37%	1.00
RIPTA HEALTH FUND	21	$	6,718,391.35	$	6,028.53	1.16%	1.00
PERMANENT SCHOOL FUND	20	$	4,836,814.06	$	19,067.79	1.51%	1.00
TEACHER RETIREE HEALTH FUND	23	$	4,631,382.97	$	5,800.49	1.39%	1.00
UNIVERSITY COLLEGE	88	$	219,198,427.83	$	47,485.71	1.98%	1.42
HIGHER EDUCATION	6	$	1,900,812.63	$	812.63	0.93%	1.00
INDUS. BLDG. & MTG. INS.	17	$	5,939,255.89	$	36,875.02	1.51%	1.00
Total	**1887**	**$**	**8,143,505,760.87**	**$**	**4,813,728.18**	**1.28%**	**3.28**

State of Rhode Island
Office of the General Treasurer
Cash Management - Short Term Investments

Investment Purchase Analysis - By Fund FY09

Fund	Investment Type	Count	Settlement Amount	Earnings	Total	Average Daily Balance	Yield	Duration (days)
GENERAL FUND	Collateralized Deposit (PIP)	103	$ 749,430,719.35	$ 316,792.46	$ 749,747,511.81	$ 24,862,759.79	1.27%	$ 1.00
	Commercial Paper	23	$ 185,889,463.95	$ 10,536.05	$ 185,900,000.00	$ 512,431.64	2.06%	$ 1.02
	FHLB Discount Note	3	$ 59,797,648.61	$ 5,227.64	$ 59,802,876.25	$ 256,130.12	2.04%	$ 1.00
	Money Market Fund (MMK)	140	$ 1,383,588,030.07	$ 463,631.35	$ 1,384,051,661.42	$ 47,429,305.86	0.98%	$ 1.00
	Regular CD	4	$ 40,010,011.11	$ 42,252.70	$ 40,052,263.81	$ 6,380,665.34	0.66%	$ 57.25
	Repurchase Agreement	2	$ 48,000,000.00	$ 6,311.11	$ 48,006,311.11	$ 345,934.37	1.82%	$ 1.00
		275	**$ 2,466,715,873.09**	**$ 844,751.31**	**$ 2,467,560,624.40**	**$ 79,787,227.12**	**1.06%**	**1.91**
H.A.V.A	Collateralized Deposit (PIP)	16	$ 670,571.09	$ 3,209.88	$ 673,780.97	$ 153,602.29	2.09%	$ 1.00
	Money Market Fund (MMK)	3	$ 319,244.49	$ -	$ 319,244.49	$ 874.60	0.00%	$ 1.00
		19	**$ 989,815.58**	**$ 3,209.88**	**$ 993,025.46**	**$ 154,476.89**	**2.08%**	**$ 1.00**
PENSION C	Commercial Paper	48	$ 37,096,511.84	$ 3,664.83	$ 37,100,176.67	$ 167,462.15	2.19%	$ 1.58
	Repurchase Agreement	4	$ 8,200,000.00	$ 527.92	$ 8,200,527.92	$ 38,532.42	1.37%	$ 1.00
		52	**$ 45,296,511.84**	**$ 4,192.75**	**$ 45,300,704.59**	**$ 205,994.57**	**2.04%**	**$ 1.48**
PAYROLL A	Commercial Paper	51	$ 53,969,853.38	$ 5,223.18	$ 53,975,076.56	$ 250,698.74	2.08%	$ 1.69
	FHLB Discount Note	3	$ 5,999,381.25	$ 618.75	$ 6,000,000.00	$ 35,134.13	1.76%	$ 2.17
	Repurchase Agreement	3	$ 10,700,000.00	$ 1,035.00	$ 10,701,035.00	$ 87,236.70	1.19%	$ 1.00
		57	**$ 70,669,234.63**	**$ 6,876.93**	**$ 70,676,111.56**	**$ 373,069.57**	**1.84%**	**$ 1.63**
GENERAL FUND (HIST PRES)	Regular CD	6	$ 3,189,631.11	$ 6,721.88	$ 3,196,352.99	$ 526,721.99	1.28%	$ 57.34
		6	**$ 3,189,631.11**	**$ 6,721.88**	**$ 3,196,352.99**	**$ 526,721.99**	**1.28%**	**$ 57.34**
TANS PROCEEDS	Collateralized Deposit (PIP)	37	$ 476,962,295.56	$ 1,009,985.72	$ 477,972,281.28	$ 67,556,803.50	1.50%	$ 1.00
	Repurchase Agreement	16	$ 1,167,056,045.02	$ 36,035.64	$ 1,167,092,080.66	$ 7,776,009.11	0.46%	$ 1.00
	US Treasury Bills	1	$ 79,999,933.33	$ 66.67	$ 80,000,000.00	$ 657,490.41	0.01%	$ 3.00
		54	**$ 1,724,018,273.91**	**$ 1,046,088.03**	**$ 1,725,064,361.94**	**$ 75,990,303.02**	**1.38%**	**$ 1.09**
HIGHWAY FUND	CDARS	4	$ 20,038,601.45	$ 20,754.87	$ 20,059,356.32	$ 1,533,109.33	1.35%	$ 28.00
	Collateralized Deposit (PIP)	59	$ 157,690,871.38	$ 194,972.65	$ 157,885,844.03	$ 10,847,592.95	1.80%	$ 1.00
	Commercial Paper	44	$ 147,837,403.21	$ 13,034.85	$ 147,850,438.06	$ 600,396.31	2.17%	$ 1.48
	FHLB Discount Note	2	$ 7,699,035.42	$ 964.58	$ 7,700,000.00	$ 47,629.20	2.03%	$ 2.30
	Money Market Fund (MMK)	44	$ 121,965,912.41	$ 60,936.07	$ 122,026,848.48	$ 8,184,747.48	0.74%	$ 1.00
	Regular CD	5	$ 12,401,254.17	$ 7,047.82	$ 12,408,301.99	$ 315,207.02	2.24%	$ 8.94
	Repurchase Agreement	32	$ 196,500,066.11	$ 6,617.24	$ 196,506,683.35	$ 802,824.79	0.82%	$ 1.00
		190	**$ 664,133,144.15**	**$ 304,328.08**	**$ 664,437,472.23**	**$ 22,331,507.08**	**1.36%**	**$ 2.08**
T.D.I. RESERVE (DET)	CDARS	8	$ 80,061,803.08	$ 80,633.35	$ 80,142,436.43	$ 6,124,839.00	1.32%	$ 27.67
	Collateralized Deposit (PIP)	28	$ 69,549,919.91	$ 230,751.28	$ 69,780,671.19	$ 16,682,562.45	1.38%	$ 1.00
	Commercial Paper	45	$ 126,989,099.82	$ 11,006.18	$ 127,000,106.00	$ 524,814.92	2.10%	$ 1.46
	FHLB Discount Note	3	$ 34,158,633.33	$ 41,366.67	$ 34,200,000.00	$ 1,819,417.14	2.27%	$ 19.50
	Money Market Fund (MMK)	73	$ 351,096,281.08	$ 683,805.89	$ 351,780,086.97	$ 61,258,144.07	1.12%	$ 1.00
	Regular CD	4	$ 40,165,924.39	$ 65,783.88	$ 40,231,708.27	$ 2,333,211.92	2.82%	$ 14.50
	Repurchase Agreement	1	$ 9,500,000.00	$ 1,583.33	$ 9,501,583.33	$ 76,889.27	2.06%	$ 1.00
	FHLMC Discount Note	1	$ 4,494,800.00	$ 5,200.00	$ 4,500,000.00	$ 241,916.71	2.15%	$ 20.00
		163	**$ 716,016,461.61**	**$ 1,120,130.58**	**$ 717,136,592.19**	**$ 89,061,795.48**	**1.26%**	**$ 5.82**
EMPLOYER PENSION CONTRIBUTION	Collateralized Deposit (PIP)	8	$ 31,638,469.41	$ 38,469.41	$ 31,676,938.82	$ 4,416,712.33	0.87%	$ 1.00
	Money Market Fund (MMK)	7	$ 34,003,546.20	$ 3,546.20	$ 34,007,092.40	$ 1,654,795.65	0.21%	$ 1.00
		15	**$ 65,642,015.61**	**$ 42,015.61**	**$ 65,684,031.22**	**$ 6,071,507.98**	**0.69%**	**$ 1.00**
RICAP GL FUND 21	Collateralized Deposit (PIP)	26	$ 41,364,432.70	$ 88,294.61	$ 41,452,727.31	$ 4,234,723.73	2.09%	$ 1.00
	Commercial Paper	9	$ 47,786,839.47	$ 13,160.53	$ 47,800,000.00	$ 652,030.02	2.02%	$ 4.97
	FHLB Discount Note	4	$ 22,691,037.58	$ 9,266.45	$ 22,700,304.03	$ 426,860.50	2.17%	$ 6.73
		39	**$ 111,842,309.75**	**$ 110,721.59**	**$ 111,953,031.34**	**$ 5,313,614.25**	**2.08%**	**$ 3.86**
BOND CAPITAL FUND	Collateralized Deposit (PIP)	25	$ 76,392,529.37	$ 122,595.57	$ 76,515,124.94	$ 8,296,163.62	1.48%	$ 1.00
	Commercial Paper	37	$ 91,392,142.79	$ 7,974.99	$ 91,400,117.78	$ 384,714.05	2.07%	$ 1.56
	Regular CD	2	$ 500,000.00	$ 209.03	$ 500,209.03	$ 9,435.68	2.22%	$ 7.00
	Repurchase Agreement	3	$ 11,300,000.00	$ 553.06	$ 11,300,553.06	$ 49,203.33	1.12%	$ 1.00
		67	**$ 179,584,672.16**	**$ 131,332.65**	**$ 179,716,004.81**	**$ 8,739,516.68**	**1.50%**	**$ 1.30**
R.I. CLEAN WATER ACT	Collateralized Deposit (PIP)	16	$ 2,674,143.64	$ 17,839.93	$ 2,691,983.57	$ 1,211,449.16	1.47%	$ 1.00
		16	**$ 2,674,143.64**	**$ 17,839.93**	**$ 2,691,983.57**	**$ 1,211,449.16**	**1.47%**	**$ 1.00**
STATE LOTTERY FUND	CDARS	4	$ 40,077,587.77	$ 42,280.04	$ 40,119,867.81	$ 3,065,365.59	1.38%	$ 27.80
	Collateralized Deposit (PIP)	65	$ 154,884,169.04	$ 192,613.86	$ 155,076,782.90	$ 10,414,664.76	1.85%	$ 1.00
	Commercial Paper	49	$ 220,877,027.25	$ 22,972.75	$ 220,900,000.00	$ 1,094,323.45	2.10%	$ 1.76
	FHLB Discount Note	7	$ 46,973,392.35	$ 26,607.65	$ 47,000,000.00	$ 1,243,843.16	2.14%	$ 9.60
	Money Market Fund (MMK)	70	$ 160,955,211.77	$ 102,129.48	$ 161,057,341.25	$ 11,873,878.53	0.86%	$ 1.00
	Regular CD	3	$ 23,100,000.00	$ 23,188.89	$ 23,123,188.89	$ 1,331,926.46	1.74%	$ 20.30
	Repurchase Agreement	58	$ 315,900,242.36	$ 13,303.20	$ 315,913,545.56	$ 1,408,777.35	0.94%	$ 1.00
		256	**$ 962,767,630.54**	**$ 423,095.87**	**$ 963,190,726.41**	**$ 30,432,779.30**	**1.39%**	**$ 3.17**

CD = Certificate of Deposit | PIP = Collateralized Deposit | CP = Commercial Paper | REPO = Repurchase Agreements | MMF = Money Market | DISCOUNT NOTE = Agency Paper (Federal)

State of Rhode Island
Office of the General Treasurer
Cash Management - Short Term Investments

Investment Purchase Analysis - By Fund FY09

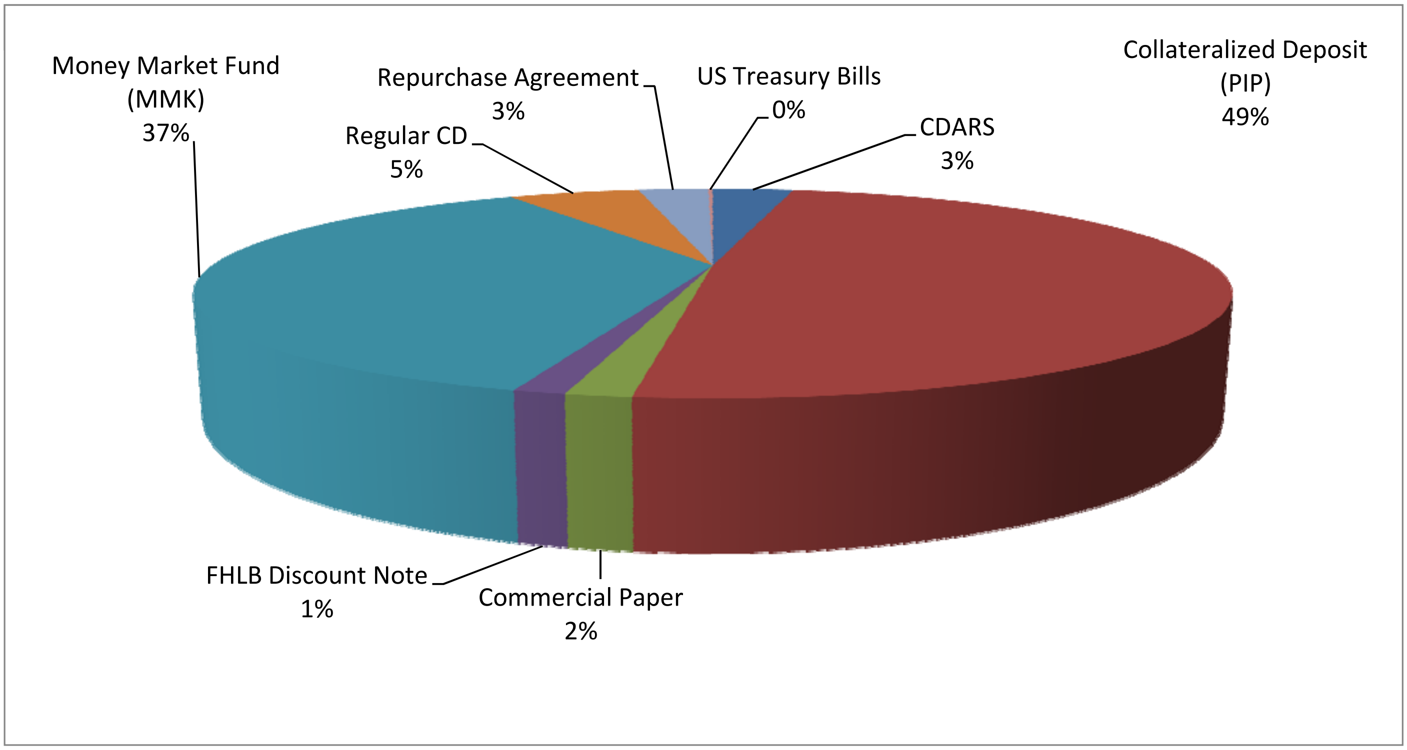
Fund	Investment Type	Count	Settlement Amount	Earnings	Total	Average Daily Balance	Yield	Duration (days)
ASSESSED FRINGE BEN ADM	Collateralized Deposit (PIP)	29	$ 28,224,977.62	$ 38,207.19	$ 28,263,184.81	$ 2,999,590.33	1.27%	$ 1.00
		29	$ 28,224,977.62	$ 38,207.19	$ 28,263,184.81	$ 2,999,590.33	1.27%	$ 1.00
AUTO EQUIPMENT SERVICE	Collateralized Deposit (PIP)	21	$ 3,730,234.49	$ 4,724.61	$ 3,734,959.10	$ 389,723.92	1.21%	$ 1.00
		21	$ 3,730,234.49	$ 4,724.61	$ 3,734,959.10	$ 389,723.92	1.21%	$ 1.00
HEALTH INSURANCE FUND	CDARS	4	$ 20,038,601.44	$ 20,754.86	$ 20,059,356.30	$ 1,533,109.33	1.35%	$ 28.00
	Collateralized Deposit (PIP)	34	$ 121,910,064.78	$ 117,833.44	$ 122,027,898.22	$ 6,751,814.22	1.75%	$ 1.00
	Commercial Paper	10	$ 51,582,645.95	$ 17,354.05	$ 51,600,000.00	$ 840,393.81	2.06%	$ 6.06
	FHLB Discount Note	8	$ 50,289,370.18	$ 12,664.82	$ 50,302,035.00	$ 663,920.39	1.91%	$ 4.50
	Money Market Fund (MMK)	15	$ 47,623,950.83	$ 23,588.74	$ 47,647,539.57	$ 6,155,221.61	0.38%	$ 1.00
		71	$ 291,444,633.18	$ 192,195.91	$ 291,636,829.09	$ 15,944,459.36	1.21%	$ 4.36
FLEET REVOLVING LOAN FUND	Collateralized Deposit (PIP)	12	$ 10,387,449.82	$ 52,912.00	$ 10,440,361.82	$ 3,748,551.30	1.41%	$ 1.00
		12	$ 10,387,449.82	$ 52,912.00	$ 10,440,361.82	$ 3,748,551.30	1.41%	$ 1.00
EMPLOYEES RETIREMENT	Collateralized Deposit (PIP)	106	$ 224,510,537.16	$ 118,940.62	$ 224,629,477.78	$ 8,250,952.10	1.44%	$ 1.00
	Commercial Paper	1	$ 15,195,110.67	$ 4,889.33	$ 15,200,000.00	$ 245,295.17	1.99%	$ 6.00
	FHLB Discount Note	1	$ 8,994,637.50	$ 5,362.50	$ 9,000,000.00	$ 267,045.72	2.01%	$ 11.00
	Money Market Fund (MMK)	14	$ 46,206,945.69	$ 6,945.68	$ 46,213,891.37	$ 1,932,602.74	0.36%	$ 1.00
	Regular CD	60	$ 154,150,000.00	$ 124,591.82	$ 154,274,591.82	$ 7,848,536.68	1.59%	$ 18.80
	Repurchase Agreement	1	$ 1,200,000.00	$ 220.00	$ 1,200,220.00	$ 19,569.92	1.12%	$ 1.00
		183	$ 450,257,231.02	$ 260,949.95	$ 450,518,180.97	$ 18,564,002.33	1.41%	$ 7.46
MUNICIPAL EMPLOYEES RET.	Collateralized Deposit (PIP)	79	$ 34,118,809.53	$ 20,486.72	$ 34,139,296.25	$ 1,513,839.22	1.35%	$ 1.00
	Regular CD	53	$ 22,440,000.00	$ 16,693.65	$ 22,456,693.65	$ 1,128,578.72	1.48%	$ 18.55
		132	$ 56,558,809.53	$ 37,180.37	$ 56,595,989.90	$ 2,642,417.94	1.41%	$ 7.96
RETIREE HEALTH FUND	Collateralized Deposit (PIP)	41	$ 44,591,039.02	$ 44,860.50	$ 44,635,899.52	$ 3,393,817.40	1.32%	$ 1.00
		41	$ 44,591,039.02	$ 44,860.50	$ 44,635,899.52	$ 3,393,817.40	1.32%	$ 1.00
BOG RETIREE FUND	Collateralized Deposit (PIP)	14	$ 1,546,583.84	$ 5,322.39	$ 1,551,906.23	$ 388,621.57	1.37%	$ 1.00
		14	$ 1,546,583.84	$ 5,322.39	$ 1,551,906.23	$ 388,621.57	1.37%	$ 1.00
RIPTA HEALTH FUND	Collateralized Deposit (PIP)	21	$ 6,718,391.35	$ 6,028.53	$ 6,724,419.88	$ 520,511.68	1.16%	$ 1.00
		21	$ 6,718,391.35	$ 6,028.53	$ 6,724,419.88	$ 520,511.68	1.16%	$ 1.00
PERMANENT SCHOOL FUND	Collateralized Deposit (PIP)	20	$ 4,836,814.06	$ 19,067.79	$ 4,855,881.85	$ 1,263,776.66	1.51%	$ 1.00
		20	$ 4,836,814.06	$ 19,067.79	$ 4,855,881.85	$ 1,263,776.66	1.51%	$ 1.00
TEACHER RETIREE HEALTH FUND	Collateralized Deposit (PIP)	23	$ 4,631,382.97	$ 5,800.49	$ 4,637,183.46	$ 417,058.13	1.39%	$ 1.00
		23	$ 4,631,382.97	$ 5,800.49	$ 4,637,183.46	$ 417,058.13	1.39%	$ 1.00
UNIVERSITY COLLEGE	Collateralized Deposit (PIP)	25	$ 22,064,482.12	$ 31,119.60	$ 22,095,601.72	$ 1,582,664.54	1.97%	$ 1.00
	Commercial Paper	51	$ 188,684,310.49	$ 15,710.62	$ 188,700,021.11	$ 763,375.60	2.06%	$ 1.45
	FHLB Discount Note	1	$ 3,199,466.67	$ 533.33	$ 3,200,000.00	$ 25,813.34	2.07%	$ 3.00
	Repurchase Agreement	11	$ 5,250,168.55	$ 122.16	$ 5,250,290.71	$ 20,611.34	0.59%	$ 1.00
		88	$ 219,198,427.83	$ 47,485.71	$ 219,245,913.54	$ 2,392,464.82	1.98%	$ 1.42
HIGHER EDUCATION	Collateralized Deposit (PIP)	6	$ 1,900,812.63	$ 812.63	$ 1,901,625.26	$ 87,397.26	0.93%	$ 1.00
		6	$ 1,900,812.63	$ 812.63	$ 1,901,625.26	$ 87,397.26	0.93%	$ 1.00
INDUS. BLDG. & MTG. INS.	Collateralized Deposit (PIP)	17	$ 5,939,255.89	$ 36,875.02	$ 5,976,130.91	$ 2,441,076.39	1.51%	$ 1.00
		17	$ 5,939,255.89	$ 36,875.02	$ 5,976,130.91	$ 2,441,076.39	1.51%	$ 1.00
		1887	**$ 8,143,505,760.87**	**$ 4,813,728.18**	**$ 8,148,319,489.05**	**$ 375,393,432.18**	**1.28%**	**$ 3.28**

Investment Type	Count	Settlement Amount	Earnings	Total	Average Daily Balance	Yield	Duration (days)
CDARS	**20**	**$ 160,216,593.74**	**$ 164,423.12**	**$ 160,381,016.86**	**$ 12,256,423.25**	**1.34%**	**27.87**
Collateralized Deposit (PIP)	**831**	**$ 2,276,368,956.73**	**$ 2,718,516.90**	**$ 2,279,087,473.63**	**$ 182,426,429.30**	**1.49%**	**1.00**
Commercial Paper	**368**	**$ 1,167,300,408.82**	**$ 125,527.36**	**$ 1,167,425,936.18**	**$ 6,035,935.86**	**2.08%**	**2.64**
FHLB Discount Note	**32**	**$ 239,802,602.89**	**$ 102,612.39**	**$ 239,905,215.28**	**$ 4,785,793.70**	**2.14%**	**6.64**
Money Market Fund (MMK)	**366**	**$ 2,145,759,122.54**	**$ 1,344,583.41**	**$ 2,147,103,705.95**	**$ 138,489,570.54**	**0.97%**	**1.00**
Regular CD	**137**	**$ 295,956,820.78**	**$ 286,489.67**	**$ 296,243,310.45**	**$ 19,874,283.81**	**1.44%**	**25.34**
Repurchase Agreement	**131**	**$ 1,773,606,522.04**	**$ 66,308.66**	**$ 1,773,672,830.70**	**$ 10,625,588.60**	**0.62%**	**1.00**
FHLMC Discount Note	**1**	**$ 4,494,800.00**	**$ 5,200.00**	**$ 4,500,000.00**	**$ 241,916.71**	**2.15%**	**20.00**
US Treasury Bills	**1**	**$ 79,999,933.33**	**$ 66.67**	**$ 80,000,000.00**	**$ 657,490.41**	**0.01%**	**3.00**
	1887	**$ 8,143,505,760.87**	**$ 4,813,728.18**	**$ 8,148,319,489.05**	**$ 375,393,432.18**	**1.28%**	**3.28**

CD = Certificate of Deposit | PIP = Collateralized Deposit | CP = Commercial Paper | REPO = Repurchase Agreements | MMF = Money Market | DISCOUNT NOTE = Agency Paper (Federal)

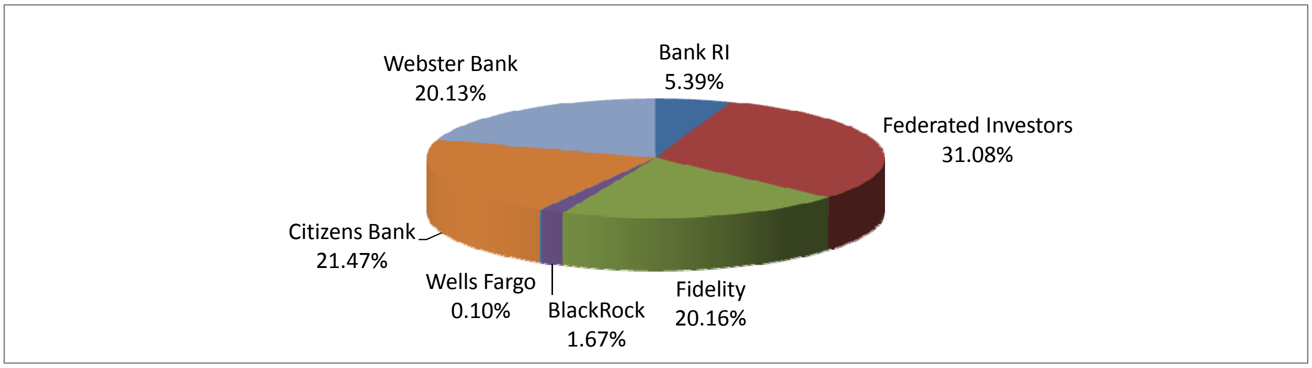
State of Rhode Island
Short Term Cash Monthly Performance
Performance By Vehicle for
July 01, 2008 to June 30, 2009

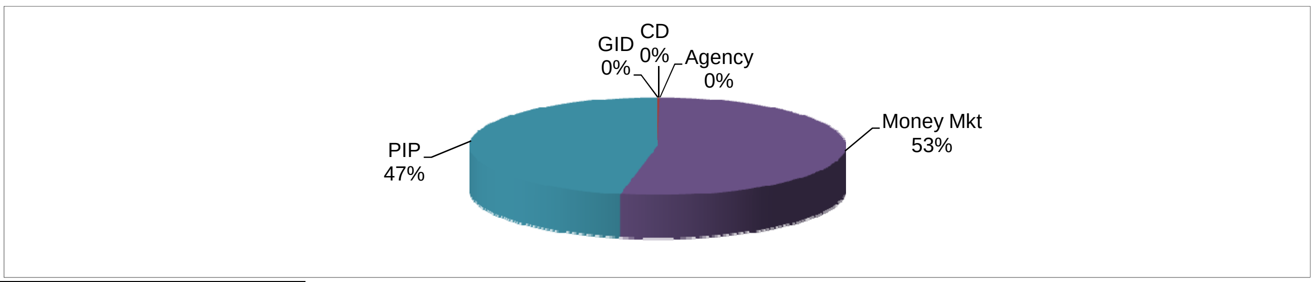
Investment Type		Earnings	Yield(Annual)		ADB
Repurchase Agreement	$	66,308.66	0.62%	$	10,625,588.60
Collateralized Deposit (PIP)	$	2,718,516.90	1.49%	$	182,426,429.30
Money Market Fund (MMK)	$	1,344,583.41	0.97%	$	138,489,570.54
Government Insured Deposit					
US Treasury Bills	$	66.67	0.01%	$	657,490.41
FHLMC Discount Note	$	5,200.00	2.15%	$	241,916.71
FNMA Discount Note					
FHLB Discount Note	$	102,612.39	2.14%	$	4,785,793.70
FFCB Discount Note					
Commercial Paper	$	125,527.36	2.08%	$	6,035,935.86
Regular CD	$	286,489.67	1.44%	$	19,874,283.81
CDARS	$	164,423.12	1.34%	$	12,256,423.25
Grand Totals	**$**	**4,813,728.18**	**1.28%**	**$**	**375,393,432.18**



RHODE ISLAND STATE INVESTMENT COMMISSION
SHORT TERM CASH INVESTMENTS AT:

June 30, 2009



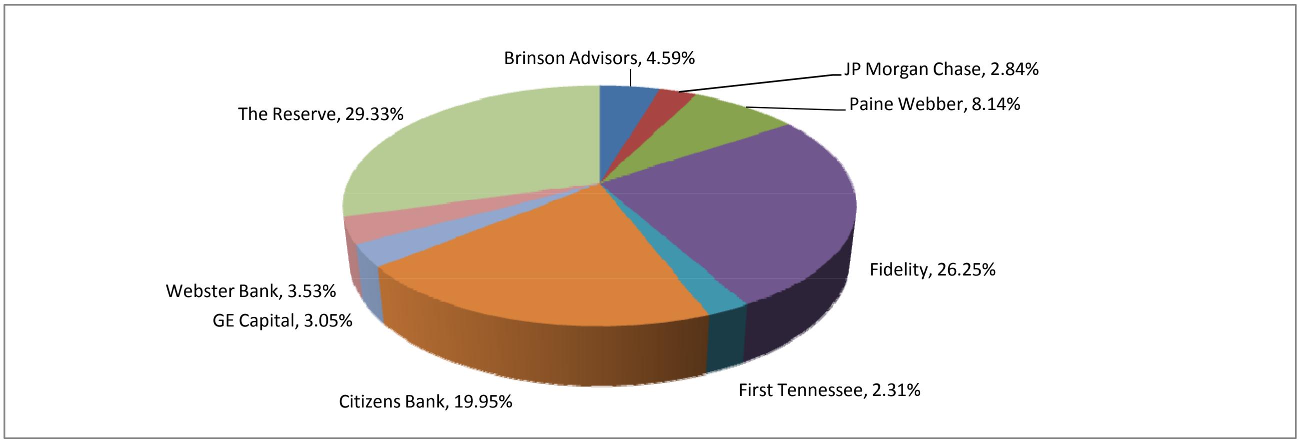


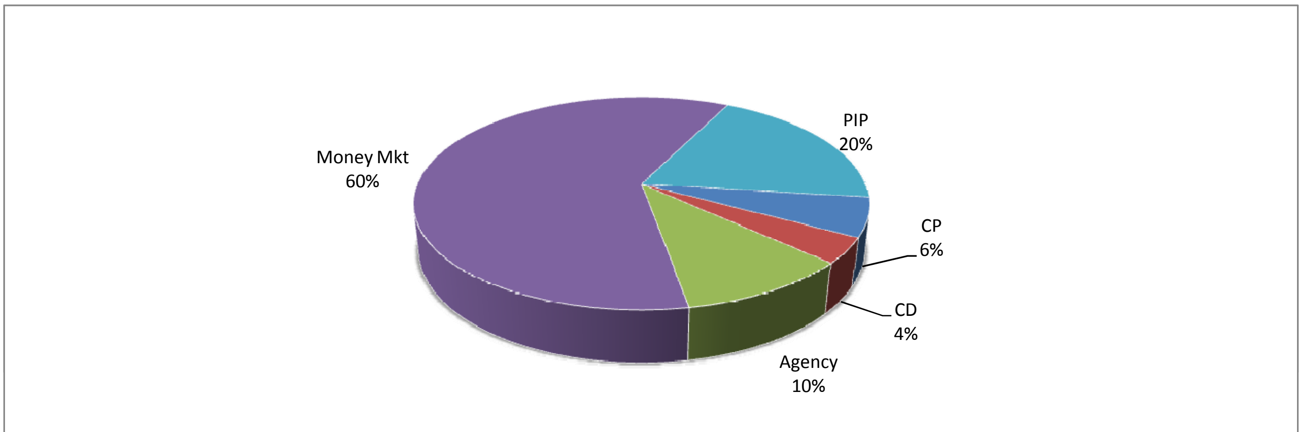
REPO	= Repurchase Agreement
CP	= Commercial Paper
GID	= Government Insured Deposit
CD	= Certificate of Deposit
CoD	= Collateralized Deposit
Agency	= US Government Agency

Vendor	CP	CD	Agency	Money Mkt	PIP	Repo	GID	Total ($)
Guidelines-Total/Vendor	25%/10%	50%/20%	75%/35%	75%/35%	75%/35%	100%/20%	75%/35%	
Bank RI	0	0	0	0	17,064,760	0	0	17,064,760
	0%	0%	0%	0%	5%	0%	0%	5.39%
Sovereign Bank	0	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0%	0.00%
JP Morgan Chase	0	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0%	0.00%
Federated Investors	0	0	0	98,477,960	0	0	0	98,477,960
	0%	0%	0%	31%	0%	0%	0%	31.08%
Fidelity	0	0	0	63,880,381	0	0	0	63,880,381
	0%	0%	0%	20%	0%	0%	0%	20.16%
BlackRock	0	0	0	5,304,372	0	0	0	5,304,372
	0%	0%	0%	2%	0%	0%	0%	1.67%
Wells Fargo	0	0	0	306,338	0	0	0	306,338
	0%	0%	0%	0%	0%	0%	0%	0.10%
Citizens Bank	0	533,444	0	0	67,507,201	0	0	68,040,645
	0%	0%	0%	0%	21%	0%	0%	21.47%
Webster Bank	0	0	0	0	63,796,507	0	0	63,796,507
	0%	0%	0%	0%	20%	0%	0%	20.13%
Oppenheimer Inc	0	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0%	0.00%
Washington Trust	0	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0%	0.00%
TOTALS	**-**	**533,443.87**	**-**	**167,969,050.86**	**148,368,467.77**	**-**	**-**	**316,870,963**
(%) PORTFOLIO	**0.00%**	**0.17%**	**0.00%**	**53.01%**	**46.82%**	**0.00%**	**0.00%**	**100.00%**

Note: CoD + CD must be under 75%. **Acutal CoD + CD:** **46.99%**
Note: Maximum participation by any one vendor limited to 35% of total portfolio.

RHODE ISLAND STATE INVESTMENT COMMISSION
SHORT TERM CASH INVESTMENTS AT:
June 30, 2008





REPO = Repurchase Agreement
CP = Commercial Paper
CD = Certificate of Deposit
CoD = Collateralized Deposit
Agency = US Government Agency

Vendor	CP	CD	Agency	Money Mkt	PIP	Repo	Total ($)
Guidelines-Total/Vendor	25%/10%	50%/20%	75%/35%	75%/35%	50%/20%	100%/20%	
Brinson Advisors	0	0	0	13,093,405	0	0	13,093,405
	0%	0%	0%	5%	0%	0%	4.59%
JP Morgan Chase	8,099,523	0	0	0	0	0	8,099,523
	3%	0%	0%	0%	0%	0%	2.84%
Paine Webber	0	0	23,196,820	0	0	0	23,196,820
	0%	0%	8%	0%	0%	0%	8.14%
Fidelity	0	0	0	74,828,005	0	0	74,828,005
	0%	0%	0%	26%	0%	0%	26.25%
First Tennessee	0	0	6,597,965	0	0	0	6,597,965
	0%	0%	2%	0%	0%	0%	2.31%
Citizens Bank	0	1,126,722	0	0	55,727,846	0	56,854,568
	0%	0%	0%	0%	20%	0%	19.95%
GE Capital	8,699,541	0	0	0	0	0	8,699,541
	3%	0%	0%	0%	0%	0%	3.05%
Webster Bank	0	10,000,000	0	44,423	19,906	0	10,064,329
	0%	4%	0%	0%	0%	0%	3.53%
The Reserve	0	0	0	83,616,865	0	0	83,616,865
	0%	0%	0%	29%	0%	0%	29.33%
TOTALS	**16,799,064**	**11,126,722**	**29,794,785**	**171,582,697**	**55,747,752**	**0**	**285,051,020**
(%) PORTFOLIO	**5.89%**	**3.90%**	**10.45%**	**60.19%**	**19.56%**	**0.00%**	**100.00%**

Note: PIP + CD must be under 75%. **Acutal PIP + CD: 23.46%**

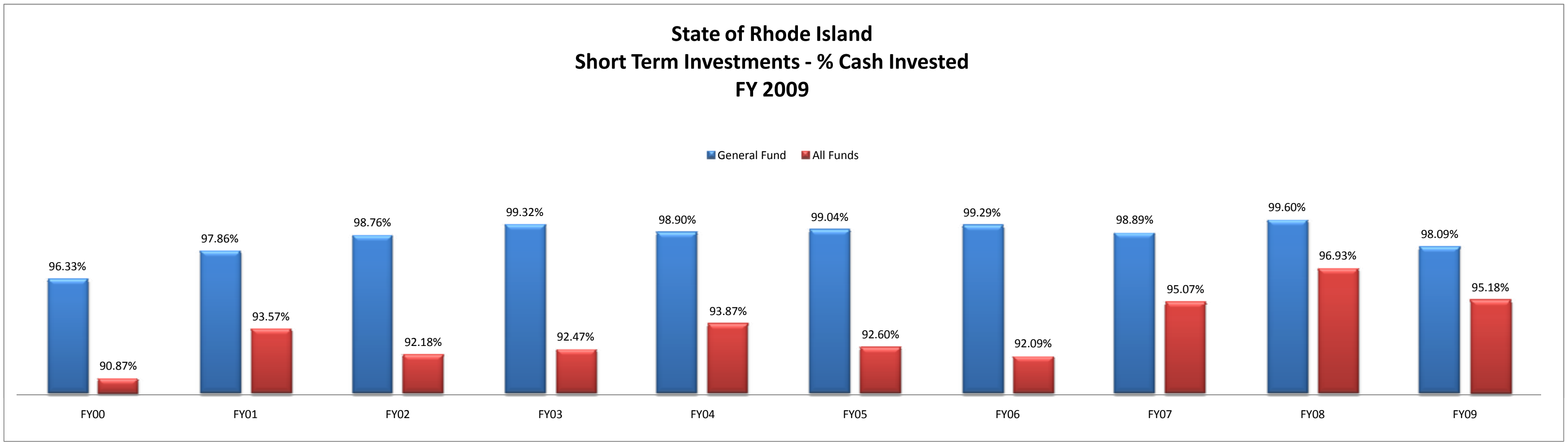
Note: Maximum participation by any one vendor limited to 35% of total portfolio.

State of Rhode Island and Providence Plantations
Office of the General Treasurer

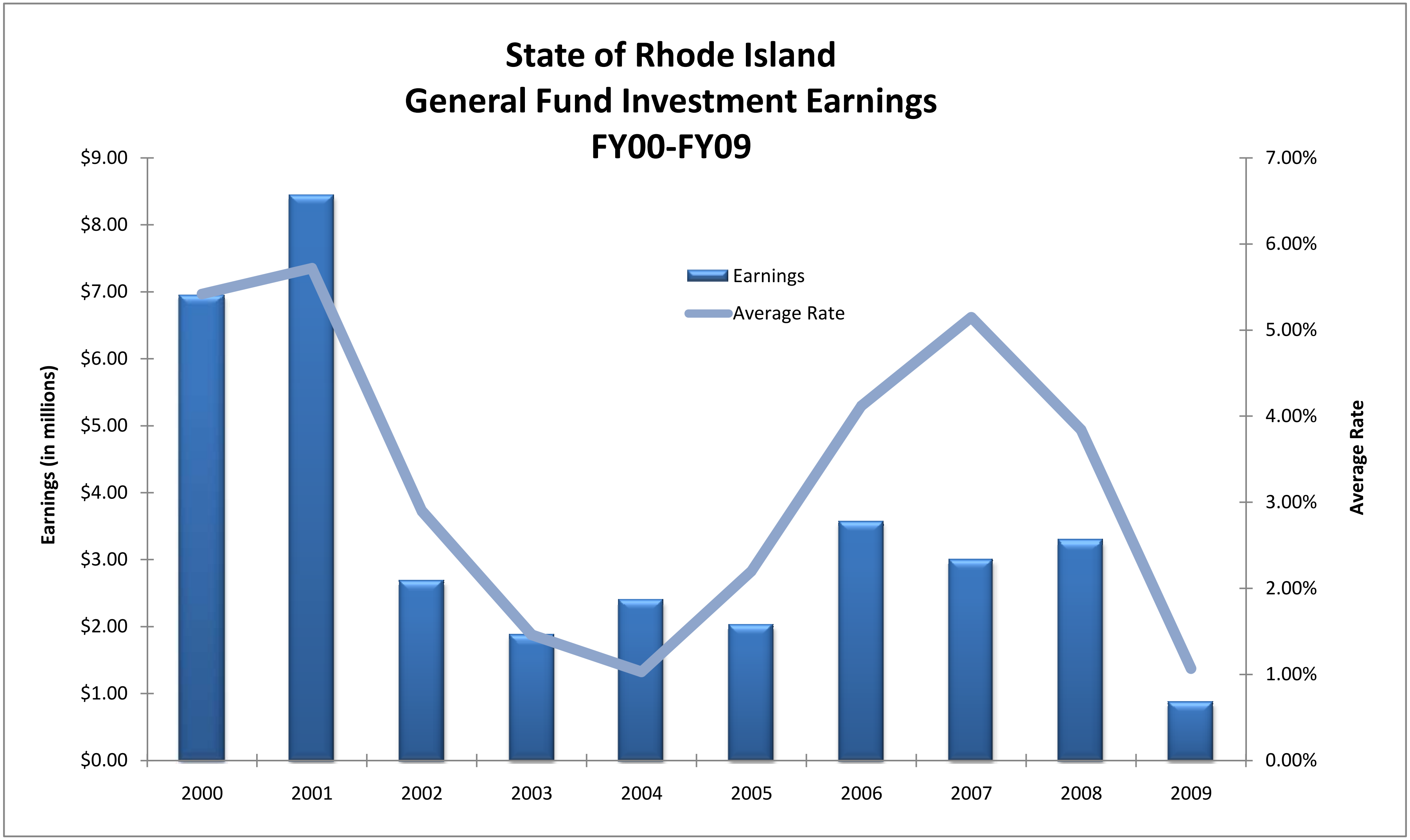
Short Term Investment Portfolio by Fund
As of June 30, 2009

Fund		Principal		Cash Balance		Total
GENERAL FUND	$	82,223,279.47	$	502,120.33	$	82,725,399.80
H.A.V.A	$	292.59	$	-	$	292.59
GENERAL FUND (HIST PRES)	$	533,443.87	$	-	$	533,443.87
HIGHWAY FUND	$	24,673,374.99	$	351,926.72	$	25,025,301.71
T.D.I. RESERVE (DET)	$	100,893,270.78	$	245,532.12	$	101,138,802.90
EMPLOYER PENSION CONTRIBUTION	$	39,642,015.61	$	97,934.90	$	39,739,950.51
RICAP GL FUND 21	$	14,642.55	$	69,785.00	$	84,427.55
BOND CAPITAL FUND	$	11,973,026.25	$	51,634.58	$	12,024,660.83
R.I. CLEAN WATER ACT	$	1,041,077.45	$	411,913.91	$	1,452,991.36
STATE LOTTERY FUND	$	11,554,520.46	$	68,847.56	$	11,623,368.02
ASSESSED FRINGE BEN ADM	$	1,596,330.74	$	102,028.96	$	1,698,359.70
AUTO EQUIPMENT SERVICE	$	603,816.61	$	95,638.20	$	699,454.81
HEALTH INSURANCE FUND	$	19,400,512.60	$	241,542.34	$	19,642,054.94
FLEET REVOLVING LOAN FUND	$	4,957,034.74	$	194,179.89	$	5,151,214.63
EMPLOYEES RETIREMENT	$	2,124,505.16	$	402,619.36	$	2,527,124.52
MUNICIPAL EMPLOYEES RET.	$	639,816.42	$	141,477.30	$	781,293.72
RETIREE HEALTH FUND	$	8,223,993.56	$	233,433.62	$	8,457,427.18
BOG RETIREE FUND	$	208,905.86	$	182,434.63	$	391,340.49
RIPTA HEALTH FUND	$	758,883.48	$	87,728.46	$	846,611.94
PERMANENT SCHOOL FUND	$	1,722,303.02	$	132,892.42	$	1,855,195.44
TEACHER RETIREE HEALTH FUND	$	553,250.15	$	35,546.84	$	588,796.99
UNIVERSITY COLLEGE	$	4,568.25	$	247,173.57	$	251,741.82
HIGHER EDUCATION	$	400,812.63	$	130,187.99	$	531,000.62
INDUS. BLDG. & MTG. INS.	$	3,127,285.26	$	124,406.08	$	3,251,691.34
Subtotal		**316,870,962.50**			**$**	**321,021,947.28**
G.O. NOTE 1991 SER. B	$	3,791.49	$	-	$	3,791.49
BOND CCDL 1994 SERIES A	$	174,168.70	$	-	$	174,168.70
BOND CCBL96A	$	257,745.00	$	-	$	257,745.00
CAP DEV OF 1997 SERIES A	$	345.07	$	-	$	345.07
CCDL 1998B	$	1,749,579.95	$	-	$	1,749,579.95
MMG099 1999	$	2,845.87	$	-	$	2,845.87
BOND CAPITOL CCDL2000A	$	951,258.84	$	-	$	951,258.84
MULTI-MODAL GEN OBL 2000	$	2,817.56	$	-	$	2,817.56
CCDL 2004 SERIES A	$	7,088,478.68	$	-	$	7,088,478.68
BOND CCDL 2005 SERIES C	$	16,040,667.02	$	-	$	16,040,667.02
BOND CCDL 2005 SERIES E	$	2,425,511.13	$	-	$	2,425,511.13
BOND CCDL 2006 SERIES B	$	22,644.60	$	-	$	22,644.60
BOND CCDL 2006 SERIES C	$	6,404,567.60	$	-	$	6,404,567.60
GO BND-NTAX 2007 SERIES A	$	704,938.31	$	-	$	704,938.31
GO BND-TAX 2007 SERIES B	$	4,005,647.44	$	-	$	4,005,647.44
GO BND-NTAX 2008 SERIES B	$	13,547,531.60	$	-	$	13,547,531.60
GO BND-TAX 2008 SERIES C	$	8,497,801.70	$	-	$	8,497,801.70
CLEAN WATER CCDL 1998B	$	-	$	-	$	-
CLEAN WATER CCDL 1994 (A)	$	6,046.95	$	-	$	6,046.95
CAP DEV. OF 1997 SERIES A	$	11,165.77	$	-	$	11,165.77
CLEAN WATER CCDL 2002 B	$	-	$	-	$	-
CLEAN WATER 2004 SERIES A	$	647,480.81	$	-	$	647,480.81
CLN WATER CCDL 2005 SER E	$	51,689.78	$	-	$	51,689.78
CAP DEV. OF 1997 SERIES A	$	-	$	-	$	-
RI POLLUT. CONT 94 SER. A	$	-	$	-	$	-
CCDL99A 1999A	$	278,078.74	$	-	$	278,078.74
POL. CTRL CCDL 2006 SER C	$	232,516.59	$	-	$	232,516.59
CLEAN WATER 2007 SERIES A	$	499,343.93	$	-	$	499,343.93
RI POLLUTION CONTROL 2008 B	$	699,180.07	$	-	$	699,180.07
Bond Proceeds Total		**65,346,920.65**	$	-	**$**	**64,305,843.20**
TANS PROCEEDS	$	-				
Grand Total		**382,217,883.15**	$	-	**$**	**385,327,790.48**

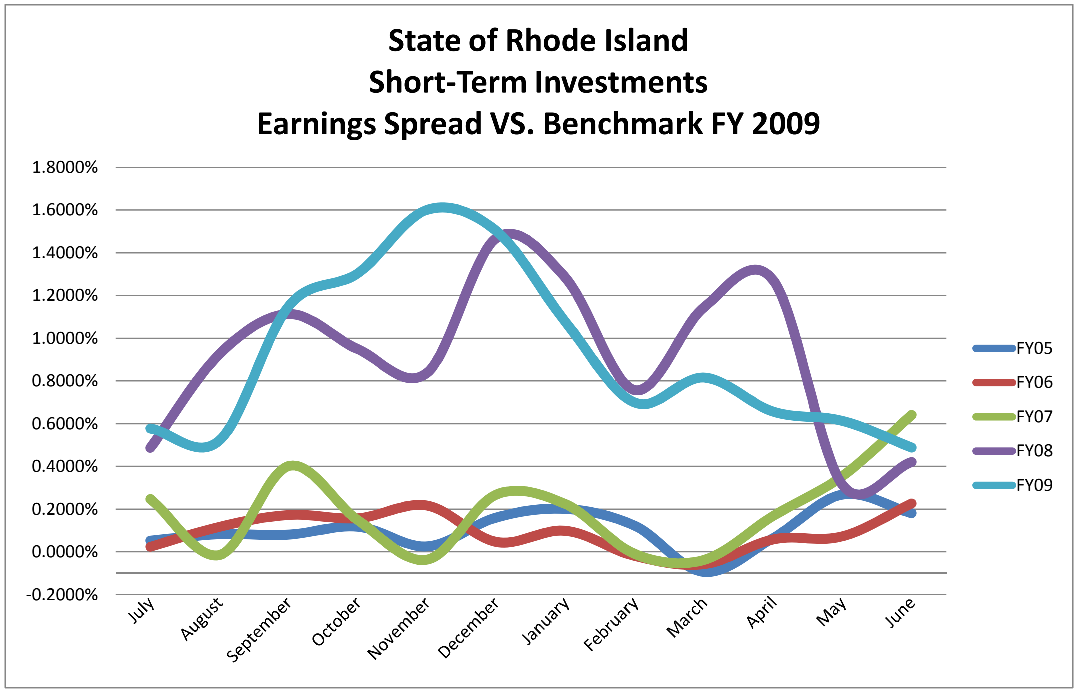
* Many funds include investment in Money Market and Collateralized Deposit investment vehicles. These investments do not have a fixed yield or duration and as such, interest earnings on these investments will not be reflected above. These investments pay a dividend, or interest on the 1st day of the month.

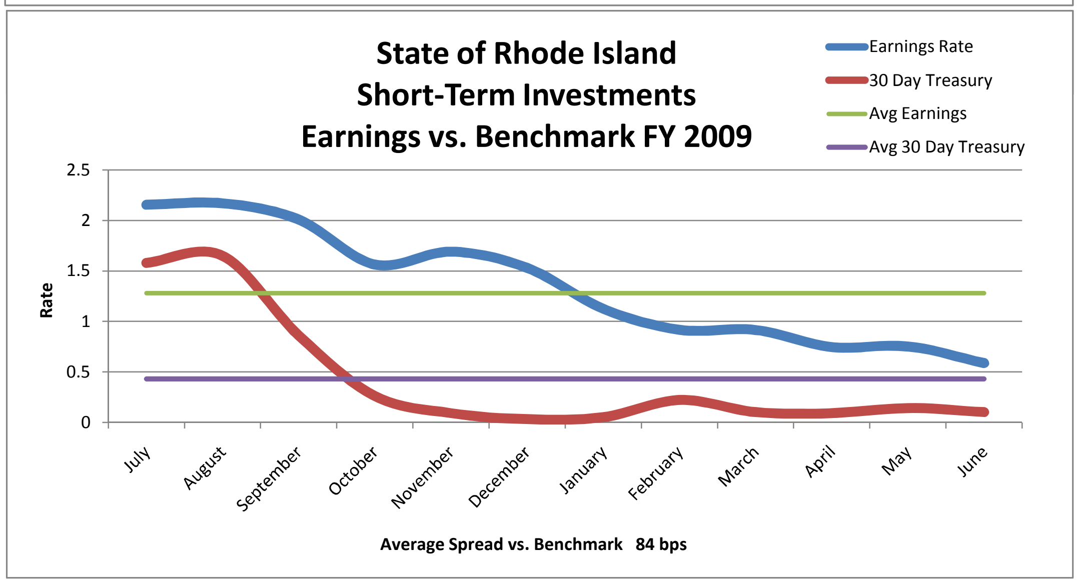


Source Data: This data is derived by calculating the ratio of Invested Balances to Invested Balances + Cash Balances (obtained from reconciliation data from Treasury's Business Office).



Source Data: Investment Earnings information and Average Rate information are obtained from the State Investment Software: APS2. The Average Rate is the Weighted Average interest rate for an entire fiscal year's short-term investments.





Source Data: This Avg Earnings and Earnings Rate are derived from the State Investment System: APS2. The Benchmark is the 30 Day Treasury Bill. The Benchmark data is derived from the Federal Reserve Board Statistical release, H15

Commentary: The State's Short-Term Investments outperformed their benchmark, the 30-Day T-Bill, in 12 out of 12 months for FY2009, with an average spread over the benchmark of 84.9 basis points.

State of Rhode Island
Office of the General Treasurer
Cash Management Summary
All Funds, FY 2005 - FY 2009

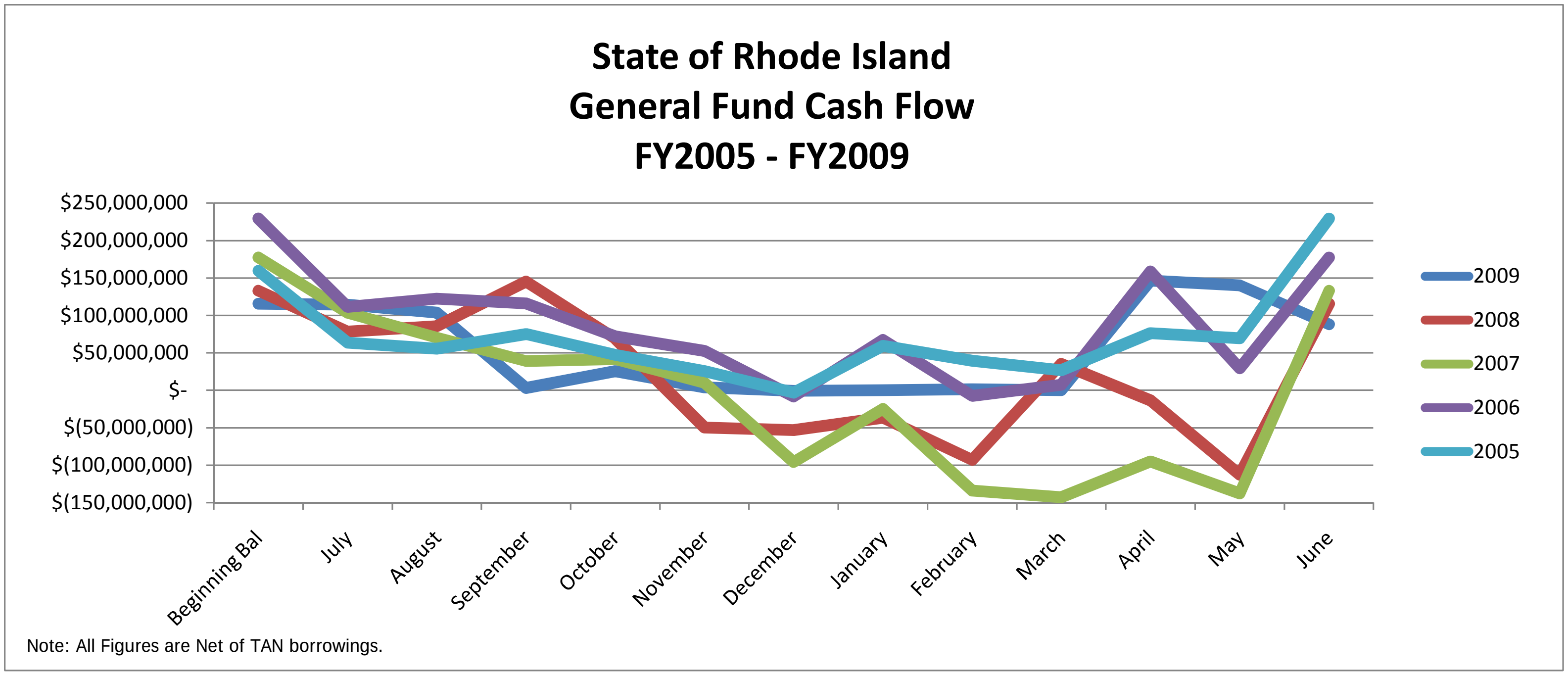
	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005
Average Daily Cash Position	$ 301,165,598	$ 361,690,620	$ 287,864,043	$ 218,317,939	$ 234,995,189
Average Daily Bank Balance	$ 15,424,041	$ 11,620,154	$ 15,053,120	$ 18,740,977	$ 18,786,029
Percent of Cash Invested	95.18%	96.93%	95.07%	92.09%	92.60%
Percent of GF Cash Invested	98.09%	99.60%	98.89%	99.29%	99.04%
Average Maturity of Portfolio	3.24 Days	3.69 Days	4.45 Days	5.61 Days	6.36 Days
Spread to Benchmark	84.9 Basis Points	105.3 Basis Points	19.6 Basis Points	9 Basis Points	11 Basis Points
Average Rate of Return	1.28%	3.84%	5.16%	4.08%	2.11%

Note: "Cash Position" includes all operating fund investments, inclusive of TANS.

CASH FLOW

State of Rhode Island
Office of the General Treasurer
Cash Flow Analysis Summary
FISCAL 2009

	July 2008	August 2008	September 2008	October 2008	November 2008	December 2008	January 2009	February 2009	March 2009	April 2009	May 2009	June 2009	TOTAL 2009
Estimated Beginning Balance	114,530,120	103,929,450	3,175,600	25,701,085	3,976,792	(583,681)	233,466	1,590,617	303,167	146,504,937	140,057,770	88,170,143	**114,530,120**
Deposits/Receipts													
Taxation	263,280,153	176,816,494	238,786,983	199,077,728	166,652,780	211,843,887	231,063,838	177,806,784	299,259,240	271,981,007	165,886,362	341,549,901	**2,744,005,157**
Motor Vehicles	8,735,417	8,244,969	9,307,054	8,601,940	6,360,626	6,334,279	6,269,677	6,691,888	9,494,049	10,422,560	10,772,404	11,596,250	**102,831,113**
Historic Tax Credit													**0**
Departmental Receipts	4,311,082	2,225,930	1,879,212	5,227,164	2,816,982	6,740,486	3,726,285	4,727,021	3,775,600	4,951,371	7,368,340	6,085,478	**53,834,951**
Interdepartment Transfers	47,499,514	69,486,572	44,673,493	52,133,566	54,102,453	54,440,913	43,414,273	51,976,163	43,820,778	43,177,436	66,569,814	40,368,632	**611,663,607**
Lottery Transfers	0	28,800,000	26,400,000	23,926,518	26,910,520	27,017,989	25,121,829	27,448,761	27,831,488	29,777,342	28,885,146	56,855,290	**328,974,883**
Federal Grants	176,655,770	126,331,807	117,201,538	182,298,484	141,513,208	148,818,705	161,305,712	133,366,518	260,314,226	150,044,219	189,735,350	334,944,764	**2,122,530,301**
TANS Proceeds	0	0	25,000,000	65,343,345	49,526,281	41,500,000	7,000,000	130,700,000	20,700,000	0	38,640,842	904	**378,411,372**
Miscellaneous Receipts	66,998,049	39,846,464	49,748,961	41,737,864	28,453,960	24,804,594	17,096,485	21,752,142	24,369,156	22,538,777	15,738,565	57,739,091	**410,824,108**
Interest	92,188	202,339	51,776	48,181	82,934	37,496	36,061	36,082	3,019	72,111	97,687	51,162	
Total Available Cash	**682,102,293**	**555,884,025**	**516,224,617**	**604,095,875**	**480,396,536**	**520,954,668**	**495,267,626**	**556,095,976**	**689,870,723**	**679,469,760**	**663,752,280**	**937,361,615**	**6,867,605,612**
Less: Disbursements													
Social Programs													
TANF	4,482,016	4,780,080	4,453,390	3,961,244	3,843,586	4,003,168	3,879,896	3,945,665	4,045,866	3,833,560	3,709,496	3,605,023	**48,542,990**
SSI	2,390,000	2,297,000	2,304,000	2,330,000	2,381,000	2,380,000	2,442,000	1,527,000	1,166,000	1,467,000	1,826,949	51	**22,511,000**
Medicaid	205,874,017	190,855,815	149,866,132	153,712,703	148,330,217	144,222,025	155,045,779	138,714,411	144,522,243	105,076,738	195,287,436	171,510,148	**1,903,017,664**
DHS - Block Mothers	6,491,723	2,644,064	4,686,095	4,223,281	4,163,540	2,044,979	6,162,899	3,877,584	3,875,210	3,805,279	3,780,479	3,737,280	**49,492,413**
Payroll/Pension	115,365,694	113,719,576	120,737,699	199,357,064	127,506,090	123,255,163	103,060,088	129,331,697	116,754,252	104,540,306	132,926,584	97,336,127	**1,483,890,340**
Debt Service	13,167,674	36,958,737	14,886,155	12,570,925	30,273,353	2,876,669	2,493,435	31,221,760	6,275,120	8,528,128	25,730,263	5,566,588	**190,548,807**
TANS & TDI Repayment	0	0	0	0	0	25,055,000	0	0	0	0	0	358,166,667	**383,221,667**
Interfund Transfers	53,590,492	45,637,891	36,324,466	23,964,631	23,623,213	18,004,424	25,268,310	22,432,260	33,590,147	32,869,234	59,203,926	47,214,432	**421,723,426**
Tax Refunds	5,852,198	6,777,076	5,973,851	4,874,003	9,786,752	11,456,259	4,442,799	59,194,069	59,061,610	59,863,236	32,221,267	7,638,044	**267,141,164**
Disbursements/Municipal Pmts	170,959,029	149,038,186	151,291,745	195,125,233	131,072,466	187,423,515	190,881,802	165,548,361	174,075,338	219,498,457	124,037,354	159,939,469	**2,018,890,955**
Total Disbursements	**578,172,843**	**552,708,425**	**490,523,533**	**600,119,084**	**480,980,217**	**520,721,202**	**493,677,008**	**555,792,807**	**543,365,786**	**539,481,938**	**578,723,754**	**854,713,829**	**6,788,980,426**
Overall Cash Position	**103,929,450**	**3,175,600**	**25,701,084**	**3,976,791**	**(583,681)**	**233,466**	**1,590,618**	**303,169**	**146,504,937**	**139,987,822**	**85,028,526**	**82,647,786**	**78,625,186**



Source Data: Actual Cash Flow figures from daily Treasury operations. The Beginning Balance represents the Cash Balance at July 1st of each Fiscal Year; all other figures represent the balance at month-end.

Commentary: Though there is some variance, this chart demonstrates the very cyclical nature of the State's cash flow. Any proceeds from TANS have been removed from the data set to produce a more accurate history of cash flow as a function of revenue and expenditures.

SPECIAL FUNDS

State of Rhode Island
Office of the General Treasurer
Abraham Touro Fund
Investment Summary
FY 2009

FUND NAME		6/30/2009 MARKET VALUE		6/30/2008 MARKET VALUE
Abraham Touro Fund (Fidelity Balanced Fund)	$	1,676,097	$	2,174,615
Total Special Funds	$	1,676,097	$	2,174,615

Source Data: Bank Account Statement for Period Ending June 30, 2009 and June 30, 2008, respectively.

ACCOUNTS RECEIVABLE

State of Rhode Island
Office of the General Treasuer
Municipal Pension Contribution Delinquency
as of July 15, 2009, 2008, 2007, 2006, 2005

	July, 2009 Total Arrears	Last Payroll Date Received	July, 2008 Total Arrears	Last Payroll Date Received	July, 2007 Total Arrears	Last Payroll Date Received	July, 2006 Total Arrears	Last Payroll Ending Date Received
Teachers								
Barrington								
Burrillville								
Chariho Regional								
Coventry								
East Providence								
Foster								
Gloucester								
Jamestown								
Johnston								
Lincoln	$ 299,312.44							
Little Compton								
N Providence								
N Smithfield								
Providence (long term subs)	$ 343,986.65				$ 66,371.54		$ 259,018.46	
Smithfield								
South Kingstown								
Southern RI Collaborative								
Tiverton	$ 151,754.00							
Urban Collaborative								
West Bay Collaborative								
Westerly								
Subtotal	$ 795,053.09	$ -	$ -	$ -	$ 66,371.54	$ -	$ 259,018.46	$ -

Source Data: ERSRI Delinquency Statistics.

DEBT SERVICE

State of Rhode Island - Office of the General Treasurer
Debt Service Inventory by Maturity Date as of 6/30/09

Amount of Original Issue	Description of Issue	Year	Series	Maturity Date	Principal Paid in FY 09	(Actual) Interest Paid in FY 09	Principal Outstanding 39,994	(Projected) Interest Outstanding 39,994
35,990,000.00	G.O. CCDL of 1997, Refunding Series	1997	Refunding	8/1/2009	0	282,200	5,644,000	141,100
65,720,000.00	G.O. CCDL of 1998, Series A	1998	A	9/1/2009	0	115,750	2,315,000	57,875
28,185,000.00	LPC, Correctional Facilities - 1997 Refunding (Intake Center)	1997	Refunding	10/1/2009	2,760,000	216,413	2,775,000	72,844
39,875,000.00	Refunding Bond Authority State Public Projects, 1998 Series A	1998	Refunding Series A	2/1/2010	9,835,000	833,438	6,040,000	317,100
63,120,000.00	G.O. CCDL of 1999, Series A	1999	A	9/1/2010	0	141,250	2,825,000	211,875
57,230,000.00	G.O. CCDL of 2000, Series A	2000	A	7/15/2011	0	144,500	2,890,000	361,250
6,950,000.00	LPC, State Vehicles Project - 2005 Series C	2005	C	4/1/2012	795,000	107,325	2,385,000	164,963
3,890,000.00	C.O.P. in L.P.A. (State Vehicles Projects), 2002 Series A	2002	A	12/15/2012	270,000	47,250	1,080,000	87,750
6,000,000.00	LPC, State Vehicles Project - 2006 Series A	2006	A	4/15/2013	1,440,000	129,096	1,820,000	184,734
62,765,000.00	G.O. CCDL of 2002, Refunding Series C	2002	Refunding Series C	11/1/2013	5,585,000	1,843,144	32,315,000	4,406,981
9,100,000.00	LPC, State Vehicles Project - 2007 Series C	2007	C	5/1/2014	2,490,000	314,000	4,115,000	351,700
63,005,000.00	G.O. CCDL of 2001, Refunding Series B	2001	Refunding Series B	6/1/2014	0	526,000	10,200,000	1,958,000
46,570,000.00	G.O. CCDL of 2008, Refunding Series A	2008	Refunding Series A	7/15/2014	0	1,645,159	46,570,000	5,434,850
8,360,000.00	G.O. CCDL of 2005, Refunding Series B	2005	Refunding Series B	8/1/2014	1,025,000	293,413	7,015,000	890,316
55,990,000.00	G.O. CCDL of 2001, Refunding Series A	2001	Refunding Series A	8/1/2015	60,000	2,525,753	49,060,000	8,975,204
65,830,000.00	G.O. CCDL of 2004, Refunding Series B	2004	Refunding Series B	8/1/2015	5,405,000	2,699,199	53,340,000	10,235,267
2,230,000.00	LPC, Attorney General's Building - 2007 Refunding Series G	2007	Refunding Series G	10/1/2015	200,000	95,812	2,030,000	240,355
77,140,000.00	G.O. CCDL of 2002, Series B	2002	B	11/1/2015	3,545,000	1,375,863	25,175,000	4,673,331
12,380,000.00	LPC, Information Technology Project - 2009 Series A	2009	A	4/1/2016	0	0	12,380,000	1,647,738
13,375,000.00	LPC, Howard Center Improvements - 2007 Refunding Series E	2007	Refunding Series E	10/1/2016	745,000	825,506	12,630,000	2,426,813
21,420,000.00	LPC, Shepard's Building - 2007 Refunding Series F	2007	Refunding Series F	10/1/2016	1,825,000	955,393	19,155,000	4,125,640
23,490,000.00	LPC, Information Technology Project - 2007 Series A	2007	A	5/1/2017	2,880,000	1,098,338	18,120,000	3,799,075
8,500,000.00	G.O. CDL of 2007, Series B (Federally Taxable)	2007	B	8/1/2017	640,000	426,593	7,860,000	2,049,729
8,500,000.00	G.O. CDL of 2008, Series C (Federally Taxable)	2008	C	2/1/2018	0	0	8,500,000	2,842,058
12,445,000.00	G.O. CCDL of 2008, Refunding Series D	2008	Refunding Series D	2/1/2018	0	0	12,445,000	3,217,563
56,315,000.00	G.O. CCDL of 2005, Refunding Series D	2005	Refunding Series D	7/15/2018	0	2,628,750	55,465,000	13,115,650
52,335,000.00	G.O. CCDL of 2005, Refunding Series A	2005	Refunding Series A	8/1/2018	55,000	2,547,684	51,465,000	19,504,688
135,400,000.00	G.O. CCDL of 2001, Series C	2001	C	9/1/2020	0	2,804,250	53,805,000	22,016,250
22,160,000.00	LPC, Central Power Plant - 2007 Refunding Series D	2007	Refunding Series D	10/1/2020	1,125,000	911,820	21,035,000	6,001,919
11,805,000.00	LPC, Energy Conservation Project - 2009 Series B	2009	B	4/1/2021	0	0	11,805,000	3,849,009
74,835,000.00	G.O. CCDL of 2006, Refunding Series A	2006	Refunding Series A	8/1/2022	5,815,000	3,381,613	68,885,000	29,938,356
79,770,000.00	G.O. CCDL of 2004, Series A	2004	A	2/1/2023	3,285,000	2,981,275	63,850,000	23,847,725
12,735,000.00	LPC, Energy Conservation Project - 2007 Series B	2007	B	5/1/2023	620,000	547,831	12,115,000	4,098,300
58,910,000.00	LPC, Kent County Courthouse Project - 2004 Series A	2004	A	10/1/2023	2,385,000	2,232,680	49,690,000	19,588,686
87,095,000.00	G.O. CCDL of 2005, Series C	2005	C	2/15/2024	3,300,000	3,708,625	74,810,000	32,228,288
51,985,000.00	LPC, Training School Project - 2005 Series A	2005	A	10/1/2024	1,900,000	2,312,925	46,470,000	20,950,500
21,565,000.00	LPC, Traffic Tribunal Project - 2005 Series B	2005	B	10/1/2024	850,000	827,493	19,090,000	7,734,136
93,385,000.00	G.O. CCDL of 2005, Series E	2005	E	11/1/2025	3,095,000	4,027,896	84,460,000	37,567,255
98,105,000.00	G.O. CCDL of 2006, Series C	2006	C	11/15/2025	3,375,000	4,338,816	91,525,000	41,712,429
20,680,000.00	G.O. CDL of 2006, Series B	2006	B	8/1/2026	710,000	848,029	19,290,000	8,744,717
123,255,000.00	G.O. CCDL of 2007, Series A	2007	A	8/1/2027	3,650,000	5,786,278	119,605,000	62,840,869
86,875,000.00	G.O. CCDL of 2008, Series B	2008	B	2/1/2028	0	0	86,875,000	52,452,576
30,425,000.00	LPC, School for the Deaf Project - 2009 Series C	2009	C	4/1/2029	0	0	30,425,000	18,774,933
			Subtotal from the DBC system.		443,034,440	65,659,476	1,309,349,000	483,840,393
31,365,000.00	Multi - Modal G.O. Bonds CCDL of 2000, Series B	2000	Multi-Modal Ser. B	1/2/2009	1,600,000	171,150	0	0
	Subtotal including variable rate issue from the Excel worksheets.				444,634,440	65,830,625	1,309,349,000	483,840,393
								1,309,349,000
			Total outstanding debt @ 6/30/09					1,793,189,393
					445,679,440	65,874,316		
					65,874,316			
	Total FY 09 debt service payments made by Treasury including McCoy Stadium from the Excel cumulative worksheets.				511,553,756			

State of Rhode Island

Office of the General Treasurer

Debt Service System Inventory of Matured or Retired Issues

Fiscal Year 2009

Amount of Original Issue	Description of Issue	Year	Series	Maturity Date	Principal Paid in FY 08	(Actual) Interest Paid in FY 08	Principal Outstanding 6/30/2008	(Projected) Interest Outstanding 6/30/2008
82,470,000.00	G.O. CCDL of 1998, Refunding Series A	1998	Refunding Series A	7/15/2008	10,965,000.00	267,037.50	0.00	0.00
75,775,000.00	G.O. CCDL of 1997, Series A	1997	A	8/1/2008	4,035,000.00	98,857.50	0.00	0.00
67,625,000.00	Refunding Bond Authority State Public Projects, 2003 Series A	2003	Refunding Series A	10/1/2008	8,360,000.00	209,000.00	0.00	0.00
647,490.20	G.O. CCDL of 1993 Refunding Series (CAB's)	1993	Refunding	6/15/2009	9,440.00	390,560.00	0.00	0.00
350,000,000.00	G.O. Tax Anticipation Notes - Fiscal Year 2009	2009	TAN's	6/30/2009	350,000,000.00	8,166,666.67	0.00	0.00

Source Data: DBC Debt Management Software. Data as of 06/30/2009

State of Rhode Island
Office of the General Treasurer
FY 2009 Annual Report

Summary - All Outstanding and Projected Debt Service Payments
(Including Performance Based Agreements)

Fiscal Year	Principal	Interest	Total Gross Debt Service	Less: Offsetting & Self-supporting	Excess Two Cents of Gas Tax Held by Trustee(2)	Net Debt Service Payable
2008	109,465,789	83,634,589	193,100,378	-9,969,679	2,623,172	185,753,871
2009	126,303,154	89,032,790	215,335,944	-10,673,268	2,228,233	206,890,910
2010	133,416,731	96,528,052	229,944,783	-8,472,304	2,424,248	223,896,728
2011	124,309,096	95,942,258	220,251,354	-4,648,921	2,191,698	217,794,131
2012	135,025,257	95,540,483	230,565,740	-4,592,625	2,131,448	228,104,564
2013	144,126,568	93,316,581	237,443,150	-3,746,137	2,131,067	235,828,080
2014	142,004,791	91,473,883	233,478,674	-2,942,636	2,133,505	232,669,543
2015	141,571,080	89,420,353	230,991,433	-2,525,293	1,897,336	230,363,477
2016	142,049,051	87,461,519	229,510,570	-2,528,695	1,874,736	228,856,611
2017	145,544,624	85,410,557	230,955,181	-2,527,315	2,457,905	230,885,771
2018	139,088,265	83,433,214	222,521,480	-2,521,151	2,434,725	222,435,054
2019	144,691,103	81,582,422	226,273,526	-2,525,206	2,432,137	226,180,457
2020	143,727,121	79,575,180	223,302,300	-2,523,405	3,100,512	223,879,408
2021	147,692,403	77,535,289	225,227,693	-1,230,811	3,041,687	227,038,569
2022	142,016,390	75,547,366	217,563,756	-1,231,673	2,879,018	219,211,102
2023	152,486,360	73,509,358	225,995,718	-4,630,569	5,805,461	227,170,610
2024	137,764,340	71,081,585	208,845,924	-1,096,582	3,585,426	211,334,769
2025	135,752,432	69,288,238	205,040,670	-3,353,494	5,891,113	207,578,289
2026	139,298,607	67,586,698	206,885,304	-1,004,293	3,849,989	209,731,000
2027	129,301,747	65,933,947	195,235,694	-1,009,179	-1,126,314	193,100,201
2028	130,815,372	64,464,906	195,280,278	-1,633,089	443,964	194,091,153
	2,886,450,281	**1,717,299,268**	**4,603,749,550**	**(75,386,325)**	**54,431,066**	**4,582,794,298**

(1) Reflects amounts payable on net tax supported debt, excluding master lease payments which are budgeted within the individual agencies rather than the debt service program within the Department of Administration.
2) Budget reflects dedication of two cent of gas tax to trustee for motor fuel bonds issued in FY2004.
Two later series in FY2006 and FY2008 are also to be funded from this gas tax dedication. Amount shown is amount payable on bonds, but bond documents covenant full two cents flows to Trustee for coverage purposes. For simplicity's sake, this assumes two cents yields $9,370,000 .

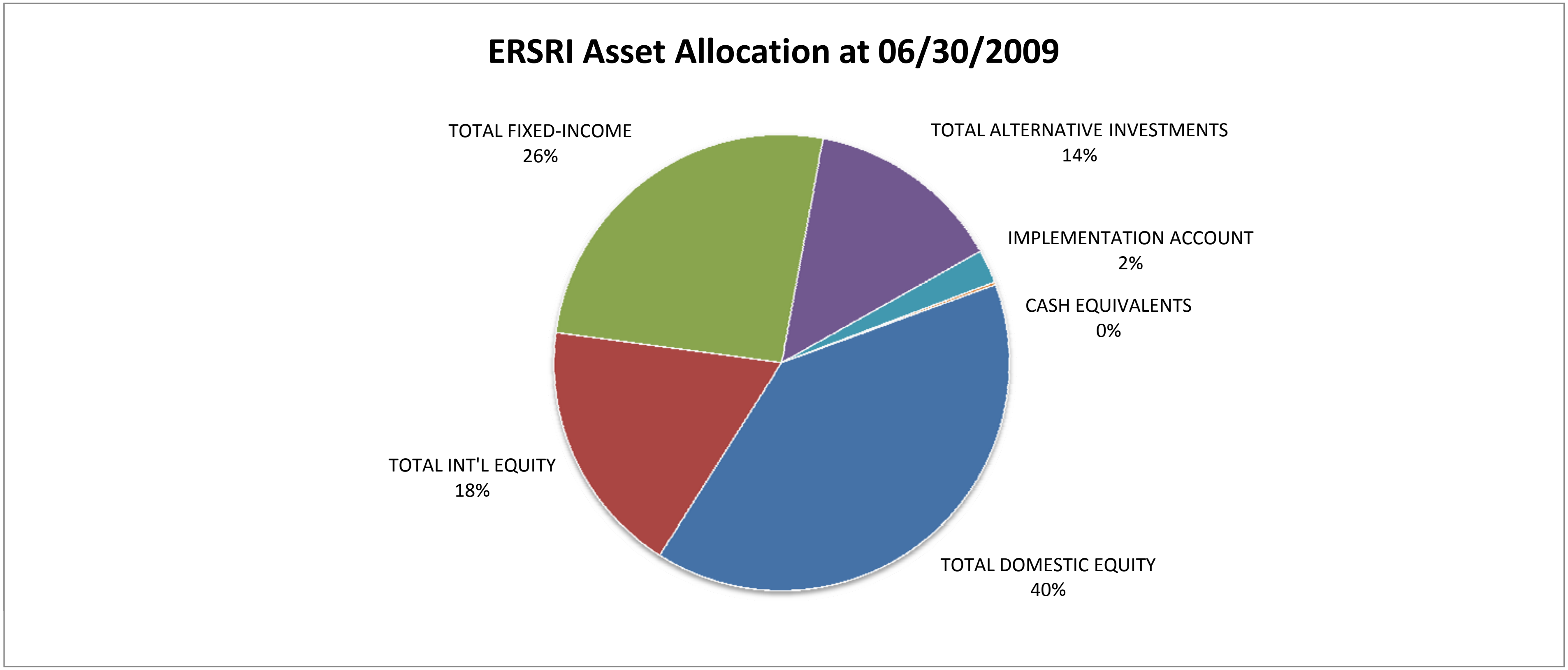
Source Data: Page C-36 of Appendix C of the 2009 Capital Budget

RI EMPLOYEES RETIREMENT SYSTEM

STATE OF RHODE ISLAND
ASSET ALLOCATION REPORT
6/30/2009

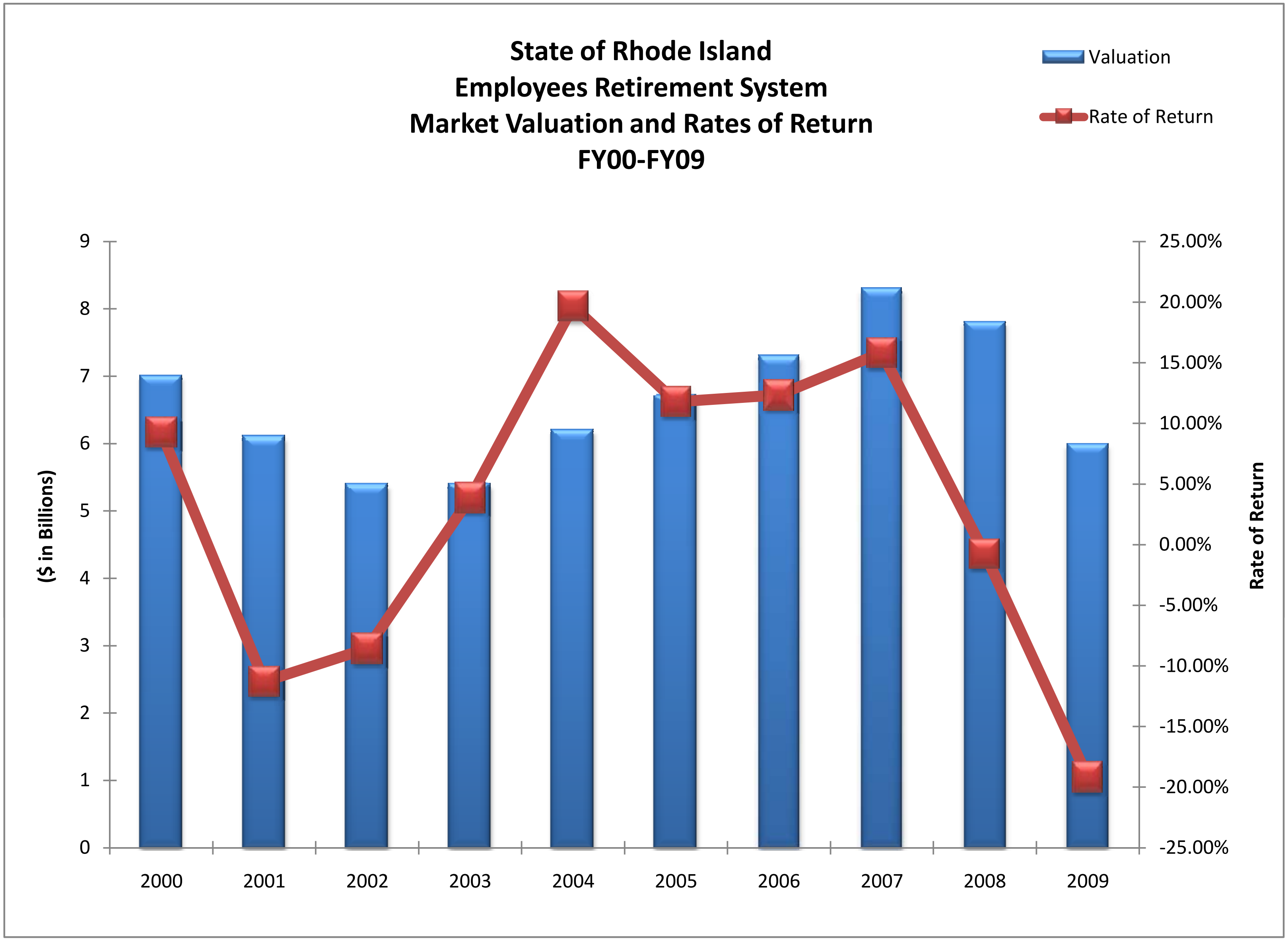
	Style Mandate	Actual (Millions $)	
Domestic Equity			
SSGA S&P 500 INDEX FUND	Passive	1,369.27	22.78%
RUSSELL 2000 INDEX FUND	Passive	527.87	8.78%
PIMCO	Enhanced Equity	347.15	5.78%
WELLINGTON TECHNICAL EQUITY	Tactical Equity	131.15	2.18%
WELLINGTON MANAGEMENT CO. LLC	Closed	-	0.00%
SSGA - CORE	Closed	-	0.00%
NORTHPOINTE CAPITAL	Closed	-	0.00%
TRANSITION ACCOUNT DOMESTIC		0.17	0.00%
SHOTT CAPITAL		1.28	0.02%
TOTAL DOMESTIC EQUITY		**2,376.88**	**39.55%**
International Equity			
MSCI ACWI EX US INDEX FUND	Passive	1,084.28	18.04%
GOLDMAN SACHS	Closed	1.30	0.02%
THE BOSTON COMPANY	Closed	1.23	0.02%
MONDRIAN	Closed	0.81	0.01%
PUTNAM INVESTMENTS	Closed	-	0.00%
BANK OF IRELAND	Closed	-	0.00%
TRANSITION ACCOUNT INTERNATIONAL		1.45	0.02%
TOTAL INT'L EQUITY		**1,089.06**	**18.12%**
Domestic Fixed Income			
BROWN BROTHERS HARRIMAN - CORE	Opportunistic Core	326.73	5.44%
PYRAMIS GLOBAL ADVISORS	Mortgages	415.57	6.91%
BROWN BROTHERS HARRIMAN - TIPS	TIPS	365.10	6.07%
MACKAY SHIELDS, LLC	High Yield	129.67	2.16%
TAPLIN, CANIDA & HABACHT	Corporates	301.38	5.01%
FIXED INCOME CASH ACCOUNT		12.37	0.21%
TOTAL FIXED-INCOME		**1,550.81**	**25.80%**
Alternative Investments			
Real Estate	Real Estate	281.80	4.69%
Pacific Corp Group	Private Equity	557.52	9.28%
TOTAL ALTERNATIVE INVESTMENTS		**839.32**	**13.96%**
Cash			
CASH EQUIVALENTS	STIF, Yield+	11.97	0.20%
Other			
OTHER - Russell Implementation Services		142.41	2.37%
TOTAL ASSETS		**6,010.46**	**100.00%**

State of Rhode Island
Office of the General Treasurer



Asset Class	**Asset Value as of 06/30/2009**	
TOTAL DOMESTIC EQUITY	$	2,376.88
TOTAL INT'L EQUITY	$	1,089.06
TOTAL FIXED-INCOME	$	1,550.81
TOTAL ALTERNATIVE INVESTMENTS	$	839.32
IMPLEMENTATION ACCOUNT	$	142.41
CASH EQUIVALENTS	$	11.97
TOTAL	**$**	**6,010.46**

Source Data: State Street Analytics Data as of 06/30/2009


State of Rhode Island
Employees Retirement System
Market Valuation and Rates of Return
FY00-FY09
Valuation
Rate of Return
($ in Billions)
Rate of Return
9
8
7
6
5
4
3
2
1
0
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
-10.00%
-15.00%
-20.00%
-25.00%
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009

State of Rhode Island
Office of the General Treasurer
Private Equity
FY 2009

Limited Partnership	First Take Down Date	Investment Type	Commitment	Unfunded Commitment	Total Contribution	Total Distribution	Market Value at 6/30/2009	IRR at 6/30/2009
ABS Capital Partners II	7/29/1996	Med Corp Finance	5,000,000.00	-	4,936,159.00	5,962,564.52	-	7.70%
Alta BioPharma Partners	4/10/1998	VC - Diversified	10,000,000.00	-	10,003,993.00	14,987,297.14	-	21.11%
Alta BioPharma Partners III	11/19/2003	VC - Diversified	15,000,000.00	3,000,000.00	12,000,000.00	1,994,452.64	7,716,495.00	-5.99%
Alta California Partners II	12/21/1998	VC - Early	10,000,000.00	-	10,038,807.00	7,007,320.46	-	-7.13%
Alta California Partners III	3/16/2001	VC - Early	15,000,000.00	-	15,178,673.00	12,208,027.43	-	-4.74%
Alta Partners VIII	11/30/2006	VC - Diversified	15,000,000.00	7,500,000.00	7,500,000.00	-	6,366,404.00	-10.41%
Apollo Investment Fund IV	6/25/1998	Lrg Corp Finance	15,000,000.00	41,214.94	15,462,445.06	20,285,345.00	3,325,687.21	7.74%
Apollo Investment Fund VI	5/10/2006	Lrg Corp Finance	20,000,000.00	1,880,543.15	21,225,171.85	3,441,940.00	13,578,654.00	-15.38%
Apollo Investment Fund VII	6/30/2008	Lrg Corp Finance	25,000,000.00	19,325,772.00	6,662,947.00	950,796.00	4,806,127.00	-19.77%
Aurora Equity Partners II	5/22/1998	Med Corp Finance	15,000,000.00	38,917.00	16,810,074.00	11,939,765.00	10,391,878.01	4.83%
Aurora Equity Partners III	11/16/2004	Med Corp Finance	15,000,000.00	1,536,225.00	15,091,619.00	6,370,479.00	11,465,744.00	16.51%
Avenue Special Situations Fund III	1/22/2003	Distressed	15,000,000.00	-	19,254,494.00	26,436,117.00	114,746.00	16.73%
Avenue Special Situations Fund IV	3/27/2006	Distressed	20,000,000.00	1,072,723.00	24,106,872.00	5,179,595.00	16,545,582.00	-4.72%
Avenue Special Situations Fund V	8/31/2007	Distressed	20,000,000.00	3,460,335.00	16,659,606.00	46,049.00	13,387,330.00	-18.00%
Bain Capital Fund X	1/15/2008	Lrg Corp Finance	25,000,000.00	18,687,500.00	6,312,500.00	-	4,969,140.00	-20.36%
Birch Hill Equity Partners (US) III	12/13/2005	Med Corp Finance	15,064,022.09	740,871.06	16,459,313.01	823,393.49	14,707,727.50	-3.95%
Blackstone Capital Partners III Merchant Banking Fund	11/3/1997	Lrg Corp Finance	20,000,000.00	924,045.00	21,704,266.00	31,614,665.09	4,655,683.00	13.10%
Blackstone Capital Partners IV	1/10/2003	Lrg Corp Finance	25,000,000.00	2,729,270.00	26,474,350.97	33,831,385.97	18,028,595.00	40.32%
Blackstone Capital Partners V	1/30/2006	Lrg Corp Finance	20,000,000.00	3,935,243.00	16,974,101.00	1,399,525.00	10,698,747.00	-17.47%
Boston Ventures V	11/18/1996	Med Corp Finance	5,000,000.00	-	5,785,992.00	7,901,333.00	-	6.61%
Castile Ventures III	12/28/2006	VC - Early	5,000,000.00	2,550,000.00	2,459,730.00	-	1,745,926.00	-22.26%
Catterton Partners V	10/29/2003	Med Corp Finance	15,000,000.00	865,653.00	15,887,087.00	8,064,306.36	10,149,009.00	4.91%
Catterton Partners VI	12/14/2006	Med Corp Finance	15,000,000.00	5,932,101.00	9,290,974.00	447,779.00	6,714,399.00	-13.52%
Centerbridge Capital Partners	8/3/2006	Distressed	15,000,000.00	3,979,086.28	11,040,215.91	30,394.00	10,607,755.00	-3.36%
Charterhouse Capital Partners VII	1/20/2003	Lrg Corp Finance	15,397,500.00	-	16,462,983.55	26,720,497.37	2,724,128.68	39.61%
Charterhouse Capital Partners VIII	4/19/2006	Lrg Corp Finance	17,829,000.00	4,749,628.57	16,006,265.93	-	8,053,360.48	-30.50%
Coller International Partners IV	11/6/2002	Secondaries	15,000,000.00	2,400,000.00	12,944,378.28	11,856,453.02	5,376,408.00	16.18%
Coller International Partners V	12/21/2006	Secondaries	15,000,000.00	7,687,500.00	7,312,500.00	676,522.30	6,037,782.00	-8.02%
Constellation Ventures III	10/23/2008	VC - Late / Growth	15,000,000.00	10,608,657.98	4,391,342.02	-	3,784,010.00	-21.36%
Crossroads Providence	12/6/1988	Fund-of-Funds	45,000,000.00	-	45,000,000.00	106,736,857.19	89,198.00	19.94%
CVC European Equity Partners II	7/9/1998	Lrg Corp Finance	15,000,000.00	-	17,293,353.00	35,768,975.35	-	19.44%
CVC European Equity Partners III	9/4/2001	Lrg Corp Finance	20,000,000.00	857,436.15	23,200,572.67	47,072,207.70	10,774,452.00	43.03%
CVC European Equity Partners IV	8/31/2005	Lrg Corp Finance	20,012,850.00	3,271,267.75	20,430,675.47	9,456,196.79	14,844,201.80	12.21%
CVC European Equity Partners V	8/29/2008	Lrg Corp Finance	31,178,000.00	24,783,917.32	3,539,548.04	22,372.53	2,667,886.31	-27.69%
Doughty Hanson Fund II	3/8/1996	Lrg Corp Finance	5,300,000.00	-	4,632,838.92	9,603,743.07	-	49.70%
Doughty Hanson Fund III	11/3/1997	Lrg Corp Finance	15,000,000.00	-	15,698,375.80	34,482,271.41	-	17.35%
Fenway Partners Capital Fund II	9/9/1998	Med Corp Finance	15,000,000.00	913,192.02	17,782,218.00	19,143,123.88	3,848,885.00	7.51%
Fenway Partners Capital Fund III	12/14/2007	Med Corp Finance	15,000,000.00	5,235,663.00	10,896,013.00	943,574.00	8,320,408.00	-12.03%
First Reserve Fund X	4/9/2001	Lrg Corp Finance	20,000,000.00	1.00	19,999,999.00	22,318,397.00	11,145,000.00	39.04%
First Reserve Fund XI	4/30/1998	Lrg Corp Finance	20,000,000.00	4,763,049.00	16,327,352.00	1,090,401.00	13,713,000.00	-7.69%
First Reserve Fund VIII	10/28/2004	Med Corp Finance	15,000,000.00	-	16,169,268.00	30,833,241.88	278,000.00	15.84%
First Reserve Fund IX	12/14/2006	Med Corp Finance	20,000,000.00	-	21,640,174.00	61,372,051.00	231,000.00	48.13%
Focus Ventures III	8/1/2006	VC - Late / Growth	15,000,000.00	6,075,000.00	8,925,000.00	1,815,254.09	4,902,615.14	-19.49%
Granite Global Ventures II	11/19/2004	VC - Late / Growth	15,000,000.00	675,000.00	14,333,274.67	1,863,016.33	9,991,527.07	-6.60%
Granite Global Ventures III	11/1/2006	VC - Early	15,000,000.00	9,000,000.00	6,000,018.00	170,164.85	5,845,765.87	0.15%
Green Equity Investors IV	9/5/2003	Med Corp Finance	15,000,000.00	388,387.63	15,315,174.97	4,645,584.97	9,960,462.00	-1.78%
Green Equity Investors V	8/10/2007	Lrg Corp Finance	20,000,000.00	14,155,988.40	6,125,450.60	534,284.28	4,809,846.00	-11.25%
Harvest Partners III	12/19/1997	Med Corp Finance	15,000,000.00	368,726.61	14,631,273.39	6,759,443.24	504,968.00	-13.91%
Harvest Partners IV	11/12/2001	Med Corp Finance	15,000,000.00	-	14,939,579.00	31,485,866.00	-	36.52%
Heritage Fund II	8/18/1997	Small Corp Finance	5,000,000.00	-	4,997,312.00	4,552,947.00	-	-1.53%
Kayne Anderson Energy Fund III	4/13/2005	Med Corp Finance	15,000,000.00	2,987,545.00	12,012,455.00	7,211,001.00	7,401,048.00	20.36%
Kayne Anderson Energy Fund IV	7/13/2007	Med Corp Finance	15,000,000.00	9,300,000.00	5,700,000.00	-	5,130,922.00	-11.48%
Leapfrog Ventures II	3/15/2005	VC - Early	10,000,000.00	3,245,000.00	6,755,000.00	-	6,932,214.00	1.19%
Leeds Weld Equity Partners IV	11/12/2004	Med Corp Finance	10,000,000.00	107,371.39	9,913,198.06	1,087,008.80	15,044,395.00	19.25%

State of Rhode Island
Office of the General Treasurer
Private Equity
FY 2009

Limited Partnership	First Take Down Date	Investment Type	Commitment	Unfunded Commitment	Total Contribution	Total Distribution	Market Value at 6/30/2009	IRR at 6/30/2009
Lighthouse Capital Partners V	12/10/2003	VC - Diversified	11,250,000.00	787,500.00	10,462,500.00	5,367,821.01	7,310,669.00	5.52%
Lighthouse Capital Partners VI	8/10/2007	VC - Diversified	15,000,000.00	3,375,000.00	11,625,000.00	119,999.96	11,746,602.30	1.88%
LNK Partners	4/13/2006	Small Corp Finance	12,500,000.00	6,783,971.78	5,718,280.74	-	3,410,524.00	-24.70%
MatlinPatterson Global Opportunities Partners	1/9/2002	Distressed	15,000,000.00	-	15,469,835.72	23,287,039.89	1,818,978.00	15.20%
MHR Institutional Partners III	10/2/2006	Distressed	20,000,000.00	7,789,323.00	12,400,000.00	250,831.00	9,305,864.00	-15.08%
Narragansett Capital Partners-B	3/12/1987	Small Corp Finance	3,000,000.00	-	3,915,985.30	6,189,894.76	-	6.81%
Narragansett First Fund	12/20/1982	Small Corp Finance	1,000,000.00	-	969,411.00	2,876,755.00	-	35.43%
Nautic Partners V	4/27/2001	Med Corp Finance	20,000,000.00	1,276,749.80	19,690,728.08	20,637,396.01	9,477,797.21	14.32%
Nautic Partners VI	5/14/2007	Med Corp Finance	20,000,000.00	13,745,966.29	7,592,455.42	1,503,007.39	4,748,725.80	-10.02%
Nordic Capital III	2/26/1998	Med Corp Finance	10,000,000.00	172,275.55	10,114,705.56	35,797,639.94	546,537.21	31.45%
Nordic Capital V	8/4/2003	Med Corp Finance	15,021,862.29	221,383.40	20,563,656.54	9,521,706.51	20,836,418.90	14.10%
Nordic Capital VI	5/26/2006	Med Corp Finance	18,061,500.00	296,741.45	20,382,587.92	-	13,853,859.63	-18.44%
Nordic Capital VII	7/1/2008	Med Corp Finance	23,179,500.00	16,464,991.18	5,030,020.39	-	3,164,456.95	-42.43%
OCM Opportunities Fund	1/11/1996	Distressed	8,000,000.00	-	8,000,000.00	13,046,883.62	48,151.00	10.30%
OCM Opportunities Fund II	10/28/1997	Distressed	12,000,000.00	-	12,000,000.00	18,005,154.70	26,030.00	8.38%
OCM Principal Opportunities Fund	11/12/1996	Distressed	5,000,000.00	-	5,000,000.00	7,238,816.63	8,830.00	5.41%
Paladin III	12/31/2007	VC - Diversified	10,000,000.00	6,304,424.99	3,721,978.01	29,606.00	3,135,282.00	-17.24%
Parthenon Investors	2/4/1999	Med Corp Finance	15,000,000.00	-	17,811,157.00	20,502,803.00	4,682,922.00	7.17%
Parthenon Investors II	1/31/2001	Med Corp Finance	20,000,000.00	1,126,735.00	22,783,668.00	15,175,400.00	13,780,359.00	10.11%
Perseus Partners VII	12/27/2007	Med Corp Finance	15,000,000.00	6,430,778.00	10,009,237.00	1,255,308.00	9,173,620.00	5.73%
Point 406 Ventures I	3/27/2008	VC - Early	10,000,000.00	5,079,999.84	5,113,461.42	185,994.58	4,323,659.00	-13.88%
Point Judith Venture Fund II	10/25/2007	VC - Early	5,000,000.00	2,652,542.24	2,347,457.76	-	2,048,485.36	-10.56%
Providence Equity Partners	12/19/1996	Small Corp Finance	10,000,000.00	-	14,684,891.00	39,584,639.00	-	77.89%
Providence Equity Partners III	1/22/1999	Med Corp Finance	15,000,000.00	1,914,364.51	16,497,224.00	24,117,944.35	478,947.00	15.65%
Providence Equity Partners IV	11/27/2000	Lrg Corp Finance	25,000,000.00	2,413,088.00	35,016,916.00	42,246,419.00	14,037,388.00	22.51%
Providence Equity Partners V	4/4/2005	Lrg Corp Finance	25,000,000.00	3,018,905.00	29,334,134.00	7,344,008.00	22,870,313.00	1.20%
Providence Equity Partners VI	3/16/2007	Lrg Corp Finance	25,000,000.00	12,430,254.00	12,835,611.00	265,962.00	9,649,730.00	-15.59%
SKM Equity Fund II	3/13/1997	Small Corp Finance	10,000,000.00	1,735,947.00	9,218,206.00	1,107,376.00	3,359,634.00	-7.81%
Thomas H. Lee Equity Fund IV	4/24/1998	Med Corp Finance	9,000,000.00	-	8,700,587.00	7,687,108.34	-	-2.46%
Thomas, McNerney & Partners	10/9/2002	VC - Diversified	15,000,000.00	2,100,000.00	12,900,000.00	5,252,354.15	7,646,772.00	0.00%
Thomas, McNerney & Partners II	11/30/2006	VC - Diversified	15,000,000.00	9,262,500.00	5,737,500.00	230,665.50	3,836,086.00	-21.99%
TPG Partners II	6/4/1997	Lrg Corp Finance	10,000,000.00	308,515.00	10,741,756.00	17,832,352.00	371,193.00	9.91%
TPG Partners IV	2/10/2004	Lrg Corp Finance	15,000,000.00	1,210,207.00	16,277,016.00	9,287,306.00	10,822,988.00	10.05%
TPG Partners V	6/27/2006	Lrg Corp Finance	20,000,000.00	5,858,426.00	16,559,187.00	3,072,313.00	8,055,414.00	-20.75%
TPG Partners VI	5/22/2008	Lrg Corp Finance	20,000,000.00	18,748,836.00	1,266,098.00	14,797.00	297,915.00	-84.11%
Trilantic Capital Partners IV (fka LBMB IV)	10/22/2007	Med Corp Finance	11,098,351.15	7,111,275.28	3,987,075.87	-	3,277,700.00	-19.55%
VS&A Communications Partners III	12/15/1998	Med Corp Finance	15,000,000.00	7,978.00	15,063,617.00	14,073,992.00	5,730,415.00	6.28%
W Capital Partners	3/15/2004	Secondaries	15,000,000.00	1,368,000.00	13,632,000.00	6,689,642.23	5,577,240.00	-5.15%
W Capital Partners II	10/3/2007	Secondaries	15,000,000.00	8,593,899.00	6,494,384.45	83,463.47	5,711,837.00	-9.73%
Washington & Congress Capital Partners	2/17/1998	Small Corp Finance	15,000,000.00	305,637.24	14,979,758.16	16,743,860.17	19,708.10	2.55%
Wellspring Capital Partners II	2/10/1998	Med Corp Finance	15,000,000.00	-	15,359,102.00	22,350,246.00	648,539.00	20.14%
Wellspring Capital Partners III	12/5/2002	Med Corp Finance	20,000,000.00	617,726.00	21,580,546.00	24,205,874.00	13,823,261.00	25.28%
Wellspring Capital Partners IV	6/14/2006	Med Corp Finance	20,000,000.00	6,726,281.00	13,273,719.00	-	12,285,635.00	-4.90%
Welsh, Carson, Anderson & Stowe VII	12/15/1995	Lrg Corp Finance	15,000,000.00	-	15,027,581.00	32,501,844.59	-	17.69%
Willis Stein & Partners	6/28/1996	Small Corp Finance	5,000,000.00	-	5,006,918.00	10,714,891.00	854.00	20.71%
WLR Recovery Fund IV	12/13/2007	Distressed	8,000,000.00	4,172,099.00	3,839,857.00	58,715.00	3,909,754.00	3.33%
Grand Total:			**1,526,892,585.53**	**350,185,151.80**	**1,285,430,794.51**	**1,145,601,816.95**	**588,246,206.53**	**13.71%**

State of Rhode Island
Office of the General Treasurer
Real Estate Holdings
June 30, 2009

Limited Partnership	Inception Date	Partnership Commitment	Prior Funding Thru June 2009	Unfunded Balance	Market Values at June 30,2009
AEW	December,2007	35,000,000.00	-	35,000,000.00	-
Magna	September,2008	4,000,000.00	-	3,329,506.00	583,231.00
RREEF America REIT II	June, 2005	35,000,000.00	35,000,000.00	-	27,620,766.00
Prime Property Fund	September, 2005	35,000,000.00	35,000,000.00	-	35,664,080.00
PRISA	September, 2005	50,000,000.00	50,000,000.00	-	43,598,142.00
PRISA II	June, 2007	15,000,000.00	12,954,000.00	2,046,000.00	8,009,836.00
JP Morgan Strategic Property Fund	March, 2006	50,000,000.00	50,000,000.00	-	48,719,951.00
LaSalle Income & Growth Fund IV	June, 2005	15,000,000.00	14,602,063.00	397,937.00	10,426,977.00
Capmark Commercial Realty Partners II	March, 2006	15,000,000.00	12,844,883.00	2,155,117.00	7,858,197.00
JP Morgan Alternative Property Fund	March, 2006	20,000,000.00	20,000,000.00	-	12,974,443.00
Fillmore East Fund	December, 2005	10,000,000.00	10,000,000.00	-	1,535,066.00
TA Fund VIII	September, 2006	15,000,000.00	15,000,000.00	-	12,562,918.00
Fremont Strategic Property Partners II	December, 2004	15,000,000.00	12,119,943.00	2,880,057.00	6,538,736.00
Tri Continental Capital VII	June, 2005	15,000,000.00	14,055,757.00	944,243.00	3,519,058.00
Starwood Capital Hospitality Fund I	September, 2005	10,000,000.00	10,000,000.00	-	9,808,815.00
Westbrook Real Estate Fund VI	June, 2006	15,000,000.00	15,000,000.00	-	4,982,218.00
Walton Real Estate Fund V	September, 2006	20,000,000.00	20,000,000.00	-	5,322,725.00
Westbrook Real Estate Fund VII	June, 2007	15,000,000.00	8,636,364.00	6,363,636.00	4,503,686.00
		389,000,000.00	**335,213,010.00**	**53,116,496.00**	**244,228,845.00**

MINUTES FROM FY2009
STATE INVESTMENT COMMISSION MEETINGS

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting July 23, 2008

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, July 23, 2008. The Treasurer called the meeting to order at 9:12 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Mr. Robert Giudici, **Mr. Thomas Mullaney** *, Ms. Marcia Reback, Mr. John Treat, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Deputy General Treasurer for Finance; Ms. Sarah Dowling, of Adler Pollock & Sheehan and Mr. Joseph Rodio, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. Allen Emkin, General Policy Consultant to the Commission; Mr. Scott Reinig of the Pacific Corporate Group, Alternative Investments Consultant to the Commission; Mr. Anthony Frammartino of The Townsend Group, Real Estate Consultant to the Commission; Mr. Frank Karpiski, Executive Director of Retirement; and other members of the Treasurer's staff. Mr. Drew Reilly arrived at 9:10 a.m. and Dr. Robert McKenna arrived at 9:30 a.m.

*** Designated as Ms. Rosemary Booth Gallogly's voting proxy for the July 23, 2008 Meeting**

State Investment Commission Minutes. The Treasurer entertained a motion for approval of the minutes. Mr. Giudici moved, Mr. Gaudreau seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Mr. Gaudreau, Mr. Giudici, Mr. Mullaney, Ms. Reback, Mr. Treat, and Treasurer Caprio.

VOTED: To approve the Minutes of the June 25, 2008 regular meeting.

Capital Market Review – Pension Consulting Alliance. The Treasurer noted that although the legal documents have not been finalized between the Commission and Pension Consulting Alliance, Mr. Emkin chose to participate as General Policy Consultant at this SIC Meeting. He thanked Mr. Emkin for his participation under these circumstances.

Mr. Emkin thanked the Commission for the opportunity and privilege of working with them. He introduced his associate, Mr. John Burns, who has been hired specifically to accommodate the needs of the Commission. He has twenty-five years of industry experience and is based in New York. Mr. Emkin explained that each new relationship has its own challenges and needs. He encourages the input of each Member so he can provide information analysis to help the Commission make successful investment decisions.

Mr. Emkin went on to review the current market conditions. He stated that on a long term basis the portfolio has done well. He stated that it is dangerous to always be reacting to the market. From his perspective, there is a need for a high conviction rate before taking an action and he feels this market environment allows for this type of investment strategy. He remarked that in comparison to other portfolios, we are at an advantage because we do not have a great need for liquidity. Since we can be a provider of liquidity the portfolio should earn a higher rate of return on investments. Treasurer Caprio asked for an example of these types of investments. Mr. Emkin referred to PIMCO, who manages many of his clients fixed income assets. PIMCO put together a fund to buy about $3 billion of very high quality debt assets from Citibank at about a 15% discount. Mr. Emkin recommended that his client invest in this relatively liquid asset for a period of three years. PIMCO projects a return more than double that of a traditional bond portfolio. Another example would be purchasing debt in distressed high quality real estate with equity upon purchase while gaining an extraordinary rate of return.

Mr. Emkin remarked that the equity portion of ERSRI's portfolio, which is the largest asset class, has decreased dramatically. Bonds are up slightly, but the real estate and private equity portions of the portfolio have appreciated. This is resulting in an increase of capital calls and fewer distributions. Mr. Emkin believes the broad commercial real estate market will depreciate 10-15%. It will be extremely challenging in next 3-5 years to achieve actuarial rates of return. There are two reasons for this: the yield in the bond market is still low by historical standards and very few analysts are bullish on domestic or international equity markets. It is important to take this information and turn it into proactive policies that take advantage of the conditions of the capital markets.

Mr. Giudici asked Mr. Emkin to discuss industry performance in relation to future market conditions. Mr. Emkin replied that inflation and energy costs will impact all industry sectors. It is his belief that inflation will continue to increase, which will take away purchasing power. Increasing energy costs will also continue to negatively affect industries that cannot transfer these costs onto the consumer, such as the airline industry. The financial services industry has not yet bottomed out. There will be more bank failures and the housing market will continue to decline dramatically.

Alternative Investments Consultant – AEW Core Property Fund. Mr. Frammartino of The Townsend Group noted that real estate performance has been strong over the past year relative to other asset classes. There has been a moderating in returns, but our portfolio return over the last year was approximately 13%. The target allocation for the core portfolio is 65% of our real estate asset class. A commitment to AEW Core Property Fund (ACF) of $35 million will bring the portfolio up to this target. AEW is one of the world's largest real estate management companies, which is based in Boston with affiliated operations in Europe and Asia. There are over two hundred employees worldwide and they manage in excess of $20 billion in private and public real estate. AEW seeks to raise seed capital from a select group of investors exclusively through The Townsend Group. ACF is a start up fund which was formed to provide an additional investment alternative to the existing Open–End Core Funds. AEW will substantially reduce the base asset management fee for commitments received within twelve months to 50 basis points on the initial commitment amount, inclusive of future appreciation in value and reinvesting of operating dividends.

Mr. Frammartino went on to discuss our current investment in RREEF America REIT II. This investment is currently on "hold status" due to underperformance. There has been a significant rate of turnover among the senior staff which has added to the current risk. He stated the Commission may want to consider exiting this investment. The Treasurer asked Mr. Frammartino to work with the Commission to structure a timeline and recommendation regarding RREEF America REIT II, so it can be discussed at a future SIC Meeting. Mr. Goodreau stated there would not be an SIC Meeting in August, which will prolong the process of divestiture in RREEF America REIT II. If The Townsend Group recommends divestiture in writing prior to the September meeting, the Treasurer entertained a motion to allow the Commission to approve the exit at that time. Ms. Reback requested the Staff and Real Estate Consultant give the Commission Members all necessary information in advance of the September meeting, so the members will be prepared to make a decision on September 24, 2008. The Treasurer agreed with Ms. Reback's recommendation and he entertained an amendment to the motion. Ms. Reback moved, Dr. McKenna seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Mr. Mullaney, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

VOTED: To allow The Townsend Group to notify the Commission in writing regarding a possible decision to exit RREEF America REIT II prior to the September 2008 SIC Meeting; The Townsend Group will provide all necessary information to prepare the Commission to vote regarding the possible divestiture on September 24, 2008.

The Treasurer asked the representatives from AEW Capital Management to proceed with their presentation. Mr. Steven Corkin, Head of Client Service, began by introducing his co-workers: Mr. Robert Plumb, Head of Acquisitions and Mr. Jonathan Martin, Assistant Portfolio Manager. Mr. Corkin noted that AEW Capital Management's core investments have outperformed the National Council of Real Estate Investment Fiduciaries - Open-end Diversified Core Equity Index (NCREIF-ODCE) by 600 basis points over five years and 250 basis points over ten years. They currently have $7.5 billion in core assets under management. They are heavily focused on research, which allows the team at AEW to anticipate changes in market conditions and to assess market risks. They are active and experienced in virtually all property types.

Mr. Corkin asked Mr. Martin to address the Commission regarding the investment strategy of AEW Core Property Fund. Mr. Martin stated the Fund currently has $860 million of committed capital and has invested $350 million since the first closing in 2007. The target return of the Fund is to exceed the National Fund Index – Open-end Diversified Core Equity (NFI-ODCE). AEW Core Property Fund will focus on office, retail, multifamily, and industrial property types. AEW will seek well-leased assets with above average NOI growth potential from a combination of rolling below market in-place leases and/or strong market fundamentals. They will be primarily stabilized, institutional quality assets throughout the U.S., where markets meet key research driven principles and AEW has an extensive operating history. Initial acquisition costs will be at or below today's replacement cost with a careful evaluation of land basis. These properties will provide preservation of capital and stable income, which is the overall goal of the Fund. Each member of the investment team has an average of twenty years of real estate experience. They are seasoned in acquisition and asset management. The team is supplemented by an extensive platform of shared resources, including the Investment Committee. Mr. Martin ended his presentation by commenting that he feels this is a great opportunity for the Commission. He asked Mr. Plumb to speak regarding the outlook for 2008.

Mr. Plumb went on to explain that this is an opportune time to be in core market space. There is an abundance of de-leveraging in the market. AEW has been slow and methodical while investing capital, which has resulted in negotiation of very favorable pricing. He stated that replacement costs have been skyrocketing in the current market conditions, and it is very important to buy at or under these costs to have a profitable investment. Mr. Plumb went on to give a brief review of current and pending assets within the Fund.

Treasurer Caprio asked what process is used by AEW to market property when a tenant leaves. Mr. Plumb explained that the Asset Management Group, Accounting Group, and Acquisitions Group all work together when they underwrite a property. They develop a business plan regarding renovations and proposed changes to the property. Every year these Groups go back to the underwriting phase of the business plan process and review each lease to determine how the plan has progressed and what to do with the property going forward. Mr. Corkin commented that AEW does not handle the property management, but they have a dedicated asset manager assigned to each property along with an accountant and an analyst. This group meets with the property manager each month to be sure the underwriting plan is being followed and to make adjustments according to market conditions.

The Treasurer entertained a motion to accept The Townsend Group's recommendation that the SIC commit up to $35 million in AEW Core Property Fund. Dr. McKenna moved, Ms. Reback, Mr. Treat, and Mr. Giudici seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Mr. Mullaney, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

VOTED: To accept The Townsend Group's recommendation that the SIC commit up to $35 million in AEW Core Property Fund, contingent upon satisfactory review and negotiation of investment and legal documents with no material changes to the opportunity as presented.

Legal Counsel Report. Treasurer Caprio mentioned that Mr. Rodio, of Rodio & Ursillo Ltd, has submitted a memo to the staff stating that legal contract drafts have been submitted to Pension Consulting Alliance, Russell Investments, and Brockhouse & Cooper, who have been chosen to represent the State Investment Commission as consultants with varying roles of responsibility. As stated in the motion during the June 25, 2008 SIC Meeting, the fee structure will be no higher than the fee structure in place with the existing consultant and there will be more flexibility to exit or renew the contracts. The Treasurer indicated that he does not foresee any problems with the negotiations and the contracts should be signed soon.

Ms. Dowling, of Adler Pollock & Sheehan, announced that all pertinent paperwork for CVC European Equity Partners V has been completed and the closing will be Monday July 28, 2008. The investment in Constellation Ventures Fund III has not closed, as the requested addition of a no-fault termination clause to the agreement has not been completed. Ms. Dowling is reviewing the recommendation from PCG to amend the agreements of Nautic Partners VII and SKM Equity Fund II.

Deputy Treasurer for Finance report. The Treasurer announced that Mr. Goodreau's title has been changed to Chief Investment Officer, which is consistent with colleagues who are in similar investment management positions. Mr. Goodreau thanked the Commission for their patience and diligence during the RFP selection process. He expressed confidence that the structure the Treasurer has put in place will result in more efficiency within the portfolio, which should ultimately produce higher returns. He will be traveling in August to Portland, Oregon to meet with the key representatives from Pension Consulting Alliance and then on to Tacoma, Washington to meet with the representatives from Russell Investments. He offered to compile information from the respective Consultants regarding any questions the Commission Members may have.

Mr. Goodreau remarked that the stock/bond differential is at a 68 year extreme. There has not been a period since 1940 where bonds have outperformed stocks to this extent. Stocks are not going up and bonds are not a viable investment alternative due to a flight to quality. This situation should eventually lead to an incredible investment opportunity, which will be enhanced due to the liquidity within the portfolio. Mr. Goodreau gave a brief review of market performance for the month of June. He stated that the overall market did not perform well in June. The ERSRI portfolio posted a loss of 4.8% against the policy index of -5.62%. The S&P was down 8.4%, SSgA Core picked up 3.5% for the year and has now gained positive alpha, while exceeding the benchmark by 1.2%, Wellington Technical Equity was down 3.4% but picked up 500 basis points over market and is positive for the year. Goldman Sachs' performance has improved, achieving positive alpha over the year. Due to a high concentration of cash, Fixed Income picked up about 20 to 30 basis points over the Lehman AGG. The total portfolio picked up 78 basis points of alpha over the month, which puts the total portfolio for the calendar year in positive alpha. Mr. Goodreau cautioned that Private Equity reevaluations have not been processed through the accounting cycle, so this may have an effect on returns for the year.

Mr. Costello stated that both Mr. Goodreau and Mr. Emkin mentioned the benefits of being opportunistic in these types of markets. He asked if we will have the ability to capture these opportunities without being bogged down by the current RFP Process, which creates time lags that prevent the Commission from capitalizing on these new opportunities.

Treasurer's Report. The Treasurer replied that this issue was part of his report. To achieve this, the Treasurer mentioned that it is Mr. Goodreau's intention to work very closely with our new consultants, drawing on their strategic relationships with world class managers such as PIMCO. He added that he believes it is asset allocation, as opposed to choice of managers, which will result in higher returns. When Mr. Goodreau has completed his site visits to PCA and Russell Investments, the Treasurer will put into place a process to hasten the timeline for changes in asset allocations and an investment guideline process for update and review of investments. He invited all of the Commission Members to participate in the process. He will keep the Commission apprised of future updates.

The Treasurer expressed his gratitude to the summer interns, noting that their work has been outstanding. He then asked the interns to introduce themselves: Kartik Naram, Janine Kwoh, Courtney Silva, Scott Hefferman, Ryan Forman, Nasha Patel, and Charles Moroni.

The Treasurer commented that there will be publicity within the next week regarding ERSRI's portfolio performance for fiscal year 2008. The figure is -4.84%, which is in line with other large public funds within the U.S. Our goal will be to maximize returns going forward.

The Treasurer stated that there will not be an SIC Meeting in the month of August. Treasurer Caprio then entertained a motion to revert to past practice and not have a regularly scheduled SIC Meeting for the month of August, but to stand ready should there be a need for a meeting. The next regularly scheduled meeting will be September 24, 2008. Mr. Treat moved, Dr. McKenna seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Mr. Mullaney, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

VOTED: To revert to past practice and not have a regularly scheduled SIC Meeting for the month of August, but to stand ready should there be a need for a Meeting. The next regularly scheduled Meeting will be September 24, 2008.

New Business. There being no further new business, the Treasurer entertained a motion to adjourn. The following members voted in favor: Ms. Reback moved, Dr. McKenna seconded and the following motion was passed. Mr. Costello, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Mr. Mullaney, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 10:42 a.m.

Respectfully submitted,

Frank T. Caprio

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting September 24, 2008

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, September 24, 2008. The Treasurer called the meeting to order at 9:16 a.m.

Membership Roll Call. Present were: Ms. Rosemary Booth Gallogly, Mr. Robert Giudici, Dr. Robert McKenna, Ms. Marcia Reback, Mr. Andrew Reilly, Mr. John Treat, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Chief Investment Officer; Ms. Sarah Dowling, of Adler Pollock & Sheehan and Mr. Joseph Pezza, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. John Burns of Pension Consulting Alliance, General Policy Consultant to the Commission; Ms. Michelle Davidson of the Pacific Corporate Group, Alternative Investments Consultant to the Commission; Ms. Laura Callahan of State Street Corporation, and other members of the Treasurer's staff. Mr. Robert Costello arrived at 9:30 a.m. Mr. Robert Gaudreau was not present.

State Investment Commission Minutes. The Treasurer entertained a motion for approval of the minutes. Dr. McKenna moved, Ms. Reback seconded and the following motion was passed. The following members voted in favor: Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Treat, and Treasurer Caprio.

VOTED: To approve the Minutes of the July 23, 2008 regular meeting.

Capital Market Trends – Pension Consulting Alliance. The Treasurer noted that Mr. Emkin and Mr. Burns will be attending each meeting. However, Mr. Emkin was not able to attend today due to a previous commitment. Both Mr. Emkin and Mr. Burns have spent a considerable amount of time with Mr. Goodreau during the last several weeks to get an understanding of ERSRI's policies and procedures.

Mr. Burns explained that PCA will be working with the SIC to determine goals and objectives. A work plan draft will then be established based on the Commission's recommendations and suggestions.

Mr. Burns began his review by stating that various asset classes perform differently through different economic and market environments. The equity risk premium is volatile and, at times, may not reward an investor for the risk taken. Long-term oriented Institutional Investors are continually searching for alternative market segments that are less dependent on, and diversify away from, the equity risk. Mr. Burns explained that the current ERSRI asset allocation is as follows: U.S. Equity 42.5%, Non-U.S. Equity 20%, Real Estate 5%, Private Equity 7.25%, Fixed Income 25%. He noted that ERSRI's long term return target of 8.25% will be a challenge to achieve in this market environment.

Mr. Burns gave a brief historical perspective of capital market trends since 1970. He summarized by commenting that U.S. equity returns have been influenced more by inflation and economic growth than by interest rate performance. Slow economic growth is a primary concern today, while the issue in the 1970's was inflation. Over the last six decades, bonds rarely exceeded an 8% return and lagged inflation in two out of six decades. Real estate has produced the most consistent results across four decades. Private equity is the only asset class which had a negative decade, due largely to the 2000's bear market. Mr. Burns commented that fixed income, real estate, and hedge fund of funds, are the least non-volatile no-cash classes. Private equity has been the top long-term performer by a substantial annual margin, but with materially higher risk. Fixed income and hedge funds have produced solid returns during recessions and equity bear markets. Real estate produced strong returns when inflation has significantly exceeded its long-term average.

Mr. Burns went on to explain the benefits of an equal-weighted allocation of asset classes within a portfolio. Such an allocation strategy would have produced materially higher average returns, with only minimal additional risk. This type of strategy does well during recessionary periods. The equal-weighted strategy would have created 50% more wealth than the 60/40 strategy over the past thirty years, after lagging somewhat during the 1970's. Mr. Burns cautioned that there is no strategy that will perform well during every market environment. Mr. Burns concluded by stating that all portfolios have unique characteristics, which will be a determining factor when choosing the most advantageous strategy.

The Treasurer thanked Mr. Burns for his presentation. He noted that asset allocation is the primary responsibility of the Commission, as allocation drives returns. He stressed the need for a sub-committee meeting to discuss a work plan strategy. He asked if there were any questions or comments.

Dr. McKenna expressed interest in the possibility of interaction between the SIC and Economic Development. He stated that the policies affecting the three largest employment segments in Rhode Island (healthcare, tourism, and higher education) are also affected by national and state government.

Alternative Investments Consultant PCG – Secondary Markets Review. Ms. Davidson commented that PCG is assisting ERSRI with the sale of certain private equity interests. Approval was granted at the June 25, 2008 SIC Meeting to sell eleven private equity funds based on two bids received, which represented 88.4% of market value. PCG was able to negotiate slightly higher pricing for ten of the eleven interests, resulting in a bid price of 90.2% of March 31, 2008 market values. The eleventh fund was sold above par value. As of September 24, 2008, four funds have been legally transferred, including two large interests. ERSRI has received total net proceeds of $22 million from the transfer of these interests. An additional six funds will be transferred on September 30, 2008, and the final interest will be transferred on or about October 1, 2008. Additional proceeds will be just under $10 million, for a total of $32 million, net of fees and expenses. ERSRI's unfunded liability for these funds of $3.9 million will also be eliminated, for a total net benefit of $35.9 million.

Mr. Goodreau stated that due to the current market environment, the request for cap calls has increased. The sale of these funds will provide the portfolio with much needed liquidity.

The Treasurer thanked Ms. Davidson and Mr. Reilly for their assistance in the negotiation and sale of these funds. He went on to announce the next agenda item.

Short Term Investments Vendor Consideration – Independence Bank (CDARS Program). Treasurer Caprio explained the specifics of the CDARS (Certificate of Deposit Account Registry Service) Program. Banks that offer CDARS are members of a special network. When a public fund places a large deposit with a network member, that bank uses the CEDARS service to place the funds into CDs issued by other members of the network. This occurs in increments of less than $100,000 to ensure that both the principle and interest are eligible for full FDIC protection. One rate is negotiated for all CD investments and the funds can be reinvested through a simple process. The Treasurer asked Mr. Izzo, Cash Manager, to continue the discussion.

Mr. Izzo noted that the Treasurer's primary mandate to the Investment Staff is preservation of capital. This program is a safe investment, but will yield a greater return than the current Government Money Market investment by about 100-200 basis points. Treasurer Caprio interjected that the increase in yield was primarily the determining factor in this decision. Mr. Izzo explained that Independence Bank is one of two banks in R.I. that offers the CDARS Program. Although there are multiple banks involved, we will have the convenience of dealing only with Independence Bank.

Mr. Costello asked if all the banks who are part of the CDARS Program will meet ERSRI's investment criteria for short term investments. Treasurer Caprio explained that ERSRI will have the ability to exclude any institution that is part of the network that does not meet our guidelines. Mr. Izzo went on to explain that there will be an addendum to the contract with Independence Bank stating they cannot invest in a CD with any institution that does not meet our guidelines. Ms. Reback asked what the duration of the investment would be in the CDs. Mr. Izzo replied the terms are a minimum of 4 weeks up to 260 days, with a minimum deposit of $10,000 up to $50,000,000.

In conclusion, Mr. Izzo advised the Commission that quotations are received on a daily basis regarding the yield on short term investments. When CDARS is no longer an attractive investment, the funds will be transferred into another short term investment.

The Treasurer entertained a motion to approve Independence Bank CDARS Program as an approved short term investment vendor. Mr. Costello moved, Ms. Gallogly seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Treat, and Treasurer Caprio.

VOTED: To approve Independence Bank CDARS Program as an approved short term investment vendor, with specific instructions not to allow investment with any institution within the network who does not meet ERSRI's specific guidelines.

Legal Counsel Report. There were no legal developments for Counsel to report for the month of July or August.

Chief Investment Officer Report. Mr. Goodreau noted that this was an opportune time to have the additional guidance of Russell Investment Group in the role of Implementation Manager. With the current volatility in market conditions it is very difficult to maintain asset allocations and rebalance the portfolio. Russell has developed a program to keep allocations at policy levels and reduce volatility. Representatives from Russell Investment Group will soon be addressing the Commission to explain how the program works.

Mr. Goodreau noted that there was an error in the data for the month of August under Section B. The *Summary Performance Rate of Returns* chart indicates that Goldman Sachs was flat for the year. They were actually in-line with the benchmark, which is down to -16%. The portfolio achieved positive alpha for the month of August, picking up about 38-40 basis points. The portfolio is 40 basis points over the performance benchmark for the year, which was partially due to over allocation in cash.

Ms. Gallogly asked what the $50 million in *Russell Overlay* represented. Mr. Goodreau explained that these funds will be used to keep allocations within the portfolio's asset allocation benchmarks. When the report was generated the funds were in a cash account, and had not yet been invested. Going forward, the $50 million will be invested in the appropriate asset classes to keep the allocations within the benchmark targets. Next month there will be a supplemental report showing specifically where the funds have been invested.

Mr. Reilly asked how often the portfolio will be rebalanced. Mr. Goodreau responded that +/- 1% within an asset class will trigger a rebalance. There was a discussion regarding how often a rebalance may occur and how the fee associated with this service may impact the profitability of the portfolio. Mr. Goodreau responded that the efficiency of the program will be apparent after two to three months. He also noted that the portfolio only had one rebalance this month, in spite of the unusually extreme volatility.

Mr. Goodreau assured the Commission that Russell Investments will be attending an SIC Meeting in the near future. Representatives will give a very detailed explanation regarding how the program works and how the efficiencies can be measured during this meeting.

Treasurer's Report. Treasurer Caprio expressed the importance of taking innovative actions to protect the profitability of the portfolio during this volatile environment. These actions include proper asset allocation, strong managerial skills, and the addition of Pension Consulting Alliance and Russell Investment Group. He reiterated the need for participation from the Commission Members in interim meetings to discuss investment strategy.

Treasurer Caprio announced that after thirty years of service, Mr. Stephen Iafrate, Fiscal Manager, will be retiring on September 26, 2008. He thanked Mr. Iafrate for his dedication through the years and expressed how much the entire Treasury Staff will miss him.

New Business. Mr. Mark Dingley, Chief of Staff, addressed the Commission regarding the 457 Plan, which is a State Deferred Compensation Plan. It is administered by the Department of Administration, but the SIC has discretion over the investments. There are currently three Investment Managers: AIG, ING, and Fidelity. An RFP for an Investment Manager has not been issued since 1996. While in discussions with Jerome Williams and Susan Rodriguez from the DOA, it was decided that this is an appropriate time to start the

RFP process for an Investment Manager. Since the landscape of the Plan has changed dramatically in the last ten years, Mr. Dingley is proposing that the SIC retain a consultant who is familiar with 457 Plans, for guidance through this RFP process.

The Treasurer entertained a motion to issue an RFP for a consultant to assist the SIC through the RFP process for an Investment Manager for the 457 Plan. Mr. Giudici moved, Mr. Treat seconded and the following motion was passed. The following members voted in favor: Ms. Gallogly, Mr. Giudici, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio. Dr McKenna left the meeting at 10:25 a.m. and Mr. Costello left the meeting at 10:50 a.m. Neither was present for this vote, or the vote to adjourn.

VOTED: To issue an RFP for a consultant to assist the SIC through the process of hiring an Investment Manager for the 457 Plan.

The Treasurer entertained a motion to adjourn. Mr. Reilly moved, Ms. Gallogly seconded and the following motion was passed. The following members voted in favor: Ms. Gallogly, Mr. Giudici, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 11:04 a.m.

Respectfully submitted,

Frank Caprio

GENERAL TREASURER

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting September 24, 2008

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, September 24, 2008. The Treasurer called the meeting to order at 9:16 a.m.

Membership Roll Call. Present were: Ms. Rosemary Booth Gallogly, Mr. Robert Giudici, Dr. Robert McKenna, Ms. Marcia Reback, Mr. Andrew Reilly, Mr. John Treat, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Chief Investment Officer; Ms. Sarah Dowling, of Adler Pollock & Sheehan and Mr. Joseph Pezza, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. John Burns of Pension Consulting Alliance, General Policy Consultant to the Commission; Ms. Michelle Davidson of the Pacific Corporate Group, Alternative Investments Consultant to the Commission; Ms. Laura Callahan of State Street Corporation, and other members of the Treasurer's staff. Mr. Robert Costello arrived at 9:30 a.m. Mr. Robert Gaudreau was not present.

State Investment Commission Minutes. The Treasurer entertained a motion for approval of the minutes. Dr. McKenna moved, Ms. Reback seconded and the following motion was passed. The following members voted in favor: Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Treat, and Treasurer Caprio.

VOTED: To approve the Minutes of the July 23, 2008 regular meeting.

Capital Market Trends – Pension Consulting Alliance. The Treasurer noted that Mr. Emkin and Mr. Burns will be attending each meeting. However, Mr. Emkin was not able to attend today due to a previous commitment. Both Mr. Emkin and Mr. Burns have spent a considerable amount of time with Mr. Goodreau during the last several weeks to get an understanding of ERSRI's policies and procedures.

Mr. Burns explained that PCA will be working with the SIC to determine goals and objectives. A work plan draft will then be established based on the Commission's recommendations and suggestions.

Mr. Burns began his review by stating that various asset classes perform differently through different economic and market environments. The equity risk premium is volatile and, at times, may not reward an investor for the risk taken. Long-term oriented Institutional Investors are continually searching for alternative market segments that are less dependent on, and diversify away from, the equity risk. Mr. Burns explained that the current ERSRI asset allocation is as follows: U.S. Equity 42.5%, Non-U.S. Equity 20%, Real Estate 5%, Private Equity 7.25%, Fixed Income 25%. He noted that ERSRI's long term return target of 8.25% will be a challenge to achieve in this market environment.

Mr. Burns gave a brief historical perspective of capital market trends since 1970. He summarized by commenting that U.S. equity returns have been influenced more by inflation and economic growth than by interest rate performance. Slow economic growth is a primary concern today, while the issue in the 1970's was inflation. Over the last six decades, bonds rarely exceeded an 8% return and lagged inflation in two out of six decades. Real estate has produced the most consistent results across four decades. Private equity is the only asset class which had a negative decade, due largely to the 2000's bear market. Mr. Burns commented that fixed income, real estate, and hedge fund of funds, are the least non-volatile no-cash classes. Private equity has been the top long-term performer by a substantial annual margin, but with materially higher risk. Fixed income and hedge funds have produced solid returns during recessions and equity bear markets. Real estate produced strong returns when inflation has significantly exceeded its long-term average.

Mr. Burns went on to explain the benefits of an equal-weighted allocation of asset classes within a portfolio. Such an allocation strategy would have produced materially higher average returns, with only minimal additional risk. This type of strategy does well during recessionary periods. The equal-weighted strategy would have created 50% more wealth than the 60/40 strategy over the past thirty years, after lagging somewhat during the 1970's. Mr. Burns cautioned that there is no strategy that will perform well during every market environment. Mr. Burns concluded by stating that all portfolios have unique characteristics, which will be a determining factor when choosing the most advantageous strategy.

The Treasurer thanked Mr. Burns for his presentation. He noted that asset allocation is the primary responsibility of the Commission, as allocation drives returns. He stressed the need for a sub-committee meeting to discuss a work plan strategy. He asked if there were any questions or comments.

Dr. McKenna expressed interest in the possibility of interaction between the SIC and Economic Development. He stated that the policies affecting the three largest employment segments in Rhode Island (healthcare, tourism, and higher education) are also affected by national and state government.

A*lternative Investments Consultant PCG – Secondary Markets Review.* Ms. Davidson commented that PCG is assisting ERSRI with the sale of certain private equity interests. Approval was granted at the June 25, 2008 SIC Meeting to sell eleven private equity funds based on two bids received, which represented 88.4% of market value. PCG was able to negotiate slightly higher pricing for ten of the eleven interests, resulting in a bid price of 90.2% of March 31, 2008 market values. The eleventh fund was sold above par value. As of September 24, 2008, four funds have been legally transferred, including two large interests. ERSRI has received total net proceeds of $22 million from the transfer of these interests. An additional six funds will be transferred on September 30, 2008, and the final interest will be transferred on or about October 1, 2008. Additional proceeds will be just under $10 million, for a total of $32 million, net of fees and expenses. ERSRI's unfunded liability for these funds of $3.9 million will also be eliminated, for a total net benefit of $35.9 million.

Mr. Goodreau stated that due to the current market environment, the request for cap calls has increased. The sale of these funds will provide the portfolio with much needed liquidity.

The Treasurer thanked Ms. Davidson and Mr. Reilly for their assistance in the negotiation and sale of these funds. He went on to announce the next agenda item.

Short Term Investments Vendor Consideration – Independence Bank (CDARS Program). Treasurer Caprio explained the specifics of the CDARS (Certificate of Deposit Account Registry Service) Program. Banks that offer CDARS are members of a special network. When a public fund places a large deposit with a network member, that bank uses the CEDARS service to place the funds into CDs issued by other members of the network. This occurs in increments of less than $100,000 to ensure that both the principle and interest are eligible for full FDIC protection. One rate is negotiated for all CD investments and the funds can be reinvested through a simple process. The Treasurer asked Mr. Izzo, Cash Manager, to continue the discussion.

Mr. Izzo noted that the Treasurer's primary mandate to the Investment Staff is preservation of capital. This program is a safe investment, but will yield a greater return than the current Government Money Market investment by about 100-200 basis points. Treasurer Caprio interjected that the increase in yield was primarily the determining factor in this decision. Mr. Izzo explained that Independence Bank is one of two banks in R.I. that offers the CDARS Program. Although there are multiple banks involved, we will have the convenience of dealing only with Independence Bank.

Mr. Costello asked if all the banks who are part of the CDARS Program will meet ERSRI's investment criteria for short term investments. Treasurer Caprio explained that ERSRI will have the ability to exclude any institution that is part of the network that does not meet our guidelines. Mr. Izzo went on to explain that there will be an addendum to the contract with Independence Bank stating they cannot invest in a CD with any institution that does not meet our guidelines. Ms. Reback asked what the duration of the investment would be in the CDs. Mr. Izzo replied the terms are a minimum of 4 weeks up to 260 days, with a minimum deposit of $10,000 up to $50,000,000.

In conclusion, Mr. Izzo advised the Commission that quotations are received on a daily basis regarding the yield on short term investments. When CDARS is no longer an attractive investment, the funds will be transferred into another short term investment.

The Treasurer entertained a motion to approve Independence Bank CDARS Program as an approved short term investment vendor. Mr. Costello moved, Ms. Gallogly seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Treat, and Treasurer Caprio.

VOTED: To approve Independence Bank CDARS Program as an approved short term investment vendor, with specific instructions not to allow investment with any institution within the network who does not meet ERSRI's specific guidelines.

Legal Counsel Report. There were no legal developments for Counsel to report for the month of July or August.

Chief Investment Officer Report. Mr. Goodreau noted that this was an opportune time to have the additional guidance of Russell Investment Group in the role of Implementation Manager. With the current volatility in market conditions it is very difficult to maintain asset allocations and rebalance the portfolio. Russell has developed a program to keep allocations at policy levels and reduce volatility. Representatives from Russell Investment Group will soon be addressing the Commission to explain how the program works.

Mr. Goodreau noted that there was an error in the data for the month of August under Section B. The *Summary Performance Rate of Returns* chart indicates that Goldman Sachs was flat for the year. They were actually in-line with the benchmark, which is down to -16%. The portfolio achieved positive alpha for the month of August, picking up about 38-40 basis points. The portfolio is 40 basis points over the performance benchmark for the year, which was partially due to over allocation in cash.

Ms. Gallogly asked what the $50 million in *Russell Overlay* represented. Mr. Goodreau explained that these funds will be used to keep allocations within the portfolio's asset allocation benchmarks. When the report was generated the funds were in a cash account, and had not yet been invested. Going forward, the $50 million will be invested in the appropriate asset classes to keep the allocations within the benchmark targets. Next month there will be a supplemental report showing specifically where the funds have been invested.

Mr. Reilly asked how often the portfolio will be rebalanced. Mr. Goodreau responded that +/- 1% within an asset class will trigger a rebalance. There was a discussion regarding how often a rebalance may occur and how the fee associated with this service may impact the profitability of the portfolio. Mr. Goodreau responded that the efficiency of the program will be apparent after two to three months. He also noted that the portfolio only had one rebalance this month, in spite of the unusually extreme volatility.

Mr. Goodreau assured the Commission that Russell Investments will be attending an SIC Meeting in the near future. Representatives will give a very detailed explanation regarding how the program works and how the efficiencies can be measured during this meeting.

<u>*Treasurer's Report.*</u> Treasurer Caprio expressed the importance of taking innovative actions to protect the profitability of the portfolio during this volatile environment. These actions include proper asset allocation, strong managerial skills, and the addition of Pension Consulting Alliance and Russell Investment Group. He reiterated the need for participation from the Commission Members in interim meetings to discuss investment strategy.

Treasurer Caprio announced that after thirty years of service, Mr. Stephen Iafrate, Fiscal Manager, will be retiring on September 26, 2008. He thanked Mr. Iafrate for his dedication through the years and expressed how much the entire Treasury Staff will miss him.

<u>*New Business*</u>. Mr. Mark Dingley, Chief of Staff, addressed the Commission regarding the 457 Plan, which is a State Deferred Compensation Plan. It is administered by the Department of Administration, but the SIC has discretion over the investments. There are currently three Investment Managers: AIG, ING, and Fidelity. An RFP for an Investment Manager has not been issued since 1996. While in discussions with Jerome Williams and Susan Rodriguez from the DOA, it was decided that this is an appropriate time to start the

RFP process for an Investment Manager. Since the landscape of the Plan has changed dramatically in the last ten years, Mr. Dingley is proposing that the SIC retain a consultant who is familiar with 457 Plans, for guidance through this RFP process.

The Treasurer entertained a motion to issue an RFP for a consultant to assist the SIC through the RFP process for an Investment Manager for the 457 Plan. Mr. Giudici moved, Mr. Treat seconded and the following motion was passed. The following members voted in favor: Ms. Gallogly, Mr. Giudici, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio. Dr McKenna left the meeting at 10:25 a.m. and Mr. Costello left the meeting at 10:50 a.m. Neither was present for this vote, or the vote to adjourn.

VOTED: To issue an RFP for a consultant to assist the SIC through the process of hiring an Investment Manager for the 457 Plan.

The Treasurer entertained a motion to adjourn. Mr. Reilly moved, Ms. Gallogly seconded and the following motion was passed. The following members voted in favor: Ms. Gallogly, Mr. Giudici, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 11:04 a.m.

Respectfully submitted,

Frank Caprio
GENERAL TREASURER

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Mid-Month Meeting November 5, 2008

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, November 5, 2008. The Treasurer called the meeting to order at 9:16 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Giudici, Mr. John Treat, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Chief Investment Officer; Ms. Sarah Dowling, of Adler Pollock & Sheehan and Mr. Joseph Rodio, of Rodio & Ursillo Ltd, Legal Counsel to the Commission; Mr. John Burns of Pension Consulting Alliance, General Policy Consultant to the Commission; Mr. Greg Nordquist, Implementation Manager, Russell Investment Group; Ms. Laura Callahan of State Street Corporation; and other members of the Treasurer's staff. Mr. Gaudreau, Dr. McKenna, Ms. Reback, and Mr. Reilly were not present.

State Investment Commission Minutes. The Treasurer entertained a motion for approval of the minutes. Mr. Treat moved, Ms. Gallogly seconded and the following motion was passed. The following members voted in favor: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Giudici, Mr. John Treat, and General Treasurer Frank T. Caprio.

VOTED: To approve the Minutes of the October 22, 2008 regular meeting.

Treasurer Caprio thanked all attendees for participating in this additional SIC meeting. In addition to today's presentations by PCA and Russell, he explained that he would like the staff, PCA, Russell, and Brockhouse Cooper to continue to review the current active manager's policies and costs. Treasurer Caprio stated that he would like to continue this discussion by getting the proper materials to the Commission well in advance of any meeting on current manager performance and cost structures.

The Role of Assets – Pension Consulting Alliance. Mr. Burns began by explaining how to determine the appropriate asset allocations for ERSRI's portfolio. The first step is to define objectives and the investment options which are within ERSRI's guidelines. The goal will be to exceed the benchmark of 8.25%. The next step is to create capital market rate assumptions and expected risk and return correlations for a five to ten year period. PCA will then run an analysis and the SIC will select an asset allocation that reflects ERSRI's risk and return tolerance. Mr. Burns stated that PCA utilizes a "building block" approach to arrive at estimates for equity and other classes' risk premium. The objective is to develop reasonable, consensus expectations for asset classes exhibiting different risk characteristics. Since equity is a large percentage of the portfolio's allocation, Mr. Burns stated it is critical to estimate the equity risk premium, as this will drive returns. The estimation process will be more difficult to determine among the more esoteric classes, such as real estate and private equity. Mr. Burns noted that the SIC should be cautious and prudent in analysis of all models and assumptions. Mr. Treat asked Mr. Burns if future economic conditions and inflation are taken into consideration when building assumption models. Mr. Burns replied that the model is indicative of many market cycles. He added that a percentage for inflation will be determined and will be built into the model.

Mr. Burns went on to discuss potential investment markets within real return asset classes. These asset classes include commodities, hedge funds, timber, infrastructure and global TIPS. Commodities that trade in the futures exchange, such as soy beans and hogs, could be used as a basis toward an absolute return strategy. Timber is similar to a bond, as it provides cash flow and has equity appreciation potential. Infrastructure, which includes ports and toll roads, provides income and ownership of the asset. Hedge funds have the potential of providing a steady, low volatility return of inflation plus 3% to 4%.

The Treasurer asked Mr. Burns how the risk related to the real return asset classes compares versus the risk associated with private equity and private equity real estate investments. Mr. Burns replied that there is more risk associated with private equity than a combination of real return classes designed to have low volatility within a portfolio.

A discussion ensued between the SIC members and Mr. Burns regarding the volatility and risk related to different types of hedge funds. Mr. Burns and the SIC members agreed there should be a "wait and see" attitude and more discussion before an investment decision is made.

Mr. Burns remarked that a prudently structured real return portfolio should diversify equity risk while providing levels of returns greater than bonds and moderately less than equities. A significant discussion should take place to outline an appropriate real return class structure. The implementation of any one of several structures may take an extended period of time. Investments in the real return class can occur on an opportunistic basis, potentially leading to short term biases in the initial funding stages. The first step in implementation would be to develop and approve policies and guidelines that would dictate the long term structuring of the real return class portfolio. Ms. Gallogly asked if there could be some overlap in real return classes and private equity. Mr. Burns affirmed that there could be, and used TIPS as an example.

Exposure Management – Russell Investment Group.   Treasure Caprio explained that the Implementation Program is a disciplined approach to keep asset allocations within their respective benchmarks. He added that last month a deviation of +/- 1% within an asset class would trigger a rebalance. Due to the extreme volatility in the market, the staff and representatives from Russell Investments have agreed to modify the deviation to +/- 2%. The allocations have been rebalanced two times over the last two months. The Treasurer introduced Mr. Greg Nordquist, Senior Portfolio Manager, from Russell Investments.

Mr. Nordquist noted that the goal of this program is to correct unintended exposures in a passive implementation, while minimizing costs. The portfolio could be rebalanced frequently in the S&P 500 and EFA, but trading in futures space to rebalance allocations will comparatively reduce costs by approximately 90%. This method avoids the physical transaction costs while performing a mini rebalancing from cash flow changes in an equitization program. The plan follows the market movements and then changes are traded in cash to keep allocations within the target. The Treasurer commented that having a disciplined systematic approach to rebalancing the portfolio allocations is a necessary tool. This eliminates the emotional aspect involved in the decision making process.

Ms. Gallogly asked Mr. Nordquist if the data identifying the cash used to rebalance the allocations is supplied by State Street Bank & Trust Company. She continued by asking if the Money Managers take exception to this, as they will not have access to this cash for reinvestment. Mr. Nordquist explained that the cash is aggregated visually, but it is not removed. The policy reacts to the downloaded values that State Street provides, and the deviation in allocations is exposed to the market through futures. The methodology is to buy low and sell high. Mr. Nordquist added that there is always a cash cushion to avoid leverage.

Mr. Nordquist explained that an Asset Summary Report is sent to Mr. Goodreau and Mr. Izzo on a daily basis. This report indicates the deviations from target allocations and unintended risk versus policy. He then went on to give a detailed explanation of the last several Asset Summary Reports and explained how the Implementation Program actually keeps allocations within their respective benchmarks.

Mr. Costello asked how the efficiencies and added value of the program can be determined. Mr. Nordquist responded that Russell measures their performance versus a "perfect implementation benchmark". This benchmark is determined, in theory, by assuming what the cost would be if an investment is made in the S&P or EFA with no transaction costs associated with the trade. The performance of Russell's positions is measured relative to this benchmark. Mr. Nordquist commented that in September Russell outperformed this benchmark by approximately $2 million.

Mr. Costello stated that ERSRI does not have an allocation for cash and he questioned Mr. Nordquist as to whether this is the position ERSRI should take. Mr. Nordquist replied that very few funds within the U.S. have a strategic allocation to cash, as it is perceived as being a drag on the portfolio. Some funds may have a 2% allocation to cash, but only as a means of providing liquidity to the portfolio. Treasurer Caprio added that going forward, a study will be performed to help the SIC determine if any changes should be made to the asset allocations. This study will help the SIC decide if cash should be part of ERSRI's allocations.

Mr. Treat observed that in a previous meeting it was stated that the Implementation Program would add approximately 15 basis points to the portfolio each year. He added that a review should be done on a quarterly or semi-annual basis to determine the actual value the portfolio is capturing from this program. He remarked that during these volatile times "cash is king", and if cash is being invested in a falling market it works against the portfolio.

Mr. Goodreau noted that the portfolio had 4.5% allocated to cash, which eliminated the need to liquidate any assets to fund equities while going through the current downturn. He added that he thought the issue may be more related to the risk involved in asset classes, rather than dollars allocated to cash. He observed that cash has virtually no return in this market and the answer may be to increase the allocation to bonds or other risk-averse asset classes. Mr. Goodreau noted that having the Implementation Program in place during this volatile time actually captured a 20% move in the market, which would not have been possible if the program was not in place. The Treasurer remarked that only a small portion of the cash allocation is used to employ the implementation strategy through investment in futures, leaving the majority of cash within the portfolio. Mr. Nordquist interjected that alternative investments involve private equity calls, real estate calls, and distributions, which require a need to have a liquidity management system in place. This program provides a long term approach to liquidity in addition to exposure to the market.

Legal Counsel Report. There were no legal developments for Counsel to report at this meeting.

Chief Investment Officer Report. Mr. Goodreau reported that Taplin, Canida & Habacht, one of ERSRI's Fixed Income Managers, is in the midst of a corporate transaction (sale of firm) and has experienced relatively poor performance in the past quarter. Under these circumstances, ERSRI's policy allows the SIC several options. These options are as follows: terminate the account and temporarily reallocate to a firm to manage as a corporate bond index fund until a structural review is completed, terminate the account and reallocate to an existing R.I. Fixed Income Manager (Pyramis or PIMCO), or continue to retain Taplin, Canida & Habacht, until the fixed income structural review is conducted. The timeline for a fixed income structural review will be approximately six months. The Treasurer stated the SIC will be required to vote on one of these options at a future meeting.

Treasurer's Report. Treasurer Caprio updated the SIC regarding ERSRI's investment in the U.S. Government Fund. He commented that our staff attended a meeting with the SEC and a team of the major shareholders in the Fund. He explained that The Reserve Money Market has announced that ERSRI will be receiving $20-$25 million, which is approximately 30%-40% of the funds invested in the U.S. Government Fund, within the next ten days.

The Treasurer explained that all ERSRI's cash deposits are now collateralized. Due to the current volatility of the market, cash will be invested in risk-averse options.

Mr. Goodreau remarked that there are several institutions that the Federal Government is investing with that are not on our approved vendor list. The Treasurer stated that the SIC will soon be asked to approve an expanded vendor list, which will include these institutions, for possible future investments.

The Treasurer noted that the next SIC meeting will be on December3, 2008. He mentioned that there may be a need for an additional meeting prior to this date. He asked for the Commission's cooperation regarding their additional time, and added that the members will be notified as soon as possible.

New Business. There being no further new business, the Treasurer entertained a motion to adjourn. Mr. Giudici moved, Mr. Treat seconded and the following motion was passed. The following members voted in favor: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Giudici, Mr. John Treat, and General Treasurer Frank T. Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 10:34 a.m.

Respectfully submitted,

Frank T. Caprio

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Monthly Meeting December 17, 2008

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, December 17, 2008. The Treasurer called the meeting to order at 9:10 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Gaudreau, Dr. Robert McKenna, Ms. Marcia Reback, Mr. Andrew Reilly, Mr. John Treat, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Chief Investment Officer; Ms. Sarah Dowling, of Adler Pollock & Sheehan, Mr. David Ursillo, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. John Burns of Pension Consulting Alliance, General Policy Consultants to the Commission; Ms. Lisa Tyrell, of State Street Corporation; and other members of the Treasurer's staff. Mr. Robert Giudici was not present.

State Investment Commission Minutes. The Treasurer entertained a motion for approval of the minutes. Dr. McKenna moved, Mr. Costello seconded, and the following motion was passed. The following members voted in favor: Mr. Costello, Dr. McKenna, Ms. Gallogly, Mr. Gaudreau, Ms. Reback, Mr. Reilly, Mr. Treat, and General Treasurer Caprio.

VOTED: To approve the Minutes of the December 3, 2008 Monthly meeting.

Treasurer Caprio suggested the agenda begin with Mr. Izzo's presentation of Short Term Investment Cash and Fiscal Management issues.

Short Term Investment Cash and Fiscal Management. Mr. Izzo began by commenting that the current market has increased our need to scrutinize our current providers beyond our normal due diligence. Protecting assets is the number one priority. Our focus today is to continue our best practices protecting our assets and expand our horizons to pick up add additional yield.

Mr. Izzo continued that due to current market conditions we are not making any investments in the corporate world (Commercial Paper). With that and current SIC guidelines, we find ourselves restricted to three to four providers. Presently we are overweight on some investment and vendor categories because we are unable to find safe alternatives.

Mr. Izzo proposed the following changes: (1) to increase exposure to Fully Collateralized CD's to a maximum of 50% total and 20% to any one vendor, (2) To increase exposure to Collateralized Deposits to a maximum of 50% total and 20% to any one vendor, and (3) the combination of Fully Collateralized CD's and Collateralized Deposits shall not exceed 75% or 35% maximum per vendor which is our current guideline.

Mr. Izzo explained that these investments are fully collateralized with a third party and present no risk to credit exposure of these institutions. Presently SIC guidelines do not dictate that CD's be fully collateralized; however current practice is that any CD investment requires full collateralization.

The Treasurer entertained a motion that we increase exposure to Fully Collateralized CD's increasing the total to 50% maximum exposure and 20% to one vendor and also increase

Brothers (face value $785 million) and held by the Primary Fund was valued at zero effective September 16, 2008 and the NAV of the Primary Fund dropped to $0.97 per share. This event caused unprecedented requests for redemption or transfer of funds. The SEC issued an order to suspend all rights of redemption for both The Primary Fund and the U.S. Government Fund on September 22, 2008. The SEC order will remain in effect until sufficient liquidity returns to the market. The Treasurer traveled to New York and met with the CEO of The Reserve to discuss the situation approximately two weeks ago. Since then, a team has been formed, comprised of ERSRI and several of the largest investors in the fund. This team has been having regular discussions with the SEC and the U.S. Treasury. In the meantime, measures have been taken to ensure the short term cash flow is not affected.

Ms. Reback noted that the SIC was not alerted by the staff of when this situation arose, and asked to be notified in the future. The Treasurer assured Ms. Reback that there will be communication regarding similar issues in the future.

Treasurer Caprio stated that one of our Money Managers, Taplin, Canida & Habacht, is being acquired by another fund. The documents regarding this transaction have been received and are being reviewed at this time.

Capital Market Trends – Pension Consulting Alliance. Mr. Burns gave an overview of the significant equity market declines over the last sixty years. He observed that the market recovered within a year during each of these periods. Mr. Burns observed there is a severe flight to quality. He stated that the calendar week ending October10, 2008, experienced the worst market performance since 1928. Financial stocks are in an extreme decline, causing the banks to stop lending to each other, as well as corporations, and individuals. This could result in more layoffs.

Mr. Emkin went on to explain that Credit Derivative Swaps (CDS) are based upon pricing of individual corporate bonds. He noted that the market is unregulated, and no one knows exactly how large this market is. If there is a default somewhere within this market, there will be more dislocation within the credit markets, which will have an impact on the stock market. The major exchanges are trying to create a clearing house for CDS, and the SEC is monitoring their efforts. Mr. Emkin concluded by stating that CDS are part of the challenge that the policymakers around the globe are facing regarding the credit markets. Ms. Booth asked if any of our Money Managers have CDS investments in our portfolio. Mr. Emkin replied he will look into it, but to the best of his knowledge, there are none in the portfolio. Mr. Dingley asked if Lehman Brothers Holdings were participating in the CDS market. Mr. Emkin confirmed they were.

Mr. Burns observed that credit spreads have widened in every market with the exception of the Emerging Market Sovereign Bonds. Global financial players have more confidence in the markets in Korea and Brazil than in major markets around the world.

Mr. Burns announced that letters are being sent to all of ERSRI's Money Managers asking them to be proactive and advise the SIC of any new opportunities that may be advantageous in this market environment. Mr. Burns will keep the Commission apprised of any developments. Mr. Emkin added dislocations create opportunity, but you have to have the ability to act when the opportunity presents itself. This is the one of the topics Mr. Emkin and Mr. Burns will cover during the additional SIC Meetings.

Mr. Costello asked Mr. Emkin if he thinks this market recovery will be different than any time in past history. Mr. Emkin relied yes. He noted that all market risk models done in the last ten years have been understated by 50% to 75%. There has never been a global reaction where global central banks are coordinating efforts to create liquidity to free up the market.

Mr. Emkin explained that the objective is to improve the portfolio's long-term performance and funding ratio. This will be accomplished through focusing on the investment policy, which will include a review of all existing investment policy documentation. PCA will be focusing on improving fund management, as well as reevaluation of all fund policies and procedures. Due to the extreme market conditions, Mr. Emkin emphasized the importance of communicating this information to the SIC in a timely manner, as it is crucial to the portfolio to control costs.

Mr. Emkin announced the topics of future meetings will be asset allocation, rebalancing policy, risk management, equity portfolio structural review, fixed income portfolio structural review, and securities lending program overview. This information will help the Commission make positive decisions and give PCA direction toward the goal of improving performance. This process normally takes PCA eighteen to twenty four months, but due to the current volatility, it will be accelerated and completed in six months.

Mr. Goodreau told the SIC that he is always available for any questions or concerns that they may have. He went on to report that there were some positives within the last year. Last March when credit spreads were very tight, the SIC voted to exit Shenkman Capital Management. This proactive decision removed high yield risk from the portfolio. Credit spreads were very tight last year when ERSRI exited Shankman Capital Mnagement. All ERSRI's asset classes are now liquid and transparent.

Alternative Investments Consultant PCG . Ms. Davidson stated there would not be a private equity presentation. Mr. Costello asked Ms. Davidson to explain the twelve to eighteen month outlook in private equity. Ms. Davidson replied that the focus is on strategies that increase liquidity.

Ms. Gallogly asked if there has been an increase in the amount of capital calls we are receiving because of the decrease in liquidity. Ms. Davidson responded that capital calls are increasing because investment activity is continuing, but ERSRI is not seeing corresponding distributions. She went on to explain that this is a good time to invest in funds that are able to get financing, because valuations are lower creating good investment opportunities.

Treasurer Caprio explained that we will continue to monitor the value of the portfolio and asset allocation in regard to private equity investments. Once there is positive movement in the private equity allocation, we will resume pursuing new investment opportunities.

Alliance Bernstein – CollegBoundfund Investment Review & Market Timing Settlement. Treasurer Caprio announced that representatives from Alliance Bernstein would be giving a review of the CollegeBound*fund.* Jennifer DeLong, Director, Education Solutions Group, began her review by introducing the representatives: Mark Anderson, VP

Legal Counsel and Compliance and Tom Fontaine, Director of Research and Investment Design. Ms. DeLong stated that total assets for the fund are $7.020 billion, which includes $206 million in assets from R.I. The CollegeBound*fund* has a 14% market share. Performance has been highly ranked for the past three years, maintaining a leadership position in both the Direct-Sold Program and the Advisor-Sold Program.

Ms. DeLong turned the presentation over to Mr. Anderson. Mr. Anderson explained that Alliance Bernstein settled litigation with the SEC and the N.Y. Attorney General on December 18, 2003, for allowing improper market timing practices in ten of the retail mutual funds, many of which were included in the CollegeBound*fund*. Alliance Bernstein has established a $250 million fund to compensate shareholders. The total funds for distribution are $321 million, including settlements of Alliance Bernstein Officers and Market Timer, Daniel Calugar. Distributions will begin in early 2009 and will consist of four waves of checks. The RIHEST/CollegeBound*fund* will receive approximately $8.5 million in early May, 2009.

Mr. Dingley stated that the settlement distribution plan has been reviewed very closely by outside counsel for RIHEAA, as well as by Ms. Dowling, SIC legal counsel. The distribution detail has been worked out in regard to the CollegeBound*fund*, and proceeds will be deposited in each investor's account. There are other market timing settlements to be distributed, such as $3.2 million from Bank of America. Since we do not have detailed records regarding these settlement distributions, the money will be deposited in the corresponding fund. All distributions are within SEC and Professor Blume's guidelines.

Ms. Gallogly asked Mr. Anderson if the settlement distribution going into individual accounts will be considered taxable income. Mr. Anderson replied that it was unclear at this point, but a letter will be sent with each distribution explaining the tax guidelines.

The Treasurer entertained a motion to approve the distribution settlement for RIHEST/CollegeBound*fund* as presented by the Staff. Ms. Gallogly moved, Ms. Reback, seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Dr. McKenna, Ms. Reback, Mr. Treat, and Treasurer Caprio.

VOTED: To approve the distribution settlement for the RIHEST/CollegeBound*fund* as presented by Staff.

Ms. DeLong introduced Tom Fontaine, Director of Research and Investment Design from Alliance Bernstein. Mr. Fontaine remarked that the past performance of the CollegeBound*fund* has been favorable. However, these are unprecedented times. There is now a flight to quality, and all asset classes have experienced negative returns, including the CollegeBound*fund*. Mr. Fontaine reviewed the investment options within the fund. Mr. Costello observed that the returns for the fund were half of what returns were for the S&P 500. He asked Mr. Fontaine if the investment model will be changed going forward, considering the disappointing returns. Mr. Fontaine replied he would be open to a dialogue with the SIC to determine the objectives of the investment design. Mr. Fontaine stated that given their analysis and understanding of the plan, he believes the plan is prudent, and they will not be changing the asset allocation. He observed once more how extremely unusual the current market conditions are and noted there will be a rebound.

The Treasurer noted that our relationship with Alliance Bernstein is very important. He asked the Alliance Bernstein Representatives to continue the dialogue and discussion with the SIC and Staff.

Mr. Fontaine closed by remarking that the current design allows investors in the CollegeBound*fund* to be well positioned once this rebound occurs. He referred to Warren Buffet's recent decision to invest in stocks, and remarked that cash is not the preferred asset allocation at this time. Treasurer Caprio stated he appreciated Mr. Fontaine's comments, and added that if these comments were in regard to our pension portfolio, this type of investment position would be prudent because the timeline is decades. However, the timeline for the CollegeBound*fund* is not unlimited, but rather it is a fixed duration. As fiduciaries, it is the SIC's responsibility to protect the investors who are participating in the fund.

Legal Counsel Report. There were no legal developments for Counsel to report for the month of September.

RFQ for Portfolio Monitoring and Securities Litigation Services. Mr. Dingley commented that the dislocation of the market will be creating an abundance of litigation. There are currently two firms who represent ERSRI in Securities Litigation, and the proposal is that the number of firms be increased by four. The Firms are Coughlin, Stoia, Geller, Rudman & Robbins, LLP, Bernstein, Litowitz, Berger & Grossman, LLP, Cohen, Milstein, Hausfeld, & Toll, PLLC, and Labaton Sucharow, LLP. The ultimate goal of these firms is to be lead plaintiff representing ERSRI, if there is cause for securities litigation.

Treasurer Caprio explained that the firms absorb all costs associated with litigation. They receive a percentage of the award, should the litigation be successful. If litigation is not successful, the firm absorbs all costs. The firms monitor our portfolio and are responsible for identifying and initiating any class action suits. The firm who brings the action to the attention of the Commission first, will most likely represent ERSRI.

The Treasurer entertained a motion to approve the Staff recommendation to expand the pool of qualified Portfolio Monitoring and Security Litigation Firms. Mr. Treat moved, Ms. Reback, seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Dr. McKenna, Ms. Reback, Mr. Treat, and Treasurer Caprio.

VOTED: To approve the Staff recommendation to expand the pool of qualified Portfolio Monitoring and Security Litigation Firms.

Chief Investment Officer Report. Mr. Goodreau asked the SIC Members to refer to the new SIC Booklet. He explained that there would be some material changes going forward and asked for input regarding the new format. Mr. Treat commented that he was pleased with the additional information and new format.

Mr. Goodreau stated that the Russell Implementation Program is working and the portfolio had a relative 13 basis point net positive for the month. Representatives from Russell Investment Group will be attending the next SIC Meeting to explain the implementation services and to review the strategy of the plan. Mr. Goodreau noted that our portfolio exceeded the benchmark by 75 basis points during the last twelve months.

Ms. Gallogly asked if there should be any concerns regarding our Money Managers regarding the declining compensation they are receiving due to market conditions. She inquired if this will affect their staff and other resources, which could negatively impact the portfolio. Mr. Goodreau replied this was a possibility. He added that Mr. Emkin and Mr. Burns from Pension Consulting Alliance will be monitoring this situation closely to avoid any issues that may negatively affect the portfolio.

New Business. There being no new business, the Treasurer entertained a motion to adjourn. Ms. Reback moved, Dr. McKenna seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Dr. McKenna, Ms. Reback, Mr. Treat, and Treasurer Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 10:54 a.m.

Respectfully submitted,

Frank T. Caprio

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Mid-Monthly Meeting December 3, 2008

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, December3, 2008. The Treasurer called the meeting to order at 9:13 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Gaudreau, Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly, Mr. John Treat, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Chief Investment Officer; Ms. Sarah Dowling, of Adler Pollock & Sheehan, Legal Counsel to the Commission; Mr. Allan Emkin and Mr. John Burns of Pension Consulting Alliance, General Policy Consultants to the Commission; Mr. Michael Bain of the Pacific Corporate Group, Alternative Investments Consultant to the Commission; Ms. Laura Callahan of State Street Corporation; and other members of the Treasurer's staff. Dr. McKenna was not present and Ms. Gallogly left at 10:30 a.m.

State Investment Commission Minutes. The Treasurer entertained a motion for approval of the minutes. Mr. Costello moved, Ms. Gallogly seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Ms. Reback, Mr. Reilly, Mr. Treat, and General Treasurer Caprio.

VOTED: To approve the Minutes of the November 5, 2008 mid-month meeting.

Treasurer Caprio noted that it is important for the Commission members to be aware of the various asset classes that are available for investment. He then introduced Mr. Emkin, who would be giving a background and review of Hedge Funds and Infrastructure.

Introduction to Hedge Funds – Pension Consulting Alliance. Mr. Emkin reminded the Commission that this is an educational exercise and he is not making an investment recommendation. Mr. Emkin explained that the term "hedge fund" can be broadly defined and it is not an asset class, but rather a type of asset management. He explained that the goal is to have asset class diversification within the portfolio that does not fluctuate with stocks and bonds. He explained hedge funds can provide superior returns relative to risk by utilizing a broad spectrum of investment styles, hedging strategies and financial instruments that have low or no market risk. Hedge funds are commonly considered alternative investments because they are privately structured and limited to sophisticated investors. Mr. Emkin also stated that hedge funds can also contain significant financial leverage and other risk factors, which can produce highly volatile returns.

Ms. Reback asked Mr. Emkin to explain why the presentation material indicates a risk factor for hedge funds from low risk to extremely volatile risk. Mr. Emkin explained that there are many different types of hedge funds and the risk within these various funds can range from extreme high risk to low risk strategies. If hedge funds were part of ERSRI's portfolio, funds would be chosen that would have a moderate risk factor. Mr. Emkin closed his presentation by commenting that this is not the appropriate time for ERSRI to consider investment in hedge funds.

Mr. Giudici asked how hedge funds have performed during the last five years. Mr. Emkin replied that it would vary depending on the fund. Five years ago, the hedge fund market share was rather small. The performance was good for three to four years, followed by a year of drastic under performance. The result of the five year time horizon indicates most hedge funds broke even. The discussion then went on to Infrastructure.

Introduction to Infrastructure – Pension Consulting Alliance. Mr. Emkin provided an educational overview of Infrastructure as a potential asset class within the portfolio. Investments in Infrastructure pertain to physical structures, facilities, and networks which provide essential services within a community. There are three predominate types of Economic Infrastructures: transportation, energy utilities, and communications. Social Infrastructure includes educational facilities, healthcare facilities, correctional facilities, and judicial buildings. Infrastructure investing has been an asset class for many years, but was previously referred to as Project Finance. Recently, public to private partnerships have been formed to help public entities with their balance sheet while providing investment opportunities in the private sector. It is a method of providing capital for growth and maintenance of institutions without using taxpayer money. Many pension plan investors are embracing Infrastructure investments, including CalPERS and CalSTRS.

Ms. Reback asked for an example of an Infrastructure investment. Mr. Emkin replied that Heathrow Airport in London is not operated by the government, but rather it is operated by a private company. There was a discussion regarding the complexity of labor issues within an Infrastructure investment. Mr. Emkin went on to explain how many of the companies they provide with consulting services have handled labor issues in the past.

Mr. Emkin stated that Infrastructure as an asset class offers stability, long life assets, inflation protection, predictable cash flow, limited risk and volatility. Infrastructure is not reflective of the highs and lows of stocks and bonds and is well regulated. Infrastructure is a hybrid asset class with similarities to traditional asset classes, such as fixed income, private equity, and real estate. These investments can be either in North America or global.

Mr. Costello asked why a state would privatize Infrastructure if the state could conceivably find a way to raise the capital to fund the Infrastructure and capture the returns themselves. Mr. Emkin replied that it is sometimes a matter of limited tax exempt financing for Infrastructure on the part of the state, or operating efficiencies may be superior to that of the state if done by a private company.

Potential investor concerns can be leverage, market inefficiencies, political and headline risk, regulatory risk, construction and development, labor issues and asset management control.

Today's political spotlight has been placed on America's Infrastructure as a catalyst to create jobs and spur the economy. Government is facing budgetary constraints and looking for ways to address Infrastructure spending shortfalls. Also, the slowdown of alternative markets due to the credit crunch and financial crisis will increase the need for private capital in Infrastructure.

PCA expressed their belief that there are many great investment opportunities in Infrastructure. However, at this point they are providing general background information. Mr. Emkin suggested that when reviewing asset allocations, the Commission consider Infrastructure as an investment. At that time, PCA will bring more complex information and vendors to see what is being offered in the marketplace.

The Treasurer asked Mr. Emkin to comment on the current market conditions. Mr. Emkin stated that the cause of the volatility in the stock market is due to the credit markets. Businesses, both large and small, are not able to borrow money. Banks are not lending money and the public is not buying corporate bonds. Until there is a more readily available source of borrowing, the volatility will continue. Mr. Emkin commented that the new Administration has put together a very talented team in both the Treasury and Regulatory Departments, which is encouraging. He remarked that there are tremendous investment opportunities in the market because of current conditions.

Treasurer Caprio stated that over a year ago ERSRI decided to continue a Securities Lending Program, but invested the collateral in very low risk options, such as treasury holdings. This has proven to be a positive decision in regard to the portfolio. He asked Mr. Emkin to comment further on the Securities Lending Program. Mr. Emkin explained that many investors lost large sums of money by investing collateral in risky assets that had historically been great performers with little to no risk associated with the investment. This changed about nine months ago when investments such as commercial paper and short term bonds had huge losses. The Treasurer asked Mr. Goodreau to continue the discussion in regard to performance of ERSRI's Security Lending Program.

Mr. Goodreau remarked that last year, at the Treasurer's request, ERSRI moved the Securities Lending Program collateral from Quality D Fund to Quality A Fund. The Program has been under constant scrutiny and review by the staff. Earlier in the week a meeting was held with the staff, Mr. Burns from PCA, and Mr. DeSano from State Street Bank & Trust, to review the portfolio once again to be sure the collateral pool was in risk averse investments with no third party risk. To date, ERSRI's Securities Lending Program has earned $8 million in returns. Mr. Goodreau cautioned that if and when the demand for treasuries diminishes, the returns will not be as lucrative. Mr. Costello asked why the returns are so high when treasury yields are very low. Mr. Goodreau replied that the returns are coming from the premium being paid on our holdings, not the risk of the collateral pool.

Legal Counsel Report. There were no legal developments for Counsel to report at this meeting.

Chief Investment Officer Report. Mr. Goodreau remarked that leverage is not working and the cost of capital is going up. The priority now should be to determine which asset classes can provide good returns with minimal risk. There are opportunities in capital markets, credit markets and dividend paying strategies. On a relative basis the portfolio is exceeding the benchmark by 150 basis points. In the next mid-monthly meeting there will be a review of active manager's fees.

Mr. Reilly and Mr. Goodreau had a quick discussion regarding the portfolio's remaining $10 million investment in Lehman Brothers Merchant Bank Fund IV. Mr. Reilly noted that Lazard has been acting in an advisory role for Lehman Brothers since last July. Lazard is currently trying to find a buyer for the Lehman Brothers' owned portion of the General Partnership. Mr. Goodreau remarked that the underlying assets are viable and there is a very high probability that the fund will be purchased.

Alternative Investments Consultant- Market Review. Although PCG was not on the agenda, Treasurer Caprio asked Mr. Bain to comment on market conditions within private equity. Mr. Bain stated that lack of liquidity has caused softness in the alternative investment market, which is expected to continue for quite some time. For the long term, the portfolio is in good standing. Managers of these investments have been chosen because they create value through active management operational improvements, rather than financial engineering and use of leverage. The portfolio should rebound and weather the down turn. Liquid strategies and credit based strategies, such as mezzanine investments, have become a major area of opportunity. ERSRI's investment timing in the secondary market has been successful and the secondary market will continue to be an attractive investment. Distressed debt strategies will continue to be favorable in the current market conditions. ERSRI will have the opportunity to capitalize in their current investments in distressed debt. Mr. Bain concluded by remarking that valuations are coming down and top managers are coming back to the market in 2009, which will create many opportunities in a strong vintage year.

Treasurer's Report. Treasurer Caprio announced that our Cash Management team has received a commitment from the SEC and the U.S. Treasury Department regarding ERSRI's remaining investment in The Reserve U.S. Government Fund. The Treasurer and several of the largest shareholders of the Fund, met in Washington with the SEC. Several top ranking members of the U.S. Treasury also assisted in the resolution. According to the U.S. Treasury, The Reserve U.S. Government Fund will use its best efforts to sell all portfolio securities by January 3, 2009. The Treasury, through the Exchange Stabilization Fund (ESF), has agreed to purchase any securities remaining in the Fund on January 3, 2009. This agreement will allow the Government Fund to return all of the Fund's money by early next year. This will eliminate our liquidity issue with short term cash management.

The Treasurer then went on to address the concerns that ERSRI's members have expressed due to the recent volatile market conditions. Treasurer Caprio asked the Fund's actuaries to project what the value of the portfolio would be in 2038. The projection was based on the following assumptions: the portfolio would have approximately $6 billion in funds, the portfolio would average a 0% return, the members would continue to contribute the same percentage of earnings, and employers would continue to contribute the same range of funds. The results indicated that at the end of the thirty eight years the portfolio still would have approximately $2.5 billion. Treasurer Caprio went through this exercise to assure ERSRI's members that the portfolio is capable of withstanding a downturn if market conditions continue to deteriorate for an extended period of time.

Ms. Reback asked what effect the inordinate number of recent retirees will have on the portfolio. Treasurer Caprio replied that a report will be available at the next Retirement Board meeting on Wednesday, December 10th.

The Treasurer remarked that when the market begins to recover, the asset allocations that the Commission has chosen within the portfolio will be positioned to capture these returns. Many other Funds will be scrambling to re-allocate assets similar to our allocation strategy. Predictions are now being made by financial analysts that over the next one to two years there will be a 50% return in the S&P and "FTSE". If these predictions are realized, ERSRI's portfolio will gain significant returns. The Treasurer asked the Commission to refer to the 2009 Meeting Schedule, remarking that the mid-monthly meetings will continue until further notice. Treasurer Caprio commented that the Commission, along with PCA Consultants and Brockhouse Cooper, will be reviewing manager fees at the December 17, 2008 meeting. Mr. Costello requested the Commission also review new opportunistic asset classes. The Treasurer agreed.

New Business. There being no further new business, the Treasurer entertained a motion to adjourn. Ms. Reback moved, Mr. Reilly seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Mr. Gaudreau, Mr. Giudici, Ms. Reback, Mr. Reilly, Mr. Treat, and General Treasurer Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 10:50 a.m.

Respectfully submitted,

Frank T. Caprio

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Monthly Meeting December 17, 2008

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, December 17, 2008. The Treasurer called the meeting to order at 9:10 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Gaudreau, Dr. Robert McKenna, Ms. Marcia Reback, Mr. Andrew Reilly, Mr. John Treat, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Chief Investment Officer; Ms. Sarah Dowling, of Adler Pollock & Sheehan, Mr. David Ursillo, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. John Burns of Pension Consulting Alliance, General Policy Consultants to the Commission; Ms. Lisa Tyrell, of State Street Corporation; and other members of the Treasurer's staff. Mr. Robert Giudici was not present.

State Investment Commission Minutes. The Treasurer entertained a motion for approval of the minutes. Dr. McKenna moved, Mr. Costello seconded, and the following motion was passed. The following members voted in favor: Mr. Costello, Dr. McKenna, Ms. Gallogly, Mr. Gaudreau, Ms. Reback, Mr. Reilly, Mr. Treat, and General Treasurer Caprio.

VOTED: To approve the Minutes of the December 3, 2008 Monthly meeting.

Treasurer Caprio suggested the agenda begin with Mr. Izzo's presentation of Short Term Investment Cash and Fiscal Management issues.

Short Term Investment Cash and Fiscal Management. Mr. Izzo began by commenting that the current market has increased our need to scrutinize our current providers beyond our normal due diligence. Protecting assets is the number one priority. Our focus today is to continue our best practices protecting our assets and expand our horizons to pick up add additional yield.

Mr. Izzo continued that due to current market conditions we are not making any investments in the corporate world (Commercial Paper). With that and current SIC guidelines, we find ourselves restricted to three to four providers. Presently we are overweight on some investment and vendor categories because we are unable to find safe alternatives.

Mr. Izzo proposed the following changes: (1) to increase exposure to Fully Collateralized CD's to a maximum of 50% total and 20% to any one vendor, (2) To increase exposure to Collateralized Deposits to a maximum of 50% total and 20% to any one vendor, and (3) the combination of Fully Collateralized CD's and Collateralized Deposits shall not exceed 75% or 35% maximum per vendor which is our current guideline.

Mr. Izzo explained that these investments are fully collateralized with a third party and present no risk to credit exposure of these institutions. Presently SIC guidelines do not dictate that CD's be fully collateralized; however current practice is that any CD investment requires full collateralization.

The Treasurer entertained a motion that we increase exposure to Fully Collateralized CD's increasing the total to 50% maximum exposure and 20% to one vendor and also increase exposure to Collateralized Deposits to a total of 50% maximum exposure and 20% to one vendor, and the combination of both not to exceed 75% total or 35% maximum per vendor. Ms. Gallogly moved, Mr. Reilly seconded.

The Treasurer then opened the floor for discussion. Mr. Costello asked for a description of the collateral. Mr. Izzo explained the collateral would be 102% of the investment in US Treasuries or Government Agencies only and that corporate instruments are not allowed as collateral.

Mr. Costello asked how many vendors we anticipate. Mr. Izzo explained that we currently purchase CD's and collateralized deposits from three banks. If the proposed three additional banks are approved, our total would be five banks for CD's and an additional three for the CDARS program.

Ms. Gallogly asked if this policy is adopted, how much capacity we would gain since it was indicated that we are currently over the maximum on some guidelines. Mr. Izzo explained that this approval along with approval of the new vendors would enable us to have our portfolio back in line immediately.

Ms. Gallogly asked what the cost of the collateralization is. Mr. Izzo explained that the collateralization costs somewhere around 20 bps.

Ms. Gallogly asked for an explanation of PIP (Premium Investment Product). Mr. Izzo explained that this is a fully collateralized deposit which is somewhat like a money market and that the rates reset weekly. It is collateralized at 102% at a third party custodian.

The Treasurer called for a vote to adopt the motion to increase our exposure to Fully Collateralized CD's as well as Collateralized Deposits and the combination of both not to exceed the percentages as stated in the motion. The following members voted in favor: Ms. Gallogly, Mr. Reilly, Mr. Costello, Mr. Gaudreau, Dr. McKenna, Mr. Reilly, Ms. Reback, Mr. Treat and General Treasurer Caprio.

VOTED: **To increase exposure to Fully Collateralized CD's to a total of 50% maximum exposure and 20% to one vendor and also increase exposure to Collateralized Deposits to a total of 50% maximum exposure and 20% to one vendor and the combination of both not to exceed 75% total or 35% maximum per vendor.**

Ms. Gallogly then asked for a confirmation that we have not changed our guidelines with respect to Corporate Instruments but rather our practice. Mr. Izzo confirmed that Corporate Instruments are still an acceptable instrument however we are not doing anything with them.

Ms. Gallogly asked that the Commission be notified if a decision is made to go back into Corporate Instruments.

General Treasurer Caprio entertained a motion that before we invest any state funds in Corporate, it be brought back to the board for a vote. Ms. Gallogly moved. Dr. McKenna seconded and the motion was passed. The following members voted in favor: Ms. Gallogly, Dr. McKenna, Mr. Costello, Mr. Gaudreau, Mr. Reilly, Ms. Reback Mr. Treat, and General Treasurer Caprio.

VOTED: That any change to move back into Corporate Instruments shall be brought before the Commission prior to taking action.

Mr. Izzo continued his presentation regarding CDARS. He explained that when CDARS were approved, a restriction was made that all of the underlying banks meet the full SIC test necessary for vendor approval. This restriction has become difficult due to the timing of bank reporting. All of our CDARS investment deposits are FDIC insured since they are broken down into $90+ thousand dollar increments so that interest is also fully insured. The FDIC insured worst case in the event of a failure is payment within 72 hours. Because of the recent heightened alert the FDIC is ready to react. All institutions participating in the CDARS program must be well capitalized which means that their risk base capital ratio must be at least 10%. The yield on the CDARS two week rate is estimated at over 80 basis points above our current yield on investments. Due to the two week investment period required for CDARS, we would not be investing large sums of money.

Ms Gallogly asked for confirmation that FDIC guaranteed investments is like investing $100,000 in US Treasuries. Mr. Izzo confirmed and added that there is a $50M limit on this program.

Ms. Gallogly asked if we had formally adopted $250,000 in FDIC insurance when we considered this program. Mr. Izzo explained that the program was not increased and that it is still at the $100,000 limit per institution. CDARS investments fall under the caps within the CDs category so they are subject to the 50% total, 20% to one vendor.

Ms. Gallogly asked if we would know exactly where our money is invested. Mr. Izzo explained that we would be provided with a report providing this information.

Mr. Costello asked if we have a restriction as to the amount which can be invested in the CDARS program alone questioning whether conceptually it could go to 100%. Mr. Izzo explained that it could go to $50M which is the limit of the CDARS program for institutional investor.

Mr. Reilly asked which institutions have been approved to take part in this program. Mr. Izzo explained that we have been approached by Washington Trust, Sovereign Bank, and Independence Bank in Rhode Island. He added that all the CDARS from different vendors are the same.

The Treasurer entertained a motion that the SIC requirement that the underlying banks meet the full SIC test be waived for participation in a CDARS program due to FDIC insurance and our investment would be below the FDIC limits. Ms. Gallogly moved. Dr. McKenna seconded and the following motion was passed. The following members voted in favor: Ms. Gallogly, Dr. McKenna, Mr. Costello, Mr. Reilly, Mr. Gaudreau, Ms. Reback, Mr. Treat and General Treasurer Caprio.

VOTED: To waive the SIC requirement that the underlying banks meet the full SIC test for participation in a CDARS Program.

Mr. Izzo addressed the need to modify the Return on Asset requirement within our investment guidelines to be as follows: If an institution should fail the Return on Asset Requirement test, the Treasury Investment Department would ask the Commission to allow the vendor to be placed on an official watch list for up to two quarters but to continue to purchase instruments from them with the requirement that these be fully collateralized. If the institution's failure to meet the Return on Asset requirement exceeds the two quarter grace period, operations with them will be suspended. Emphasizing the need for modification, he further explained that presently there are two to three banks which could be in the suspend category with next quarter's reporting.

Mr. Costello asked what would be the down side of not agreeing to this proposal. Mr. Izzo explained that it would result in further constriction of investments and possibly exceeding policy guidelines.

Mr. Costello questioned that with the increase in Investment providers, would we be able to continue with the higher standard? Mr. Izzo explained that we could, however he would probably be before the Commission next month for additional vendor approvals. Although two out of the three are full service providers we could find ourselves without a vendor to purchase Discount Notes since our main provider may be suspended.

Mr. Goodreau expressed his concern that we may find in the near future all of the vendors will be on a watch list or in violation due to our strict guidelines. He reiterated the need to keep to the higher standards; however we may find ourselves with a main concentration with one vendor. We have been making investments according to policy to the extent we can, however in another month we may have another violation and/or find that there is another product not available to us or that we have cash available without a place to put it.

Mr. Costello asked Mr. Izzo to speak specifically regarding UBS's suspension and the products we purchased from them. It was explained that UBS was a Money Market provider and through Paine Webber we purchased Discount Notes, Commercial Paper, and other instruments. They are both suspended. Mr. Izzo added that presently First Tennessee Bank has been our biggest provider of US Agency Discount notes and they are in danger of being suspended if we do not adopt a policy change.

The Treasurer asked Mr. Izzo to explain who First Tennessee is since it is not a name widely recognized. First Tennessee is a provider of US Agency Discount notes exclusively supported by the government.

Ms Gallogly asked if we could take the money we would normally invest in US Agency Discount notes and invest it in Collateralized CD's. That would address First Tennessee however Webster Bank is currently on a watch list by Veribanc and we will probably lose these two vendors. The concern is for future guideline failures.

Mr. Costello expressed his reluctance to change the safety standards due to the current environment without a full understanding of the various options available. He spoke in favor of using other investment options to solve the problem rather than change the standard.

There was a discussion as to who is currently providing us with CDs and the need for diversification. Our current investment is mainly fully Collateralized CD's where the risk has been removed.

The Treasurer added that the standard which requires four out of six quarters' positive ROA was important when we were investing in institutions, however our current investments are not reliant on their credit quality but on collateralized CDs and Deposits backed by the US Government. We have taken the underlying credit risk out of the equation.

There was a discussion regarding which of our investments are not fully collateralized. It was explained that Money Markets are technically not fully collateralized although the instrument only invests in Government securities. PIPS are also fully collateralized.

Mr. Reilly concurred with Mr. Costello. He suggested that we temporarily suspend this test until we can identify larger pool of banks and that the Commission stays on top of this on a meeting by meeting basis. Mr. Izzo suggested he would report back to the Commission at each meeting on the status.

Mr. Izzo stated that in line with best practices, we have met with John Burns of PCA regarding our guidelines and we will be reviewing our fund with similar pension funds to explore best practices and look at products within our guidelines that can enhance our portfolio.

Ms. Gallogly asked if we could continue to work within the guidelines with the adopted changes. Mr. Izzo explained that he will do his best to get the guidelines back in line and that we can do this until the next vendor is unable to meet the ROA guideline.

The Treasurer asked Mr. Izzo to address the yield on US Agency Notes versus CD's or collateralized deposits. Mr. Izzo explained that the issue is duration and although the yield is less on Discount Notes the time requirement is an issue. CD's require a minimum time investment of seven days and sometimes we cannot extend seven days. We would then put more funds in Collateralized Deposits which increases the risk of being above the guidelines. Collateralized Deposits can give us a pickup in yield of 40-50 bps.

The Treasurer suggested that the Commission give additional room in the collateralized deposits. Mr. Goodreau added that the issue is not yield but of diversification. There is more policy risk in the product than in the vendor. The problem is the demand for safe paper and the availability of product. If we cannot find available product we are forced into over allocation or less diversity. If we can handle some of this issue through an increase in vendors we are confident in this method.

Mr. Izzo suggested that we work within the first two approved changes to the guidelines and report back to the Commission in January as to how well we have been able to meet the guidelines and if necessary we can revisit the modification of Return on Assets Requirement.

Mr. Izzo then introduced Patrick Marr, Treasury Analyst, who has researched three providers who meet our needs in terms of safety, liquidity, and yield.

Mr. Marr reviewed the three providers, the first being Federated Investors; our interest in Federated would be strictly as a money market provider in their Government Money Market Fund. This fund is approximately a $40 Billion dollar fund and Federated does meet all of our current guidelines. He further explained that the fund is composed of half Agencies and half Repos which are fully collateralized.

The Treasurer entertained a motion to add Federated Investors for short term cash managers to our approved list of providers. Ms. Reback moved. Dr. McKenna and Mr. Treat seconded and the motion was approved. The following members voted in favor: Ms. Reback, Dr. McKenna, Mr. Treat, Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Reilly, and General Treasurer Caprio.

VOTED: To add Federated Investors, Inc. to our approved list of providers for short term cash management.

Mr. Marr continued by presenting Wells Fargo as a full service provider who can provide us with Collateralized Deposits, Collateralized CD's, Agencies, Repos, and Government Money Market Funds. We are looking at them as both a bank and a broker since they meet all of our SIC Policy Guidelines.

The Treasurers entertained a motion to add Wells Fargo to our approved list of full service providers for short term cash managers. Ms. Reback moved and Dr. McKenna seconded and the motion was carried. The following members voted in favor: Ms. Reback, Dr. McKenna, Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Reilly, Ms. Reback, Mr. Treat and General Treasurer Caprio.

VOTED: To add Wells Fargo to our approved list of full service providers for short term cash management.

Mr. Marr continued by presenting US Bank as an additional full service provider. They too meet all of the Commissions policy requirements. They would be offering Money Markets, Agencies, Treasuries, CD's, Commercial Paper, and collateralized deposits.

The Treasurer entertained a motion to add US Bank to our approved list of full service providers for short term cash managers. Mr. Costello moved and Ms. Gallogly seconded and the motion was carried. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Reilly, Dr. McKenna, Ms. Reback, Mr. Treat and General Treasurer Caprio.

VOTED: To add US Bank to our approved list of full service providers for short term cash management.

Mr. Izzo noted that all of these are pending legal review.

Treasurer's Report. The Treasurer confirmed his recent press release addressing whether any of Rhode Island Investment funds were involved in any way in the Madoff demise. He stated that none of our funds were involved.

The Treasurer proceeded with an overview of the presentation by Mr. Burns of PCA to address the active management portfolio and fixed income asset allocations in conjunction with the review and recommendation to keep our present asset allocation but to achieve that through a passive strategy reducing costs by up to $12 million. Also, if we were to exit active managers when the market presented the opportunity we would not be forced to liquidate under duress and sell equities driving down the market. Choosing a time when the market was moving in the right direction would provide a more favorable price.

The Treasurer turned the meeting over to John Burns of PCA to discuss a memo that will cover our Equity Portfolio, US and non-US Investment Theory, History of Public Pension Funds, Results to this Fund, Theory Faults, why this structure is still used and finally recommendations.

Mr. Burns started by explaining one of the exhibits showing the rate of return on investments net of fees. Our present reports from our custodians are gross of fees. In the future State Street reporting will be net of fees. Additional exhibits show how other public pension plans have performed versus benchmarks.

In addressing the proposed work plan adopted in October 2008, there are several areas of policy and strategy the SIC is to consider. Most require extensive analysis and will take time, up to several months or years to implement. One item under review is the current Equity portfolios structure which could yield immediate benefits. Moving the portfolio away from sub-optimal active investment strategy will result in immediate savings in management fees.

Presently, we are paying approximately $12 million per year in active management fees. The US Equity Portfolio is currently 58% actively managed and 42% indexed in an S&P500 Pension Fund. This is a common US Equity portfolio structure. The non US Equity portfolio is 100% actively managed. Public pension plans historically employ 100% active management in non-US Equity portfolio because of the belief that these markets are less efficient than US markets and active management should outperform the index fund. The theory is to take part of the portfolio and index it and then hire active managers to add value. (The combination of a stable, index funds and lower active management fees should provide excess returns.)

In the 1980's, public pension funds abandoned balanced manager mandates and adopted specialized manager mandates, fully invested in fixed income and equity portfolio management. This was further refined and classified as growth, value or core style managers. Investors could construct a portfolio of management styles that ensured coverage of a broad market preventing concentration in the portfolio.

This form of equity portfolio structure has not matched expectations. The active management portion has not added value relative to passive management index funds.
If one constructs a portfolio of managers with diversified investment styles, the composite of portfolios and returns typically look like an index fund. As a result, the investor ends up with an index fund-like return (beta) with little if any (alpha) after fees. An index fund can be purchased very inexpensively, typically for 1 or 2 basis points.

With maturity, an active manager's investment process, organization and business focus typically has changed. Initially the product will have few assets and the management is focused. As the portfolio grows the focus becomes more on how not to lose money. The larger the asset base the higher the manager's revenue, but adding value becomes difficult. As a result the portfolio is managed with a tighter tracking error to the index (less active management risk). The investor is then paying active management fees for very little active management skill.

Hiring and firing of managers has associated costs. Due to performance issues, style drift, organizational change, personnel turnover, mandatory procurement re bidding requirements, etc. the cost of transitioning and repositioning a portfolio will generate a performance shortfall.

It is important point to stay focused on the composite portfolio of active managers and not individual managers. In reality, a five manager portfolio will probably yield 1 manager doing well, 3 doing fair, and 1 performing very poorly. The result will likely be underperformance of the benchmark after fees.

There is also a theoretical perception that indexing is a flawed strategy. Indexing methodology is based on market capitalization and is a buy and hold strategy. Some Market theorists maintain that it is guaranteed to have large allocations to overvalued stocks (large cap) and small allocations to undervalued stock. They believe active managers are necessary to avoid this flaw. This may be theoretically plausible true but index funds have survived many market cycles and active managers have not collectively added value over the same periods.

Some public pension plans have terminated the active component of their portfolio and done some of the following: indexed the equity portfolio, adopted portable alpha strategies, introduced other sources of value added, or a combination of all three.

In reviewing Rhode Island's US Equity results, two of five managers have added value net of fees from inception, three have not. Over the past ten years the U.S. Equity portfolio composite has underperformed the index by 25 bps net of fees. Since 1989 the U.S. Equity composite has underperformed by 57 bps net of fees. This compounded over 20 years on an average portfolio balance of $1 billion results in a cumulative loss of $100 million relative to a strategy that indexed the U.S. Equity portfolio.

Non-U.S. Equity results show one of the three active managers has added value net of fees since inception, two have not. Since the program inception, the fund was off 101 bps resulting in a loss of $100 million relative to a strategy that indexed the non-U.S. Equity portfolio for the entire period.

Mr. Burns recommended that the SIC address the Equity structure issues in detail next year. He recommended that active managers be terminated and put into a broad market index funds portfolio pending a final decision on how to structure the U.S. and non-U.S/Equity portfolios. The fund will incur transaction costs but these will be recouped from active management fee savings.

He then reviewed the Universe exhibits. These exhibits represent public pension plans and public US Equity Composites. It compares 103 Public Pension plans. The median Pension Plan was off 21.6 % for the period ending September 30, 2008. During that period of time Rhode Island was minus 21.82% which equates to the 55th percentile. These numbers are all gross of fees. Average fees are approximately 25 bps which then need to be deducted.

The International Equity portfolio exhibits 50th percentile performance at minus 29.6 %. This includes public pension funds and equity portfolios that include stand alone emerging market allocations which not all funds have included. These will skew the data higher. Rhode Island's total International Portfolio exceeded the benchmark in the 1 year period. However; it was behind the benchmark in the long term.

Ms. Gallogly questioned if the numbers were net of fees. Mr. Burns explained that they were not and the benchmark would move higher if you take out the fees. The 25 bps would be the fees that you pay for active managers versus index funds which are basically 1 or 2 bps.

Mr. Treat asked how many cycles have the larger pension funds been 70% invested in index funds. Really large funds have to be 90% indexed because of the number of active managers you would need to hire. Indexing has been around since 1976. In closing Mr. Burns reconfirmed the key issue is for everyone to stay focused on the composite performance and not on the individual managers.

The Treasurer asked where the Commission would like would to take this. He explained that in preparing new ideas we have looked at investment guidelines and overall structure. He indicated that if we did want to exit a manager, there are legal and policy issues which need to be covered. Mark Dingley would summarize the process so that all information will be available when we are ready to discuss these issues. Treasury staff wants to provide these materials prior to our meetings in order for the Commission to have necessary time to review.

Mr. Dingley began by explaining that the statute requires that the SIC have an investment policy statement. In reviewing what the SIC presently has, it does not appear to be a unified statement, but rather a separate policy for each investment manager. Treasury staff is working with PCA to develop a policy statement which looks like a best practices statement. Currently, we have an asset allocation policy and then for each investment firm hired there is a letter of agreement which constitutes the investment policy for that particular investment allocation. Moving forward, as changes are made, we will need to amend each investment policy statement.

Legal Counsel Report. There were no legal developments for Counsel to report at this meeting.

New Business. There being no further new business, the Treasurer entertained a motion to adjourn. Ms. Reback moved, Dr. McKenna seconded and the following motion was passed. The following members voted in favor: Ms. Reback, Dr. McKenna, Mr. Costello, Mr. Gaudreau, Mr. Reilly, Ms. Gallogly, Mr. Treat, and General Treasurer Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 11:10 a.m.

Respectfully submitted,

Frank T. Caprio

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Mid-Month Meeting January 13, 2009

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Tuesday, January 13, 2009. The Treasurer called the meeting to order at 9:04 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Mr. Robert Gaudreau, Dr. Robert McKenna, Ms. Marcia Reback, Mr. Andrew Reilly, Mr. John Treat, Mr. Robert Giudici, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Chief Investment Officer; Ms. Sarah Dowling, of Adler Pollock & Sheehan; Mr. David Ursillo, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. Allan Emkin and Mr. John Burns of Pension Consulting Alliance, General Policy Consultants to the Commission; Ms. Michelle Davidson of the Pacific Corporate Group, Alternative Investment Consultant to the Commission; Ms. Laura Callahan and Mr. Craig DeGiacomo, of State Street Corporation; and other members of the Treasurer's staff. Ms. Rosemary Booth Gallogly arrived at 9:15AM.

State Investment Commission Minutes. The Treasurer entertained a motion for approval of the minutes for the meeting of December 17, 2008. Ms. Reback moved, Dr. McKenna seconded, and the subsequent motion was passed. The following members voted in favor: Mr. Costello, Dr. McKenna, Mr. Gaudreau, Mr. Giudici, Ms. Reback, Mr. Reilly, Mr. Treat, and General Treasurer Caprio.

VOTED: To approve the Minutes of the December 17, 2008 Monthly meeting.

Treasurer Caprio introduced Investment Cash Manager, Mr. Vincent Izzo, who gave an update on short term investment guidelines.

Short Term Investment Cash Management Update. Mr. Izzo advised the group that we are now able to meet our policy guidelines thanks to the Commission's two recent approvals regarding Collateralized Deposits and CD instruments and the addition of three new vendors. CDARS transactions through Sovereign Bank will be starting shortly and we are looking for an additional yield of 100 bps. A brief discussion ensued regarding CDARS and its maximum contribution amount and term requirements; it was clarified that the maximum contribution amount is $50 million and the term required is a minimum of 4 weeks and a maximum of 3 years.

Treasurer Caprio then introduced Mr. Allan Emkin and Mr. John Burns of PCA. The Treasurer noted that an information packet on Efficient Market Equities had been distributed to board members in anticipation of this presentation.

Asset Allocation – Passive Implementation Recommendations. Mr. Emkin and Mr. Burns presented the board with a recommendation to move from our current asset allocation strategy of active management to a more passive approach that concentrates heavily Equity Markets. It was explained that our current strategy is based on the philosophy that the active managers, which were selected by the SIC, are skilled in stock selection and as such, their skill can add value.

PCA's proposed approach is based on the following philosophy: (1) the principle that Equity Markets are relatively efficient; (2) active management is a negative sum game after commissions and fees; (3) stock selection is difficult over long periods of time; (4) while some managers will exhibit stock selection skills after the fact, it is difficult to select those managers that will deliver future stock selection skills; (5) indexing will provide market return at minimal costs; (6) future allocation to active managers will be made to gain new exposure to non-correlated assets.

Mr. Burns reviewed our current US Equity and Non-US Equity Portfolio structures and juxtaposed both against the proposed 80-100% indexing configuration. Currently, the US Equity structure is 58% actively managed with four managers and fees of 24.5 bps, while the Non-US Equity structure is 100% actively managed with three managers and fees of 43.5 bps. However, the move to indexing 100% of the portfolio would allow us to reach the benchmark return without the negative effect when factoring in fees. A rough estimate of fees for indexing both the US Equity and Non-US Equity funds would be approximately 1.2 bps for US Equity funds and 3.5 bps for Non-US Equity funds. As a result of indexing these funds, an annual cost savings of approximately $11.725 million would be realized.

Treasurer Caprio observed that, currently, the US Equity Chart indicates an average active management fee of 24.5 bps; the Treasurer further noted that a strong correlation exists between said the fee and the underperformance of the fund. The amount by which the fund has underperformed the benchmark is approximately the amount of active management fees paid by the fund.

Mr. Emkin added that consultants have been advising active managers against idiosyncratic risk in investment portfolios, therefore making the portfolios look more like the underlying benchmarks; these benchmarks, when aggregated, reflect those of both the Russell 3000 and Dow Wilshire 5000. Hence, by controlling risks, we have essentially created an index fund with active management fees.

There was a discussion regarding the returns generated by active management. It was noted that, when compared to the index, the fund earnings were negative and we had paid for the generation of alpha without an incremental return. However, if we had invested solely in indexes, we would have added value. It was suggested that the commission should not disregard the individual active managers who had over preformed. Mr. Emkin advised the board that individual performance data is available, but cautioned that past performance does not necessarily indicate future success.

Mr. Emkin presented further information regarding other Pension Funds who have moved from an active to passive management approach. He explained that passive management has been used for many years and that, generally, the larger the fund, the greater the allocation being indexed

Mr. Emkin then moved on to discuss passive management risk. The Index portfolio would be a configuration of securities, with market risk being the only business risk. These portfolios would be relatively easy to manage, as decisions would be made through the use of technology and would be implemented by traders, so as to minimize cost.

Ms. Gallogly asked Mr. Emkin to address both the timing and the liquidation process for moving to an Index Fund. Mr. Emkin explained that in liquidating the portfolio, we would be moving to a more diverse stock portfolio from a more concentrated one, although the value would be comparatively similar; the amount to be “crossed,” or transferred, would be suggested by the selected investment manager. The manager would work to minimize the cost of the restructuring process, which would include moving securities in existing portfolios, through such endeavors as discussing options with investment managers and securing trades at low fees.

When asked about the possibility of keeping current active managers, Mr. Emkin advised the board that these managers reflect the current market and do not add the diversification that would be needed within the potential 20% active allocation. He suggested that we instead seek management strategies that are not sensitive to the same economic factors as the broad equity markets, nor resemble the broad US Equities and/or International Equities indices.

Mr. Goodreau added that this shift would not be solely about cost savings and creating efficiencies, but gives the board an opportunity to focus on the value that can be added to the 20% allocation. Essentially, we would try to create efficiencies where possible, while focusing on the 20% active allocation. Mr. Goodreau noted that our active managers should not only concentrate on performance, but should also create more entrepreneurial and innovative strategies that are consistent with a total return focus.

Mr. Costello asked if an index fund strategy would represent real equity purchases, to which Mr. Emkin replied, yes, we would be holding all of the actual equity securities.

Mr. Reilly asked what the selection process for passive mangers would be, considering the variances in performance. Mr. Emkin explained that although the performance variances are within 1-3 bps, a Request for Proposals (RFP) would be issued to ensure competitive bidding and transparency.

Mr. Treat asked why there was a change in the proposed benchmark from the Wilshire 5000 to the Russell 3000. This change was suggested, it was clarified, to guarantee the ease of implementation. Whereas the Wilshire 5000 has more stocks, some of which are very small, the Russell 3000 covers 98% by market cap weight of the Wilshire 5000, resulting in the same correlation. Additionally, it was noted that the Russell 3000 provides broad exposure, which includes large, mid, small, value, and growth providing the desired diversification.

Treasurer Caprio then moved on to the proposed resolution, which would change the means of achieving our equity asset allocation by allotting 80-100% of our allocation through a passive strategy and 0-20% through an active strategy. If adopted, the present policy would change immediately and the search for passive managers through the RFP process would commence. The new strategy would also allow us to employ an active manager with an initially small investment and then quickly respond to their performance.

The Treasurer entertained a motion, made by Dr McKenna, to adopt the resolution as presented in the provided materials. Ms. Reback and Mr. Giudici seconded; there being no further questions, the motion was passed. The following members voted in favor: Ms. Gallogly, Mr. Costello, Mr. Reilly, Mr. Giudici, Mr. Gaudreau, Ms. Reback, Mr. Treat, Dr. McKenna, and Treasurer Caprio.

VOTED: To adopt the Resolution as presented in the information package to the Board.

Treasurer Caprio then introduced Mr. Craig DeGiacomo, Relationship Advisor with State Street, and the current provider of our S&P Index funds. Mr. DeGiacomo was present to answer any questions regarding indexing and the differences that may appear between such and the benchmark.

Mr. DeGiacomo began by expressing his agreement with Mr. Emkin and Mr. Burns regarding the current marketplace and the trend toward indexing. He noted that the need for cost efficiency, ease of implementation and increase in liquidity are major factors for public funds moving from active to passive management.

Mr. DeGiacomo explained that State Street has a variety of Index Funds available, including lending and non-lending, commingled or separate accounts.

He continued with a brief explanation of the risks of index funds, custodial risk, and the impact of concentrating all our investments with one fund. He noted that more in-depth information on these issues would be presented in State Street's RFP.

__Legal Counsel Report__. There were no legal developments for Counsel to report at this meeting.

__Chief Investment Officer Report__. Mr. Goodreau had nothing further to discuss.

__New Business__. There was no new business.

The Treasurer entertained a motion to adjourn. Ms. Reback moved, Dr. McKenna seconded and the subsequent motion was passed. The following members voted in favor: Ms. Reback, Dr. McKenna, Ms. Gallogly, Mr. Costello, Mr. Gaudreau, Mr. Giudici, Mr. Reilly, Mr. Treat, and General Treasurer Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 11:10 a.m.

Respectfully submitted,

Frank T. Caprio

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Mid-Month Meeting January 28, 2009

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Tuesday, January 28, 2009. The Treasurer called the meeting to order at 9:20 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Marcia Reback, Mr. John Treat, Mr. Robert Giudici, Ms. Rosemary Booth Gallogly, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Chief Investment Officer; Ms. Sarah Dowling, of Adler Pollock & Sheehan; Mr. David Ursillo, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. John Burns of Pension Consulting Alliance, General Policy Consultants to the Commission; Lisa H. Tyrrell, of State Street Corporation; and other members of the Treasurer's staff. Mr. Andrew Reilly, Mr. Robert Gaudreau, and Dr. Robert McKenna were not present.

State Investment Commission Minutes. The Treasurer entertained a motion for approval of the minutes for the meeting of January 13, 2009. Ms. Reback moved, Mr. Costello seconded, and the subsequent motion was passed. The following members voted in favor: Mr. Costello, Ms. Reback, Ms. Gallogly, Mr. Giudici, Mr. Treat, and General Treasurer Caprio.

VOTED: To approve the Minutes of the January 13, 2009 Mid-month meeting.

Treasurer Caprio addressed an omission on the Agenda of January 13, 2009. The vote taken on the Passive Implementation Recommendation and Resolution did not contain an asterisk on the posted Agenda indicating this item would be voted upon. For open meeting purposes the Treasurer asked that there be a vote on the discussion and the Resolution presented at the last meeting. The Treasurer asked if there was any further discussion on the movement from Active Management to Passive Management. Mr. Costello asked to have the discussion notes on the issue of Passive Implementation and Resolution from the minutes of January 13, 2009, included in today's minutes.

Discussion notes from SIC Meeting Minutes of January 13, 2009:

Asset Allocation – Passive Implementation Recommendations. Mr. Emkin and Mr. Burns presented the board with a recommendation to move from our current asset allocation strategy of active management to a more passive approach in Equity Markets. It was explained that our current strategy is based on the philosophy that the active managers, which were selected by the SIC, are skilled in stock selection and as such, their skill can add value.

PCA's proposed approach is based on the following philosophy: (1) the principle that Equity Markets are relatively efficient; (2) active management is a negative sum game after commissions and fees; (3) stock selection is difficult over long periods of time; (4) while some managers will exhibit stock selection skills after the fact, it is difficult to select those managers that will deliver future stock selection skills; (5) indexing will provide market return at minimal costs; (6) future allocation to active managers will be made to gain new exposure to non-correlated assets.

Mr. Burns reviewed our current US Equity and Non-US Equity Portfolio structures and juxtaposed both against the proposed 80-100% indexing configuration. Currently, the US Equity structure is 58% actively managed with four managers and fees of 24.5 bps, while the Non-US Equity structure is 100% actively managed with three managers and fees of 43.5 bps. However, the move to indexing 100% of the portfolio would allow us to reach the benchmark return without the negative effect when factoring in fees. A rough estimate of fees for indexing both the US Equity and Non-US Equity funds would be approximately 1.2 bps for US Equity funds and 3.5 bps for Non-US Equity funds. As a result of indexing these funds, an annual cost savings of approximately $11.725 million would be realized.

Treasurer Caprio observed that, currently, the US Equity Chart indicates an average active management fee of 24.5 bps; the Treasurer further noted that a strong correlation exists between said fee and the underperformance of the fund. The amount by which the fund has underperformed the benchmark is approximately the amount of active management fees paid by the fund.

Mr. Emkin added that consultants have been advising active managers against idiosyncratic risk in investment portfolios, therefore making the portfolios look more like the underlying benchmarks; these benchmarks, when aggregated, reflect those of both the Russell 3000 and Dow Wilshire 5000. Hence, by controlling risks, we have essentially created an index fund with active management fees.

There was a discussion regarding the returns generated by active management. It was noted that, when compared to the index, the fund earnings were negative and we had paid for the generation of alpha without an incremental return. However, if we had invested solely in indexes, we would have added value. It was suggested that the commission should not disregard the individual active managers who had over preformed. Mr. Emkin advised the board that individual performance data is available, but cautioned that past performance does not necessarily indicate future success.

Mr. Emkin presented further information regarding other Pension Funds who have moved from an active to passive management approach. He explained that passive management has been used for many years and that, generally, the larger the fund, the greater the allocation being indexed

Mr. Emkin then moved on to discuss passive management risk. The Index portfolio would be a configuration of securities, with market risk being the only business risk. These portfolios would be relatively easy to manage, as decisions would be made through the use of technology and would be implemented by traders, so as to minimize cost.

Ms. Gallogly asked Mr. Emkin to address both the timing and the liquidation process for moving to an Index Fund. Mr. Emkin explained that in liquidating the portfolio, we would be moving to a more diverse stock portfolio from a more concentrated one, although the value would be comparatively similar; the amount to be "crossed," or transferred, would be suggested by the selected investment manager. The manager would work to minimize the cost of the restructuring process, which would include moving securities in existing portfolios, through such endeavors as discussing options with investment managers and securing trades at low fees.

When asked about the possibility of keeping current active managers, Mr. Emkin advised the board that these managers reflect the current market and do not add the diversification that would be needed within the potential 20% active allocation. He suggested that we instead seek management strategies that are not sensitive to the same economic factors as the broad equity markets, nor resemble the broad US Equities and/or International Equities indices.

Mr. Goodreau added that this shift would not be solely about cost savings and creating efficiencies, but gives the board an opportunity to focus on the value that can be added by the 20% allocation. Essentially, we would try to create efficiencies where possible, while focusing on the 20% active allocation. Mr. Goodreau noted that our active managers should not only concentrate on performance, but should also create more entrepreneurial and innovative strategies that are consistent with a total return focus.

Mr. Costello asked if an index fund strategy would represent real equity purchases, to which Mr. Emkin replied, yes, we would be holding all of the actual equity securities.

Mr. Reilly asked what the selection process for passive mangers would be, considering the variances in performance. Mr. Emkin explained that although the performance variances are within 1-3 bps, a Request for Proposals (RFP) would be issued to ensure competitive bidding and transparency.

Mr. Treat asked why there was a change in the proposed benchmark from the Wilshire 5000 to the Russell 3000. This change was suggested, it was clarified, to guarantee the ease of implementation. Whereas the Wilshire 5000 has more stocks, some of which are very small, the Russell 3000 covers 98% by market cap weight of the Wilshire 5000, resulting in the same correlation. Additionally, it was noted that the Russell 3000 provides broad exposure, which includes large, mid, small, value, and growth providing the desired diversification.

Treasurer Caprio then moved on to the proposed resolution, which would change the means of achieving our equity asset allocation by allotting 80-100% of our allocation through a passive strategy and 0-20% through an active strategy. If adopted, the present policy would change immediately and the search for passive managers through the RFP process would commence. The new strategy would also allow us to employ an active manager with an initially small investment and then quickly respond to their performance.

There being no further comments, the Treasurer entertained a motion, made by Mr. Treat, seconded by Ms. Reback and Mr. Costello. To adopt the Resolution as presented in the previously provided materials. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Treat, Ms. Reback, Mr. Giudici, and General Treasurer Caprio.

VOTED: To adopt the Resolution as presented in the information package to the Board.

Treasurer Caprio then turned the meeting over to Mr. John Burns, of PCA, for the General Consultant review.

Mr. Burns began by addressing Indexing and the differences between the major broad market indices for US Equities. He compared characteristics of the S&P 500, Russell 3000, and Dow Jones Wilshire 5000. In choosing an index, it is best to get a broad representation of all types of stocks, large cap, small cap, growth, and value in an efficient manor. The key factor to focus on should be the weighted average market cap. All of these funds are weighted on large cap stocks with the S&P 500 having the heaviest weighting. The charts indicate that there are not any material differences between indices relative to each other. A review of the charted Economic Sector again showed the relative closeness of these indices.

At this time, Mr. Burns stated PCA's recommendation the Russell 3000 Index Fund because it offers the best combination of broad diversification and ease of implementation.

He continued by addressing the size of these funds. Anything larger than $10 billion is considered large cap, $2-10 billion being mid cap and anything below $2 billion would be considered small cap. The Russell 3000 provides a balanced mix. Also, the S&P 500 is not market cap based, but stocks are chosen by a group of "experts" to reflect the US Equity economy. The Russell 3000 and the DJ Wilshire 5000 stocks directly reflect their place and size in the market. Lastly, performance and correlation are all very close amongst the funds.

The Russell 3000 can be broken down by choosing a combination of the largest 1000 stocks, the Russell 1000, and the smallest 2000 stocks, the Russell 2000. This mix will provide us with the flexibility as to how to get to the Russell 3000. Also of note, currently the Russell 3000 is widely used by institutional investors.

The Treasurer asked what would be the correlation between S&P 500 and Russell 3000. These funds would be very close since 95% of the Russell 1000 is part of the S&P 500. The remaining stocks not part of the S&P have a small market cap rating with little effect.

Currently the Wilshire 5000 is our policy benchmark but we do not index to it. All our present managers have specific mandates typically to the S&P 500, or if they are small cap the Russell 2000. In making a passive shift, we will not go to broad Russell 3000 but we will actually breakdown each component into either the Russell 1000 or Russell 2000. As we gravitate toward passive management the Policy benchmark would be the Russell 3000.

Legal Counsel Report: Legal Counsel did not have any report. Treasurer Caprio asked Legal Counsel to discuss with Mr. Izzo the pending short term cash changes to insure proper legal review.

Chief Investment Officer Report: Mr. Goodreau gave an update on the Request for Proposals (RFP). The RFP was issued on Friday, January 23. Institutions will have ten days to respond. We will be screening for institutional credibility, structural integrity, cost and future options. As soon as we have these responses, our search consultant, Brockhouse Cooper and PCA will screen the data and will then come back to the Commission with recommendations.

There was a discussion regarding the recent changes at State Street. Mr. Goodreau indicated there have been several discussions with State Street regarding the recent events. Most of our concerns were addressed in the past when we were discussing the move from Quality D to Quality A portfolio. Currently, we are satisfied that we are substantially insulated from any risk. In the past year and one half, we have worked with State Street to ensure that we have no unintended risk to these types of asset classes and all data suggests we do not.

He continued by addressing the securities lending program and what had been done to insulate ourselves. In the spring of 2007, in conjunction with a review of all cash holdings in the security lending pool we had $1 billion with State Street. Quality D was a fund of approximately $100 billion with covenants that allowed them to buy both rated and unrated investments. Quality A was a fund of $10 billion with tighter covenants whose investments had to be rated and mostly government backed securities. After reviewing these funds, we voted to move from Quality D to Quality A portfolio in order to provide the safest investment vehicle. We have continued to do comprehensive reviews of this portfolio with State Street and are continuing to do monthly reviews and quarterly reviews on a face to face basis.

Treasurer Caprio suggested that any information provided to us by State Street regarding different funds and their decline in stock prices be shared with the Commission.

Mr. Treat asked if the spread between the Quality A and Quality D Portfolio has widened as a result of these issues. Ms. Tyrrell explained that typically Quality D has a higher yield than Quality A however she was not aware of the exact spread differences and suggested she get that information for the commission.

Ms. Gallogly asked what the risk would be of the capacity of the fund if all investors wanted their securities back at the same time. Mr. Goodreau explained that recently he had asked State Street to provide us with a "stress test" of unforeseen and unprecedented events that would impact our fund. The results of the test will be provided once they are received.

Mr. Burns added that the SIC has done all it can to insure that securities lending is as safe as possible. However, the yield on the fund is being paid because there are risks. There are certain scenarios which can pose a risk such as interest rates rising suddenly, or unexpected credit events that may cause a decrease in yield or possibly result in a loss of principal.

At this time, Lisa Tyrrell of State Street spoke regarding securities lending programs. She noted that none of State Street's clients have had any losses regardless of Quality A or Quality D. As for exiting, State Street follows ERISA guidelines, which means they treat all participants fairly, so that if one participant has a larger participation in the Pool they would not receive more money, everyone comes out exactly the same. If there were to be a run of customers trying to get out quickly, State Street would work with it customers who may have to take a pro-rata of actual shares and not get all cash. Customers may get cash based upon your percentage of participation in the program. State Street believes this is the fairest way to treat all investors.

Based upon this discussion, the Treasurer asked Mr. Goodreau to find out what the exit strategy would be if we chose to exit quickly and report back to the Board.

Treasurers Report. Treasurer Caprio reported that we have received the final payment from The Reserve Fund. Mr. Bent, president of the fund family, thanked and complimented us for getting officials in Washington involved and today the US Treasury is using the same model which was setup for the Reserve Fund to now use the TARP funds to purchase other government guaranteed debt.

New Business. There was no new business.

The Treasurer entertained a motion to adjourn. Ms. Reback moved, Ms. Gallogly seconded and the subsequent motion was passed. The following members voted in favor: Ms. Reback, Ms. Gallogly, Mr. Costello, Mr. Giudici, Mr. Treat, and General Treasurer Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 11:20 a.m.

Respectfully submitted,

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Mid-Month Meeting January 28, 2009

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Tuesday, January 28, 2009. The Treasurer called the meeting to order at 9:20 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Marcia Reback, Mr. John Treat, Mr. Robert Giudici, Ms. Rosemary Booth Gallogly, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Chief Investment Officer; Ms. Sarah Dowling, of Adler Pollock & Sheehan; Mr. David Ursillo, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. John Burns of Pension Consulting Alliance, General Policy Consultants to the Commission; Lisa H. Tyrrell, of State Street Corporation; and other members of the Treasurer's staff. Mr. Andrew Reilly, Mr. Robert Gaudreau, and Dr. Robert McKenna were not present.

State Investment Commission Minutes. The Treasurer entertained a motion for approval of the minutes for the meeting of January 13, 2009. Ms. Reback moved, Mr. Costello seconded, and the subsequent motion was passed. The following members voted in favor: Mr. Costello, Ms. Reback, Ms. Gallogly, Mr. Giudici, Mr. Treat, and General Treasurer Caprio.

VOTED: To approve the Minutes of the January 13, 2009 Mid-month meeting.

Treasurer Caprio addressed an omission on the Agenda of January 13, 2009. The vote taken on the Passive Implementation Recommendation and Resolution did not contain an asterisk on the posted Agenda indicating this item would be voted upon. For open meeting purposes the Treasurer asked that there be a vote on the discussion and the Resolution presented at the last meeting. The Treasurer asked if there was any further discussion on the movement from Active Management to Passive Management. Mr. Costello asked to have the discussion notes on the issue of Passive Implementation and Resolution from the minutes of January 13, 2009, included in today's minutes.

Discussion notes from SIC Meeting Minutes of January 13, 2009:

Asset Allocation – Passive Implementation Recommendations. Mr. Emkin and Mr. Burns presented the board with a recommendation to move from our current asset allocation strategy of active management to a more passive approach in Equity Markets. It was explained that our current strategy is based on the philosophy that the active managers, which were selected by the SIC, are skilled in stock selection and as such, their skill can add value.

PCA's proposed approach is based on the following philosophy: (1) the principle that Equity Markets are relatively efficient; (2) active management is a negative sum game after commissions and fees; (3) stock selection is difficult over long periods of time; (4) while some managers will exhibit stock selection skills after the fact, it is difficult to select those managers that will deliver future stock selection skills; (5) indexing will provide market return at minimal costs; (6) future allocation to active managers will be made to gain new exposure to non-correlated assets.

Mr. Burns reviewed our current US Equity and Non-US Equity Portfolio structures and juxtaposed both against the proposed 80-100% indexing configuration. Currently, the US Equity structure is 58% actively managed with four managers and fees of 24.5 bps, while the Non-US Equity structure is 100% actively managed with three managers and fees of 43.5 bps. However, the move to indexing 100% of the portfolio would allow us to reach the benchmark return without the negative effect when factoring in fees. A rough estimate of fees for indexing both the US Equity and Non-US Equity funds would be approximately 1.2 bps for US Equity funds and 3.5 bps for Non-US Equity funds. As a result of indexing these funds, an annual cost savings of approximately $11.725 million would be realized.

Treasurer Caprio observed that, currently, the US Equity Chart indicates an average active management fee of 24.5 bps; the Treasurer further noted that a strong correlation exists between said fee and the underperformance of the fund. The amount by which the fund has underperformed the benchmark is approximately the amount of active management fees paid by the fund.

Mr. Emkin added that consultants have been advising active managers against idiosyncratic risk in investment portfolios, therefore making the portfolios look more like the underlying benchmarks; these benchmarks, when aggregated, reflect those of both the Russell 3000 and Dow Wilshire 5000. Hence, by controlling risks, we have essentially created an index fund with active management fees.

There was a discussion regarding the returns generated by active management. It was noted that, when compared to the index, the fund earnings were negative and we had paid for the generation of alpha without an incremental return. However, if we had invested solely in indexes, we would have added value. It was suggested that the commission should not disregard the individual active managers who had over preformed. Mr. Emkin advised the board that individual performance data is available, but cautioned that past performance does not necessarily indicate future success.

Mr. Emkin presented further information regarding other Pension Funds who have moved from an active to passive management approach. He explained that passive management has been used for many years and that, generally, the larger the fund, the greater the allocation being indexed

Mr. Emkin then moved on to discuss passive management risk. The Index portfolio would be a configuration of securities, with market risk being the only business risk. These portfolios would be relatively easy to manage, as decisions would be made through the use of technology and would be implemented by traders, so as to minimize cost.

Ms. Gallogly asked Mr. Emkin to address both the timing and the liquidation process for moving to an Index Fund. Mr. Emkin explained that in liquidating the portfolio, we would be moving to a more diverse stock portfolio from a more concentrated one, although the value would be comparatively similar; the amount to be "crossed," or transferred, would be suggested by the selected investment manager. The manager would work to minimize the cost of the restructuring process, which would include moving securities in existing portfolios, through such endeavors as discussing options with investment managers and securing trades at low fees.

When asked about the possibility of keeping current active managers, Mr. Emkin advised the board that these managers reflect the current market and do not add the diversification that would be needed within the potential 20% active allocation. He suggested that we instead seek management strategies that are not sensitive to the same economic factors as the broad equity markets, nor resemble the broad US Equities and/or International Equities indices.

Mr. Goodreau added that this shift would not be solely about cost savings and creating efficiencies, but gives the board an opportunity to focus on the value that can be added by the 20% allocation. Essentially, we would try to create efficiencies where possible, while focusing on the 20% active allocation. Mr. Goodreau noted that our active managers should not only concentrate on performance, but should also create more entrepreneurial and innovative strategies that are consistent with a total return focus.

Mr. Costello asked if an index fund strategy would represent real equity purchases, to which Mr. Emkin replied, yes, we would be holding all of the actual equity securities.

Mr. Reilly asked what the selection process for passive mangers would be, considering the variances in performance. Mr. Emkin explained that although the performance variances are within 1-3 bps, a Request for Proposals (RFP) would be issued to ensure competitive bidding and transparency.

Mr. Treat asked why there was a change in the proposed benchmark from the Wilshire 5000 to the Russell 3000. This change was suggested, it was clarified, to guarantee the ease of implementation. Whereas the Wilshire 5000 has more stocks, some of which are very small, the Russell 3000 covers 98% by market cap weight of the Wilshire 5000, resulting in the same correlation. Additionally, it was noted that the Russell 3000 provides broad exposure, which includes large, mid, small, value, and growth providing the desired diversification.

Treasurer Caprio then moved on to the proposed resolution, which would change the means of achieving our equity asset allocation by allotting 80-100% of our allocation through a passive strategy and 0-20% through an active strategy. If adopted, the present policy would change immediately and the search for passive managers through the RFP process would commence. The new strategy would also allow us to employ an active manager with an initially small investment and then quickly respond to their performance.

There being no further comments, the Treasurer entertained a motion, made by Mr. Treat, seconded by Ms. Reback and Mr. Costello. To adopt the Resolution as presented in the previously provided materials. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Treat, Ms. Reback, Mr. Giudici, and General Treasurer Caprio.

VOTED: To adopt the Resolution as presented in the information package to the Board.

Treasurer Caprio then turned the meeting over to Mr. John Burns, of PCA, for the General Consultant review.

Mr. Burns began by addressing Indexing and the differences between the major broad market indices for US Equities. He compared characteristics of the S&P 500, Russell 3000, and Dow Jones Wilshire 5000. In choosing an index, it is best to get a broad representation of all types of stocks, large cap, small cap, growth, and value in an efficient manor. The key factor to focus on should be the weighted average market cap. All of these funds are weighted on large cap stocks with the S&P 500 having the heaviest weighting. The charts indicate that there are not any material differences between indices relative to each other. A review of the charted Economic Sector again showed the relative closeness of these indices.

At this time, Mr. Burns stated PCA’s recommendation the Russell 3000 Index Fund because it offers the best combination of broad diversification and ease of implementation.

He continued by addressing the size of these funds. Anything larger than $10 billion is considered large cap, $2-10 billion being mid cap and anything below $2 billion would be considered small cap. The Russell 3000 provides a balanced mix. Also, the S&P 500 is not market cap based, but stocks are chosen by a group of "experts" to reflect the US Equity economy. The Russell 3000 and the DJ Wilshire 5000 stocks directly reflect their place and size in the market. Lastly, performance and correlation are all very close amongst the funds.

The Russell 3000 can be broken down by choosing a combination of the largest 1000 stocks, the Russell 1000, and the smallest 2000 stocks, the Russell 2000. This mix will provide us with the flexibility as to how to get to the Russell 3000. Also of note, currently the Russell 3000 is widely used by institutional investors.

The Treasurer asked what would be the correlation between S&P 500 and Russell 3000. These funds would be very close since 95% of the Russell 1000 is part of the S&P 500. The remaining stocks not part of the S&P have a small market cap rating with little effect.

Currently the Wilshire 5000 is our policy benchmark but we do not index to it. All our present managers have specific mandates typically to the S&P 500, or if they are small cap the Russell 2000. In making a passive shift, we will not go to broad Russell 3000 but we will actually breakdown each component into either the Russell 1000 or Russell 2000. As we gravitate toward passive management the Policy benchmark would be the Russell 3000.

Legal Counsel Report: Legal Counsel did not have any report. Treasurer Caprio asked Legal Counsel to discuss with Mr. Izzo the pending short term cash changes to insure proper legal review.

Chief Investment Officer Report: Mr. Goodreau gave an update on the Request for Proposals (RFP). The RFP was issued on Friday, January 23. Institutions will have ten days to respond. We will be screening for institutional credibility, structural integrity, cost and future options. As soon as we have these responses, our search consultant, Brockhouse Cooper and PCA will screen the data and will then come back to the Commission with recommendations.

There was a discussion regarding the recent changes at State Street. Mr. Goodreau indicated there have been several discussions with State Street regarding the recent events. Most of our concerns were addressed in the past when we were discussing the move from Quality D to Quality A portfolio. Currently, we are satisfied that we are substantially insulated from any risk. In the past year and one half, we have worked with State Street to ensure that we have no unintended risk to these types of asset classes and all data suggests we do not.

He continued by addressing the securities lending program and what had been done to insulate ourselves. In the spring of 2007, in conjunction with a review of all cash holdings in the security lending pool we had $1 billion with State Street. Quality D was a fund of approximately $100 billion with covenants that allowed them to buy both rated and unrated investments. Quality A was a fund of $10 billion with tighter covenants whose investments had to be rated and mostly government backed securities. After reviewing these funds, we voted to move from Quality D to Quality A portfolio in order to provide the safest investment vehicle. We have continued to do comprehensive reviews of this portfolio with State Street and are continuing to do monthly reviews and quarterly reviews on a face to face basis.

Treasurer Caprio suggested that any information provided to us by State Street regarding different funds and their decline in stock prices be shared with the Commission.

Mr. Treat asked if the spread between the Quality A and Quality D Portfolio has widened as a result of these issues. Ms. Tyrrell explained that typically Quality D has a higher yield than Quality A however she was not aware of the exact spread differences and suggested she get that information for the commission.

Ms. Gallogly asked what the risk would be of the capacity of the fund if all investors wanted their securities back at the same time. Mr. Goodreau explained that recently he had asked State Street to provide us with a "stress test" of unforeseen and unprecedented events that would impact our fund. The results of the test will be provided once they are received.

Mr. Burns added that the SIC has done all it can to insure that securities lending is as safe as possible. However, the yield on the fund is being paid because there are risks. There are certain scenarios which can pose a risk such as interest rates rising suddenly, or unexpected credit events that may cause a decrease in yield or possibly result in a loss of principal.

At this time, Lisa Tyrrell of State Street spoke regarding securities lending programs. She noted that none of State Street's clients have had any losses regardless of Quality A or Quality D. As for exiting, State Street follows ERISA guidelines, which means they treat all participants fairly, so that if one participant has a larger participation in the Pool they would not receive more money, everyone comes out exactly the same. If there were to be a run of customers trying to get out quickly, State Street would work with it customers who may have to take a pro-rata of actual shares and not get all cash. Customers may get cash based upon your percentage of participation in the program. State Street believes this is the fairest way to treat all investors.

Based upon this discussion, the Treasurer asked Mr. Goodreau to find out what the exit strategy would be if we chose to exit quickly and report back to the Board.

Treasurers Report. Treasurer Caprio reported that we have received the final payment from The Reserve Fund. Mr. Bent, president of the fund family, thanked and complimented us for getting officials in Washington involved and today the US Treasury is using the same model which was setup for the Reserve Fund to now use the TARP funds to purchase other government guaranteed debt.

New Business. There was no new business.

The Treasurer entertained a motion to adjourn. Ms. Reback moved, Ms. Gallogly seconded and the subsequent motion was passed. The following members voted in favor: Ms. Reback, Ms. Gallogly, Mr. Costello, Mr. Giudici, Mr. Treat, and General Treasurer Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 11:20 a.m.

Respectfully submitted,

Frank T. Caprio

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
General Treasurer
State House - 102
Providence, Rhode Island 02903

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Monthly Meeting February 25, 2009

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, February 25, 2009. The Treasurer called the meeting to order at 9:13 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Mr. John Treat, Mr. Robert Giudici, Ms. Rosemary Booth Gallogly, Mr. Andrew Reilly, Mr. Robert Gaudreau, Dr. Robert McKenna, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Chief Investment Officer; Ms. Sarah Dowling, of Adler Pollock & Sheehan; Mr. David Ursillo, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. John Burns of Pension Consulting Alliance (PCA), General Policy Consultants to the Commission; Lisa H. Tyrrell, of State Street Corporation; and other members of the Treasurer's staff. Ms. Marcia Reback was not present.

State Investment Commission Minutes. Treasurer Caprio entertained a motion for approval of the minutes for the meeting of January 28, 2009. Mr. Costello moved, Dr. McKenna seconded, and the subsequent motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Mr. Reilly, Mr. Gaudreau, Dr. McKenna, Mr. Treat, and General Treasurer Caprio.

VOTED: To approve the Minutes of the January 28, 2009 monthly meeting.

General Consultant Report. Mr. , Burns presented an overview of the investments policy review. PCA is working together with Mr. Dingley and Mr. Goodreau to develop a comprehensive Investments Policy Statement (IPS) to establish clear guidelines for policy and governance of the SIC and Employees Retirement System of Rhode Island (ERSRI).. The IPS will dictate (i) the SIC's philosophy regarding different asset classes, (ii) how the investments are to be managed, and (iii) the role of the Commission as it relates to various asset classes. The goal is to provide balanced, detailed documentation, which will accommodate new contingencies within asset classes without requiring changes to the documentation per se.

The first documents under draft are the investment policy statements for U.S. and non-U.S. equities . These documents each contain: a statement of purpose; investment philosophy and objectives; a definition of indices; directions for policy implementation; a list of prohibited transactions; documented correspondence; watch list procedures; and derivatives.

Ms. Gallogly asked whether the actively managed component of the portfolio would have separate mandates for managers with guidelines based upon specific benchmarks. Mr. Goodreau explained that currently we have policies for individual managers and that the IPS will pertain broadly to the full investment program.

www.treasury.ri.gov
(401) 222-2397 / Fax (401) 222-6140

Ms. Gallogly asked if any states prohibit specific transactions . Mr. Burns answered yes, explaining that many states have legal list requirements pertaining to investments.

Ms. Gallogly asked if the SIC has or should adopt a policy regarding cash investments. Mr. Burns responded that typically such a policy is included in the manager guidelines. For example, in U.S. equities the mandate for index fund managers would be 1% or less cash holdings, and 5% or less for active managers. He added that regardless of the guideline for equity managers, all cash is equalized ultimately by Russell Investments (Russell) through the implementation of notional overlay.

Ms. Gallogly inquired about the consideration of issues surrounding regulatory action. Currently the all issues of compliance are addressed internally by the Treasurer's staff and through the SIC's legal and investments consultants. Mr. Burns answered that statements regarding any issue, including regulatory action, can be included in the IPS at the SIC's discretion. Mr. Burns further noted that additional issues will be addressed, and appropriately recorded, during the course of developing and compiling documentation.

Treasurer Caprio entertained a motion to accept the investment policy review and implementation of policy statements for both U.S. equity and non-U.S. equity as presented. Dr. McKenna moved, Mr. Reilly seconded, and the subsequent motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Mr. Reilly, Mr. Gaudreau, Dr. McKenna, Mr. Treat, and General Treasurer Caprio.

VOTED: To approve policy statements for investments in U.S. and non-U.S. equities as presented.

The Treasurer introduced a report from BrockHouse Cooper, Consultant to the Commission, on the search for Passive Index Investment Management Services for U.S. and non-U.S. Equities. Treasurer Caprio presented a detailed report of responses to the Request for Proposals (RFP) and a summary of recommendations.

Mr. Goodreau clarified that ERSRI is looking to retain a passive manager for existing asset classes. Mr. Goodreau emphasized that the current asset allocation scheme will not change.

Mr. Goodreau reported that twelve (12) responses to the RFP were received, which BrockHouse Cooper has narrowed to three: Mellon, Barclays Global Investors (BGI), and State Street (SSgA). Mellon was disqualified due to insufficient data. Mr. Goodreau characterized both the remaining candidates as strong institutions, leaders in the field of passive management, and relatively equal in terms of capability and risk. After comparing the candidates in depth, Mr. Goodreau expressed the Treasury staff's preference for SSgA. He enumerated the firm's advantages as follows: SSgA's wealth of expertise and experience as the world's largest passive manager; an existing, strong relationship with State Street; the ability to work with the firm's quanitative staff on a range of issues in addition to passive management; and the firm's geographic proximity.

Mr. Costello expressed a concern with locating managerial and custodial duties within the same institution.. Were SSgA to be retained for passive management services in addition to their custodial role, the firm must brief the SIC in detail on the matter of full legal separation and other attendant issues.

Mr. Goodreau responded that State Street and SSgA are separate entities; State Street has confirmed that our assets held with the institution as custodian are protected from default in its managerial role. Additionally, Ms. Tyrrell confirmed that SSgA and State Street are essentially separate entities, and will bring a representative from State Street to address all relevant issues with the SIC. She further noted that SSgA and State Street have experience in addressing such concerns with clients.

Mr. Costello requested written confirmation of the regulatory structure at SSgA and State Street, as well as the legal separation of these entities.

There was some discussion regarding fee structure. Mr. Goodreau noted that SSgA's RFP response proposes a rate of 1 basis point. Rates proposed by other firms were more aggressive. Two separate fee structures and contracts would be adopted for the S&P 500 (at 1 basis point) and the Russell 3000 (at 3 basis points).

Treasurer Caprio entertained a motion to approve SSgA as the passive manager for the Russell and International Portfolios, subject to requested documentation with review and approval by legal counsel and staff. Mr. Treat moved, Mr. Giudici seconded, and the subsequent motion was passed. The following members voted in favor: Mr. Treat, Mr. Giudici, Mr. Costello, Ms, Gallogly, Dr. McKenna, Mr. Reilly, Mr. Gaudreau, and General Treasurer Caprio.

VOTED: To approve State Street subject to proper review and legal documentation regarding the separation of custodian and money manager functions, and further subject to legal review and satisfactory negotiation of contractual documentation.

Treasurer Caprio introduced a presentation on Cash Management from Mr. Patrick Marr, Fiscal Manager. Mr. Marr recommended the addition of BlackRock Investments as a Money Market Fund provider. Mr. Marr indicated that Treasury would invest in FedFund, BlackRock's Government Money Market Fund. Mr. Marr further indicated that this fund's risk profile is similar to current investments in the Fidelity, Wells Fargo, and Federated funds. He added that BlackRock meets all the SIC criteria for investment providers.

There being no further discussion, the Treasurer entertained a motion to approve BlackRock as a short-term Cash Management vendor. Ms. Gallogly moved, Dr. McKenna Seconded, and the subsequent motion was passed. The following members voted in favor: Ms. Gallogly, Dr. McKenna, Mr. Costello, Mr. Reilly, Mr. Gaudreau, Mr. Giudici, and General Treasurer Caprio.

VOTED: To approve BlackRock Investments as a short-term Cash Management vendor.

Legal Counsel Report. Legal Counsel had no report.

Chief Investment Officer Report. Mr. Goodreau addressed fund performance, noting that from a policy standpoint we are picking up alpha. Mr. Goodreau stated further that no forced liquidations have occurred, and that the overall results show positive movement.

Treasurer's Report.. Treasurer Caprio commented on a recent focus in trade publications on securities lending, much of which has been negative coverage. The high risk associated with securities lending is exemplified by ERSRI's experience in 2008 with cash assets tied to The Reserve. The Reserve, a money-market instrument, is a government-backed pool of assets in which the ERSRI formerly invested; certain market conditions in 2008 culminated in an inability to access these invested funds. Currently ERSRI's securities lending program has over $1 billion invested in a money-market instrument, mostly government backed, with funds available upon maturity. The SIC must consider risk versus reward when determining whether to continue in securities lending given current market conditions. A scenario could arise in which ERSRI would be unable to gain access to the collateral pool of money in times of critical need, which is a pressing concern for a pension fund such as ERSRI.

The Treasurer noted that Ms. Gallogly addressed the issue of securities lending in the January 2009 SIC meeting, which engendered some discussion as to the means of exit from ERSRI's pertinent investments. Information provided subsequently by State Street on potential means of exit and other associated conditions indicate the necessity of a gradual exit dependent upon the maturity of underlying collateral. Additionally, there is a risk of impairment to collateral in the course of exit completion. ERSRI has made such an exit from securities lending in the past and has re-entered investments under appropriate conditions. An exit from securities lending in the present environment is a proactive measure to protect the fund from associated risks.

The Treasurer informed the group that currently he is overseeing a gradual exit from the securities lending program, noting that he has been advised that an SIC vote on this matter is unnecessary at present. Treasurer Caprio directed counsel to begin the process working with Treasury staff, and to be prepared for a vote at the appropriate time.

New Business. Treasurer Caprio opened the floor to new business. There being no further discussion, the Treasurer entertained a motion to adjourn. Dr. McKenna moved, Mr. Gaudreau seconded, and the subsequent motion was passed. The following members voted in favor: Ms. Reback, Ms. Gallogly, Mr. Costello, Mr. Giudici, Mr. Treat, and General Treasurer Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 11:20 a.m.

Respectfully submitted,

Frank T. Caprio

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Monthly Meeting March 25, 2009

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, March 25, 2009. The Treasurer called the meeting to order at 9:13 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Andrew Reilly, Mr. Robert Gaudreau, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Chief Investment Officer; Mr. David Ursillo, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. Allan Emkin and Mr. John Burns of Pension Consulting Alliance (PCA), General Policy Consultants to the Commission; Ms. Lisa H. Tyrrell of State Street Corporation; Mr. James Thorsen of State Street Global Advisors, Ms Michelle Davidson of PCG Asset Management, and other members of the Treasurer's staff. Ms. Marcia Reback, Dr. Robert McKenna, Mr. Robert Giudici, and Mr. John Treat were not present.

State Investment Commission Minutes. Treasurer Caprio entertained a motion for approval of the minutes for the meeting of February 25, 2009. Ms. Gallogly moved, Mr. Michael Costello seconded, and the subsequent motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Mr. Reilly, Mr. Gaudreau, Dr. McKenna, Mr. Treat, and General Treasurer Caprio.

VOTED: To approve the Minutes of the February 25, 2009 monthly meeting.

General Consultant Report. Mr. Emkin gave an update of recent project developments. In conjunction with the transition from active to passive management, Mr. Emkin recommended that the Commission consider an opportunity portfolio. A policy can be drafted for presentation at the next meeting and, in the interim; opportunities can be considered without making commitments. Mr. Emkin informed the Commission that an asset allocation review would be undertaken to address present market opportunities, particularly in fixed income. Mr. Emkin stated that he would defer to the Commission for direction on implementing any changes.

Treasurer Caprio informed the group that a forthcoming mid-month SIC meeting would be specifically devoted to re-evaluating asset allocation. Prior to this meeting, Treasurer Caprio asked Mr. Emkin to provide to the Commission all materials for consideration as well as a recommended course of action. Treasurer Caprio emphasized that all changes to asset allocation will be first reviewed and approved by the Commission. Treasurer Caprio further stated that the transition from active to passive management enables shifts in asset allocation at a very low cost.
.

Mr. Emkin agreed to provide all information, including recommendations and support for those recommendations, before the next SIC meeting.

Ms. Gallogly asked if Mr. Emkin would include analysis of liabilities as well as assets. Mr. Emkin explained that he expects to adopt a range rather than a specific target for the broad asset classes, and that shifts in asset allocation will occur according to these ranges. For example, a range of ±2.5 % could be adopted within the fixed-income category of Treasury Inflation Protected Securities ("TIPS"), such that a target of 7.5% could allow a shift to 5% or 10%. Such a range would allow for prudent deviation from a set target while still adhering to policy.

Mr. Costello asked if there has been discussion about purchasing any of the new toxic-asset pools. Mr. Emkin said that these opportunities would be included within the aforementioned Opportunities Portfolio. He added that while structural details are not fully clear, it appears that there will be significant opportunity in fixed income from the investor's perspective. Mr. Costello inquired whether materials have yet been prepared for the Commission's consideration. Mr. Emkin stated that Alliance, BlackRock, and Pimco will have products and that relevant information is forthcoming. He added that early movement on these vehicles would be crucial to make best advantage of pricing.

Treasurer Caprio entertained a motion to adopt a range of ±2.5 % in the asset category of TIPS. The Treasurer advised that this pro tempore change would be subject to review and revision as part of the extensive re-evaluation of asset allocation planned for subsequent SIC meetings.

Mr. Costello asked why the motion is limited to TIPS. Treasurer Caprio explained that ostensibly the TIPS portfolio is the greatest opportunity for added value.

There was some discussion of further benefits to a rebalancing of the TIPS portfolio. It was stated that investments to date in the TIPS portfolio have been successful, and the portfolio is significantly underweight in high-yield vehicles. In present market conditions TIPS, among other categories within fixed income, presents the best opportunity for gains through changes to asset allocation. PCA and Investments staff are not yet considering changes to investments with fixed income active managers given the current transition to equity indexes.

There being no further discussion, the Treasurer again entertained a motion to allow TIPS allocation traded within a range of ±2.5 % around the current target. Mr. Costello moved, Mr. Reilly seconded and the subsequent motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Reilly, Mr. Gaudreau, and General Treasurer Caprio.

VOTED: To adopt a flexible investment range of ±2.5 % around the current target asset allocation in TIPS.

Mr. Emkin continued his report to the Commission with a Capital Markets Review. A sizeable market rally in the previous week was driven by the federal toxic-asset relief plan ("TARP"), the details of which are as-yet incomplete. It is known that the pricing of assets will be market-driven, and it is likely the stock market responded to this factor. Mr. Emkin estimated that this signifies an initial thawing of credit markets, but that uncertainty among investors and volatility in the markets will persist.

Among large public fund peers, Mr. Emkin expects significant reductions in private equity and real estate investments. These funds are widely pursuing a variety of instruments that are relatively secure and yet provide higher yields. While some clients are slowly rebalancing asset allocation back to target levels, very few are doing so aggressively. Investors are examining opportunities in distressed debt given its highly motivated sellers. Large university endowments are down 30-40% and must sell assets disadvantageously due to liquidity issues and to meet capital requirements. In many cases, this situation arose because the funds' portfolios contained little in the way of bonds, and significant holdings in private equities and hedge funds. Generally, the reactions to changing market conditions have not been drastic, and investors have remained rational through a difficult period. In general, from a long-term perspective adherence to policy is a good solution to ensure stability and good performance.

Alternative Investments Update. Michelle Davidson of Pacific Corporate Group ("PCG") presented a portfolio update regarding prospective opportunities for 2009. During 2008, the portfolio reached its target allocation of 7.5% and continues to exceed it. As a result, no new investments have been pursued.

Ms. Davidson recommended that the Commission reduce investments to approximately $50-75 million from the long-term annual commitment of $100-150 million. In lieu of making new primary commitments, one option would be to purchase secondary pieces of top-performing funds to the extent they are available at a discount. Some distressed sellers are presently offering discounts up to 50%; better-performing funds may offer discounts of 20-30%. Ms. Davidson concluded that the conditions of the present economy are to the buyer's advantage.

Ms. Davidson reviewed the current portfolio details with audited financial reports as of September 20, 2008. Presently the portfolio retains 45 active managers in 78 funds, which reflects the secondary sell-off that occurred earlier in the year. Our portfolio which was valued at $1.2 billion is now valued at $1.1 billion. The weighted average age of the funds declined, which is a function of both secondary selling of older funds and recent acquisitions. There was a third-quarter decline in value of 7-10%; Ms. Davidson further estimated that the portfolio would be down approximately 20% at the end of the fiscal year. Ms. Davidson concluded that the portfolio's overall performance has been good relative to market conditions, exceeding all benchmarks, and presently is up 15.6% since its inception. Ms. Davidson presented a hypothetical case where the values of investments were to fall by 50%. Such a fall would affect returns given the portfolio's significant distributions and relative maturity; however, 50% losses would still yield double-digit returns of slightly over 10% since inception.

Ms. Davidson addressed PCG's suggestions for Alternate Investment strategies in 2009. The most notable suggestion is the avoidance of large corporate finance; given current debt markets. Ms. Davidson added that some opportunities in mid-sized corporate funds still exist. In addition, additional investments in the portfolio's top-performing funds would be the most cost-effective way to increase returns.

Ms. Davidson noted that the pacing model indicates a significant near-term increase in allocation, primarily due to the impact of the denominator effect. Pacing is being driven by commitments made in 2006 and 2007. In 2008, contributions increased while distributions were reduced by nearly half given liquidity changes in the markets; cash flow was negative in the private equity program. Cash flow in 2009 will remain somewhat negative, yet less so than the previous year due to reduced contributions. Ms. Davidson expects positive cash flow by 2011.

Strategic considerations would be to consider an increase to the Private Equity Target and Express Private Equity Allocation as a Range rather than a fixed target; to consider an additional secondary sale; and to evaluate investment process and structure.

When the Commission is prepared to make new primary commitments, PCG would recommend direct buys based on current manager return rates. Additionally, the recent phenomenon of distressed sellers rebalancing their portfolios has presented opportunities in secondary markets.

Mr. Costello questioned our overall exposure to the toxic-asset pool. Mr. Emkin explained that private equities might purchase these as part of their fund and this would require careful monitoring.

The Treasurer asked PCG to provide a list of our current Private Equity Partnerships who might employ this strategy thereby increasing our exposure. Treasurer Caprio indicated that this be part of the asset allocation exercise factoring our exposure in private equities along with equity/fixed income allocations.

Securities Lending Update. Mr. Goodreau informed the Commission that we have completed the withdrawal from the Securities Lending Program and have no further exposure.

State Street Global Advisors Organizational Update. Mr. James Thorsen of State Street Global Advisors explained the structure of the organization, detailing the differences between the investment and the custody group. State Street Holding Company owns State Street Global Advisors, a division of State Street Bank and Trust. SSgA represents 25-30% of overall company revenue. Scott Powers, CEO of SSgA, reports to the Chairman of the Board of State Street Bank. In order to provide a cohesive level of risk management across all lines, in 2007, legal compliance and risk management reporting changed to the corporate level. SSgA and State Street's custodial division work together when necessary, however, they have no connection otherwise. In terms of regulation, audited financials are available and any assets managed are held in trust. If State Street were not to exist, these assets would remain in trust and not be commingled with assets of State Street.

Ms. Gallogly questioned if SSgA solely operates Emergency Preparedness. Mr. Thorsen explained that State Street, which has a totally functional, redundant operation located in Westboro, MA, manages Business Contingency Planning.

Mr. Dingley added that risks associated with having SSgA as our investment manager would be addressed within our contract, that is, in the event of bankruptcy or other issue, we would be able to make an immediate change in management. We would review our custodial contract to insure this provision is included.

Short Term Investments. Mr. Izzo reported that we have moved $40 million to the higher yield CDARS program.

Legal Counsel Report. Mr. Dingley updated the Commission on the Securities Capital Assurance and RAIT cases, in which we are lead plaintiff. William Titleman, formerly of Bernstein, Liebhard, & Lifshitz, has been representing us from the beginning. Due to some criminal matters relative to one of the partners of Bernstein, Liebhard and Lifshitz, Mr. Titleman has left the firm and has joined Grant & Isenhofer, a leading public pension securities firm. Mr. Dingley noted that we were contacted by Mr. Titleman after he left the firm and do not expect any conflict.

Mr. Dingley asked the Commission to approve filing a motion with the court to change attorney in the actions from Bernstein, Liebhard to Grant & Isenhofer as our authorized securities monitoring firm for this litigation.

The Treasurer entertained a motion to change our representation in the Securities Capital Assurance and RAIT cases from Bernstein, Liebhard to Grant and Eisenhofer. Ms. Gallogly moved. Mr. Reilly seconded and the subsequent motion passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Reilly, Mr. Gaudreau, and General Treasurer Caprio.

VOTED: To change legal representation in the Securities Capital Assurance and RAIT cases from Bernstein, Liebhard to Grant and Eisenhofer.

Chief Investment Officer Report. Mr. Goodreau reported that State Street and Russell, both of which have gone through the RFP process, are the two firms we are reviewing to manage the transition from Active to Passive management for our equity exposure.. Both firms have provided summaries and personal visits to each firm have been made. He noted that these firms would not be doing principal trades, but transactions done on an agency basis. The determining factors in choosing a firm will be cost efficiency, ability to handle liquidity flow, and market impact costs.

In order to insure the value of our funds is accurate, we will terminate the active managers' control several days before the transition. We will get a pre-transition vendor chosen to handle the transition. Their responsibility will be to act as our agent and there will be no proprietary trading involved. Once full and accurate costs have been determined, we will provide the board with the information.

The Treasurer entertained a motion that, subject to staff approval, either Russell or State Street completes the transition from Active to Passive management. Mr. Costello moved, Ms. Gallogly seconded, and the motion passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Reilly, and General Treasurer Caprio.

VOTED: To complete the transition from Active to Passive management for the Fund's equity exposure with either Russell or State Street acting as our agent.

Treasurer's Report. Based upon recent positive performance in the market continuing, March will have been one of the best months in six years. This would be an opportunistic time for us to communicate the work done by the Commission and to update the fund's performance in a difficult market. In addition we will show how we compare to other pension funds for the calendar and fiscal year.

There being no further discussion, the Treasurer entertained a motion to adjourn. Mr. Gaudreau moved, Ms. Gallogly seconded and the motion passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Reilly, and Treasurer Caprio.

VOTED: To adjourn the meeting

There being not further business, the meeting adjourned at 11:35AM.

Respectfully submitted,

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
Office of the General Treasurer

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Bi-Monthly Meeting April 7, 2009

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Tuesday, April 7, 2009. The Treasurer called the meeting to order at 9:17 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Andrew Reilly, Dr. Robert McKenna, Mr. John Treat, Mr. Robert Giudici, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Chief Investment Officer; Ms. Sarah Dowling, of Adler, Pollock &Sheehan; Mr. David Ursillo, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. Allan Emkin and Mr. John Burns of Pension Consulting Alliance (PCA), General Policy Consultants to the Commission; Ms. Lisa H. Tyrrell of State Street Corporation; and other members of the Treasurer's staff. Ms. Marcia Reback and Mr. Robert Gaudreau were not present.

State Investment Commission Minutes. Treasurer Caprio entertained a motion for approval of the minutes for the meeting of March 25, 2009. Mr. Costello moved, Dr. Robert McKenna seconded, and the subsequent motion passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Mr. Reilly, Dr. McKenna, Mr. Treat, and General Treasurer Caprio.

VOTED: To approve the Minutes of the March 25, 2009 monthly meeting with the following addition to Legal Counsel Report:

"The Treasurer entertained a motion to change our representation in the Securities Capital Assurance and RAIT cases from Bernstein, Liebhard to Grant & Eisenhofer. Ms. Gallogly moved, Mr. Reilly seconded and the subsequent motion passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Reilly, Mr. Gaudreau, and General Treasurer Caprio.

VOTED: To change legal representation in the Securities Capital Assurance and RAIT cases from Bernstein, Liebhard to Grant &Eisenhofer."

General Consultant Report. Mr. Emkin reported that current markets are positive; the S&P is up almost 11% and emerging markets up 15%. However, the downside is that the REIT's markets were off 11% for the month and over 40% on an annual basis.

Mr. Burns explained that over 70% of large public plans are heavily exposed to Real Return Asset Portfolio (RRAP). Characteristics of return and risk would be similar to a combination of private equity, hedge funds and real estate investments. RRAP would add diversification to public and private equity, generate positive returns during negative periods for

40 Fountain Street - Providence, Rhode Island 02903-1855 - (401) 222 - 2287 / Fax 222 - 6141

fixed income and provide additional beta, as well as inflation protection. Typical segments include Commodities, Infrastructure, Global TIPS, Timber, and Hedge funds. Collectively they represent $10 Trillion in investment opportunity. The Commission would construct the Portfolio from a menu of strategies and policies, which would be reviewed annually.

Several large Pension Plans have allocated varying percentages to this strategy based upon the size of total plan assets. For modeling purposes, PCA would review individual risk/return historical data, along with modeling assumptions, and suggest allocation percentages between equity and fixed income. PCA will provide the Commission with historical data on each of the components along with their recommendations.

Mr. Costello asked what percent of the total portfolio RRAP would represent. Using sample "Blueprints" Mr. Emkin explained that it varies from 5% to 40% of total assets depending on size and risk assumptions.

In addition, the Portfolio would be structured whereby we would invest in partnerships and hire a third party who would manage the portfolio. This would replace direct investment in large public companies, where we lack diversification and are highly sensitive to capital markets.

A discussion ensued regarding current managers that engage in this strategy. However, the group was advised to keep this issue separate and instead focus on our current exposure. The size, management and time restraints of the Real Return investments would all be factored into the structure of such a policy.

The Treasurer questioned the correlation, or the lack thereof, between TIPS and other potential categories in the Real Return class. TIPS, which are directly related to inflation, are the prototypical real return asset and would be the foundation for this type of portfolio.

Mr. Costello questioned last year's performance of institutional quality, absolute return hedge funds. Mr. Emkin stated that last year's average hedge was off approximately 18%, however, larger macro funds that shorted the equity market had returns in the positive 20-30% range.

As part of PCA's policy, they do not recommend individual hedge funds and would recommend the Commission choose a fund of funds strategy. If individual hedge funds were of interest, PCA would prefer that a consulting firm that concentrates on Hedge Funds market make these recommendations. If the Commission chooses a Hedge Fund fund of funds, PCA would present the commission with a variety of strategies along with performance information.

Ms. Gallogly questioned the benefit of individual partnerships versus private equities that focus on real return. Mr. Emkin explained that the structure of the investment is the major difference. Individual partnerships engage in un-levered transactions, purchasing hard assets and are commodities driven. Private Equity fund management would make decisions and transactions that are levered in order to provide the required return. A further determining factor relates to strategies, where the partnership is income driven, with profits flowing directly to the investor, whereas with private equity investments the investor waits for distributions.

In conclusion, if the commission adds Real Return to the Portfolio, it will need to establish allocation levels, investment policies and guidelines. To ensure efficiencies and return, minimum and maximum ranges should be part of the design.

Mr. Emkin moved on to explain the goals of Opportunistic funds, which add value without the constraints of traditional fixed income or equity investments. The TALF program, which has not yet been finalized, and investment grade credits would be examples of these opportunities.

Mr. Emkin advised that prior to executing an Opportunistic strategy, the Commission would need to address policies and guidelines including issues of investment philosophy, required resources, accountability, due diligence processes, monitoring and reporting.

Mr. Costello expressed his concern regarding complexity of policy and implementation. Mr. Emkin explained that PCA would provide the Commission with specific policies for approval as well as recommend vehicles with institutional acceptability and large co-investors.

Ms. Gallogly questioned if the bulk of investment strategies in this area were real or options based. Mr. Emkin explained that we would be buying fixed income assets with known collateral and guarantees. Investments tied to equity would be real assets and not derivatives.

The presentation continued to the Asset Allocation review. Mr. Burns explained that the asset allocation process should reflect ERSRI's tolerance for risk, time horizon, legal constraints, and asset class preferences. PCA recommended reducing exposure to public equity return premiums and focus on meeting the funds 8.25% performance target. This may be enhanced through Opportunistic and Real Return Portfolios.

In creating the asset allocation model, factors to consider are correlation among asset classes, expected risk and returns, investment advisors, investment horizons, short-term liquidity, cash needs, constraints and preferences.

Additionally, portfolio constraints needing definition include legal, defined minimum and maximum participation, liquidity and income needs, minimum return rates, and maximum risk tolerance. Future discussions should include adding ranges around asset classes, rebalancing policy, and risk management protocol.

As part of an initial exercise, PCA created two optimizations, one with steady risk and the other with steady return. There were four different portfolio models used integrating allocations in Real Return and Opportunistic strategies. The steady risk model resulted in increased return as Real Return and Opportunistic strategies were added. As Real Return and Opportunistic strategies were added to the steady return model, there was reduced risk volatility.

PCA would create a portfolio model for the Commission using assumptions that included historical data, examination of fundamental variables, expectations based on consensus views and outlook opinions from investment and banks advisors. Additional information included correlations assumptions, return, and risk. Mr. Emkin stressed that the relationship of the assets is of key importance.

PCA suggested they use this set of assumptions in presenting the Commission with possible portfolios to review. At that point, the Commission can discuss the models and provide additional direction.

There was a discussion regarding TIPS being represented as its own category. Mr. Emkin stated that going forward, TIPS will be modeled as part of RRAP.

Mr. Dingley questioned if Real Return and Opportunistic strategies could be added as a percentage of current asset classes. Mr. Emkin agreed this could be done; however, it changes the risk return characteristics of the fixed income class.

Ms. Gallogly questioned if under the current mandate some of our current fixed income managers might have these new strategies in their current portfolio. Mr. Emkin suggested looking at individual portfolios; however, these strategies would not be covered in most fixed income mandates.

Legal Counsel Report. Legal Counsel had no report.

Cash Manager Report. Mr. Izzo reported that our CDARS program is currently $40 million invested with a return approximately 100 bps greater than our average rate.

In addition, the investment department's new software is prepared to go live which will afford us more in-depth reporting on portfolio performance.

Chief Investment Officer Report. Mr. Goodreau noted that our goal is to increase return while reducing risk. Currently our portfolio does not have exposures in hedge funds, REITs, or commodities, which has helped us to this point. We have de-leveraged from securities lending and our current structure is predominately passive, which is very cost efficient.

Treasurer's Report. The Treasurer reported that having provided PCA with information from State Street and Russell regarding transition management, PCA would issue a letter confirming their recommendation that State Street is the low cost provider for the professional execution of transitioning from active to passive management.

New Business. There being no further new business, the Treasurer entertained a motion to adjourn. Mr. Giudici moved, Ms. Gallogly and Mr. Treat seconded and the subsequent motion passed. The following members voted in favor: Mr. Costello, Mr. Reilly, Ms. Gallogly, Mr. Giudici, Mr. Treat, and General Treasurer Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 10:48AM.

Respectfully submitted,

Frank T. Caprio

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
Office of the General Treasurer

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Monthly Meeting April 22, 2009

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, April 22, 2009. The Treasurer called the meeting to order at 9:08 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Andrew Reilly, Mr. John Treat, Mr. Robert Giudici, Mr. Robert Gaudreau and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Chief Investment Officer; Ms. Sarah Dowling, of Adler, Pollock, and Sheehan; Mr. David Ursillo, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. Allan Emkin and Mr. John Burns of Pension Consulting Alliance (PCA), General Policy Consultants to the Commission; Ms. Laura Callahan of State Street Corporation; and other members of the Treasurer's staff. Ms. Marcia Reback and Dr. Robert McKenna were not present.

State Investment Commission Minutes. Treasurer Caprio entertained a motion for approval of the minutes for the meeting of April 7, 2009. Mr. Treat moved, Mr. Giudici seconded, and the subsequent motion passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Mr. Reilly, Mr. Gaudreau, Mr. Treat, and General Treasurer Caprio.

VOTED: To approve the Minutes of the April 7, 2009 monthly meeting.

General Consultant Report. Mr. Burns began with the presentation of the Allocation Study – Optimizations, which affirm PCA's goal of providing the Commission with suggested asset allocations which are able to achieve the highest target returns with the lowest risk.

There was a brief discussion of how our fund compares with other public funds. It was noted that real estate allocations were higher in other public funds. Mr. Emkin explained that historically real estate investments were a source of cash flow and not capital appreciation. Today real estate investments are in value added funds with higher risk, leveraged transactions, which look like private equity.

Mr. Burns discussed Risk Measures including investment return volatility, measured by standard deviations, and the probability of not achieving a target rate of return. Volatility of funding ratios, surpluses and employer contributions are excluded from this study and are part of risk allocation studies.

Ms. Gallogly questioned if there were any exceptionally volatile periods where standard deviations were not included in historic data. Mr. Emkin explained that this would understate the

40 Fountain Street - Providence, Rhode Island 02903-1855 - (401) 222 - 2287 / Fax 222 - 6141

level of volatility and the period we are currently experiencing will be included in the data increasing the volatility level of all assets.

Mr. Burns continued defining the downside of deviation, which he characterized as a failure to meet a minimum return target (8.25%). In showing normal distribution of return, the focus would be on expected return (8.5%) and the target return (8.25%). Risk is being redefined as not meeting the 8.25% target return as opposed to not meeting the return output of the model. This changes the model and indicates True Risk.

Mr. Burns reviewed the model's constraints along with proposed changes. Private Equity was proposed at 5-10% and the new proposal would be 7.5-10%. TIPS would be allocated into the Real Return class with a proposed allocation of 7.5%-15%. This would change the Fixed Income allocation from 25-40% to 20-40%. Based upon the newness of the Opportunistic class, the allocation would be changed to 0-5% from 0-10%. Lastly, based on our liquidity requirements, PCA suggested setting a 2 % cash allocation.

Based upon the proposed constraints, PCA created an initial model for the Commission. The model generated forty different proposals with minimal deviations. In reviewing these proposals, Non US Equity Portfolios and US Equity Portfolios were reduced and new allocations set in Real Return and Opportunistic Portfolios.

Mr. Dingley questioned if the Non-US Equity Portfolio included exposure to emerging markets. Mr. Emkin acknowledged there is minor exposure and that today's market weight would be ± 10%.

In conclusion, the proposed portfolio offers a better risk/return tradeoff than our existing portfolio. The addition of diversified assets will improve return and risk profiles, and based upon input assumptions, the resulting choices would revolve around Real Return, Private Equity, and Opportunistic portfolios weighting. Future discussions will include the addition of ranges around asset allocations, rebalancing policy, and setting a risk management protocol.

Mr. Burns presented an initial outline of an Opportunistic Portfolio Investment Policy. He noted that the Commission would need to construct an investment policy and management structure that will define the components of the portfolio and its objectives. The Policy suggested that the Opportunistic Portfolio investments would focus on strategies instead of asset classes. The primary objective is to locate investments with cyclically high absolute returns. These investments are rare. However, due to market dislocations, they have become more available. The secondary objective would be to focus on unique investments, which fall outside of current asset classes, have sharp ratios of return versus risk, low correlation with the total portfolio and strategies requiring highly specialized skill sets. Mr. Burns stressed that success in this Portfolio would be to invest only when there is real opportunity and not to fill the asset allocation.

The benefits of an Opportunistic allocation would be to allow the plan maximum flexibility of investments to meet its objectives. Suggested exclusions would be Hedge funds, commodities trading strategies, intensively derivative based investments or investments with complex strategies that are difficult to manage, explain, or understand.

The Treasurer asked for an example of an investment choice that might fit into the Opportunistic Portfolio. Mr. Emkin suggested Bank Loans, which are loans made to senior quality corporations and have traditionally traded close to par. Due to today's credit issues, these performing loans are trading at 60 to 75 cents on the dollar. The Bank Loans offer a unique opportunity as they have been affected by the current prices, are widely marketed and are an understandable known entity.

Continuing, Mr. Burns noted that the Opportunistic Policy would not require diversification guidelines within the portfolio allocation since the diversification would be at the total fund level.

The Policy should reflect the type of risk the Commission is willing to undertake along with Risk Management including investment guidelines, due diligence processes, reporting requirements, and Commission oversight.

There was a discussion regarding the Opportunistic investment process given the current restrictions on the Portfolio. The Treasurer explained that we currently have two methods we follow when making investment decisions. One is part of the investment guidelines and purchasing process and the other is within statute. To date, we have followed past practices where our consultant would make a recommendation on private equity and real estate limited partnerships allowing us to entertain the recommendation without an RFP. The policy will need to address how we can have flexibility in these new asset classes considering our purchasing laws and current processes for private equity.

Mr. Burns explained that the success of the portfolio is dependent on the timing of the investment including entering and exiting strategies. PCA recommends the Commission set an exit strategy of expected return when entering into the investment. The policy should state loss aversion is more important than opportunity costs. Additionally, the portfolio does not require being fully invested in this class, any reduction in exposure automatically puts the money into the remaining asset classes and remains fully invested.

In setting minimum and maximum initial investment guidelines, the Opportunistic policy separates unique exposure (investments that do not appear anywhere else in the portfolio) and existing exposure (investment appears within a different asset class). The suggested investment would be greater for a unique opportunity as opposed to an existing one.

Benchmarks need to be set as policy for measurement of value added. The portfolios actuarial target is 8.25 % and additional shorter-term investments would require benchmark measurements.

The investment management philosophy states that the investment must be undervalued with significant compelling opportunity. These investments may be the result of a market dislocation or a paradigm shift where changes in regulation may create opportunity. Momentum strategies should not be included in the portfolio and this exclusion should be stated in the policy.

There was discussion regarding a fund our size adopting this class due to the complicated execution. Mr. Emkin reaffirmed the money is invested only if the opportunity presents itself; otherwise it stays fully invested in the strategic asset allocation. PCA's experience has been with very significant public institutions that have very large sophisticated staffs. Rhode Island's fund would be more consultant driven. In conclusion, from a practical point of view without sufficient staff, implementation of consultant recommendations will be extremely difficult and could result in missed opportunities.

Mr. Goodreau responded that with recent advances in gaining exposure to different asset classes, some of these opportunities could be vetted through resources like PCA, Russell, Ned Davis Research, or State Street analytics group.

Mr. Treat related two points. First, having parameters set in advance on the sell side would provide management the flexibility needed to handle time sensitive investments. In addition, some of the opportunistic private equity alternatives we currently hold may be involved in these opportunistic investments and it would be prudent for us to review these before we widen our exposure.

Mr. Giudici expressed concerns with attempting to evaluate the degree of risk rather than achieving a particular rate of return, as well as the effective and consistent timing of entering and exiting investments. Mr. Emkin concurred adding that it is extremely important to have metrics in place so the process is thoughtful and quantitative rather than arbitrary.

Ms. Gallogly questioned who would be responsible for the exit strategy since previously we have had vendor presentations defining benchmarks before deciding to invest. Treasurer Caprio advised not overweighting the reality of the process. He further explained that if an active manager were executing the strategy, our board could call a meeting within 14 days. If a consultant recommended a suitable investment, the vendor would present it and recommend an exit strategy. If the investment were more of an index style, we would rely on whomever we were purchasing the investment from or the consultant to provide a breakdown.

Legal Counsel Report. Legal Counsel had no report.

Chief Investment Officer Report. Mr. Goodreau updated the Commission on the status of the funds transitioning from active to passive management. The transition of the domestic and international equities to index investments is largely complete and has been done at low cost. Upon completion, we will have transferred approximately $1.7 billion into different mandates. We would normally pay 40-60 bps management fee and these fees will probably be reduced to 1-4 bps resulting in a savings of 80-90%. The real costs of active trading are the market impact, which we evaluate on a quarterly basis. This comes at a cost of anywhere from $3-5 million not including fees. These are all hidden costs, which, along with decreased management fees should result in considerable savings.

Treasurer's Report. Treasurer Caprio had no report.

New Business. Ms. Gallogly requested proxy voting information be discussed at the next meeting.

There being no further new business, the Treasurer entertained a motion to adjourn. Mr. Giudici moved, Ms. Gallogly and Mr. Costello seconded and the subsequent motion passed. The following members voted in favor. Mr. Costello, Mr. Reilly, Ms. Gallogly, Mr. Giudici, Mr. Gaudreau, Mr. Treat, and General Treasurer Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 10:48AM.

Respectfully submitted,

Frank T. Caprio

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
Office of the General Treasurer

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Monthly Meeting April 22, 2009

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, April 22, 2009. The Treasurer called the meeting to order at 9:08 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Andrew Reilly, Mr. John Treat, Mr. Robert Giudici, Mr. Robert Gaudreau and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Chief Investment Officer; Ms. Sarah Dowling, of Adler, Pollock, and Sheehan; Mr. David Ursillo, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. Allan Emkin and Mr. John Burns of Pension Consulting Alliance (PCA), General Policy Consultants to the Commission; Ms. Laura Callahan of State Street Corporation; and other members of the Treasurer's staff. Ms. Marcia Reback and Dr. Robert McKenna were not present.

State Investment Commission Minutes. Treasurer Caprio entertained a motion for approval of the minutes for the meeting of April 7, 2009. Mr. Treat moved, Mr. Giudici seconded, and the subsequent motion passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Mr. Reilly, Mr. Gaudreau, Mr. Treat, and General Treasurer Caprio.

VOTED: To approve the Minutes of the April 7, 2009 monthly meeting.

General Consultant Report. Mr. Burns began with the presentation of the Allocation Study – Optimizations, which affirm PCA's goal of providing the Commission with suggested asset allocations which are able to achieve the highest target returns with the lowest risk.

There was a brief discussion of how our fund compares with other public funds. It was noted that real estate allocations were higher in other public funds. Mr. Emkin explained that historically real estate investments were a source of cash flow and not capital appreciation. Today real estate investments are in value added funds with higher risk, leveraged transactions, which look like private equity.

Mr. Burns discussed Risk Measures including investment return volatility, measured by standard deviations, and the probability of not achieving a target rate of return. Volatility of funding ratios, surpluses and employer contributions are excluded from this study and are part of risk allocation studies.

Ms. Gallogly questioned if there were any exceptionally volatile periods where standard deviations were not included in historic data. Mr. Emkin explained that this would understate the

40 Fountain Street - Providence, Rhode Island 02903-1855 - (401) 222 - 2287 / Fax 222 - 6141

level of volatility and the period we are currently experiencing will be included in the data increasing the volatility level of all assets.

Mr. Burns continued defining the downside of deviation, which he characterized as a failure to meet a minimum return target (8.25%). In showing normal distribution of return, the focus would be on expected return (8.5%) and the target return (8.25%). Risk is being redefined as not meeting the 8.25% target return as opposed to not meeting the return output of the model. This changes the model and indicates True Risk.

Mr. Burns reviewed the model's constraints along with proposed changes. Private Equity was proposed at 5-10% and the new proposal would be 7.5-10%. TIPS would be allocated into the Real Return class with a proposed allocation of 7.5%-15%. This would change the Fixed Income allocation from 25-40% to 20-40%. Based upon the newness of the Opportunistic class, the allocation would be changed to 0-5% from 0-10%. Lastly, based on our liquidity requirements, PCA suggested setting a 2 % cash allocation.

Based upon the proposed constraints, PCA created an initial model for the Commission. The model generated forty different proposals with minimal deviations. In reviewing these proposals, Non US Equity Portfolios and US Equity Portfolios were reduced and new allocations set in Real Return and Opportunistic Portfolios.

Mr. Dingley questioned if the Non-US Equity Portfolio included exposure to emerging markets. Mr. Emkin acknowledged there is minor exposure and that today's market weight would be ± 10%.

In conclusion, the proposed portfolio offers a better risk/return tradeoff than our existing portfolio. The addition of diversified assets will improve return and risk profiles, and based upon input assumptions, the resulting choices would revolve around Real Return, Private Equity, and Opportunistic portfolios weighting. Future discussions will include the addition of ranges around asset allocations, rebalancing policy, and setting a risk management protocol.

Mr. Burns presented an initial outline of an Opportunistic Portfolio Investment Policy. He noted that the Commission would need to construct an investment policy and management structure that will define the components of the portfolio and its objectives. The Policy suggested that the Opportunistic Portfolio investments would focus on strategies instead of asset classes. The primary objective is to locate investments with cyclically high absolute returns. These investments are rare. However, due to market dislocations, they have become more available. The secondary objective would be to focus on unique investments, which fall outside of current asset classes, have sharp ratios of return versus risk, low correlation with the total portfolio and strategies requiring highly specialized skill sets. Mr. Burns stressed that success in this Portfolio would be to invest only when there is real opportunity and not to fill the asset allocation.

The benefits of an Opportunistic allocation would be to allow the plan maximum flexibility of investments to meet its objectives. Suggested exclusions would be Hedge funds, commodities trading strategies, intensively derivative based investments or investments with complex strategies that are difficult to manage, explain, or understand.

The Treasurer asked for an example of an investment choice that might fit into the Opportunistic Portfolio. Mr. Emkin suggested Bank Loans, which are loans made to senior quality corporations and have traditionally traded close to par. Due to today's credit issues, these performing loans are trading at 60 to 75 cents on the dollar. The Bank Loans offer a unique opportunity as they have been affected by the current prices, are widely marketed and are an understandable known entity.

Continuing, Mr. Burns noted that the Opportunistic Policy would not require diversification guidelines within the portfolio allocation since the diversification would be at the total fund level.

The Policy should reflect the type of risk the Commission is willing to undertake along with Risk Management including investment guidelines, due diligence processes, reporting requirements, and Commission oversight.

There was a discussion regarding the Opportunistic investment process given the current restrictions on the Portfolio. The Treasurer explained that we currently have two methods we follow when making investment decisions. One is part of the investment guidelines and purchasing process and the other is within statute. To date, we have followed past practices where our consultant would make a recommendation on private equity and real estate limited partnerships allowing us to entertain the recommendation without an RFP. The policy will need to address how we can have flexibility in these new asset classes considering our purchasing laws and current processes for private equity.

Mr. Burns explained that the success of the portfolio is dependent on the timing of the investment including entering and exiting strategies. PCA recommends the Commission set an exit strategy of expected return when entering into the investment. The policy should state loss aversion is more important than opportunity costs. Additionally, the portfolio does not require being fully invested in this class, any reduction in exposure automatically puts the money into the remaining asset classes and remains fully invested.

In setting minimum and maximum initial investment guidelines, the Opportunistic policy separates unique exposure (investments that do not appear anywhere else in the portfolio) and existing exposure (investment appears within a different asset class). The suggested investment would be greater for a unique opportunity as opposed to an existing one.

Benchmarks need to be set as policy for measurement of value added. The portfolios actuarial target is 8.25 % and additional shorter-term investments would require benchmark measurements.

The investment management philosophy states that the investment must be undervalued with significant compelling opportunity. These investments may be the result of a market dislocation or a paradigm shift where changes in regulation may create opportunity. Momentum strategies should not be included in the portfolio and this exclusion should be stated in the policy.

There was discussion regarding a fund our size adopting this class due to the complicated execution. Mr. Emkin reaffirmed the money is invested only if the opportunity presents itself; otherwise it stays fully invested in the strategic asset allocation. PCA's experience has been with very significant public institutions that have very large sophisticated staffs. Rhode Island's fund would be more consultant driven. In conclusion, from a practical point of view without sufficient staff, implementation of consultant recommendations will be extremely difficult and could result in missed opportunities.

Mr. Goodreau responded that with recent advances in gaining exposure to different asset classes, some of these opportunities could be vetted through resources like PCA, Russell, Ned Davis Research, or State Street analytics group.

Mr. Treat related two points. First, having parameters set in advance on the sell side would provide management the flexibility needed to handle time sensitive investments. In addition, some of the opportunistic private equity alternatives we currently hold may be involved in these opportunistic investments and it would be prudent for us to review these before we widen our exposure.

Mr. Giudici expressed concerns with attempting to evaluate the degree of risk rather than achieving a particular rate of return, as well as the effective and consistent timing of entering and exiting investments. Mr. Emkin concurred adding that it is extremely important to have metrics in place so the process is thoughtful and quantitative rather than arbitrary.

Ms. Gallogly questioned who would be responsible for the exit strategy since previously we have had vendor presentations defining benchmarks before deciding to invest. Treasurer Caprio advised not overweighting the reality of the process. He further explained that if an active manager were executing the strategy, our board could call a meeting within 14 days. If a consultant recommended a suitable investment, the vendor would present it and recommend an exit strategy. If the investment were more of an index style, we would rely on whomever we were purchasing the investment from or the consultant to provide a breakdown.

Legal Counsel Report. Legal Counsel had no report.

Chief Investment Officer Report. Mr. Goodreau updated the Commission on the status of the funds transitioning from active to passive management. The transition of the domestic and international equities to index investments is largely complete and has been done at low cost. Upon completion, we will have transferred approximately $1.7 billion into different mandates. We would normally pay 40-60 bps management fee and these fees will probably be reduced to 1-4 bps resulting in a savings of 80-90%. The real costs of active trading are the market impact, which we evaluate on a quarterly basis. This comes at a cost of anywhere from $3-5 million not including fees. These are all hidden costs, which, along with decreased management fees should result in considerable savings.

Treasurer's Report. Treasurer Caprio had no report.

New Business. Ms. Gallogly requested proxy voting information be discussed at the next meeting.

There being no further new business, the Treasurer entertained a motion to adjourn. Mr. Giudici moved, Ms. Gallogly and Mr. Costello seconded and the subsequent motion passed. The following members voted in favor. Mr. Costello, Mr. Reilly, Ms. Gallogly, Mr. Giudici, Mr. Gaudreau, Mr. Treat, and General Treasurer Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 10:48AM.

Respectfully submitted,

Frank T. Caprio

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
Office of the General Treasurer

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Monthly Meeting May 27, 2009

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, May 27, 2009. The Treasurer called the meeting to order at 9:28 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Andrew Reilly, Mr. John Treat, Mr. Robert Giudici, and General Treasurer Frank T. Caprio. Also present were Mr. Kenneth E. Goodreau, Chief Investment Officer; Mr. Paul Campellone, of Adler, Pollock, and Sheehan; Mr. David Ursillo, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. John Burns of Pension Consulting Alliance (PCA), General Policy Consultants to the Commission; Ms. Lisa Tyrrell of State Street Corporation; and other members of the Treasurer's staff. Ms. Marcia Reback, Mr. Robert Gaudreau and Dr. Robert McKenna were not present.

State Investment Commission Minutes. Treasurer Caprio entertained a motion for approval of the minutes for the meeting of April 22, 2009. Mr. Reilly moved, Ms. Booth Gallogly seconded, and the subsequent motion passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Mr. Reilly, Mr. Treat, and General Treasurer Caprio.

VOTED: To approve the Minutes of the April 22, 2009 monthly meeting.

General Consultant Report. Mr. Burns ensued with a presentation of asset allocation centered on the material provided in Asset Allocation Study – Optimizations II.

He addressed the issue raised in the last meeting of adding non-U.S. equity to the model. In years past you could reduce volatility of your total fund by adding international equity, however, over the last decade the correlation between U. S. markets and non-U.S. markets has increased so the benefit from a diversification point of view has diminished. This high correlation is likely to occur in the future.

Mr. Burns reviewed the model's constraints. The imposed constraints reflect the commission's preferences and the possible outcomes. For example, under no possible circumstance could this model come out with a 70% U. S. equity. It is capped at 50% and has to have a minimum of 30%. The changes from our initial model are the separation of TIPS and the inclusion of a 2% fixed liquidity, the other classes are tweaked to reflect the commissions preferences. Non-U.S. equity and real estate are the same as the original model.

Mr. Goodreau addressed the issue of minimum liquidity needs. This issue goes back to early 2007 when the need for cash led to the approval of a cash bucket in the asset allocation model. The need stems from tactical reasons such as capital calls and other liabilities that the fund needs to meet. With the recent volatility, our cash bucket was the reason we did not have the forced liquidations that other funds had. As of now, we are at 2% and this should be sufficient.

Mr. Burns restated that the constraints reflect the preferences of the commission and determines where the model will come out. The optimizations show expected return and standard deviation for the various six (6) possibilities and the current portfolio. We added return for unit of risk scale, which shows that as you take on more risk you get less return incrementally, which is typically what happens in the real world.

Treasurer Caprio asked for a list of representative fund families or managers with specific examples and track records, so we can understand what type of decisions we would be considering. We would also like to see the same thing for the opportunistic portfolio.

Mr. Burns continued by stating when considering which options would work for RI the key is how much real return versus US equity. The assets have been recategorized into three buckets: stable, moderate growth and growth oriented to give you something to start thinking about conceptually in determining where you want to end up. The stable part of the portfolio stays relatively consistent. The amount that is growth oriented versus moderate growth is what changes.

Mr. Burns restated that the goal is to achieve equity-like returns without the volatility, and that even if this policy is adopted, it will take time to get into the real return assets. This is a good goal because the current portfolio has 43% is U. S. equity and 20% is non-U. S. equity and this is a big exposure to publicly traded equity.

Ms. Gallogly questioned the issue of correlation between the non-U.S. & U.S. equity. If we did not have a constraint on non-U.S. equity on the low end of 15%, if it was lower, would it shift into the U.S. equity category?

Mr. Burns commented that it probably would but he did not how far it would go. Another element in diversification is that in ten years we do not know if non-U.S. equity or U.S. equity will perform better. We want an allocation to non-U.S. equity for that reason. Again, we want to strike some balance with risks that are accounted for. To get the discussion started a consultant might say portfolio 3 (in our case) seems to strike a reasonable balance between all considerations.

Mr. Treat noted his reaction to portfolio 3, reducing growth orientation by 10% and shifting to moderate growth, we are moving 10% of assets. In doing so, we are moving assets that have an assumed rate of return of 6% on an annual basis into a real return of 3 3/4 % reducing volatility. Does it also take away possibility of growth?

Mr. Burns stated yes, there is a trade off on return but it reduces the expected volatility of the portfolio.

Mr. Treat said the loss of growth is his concern and he, like Treasurer Caprio, would like more definition on the real return opportunities.

Treasurer Caprio asked if we could be more specific with the options being considered for the real return asset class and look at the annual return.

Mr. Costello stated he thinks that we should round up to whole numbers because the differences are so subtle. In addition, the Treasurer and staff have done a very good job managing the fund. He asked for information on fees for additional managers or products and implementation and timing issues.

Mr. Burns will supply information on implementation at the next meeting. He stated the timing issue is always going to be there, but the commission is right to want to know more about it. These changes will take a couple of quarters before money starts to roll over.

Mr. Giudici asked for more information on loss of opportunity and timing, based on the deviation of 15% in US equity.

Mr. Burns responded that most people phase in over a period of time. Under no circumstance would a recommendation be made that has to happen instantly. The next thing would be to put this into an investment policy statement that will guide all assets.

Treasurer Caprio commented that Mr. Giudici has asked and he would also request an update with any changes that have gone on around us with state or municipal funds in this area – where they have reduced exposure in certain areas and increased in others. A summary of changes instituted or being considered would be helpful.

Mr. Burns stated what we are seeing generally is the desire to reduce public equity exposure. What we are discussing is a common theme. In response to Mr. Giudici's question at a prior meeting about what others are doing in the opportunistic portfolio area Mr. Burns prepared a brief memo on other funds. This is an area of intense scrutiny where different approaches are being used. There are three broad approaches: 1.) allocate to one manager, 2.) manage in house with consultants using specialist mandate managers, 3.) allocate to various segments and manage separately within each segment.

Ms. Gallogly asked if any options would not work for us, say the last option for real estate?

Mr. Burns stated all would work for Rhode Island.

Mr. Goodreau commented that he could see this happening in private equity because our program is mature. Boards that are like ours who want to be involved pick a category where they can add value.

Ms. Gallogly asked that if we were to follow that process, would some opportunistic assets be in private equity and some be in real estate and not a separate category?

Mr. Goodreau replied that the question is do we want to be opportunistic through the other asset classes.

Ms. Gallogly asked if any options would not work for us?

Mr. Goodreau stated that there are some areas he would not recommend because they are too time consuming.

Legal Counsel Report.

Mr. Dingley stated that we received a request from the SEC to the retirement fund. It was sent out broadly to a number of major public pension funds. This follows a case where San Diego was held liable for fraud in their disclosures regarding their pension liabilities. We have shared the materials with disclosure counsel, Adler, Pollock and Sheehan. They have made some recommended changes to our public disclosures. The fifteen page detailed questionnaire also covers how the pension fund works. One area of investigation is focused on re-amortization and mark to market questions. The second aspect is focused on placement agents. Treasurer Caprio has taken a hard line on not having the State fund pay extra fees for agents. However, we do not have all information from previous administrations and that is currently being researched. Once all our answers are together, we will have it reviewed by outside counsel. Placement fees are legal and were standard industry practice during the past 15 years. We do not know what PCG will find for past administrations.

Treasurer Caprio reported that the Treasurer of Connecticut invited him to meet with her early in his term. She addressed placement fees in the meeting because Connecticut had dealt with the issue so we were alerted early on.

Ms. Gallogly asked if it is only in private equity.

Mr. Dingley replied it could be any transaction.

Mr. Goodreau noted it usually occurs in private equity, hedge funds or real estate.

Mr. Reilly asked Mr. Dingley if we have a no fee clause that we put into everything.

Mr. Dingley replied we have asked legal counsel to scour for fees and to bring it to our attention so we can say no to the fee.

Treasurer Caprio commented that we have had limited instances where this issue has been raised and in each case the fee has been deleted from the State's expenses. We will keep the commission informed as our response is completed.

Ms. Gallogly asked if we have requested information on fees from the old managers.

Mr. Goodreau responded that we will provide the SEC with a list of all relationships we have as well as the contacts. They may in turn have to provide additional answers.

Chief Investment Officer Report. Mr. Goodreau reported to the commission that transitioning from active to passive management is complete and very successful. The transition of the domestic and international equities to index investments has been completed with costs lower than expected. We had a great month in equity and fixed income portfolios as liquidity has come back to the market. The downside is that we will see re-valuation catching up in the private equity portfolio. This will probably happen for 6 months. For the month the total equity was up almost 8% and the index was up 8.4% so we are off about 50 basis points. Because of re-valuations in private equity we were up 6%. The fund for the calendar year to date is positive after expenses.

Treasurer Caprio stated that he and Mr. Goodreau met with firms, regarding an asset liability study, in New York.

Mr. Dingley stated that conducting an asset liability study would be critical. As we have net cash outflows in the fund of approximately $700M and we collect $500M in contributions we have a net $200M negative outflow on an annual basis. The actuaries will come in on June 30 and value the fund at market value, but because they use 5 year smoothing the impact of the adverse markets will not significantly impact contributions; only 20% of the recent bad markets will impact contributions. The pressures the negative cash flow is going to place on the fund are ever increasing. This Asset Liability firm has a unique approach because they project on a true economic basis.

Mr. Costello asked if this is our problem or if it is a legislative issue because it is about the funding.

Mr. Dingley replied that he thinks it is both an SIC and legislative issue.

Treasurer Caprio stated there are many things involved, monthly payments, budget issues, the 30-year amortization, in quantifying where we need to be in asset allocation. This is a good time for review because of upcoming legislative changes.

Mr. Costello asked if they provide alternate assumptions of the future levels of the market and future negative cash flow impact?

Mr. Dingley stated it is a changing landscape; there could be legislative changes that cause another rash of retirements.

Mr. Giudici stated that we need to be prudent in asset allocation even though we are exempt from ERISA.

Treasurer Caprio proposed that we have the firm come in to meet with the board in a sub-committee setting. If there is an interest in engaging them or someone else, we can start with RFPs.

Treasurer's Report. Treasurer Caprio requested, in the interest of time, that his report be considered interwoven in the Legal Counsel and CIO reports.

New Business. There was not any new business.

There being no new business, the Treasurer entertained a motion to adjourn. Mr. Giudici moved, Mr. Reilly seconded and the subsequent motion passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Mr. Reilly, Mr. Treat, and General Treasurer Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 10:38AM.

Respectfully submitted,

Frank T. Caprio

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
General Treasurer
State House - 102
Providence, Rhode Island 02903

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Monthly Meeting June 24, 2009

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, June 24, 2009. The Treasurer called the meeting to order at 9:03 a.m.

Membership Roll Call. Present were: Ms. Rosemary Booth Gallogly, Mr. Robert Gaudreau, Mr. Robert Giudici, Dr. Robert McKenna, Ms. Marcia Reback, Mr. John Treat, and General Treasurer Frank T. Caprio. Also present were Ms. Sally Dowling, of Adler, Pollock, and Sheehan; Mr. David Ursillo, of Rodio & Ursillo, Legal Counsel to the Commission; Mr. Allan Emkin, and Mr. John Burns of Pension Consulting Alliance (PCA), General Policy Consultants to the Commission; Ms. Lisa Tyrrell of State Street Corporation; and Mr. Mark Dingley and other members of the Treasurer's staff. Mr. Michael Costello and Mr. Andrew Reilly were not present.

State Investment Commission Minutes. Treasurer Caprio entertained a motion for approval of the minutes for the meeting of May 27, 2009. Ms. Gallogly moved, Mr. Giudici and Mr. Treat seconded, and the subsequent motion passed. The following members voted in favor: Ms. Rosemary Booth Gallogly, Mr. Robert Gaudreau, Mr. Robert Giudici, Dr. Robert McKenna, Ms. Marcia Reback, Mr. John Treat, and General Treasurer Frank T. Caprio.

VOTED: To approve the Minutes of the May 27, 2009 monthly meeting.

General Consultant Report. Mr. Burns proceeded with information regarding asset allocation as detailed in the *Real Return Asset Class* material. This material highlights the overall characteristics and goals of real return asset class investments. The goal is to have a bucket of assets that return more over the long run than fixed income without the volatility of equity.

Last meeting, Mr. Burns was asked what other funds are using this type of asset allocation. At that time, Mr. Burns said he would get back to the Commission at the next meeting once he had researched the correct answer. He told the group that he now had the answer to the aforementioned question and pointed out that Kansas, Los Angeles, Washington and California have implored similar investment tactics, with the goal of trying to have another source of return in the portfolio. For example, the funds will select a source that is different from publicly traded equity that increases the diversification and will help dampen the down side without giving up much on the return.

It was then suggested that in order to address all the questions that commission members have regarding the abovementioned practices, the Commission should invite practitioners of these tactics to a meeting to answer questions so as to give members a better understanding of the new asset class and its investments. Mr. Burns reminded the group that the end result would be a detailed implementation plan regarding this investment strategy.

Mr. Treat stated it would be valuable to hear such presentations; he noted the real assets proposed, such as agriculture, oil and gas, timber, are products local to the Midwest and West Coast regions and questioned if this would be a good fit for an East Coast state like Rhode Island.

Mr. Emkin stated the application does not have linkage to geography. He further explained the reason why they are strongly encouraging the fund to choose these real assets is because in the last ten years two events have occurred, each of which, would not be expected to happen once, so he is urging clients to have part of their portfolio hedge the risks of another such occurrence.

Ms. Gallogly asked if practitioners or PCA would give us historical trends.

Mr. Emkin replied that PCA will provide a background paper and that the practitioners will be available to address any concerns.

Ms. Reback asked if we are only talking about commodities like gas, oil and timber.

Mr. Emkin responded that the decision would be up to the Commission. He suggested that the first would be commodities, timber and infrastructure.

Ms. Reback asked for a definition of "op-oriented," as listed on page 12 of the presentation booklet.

Mr. Burns answered that it is an allocation tactic which provides the Commission with the flexibility to invest in time-sensitive opportunities, such as investment grade credit. These are temporary investments of one to three years and provide an exit strategy at initiation; he noted that the Commission does not have to use this category, but he is currently working on a policy for such structure.

Ms. Reback asked if the suggestion is to trade off a large portion of U. S. equity against a real return.

Mr. Emkin replied that is the decision the Commission must make; the goal is to find other investment vehicles that will diversify against periods when there is a high correlation among the asset classes.

Ms. Reback asked for a definition of "commodities".

Mr. Emkin responded that most are dominated by energy, such as oil and natural gas, but it could also include agriculture or metals; commodities include a whole basket of assets that are "real" and therefore physical. Mr. Emkin stated that he would bring in a specialist to explain the different vehicles, as well as their portfolio structure and possible returns. However, the ultimate decision is up to the Commission and Mr. Emkin said that is the direction which will be followed.

Dr. McKenna commented that the current discussion deals with oil and gas, two areas from which he believed the Commission was trying to exit. He inquired if the Commission could do anything to encourage wind power and if any other state had done anything regarding such power?

Mr. Emkin answered that a number of their clients have included energy related clean technology or green technology investments in their private equity; he said he would get a briefing on it.

Mr. Emkin then noted that the world has changed in the last two months; at the end of the 1st quarter, the equity markets were down, as was the portfolio, and the spreads were still wide. Since then, there has been a huge rally globally and emerging markets are up almost 40% on a year-to-date basis. Stocks have gone from the negative mid-teens to flat, due in part to the support from Washington, D.C. in helping banks create liquidity.

Ms. Reback asked about the impact of the stimulus money from Washington.

Mr. Emkin replied that it is having an impact with regard to the credit markets and some regions have seen more home sales; however, he was not sure about the impact in the area of public works.

Legal Counsel Report. Legal Counsel had no report.

Chief Investment Officer Report. Mr. Dingley provided a summary of the presentation by Ryan Asset Liability Management, which focused on the fixed income part of the portfolio. Ryan's view is that our fixed income investing should be targeted toward our liabilities, like lotteries and insurance companies, as opposed to a benchmark that is not related to liabilities. Ryan can provide a custom liability driven target, with the essence of such being that fixed income investments do not offer alpha.

Ryan also recommended a structured method when we beat our target (8.25%) return, whereby we would take a portion for a fixed income investment, which would provide protection against a downturn in the market. Mr. Dingley stated that he thinks there is validity in looking at our liabilities and addressing them, especially given the current market conditions and our potential cash flow issues.

Mr. Dingley told the Commission that a copy of the presentation was provided for their review and/or possible discussion. Mr. Dingley noted that if the Commission decides to consider this, the Commission would turn things over to our advisors and subsequently issue an RFP.

Treasurer's Report. Treasurer Caprio stated the meeting book has a summary of the May fund performance; he noted since the transition to passive investments in equity, we have returned 6.14%. The policy benchmark ex-PE and RE said we should return 5.91%; the May return validates the Commission's assumption that we can meet our benchmark and pick up some alpha because of the small portion which is actively managed.

The Treasurer also thanked Mr. Gaudreau, Ms. Gallogly and the staff for attending the ALM presentation that Mr. Dingley mentioned. He stated that as soon as the legislature decides which changes will be made to the pension system, focusing on the future liabilities of the fund might be a worthwhile task.

Regarding jobs and the local economy, the Treasurer stated that we have been approached with economically targeted investment strategies. Because of the new policies out of Washington regarding the use of municipal bonds for projects by for-profit and non-profit organizations, as well as the government sector, there is a potential to make investments in such bonds through a national bond fund. If Rhode Island invests in such a fund, the firm will invest the same amount in Rhode Island bonds. The Treasurer noted that this is a fixed income strategy that has the extra benefit of creating economic activity in our state. Examples of such bonds would likely be housing bonds or Build America Bonds. Additionally, the Treasurer informed the Commission that he has requested that staff put together a policy regarding the above-referenced policy to see how it could benefit both the local economy and the return in our portfolio.

The Treasurer next stated that a voluntary response has been submitted to the SEC regarding an inquiry they sent to most state pension funds. The Treasurer noted that in answering the SEC's questions, data was received from money managers, private equity managers and real estate managers. The most common fee structure for private equity managers, which the Commission uses, has the State, acting as a limited partner, paying 1.5% per year of our investment to the general partner in the form of an annual management fee. How the contracted money management firms allocated their expenses have been outside the review of the Commission. The focus previously was on the fee amount.

The Treasurer stated that at the next meting, a policy will be proposed which would require all money managers, from any type of firm, to give the SIC a break down of fee dollars that they spend. The Treasurer noted that best practices will be used and the policy will be drafted with the assistance and consultation of Mr. Emkin and his team, as well as the Treasurer's legal staff. He stated the Commission must have full transparency with any outside firm as to how they spend management fees we pay them.

Changing gears, Mr. Giudici asked if the Commission has any guidelines regarding minimum bond ratings for potential municipal bond investments.

Treasurer Caprio stated that right now we have an allocation to low credit bond investments and we are not adverse to risk in all parts of the portfolio; the Commission adopted an Economically Targeted Investment policy for municipal bonds, the allocation of risk would be carefully crafted.

Mr. Dingley commented that in regard to Build America Bond statistics, state pension funds are buying a large portion of the offering.

Mr. Treat observed that, as he understands it, this is a safer and more diversified way to participate.

Treasurer Caprio mentioned the state's credit rating was affirmed two weeks ago for the two bond issuances which were completed in the last month. The ratings agencies held us where we were, which is largely due to the financial management practices of the Governor' Budget Office and Ms. Booth Gallogly, as well as the Treasury Department and the legislative response in this area.

New Business. There was no new business.

There being no new business, the Treasurer entertained a motion to adjourn. Dr. McKenna moved, Ms. Gallogly seconded and the subsequent motion passed. The following members voted in favor: Ms. Rosemary Booth Gallogly, Mr. Robert Gaudreau, Mr. Robert Giudici, Dr. Robert McKenna, Ms. Marcia Reback, Mr. John Treat, and General Treasurer Frank T. Caprio.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 9:54AM.

Respectfully submitted,

Frank T. Caprio

Frank T. Caprio
General Treasurer