

STATE OF RHODE ISLAND

**ANNUAL REPORT OF THE TREASURY DEPARTMENT**

**FISCAL YEAR 2008**

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, 2009

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, 2008 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.

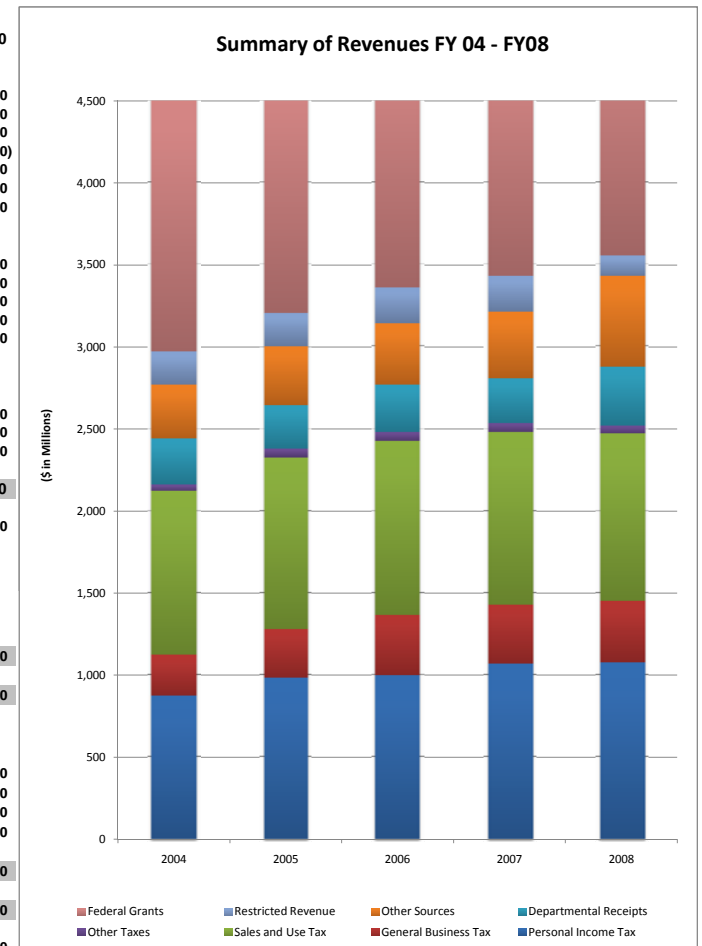
Sincerely,

Frank T. Caprio  
General Treasurer

## REVENUES AND EXPENDITURES

State of Rhode Island  
Summary of Revenues  
June 30, 2008

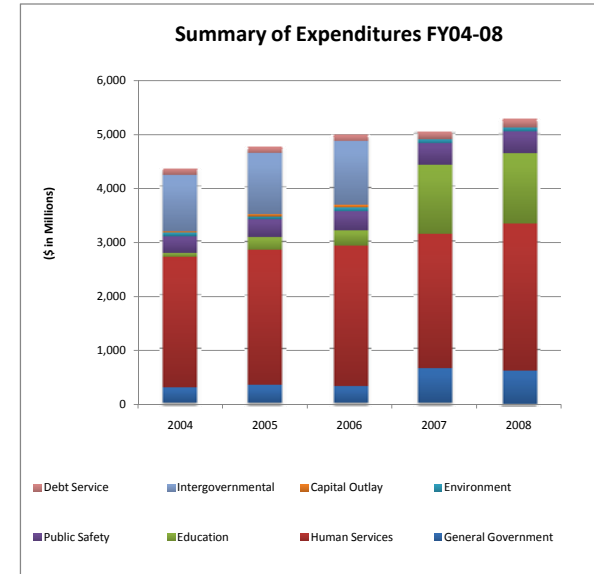
	2008	2007	2006	2005	2004
<b>PERSONAL INCOME TAX</b>	\$ 1,073,617,000.00	\$ 1,065,367,000	\$ 996,792,000	\$ 979,082,000	\$ 870,203,000
<b>GENERAL BUSINESS TAXES:</b>					
Business Corporations	\$ 150,469,000.00	\$ 148,149,000	\$ 165,054,000	\$ 116,026,000	\$ 75,972,000
Franchise					\$ 24,000
Gross Earnings Tax-Public Utilities	\$ 99,437,000.00	\$ 102,109,000	\$ 96,027,000	\$ 86,358,000	\$ 92,210,000
Income Tax-Financial Institutions	\$ 1,830,000.00	\$ 4,423,000	\$ 3,989,000	\$ (1,480,000)	\$ (7,296,000)
Tax on Insurance Companies	\$ 67,997,000.00	\$ 56,624,000	\$ 52,878,000	\$ 53,333,000	\$ 43,419,000
Tax on Deposits-Banking Institutions	\$ 1,710,000.00	\$ 1,674,000	\$ 1,494,000	\$ 1,524,000	\$ 1,580,000
Health Care Provider Assessment	\$ 53,357,000.00	\$ 47,970,000	\$ 47,002,000	\$ 46,827,000	\$ 40,317,000
<b>SALES AND USE TAXES:</b>					
Sales and Use Tax	\$ 844,197,000.00	\$ 873,204,000	\$ 869,163,000	\$ 847,727,000	\$ 822,855,000
Motor Vehicle Tax	\$ 48,610,000.00	\$ 46,879,000	\$ 52,626,000	\$ 47,137,000	\$ 47,356,000
Gasoline Tax	\$ 991,000.00	\$ 1,312,000	\$ 31,000	\$ 1,961,000	\$ 860,000
Cigarette Tax	\$ 114,675,000.00	\$ 120,481,000	\$ 126,341,000	\$ 136,342,000	\$ 117,263,000
Alcohol	\$ 11,141,000.00	\$ 10,706,000	\$ 10,870,000	\$ 10,537,000	\$ 10,342,000
Controlled Substances	\$ -	\$ -	\$ -	\$ -	\$ -
<b>OTHER TAXES:</b>					
Inheritance and Gift	\$ 35,334,000.00	\$ 34,684,000	\$ 39,204,000	\$ 32,981,000	\$ 23,905,000
Racing and Athletics	\$ 2,813,000.00	\$ 2,921,000	\$ 3,490,000	\$ 3,991,000	\$ 4,587,000
Realty Transfer Tax	\$ 10,223,000.00	\$ 12,737,000	\$ 14,592,000	\$ 14,423,000	\$ 13,037,000
	\$ 2,516,401,000.00	\$ 2,529,240,000	\$ 2,479,553,000	\$ 2,376,769,000	\$ 2,156,634,000
<b>DEPARTMENTAL RECEIPTS</b>	\$ 356,546,000.00	\$ 277,790,000	\$ 287,315,000	\$ 267,953,000	\$ 285,005,000
	\$ 356,546,000.00	\$ 277,790,000	\$ 287,315,000	\$ 267,953,000	\$ 285,005,000
<b>Total Taxes and Departmentals</b>	\$ 2,872,947,000	\$ 2,807,030,000	\$ 2,766,868,000	\$ 2,644,721,000	\$ 2,441,639,000
<b>OTHER SOURCES</b>					
Gas Tax Transfer	\$ 4,514,000	\$ 4,705,000	\$ 4,322,000	\$ 9,023,000	\$ 7,760,000
Other Miscellaneous	\$ 181,810,000	\$ 67,471,000	\$ 31,163,000	\$ 28,197,000	\$ 19,706,000
Lottery	\$ 354,321,000	\$ 320,990,000	\$ 323,899,000	\$ 307,550,000	\$ 281,142,000
Unclaimed Property	\$ 15,387,000	\$ 11,457,000	\$ 14,243,000	\$ 15,618,000	\$ 17,042,000
<b>Total Other Sources</b>	\$ 556,032,000	\$ 404,623,000	\$ 373,627,000	\$ 360,388,000	\$ 325,650,000
<b>Total General Revenues</b>	\$ 3,428,979,000	\$ 3,211,653,000	\$ 3,140,495,000	\$ 3,005,109,000	\$ 2,767,289,000
Restricted Revenue/Other	\$ 126,090,000	\$ 215,061,000	\$ 216,018,000	\$ 200,547,000	\$ 202,861,000
Federal Grants	\$ 1,740,283,000	\$ 1,629,715,000	\$ 1,713,287,000	\$ 1,655,563,000	\$ 1,664,496,000
	\$ 5,295,352,000	\$ 5,056,429,000	\$ 5,069,800,000	\$ 4,861,219,000	\$ 4,634,646,000



**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

	2008	2007	2006	2005	2004
General Government	\$626,052,000	\$633,893,000	\$318,675,000	\$329,197,000	\$297,662,000
Human Services	\$2,727,534,000	\$2,512,286,000	\$2,614,712,000	\$2,504,107,000	\$2,409,512,000
Education	\$1,289,124,000	\$1,267,255,000	\$263,735,000	\$255,762,000	\$71,990,000
Public Safety	\$410,605,000	\$396,029,000	\$361,567,000	\$328,824,000	\$311,642,000
Environment	\$72,982,000	\$81,518,000	\$69,538,000	\$62,338,000	\$57,916,000
Capital Outlay			\$35,479,000	\$33,105,000	\$27,696,000
Intergovernmental			\$1,186,887,000	\$1,121,818,000	\$1,046,510,000
Debt Service	\$160,555,000	\$141,350,000	\$125,081,000	\$125,141,000	\$119,040,000
<b>Total Expenditures</b>	<b>\$5,286,852,000</b>	<b>\$5,032,331,000</b>	<b>\$4,975,674,000</b>	<b>\$4,760,292,000</b>	<b>\$4,341,968,000</b>



**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](http://controller.admin.ri.gov/FinancialReports/index.php)

**Note:** For 2007-2008, 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--for 2007 and 2008 it is included in the Education line)

## SHORT TERM CASH AND INVESTMENTS

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

**Investment Purchase Analysis - By Fund FY08**

<u>Fund</u>	<u>Type</u>	<u>Quantity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>W. Avg Rate</u>	<u>W. Avg Duration</u>
GENERAL FUND	CD	6	\$ 90,500,000.00	\$ 42,118.06	\$ 90,542,118.06	2.24	7.55
	CP	204	\$ 2,997,243,392.03	\$ 546,607.97	\$ 2,997,790,000.00	4.23	1.55
	DISCOUNT NOTE	48	\$ 848,008,112.29	\$ 291,887.71	\$ 848,300,000.00	2.87	4.32
	MMF	117	\$ 1,378,632,648.19	\$ 2,032,648.19	\$ 1,380,665,296.38	3.97	
	PIP OR COD	24	\$ 187,322,929.40	\$ 322,929.40	\$ 187,645,858.80	3.35	
	REPO	2	\$ 79,300,000.00	\$ 48,186.66	\$ 79,348,186.66	2.10	10.39
		<b>401</b>	<b>\$ 5,581,007,081.91</b>	<b>\$ 3,284,377.99</b>	<b>\$ 5,584,291,459.90</b>	<b>3.92</b>	<b>2.44</b>
PENSION C	CP	227	\$ 137,097,898.27	\$ 19,101.73	\$ 137,117,000.00	3.45	1.45
	DISCOUNT NOTE	26	\$ 34,491,636.34	\$ 8,363.66	\$ 34,500,000.00	3.80	2.30
		<b>253</b>	<b>\$ 171,589,534.61</b>	<b>\$ 27,465.39</b>	<b>\$ 171,617,000.00</b>	<b>3.52</b>	<b>1.62</b>
PAYROLL A	CP	224	\$ 191,100,645.19	\$ 33,354.81	\$ 191,134,000.00	3.54	1.77
	DISCOUNT NOTE	23	\$ 21,814,242.45	\$ 5,757.55	\$ 21,820,000.00	4.34	2.19
		<b>247</b>	<b>\$ 212,914,887.64</b>	<b>\$ 39,112.36</b>	<b>\$ 212,954,000.00</b>	<b>3.62</b>	<b>1.81</b>
H.A.V.A	MMF	12	\$ 24,225.70	\$ 24,225.70	\$ 48,451.40	3.79	
	PIP OR COD	12	\$ 14,416.23	\$ 14,416.23	\$ 28,832.46	3.80	
		<b>24</b>	<b>\$ 38,641.93</b>	<b>\$ 38,641.93</b>	<b>\$ 77,283.86</b>	<b>3.79</b>	
RICAP GL FUND 21	CP	20	\$ 43,964,655.61	\$ 35,344.39	\$ 44,000,000.00	4.66	6.21
	DISCOUNT NOTE	8	\$ 14,990,121.97	\$ 9,878.03	\$ 15,000,000.00	4.14	5.72
	PIP OR COD	12	\$ 13,991,347.94	\$ 91,347.94	\$ 14,082,695.88	3.77	
		<b>40</b>	<b>\$ 72,946,126</b>	<b>\$ 136,570</b>	<b>\$ 73,082,696</b>	<b>4.38</b>	<b>6.10</b>
GENERAL FUND (HIST PRES)	CD	8	\$ 4,146,345.75	\$ 21,050.61	\$ 4,167,396.36	3.18	57.38
		<b>8</b>	<b>\$ 4,146,346</b>	<b>\$ 21,051</b>	<b>\$ 4,167,396</b>	<b>3.18</b>	<b>57.38</b>
HEALTH INSURANCE FUND	CD	8	\$ 33,514,723.48	\$ 66,044.64	\$ 33,580,768.12	5.22	13.59
	CP	60	\$ 312,759,614.96	\$ 240,385.04	\$ 313,000,000.00	4.01	6.89
	DISCOUNT NOTE	28	\$ 138,508,914.08	\$ 91,085.92	\$ 138,600,000.00	3.26	7.26
	PIP OR COD	17	\$ 31,118,738.93	\$ 218,738.93	\$ 31,337,477.86	4.30	
		<b>113</b>	<b>\$ 515,901,991</b>	<b>\$ 616,255</b>	<b>\$ 516,518,246</b>	<b>3.90</b>	<b>8.09</b>
HIGHWAY FUND	CD	6	\$ 17,600,000.00	\$ 10,224.85	\$ 17,610,224.85	2.99	7.00
	CP	176	\$ 747,663,772.73	\$ 136,227.27	\$ 747,800,000.00	3.90	1.68
	DISCOUNT NOTE	27	\$ 122,869,900.86	\$ 30,099.14	\$ 122,900,000.00	4.28	2.06
	MMF	20	\$ 16,195,873.35	\$ 195,873.35	\$ 16,391,746.70	3.23	
	PIP OR COD	30	\$ 132,724,299.89	\$ 424,299.89	\$ 133,148,599.78	3.90	
		<b>259</b>	<b>\$ 1,037,053,847</b>	<b>\$ 796,725</b>	<b>\$ 1,037,850,571</b>	<b>3.92</b>	<b>2.05</b>
UNIVERSITY COLLEGE	CP	172	\$ 364,670,678.19	\$ 79,321.81	\$ 364,750,000.00	4.13	1.89
	DISCOUNT NOTE	17	\$ 45,688,435.68	\$ 11,564.32	\$ 45,700,000.00	4.50	2.02
	PIP OR COD	17	\$ 16,635,420.34	\$ 135,420.34	\$ 16,770,840.68	4.53	
	REPO	1	\$ 400,000.00	\$ 21.11	\$ 400,021.11	1.90	1.00
		<b>207</b>	<b>\$ 427,394,534</b>	<b>\$ 226,328</b>	<b>\$ 427,620,862</b>	<b>4.15</b>	<b>1.90</b>

**Source Data:** This data was pulled from the State's investment software system: si50. This spreadsheet discloses the Investment **Purchase** activity for FY08 stratified by Fund and by Type of Investment Instrument.

**\*\* Please note that MM and PIP investments are not included in Average Maturity calculations as they do not have a fixed duration.**

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

**Investment Purchase Analysis - By Fund FY08**

<u>Fund</u>	<u>Type</u>	<u>Quantity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>W. Avg Rate</u>	<u>W. Avg Duration</u>
T.D.I. RESERVE (DET)	CD	20	\$ 130,042,201.18	\$ 189,847.46	\$ 130,232,048.64	3.19	16.46
	CP	220	\$ 620,490,606.30	\$ 159,393.70	\$ 620,650,000.00	3.78	2.45
	DISCOUNT NOTE	41	\$ 126,868,802.32	\$ 131,197.68	\$ 127,000,000.00	3.84	9.70
	MMF	47	\$ 161,661,269.01	\$ 3,261,269.01	\$ 164,922,538.02	3.91	
	PIP OR COD	12	\$ 193,084.04	\$ 193,084.04	\$ 386,168.08	4.08	
		<b>340</b>	<b>1,039,255,963</b>	<b>3,934,792</b>	<b>1,043,190,755</b>	<b>3.73</b>	<b>9.97</b>
PERMANENT SCHOOL FUND	CD	24	\$ 18,626,836.60	\$ 27,693.54	\$ 18,654,530.14	3.65	14.64
	PIP OR COD	4	\$ 503,235.23	\$ 3,235.23	\$ 506,470.46	2.12	
		<b>28</b>	<b>19,130,071.83</b>	<b>30,928.77</b>	<b>19,161,000.60</b>	<b>3.61</b>	<b>14.64</b>
EMPLOYEES RETIREMENT	CD	63	\$ 187,900,000.00	\$ 295,178.97	\$ 188,195,178.97	3.47	16.31
	CP	41	\$ 157,402,992.19	\$ 197,007.81	\$ 157,600,000.00	4.66	9.67
	DISCOUNT NOTE	14	\$ 59,910,942.93	\$ 89,057.07	\$ 60,000,000.00	3.38	15.85
	PIP OR COD	70	\$ 166,570,078.12	\$ 370,078.12	\$ 166,940,156.24	3.60	
		<b>188</b>	<b>571,784,013</b>	<b>951,322</b>	<b>572,735,335</b>	<b>3.83</b>	<b>13.99</b>
MUNICIPAL EMPLOYEES RETIREMENT	CD	47	\$ 20,840,000.00	\$ 30,436.28	\$ 20,870,436.28	3.22	16.35
	CP	20	\$ 9,497,898.80	\$ 7,101.20	\$ 9,505,000.00	4.52	5.95
	DISCOUNT NOTE	7	\$ 4,970,312.08	\$ 9,687.92	\$ 4,980,000.00	4.14	16.96
	PIP OR COD	59	\$ 23,958,334.15	\$ 58,334.15	\$ 24,016,668.30	3.27	
		<b>133</b>	<b>59,266,545</b>	<b>105,560</b>	<b>59,372,105</b>	<b>3.53</b>	<b>14.91</b>
R.I. CLEAN WATER ACT	PIP OR COD	14	\$ 1,981,866.66	\$ 81,866.66	\$ 2,063,733.32	4.34	
		<b>14</b>	<b>1,981,867</b>	<b>81,867</b>	<b>2,063,733</b>	<b>4.34</b>	
BOND CAPITAL FUND	CD	1	\$ 8,200,000.00	\$ 7,573.61	\$ 8,207,573.61	4.75	7.00
	CP	48	\$ 121,239,959.96	\$ 10,040.04	\$ 121,250,000.00	2.20	1.35
	DISCOUNT NOTE	2	\$ 4,999,733.05	\$ 266.95	\$ 5,000,000.00	1.92	1.00
	PIP OR COD	30	\$ 62,289,977.60	\$ 139,977.60	\$ 62,429,955.20	4.11	
		<b>81</b>	<b>196,729,671</b>	<b>157,858</b>	<b>196,887,529</b>	<b>2.90</b>	<b>3.74</b>
STATE LOTTERY FUND	CD	15	\$ 74,526,745.84	\$ 137,377.52	\$ 74,664,123.36	4.95	13.40
	CP	243	\$ 1,176,719,135.80	\$ 280,864.20	\$ 1,177,000,000.00	3.88	2.21
	DISCOUNT NOTE	38	\$ 209,872,751.31	\$ 127,248.69	\$ 210,000,000.00	2.66	8.22
	MMF	18	\$ 60,141,035.76	\$ 541,035.76	\$ 60,682,071.52	4.34	
	PIP OR COD	14	\$ 6,201,189.05	\$ 301,189.05	\$ 6,502,378.10	4.14	
		<b>328</b>	<b>1,527,460,858</b>	<b>1,387,715</b>	<b>1,528,848,573</b>	<b>3.78</b>	<b>6.43</b>
INDUS. BLDG. & MTG. INS.	PIP OR COD	13	\$ 775,008.77	\$ 75,008.77	\$ 850,017.54	3.69	
		<b>13</b>	<b>775,009</b>	<b>75,009</b>	<b>850,018</b>	<b>3.69</b>	
<b>TOTAL SHORT TERM INVESTMENT ACTIVITY</b>		<b>2,677</b>	<b>\$ 11,439,376,986.60</b>	<b>\$ 11,911,576.28</b>	<b>\$ 11,451,288,562.88</b>	<b>3.83</b>	<b>3.69</b>



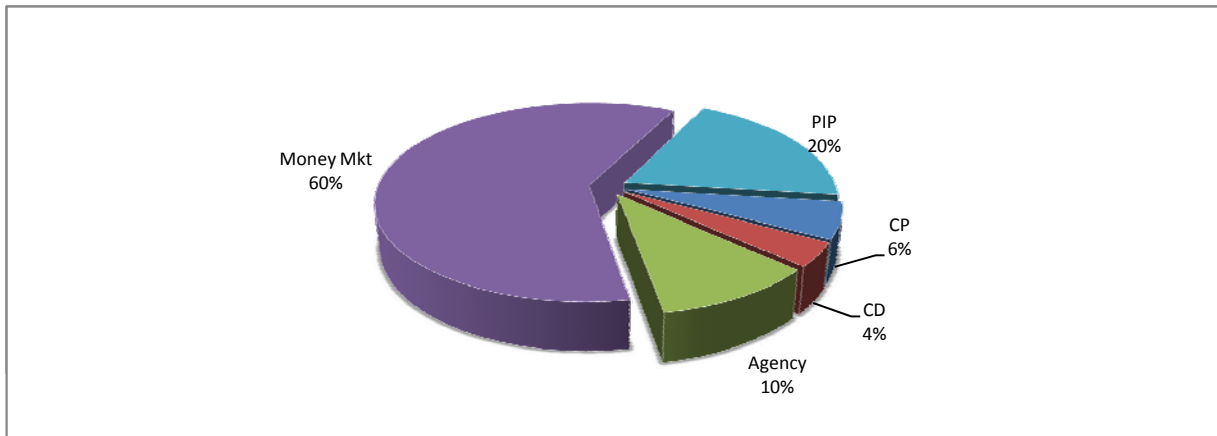
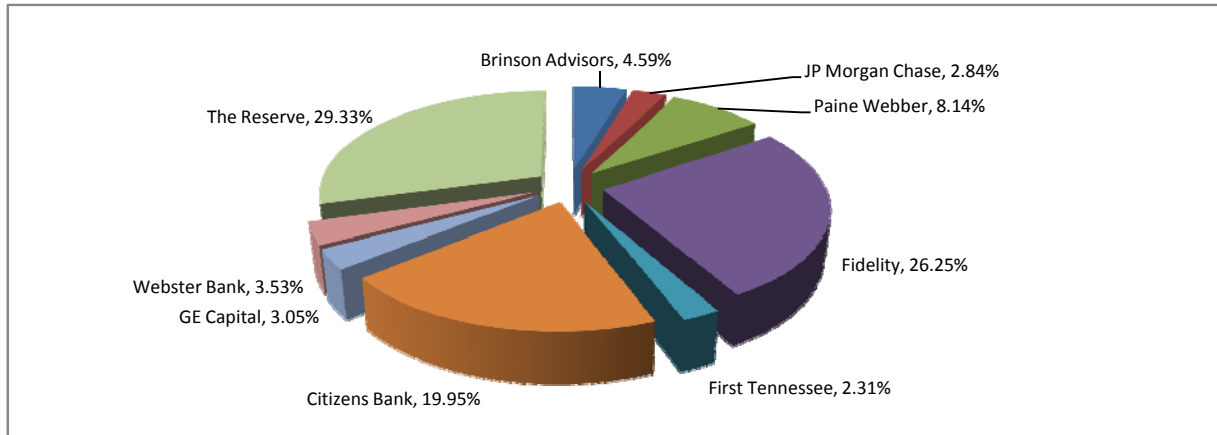
**State of Rhode Island  
Office of the General Treasurer  
Cash Management - Short-Term Investments**

**Investment Purchase Analysis - By Fund FY08**

<u>Fund</u>	<u>Type</u>	<u>Quantity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>W. Avg Rate</u>	<u>W. Avg Duration</u>
<b>SWEEP INVESTMENTS</b>							
Employees Retirement	SWEEP REPO		\$ 138,001,248.41	\$ 15,650.18	\$ 138,016,898.59	2.80	
RI Clean Water			\$ 73,444,697.24	\$ 7,750.08	\$ 73,452,447.32	2.60	
Permanent School			\$ -	\$ -	\$ -		
Industrial Facilities			\$ -	\$ -	\$ -		
Municipal Employees Retirement			\$ 59,211,124.89	\$ 6,820.89	\$ 59,217,945.78	2.80	
Judicial Retirement			\$ 28,432,890.90	\$ 3,228.68	\$ 28,436,119.58	2.58	
State Police Retirement			\$ 48,719,958.33	\$ 5,567.89	\$ 48,725,526.22	2.57	
Auto Equipment			\$ 110,175,063.11	\$ 11,301.73	\$ 110,186,364.84	2.57	
Correctional Industries			\$ 490,878,188.99	\$ 58,500.86	\$ 490,936,689.85	2.94	
Bond Capital			\$ 52,831,434.87	\$ 6,422.28	\$ 52,837,857.15	2.77	
ISTEA			\$ 252,715,448.87	\$ 30,185.85	\$ 252,745,634.72	2.79	
Child Support			\$ 1,405,615,087.76	\$ 152,566.16	\$ 1,405,767,653.92	2.65	
Tax Refund			\$ 501,931,853.56	\$ 39,327.85	\$ 501,971,181.41	1.82	
Merchant Std			\$ 845,016,501.56	\$ 99,493.66	\$ 845,115,995.22	2.91	
Rite Care			\$ 104,216,453.44	\$ 11,785.82	\$ 104,228,239.26	2.79	
Disbursement Account			\$ 6,358,625,621.55	\$ 659,727.53	\$ 6,359,285,349.08	2.56	
<b>Total Sweep Investment</b>			<b>\$ 10,469,815,573.48</b>	<b>\$ 1,108,329.46</b>	<b>\$ 10,470,923,902.94</b>	<b>2.65</b>	
<b>TOTAL BY VEHICLE</b>							
	CD	198	\$ 585,896,852.85	\$ 827,545.54	\$ 586,724,398.39	3.50	14.29
	CP	1,655	\$ 6,879,851,250.03	\$ 1,744,749.97	\$ 6,881,596,000.00	4.02	2.24
	DISCOUNT NOTE	279	\$ 1,632,993,905.36	\$ 806,094.64	\$ 1,633,800,000.00	3.17	5.65
	MMF	214	\$ 1,616,655,052.01	\$ 6,055,052.01	\$ 1,622,710,104.02	3.97	-
	PIP OR COD	328	\$ 644,279,926.35	\$ 2,429,926.35	\$ 646,709,852.70	3.69	-
	REPO	3	\$ 79,700,000.00	\$ 48,207.77	\$ 79,748,207.77	2.10	10.34
	SWEEP		\$ 10,469,815,573.48	\$ 1,108,329.46	\$ 10,470,923,902.94	2.65	
	<b>TOTAL</b>	<b>2,677</b>	<b>\$ 21,909,192,560.08</b>	<b>\$ 13,019,905.74</b>	<b>\$ 21,922,212,465.82</b>	<b>3.27</b>	<b>3.69</b>

# SHORT TERM CASH INVESTMENTS

As of 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%
<b>TOTALS</b>	<b>16,799,064</b>	<b>11,126,722</b>	<b>29,794,785</b>	<b>171,582,697</b>	<b>55,747,752</b>	<b>0</b>	<b>285,051,020</b>
<b>(%) PORTFOLIO</b>	<b>5.89%</b>	<b>3.90%</b>	<b>10.45%</b>	<b>60.19%</b>	<b>19.56%</b>	<b>0.00%</b>	<b>100.00%</b>

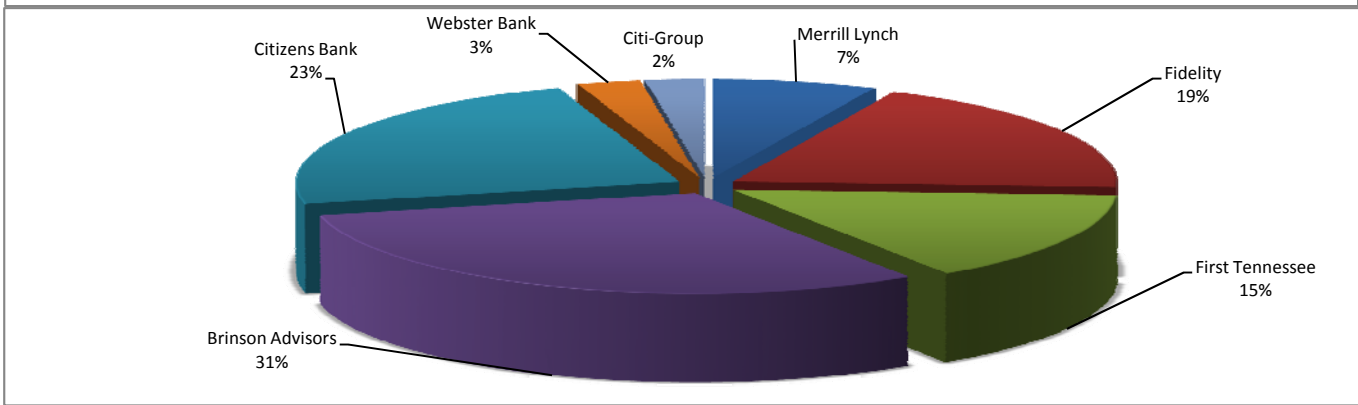
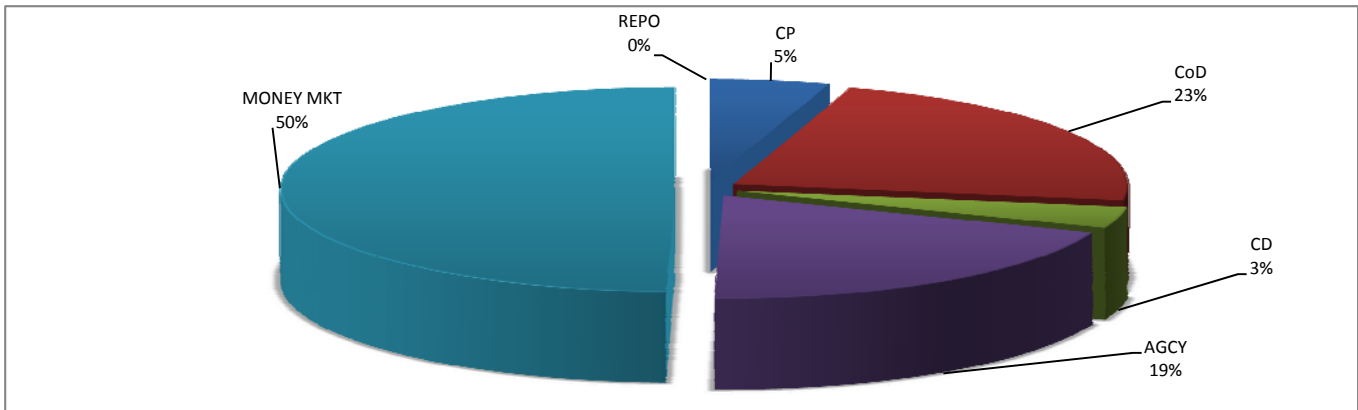
Note: PIP + CD must be under 75%.

Actual PIP + CD: 23.46%

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

# SHORT TERM CASH INVESTMENTS

As of June 30, 2007

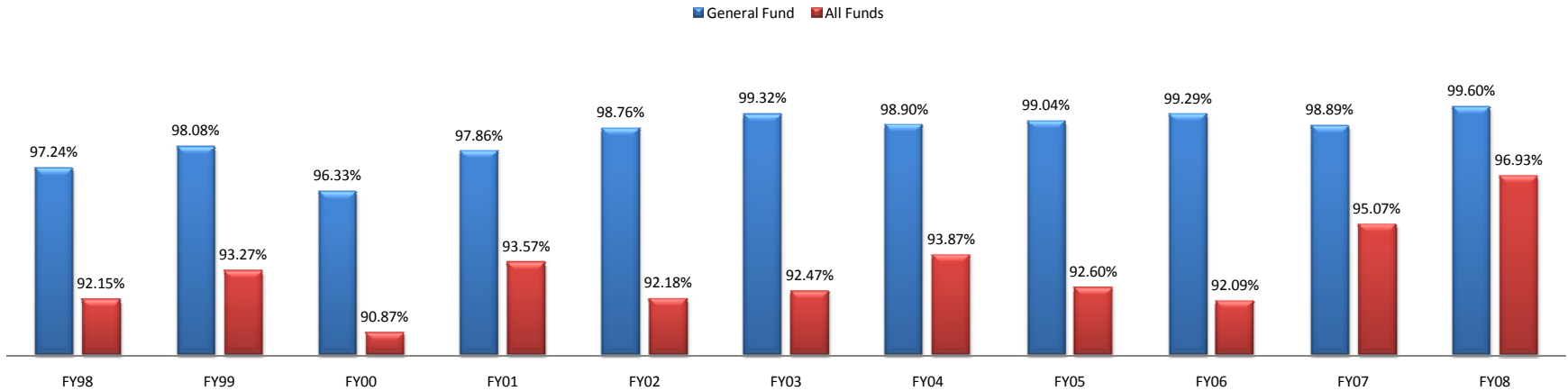


REPO = Repurchase Agreement  
 CP = Commercial Paper  
 CD = Certificate of Deposit  
 CoD = Collateralized Deposit  
 Agency = US Government Agency

Vendor	CP	CD	Agency	Money Mkt	PIP	Repo	Total (\$)
Guidelines-Total/Vendor	25%/10%	25%/10%	75%/35%	75%/35%	25%/25%	100%/20%	
Merrill Lynch	6,996,891	0	13,794,480	0	0	0	20,791,371
	2%	0%	5%	0%	0%	0%	6.94%
Dean Witter	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0.00%
Chase Securities	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0.00%
Paine Webber	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0.00%
Fidelity	0	0	0	56,771,542	0	0	56,771,542
	0%	0%	0%	19%	0%	0%	18.94%
First Tennessee	0	0	44,481,500	0	0	0	44,481,500
	0%	0%	15%	0%	0%	0%	14.84%
Brinson Advisors	0	0	0	91,973,052	0	0	91,973,052
	0%	0%	0%	31%	0%	0%	30.69%
Citizens Bank	0	2,263,335	0	0	67,951,254	0	70,214,589
	0%	1%	0%	0%	23%	0%	23.43%
GE Capital	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0.00%
Webster Bank	0	8,000,000	0	0	0	0	8,000,000
	0%	3%	0%	0%	0%	0%	2.67%
Citi-Group	7,496,669	0	0	0	0	0	7,496,669
	3%	0%	0%	0%	0%	0%	2.50%
State St Bank	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0.00%
The Reserve	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0.00%
<b>TOTALS</b>	<b>14,493,560</b>	<b>10,263,335</b>	<b>58,275,980</b>	<b>148,744,594</b>	<b>67,951,254</b>	<b>0</b>	<b>299,728,722</b>
<b>(%) PORTFOLIO</b>	<b>5%</b>	<b>3%</b>	<b>19%</b>	<b>50%</b>	<b>23%</b>	<b>0%</b>	<b>100.00%</b>

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

### State of Rhode Island Short Term Investments - % Cash Invested FY 2008



**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).

**Commentary:** The ratio of General Fund Cash Invested and All Funds Cash Invested for FY08 reached their highest level in the past decade. The gap in performance between the General Fund ratio vs. the All Funds ratio is largely the result of statutory prohibitions on the investment of certain funds. For example, certain allocations of Federal funds are prohibited from being invested by Cash Management. Therefore, All Funds Cash Invested cannot be regarded as a performance metric, but is presented only for illustrative purposes.

State of Rhode Island  
Office of the General Treasurer  
Short Term Investments Portfolio by Fund  
As of June 30, 2008

	Investment		Total Value @ Maturity
	Principal*	Cash Balance	
GENERAL FUND	\$ 111,758,949	\$ 37,483,822	\$ 149,245,647
PENSION C	\$ 2,999,823	\$ 442,345	\$ 3,442,345
PAYROLL A	\$ 1,299,923	\$ 193,157	\$ 1,493,157
GENERAL FUND H.A.V.A.	\$ 532,959	\$ -	\$ 532,959
GENERAL FUND (HIST PRES)	\$ 526,722	\$ -	\$ 528,452
HEALTH INSURANCE FUND	\$ 9,278,343	\$ 5,097,164	\$ 14,377,542
HIGHWAY FUND	\$ 31,027,231	\$ 10,097	\$ 31,038,017
UNIVERSITY COLLEGE	\$ 530,926	\$ 228,354	\$ 759,300
PROV. RIVER RELOCATION	\$ -	\$ -	\$ -
AUTO EQUIPMENT SERVICE	\$ 25,137	\$ 292,254	\$ 317,391
T.D.I. RESERVE (DET)	\$ 95,119,075	\$ 192,319	\$ 95,338,237
E.T. CLEARANCE	\$ -	\$ 178,455	\$ 178,455
PERMANENT SCHOOL FUND	\$ 502,367	\$ 517,201	\$ 1,019,567
EMP RETIREMENT FUND	\$ 1,078,203	\$ 55,405	\$ 1,133,608
MUN EMP RETIREMENT FUND	\$ 1,915,707	\$ 188,723	\$ 2,104,430
INTERNAL SERVICE FUNDS		\$ 5,854,027	
TAX REFUND	\$ -	\$ 3,925,295	\$ 3,925,295
CHILD SUPPORT	\$ -	\$ 281,306	\$ 281,306
JUDICIAL RETIREMENT	\$ -	\$ 141,454	\$ 141,454
STATE POLICE RETIREMENT	\$ -	\$ 339,378	\$ 339,378
RICAP	\$ 10,854,588	\$ -	\$ 10,854,892
CORRECTIONAL INDUSTRIES	\$ -	\$ 171,384	\$ 171,384
MERCHANT STD DEPOSIT ACCT	\$ -	\$ 53,968	\$ 53,968
RITE SHARE	\$ -	\$ 1,237	\$ 1,237
STATE OF RI PARKING COMPANY	\$ -	\$ -	\$ -
RI PUBLIC TELECOMM. AUTH	\$ -	\$ 17,047	\$ 17,047
EMPLOYMENT SECURITY BENEFIT	\$ -	\$ 2,741,979	\$ 2,741,979
RECORD CENTER	\$ -	\$ 421,964	\$ 421,964
DEM (Recreation)	\$ -	\$ -	\$ -
PENSION DIRECT DEPOSIT	\$ -	\$ -	\$ -
SUPPORT SERVICES PAYROLL	\$ -	\$ -	\$ -
DEPARTMENT OF HUMAN SERVICES PAYROLL	\$ -	\$ -	\$ -
GPA	\$ -	\$ -	\$ -
SPECIAL PAYROLL	\$ -	\$ -	\$ -
COMBINED TAX ACCOUNT	\$ -	\$ -	\$ -
WORKERS COMPENSATION	\$ -	\$ 2,342,836	\$ 2,342,836
DBR REAL ESTATE ESCROW ACCT	\$ -	\$ -	\$ -
R.I. CLEAN WATER ACT	\$ 921,644	\$ 393,573	\$ 1,315,217
BOND CAPITAL FUND	\$ 2,000,312	\$ 1,085,300	\$ 3,085,730
R.I. HIGHER EDUCATION	\$ -	\$ 160,310	\$ 160,310
STATE LOTTERY FUND	\$ 12,592,308	\$ 203,621	\$ 12,795,929
INDUS. BLDG. & MTG. INS.	\$ 2,086,803	\$ 424,487	\$ 2,511,290
TOBACCO SETTLEMENT	\$ -	\$ -	\$ -
<b>Subtotal</b>	<b>\$ 285,051,020</b>	<b>\$ 63,438,462</b>	<b>\$ 348,489,482</b>

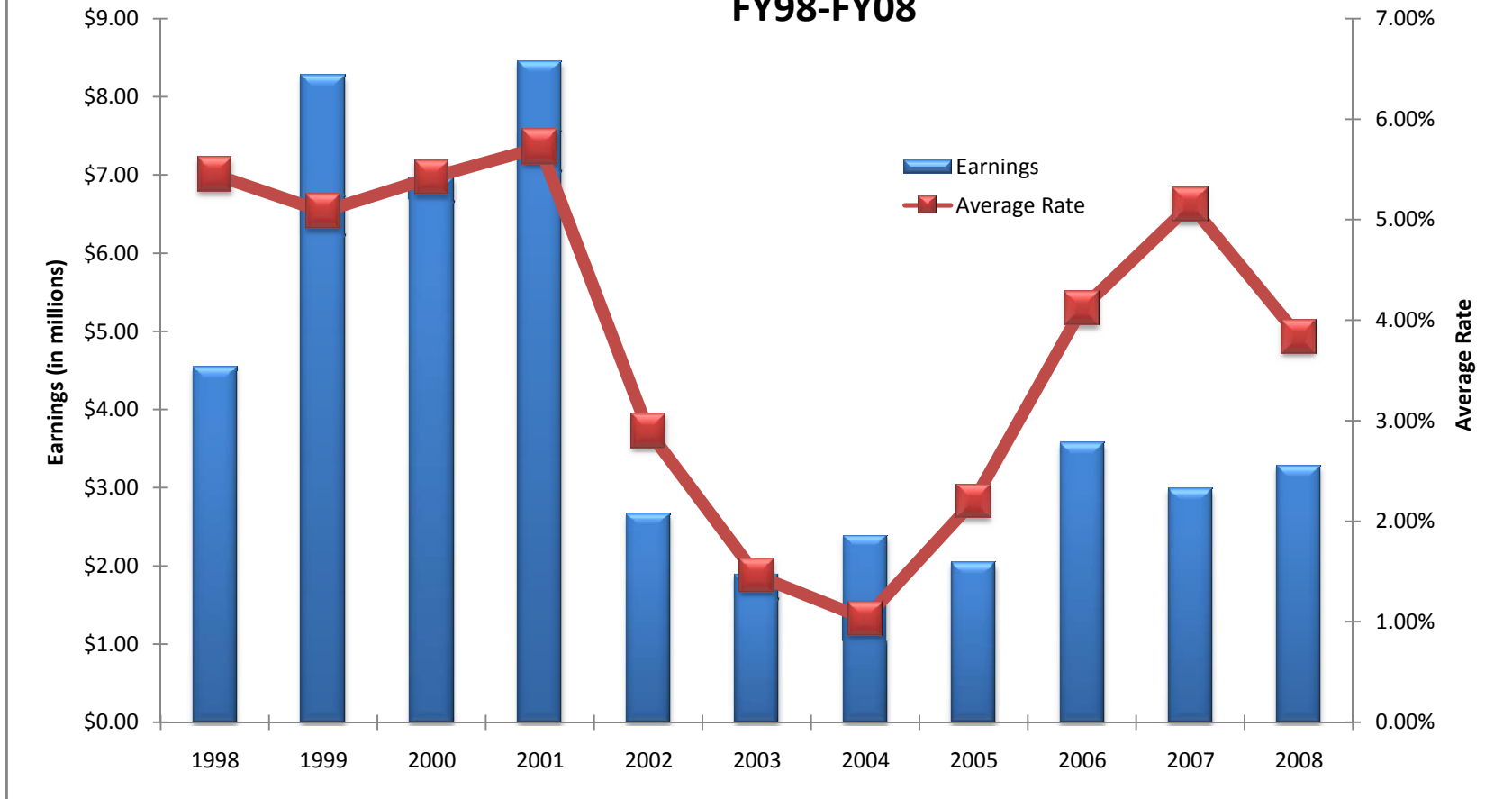
\* Includes Sweep Investment Balance on June 30, 2008

Source Data: Investment Principal and Sweeps are sourced from the State Investment System: si50 and the Citizens Bank GPS system, respectively. The Cash Balance information is sourced from Account Reconciliation data from the Treasury's business office.

State of Rhode Island  
Office of the General Treasurer  
Short Term Investments Portfolio by Fund  
As of June 30, 2008

	Investment		Total Value @ Maturity
	Principal*	Cash Balance	
G.O. NOTE 1991 SER. B	\$ 3,791	\$ -	\$ 3,791
BOND CCDL 1994 SERIES A	\$ 174,124	\$ -	\$ 174,124
BOND CCBL96A	\$ 618,191	\$ -	\$ 618,191
CAP DEV OF 1997 SERIES A	\$ 345	\$ -	\$ 345
CCDL 1998B	\$ 1,753,128	\$ -	\$ 1,753,128
MMG099 1999	\$ 2,845	\$ -	\$ 2,845
BOND CAPITAL CCDL2000A	\$ 1,037,741	\$ -	\$ 1,037,741
MULTI-MODAL GEN OBL 2000	\$ 2,817	\$ -	\$ 2,817
CCDL 2004 SERIES A	\$ 9,547,251	\$ -	\$ 9,547,251
BOND CCDL 2005 SERIES C	\$ 16,036,520	\$ -	\$ 16,036,520
BOND CCDL 2005 SERIES E	\$ 2,424,884	\$ -	\$ 2,424,884
BOND CCDL 2006 SERIES B	\$ 22,639	\$ -	\$ 22,639
BOND CCDL 2006 SERIES C	\$ 27,946,480	\$ -	\$ 27,946,480
GO BND-NTAX 2007 SERIES A	\$ 39,735,632	\$ -	\$ 39,735,632
GO BND-TAX 2007 SERIES B	\$ 4,051,066	\$ -	\$ 4,051,066
CLEAN WATER CCDL 1998B	\$ 45,777	\$ -	\$ 45,777
CLEAN WATER CCDL 1994 (A)	\$ 6,057	\$ -	\$ 6,057
CAP DEV. OF 1997 SERIES A	\$ 19,349	\$ -	\$ 19,349
CLEAN WATER CCDL 2002 B	\$ 87,440	\$ -	\$ 87,440
CLEAN WATER 2004 SERIES A	\$ 695,571	\$ -	\$ 695,571
CLN WATER CCDL 2005 SER E	\$ 535,881	\$ -	\$ 535,881
CAP DEV. OF 1997 SERIES A	\$ 7,048	\$ -	\$ 7,048
RI POLLUT. CONT 94 SER. A	\$ 6,333	\$ -	\$ 6,333
CCDL99A 1999A	\$ 328,037	\$ -	\$ 328,037
POL. CTRL CCDL 2006 SER C	\$ 232,895	\$ -	\$ 232,895
CLEAN WATER 2007 SERIES A	\$ 500,718	\$ -	\$ 500,718
<b>Subtotal Bond Proceed Accounts</b>	<b>\$ 105,822,560</b>	<b>\$ -</b>	<b>\$ 105,822,560</b>
<b>Total Short Term Portfolio</b>	<b>\$ 390,873,580</b>	<b>\$ 63,438,462</b>	<b>\$ 454,312,042</b>

## State of Rhode Island General Fund Investment Earnings FY98-FY08



**Source Data:** Investment Earnings information and Average Rate information are obtained from the State Investment Software: si50. The Average Rate is the Weighted Average interest rate for an entire fiscal year's short-term investments.

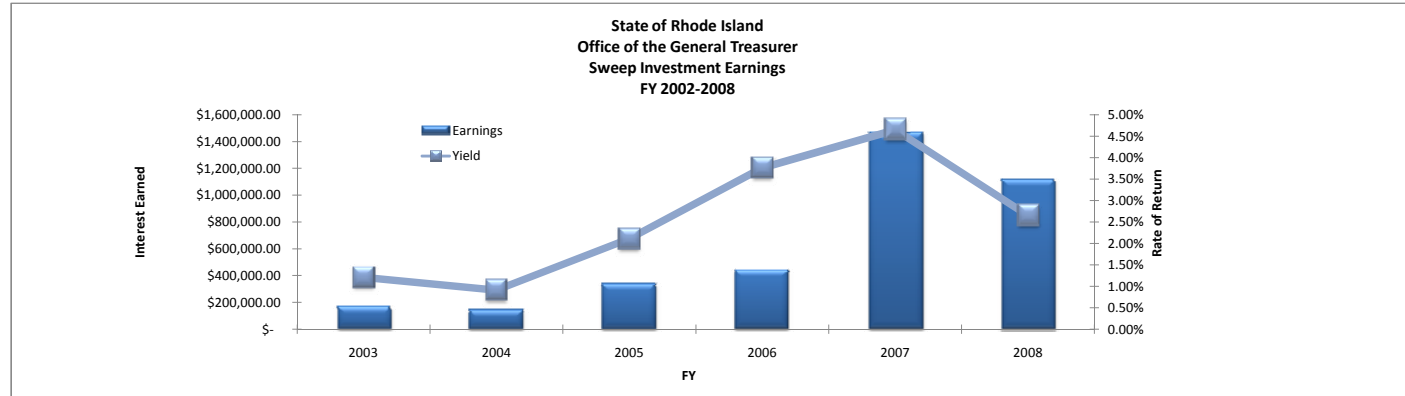
State of Rhode Island  
Office of the General Treasurer  
Sweep Earnings FY2003-2008

Sweep Investments

	2003 Sweep Investments				2004 Sweep Investments				2005 Sweep Investments			
	Principal	Interest	Total	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total	Rate
Employees Retirement	\$ 91,557,590	\$ 4,679	\$ 91,562,270	1.21	\$ 130,810,741	\$ 4,897	\$ 130,815,638	0.91	\$ 210,357,872	\$ 16,369	\$ 210,374,242	2.11
RI Clean Water	\$ 49,855,400	\$ 2,745	\$ 49,858,145	1.21	\$ 58,888,102	\$ 2,080	\$ 58,890,182	0.91	\$ 78,458,511	\$ 7,214	\$ 78,465,726	2.11
Permanent School	\$ 41,418,305	\$ 2,049	\$ 41,420,354	1.21	\$ 51,343,657	\$ 1,896	\$ 51,345,554	0.91	\$ 59,911,135	\$ 4,923	\$ 59,916,058	2.11
Industrial Facilities	\$ 46,912,741	\$ 2,341	\$ 46,915,082	1.21	\$ 58,155,491	\$ 2,114	\$ 58,157,605	0.91	\$ 66,076,627	\$ 5,700	\$ 66,082,327	2.11
Municipal Employees Retirement	\$ 55,815,309	\$ 2,758	\$ 55,818,067	1.21	\$ 67,065,941	\$ 2,486	\$ 67,068,427	0.91	\$ 88,472,895	\$ 7,305	\$ 88,480,200	2.11
Judicial Retirement	\$ 20,270,109	\$ 1,044	\$ 20,271,153	1.21	\$ 25,339,221	\$ 1,009	\$ 25,340,230	0.91	\$ 26,489,562	\$ 2,374	\$ 26,491,937	2.11
State Police Retirement	\$ 37,456,417	\$ 2,004	\$ 37,458,421	1.21	\$ 32,697,541	\$ 1,303	\$ 32,698,844	0.91	\$ 36,177,087	\$ 3,270	\$ 36,180,357	2.11
Auto Equipment	\$ 228,310,061	\$ 11,463	\$ 228,321,524	1.21	\$ 131,631,647	\$ 4,894	\$ 131,636,541	0.91	\$ 150,309,354	\$ 12,605	\$ 150,321,959	2.11
Correctional Industries	\$ 84,189,220	\$ 4,753	\$ 84,193,973	1.21	\$ 265,469,626	\$ 9,644	\$ 265,479,270	0.91	\$ 243,958,871	\$ 21,851	\$ 243,980,722	2.11
Bond Capital	\$ 166,726,547	\$ 8,191	\$ 166,734,738	1.21	\$ 141,499,173	\$ 5,280	\$ 141,504,453	0.91	\$ 98,874,952	\$ 7,767	\$ 98,882,719	2.11
ISTEA	\$ 363,696,694	\$ 18,040	\$ 363,714,734	1.21	\$ 401,260,949	\$ 13,038	\$ 401,273,987	0.91	\$ 469,243,937	\$ 36,383	\$ 469,280,320	2.11
Child Support	\$ 1,445,264,761	\$ 72,075	\$ 1,445,336,836	1.21	\$ 1,619,935,173	\$ 59,766	\$ 1,619,994,940	0.91	\$ 1,159,309,353	\$ 96,911	\$ 1,159,406,265	2.11
Tax Refund	\$ 540,718,977	\$ 26,087	\$ 540,745,064	1.21	\$ 595,130,631	\$ 22,559	\$ 595,153,190	0.91	\$ 528,689,344	\$ 46,968	\$ 528,736,312	2.11
Merchant Std	\$ 5,081,246	\$ 198	\$ 5,081,444	1.21	\$ 72,713,949	\$ 2,796	\$ 72,716,745	0.91	\$ 713,071,757	\$ 59,831	\$ 713,131,587	2.11
Rite Care	\$ 119,688,414	\$ 5,804	\$ 119,694,218	1.21	\$ 277,927,183	\$ 10,654	\$ 277,937,838	0.91	\$ 151,850,089	\$ 11,625	\$ 151,861,714	2.11
Disbursement Account***												
<b>Total Sweep Investment</b>	<b>\$ 3,296,961,790</b>	<b>\$ 164,231</b>	<b>\$ 3,297,126,022</b>	<b>1.21</b>	<b>\$ 3,799,058,283</b>	<b>\$ 139,521</b>	<b>\$ 3,930,013,443</b>	<b>0.91</b>	<b>\$ 4,081,251,347</b>	<b>\$ 341,097</b>	<b>\$ 4,081,592,445</b>	<b>2.11</b>

Sweep Investments

	2006 Sweep Investments				2007 Sweep Investments				2008 Sweep Investments			
	Principal	Interest	Total	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total	Rate
Employees Retirement	\$ 109,047,169	\$ 15,758	\$ 109,062,927	3.76	\$ 238,999,846	\$ 47,178	\$ 239,047,023	4.65	\$ 138,001,248	\$ 15,650	\$ 138,016,899	2.80%
RI Clean Water	\$ 62,692,857	\$ 9,501	\$ 62,692,358	3.76	\$ 114,691,303	\$ 21,346	\$ 114,712,649	4.65	\$ 73,444,697	\$ 7,750	\$ 73,452,447	2.60%
Permanent School	\$ 41,777,871	\$ 6,140	\$ 41,784,011	3.76	\$ 100,872,806	\$ 25,331	\$ 100,898,138	4.65	\$ -	\$ -	\$ -	-
Industrial Facilities	\$ 69,935,214	\$ 10,253	\$ 69,945,467	3.76	\$ 151,843,668	\$ 39,304	\$ 151,882,972	4.65	\$ -	\$ -	\$ -	-
Municipal Employees Retirement	\$ 64,978,524	\$ 9,635	\$ 64,988,159	3.76	\$ 127,691,932	\$ 15,457	\$ 127,707,389	4.65	\$ 59,211,125	\$ 6,821	\$ 59,217,946	2.80%
Judicial Retirement	\$ 23,427,624	\$ 3,658	\$ 23,431,282	3.76	\$ 45,409,088	\$ 8,874	\$ 45,417,962	4.65	\$ 28,432,891	\$ 3,229	\$ 28,436,120	2.58%
State Police Retirement	\$ 31,935,125	\$ 4,976	\$ 31,940,100	3.76	\$ 71,935,541	\$ 14,101	\$ 71,949,641	4.65	\$ 48,719,958	\$ 5,568	\$ 48,725,526	2.57%
Auto Equipment	\$ 94,512,688	\$ 13,749	\$ 94,526,437	3.76	\$ 169,937,529	\$ 31,188	\$ 169,968,717	4.65	\$ 110,175,063	\$ 11,302	\$ 110,186,365	2.57%
Correctional Industries	\$ 261,866,939	\$ 37,432	\$ 261,904,371	3.76	\$ 706,853,026	\$ 133,643	\$ 706,986,669	4.65	\$ 490,878,189	\$ 58,501	\$ 490,936,690	2.94%
Bond Capital	\$ 114,614,985	\$ 15,415	\$ 114,630,401	3.76	\$ 125,695,778	\$ 14,013	\$ 125,709,791	4.65	\$ 52,831,435	\$ 6,422	\$ 52,837,857	2.77%
ISTEA	\$ 329,254,544	\$ 46,705	\$ 329,301,249	3.76	\$ 571,588,133	\$ 116,954	\$ 571,705,087	4.65	\$ 252,715,449	\$ 30,186	\$ 252,745,635	2.79%
Child Support	\$ 766,681,807	\$ 110,771	\$ 766,792,578	3.76	\$ 1,845,423,404	\$ 350,859	\$ 1,845,774,263	4.65	\$ 1,405,615,088	\$ 152,566	\$ 1,405,767,654	2.65%
Tax Refund	\$ 300,936,902	\$ 48,112	\$ 300,985,013	3.76	\$ 300,710,772	\$ 58,981	\$ 300,769,753	4.65	\$ 501,931,854	\$ 39,328	\$ 501,971,181	1.82%
Merchant Std	\$ 641,486,746	\$ 89,886	\$ 641,576,632	3.76	\$ 1,105,122,608	\$ 207,956	\$ 1,105,330,564	4.65	\$ 845,016,502	\$ 99,494	\$ 845,115,995	0.03
Rite Care	\$ 92,570,648	\$ 13,659	\$ 92,584,307	3.76	\$ 148,435,768	\$ 27,914	\$ 148,463,682	4.65	\$ 104,216,453	\$ 11,786	\$ 104,228,239	0.03
Disbursement Account***					\$ 1,890,360,619	\$ 348,591	\$ 1,890,709,210	4.65	\$ 6,358,625,622	\$ 659,728	\$ 6,359,285,349	0.03
<b>Total Sweep Investment</b>	<b>\$ 3,005,709,643</b>	<b>\$ 435,650</b>	<b>\$ 3,006,145,293</b>	<b>3.76</b>	<b>\$ 7,715,571,823</b>	<b>\$ 1,461,688</b>	<b>\$ 7,717,033,511</b>	<b>4.65</b>	<b>\$ 10,469,815,573</b>	<b>\$ 1,108,329</b>	<b>\$ 10,470,923,903</b>	<b>2.65</b>



**Source Data:** This data is derived from daily operations and reconciled against monthly bank statements.

**Background:** The purpose of the Sweep Account is to automatically invest late arriving or uncommitted funds in an interest-bearing overnight account. There is no reserve requirement, all funds can be swept, and both principal and interest are credited as the first transaction of each day. Additionally, the rate of return is generally higher than the Compensating Balance rate.

**Commentary:** Sweep-Interest earnings declined in FY08 as a result of declining interest rates.

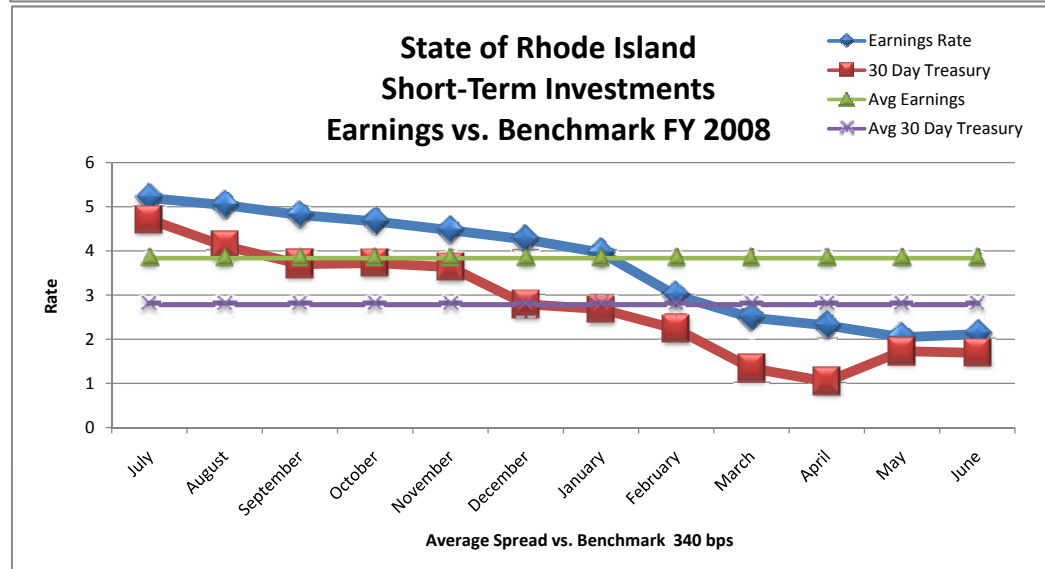
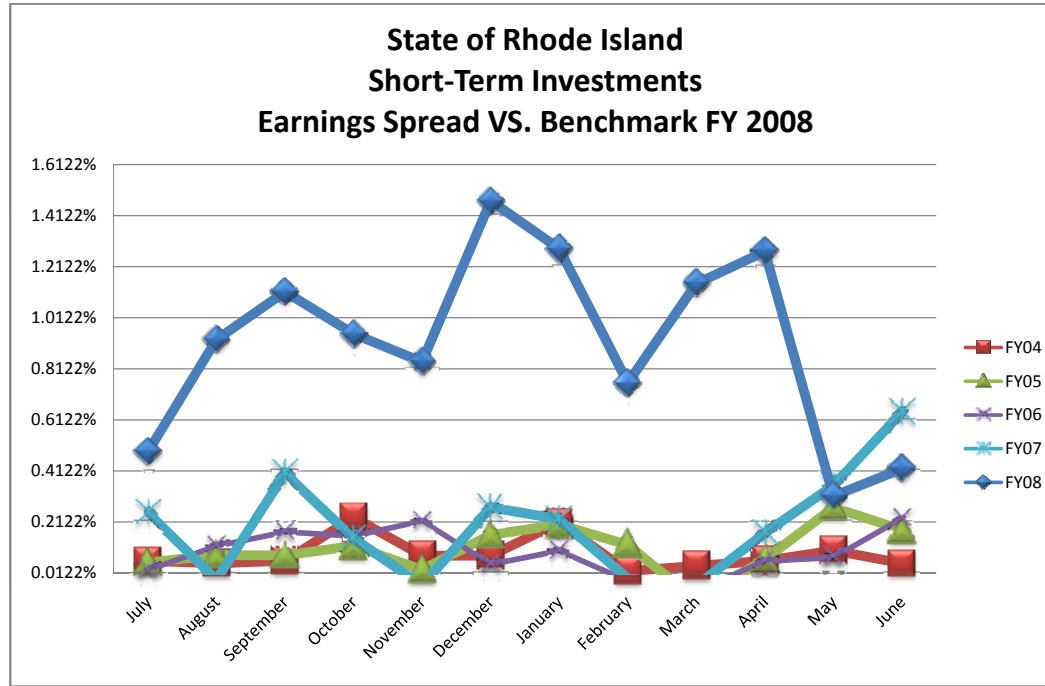


**State of Rhode Island  
Office of the General Treasurer  
Schedule of Interest Earned  
FY 2008**

<b>Fund</b>	<b>Count</b>	<b>Amt. Purchased</b>	<b>Interest Earned</b>	<b>Interest Rate</b>	<b>(W)Avg Duration</b>
GENERAL FUND	401	\$ 5,581,007,081.91	\$ 3,284,377.99	3.92	2.44
PENSION C	253	\$ 171,589,534.61	\$ 27,465.39	3.52	1.62
PAYROLL A	247	\$ 212,914,887.64	\$ 39,112.36	3.62	1.81
H.A.V.A	24	\$ 38,641.93	\$ 38,641.93	3.79	
RICAP GL FUND 21	40	\$ 72,946,125.52	\$ 136,570.36	4.38	6.10
GENERAL FUND (HIST PRES)	8	\$ 4,146,345.75	\$ 21,050.61	3.18	57.38
HEALTH INSURANCE FUND	113	\$ 515,901,991.45	\$ 616,254.53	3.90	8.09
HIGHWAY FUND	259	\$ 1,037,053,846.83	\$ 796,724.50	3.92	2.05
UNIVERSITY COLLEGE	207	\$ 427,394,534.21	\$ 226,327.58	4.15	1.90
T.D.I. RESERVE (DET)	340	\$ 1,039,255,962.85	\$ 3,934,791.89	3.73	9.97
PERMANENT SCHOOL FUND	28	\$ 19,130,071.83	\$ 30,928.77	3.61	14.64
EMPLOYEES RETIREMENT	188	\$ 571,784,013.24	\$ 951,321.97	3.83	13.99
MUNICIPAL EMPLOYEES RET.	133	\$ 59,266,545.03	\$ 105,559.55	3.53	14.91
R.I. CLEAN WATER ACT	14	\$ 1,981,866.66	\$ 81,866.66	4.34	
BOND CAPITAL FUND	81	\$ 196,729,670.61	\$ 157,858.20	2.90	3.74
STATE LOTTERY FUND	328	\$ 1,527,460,857.76	\$ 1,387,715.22	3.78	6.43
INDUS. BLDG. & MTG. INS.	13	\$ 775,008.77	\$ 75,008.77	3.69	
	<b>2,677</b>	<b>\$ 11,439,376,986.60</b>	<b>\$ 11,911,576.28</b>	<b>3.83</b>	<b>3.687</b>

**Source:** Data acquired from the State's Investment Management Software, si50.

**Commentary:** Interest earnings excludes income from Sweep account earnings as this income serves as an offset to bank fees and charges.



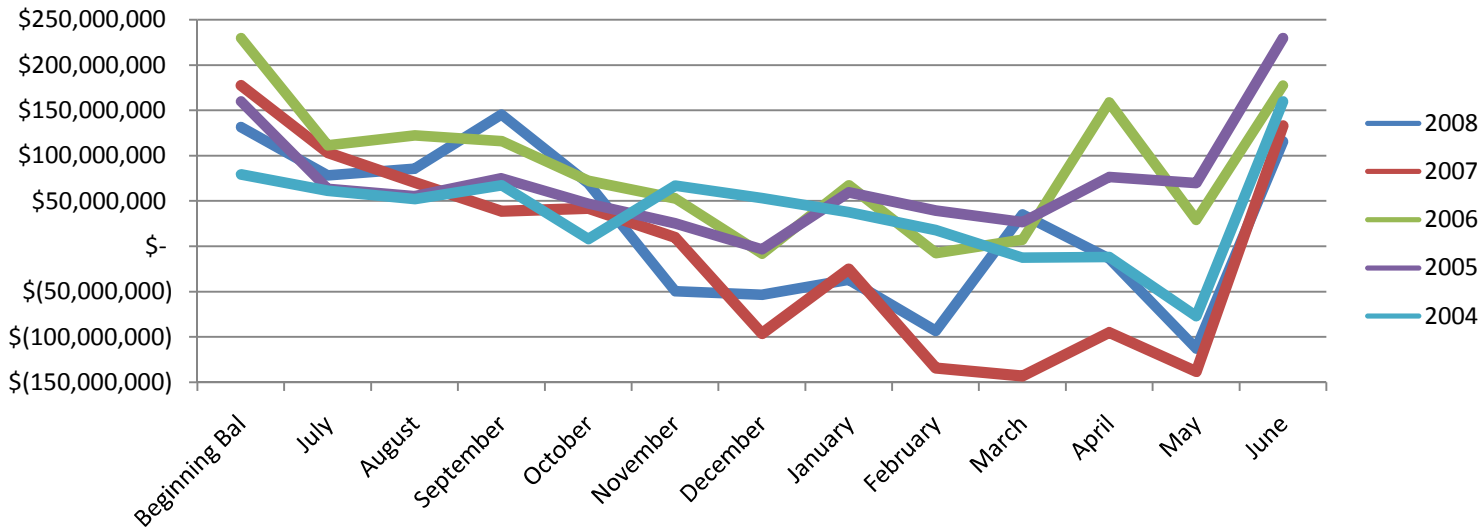
**Source Data:** This Avg Earnings and Earnings Rate are derived from the State Investment System: si50. The Benchmark is the 30 Day Treasury Bill. The Benchmark data is derived from the Federal Reserve Board Statistical release, H15

**Commentary:** The State's Short-Term Investments outperformed their benchmark, the 30-Day T-Bill, in 12 out of 12 months for FY2008, with an average spread over the benchmark of 105.3 basis points-- the highest margin since FY 2001

State of Rhode Island  
Office of the General Treasurer  
Cash Flow Analysis Summary  
FISCAL 2008

	July 2007	August 2007	September 2007	October 2007	November 2007	December 2007	March 2008	April 2008	May 2008	June 2008	TOTAL 2008
<b>Estimated Beginning Balance</b>	131,366,485	78,286,616	85,557,355	145,265,100	69,291,265	393,335	10,290,807	154,538,984	105,874,212	6,779,851	<b>131,366,485</b>
<b>Deposits/Receipts</b>											
Taxation	256,918,482	180,962,174	232,370,239	196,663,755	173,177,830	196,893,597	316,802,109	352,026,405	197,727,043	358,489,894	<b>2,909,049,939</b>
Motor Vehicles	7,874,481	8,172,878	8,588,997	8,391,675	7,072,277	5,813,017	13,365,715	9,805,615	11,390,688	10,417,958	<b>110,279,981</b>
Historic Tax Cr/EDC	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Departmental Receipts	3,807,914	1,738,270	2,170,169	992,732	4,032,593	8,794,439	9,169,625	9,711,344	4,946,709	20,851,738	<b>80,159,328</b>
Interdepartment Transfers	41,658,009	41,470,177	51,504,900	42,962,987	69,175,146	47,115,309	51,402,173	51,632,524	58,095,606	54,569,929	<b>605,345,437</b>
Lottery Transfers	0	29,000,000	31,200,000	28,700,000	28,300,000	30,489,832	30,400,000	33,900,000	30,700,000	60,300,000	<b>356,964,406</b>
Federal Grants/Drawdowns	183,545,304	140,760,532	166,819,355	139,122,679	154,976,452	135,062,025	153,001,343	136,092,940	170,396,791	207,065,215	<b>1,923,795,795</b>
TANS Proceeds/TDI	35,000,000	0	0	0	50,000,000	81,000,000	16,000,000	0	0	103,710,949	<b>308,210,949</b>
Miscellaneous Receipts	28,792,713	150,045,892	20,491,732	57,785,095	34,853,562	23,922,870	28,146,351	18,197,749	57,942,132	62,980,648	<b>532,926,059</b>
<b>Total Available Cash</b>	<b>688,963,386</b>	<b>630,436,538</b>	<b>598,702,748</b>	<b>619,884,024</b>	<b>590,879,124</b>	<b>529,484,425</b>	<b>628,578,123</b>	<b>765,905,561</b>	<b>637,073,179</b>	<b>885,166,183</b>	<b>6,958,098,380</b>
<b>Less: Disbursements</b>											
<b>Social Programs</b>											
TANF	4,692,181	5,069,426	4,670,694	4,600,413	4,613,374	4,641,064	4,561,615	4,640,585	5,741,339	3,294,207	<b>55,723,504</b>
SSI	4,620,406	2,288,510	2,288,449	2,360,879	0	0	0	0	0	2,341,000	<b>18,558,844</b>
Medicaid	192,728,457	186,378,350	132,303,913	148,685,990	196,389,383	108,118,896	114,130,212	151,684,475	206,090,381	181,666,964	<b>1,956,370,314</b>
DHS - Block Mothers	5,961,431	4,958,542	5,700,318	4,844,815	4,626,419	4,605,025	4,327,312	4,337,868	4,314,947	4,353,448	<b>59,463,646</b>
Payroll/Pension	125,353,988	97,847,113	87,054,781	87,736,885	146,845,722	133,652,363	108,326,560	106,415,726	143,933,836	128,921,438	<b>1,395,151,985</b>
Debt Service	11,000,113	28,631,946	6,031,299	29,971,082	29,563,814	1,180,490	3,704,795	26,680,124	12,694,013	8,925,007	<b>194,934,044</b>
TANS & TDI Repayment	35,000,000	0	0	0	0	50,081,472	0	0	0	224,514,583	<b>309,596,056</b>
Interfund Transfers	40,730,693	46,752,630	45,154,326	24,061,542	24,072,824	20,001,341	30,105,102	24,801,619	49,033,854	43,374,497	<b>403,030,805</b>
Tax Refunds	6,394,675	7,680,776	3,144,963	7,824,153	11,003,369	6,793,349	55,579,907	54,878,262	30,348,107	10,430,054	<b>254,272,578</b>
Disbursements/Municipal Pmts	184,194,827	165,271,890	167,088,905	240,507,000	173,370,884	172,761,935	153,303,636	286,592,691	178,136,850	163,218,227	<b>2,196,869,848</b>
<b>Total Disbursements</b>	<b>610,676,771</b>	<b>544,879,183</b>	<b>453,437,648</b>	<b>550,592,760</b>	<b>590,485,789</b>	<b>501,835,934</b>	<b>474,039,139</b>	<b>660,031,349</b>	<b>630,293,328</b>	<b>771,039,425</b>	<b>6,843,971,623</b>
<b>Overall Cash Position</b>	<b>78,286,616</b>	<b>85,557,355</b>	<b>145,265,100</b>	<b>69,291,265</b>	<b>393,335</b>	<b>27,648,491</b>	<b>154,538,984</b>	<b>105,874,212</b>	<b>6,779,851</b>	<b>114,126,757</b>	<b>114,126,757</b>

## State of Rhode Island General Fund Cash Flow FY2003 - FY2008



Note: All Figures are Net of TAN borrowings.

**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.

**State of Rhode Island  
Office of the General Treasurer  
Cash Management Summary  
All Funds, FY 2004 - FY 2008**

	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY2004</u>
<b>Average Daily Cash Position</b>	\$361,690,620	\$ 287,864,043	\$ 218,317,939	\$ 234,995,189	\$ 317,341,000
<b>Average Daily Bank Balance</b>	\$ 11,620,154	\$ 15,053,120	\$ 18,740,977	\$ 18,786,029	\$ 20,710,948
<b>Percent of Cash Invested</b>	96.93%	95.07%	92.09%	92.60%	93.87%
<b>Percent of GF Cash Invested</b>	99.60%	98.89%	99.29%	99.04%	98.90%
<b>Average Maturity of Portfolio</b>	3.69 Days	4.45 Days	5.61 Days	6.36 Days	4.18 Days
<b>Spread to Benchmark</b>	105.3 Basis Points	19.6 Basis Points	9 Basis Points	11 Basis Points	9 Basis Points
<b>Average Rate of Return</b>	3.84%	5.16%	4.08%	2.11%	1.04%

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

## SPECIAL FUNDS

State of Rhode Island  
Office of the General Treasurer  
Abraham Touro Fund  
Investment Summary  
FY 2008

<u>FUND NAME</u>	<u>6/30/2008</u> <u>MARKET VALUE</u>	<u>6/30/2007</u> <u>MARKET VALUE</u>
Abraham Touro Fund (Fidelity Balanced Fund)	\$ 2,174,615	\$ 2,476,014
Total Special Funds	\$ 2,174,615	\$ 2,476,014

**Source Data:** Bank Account Statement for Period Ending June 30, 2008 and June 30, 2007 respectively.

ACCOUNTS RECEIVABLE



State of Rhode Island  
Office of the General Treasurer  
Municipal Pension Contribution Delinquency  
as of July 15, 2008, 2007, 2006, 2005, 2004

	July, 2008 Total Arrears	Last Payroll Date Received	July, 2007 Total Arrears	Last Payroll Date Received	July, 2006 Total Arrears	Last Payroll Date Received	July, 2005 Total Arrears*	Last Payroll Ending Date Received
<b>Teachers</b>								
Barrington								
Burrillville								
Chariho Regional								
Coventry								
East Providence								
Foster								
Gloucester								
Jamestown								
Johnston								
Lincoln**								
Little Compton								
N Providence								
N Smithfield								
Providence (long term subs)			\$ 66,371.54		\$ 259,018.46			
Smithfield								
South Kingstown								
Southern RI Collaborative								
Urban Collaborative								
West Bay Collaborative								
Westerly								
<hr/>								
Subtotal Teachers			\$ 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 6/30/08**

Amount of Original Issue	Description of Issue	Year	Series	Maturity Date	Principal Paid in FY 08	( Actual )	Principal Outstanding 6/30/2008	( Projected )
						Interest Paid in FY 08		Interest Outstanding 6/30/2008
82,470,000.00	G.O. CCDL of 1998, Refunding Series A	1998	Refunding Series A	7/15/2008	7,320,000.00	3,146,893.78	10,965,000.00	267,037.50
75,775,000.00	G.O. CCDL of 1997, Series A	1997	A	8/1/2008	0.00	197,715.00	4,035,000.00	98,857.50
67,625,000.00	Refunding Bond Authority State Public Projects, 2003 Series A	2003	Refunding Series A	10/1/2008	17,140,000.00	846,500.00	8,360,000.00	209,000.00
647,490.20	G.O. CCDL of 1993 Refunding Series ( CAB's )	1993	Refunding	6/15/2009	108,876.15	3,536,123.85	9,440.00	390,560.00
35,990,000.00	G.O. CCDL of 1997, Refunding Series	1997	Refunding	8/1/2009	0.00	282,200.00	5,644,000.00	423,300.00
65,720,000.00	G.O. CCDL of 1998, Series A	1998	A	9/1/2009	0.00	115,750.00	2,315,000.00	173,625.00
28,185,000.00	LPC, Correctional Facilities - 1997 Refunding ( Intake Center )	1997	Refunding	10/1/2009	2,625,000.00	354,403.13	5,535,000.00	289,256.25
39,875,000.00	Refunding Bond Authority State Public Projects, 1998 Series A	1998	Refunding Series A	2/1/2010	1,335,000.00	895,181.26	15,875,000.00	1,150,537.50
63,120,000.00	G.O. CCDL of 1999, Series A	1999	A	9/1/2010	0.00	141,250.00	2,825,000.00	353,125.00
57,230,000.00	G.O. CCDL of 2000, Series A	2000	A	7/15/2011	0.00	144,500.00	2,890,000.00	505,750.00
6,950,000.00	LPC, State Vehicles Project - 2005 Series C	2005	C	4/1/2012	1,255,000.00	157,525.00	3,180,000.00	272,287.50
3,890,000.00	C.O.P. in L.P.A. (State Vehicles Projects), 2002 Series A	2002	A	12/15/2012	270,000.00	55,957.50	1,350,000.00	135,000.00
6,000,000.00	LPC, State Vehicles Project - 2006 Series A	2006	A	4/15/2013	1,375,000.00	183,546.00	3,260,000.00	313,830.00
62,765,000.00	G.O. CCDL of 2002, Refunding Series C	2002	Refunding Series C	11/1/2013	9,105,000.00	2,217,375.00	37,900,000.00	6,250,125.00
9,100,000.00	LPC, State Vehicles Project - 2007 Series C	2007	C	5/1/2014	2,495,000.00	361,149.65	6,605,000.00	665,700.00
63,005,000.00	G.O. CCDL of 2001, Refunding Series B	2001	Refunding Series B	6/1/2014	0.00	526,000.00	10,200,000.00	2,484,000.00
46,570,000.00	G.O. CCDL of 2008, Refunding Series A	2008	Refunding Series A	7/15/2014	0.00	0.00	46,570,000.00	7,080,009.17
8,360,000.00	G.O. CCDL of 2005, Refunding Series B	2005	Refunding Series B	8/1/2014	80,000.00	311,368.76	8,040,000.00	1,183,728.18
55,990,000.00	G.O. CCDL of 2001, Refunding Series A	2001	Refunding Series A	8/1/2015	55,000.00	2,528,052.50	49,120,000.00	11,500,956.25
65,830,000.00	G.O. CCDL of 2004, Refunding Series B	2004	Refunding Series B	8/1/2015	2,130,000.00	2,835,598.76	58,745,000.00	12,934,465.64
2,230,000.00	LPC, Attorney General's Building - 2007 Refunding Series G	2007	G	10/1/2015	0.00	0.00	2,230,000.00	336,167.00
77,140,000.00	G.O. CCDL of 2002, Series B	2002	B	11/1/2015	3,405,000.00	1,549,612.50	28,720,000.00	6,049,193.75
13,375,000.00	LPC, Howard Center Improvements - 2007 Refunding Series E	2007	E	10/1/2016	0.00	0.00	13,375,000.00	3,252,318.00
21,420,000.00	LPC, Shepard's Building - 2007 Refunding Series F	2007	F	10/1/2016	440,000.00	300,007.50	20,980,000.00	5,081,032.50
23,490,000.00	LPC, Information Technology Project - 2007 Series A	2007	A	5/1/2017	2,490,000.00	1,025,467.19	21,000,000.00	4,897,412.50
8,500,000.00	G.O. CDL of 2007, Series B (Federally Taxable)	2007	B	8/1/2017	0.00	186,872.39	8,500,000.00	2,476,321.25
56,315,000.00	G.O. CCDL of 2005, Refunding Series D	2005	Refunding Series D	7/15/2018	0.00	2,628,750.00	55,465,000.00	15,744,400.00
52,335,000.00	G.O. CCDL of 2005, Refunding Series A	2005	Refunding Series A	8/1/2018	55,000.00	2,549,333.76	51,520,000.00	22,052,371.98
135,400,000.00	G.O. CCDL of 2001, Series C	2001	C	9/1/2020	0.00	2,804,250.00	53,805,000.00	24,820,500.00

**State of Rhode Island - Office of the General Treasurer  
Debt Service Inventory by Maturity Date as of 6/30/08**

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	7,320,000.00	3,146,893.78	10,965,000.00	267,037.50
22,160,000.00	LPC, Central Power Plant - 2007 Refunding Series D	2007	D	10/1/2020	0.00	279,114.75	22,160,000.00	6,913,738.75
74,835,000.00	G.O. CCDL of 2006, Refunding Series A	2006	Refunding Series A	8/1/2022	60,000.00	3,499,112.50	74,700,000.00	33,319,968.77
79,770,000.00	G.O. CCDL of 2004, Series A	2004	A	2/1/2023	3,210,000.00	3,053,500.00	67,135,000.00	26,829,000.00
12,735,000.00	LPC, Energy Conservation Project - 2007 Series B	2007	B	5/1/2023	0.00	464,134.81	12,735,000.00	4,646,131.38
58,910,000.00	LPC, Kent County Courthouse Project - 2004 Series A	2004	A	10/1/2023	2,330,000.00	2,288,122.50	52,075,000.00	21,821,366.25
87,095,000.00	G.O. CCDL of 2005, Series C	2005	C	2/15/2024	3,140,000.00	3,810,675.00	78,110,000.00	35,936,912.50
51,985,000.00	LPC, Training School Project - 2005 Series A	2005	A	10/1/2024	1,835,000.00	2,380,575.00	48,370,000.00	23,263,425.00
21,565,000.00	LPC, Traffic Tribunal Project - 2005 Series B	2005	B	10/1/2024	825,000.00	852,617.50	19,940,000.00	8,561,628.85
93,385,000.00	G.O. CCDL of 2005, Series E	2005	E	11/1/2025	2,970,000.00	4,179,521.26	87,555,000.00	41,595,150.79
98,105,000.00	G.O. CCDL of 2006, Series C	2006	C	11/15/2025	3,205,000.00	4,478,641.25	94,900,000.00	46,051,245.00
20,680,000.00	G.O. CDL of 2006, Series B	2006	B	8/1/2026	680,000.00	875,828.76	20,000,000.00	9,592,745.74
123,255,000.00	G.O. CCDL of 2007, Series A	2007	A	8/1/2027	0.00	2,481,622.73	123,255,000.00	68,627,146.25
	Subtotal from the DBC system.				69,938,876.15	58,524,849.59	1,239,953,440.00	458,549,326.75
31,365,000.00	Multi - Modal G.O. Bonds CCDL of 2000, Series B	2000	Multi-Modal Ser. B	8/1/2010	2,200,000.00	415,628.15	14,165,000.00	624,569.00
	Subtotal including variable rate issue from the Excel worksheets.				72,138,876.15	58,940,477.74	1,254,118,440.00	459,173,895.75
				Total outstanding debt @ 6/30/08				<u>1,713,292,335.75</u>
11,825,000.00	R.I.E.D.C. McCoy Stadium Issue, Series 1998	1998	McCoy Stadium	12/1/2010	1,010,000.00	119,201.89	3,265,000.00	224,213.00
	Total FY 08 debt service payments made by Treasury including McCoy Stadium:				<u>132,208,555.78</u>			

**State of Rhode Island**  
**Office of the General Treasurer**  
**Debt Service System Inventory of Matured or Retired Issues**  
**Fiscal Year 2008**

Amount of Original Issue	Description of Issue	Year	Series	Maturity Date	( Actual )		( Projected )	
					Principal Paid in FY 08	Interest Paid in FY 08	Principal Outstanding 6/30/2008	Interest Outstanding 6/30/2008
15,925,000.00	G.O. CCDL of 1995, Series B	1995	B	8/1/2007	900,000.00	24,750.00	0.00	0.00
57,835,000.00	G.O. CCDL of 1996, Series A	1996	A	8/1/2007	3,050,000.00	80,825.00	0.00	0.00
81,040,000.00	G.O. CCDL of 1996, Refunding Series	1996	Refunding	8/1/2007	5,742,134.00	152,166.55	0.00	0.00
28,180,000.00	LPC, Central Power Plant Project - 2000 Series C	2000	C	12/13/2007	1,130,000.00	1,123,570.00	0.00	0.00
4,500,000.00	Certificates of Participation, Series 1995 - Attorney General	1995	1995	12/13/2007	230,000.00	131,042.50	0.00	0.00
24,000,000.00	LPC, Howard Center Improvements - 1997 Series	1997	1997	12/13/2007	1,245,000.00	818,190.63	0.00	0.00
33,335,000.00	LPC, Shepard's Building - 1997 Refunding Series A	1997	Refunding Series A	12/13/2007	1,620,000.00	1,128,087.50	0.00	0.00
220,000,000.00	G.O. Tax Anticipation Notes - Fiscal Year 2008	2008	TAN's	6/30/2008	220,000,000.00	4,514,583.33	0.00	0.00

Source Data: DBC Debt Management Software. Data as of 06/30/2008

State of Rhode Island  
Office of the General Treasurer  
FY 2008 Annual Report

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

Fiscal Year	Principal	Interest	Total Gross Debt Service	Less: Offsets & Self Supporting	Excess Two Cents of Gas Tax held by Trustee(2)	Net Debt Service Payable
2007	\$97,384,653	\$75,943,336	\$175,427,989	-\$5,604,514	\$2,629,022	\$172,452,498
2008	\$112,652,988	\$85,367,963	\$198,905,952	-\$8,315,167	\$2,623,172	\$193,213,957
2009	\$126,287,854	\$85,004,907	\$211,292,761	-\$7,481,128	\$2,228,233	\$206,039,866
2010	\$124,731,092	\$85,649,703	\$210,380,794	-\$7,893,489	\$2,424,248	\$204,911,554
2011	\$113,652,994	\$85,422,730	\$199,075,724	-\$3,728,691	\$2,191,698	\$197,538,731
2012	\$123,614,371	\$85,077,784	\$208,692,155	-\$3,690,390	\$2,131,448	\$207,133,213
2013	\$132,529,009	\$83,715,718	\$216,244,727	-\$2,864,205	\$2,131,067	\$215,511,589
2014	\$130,271,581	\$82,496,151	\$212,767,732	-\$1,646,375	\$2,133,505	\$213,254,862
2015	\$127,668,646	\$81,082,273	\$208,750,919	-\$1,646,295	\$1,897,336	\$209,001,961
2016	\$127,821,242	\$79,897,823	\$207,719,066	-\$1,819,509	\$1,874,736	\$207,774,293
2017	\$132,581,568	\$78,612,901	\$211,194,469	-\$2,671,092	\$2,457,905	\$210,981,282
2018	\$125,956,358	\$77,319,599	\$203,275,957	-\$1,578,160	\$2,434,725	\$204,132,522
2019	\$131,647,850	\$76,201,469	\$207,849,319	-\$1,582,410	\$2,432,137	\$208,699,046
2020	\$129,643,515	\$74,934,315	\$204,577,830	-\$1,578,660	\$3,100,512	\$206,099,683
2021	\$133,505,970	\$73,669,872	\$207,175,842	-\$287,160	\$3,041,687	\$209,930,369
2022	\$128,898,644	\$72,442,408	\$201,341,052	-\$287,160	\$2,879,018	\$203,932,910
2023	\$138,646,257	\$71,106,429	\$209,752,686	-\$3,688,809	\$5,805,461	\$211,869,339
2024	\$123,915,355	\$69,424,065	\$193,339,420	-\$152,999	\$3,585,426	\$196,771,847
2025	\$121,157,046	\$68,378,218	\$189,535,264	-\$2,407,686	\$5,891,113	\$193,018,691
2026	\$123,908,246	\$67,468,066	\$191,376,312	-\$62,811	\$3,849,989	\$195,163,490
2027	\$112,226,045	\$66,651,894	\$178,877,939	-\$1,633,089	\$443,964	\$177,688,814
	<b>\$ 2,618,701,284</b>	<b>\$ 1,625,867,624</b>	<b>\$ 4,247,553,909</b>	<b>\$ (60,619,799)</b>	<b>\$ 58,186,402</b>	<b>\$ 4,245,120,517</b>

(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 cents 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 .

## RI EMPLOYEES RETIREMENT SYSTEM

**ASSET ALLOCATION REPORT  
JUNE 30th, 2008**

	Style Mandate	Actual (Millions \$)		Target (Millions \$)		Difference (Millions \$)
<b>Domestic Equity</b>						
SSgA S&P 500 Index Fund	Passive	1,506.39	19.26%	1,599.38	20.45%	(92.99)
SSgA Core	Active core	341.88	4.37%	351.94	4.50%	(10.07)
PIMCO	Enhanced Equity	468.59	5.99%	504.45	6.45%	(35.86)
NorthPointe Capital	Small Cap Value	341.18	4.36%	391.05	5.00%	(49.86)
Wellington Mgmt	Small Cap Core	364.39	4.66%	430.15	5.50%	(65.76)
Wellington Technical Equity	Tactical Equity	165.52	2.12%	46.93	0.60%	118.60
Shott Capital	Alternative Distribution	1.02	0.01%	0.00	0.00%	1.02
<b>TOTAL DOMESTIC EQUITY</b>		<b>3,188.98</b>	<b>40.77%</b>	<b>3,323.90</b>	<b>42.50%</b>	<b>(134.92)</b>
<b>International Equity</b>						
Boston Company	MSCI ACWI	499.79	6.39%	521.66	6.67%	(21.87)
Goldman Sachs	MSCI ACWI	509.03	6.51%	521.66	6.67%	(12.62)
Mondrian	MSCI ACWI	506.22	6.47%	520.87	6.66%	(14.66)
<b>TOTAL INT'L EQUITY</b>		<b>1,515.07</b>	<b>19.37%</b>	<b>1,564.19</b>	<b>20.00%</b>	<b>(49.12)</b>
<b>Domestic Fixed Income</b>						
Fidelity Management & Research	Mortgages	505.92	6.47%	488.81	6.25%	17.11
Brown Brothers, Harriman	Opportunistic Core	307.15	3.93%	293.28	3.75%	13.87
Taplin, Canida & Habacht	Corporates	301.53	3.86%	293.28	3.75%	8.25
Mackay Shields	High yield	134.83	1.72%	146.64	1.88%	(11.81)
Shenkman Capital Mgmt	High yield	0.00	0.00%	146.64	1.88%	(146.64)
Brown Brothers, Harriman TIPS	TIPS	604.37	7.73%	586.57	7.50%	17.80
Fixed Income Cash Account		206.96	2.65%	0.00	0.00%	206.96
Transition Account		0.58	0.01%	0.00	0.00%	0.58
<b>TOTAL FIXED-INCOME</b>		<b>2,061.34</b>	<b>26.36%</b>	<b>1,955.23</b>	<b>25.00%</b>	<b>106.11</b>
<b>Alternative Investments</b>						
Real Estate	Real Estate	380.83	4.87%	391.0	5.00%	(10.2)
Pacific Corp Group	Private Equity	660.24	8.44%	586.57	7.50%	73.7
<b>TOTAL ALTERNATIVE INVESTMENTS</b>		<b>1,041.06</b>	<b>13.31%</b>	<b>977.62</b>	<b>12.50%</b>	<b>63.45</b>
<b>CASH EQUIVALENTS</b>						
	STIF, Yield+	14.49	0.19%	0.00	0.00%	14.49
<b>TOTAL ASSETS</b>		<b>7,820.93</b>	<b>100.00%</b>	<b>7,820.93</b>	<b>100.00%</b>	<b>0.00</b>

**ALLOCATION BY MANAGEMENT STYLE**

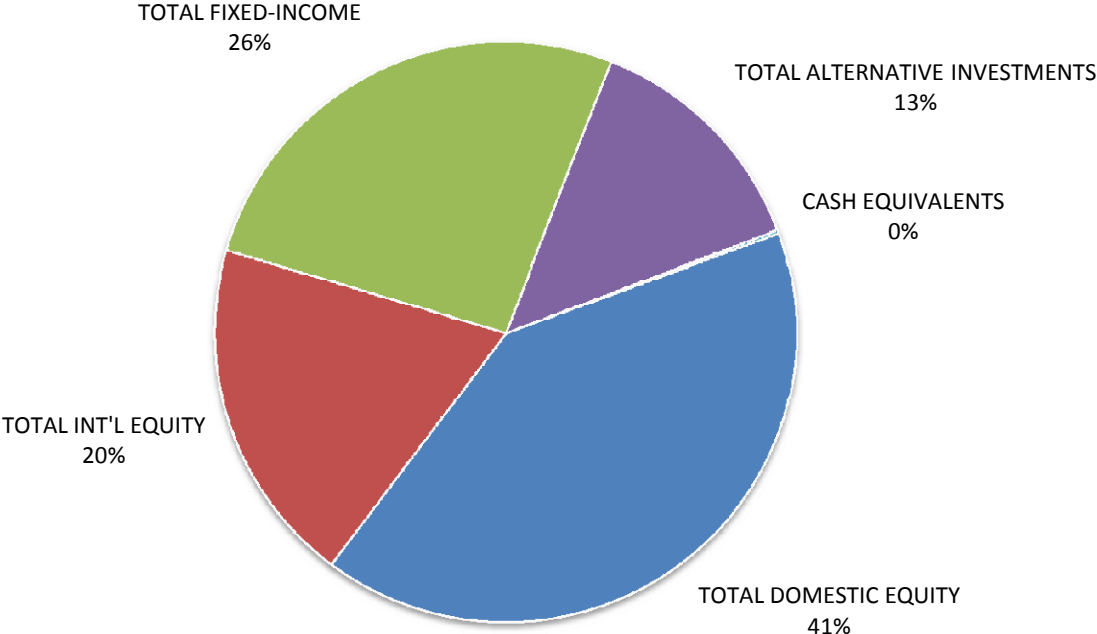
<b>Domestic Equity</b>						
Core		507.40	6.49%	398.87	4.50%	108.53
Index		1,506.39	19.26%	1,599.38	17.75%	(92.99)
Enhanced Equity		468.59	5.99%	504.45	6.75%	(35.86)
Active Small Cap		705.57	9.03%	821.20	13.50%	(115.63)
<b>TOTAL DOMESTIC EQUITY</b>		<b>3,188.98</b>	<b>40.77%</b>	<b>3,323.90</b>	<b>42.50%</b>	<b>(134.92)</b>
<b>International Equity</b>						
Passive		-	0.00%	-	0.00%	-
Active		1,515.07	19.37%	1,564.19	20.00%	(49.12)
<b>TOTAL INT'L EQUITY</b>		<b>1,515.07</b>	<b>19.37%</b>	<b>1,564.19</b>	<b>20.00%</b>	<b>(49.12)</b>
<b>Domestic Fixed Income</b>						
Mortgage		505.92	6.47%	488.81	6.25%	17.11
Core		307.15	3.93%	293.28	3.75%	13.87
Corporates		301.53	3.86%	293.28	3.75%	8.25
High Yield		135.41	1.72%	293.28	3.75%	(157.88)
TIPS		604.37	7.73%	586.57	7.50%	17.80
Other		206.96	2.65%	-	0.00%	206.96
<b>TOTAL FIXED-INCOME</b>		<b>2,061.34</b>	<b>26.35%</b>	<b>1,955.23</b>	<b>25.00%</b>	<b>106.11</b>
<b>Alternative Investments</b>						
Real Estate		380.83	4.87%	391.05	5.00%	(10.22)
Other Alternative Investments		660.24	8.44%	586.57	7.50%	73.67
<b>TOTAL ALTERNATIVE INVESTMENTS</b>		<b>1,041.06</b>	<b>13.31%</b>	<b>977.62</b>	<b>12.50%</b>	<b>63.45</b>
<b>CASH EQUIVALENTS</b>						
	STIF, Yield+	14.49	0.19%	0.00	0.00%	14.49
<b>TOTAL ASSETS</b>		<b>7,820.93</b>	<b>100.00%</b>	<b>7,820.93</b>	<b>100.00%</b>	<b>0.00</b>

Source Data: State Street Analytics Data as of 06/30/2008



State of Rhode Island  
Office of the General Treasurer

**ERSRI Asset Allocation at 06/30/2008**

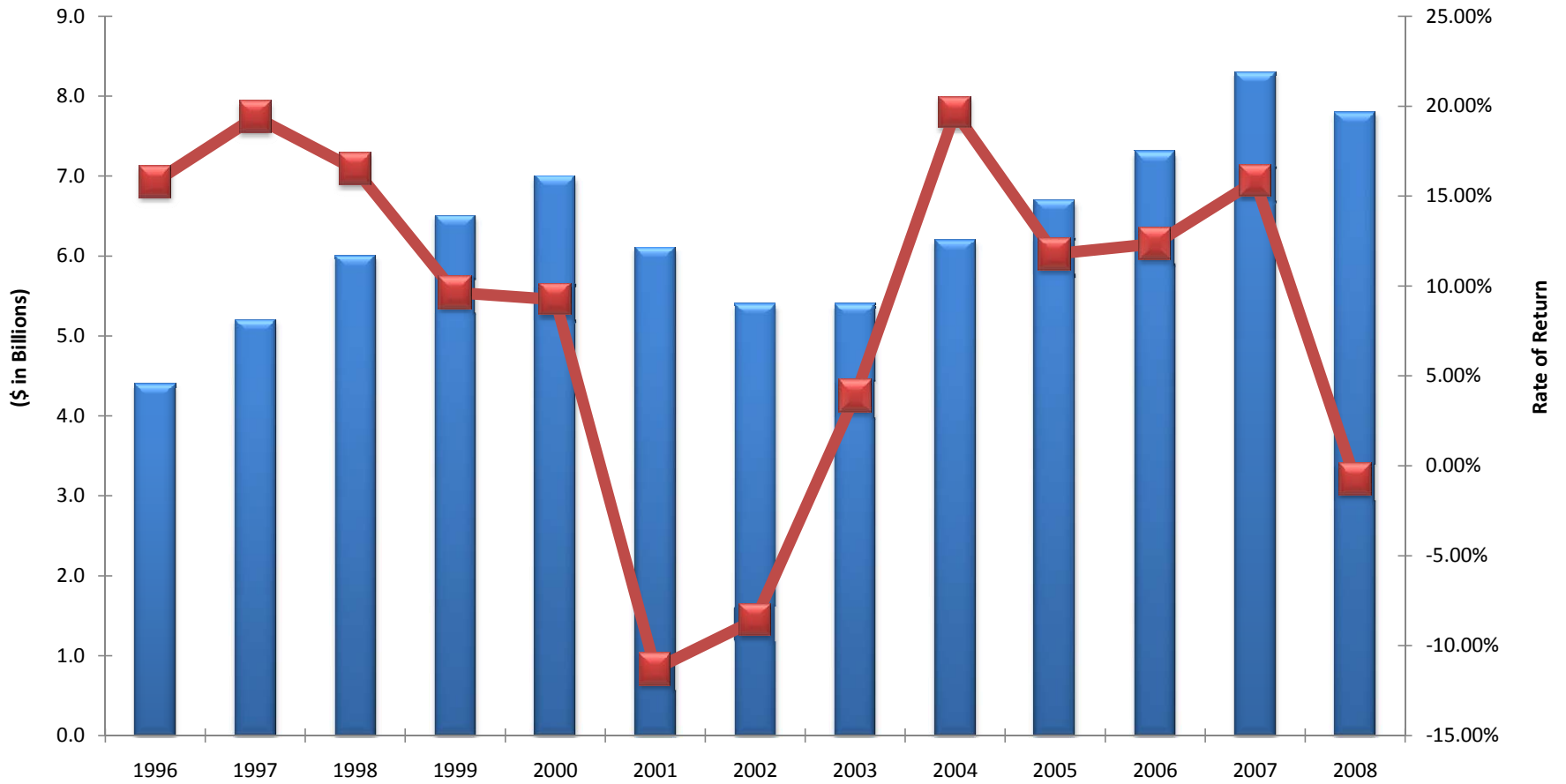


Asset Class	Asset Value as of 06/30/2008	
TOTAL DOMESTIC EQUITY	\$	3,188.98
TOTAL INT'L EQUITY	\$	1,515.07
TOTAL FIXED-INCOME	\$	2,061.34
TOTAL ALTERNATIVE INVESTMENTS	\$	1,041.06
CASH EQUIVALENTS	\$	14.49
<b>TOTAL</b>	<b>\$</b>	<b>7,820.94</b>

Source Data: State Street Analytics Data as of 06/30/2008

**State of Rhode Island  
Employees Retirement System  
Market Valuation and Rates of Return  
FY96-08**

■ Valuation  
■ Rate of Return



State of Rhode Island  
Office of the General Treasurer  
Private Equity  
FY 2008

Limited Partnership	First Take Down Date	Investment Type	Commitment	Unfunded Commitment	Total Contribution	Total Distribution	Market Value at 6/30/2008	IRR at 6/30/2008
ABS Capital Partners II	7/29/1996	Med Corp Finance	5,000,000	88,522	4,931,191	5,714,183	276,434	7.9%
Alta BioPharma Partners	4/10/1998	VC - Diversified	10,000,000	0	10,000,000	14,787,632	216,213	21.1%
Alta BioPharma Partners III	11/19/2003	VC - Diversified	15,000,000	3,000,000	12,000,000	1,172,986	10,102,715	(2.3%)
Alta California Partners II	12/21/1998	VC - Early	10,000,000	0	10,000,000	5,139,522	2,100,729	(6.4%)
Alta California Partners III	3/16/2001	VC - Early	15,000,000	0	15,000,000	4,874,167	9,364,253	(1.1%)
Alta Partners VIII	11/30/2006	VC - Diversified	15,000,000	9,750,000	5,250,000	0	5,274,332	0.5%
Apollo Investment Fund IV	6/25/1998	Lrg Corp Finance	15,000,000	305,124	15,163,716	18,701,602	6,823,429	9.3%
Apollo Investment Fund VI	5/10/2006	Lrg Corp Finance	20,000,000	5,289,151	17,322,987	2,809,173	15,725,034	8.9%
Apollo Investment Fund VII	6/30/2008	Lrg Corp Finance	25,000,000	25,000,000	0	0	-46,228	N/A
Aurora Equity Partners II	5/22/1998	Med Corp Finance	15,000,000	38,917	16,770,664	11,939,765	12,815,450	7.0%
Aurora Equity Partners III	11/16/2004	Med Corp Finance	15,000,000	5,341,646	11,156,966	6,370,359	7,794,500	26.9%
Avenue Special Situations Fund III	1/22/2003	Distressed	15,000,000	0	19,254,494	26,089,853	395,145	16.7%
Avenue Special Situations Fund IV	3/27/2006	Distressed	20,000,000	5,179,595	20,000,000	5,179,595	16,580,607	4.6%
Avenue Special Situations Fund V	8/31/2007	Distressed	20,000,000	10,620,171	9,499,770	46,049	8,986,023	(9.6%)
Bain Capital Fund X	1/15/2008	Lrg Corp Finance	25,000,000	22,124,999	2,875,000	0	2,873,717	(0.2%)
Birch Hill Equity Partners (US) III	12/13/2005	Med Corp Finance	15,064,022	9,140,873	8,674,627	652,712	8,671,200	5.4%
Blackstone Capital Partners III Merchant Banking Fund	11/3/1997	Lrg Corp Finance	20,000,000	924,045	21,672,351	31,568,780	6,233,388	14.1%
Blackstone Capital Partners IV	1/10/2003	Lrg Corp Finance	25,000,000	5,163,971	25,454,427	33,787,373	18,974,910	46.6%
Blackstone Capital Partners V	1/30/2006	Lrg Corp Finance	20,000,000	6,340,103	14,432,407	1,372,297	13,269,123	1.2%
Boston Ventures V	11/18/1996	Med Corp Finance	5,000,000	0	5,745,426	5,677,382	2,047,803	6.4%
Castile Ventures III	12/28/2006	VC - Early	5,000,000	3,150,000	1,859,730	0	1,510,809	(28.0%)
Catterton Partners V	10/29/2003	Med Corp Finance	15,000,000	897,812	15,823,437	6,503,133	13,943,563	11.4%
Catterton Partners VI	12/14/2006	Med Corp Finance	15,000,000	7,394,846	8,763,966	0	7,638,448	(13.7%)
Centerbridge Capital Partners	8/3/2006	Distressed	15,000,000	9,241,815	5,758,921	20,241	4,844,899	(30.7%)
Charterhouse Capital Partners VII	1/20/2003	Lrg Corp Finance	15,397,500	2,158,193	16,337,729	26,720,497	7,533,798	48.0%
Charterhouse Capital Partners VIII	4/19/2006	Lrg Corp Finance	17,829,000	3,837,039	15,374,122	0	16,578,745	7.4%
Coller International Partners IV	11/6/2002	Secondaries	15,000,000	2,400,000	12,868,968	11,051,651	8,094,722	24.4%
Coller International Partners V	12/21/2006	Secondaries	15,000,000	10,650,000	4,350,000	301,522	4,361,152	11.6%
Crossroads Providence	12/6/1988	Fund-of-Funds	45,000,000	0	45,000,000	106,736,857	91,494	19.9%
CVC European Equity Partners II	7/9/1998	Lrg Corp Finance	15,000,000	1,285,894	17,230,353	32,777,970	2,936,340	19.5%
CVC European Equity Partners III	9/4/2001	Lrg Corp Finance	20,000,000	1,712,262	22,345,747	46,569,433	11,519,758	45.2%
CVC European Equity Partners IV	8/31/2005	Lrg Corp Finance	20,012,850	2,513,757	19,827,628	9,091,204	19,681,614	41.0%
Doughty Hanson Fund II	3/8/1996	Lrg Corp Finance	5,300,000	0	4,616,921	8,944,638	388,305	49.6%
Doughty Hanson Fund III	11/3/1997	Lrg Corp Finance	15,000,000	1,495,229	15,517,869	24,892,058	9,499,532	17.5%
Fenway Partners Capital Fund II	9/9/1998	Med Corp Finance	15,000,000	913,192	17,782,218	19,143,124	6,724,984	10.6%
Fenway Partners Capital Fund III	12/14/2007	Med Corp Finance	15,000,000	5,081,632	10,370,960	264,490	9,713,157	(9.4%)
First Reserve Fund IX	4/9/2001	Med Corp Finance	20,000,000	0	21,640,174	61,372,051	201,000	48.1%
First Reserve Fund VIII	4/30/1998	Med Corp Finance	15,000,000	0	16,169,268	30,833,242	277,000	15.9%
First Reserve Fund X	10/28/2004	Lrg Corp Finance	20,000,000	287,336	19,712,664	22,031,445	16,656,000	57.2%
First Reserve Fund XI	12/14/2006	Lrg Corp Finance	20,000,000	7,401,374	12,598,626	0	13,581,000	16.8%
Focus Ventures III	8/1/2006	VC - Late / Growth	15,000,000	7,800,000	7,200,000	530,855	6,320,258	(5.6%)
Granite Global Ventures II	11/19/2004	VC - Late / Growth	15,000,000	675,000	14,333,275	1,863,016	11,783,171	(2.5%)
Granite Global Ventures III	11/1/2006	VC - Early	15,000,000	9,750,000	5,250,018	170,165	5,008,480	(1.4%)
Green Equity Investors IV	9/5/2003	Med Corp Finance	15,000,000	388,388	15,315,175	3,736,598	13,323,361	5.5%
Green Equity Investors V	8/10/2007	Lrg Corp Finance	20,000,000	17,177,332	2,822,668	0	2,778,279	(1.9%)
Harvest Partners III	12/19/1997	Med Corp Finance	15,000,000	368,727	14,631,273	6,759,443	1,014,194	(12.2%)
Harvest Partners IV	11/12/2001	Med Corp Finance	15,000,000	1,419,800	14,783,629	24,994,461	6,575,737	37.1%
Heritage Fund II	8/18/1997	Small Corp Finance	5,000,000	0	4,990,799	4,392,280	103,084	(1.7%)
Kayne Anderson Energy Fund III	4/13/2005	Med Corp Finance	15,000,000	6,896,800	9,408,531	6,039,607	7,170,599	40.2%
Kayne Anderson Energy Fund IV	7/13/2007	Med Corp Finance	15,000,000	12,450,000	2,550,000	0	2,492,100	(4.3%)
Leapfrog Ventures II	3/15/2005	VC - Early	10,000,000	4,965,000	5,035,000	0	4,973,928	(0.7%)
Leeds Weld Equity Partners IV	11/12/2004	Med Corp Finance	10,000,000	1,432,989	8,587,580	10,431	12,337,249	19.1%
Lighthouse Capital Partners V	12/10/2003	VC - Diversified	11,250,000	787,500	10,462,500	2,478,276	10,008,535	6.4%
Lighthouse Capital Partners VI	8/10/2007	VC - Diversified	15,000,000	8,250,000	6,750,000	0	6,490,118	(9.0%)
LNK Partners	4/13/2006	Small Corp Finance	12,500,000	7,058,800	5,443,452	0	4,534,930	(18.3%)
MatlinPatterson Global Opportunities Partners	1/9/2002	Distressed	15,000,000	0	15,356,739	23,173,028	3,454,169	17.0%
MHR Institutional Partners III	10/2/2006	Distressed	20,000,000	10,989,323	9,200,000	250,831	9,860,790	10.0%
Narragansett Capital Partners-B	3/12/1987	Small Corp Finance	3,000,000	0	3,915,985	6,189,895	0	6.8%
Narragansett First Fund	12/20/1982	Small Corp Finance	1,000,000	0	969,411	2,876,755	0	35.4%
Nautic Partners V	4/27/2001	Med Corp Finance	20,000,000	1,546,680	19,420,798	18,730,552	11,979,282	16.7%
Nautic Partners VI	5/14/2007	Med Corp Finance	20,000,000	12,357,063	8,833,024	1,416,301	6,340,915	(13.3%)
Nordic Capital III	2/26/1998	Med Corp Finance	10,000,000	1,105,340	10,108,491	35,487,634	986,459	31.5%
Nordic Capital V	8/4/2003	Med Corp Finance	15,021,862	691,199	19,733,389	9,521,707	26,267,435	26.5%
Nordic Capital VI	5/26/2006	Med Corp Finance	18,061,500	1,166,910	19,014,605	0	18,466,212	(2.8%)
Nordic Capital VII	7/1/2008	Med Corp Finance	23,179,500	0	0	0	0	N/A
OCM Opportunities Fund	1/11/1996	Distressed	8,000,000	0	8,000,000	12,979,968	18,271	10.2%
OCM Opportunities Fund II	10/28/1997	Distressed	12,000,000	0	12,000,000	17,926,951	121,872	8.4%
OCM Principal Opportunities Fund	11/12/1996	Distressed	5,000,000	0	5,000,000	6,293,390	773,255	5.1%
Paladin III	12/31/2007	VC - Diversified	10,000,000	7,847,048	2,156,211	12,101	1,910,740	(28.4%)
Parthenon Investors	2/4/1999	Med Corp Finance	15,000,000	58,080	17,811,157	20,307,403	5,359,865	7.8%
Parthenon Investors II	1/31/2001	Med Corp Finance	20,000,000	1,439,991	22,470,412	15,175,400	16,062,564	15.5%
Perseus Partners VII	12/27/2007	Med Corp Finance	15,000,000	11,460,356	4,344,334	742,863	4,040,889	31.3%
Point 406 Ventures I	3/27/2008	VC - Early	10,000,000	7,370,000	2,823,461	185,995	2,172,497	(65.2%)
Point Judith Venture Fund II	10/25/2007	VC - Early	5,000,000	3,269,448	1,730,552	0	1,545,662	(18.4%)
Providence Equity Partners	12/19/1996	Small Corp Finance	10,000,000	0	14,684,891	37,797,412	1,782,717	77.9%
Providence Equity Partners III	1/22/1999	Med Corp Finance	15,000,000	1,915,643	16,495,946	24,051,922	493,039	15.7%

State of Rhode Island  
Office of the General Treasurer  
Private Equity  
FY 2008

Limited Partnership	First Take Down Date	Investment Type	Commitment	Unfunded Commitment	Total Contribution	Total Distribution	Market Value at 6/30/2008	IRR at 6/30/2008
Providence Equity Partners IV	11/27/2000	Lrg Corp Finance	25,000,000	567,778	34,831,172	40,453,327	19,486,309	26.7%
Providence Equity Partners V	4/4/2005	Lrg Corp Finance	25,000,000	2,175,305	29,204,129	6,472,252	28,333,419	10.5%
Providence Equity Partners VI	3/16/2007	Lrg Corp Finance	25,000,000	14,971,481	10,160,098	131,579	9,985,225	(0.6%)
SKM Equity Fund II	3/13/1997	Small Corp Finance	10,000,000	1,729,834	9,218,206	988,222	2,671,133	(11.1%)
Thomas H. Lee Equity Fund IV	4/24/1998	Med Corp Finance	9,000,000	391,304	8,695,187	7,511,294	129,960	(2.6%)
Thomas McNerney & Partners	10/9/2002	VC - Diversified	15,000,000	3,525,000	11,475,000	5,252,354	7,584,329	4.4%
Thomas, McNerney & Partners II	11/30/2006	VC - Diversified	15,000,000	11,062,500	4,162,500	230,666	3,405,031	(13.9%)
TPG Partners II	6/4/1997	Lrg Corp Finance	10,000,000	306,397	10,741,756	16,297,783	2,060,527	10.1%
TPG Partners IV	2/10/2004	Lrg Corp Finance	15,000,000	1,323,883	16,060,809	9,139,865	15,739,330	25.7%
TPG Partners V	6/27/2006	Lrg Corp Finance	20,000,000	3,936,474	16,258,647	294,288	14,875,656	(7.6%)
TPG Partners VI	5/22/2008	Lrg Corp Finance	20,000,000	19,093,162	911,635	0	520,083	(99.5%)
Trilantic Capital Partners IV (fka LBMB IV)	10/22/2007	Med Corp Finance	15,000,000	14,219,317	780,683	0	502,014	(64.3%)
VS&A Communications Partners III	12/15/1998	Med Corp Finance	15,000,000	159,299	15,006,435	13,995,790	5,605,938	6.5%
W Capital Partners	3/15/2004	Secondaries	15,000,000	1,818,000	13,182,000	6,399,536	7,281,455	2.2%
W Capital Partners II	10/3/2007	Secondaries	15,000,000	11,550,000	3,291,884	16,095	2,810,615	(20.7%)
Washington & Congress Capital Partners (fka Triumph III)	2/17/1998	Small Corp Finance	15,000,000	305,637	14,979,758	16,193,403	835,039	2.9%
Wellspring Capital Partners II	2/10/1998	Med Corp Finance	15,000,000	0	15,359,102	22,350,246	665,714	20.3%
Wellspring Capital Partners III	12/5/2002	Med Corp Finance	20,000,000	858,017	21,340,256	22,633,617	11,743,527	24.8%
Wellspring Capital Partners IV	6/14/2006	Med Corp Finance	20,000,000	9,531,281	10,468,719	0	10,021,041	(5.1%)
Welsh, Carson, Anderson & Stowe VII	12/15/1995	Lrg Corp Finance	15,000,000	0	15,000,000	31,122,802	1,523,133	17.8%
Willis Stein & Partners	6/28/1996	Small Corp Finance	5,000,000	0	5,006,918	10,696,312	15,838	20.7%
WLR Recovery Fund IV	12/13/2007	Distressed	8,000,000	5,659,541	2,352,415	0	2,139,956	(23.2%)
<b>Grand Total(s):</b>			<b>1,484,616,234</b>	<b>412,549,125</b>	<b>1,159,273,946</b>	<b>1,077,411,660</b>	<b>658,651,024</b>	<b>16.5%</b>

**State of Rhode Island  
Office of the General Treasurer  
Real Estate Holdings  
June 30, 2008**

Limited Partnership	Inception Date	Commitment	Market Value At 06/30/07	Funding Through 06/30/08	Unfunded Commitments at 06/30/2008	Market Value At 06/30/2008
RREEF America REIT II	June, 2005	35,000,000.00	41,768,391.00	35,000,000.00	-	42,695,519.39
Prime Property Fund	September, 2005	35,000,000.00	48,910,957.00	35,000,000.00	-	51,746,052.06
PRISA	September, 2005	50,000,000.00	66,092,441.00	50,000,000.00	-	71,301,765.72
PRISA II	June, 2007	15,000,000.00	3,000,000.00	8,595,000.00	6,405,000.00	8,891,396.71
JP Morgan Strategic Property Fund	March, 2006	50,000,000.00	62,135,094.00	50,000,000.00	-	67,345,869.06
LaSalle Income & Growth Fund IV	June, 2005	15,000,000.00	12,578,517.00	14,602,063.00	397,937.00	15,376,298.18
Capmark Commercial Realty Partners II	March, 2006	15,000,000.00	12,798,295.00	11,655,179.00	3,344,822.00	13,346,751.00
JP Morgan Alternative Property Fund	March, 2006	20,000,000.00	21,631,307.00	20,000,000.00	-	22,852,101.45
Fillmore East Fund	December, 2005	10,000,000.00	6,531,637.00	10,000,000.00	-	9,582,456.68
Magna Hotel Fund III	December, 2007	4,000,000.00	-	-	4,000,000.00	(27,889.00)
TA Fund VIII	September, 2006	15,000,000.00	3,656,769.00	12,000,000.00	3,000,000.00	12,411,165.00
Fremont Strategic Property Partners II	December, 2004	15,000,000.00	7,902,385.00	12,929,886.00	2,070,114.00	9,518,781.00
Tri Continental Capital VII	June, 2005	15,000,000.00	12,334,665.00	14,230,474.00	769,524.00	12,478,636.78
Starwood Capital Hospitality Fund I	September, 2005	10,000,000.00	7,504,081.00	7,000,000.00	3,000,000.00	9,165,359.00
Westbrook Real Estate Fund VI	June, 2006	15,000,000.00	14,097,746.00	15,000,000.00	-	9,586,931.00
Walton Real Estate Fund V	September, 2006	20,000,000.00	15,380,523.00	18,540,500.00	1,459,501.00	19,885,027.99
Westbrook Real Estate Fund VII	June, 2007	15,000,000.00	(22,770.00)	3,636,364.00	11,363,636.00	2,562,933.00
		<b>354,000,000</b>	<b>336,300,038</b>	<b>318,189,466</b>	<b>35,810,534</b>	<b>378,719,155</b>

MINUTES FROM FY2008  
STATE INVESTMENT COMMISSION MEETINGS

**State of Rhode Island and Providence Plantations  
STATE INVESTMENT COMMISSION**

**Regular Meeting July 25, 2007**

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, July 25, 2007. 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, Mr. Robert Giudici, Dr. Robert McKenna, Ms. Marcia Reback, Mr. John Treat, and General Treasurer Frank T. Caprio. Mr. Andrew Reilly was absent. Also present were: Mr. Kenneth E. Goodreau, Deputy General Treasurer for Finance; Mr. William Bensus, of Wilshire Associates Incorporated, General Consultant to the Commission; Ms. Lisa Tyrrell of the State Street Corporation; and other members of the Treasurer's staff.

State Investment Commission Minutes. Treasurer Caprio noted Ms. Reback's name was incorrectly included in a vote in the meeting minutes from July 25, 2007. With this correction noted, the Treasurer entertained a motion for approval of the minutes. Mr. Costello moved, Ms. Gallogly seconded and the following motion was passed unanimously. The following members voted in favor: Ms. Gallogly, Mr. Gaudreau, Mr. Reilly, Mr. Treat, and Treasurer Caprio. Ms. Reback recused herself from this vote given her absence from the previous meeting.

**VOTED: To approve the Minutes of the July 25, 2007 regular meeting.**

Treasurer Caprio noted that the presentations by Pacific Corporate Group (PCG), Alternative Investments Consultants to the Commission, and Point Judith Capital, as listed on the meeting agenda, were postponed until the August SIC meeting.

Treasurer Caprio then introduced representatives of Wellington Capital Management for a review of and update on their firm, with particular respect to the Wellington Technical Equity Product (WTEP) that the Commission approved for investment in the July SIC meeting. Present as representatives of Wellington were Mr. DJ Fitzpatrick, CFA, Equity Research Analyst; Ms. Elizabeth O'Hara, CFA, Relationship Manager; and Mr. Frank Taxeira, CFA, CMT, Director of Technical Analysis.

Manager Review – Taplin, Canida & Habacht. Mr. Bensus of Wilshire gave a brief overview of Taplin, Canida & Habacht (TCH) before introducing firm representatives Mr. Alan Habacht, Principal, and Mr. Corey Amon, Director of Research, for their presentation to the Commission. Mr. Habacht described TCH as a 22-year-old firm based in Miami with a focus of fixed income and \$8.3 billion currently under management. TCH was retained in 1996 to provide the Employees' Retirement System of Rhode Island (ERSRI) with a strategic market allocation to the general investment

characteristics of the corporate sector of the U.S. fixed income market. The ERSRI is classified as a corporate client.

Mr. Habacht turned to Mr. Amon to give an overview of TCH research strategies and processes. Mr. Amon noted that his team engages in both quantitative research and fundamental credit research. Quantitative research employs spread analysis, scenario analysis, breakeven analysis, and horizon analysis along with archived data of 100 sub-sectors of the fixed income market. He stated that the research team has extensive knowledge of the trading environment, and works closely with the portfolio management team to enable efficient and timely decision-making. TCH's proprietary analytical tools support this integrated approach.

Mr. Habacht characterized the TCH investment philosophy as emphasizing long-term growth by incorporating quality control by means of credit analysis and prudent diversification of assets; preservation of capital is stressed through strict adherence to risk controls throughout the investment process. Mr. Habacht anticipates that future growth will be disciplined and responsible, and that much of the growth will come from current clients.

Mr. Habacht described the investment team as consisting of the three original members with no turnover, which he noted is indicative of the firm's stability and consistence. Mr. Habacht summarized TCH's objectives as: (1) to generate a total return of 30 basis points, net of fees, over the Lehman Credit Index over a three- to five-year horizon; and (2) to generate a total return that ranks in the top 30% of the Wilshire Corporate Fixed Income Manager Universe over a three-to five-year horizon. Mr. Habacht assessed TCH's compliance with these objectives as having exceeded the benchmark by 0.42% on a three-year basis and by 1.57% on a five-year basis. Additionally, Mr. Habacht noted that the portfolio return ranks in the 35<sup>th</sup> percentile over a three-year trailing period and in the tenth percentile over a five-year trailing period.

Ms. O'Hara began the presentation by alerting the Commission that recent SEC investigations of Wellington, instigated in 2004, have been dismissed with no further action impending.

Mr. Fitzpatrick continued with a brief overview of the company and its general strategy, which he characterized as a bottom-up approach to investments. Mr. Fitzpatrick stated that, in the current, decelerating economy, Wellington looks for secular opportunities that can grow independent of the economy itself.

Mr. Treat inquired as to Wellington's "sell discipline" with regards to criteria that would dictate the sale of stocks and/or other investments. Mr. Fitzpatrick replied that Wellington's criteria are threefold, selling when (1) stocks grow too large for the portfolio, (2) stocks meet price targets for sale as determined by Wellington, and/or (3) poorly performing stocks are dragging down the overall performance of the portfolio and it is judged that they should be removed.



Mr. Bensus asked how long Wellington typically takes for a “graceful” exit from investment. Mr. Fitzpatrick stated that exit times are entirely dependent upon the context of each case.

Mr. Giudici inquired as to Wellington’s investment approach in terms of timing and assessing various sectors or specific stocks, with particular respect to small cap sectors. Mr. Fitzpatrick answered that Wellington’s approach focuses more on the details of specific stocks versus broader sector analysis.

Ms. O’Hara then introduced Mr. Taxeira for his presentation. Mr. Taxeira discussed his eighteen years of professional experience. He stated that technical analysis is not practiced at every firm, but that it is not something new, describing it as a form of market research that identifies persistent behavioral patterns that can indicate the future directions of stock prices. In an overview of his analytic philosophy, Mr. Taxeira stated that he believes disciplined implementation of technical analysis can, over time, provide consistent risk control. He characterized his overall approach as adhering to a “leadership model,” which seeks out and invests in the best stocks within strong performing groups, based on a belief that stock prices move concomitant with economic fundamentals. He further stated his belief that these fundamentals are themselves “perfect,” but that the analyses of these fundamentals are imperfect due to the natural incorporation of human bias and error.

Mr. Taxeira stated that he oversees more than \$600 million in WTEP, which he characterized as a comparatively large allotment for technical analysis within an organization. Mr. Taxeira stated that WTEP serves two primary functions for its clients: (1) money management and (2) technical research. He likened Wellington to a large shop containing many boutiques, which as a whole work to eliminate bias and error in market predictions for clients.

Mr. Taxeira stated that WTEP employs conceptual pictures of stocks, rather than specific names, in their analyses. He reiterated a belief that good stocks do well over time and rejected the idea of “cheap” stocks, believing the notion to be irrelevant as a motivating factor for investment.

Mr. Reilly inquired as to how WTEP considers anomalies in performance of various stocks. Mr. Taxeira answered that WTEP analyzes both specific stocks and their sectors, and acknowledges anomalies as outlier events that are not significant in terms of broad, long-range analyses. He further stated that he views valuation as an overused tool.

With regards to ERSRI portfolio allocation, Ms. Gallogly inquired as to how, specifically, WTEP would be classified. Mr. Goodreau replied that WTEP does not constitute small cap per se, and emphasized WTEP’s blended benchmark, concluding that WTEP has no real precedent in terms of ERSRI portfolio allocation. Mr. Goodreau raised the issue of addressing the flexibility of the portfolio, and his interest in exploring tactics and opportunities for the portfolio to best maintain an edge. Mr. Costello

concurrent, acknowledging there may be some discomfort in adopting non-traditional entities such as WTEP, and that investing a small amount with WTEP as the Commission approved is an intelligent way to test its capabilities. Mr. Treat agreed with Mr. Costello but emphasized that the Commission must have a way of defining and assessing all its investments, traditional and non-traditional.

Ms. Gallogly inquired as to the other institutional investors in WTEP, with specific interest in their amounts of investment. Ms. O'Hara answered that one state investor recently raised its investment from \$100 million to \$500 million, but that many other institutional entities have invested at lower numbers.

Bill Bensur inquired as to the capacity of WTEP. Mr. Teixeira answered that the capacity ranges between \$2.0-2.5 billion.

There being no further questions, Treasurer Caprio introduced Mr. Vincent Izzo, Cash Manager, for his presentation on Short-Term Investments.

Short-Term Investments – Manager Selection (The Reserve). Treasurer Caprio informed the Commission that Mr. Izzo has been promoted from Acting Cash Manager to Cash Manager for the ERSRI, and thanked him for his work for the Commission. Mr. Izzo thanked the Treasurer and began by stating that he and his staff have attempted to eliminate risk aggressively, and observed that the money market area has been successful for some time. He then gave an overview of The Reserve, which was founded in 1970 as the world's first money market fund and currently manages \$30 billion in total assets. Mr. Izzo proposed replacing Dreyfus with The Reserve on the list of Short-Term Investment Managers for the portfolio. Mr. Izzo stated that the New York-based The Reserve is AAA-rated, and satisfies all other SIC criteria for short-term vendor selection. Mr. Izzo concluded that The Reserve consistently outperforms other such firms by 10-15 basis points, and that their rates have equaled or exceed those of the current supplier.

Mr. Goodreau added that the Investments staff has been seeking technologies or methods for rate shopping that would streamline and improve the process to ensure that the ERSRI consistently obtains the best rates available.

Treasurer Caprio entertained a motion to adopt The Reserve as a short-term vendor, to replace Dreyfus. Ms. Gallogly moved, Mr. Costello seconded and the following motion was passed unanimously. The following members voted in favor: Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED: To adopt The Reserve to the list of Short Term investments vendors, in replacement of Dreyfus, contingent upon satisfactory review and negotiation of investment and other legal documents.**

Capital Market Review – Wilshire Associates. Mr. Bensur began his overview with general market observations, stating that economic growth had been slower to date in 2007; Mr. Bensur expects this trend to continue. In terms of businesses, quarterly earnings growth in 2007 has exceeded expectations; the service sector remains healthy, but the factory sector shows some signs of slowing. Weekly unemployment claims have continued to fall. With respect to consumers, retail sales posted a healthy increase in the second quarter, but job growth is sluggish and unemployment remains at 4.5%. Overall consumer net worth, however, continues to rise. In terms of the housing market, new home sales and starts decreased, and prices on the whole have fallen.

Mr. Bensur noted that the U.S. equity market has been volatile, but that markets have been encouraged by profit reports. He commented that private equity, as exemplified by the Blackstone Group's recent foray into public offerings, has been unusually active in public markets. In the year to date, large cap stocks outperformed small cap stocks for the first time in roughly six years. In terms of international markets, Mr. Bensur observed that emerging markets continue to lead developed markets. European returns have tempered somewhat in 2007 after a strong showing in 2006. In Asia the yen has rallied, reducing the attractiveness of the yen-dollar carry trade, and Mr. Bensur noted some concern over the safety of Chinese imports has cautioned investors towards that market area.

The Federal Reserve has paused rate hikes, with federal funds at a rate of 5.25%. The Federal Reserve Chairman has warned Congress about deficits. Ten-year Treasury yields are near 5.00%. Mr. Bensur predicted that the federal government is unlikely to reduce rates in 2007, and that subprime mortgage issues will continue to be cause for concern. In conclusion, Mr. Bensur stated that the overall portfolio has met its benchmarks in the year to date.

It was noted for the record that Mr. Treat excused himself from the meeting to attend another commitment at 10:50 a.m.

Legal Counsel Report. Mr. Gallogly stated that there was no report for the month.

Deputy Treasurer for Finance Report. Mr. Goodreau addressed the ongoing matter of accounting discrepancies, and the newly implemented practice of separating private equity as its own category of accounting. Mr. Goodreau reiterated that he has classified private equity as a sub-sector in performance reports to more accurately portray performance. For the past month, Mr. Goodreau stated that this new practice portrays the fund in a somewhat more negative light than the former practice would have calculated; he concluded, however, that overall performance is roughly in line with all benchmarks.

Treasurer's Report. Treasurer Caprio added to Mr. Goodreau's report on portfolio accounting, stating that calculations based on private equity as a separate sub-sector saw returns of 15.8% for the previous month, versus 17.4% as calculated using the previous accounting practice. Treasurer Caprio also announced a new position of in-house auditor, as recommended by the Auditor General. The new position will perform

auditing duties in addition to the yearly visits from external auditors. Finally, the Treasurer announced that the contract with the current legal counsel, Brown, Rudnick, Berlack Israels, LLP, will expire in October 2007; he informed the Commission that requests have been made for bids from law firms, and that the process will be directed by Chief of Staff and Chief Legal Counsel Mark Dingley.

As a matter of new business, Mr. Reilly raised the matter of reviewing aged funds, with respect to the trend of declining value in aged funds. Mr. Reilly observed that there are fifteen to sixteen such funds within the portfolio, and suggested that the Commission as a group make a closer review of these funds in an effort to prevent them from bringing down overall returns.

Treasurer Caprio asked Mr. Reilly and Mr. Goodreau to draft a related item to be included on a future meeting agenda; Mr. Reilly and Mr. Goodreau agreed.

Ms. Gallogly inquired as to whether there would be a meeting held in August. Mr. Goodreau confirmed there would be a meeting given the time sensitivity with respect to a vote on potential investment in Point Judith Capital.

There being no questions from the members and no new business, Treasurer Caprio entertained a motion to adjourn the meeting. Mr. Giudici moved, Mr. Reilly seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Mr. Gaudreau, Dr. McKenna, Mr. Reilly, and Treasurer Caprio.

**VOTED: To adjourn the meeting.**

There being no further business, the meeting was adjourned at 11:05 a.m.

Respectfully submitted,

Frank T. Caprio  
General Treasurer

**State of Rhode Island and Providence Plantations  
STATE INVESTMENT COMMISSION**

**Regular Meeting August 22, 2007**

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, August 22, 2007. 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, Mr. Robert Giudici, Dr. Robert McKenna, Ms. Marcia Reback, Mr. John Treat, and General Treasurer Frank T. Caprio. Mr. Andrew Reilly was absent. Also present were: Mr. Kenneth E. Goodreau, Deputy General Treasurer for Finance; Mr. William Bensus, and Ms. Julia Bonafede, of Wilshire Associates Incorporated, General Consultant to the Commission; Ms. Lisa Tyrrell of the State Street Corporation; and other members of the Treasurer's staff.

State Investment Commission Minutes. Treasurer Caprio noted Ms. Reback's name was incorrectly included in a vote in the meeting minutes from July 25, 2007. With this correction noted, the Treasurer entertained a motion for approval of the minutes. Mr. Costello moved, Ms. Gallogly seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Mr. Treat, and Treasurer Caprio. Ms. Reback recused herself from this vote given her absence from the previous meeting.

**VOTED: To approve the Minutes of the July 25, 2007 regular meeting.**

Manager Review – Taplin, Canida & Habacht. Mr. Bensus of Wilshire gave a brief overview of Taplin, Canida & Habacht (TCH) before introducing firm representatives Mr. Alan Habacht, Principal, and Mr. Corey Amon, Director of Research, for their presentation to the Commission. Mr. Habacht described TCH as a 22-year-old firm based in Miami with a focus of fixed income and \$8.3 billion currently under management. TCH was retained in 1996 to provide the Employees' Retirement System of Rhode Island (ERSRI) with a strategic market allocation to the general investment characteristics of the corporate sector of the U.S. fixed income market. The ERSRI is classified as a corporate client.

Mr. Habacht turned to Mr. Amon to give an overview of TCH research strategies and processes. Mr. Amon noted that his team engages in both quantitative research and fundamental credit research. Quantitative research employs spread analysis, scenario analysis, breakeven analysis, and horizon analysis along with archived data of 100 sub-sectors of the fixed income market. He stated that the research team has extensive knowledge of the trading environment, and works closely with the portfolio management team to enable efficient and timely decision-making. TCH's proprietary analytical tools support this integrated approach.

Mr. Habacht characterized the TCH investment philosophy as emphasizing long-term growth by incorporating quality control by means of credit analysis and prudent diversification of assets; preservation of capital is stressed through strict adherence to risk controls throughout the investment process. Mr. Habacht anticipates that future growth of assets under management will be disciplined and responsible, and that much of the growth will come from current clients.

Mr. Habacht described the investment team as consisting of the three original members with no turnover, which he noted is indicative of the firm's stability and consistency. Mr. Habacht summarized TCH's objectives as: (1) to generate a total return of 30 basis points, net of fees, over the Lehman Credit Index over a three- to five-year horizon; and (2) to generate a total return that ranks in the top 30% of the Wilshire Corporate Fixed Income Manager Universe over a three-to five-year horizon. Mr. Habacht assessed TCH's compliance with these objectives as having exceeded the benchmark by 0.42% on a three-year basis and by 1.57% on a five-year basis. Additionally, Mr. Habacht noted that the portfolio return ranks in the 35<sup>th</sup> percentile over a three-year trailing period and in the tenth percentile over a five-year trailing period.

In terms of risk management, Mr. Habacht noted that TCH maintained strict compliance to benchmarks via sophisticated analytics and daily monitoring. He added that TCH developed its own monitoring program to improve this process. In conclusion, he thanked the Commission for the longstanding relationship between TCH and the ERSRI, dating back to an initial investment of \$15 million in 1996.

Mr. Amon gave an overview of TCH's research and analysis. He commented on the recent federal rate cuts and a global scenario of tight liquidity. He stated that despite these factors he is optimistic about the current environment, characterizing the situation as one of normalizing prices that will prove advantageous for the fund going forward.

Ms. Gallogly noted the presence of Countrywide Financial in the fund and asked Mr. Amon to comment, given the current volatility of that particular company. Mr. Amon stated that he anticipates a volatile future for Countrywide, but that this will be a credit-neutral event for TCH. Mr. Amon explained that Countrywide had reduced its subprime exposure in the months prior to the credit tightening, and it remains less than many other lenders. Mr. Amon reiterated that he believed this to be a significant but short-lived liquidity squeeze, adding that federal banks stand ready to provide liquidity as necessary.

Ms. Gallogly asked if there are other firms of concern in the fund, in addition to Countrywide. Mr. Habacht answered that his concerns are not with any particular firm, but the more generalized problem of liquidity.

Capital Market Review – Wilshire Associates. Mr. Bensur began his overview with general market observations, stating that economic growth had been slower to date in 2007; Mr. Bensur expects this trend to continue. Quarterly business earnings growth is in line with expectations, with some companies “guiding down”; the service sector

remains healthy, but the factory sector shows some signs of slowing. Additionally, industrial output rose in the second quarter. Job growth is sluggish, with an unemployment rate of 4.5%. Retail sales posted a healthy increase in the second quarter, and overall consumer net worth continues to rise. In terms of the housing market, new home sales and starts decreased, and prices on the whole have fallen.

Mr. Bensus noted that the U.S. equity market has been volatile, but that markets have been encouraged by profit reports. He commented that private equity, as exemplified by the Blackstone Group's recent foray into public offerings, has been unusually active in public markets but that financing may be drying up. In the year to date, large cap stocks outperformed small cap stocks for the first time in roughly six years. In terms of international markets, Mr. Bensus observed that emerging markets continue to lead developed markets. European central banks have tightened, and European returns have been stronger than Japanese and U.S. returns. In Asia the yen has rallied, reducing the attractiveness of the yen-dollar carry trade, and Mr. Bensus noted some concern over the safety of Chinese imports has cautioned investors towards that market area.

The Federal Reserve cut discount rates by 50 basis points; the discount rate is now 5.75% (down from 6.25%) but the federal funds rate remains at 5.25%. Mr. Bensus commented that these cuts are due to rising credit concerns in the U.S. and global markets. Ten-year Treasury yields are near a rate of 4.60%, down from 5.00%; rates are expected to be reduced before year-end 2007, as fears of a subprime mortgage "contagion" continue. Mr. Bensus concluded that he believes the proactive measures taken early this year to reduce risk, especially in terms of reduced high-yield exposure, successfully reduced the portfolio's potential losses in the current volatile markets.

Legal Counsel Report. Treasurer Caprio stated that there was no legal counsel report for the month. Mr. Brian Gallogly of Brown, Rudnick, Berlack Israels, LLP, legal counsel to the Commission, was not present.

Deputy Treasurer for Finance Report. Mr. Goodreau echoed Mr. Bensus's comments on the measures taken toward proactive insulation earlier this year. He stated that these proactive measures should provide the Commission with investor confidence. Additionally, Mr. Goodreau noted that the current volatile economic environment provides the Commission an opportunity to distinguish funds and companies that are truly good performers, versus those who perform well only in good environments. He drew the Commission's attention to two firms, The Boston Company and PIMCO, which are now under internal watch due to continued underperformance. He stated further that it remains to be seen whether The Boston Company is able to use their conservative strategy to safeguard against losses in the current market volatility, and that PIMCO's portable alpha strategy has yielded returns that are consistently but not drastically underperforming. He concluded that he will continue to update the Commission on these two firms. Finally, Mr. Goodreau noted that asset allocation remains a prime focus for him and his staff, and that proper alignment is the best way to improve overall portfolio performance in the long term.

Mr. Costello inquired as to the current state of the portfolio. Mr. Goodreau answered that it is currently down 150 basis points, but that he does not believe this is worrisome in the long term. He added that he would like to bring private equity holdings in line with policy parameters, and that once this is corrected, the portfolio will be in even better standing going forward.

Ned Davis Research Group – Presentation. Treasurer Caprio welcomed Mr. Bruce Kaminsky, Director of Institutional Sales, and Mr. Tim Hayes, Chief Investment Strategist, of Ned Davis Research Group (NDR) for their presentation to the Commission. Mr. Kaminsky characterized NDR as an independent, institutional research company founded in 1980 with the goal of providing unbiased and comprehensive investment research to institutional clients. NDR employs a global, top-down approach and specializes in providing a strategic, tactical view on asset allocation. NDR holds no stocks or other investments.

Mr. Hayes described NDR's research philosophy as objective, disciplined, risk-averse and flexible. As part of their risk-management strategy, NDR advises clients to focus on the reality of the markets (i.e. what is happening rather than what should happen), to synchronize investment decisions with federal economic policies and actions, and to avoid market extremes. Mr. Hayes stated that NDR works with its clients to develop asset allocation models tailored to the client's interests and resources.

Mr. Goodreau commented that he viewed NDR as an additional tool that the Commission can use in conjunction with its consultants as a way to broaden the field of available knowledge. He considers it the Commission's fiduciary responsibility to maintain the highest financial awareness possible in the interest of sound decision-making.

Ms. Reback asked Treasurer Caprio to clarify how the research from NDR might be used, and expressed reticence at the possibility of excessive investment changes. Treasurer Caprio clarified that the research would not be used to direct immediate investment decisions, but rather would serve as a supplemental tool in conjunction with the information from consultants. Mr. Goodreau concurred that he intended the research from NDR to function as guidance rather than explicit direction.

Treasurer's Report. Treasurer Caprio first announced that ratings agencies (Moody's, Fitch, and Standard & Poor's) had confirmed the State of Rhode Island's credit rating; the rating remained at a split rating of Aa3, AA, and AA respectively. Secondly, Treasurer Caprio announced that the auction for interest rates, as previously discussed by the Commission, would open following that day's meeting on August 23, 2007. Finally, Treasurer Caprio informed the Commission that the Treasurer's Office is preparing Requests for Proposals (RFPs) in order to solicit bids for all outside consulting work performed for the Commission. Treasurer Caprio further stated that firms submitting bids may consider the multiple functions performed by each of the current consultants separately, in boutique fashion, or as a whole.



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 unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, 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 11:05 a.m.

Respectfully submitted,

Frank T. Caprio  
General Treasurer

**STATE INVESTMENT COMMISSION**  
**State of Rhode Island and Providence Plantations**

**Regular Meeting September 26, 2007**

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, September 26, 2007. The Treasurer called the meeting to order at 9:15 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, 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. Mr. Robert Gaudreau was absent. Also present were: Mr. Kenneth E. Goodreau, Deputy General Treasurer for Finance; Mr. William Bensus, of Wilshire Associates Incorporated, General Consultant to the Commission; Ms. Michelle Davidson Pacific Corporate Group (PCG), Alternative Investments Consultant to the Commission; and other members of the Treasurer's staff.

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

**VOTED: To approve the Minutes of the August 29, 2007 regular meeting.**

Manager Continuation Policy analysis – Wilshire Associates. Mr. Bensus stated he would dispense with the Capital Markets Review as everyone is tuned into how the market is performing. In general, he stated that July and August was a period of negative volatility; the market has since recovered. On the year, U.S. equity is up about 8%; international exposures continue to outperform U.S. exposures and are now up 14.5%. Emerging markets are up about 32%. Fixed income has become slightly more normalized. The Lehman aggregate is up about 3.5 % on high yield bonds and spreads have widened out and are up about 3% on a year to date basis.

Mr. Bensus then moved on to the Manager Continuation Policy analysis by explaining why the policy was put in place and stating this is only one of many tools used for analyses of performance. He recommended the commission retain all of the U.S. equity managers. Mr. Bensus reminded the commission that the benchmark for State Street Global Advisors had been converted from Russell 1000 to S&P 500 as of December 31, 2006.

The non U.S. equity space has been a bit of a challenge. Mr. Bensus recommended we retain Goldman Sachs Asset Management and Mondrian Investment Partners Ltd.. However, he suggested we monitor Boston Company Asset Management which has experienced organizational and performance issues. Mr. Bensus suggested we

schedule The Boston Company to come before the commission for a review at the next SIC meeting. Treasurer Caprio concurred with Mr. Bensur's suggestion.

Fixed income managers have performed well, although MacKay Shields LLC personnel developments should be monitored. Treasurer Caprio stated we had exited Shenkman earlier this year and Mr. Bensur concluded this was a positive decision. Mr. Bensur stated there would be a day when spreads and high yield space return to normality. He suggested the committee analyze, review, and shelf RFP names of high yield managers who are already vetted in the event yield curves migrate back to normal conditions, as there may be a great opportunity for excess returns. Treasurer Caprio concurred and suggested the staff discuss a strategy with Wilshire for RFP's in the high yield space. Mr. Giudici asked how often Wilshire reviews changes in personnel within the management groups and how this impacts their performance. Mr. Bensur stated they evaluate this on an ongoing basis. Mr. Goodreau stated that the Treasury staff has a fiduciary responsibility to take part in the review process along with Willshire Consulting.

Mr. Bensur went on to discuss asset allocation investment performance. He recommends maintaining the current exposures to US equity (42.5%), non-US equity (20.0%), and fixed income (25.0%). Real estate has a target of 5% and the fund is currently at 3.5% and building. Private equity has a target of 7.5% and the fund is currently at 5.8%. RIEERS currently has 5 to 5.5% cash and cash equivalents on hand.

Proposed Investment in Point Judith Venture Fund II, L.P. Michelle Davidson of PCG stated Point Judith Capital Venture Fund II will make early stage venture capital investments in the information technology and science sectors. Geographically, the fund will focus on investments in the Northeast region. The breakdown will be 60-70% IT and 30-40% life science investments.

Treasurer Caprio noted that Point Judith is a local company and it is prudent that ERSRI support these types of world class entities to help grow our local economy. He asked Gina Raimondo, General Partner, to introduce the members of Point Judith Capital: Sean Marsh, General Partner, and David Martirano, General Partner.

Ms. Raimondo went on to summarize her education and the history of the fund. She stated that there is one amendment to the overview as it was presented; the fund was closed in January of this year but has been given an opportunity by the Limited Partners to reopen the fund to allow ERSRI to invest. Ms. Raimondo thanked the commission for considering a smaller investment which is atypical for ERSRI; however she is looking forward to a larger investment and greater commitment in Point Judith's next fund. The average investment size will range from \$3 million to \$6 million in a total of 13 to 15 portfolio companies. The General Partner will seek board representation on all investments. The fund will leverage its newly established partnership with Tudor Asset Management. Tudor has chosen Point Judith exclusively to be their early stage partner. Through its relationship with Tudor and Tudor Ventures, Point Judith should be able to enhance its industry and deal flow network. The firm will have access to Tudor's

proprietary research as well as analyses on industries, competitive landscapes, management teams, and market dynamics for potential financings, providing a competitive edge for Point Judith.

Mr. Marsh stated that the early stage venture investment business is more about working with entrepreneurs to build these companies rather than the financial, mechanical, and engineering aspects. The way they achieve alpha and achieve top quartile returns is by targeting specific industries within their area of expertise and optimizing their ability to add value to these companies. Mr. Martirano concluded with an overview of Fund II's current performance stating that the fund should be fully invested in about eighteen months.

Mr. Goodreau reiterated the importance of Tudor's commitment to Fund II and the huge advantage this affords the commission in regard to this investment.

Treasurer Caprio then entertained a motion for investment in Point Judith Fund II in the amount of \$5 million, pending satisfactory legal review. Mr. Reilly moved, Dr. McKenna seconded and the following motion was passed: The following members voted in favor: Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms.Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio. Mr. Costello recused himself from participating in the vote.

**VOTED: To invest up to \$5 million in Point Judith Fund II contingent upon satisfactory review and negotiation of investment and other legal documents.**

Proposed Investment in Perseus Partners VII, L.P. Ms. Davidson of PCG introduced Frank Pearl, Chairman & CEO, and Ray Newton III, Senior Managing Director. She went on to state that Perseus, L.L.C. is a private equity firm founded in 1995 that manages seven investment funds with capital commitments totaling \$2 billion. Perseus Partners VII, L.P. fund has a target of \$750 million and focuses on buyout and growth equity investments, biotechnology and medical device consolidations. They have a highly experienced team with the ability to identify companies and sectors with unrecognized value. Perseus VII, L.P intends to invest between \$25 and \$100 million in each of its portfolio companies. The average investment size of these companies is \$37 million. The strategy of Perseus VII, L.P. is to make growth equity and buyout investments in companies with strong management teams, rich intellectual property assets, powerful consumer brands, and/or highly skilled work forces.

Ms. Reback asked why there was a high turnover in personnel at the firm. Mr. Pearl explained that turn over at the junior level is very common and Ms. Davidson of PCG concurred. Mr. Pearl explained that the five senior people have been together for many years and they are the core of the company.

Mr. Pearl went on to explain that this is the seventh fund. The investment sectors are broken as follows: 50% undervalued and distressed investments, 25% healthcare, and 25% energy and environmental. They have closed \$600 million and will have a final

closing in a little over a month. The core of their investors has been with them through four or five funds. The reason for this is their return is very high (75%).

Ms. Gallogly asked Mr. Pearl to comment on why the closure dates for private equity holdings have dragged on. In regard to Perseus, Mr. Pearl explained that they create substantial companies through consolidation. In these transactions the firm is really a strategic owner building a business, not just a financial owner. These companies will typically be held for five to seven years. There will be a great deal of realization up front, and then a big slug of value will be generated some years later.

Mr. Giudici asked Mr. Pearl how personal bankruptcy impacts his investment strategy. Mr. Pearl stated it does not have a direct impact on his strategy, but it does affect the economy negatively. There will be more bankruptcies which he considers to be an opportunity for Perseus.

Treasurer Caprio then entertained a motion for investment in Perseus Fund VII in the amount of \$15 million, pending satisfactory legal review. Ms. Reback moved, Mr. Costello seconded and the following motion was passed unanimously. The following members voted in favor: The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED: To invest up to \$15 million in Perseus Partners VII, L.P. contingent upon satisfactory review and negotiation of investment and other legal documents.**

Proposed Investment in Fenway Partners Capital Fund III, L.P. Ms. Davidson introduced Mr. Richard Dresdale, President, and Mr. Gregg Smart, Senior Managing Director. She explained that Fenway was founded in 1994 to acquire underperforming but profitable middle market companies with significant opportunities for earnings growth. They are focused on consumer branded products and the transportation / logistics sector. Treasurer Caprio interjected that we are currently invested in Fenway Fund II. Ms. Davidson stated they have a very experienced management team. Transportation / logistics are not currently represented in our portfolio and there is less competition in this type of investment. Ms. Davidson commented that it is worth continuing the relationship.

Mr. Dresdale went over the history of the firm. He noted the transaction size is \$100 to \$500 million. To date the fund has closed on four investments representing \$276.6 million of invested capital. He noted that Fund I's performance was poor. There was one large loss where fraud was identified, but the issues were addressed and the team was rebuilt, they tightened their investment screen and focused on the areas that are most familiar to them. They have not lost capital since 2000.

Mr. Reilly asked why the fees charged to the portfolio companies are larger than those charged by other managers of similar size companies. Mr. Smart stated this helps to pay overhead. They have had no turnover in their management team. In order to

retain their team, they were more aggressive at the portfolio company level during the period of time at the back end of Fund II. Fund III has a split of 80/20 which is the industry norm. The fees will be slightly lower as the fund moves ahead. Mr. Reilly asked if there was a formula or matrix to determine fees. Mr. Dresdale responded that the fees were not formulaic, but rather they are based on a bandwidth related to the size of the company and the resources being allocated.

Treasurer Caprio then entertained a motion for investment in Fenway Fund III in the amount of \$15 million, pending satisfactory legal review. Ms. Reback moved, Mr. Treat seconded and the following motion was passed: The following members voted in favor: Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms.Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio. Mr. Costello recused himself from participating in the vote.

**VOTED: To invest up to \$15 million in Fenway Partners Capital Fund III, L.P. contingent upon satisfactory review and negotiation of investment and other legal documents.**

Legal Counsel Report. Treasurer Caprio stated that there was no legal counsel report for the month. Mr. Edward Pare of Brown, Rudnick, Berlack Israels, LLP, legal counsel to the Commission, indicated that there were no legal developments for the month.

Deputy Treasurer for Finance Report. Mr. Goodreau asked Mr. Izzo, Cash Manager, to speak to the commission regarding short term cash management within the portfolio. Mr. Izzo asked the commission to approve an increase in the cap on money market funds from 50% to 75%, as we are consistently near our cap. Recently money market funds have been out performing the other investment instruments we have by 25 basis points on average. These funds have liquidity and are available on a daily basis which allows us to meet unexpected obligations. Treasurer Caprio remarked that the guidelines currently allow 75% allocation to the US Agency account. Treasurer Caprio thanked Mr. Izzo for bringing this to the commission's attention.

Treasurer Caprio then entertained a motion to increase allocation for money market funds from 50% to 75%. Mr. Costello moved, Ms. Reback seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms.Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED: To increase the allocation for money market funds for short term investments from 50% to 75%.**

Treasurer's Report. Treasurer Caprio first announced that the Sudan divesture legislation has passed. One of the targeted companies was Rolls Royce PLC who is currently providing aircraft engines and aircraft to the Sudanese government which are being used to bomb the villages. During the push for legislation, Rolls Royce PLC withdrew all activity from the Sudan government. There was also a major development

with Berkshire Hathaway this week. Although not directly involved in Sudan, they are a major shareholder of the Malaysian oil company Petronus which is fueling Sudanese aircraft. Pressure was put on Berkshire Hathaway last week during their annual meeting. They have since announced the beginning of divestment of these holdings. There has also been discussion that California is getting ready to pass a bill to prevent major corporate entities from having activity within the country. This is being closely monitored and may result in legislation here in Rhode Island.

New Business. There being no further new business, the Treasurer entertained a motion to adjourn.

Ms. Reback moved, Mr. Giudici seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED: To adjourn the meeting.**

There being no further business, the meeting was adjourned at 11:30 a.m.

Respectfully submitted,

Frank T. Caprio  
General Treasurer

**State of Rhode Island and Providence Plantations  
STATE INVESTMENT COMMISSION**

**Regular Meeting October 24, 2007**

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, October 24, 2007. The Treasurer called the meeting to order at 9:15 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, 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. Mr. Andrew Reilly arrived fifteen minutes late. Also present were: Mr. Kenneth E. Goodreau, Deputy General Treasurer for Finance; Mr. Brian Gallogly, Esq., of Brown Rudnick Berlack Israels, Legal Counsel to the Commission; Mr. William Bensus, of Wilshire Associates Incorporated, General Consultant to the Commission; Ms. Lisa Tyrrell of the State Street Corporation; Mr. Sundeep Rana, Vice President of Pacific Corporate Group (PCG), Alternative Investments Consultant to the Commission; and other members of the Treasurer's staff.

State Investment Commission Minutes. Treasurer Caprio noted the omission of two words (of Iran) from a sentence on page five in the meeting minutes from September 26, 2007. The sentence should have read "There has also been discussion that California is getting ready to pass a bill to prevent major corporate entities from having activity within the country **of Iran**". With this correction noted, the Treasurer entertained a motion for approval of the minutes. Dr. McKenna moved, Mr. Treat seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Treat, and Treasurer Caprio. Mr. Reilly was absent for the vote.

**VOTED: To approve the Minutes of the September 24, 2007 regular meeting.**

Manager Continuation Policy Analysis & Review – The Boston Company. Mr. Bensus of Wilshire gave a brief overview of the objectives of The Boston Company. He stated that although the performance history is insufficient for compliance measurement, the portfolio lags the benchmark by 669 basis points (6.69%), net of fees, since inception.

Treasurer Caprio asked the firm representatives to address the Commission. Mr. Matthew J. Bucci, Senior Relationship Manager represented The Boston Company along with Mr. D. Kirk Henry, CFA, Director of Non-U.S. Value Equity and Mr. Jeremiah K. Holly, Sr., Relationship Manager.

Mr. Bucci announced that there have been two organizational changes within The Boston Company. In early August one of the International Core Teams left the company to start a similar venture, unrelated to the team that manages our portfolio. These individuals have been replaced by seasoned investment professionals. A lawsuit has been



filed to protect the interests of The Boston Company's intellectual property, capital, employees, and clients. Secondly, David Cameron has been promoted to Chief Executive Officer, John Truschel has been promoted to Chief Investment Officer and Corey Griffin has been named Chairman.

Bill Bensusan asked Mr. Bucci if the loss of the team has affected the organizational structure or resources. Mr. Bucci responded that with the exception of this event, the employees in the international group have been with the company for a very long time with very little turn over. The Boston Company continues to be provided with all the resources necessary to focus 100% on their efforts regarding our portfolio.

Mr. Bucci stated that The Boston Company is very disappointed with the performance of the portfolio. There have been three years of under performance with 2007 being the fourth; they are 1998, 2005, 2006, into 2007. They have, however, out performed very well in other market environments. During the three year period from 1999 to 2002 when the tech bubble burst, The Boston Company outperformed in a declining market. When a bull market exists stocks become over valued, as is the case with China. The market today is focusing on fundamental earnings and price momentum. Mr. Bucci went on to explain he felt there would be a broadening out of the market or a potentially down market.

In regard to China and emerging market exposure, Bill Bensusan asked Mr. Bucci to explain The Boston Company's position five years ago in relation to where they are today. Mr. Bucci stated that the emerging market weight in the portfolio over seven to eight years ranged from 20% to 12%. The index at that time was anywhere from 8% to 16%. The portfolio was significantly over weight in emerging markets for the first four or five years, but has since become more neutral. The portfolio currently has about 15% invested in emerging markets and they continue to look for opportunities from a stock selection standpoint to add to the portfolio.

The third quarter has been particularly challenging. The stocks that are in the portfolio having been lagging by approximately 8 to 10%; this was caused somewhat by the sub prime situation. The Boston Company's investment style is out of favor at the present time but it will eventually come back into favor. Attributions with Australia, Canada, and Japan have been disappointing. The stock selection has been very negative for the past couple of years but traditionally had been very positive during prior years.

Treasurer Caprio asked Mr. Bucci to refer to the non-U.S. value equity percentage of the portfolio. He noted that the years 1999 and 2000 are similar to the current lagging performance. Treasurer Caprio asked how The Boston Company intended to turn this around to become a top quartile performer. Mr. Bucci responded that part of the cause for the falling values was due to the tech and telecom bubble. Stocks are in a commodity driven market and a bear market resulting in down value. The Boston Company stocks picked up 1000 basis points in 2000, 1200 basis points in 2001, and 600 basis points in 2002 to close that gap. That gap will narrow again because investors are focusing on fundamentals but are not paying attention to valuation.

Mr. Goodreau stated that in The Boston Company's defense, this has been one of the narrowest markets he has encountered. He stated his concern regarding the use of price to book because there can be value traps. Looking at the composition of the sector attribution, the portfolio is underweight in financials which are currently at 26.8%. The sector itself, despite being 28% exposed, is returning 8.2%. Therefore, we are losing money and it appears to be a stock selection issue. In theory we have a reversion to value; however The Boston Company is in the wrong areas of value. Mr. Goodreau expressed his concern regarding the ability of the team from The Boston Company to rectify this situation once the cycle comes back into favor.

Mr. Bucci explained that in addition to the problems already discussed, another area that has hurt the portfolio is Japanese domestic related companies, specifically financials. They have made some changes in the portfolio to correct this. They have a team that has been in place for fourteen years with a tremendous amount of experience. Mr. Bucci apologized for the current situation and stated they are doing their best going forward. This concluded the review of The Boston Company.

Treasurer Caprio addressed the Commission regarding the performance of the portfolio in general. He stated returns have been very good on a month to month basis as the market has advanced. However, this last month the portfolio lagged against our policy index by about 30 basis points. He attributed this to the international portion of the portfolio which is managed by The Boston Company. Treasurer Caprio recommended to the Commission that they should be prepared to exit The Boston Company and move into an index investment if there is no improvement in performance in the next three months. The Commission will then decide whether to stay in the index investment or bring in a new investment manager. He also stated that The Boston Company's fees are the second highest in the portfolio.

Mr. Goodreau noted that the 900 basis points that were lost due to The Boston Company's poor performance equates to approximately \$59 million in total revenue, which is a significant drag on the portfolio. He also stated he agrees with The Boston Company regarding an eventual reversion in styles within the market. If and when this happens, Mr. Goodreau expressed concern regarding the ability of the management team of The Boston Company to rectify the situation once the cycle comes back into favor.

A discussion ensued among the Commission members and Mr. Bensur regarding the performance and viability of The Boston Company including the risks involved in exiting the investment. Treasurer Caprio reiterated that the 30 basis point lag in the portfolio is largely attributed to The Boston Company. Ms. Reback motioned to accept a recommendation by the Treasurer, staff, and consultant to provide flexibility with respect to a timely decision on whether or not to continue a relationship with The Boston Company.

Treasurer Caprio added that the Commission would abide by all applicable statutes in making the decision and entertained a motion based on Ms. Reback's

suggestion. Dr. McKenna seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Ms.Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED: To allow the Treasurer and staff flexibility with respect to a timely decision on whether or not to exit The Boston Company abiding by all applicable statutes in the process.**

Wilshire Associates Incorporated – Capital Market Review. Mr. Bensur began his overview with general market observations, stating that economic growth had been slower to date in 2007; Mr. Bensur expects this trend to continue. In terms of businesses, quarterly earnings growth is expected to be low in the third quarter; the service sector remains healthy, but the factory sector is slow. Weekly unemployment claims are up; job growth is sluggish and payrolls dropped in August. In terms of the housing market, new home sales dropped 8.3% in August and foreclosures are at a record high; this has had a negative affect on consumer confidence.

Mr. Bensur noted that the U.S. equity market has been volatile worldwide in 2007. Although private equity has been active in the public market, financing may be drying up. In terms of international markets, Mr. Bensur observed that emerging markets have outperformed developed markets by three times. European returns have been stronger than Japan and the U.S. in 2007. The U.S. dollar continues to fall versus the Euro and Yen. Mr. Bensur noted concern over the safety of Chinese imports which has cautioned investors toward that market area.

The Federal Reserve has cut rates by 50 basis points due to sub prime credit concerns. The federal funds rate is now 4.75%. Ten-year Treasury yields are near 4.40%. The sub prime mortgage issue is expected to continue to be a major concern for the capital markets.

Manager Review – Bain Capital Private Equity. Mr. Sundeep Rana, Vice President, Pacific Corporate Group gave a brief overview of Bain Capital prior to introducing firm representative Mr. Benjamin Thorndike. Mr. Thorndike stated that Bain Capital was started in 1984 and since inception has been one of the largest investors in all private equity sectors. They have a tenured investment team globally based with deep industry knowledge. Bain Capital funds have had consistent top-quartile performance across all economic cycles.

Mr. Thorndike remarked that their fund structure is different than many of the firms they compete with. They raise smaller funds with a regional focus. Their cascading fund structure allows pursuit of large global deals without the pressure of investing in a large regional fund. They have a flexible structure which allows their European and Asian team to work together with their North American team to find the best deals.

Mr. Thorndike stated that Bain Capital has delivered gross multiple returns ranging from 2.2 up to 5+ times for each year of investment. They have delivered consistently superior returns in both favorable and challenging conditions. Mr. Thorndike concluded by remarking that they have a great culture, they generate terrific returns and the operating focus is really well situated in the environment expected during the next few years.

Treasurer Caprio thanked Mr. Thorndike and asked if anyone had questions. Ms. Gallogly asked if all the return numbers are net of operating expenses. Mr. Thorndike replied they are net of all fees that the investors pay including management fees. Treasurer Caprio then entertained a motion for investment in Bain Capital Fund X. Ms. Reback motioned, Dr. McKenna and Mr. Giudici seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED: To invest \$25 million in Bain Capital Fund X, contingent upon satisfactory review and negotiation of investment and legal documents.**

Legal Counsel Report. Mr. Brian Gallogly from Brown, Rudnick, Berlack Israels, LLP, legal counsel to the Commission, indicated there were no legal developments for the month.

Deputy Treasurer for Finance Report. Mr. Goodreau stated that the Commission has been exposed to some investments with potential adverse consequences as a result of the sub prime situation, but that there have been some successes over the last six to nine months which have resulted in positive changes. He thanked the Commission for “thinking outside the box” in regard to the Wellington commitment which was made a couple of months ago. As decisions are made, Mr. Goodreau intends to keep the Commission apprised of the affect these decisions have on the portfolio.

Treasurer’s Report. Treasurer Caprio first remarked that the Wellington Technical Equity Manager hired with a commitment of \$50 million has resulted in an 800 basis point advantage versus the benchmark. Mr. Goodreau interjected that he feels this investment will do well in up markets as well as down markets. The market is down 50 to 60 basis points with small caps down more significantly this month. The Wellington portfolio is up 5.5% exceeding the benchmark by almost 200 basis points in September; this month it is up 4.5%.

Treasurer Caprio remarked that State Street Security Lending Plan has not changed materially at all from the revenue it produced, despite the switch from the Quality D Fund to the Quality A Fund. Due to the market environment the return in A Fund has kept up with the return in D Fund.

The Treasurer advised the Commission there will be no meeting in November due to the Thanksgiving Holiday.

New Business. The Treasurer stated the next SIC meeting will be on Wednesday, December 5, 2007 at 9:00 am. The meeting was subsequently re-scheduled to Thursday, December 6, 2007 at 9:00 am. There being no questions and no new business, Treasurer Caprio entertained a motion to adjourn the meeting. Ms. Reback moved, Dr. McKenna seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Ms.Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED: To adjourn the meeting**

There being no further business, the meeting was adjourned at 11:00 a.m.

Respectfully submitted,

Frank T. Caprio  
General Treasurer

**State of Rhode Island and Providence Plantations  
STATE INVESTMENT COMMISSION**

**Regular Meeting December 6, 2007**

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Thursday, December 6, 2007. 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 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, Deputy General Treasurer for Finance; Mr. Brian Gallogly, Esq., of Brown Rudnick Berlack Israels, Legal Counsel to the Commission; Mr. William Bensur, of Wilshire Associates Incorporated, General Consultant to the Commission; Ms. Lisa Tyrrell of the State Street Corporation; Ms. Michelle Davidson, of Pacific Corporate Group (PCG), Alternative Investments Consultant to the Commission; and other members of the Treasurer's staff. Mr. Robert Gaudreau was not present.

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

**VOTED: To approve the Minutes of the October 24, 2007 regular meeting.**

Wilshire Associates Incorporated – Capital Markets Review. Prior to Mr. Bensur presenting his overview, Treasurer Caprio commented on a local press release made on December 5, 2007 regarding the action the Commission took last March to move collateral in a fund in the Securities Lending Program to a high quality, government oriented securities fund. The former fund was allowed under the guidelines, but is now not in favor because of investments in many mortgage and asset backed securities. He congratulated the Staff and Commission for making this decision. He also stated that the financial press and rating agencies are now surveying each state's cash and bond holdings. He concluded by stating that our portfolio is in a very favorable position, as there is no exposure to the sub prime investments which the press and rating agencies are concerned with. He then asked Mr. Bensur to proceed with the Capital Market Review.

Mr. Bensur began his overview by stating that the Bank of England has reduced their lending rate by 25 basis points which will help global trading. President Bush will be announcing a plan to provide some relief for the sub prime situation. As of December 3, 2007 the Federal Funds Rate was 4.50%. Mr. Bensur believes the Federal Reserve will cut rates an additional 25 to 50 basis points at their next meeting. The market has been very volatile both in the U.S. and abroad. The first two weeks of November were very negative and the market fell about 10% but regained approximately 5% in the last two weeks of the month. Mr. Bensur stated that recently the TIPS portfolios have performed very well, as there has been a reduction of real interest rates in anticipation of the

reduction in inflation. This allocation within ERSRI's portfolio has performed in excess of expectations.

The U.S. market is up about 6.5% through December 5, 2007. Large cap stocks have out performed small cap stocks. Mr. Bensus observed that emerging markets have continued to outperform developed markets; emerging markets are up approximately 43.5% as of December 5, 2007. U.S equity is at 6.5% which is slightly under the expectation of 8%. Non-U.S. equity is up about 18% which is considerably higher than expectations. Fixed income was expected to be up 5% but is slightly higher than anticipated at 7%.

Treasurer Caprio stated that the Commission had decided to exit half of the high yield portfolio during the first quarter of 2007 which has been a favorable decision. Mr. Bensus stated that the Staff and Commission members collectively reached the decision that the spreads did not adequately compensate for the risks associated with the high yield market. As spreads return to normal levels the Commission may consider re-entering this market.

Mr. Bensus went on to discuss asset allocation within the portfolio as compared to other large public pension funds. The U.S. equity portion of the portfolio is on target; the non-U.S equity portion is slightly higher than the average observation; fixed income is slightly lower as the allocations are moving more toward real estate and private equity investments; cash was about 5.5% as of September 1, 2007. Performance has been very solid for the quarter. Year to date the portfolio has performed in the top quartile as compared to other large public pension funds. Mr. Bensus stated that the non-U.S equity portion of the portfolio should be monitored to ensure a successful investment program. He then went on to give a review of The Boston Company who has been managing a portion of the portfolio's non-U.S. equity.

Manager Continuation Policy Analysis & Review – The Boston Company. Mr. Bensus stated that the non-U.S. equity allocation of the portfolio, since last reviewed, had a poor performance. Although the non-U.S. equity market went up 5.5% in October, our portfolio went up only 3.5%. The market was off approximately 4.5% in November; the Boston Company was up about 70 basis points over that benchmark. As discussed in the October SIC Meeting, The Boston Company seems to perform more favorably in down markets. Mr. Bensus remarked that The Boston Company is a good compliment statistically to our other two managers. He stated he is not sure this is the right time to exit The Boston Company, but a temporary alternative would be to have this allocation rolled into an index fund.

Mr. Guidici asked how the weakness of the dollar is affecting the portfolio. Mr. Bensus replied that it is necessary to have diversification. When the U.S. dollar weakens the portion of the portfolio in non U.S. equities does well; when the dollar strengthens the U.S. equity allocation does well. This is why exposure to many different investment strategies is important to earning the desired rate of return.

Proposed Investment in WLR Recovery Fund IV, L.P. Treasurer Caprio first stated that in his tenure with the Commission this is the first time the CEO – Chairman of a fund of this size has attended the SIC Meeting. He thanked Mr. Ross for his participation.

Ms. Michelle Davidson of PCG then began an overview of WLR Recovery Fund IV. WL Ross Company has set a target of \$2.5 billion and has committed to a \$4 billion cap for Fund IV. The Firm typically invests in companies in bankruptcy or reorganization. The Firm focuses on industries that have fallen out of favor with investors such as the auto, textile, natural resources and financial services industries. Mr. Ross is one of the pioneers and industry leaders in bankruptcy, restructuring, and privatization services. Many of the professionals at WL Ross Company began working together in 1976 while at Rothschild Inc. and have been together for more than a decade. In late 1997 they organized the Rothschild Recovery Fund, which was later renamed WLR Recovery Fund (Fund 1). The three previous distressed funds have all returned 25% net IRRs. The management fee of 1.5% on committed capital with a subsequent step-down to 1% is beneficial to the limited partners. Fund IV will have the ability to invest up to 50% in non-U.S. companies. Fund IV will primarily be managed by the Firm's New York based professionals in conjunction with its India based team and affiliates.

Mr. Costello asked how much committed exposure the portfolio has to this type of distressed investment and to date how much has been funded. Ms. Davidson replied approximately 7% of the Private Equity portfolio has been committed and approximately 5% has been funded.

There being no further questions from the Commission, Treasurer Caprio introduced Wilbur L. Ross, Jr., CEO – Chairman of WLR Ross & Company. Mr. Ross began by addressing the sub prime situation and explaining how distressed investing can be favorable due to the historically large amount of high yield paper in the market today. In addition, many economists believe that credit default rates are cyclical and inevitably there will be a correction from the current highs. When the correction does occur, a large amount of opportunity may result for distressed private equities practitioners.

One example of this type of investment within WLR Recovery Fund IV is American Home Mortgage (AHM), a mortgage service provider licensed in all fifty states. As a mortgage service provider, AHM administers a mortgage: calculating principal and interest, collecting payments from the mortgagor, and acting as an escrow agent. AHM has historically been regarded as a good quality service provider and prior to the sub prime debacle was highly valued. WL Ross & Company was able to buy the platform at a significant discount. This is a very attractive investment as the mortgage servicing business today is actually worth more because the loan portfolio will be longer lived than in an environment where borrowers found it easier to resell or refinance their homes.

Mr. Ross went on to explain the strategy used in the year 2000 to purchase and restructure the failed Kofuku Bank in Japan. WLR Ross & Company syndicated participation to AIG, State of Wisconsin, and Franklin Templeton. They installed new



management, added stock ownership and cash bonuses as incentives, refocused marketing strategies, and introduced new products such as ATM/credit cards. The result was an 18% increase in equity which was double that of most Japanese Banks. The bank was sold in 2002 with a cash on cash multiple of 1.9x in two years.

The next investment Mr. Ross summarized was International Steel Group (“ISG”) acquired in Fund I. This was a \$40 million investment that returned over 12x. Through ISG, WL Ross Company acquired a number of steel mills in the U.S., helping to consolidate a highly fragmented industry. The firm was instrumental in negotiating new labor contracts with union workers, reducing the unit cost of production in the process and creating North America’s largest and lowest cost integrated steel maker.

Mr. Ross proceeded to give an overview of International Automotive Components (“IAC”) Group. He explained that WL Ross Company created this platform consisting of four global companies which combined has approximately \$5 billion of revenues and no net debt. The Company has fifty seven facilities employing twenty one thousand people in seventeen countries. Auto manufacturers are trying to reduce the number of suppliers and have more collaborative relationships; IAC Group is filling this niche. Mr. Bensus asked if Delphi was part of this group. Mr. Ross stated Delphi was not as they have a weak position in the segments of the automotive industry that IAC Group is interested in acquiring.

Mr. Treat asked if the service fees American Home Mortgage charges the consumer will decline due to the large amount of expected foreclosures. Mr. Ross responded that since AHM is not the mortgagee and is only collecting fees associated with the mortgage, such as late fees, this investment in Fund IV will continue to be profitable.

Mr. Ross concluded by stating that WL Recovery Fund IV will not entertain any investment deals that are larger than the pocketbook of the fund. The Company has consistently generated low loss ratios through the previous three funds. They have global representation through their investment professionals in New York, Tokyo, and Mumbai. Mr. Ross continued by stating that Fund IV is complementary to ERSRI’s current alternative investments and will provide the overall portfolio with an increased exposure to diversification.

Treasurer Caprio entertained a motion for investment in WLR Recovery Fund IV. Ms. Reback moved, Mr. Costello and Mr. Reilly seconded, and the motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED: To invest up to \$20 million in WLR Recovery Fund IV, contingent upon satisfactory review and negotiation of investment and other legal documents.**

Legal Counsel Report. Mr. Brian Gallogly from Brown, Rudnick, Berlack Israels, LLP, legal counsel to the Commission, indicated there were no legal developments for the month.

Deputy Treasurer for Finance Report. Mr. Goodreau commented that WLR Recovery Funds are an exemplary example of what private equity is all about. Mr. Ross's methodology is a true non-correlated asset class. WL Ross Recovery Funds have performed well despite not being based on heavy leverage; it is a true non-correlated and non-cyclical type of fund. Private equity should be more about building early stage companies rather than financial mechanics.

Mr. Costello stated that he felt the Commission should begin to revisit the size of the commitments we make to funds within the portfolio. While not dismissing smaller funds which can be very profitable, large funds should have a committed investment of at least \$15 to \$50 million. Mr. Goodreau agreed with Mr. Costello and further commented that he, along with Ms. Davidson, Mr. Reilly and the Treasurer, have been addressing the issue of extending or exiting the aged funds within the portfolio. He commented that managing and administering such funds has become an issue as they get closer to maturity. The goal is to sweep out old funds that are dragging on the IRR and get larger commitments to quality funds such as WLR Recovery IV. Mr. Goodreau stated this does not mean making radical changes in the portfolio, but rather monitoring those funds that go beyond ten years and looking toward new opportunities.

Mr. Reilly stated that this is the first time the portfolio has had a large portion of aged funds nearing maturity. The overall IRR on these funds has been very good. However, moving forward we should be looking at larger and higher caliber investments. Mr. Reilly mentioned that there is a great deal of administrative and legal costs associated with an exit or extension to a fund.

Mr. Treat asked what the administrative costs are in association with termination or extension of a mature fund and how it impacts the portfolio. Mr. Goodreau explained that according to the new FASB rules, private equity will come under the same scrutiny as other investments regarding fair market value. It is costly in dollar amount but has a bigger impact on our limited staff and budget issues. Although it is difficult to quantify it has to be addressed. Treasurer Caprio stated that State Street Bank & Trust has recently provided an additional service associated with monitoring private equity investments and FASB rules.

Treasurer Caprio agreed that the February 2008 Agenda should address the issue of liquidating the aged funds discussed at this meeting, adding that we should have a bid in place by that time. If the Commission decides to accept the bid the funds will be liquidated.

Mr. Goodreau read an excerpt explaining the changes to the terms of the Rhode Island 529 College Bound Fund, as follows: "Participants who choose an Age-Based Education Strategies Portfolio for a Beneficiary born on or after January 1, 2008 will have their Accounts allocated first to Age-Group Category 1 and thereafter treated in a manner corresponding to that reflected in Schedule 3 to the Program Description. The aggregate annual Underlying Portfolio expenses and program maintenance fee for the Age-Based Aggressive 2008-2010 and the Age-Based 2008-2010 investment options are 0.94% and 0.92%, respectively, excluding any applicable distribution fee, which varies

based upon the sales charge alternative selected by the Participant.” Dr. McKenna remarked that Rhode Island’s Fund was rated top in the country.

Treasurer Caprio entertained a motion to approve the changes in selected options for Rhode Island 529 College Bound Fund. Ms. Gallogly moved, Mr. Costello seconded and the motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED: To approve the various changes in options to be selected by investors for The Rhode Island 529 College Bound Fund.**

Mr. Goodreau thanked the Commission for approving the transfer of \$100 million through State Street Bank & Trust from the cash account to the technical equity pool. Although it is too early to claim a victory, he is encouraged with the positive results we have already seen. He again thanked the Commission for their feedback and cooperation.

Treasurer’s Report. Treasurer Caprio expressed his sorrow after hearing that Mr. Frank Blaschka, Consultant for Real Estate Investments, The Townsend Group, had passed away. A package was sent along with condolences to The Townsend Group.

Dr. McKenna requested a schedule for the 2008 SIC Meetings. Treasurer Caprio assured the Commission members that a schedule for the 2008 SIC Meetings will be available shortly.

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

**VOTED: To adjourn the meeting**

There being no further business, the meeting was adjourned at 10:45 a.m.

Respectfully submitted,

Frank T. Caprio  
General Treasurer

**State of Rhode Island and Providence Plantations  
STATE INVESTMENT COMMISSION**

**Regular Meeting January 23, 2008**

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, January 23, 2008. The Treasurer called the meeting to order at 9:00 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Gaudreau, 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, Deputy General Treasurer for Finance; Mr. William Bensus, of Wilshire Associates Incorporated, General Consultant to the Commission; Ms. Lisa Tyrrell of the State Street Corporation; Mr. Frank Karpinski, Executive Director of RIIERS; and other members of the Treasurer's staff. Ms. Reback excused herself at 10:15 a.m.

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

**VOTED: To approve the Minutes of the December 6, 2007 regular meeting.**

Wilshire Associates Incorporated – Capital Markets Review. Prior to the Capital Market Review, Treasurer Caprio stated that due to the current volatility of the market the Staff has been monitoring the Private Equity portion of the portfolio. This asset allocation is particularly sensitive to the extreme highs and lows in the market; as a result, capital calls have increased. Treasurer Caprio suggested that the Commission delay making any decisions regarding additional Private Equity investments until we see a re-balancing of the portfolio.

Mr. Bensus began by stating that there will be slower growth in 2008. He expects inflation to be in the range of 2% - 2.5 %; economic growth will flatten out in 2008. The credit and liquidity crisis caused by the sub-prime market has spilled over to the equity markets. Mr. Bensus believes the volatility within the global equity markets will continue during the first half of 2008 and then will level off during the second half. This is a global phenomenon affecting the Asian, European, and Emerging markets, as well as the U.S. market.

Mr. Bensus referred to 2007 returns: the U.S. Equity segment of the market was up about 5.5% attributed mainly to large cap stocks; small cap stocks were down about 1.5 % measured by the Russell 2000; mid cap stocks in general had positive returns; the Dow Jones Wilshire 5000 was up about 5.6% for the year; Non U.S. Equity in developed markets was up about 11.5%; emerging markets were up approximately 39.8%; the bond market was up approximately 7%; high yield was up about 2%.

Mr. Bensur gave the following report regarding market conditions at the close of business on January 22, 2008: the S&P 500 was down 10.7%; small cap was down about 12%; developed markets were down about 12%; emerging markets were down 13.5%; bonds continue to do well; the Lehman Aggregate is up about 2.3%; high yield was down about 2%.

Treasurer Caprio asked for a review of the Benchmark and Allocation Study. Mr. Bensur began by explaining the resources and tools used by his research teams each year to forecast capital markets performance. Wilshire's asset class return, risk, and correlation assumptions are developed based on a ten year expected rate of return. The study is adjusted to incorporate recent trends. He went on to discuss the variables used to arrive at a forecast of returns for each asset class. The report Mr. Bensur distributed to the Commission is not fully vetted. However, a complete report will be distributed by Wilshire Associates in a week.

The projections from 2007 to 2008 changed only in the following asset allocations: Non-U.S. Equity +0.25%; Fixed Income -0.25%; TIPS -1.00%; Private Markets -0.50%. Mr. Bensur went on to discuss the details of four different models of alternative policy portfolios, stating what the potential risks and returns may be for each. The model policy portfolio returns would range from 7.65% to 8.10%. The current policy has an expected rate of return of 7.92%. In the existing capital market environment, RIERS will face challenges trying to achieve the discount rate/return of 8.25%. Mr. Bensur recommends maintaining a long term approach while continuing to explore ideas that may increase expected return, decrease expected risk, or both.

Treasurer Caprio noted when the fiscal year ended on June 30, 2007 the portfolio had exceeded its target of 8.25%. However, the Auditor General's Report indicated that we lagged against our benchmark by close to 300 basis points. If the Commission had benchmarked all asset allocation percentages without the participation of our active managers, the portfolio would have captured the additional 300 basis points. The shortfall was due to under performance in the international area. All three International Managers are culpable, but the loss was more attributable to The Boston Company. International Management fees are generally more costly than other management fees.

Treasurer Caprio noted the importance of exposure to the international markets, adding that the issue now is how the exposure will be managed and what type of resources the Commission is going to devote to this portion of the portfolio. Mr. Bensur stated that he felt the active managers have had a difficult time keeping pace with the sizable beta returns within the international markets. From a return standpoint, the allocation is attractive but the implementation tools did not perform within expectations. Passive management or indexing has been growing as an institutional implementation tool within the Non U.S. Equity space, which would save the Commission active management fees.

Mr. Goodreau asked whether ERSRI is more concerned with benchmark risks or total return risks. ERSRI's portfolio requires a different investment style. Remaining in capital markets for an extended period of time patiently waiting ten to fifteen years to achieve targeted returns does not work due to our short term and intermediate term

liabilities. Therefore, there may be periods of time when our managers occasionally have to take a tactical position and ratchet down risk and exposure. Risk should be addressed on a monthly, quarterly, and semi-annual basis to allow flexibility and shifting of asset classes, as needed. When markets are turbulent we do not have the flexibility to shift asset classes at this time because there are no offsetting non-correlating asset classes in place. If the Commission decides to index the portfolio, ERSRI will have exposure, create efficiencies, reduce costs, and reduce risk. The other option would be to put decisions regarding investment options in the hands of active managers, providing they are truly active alpha managers.

Treasurer Caprio remarked that the portfolio had a 20% unfunded liability which has increased during the last five years to 45%; primarily because the average return during this period was 2.5% rather than the projected 8.25%. He asked the Commission to consider whether we should stay the course and possibly earn returns once again of 2.5% over the next five years, or consider prudent changes in management and management styles that will benefit the taxpayers and retirees. He noted that the RFP consultant process is underway which should have a positive affect on ERSRI's portfolio.

Mr. Treat asked how often the current asset allocations are reviewed. Mr. Bensus replied the review is done on an annual basis, but they are forecasted out ten years. A conversation ensued with Mr. Bensus, Treasurer Caprio, Mr. Goodreau and Commission Members regarding asset allocation management tools and styles in regard to how they are affected by specific market conditions. Treasurer Caprio thanked everyone for their comments and concluded by stating that the Staff and Commission's goal is to be very proactive and innovative toward achieving the goal of highest rate of return with a minimal element of risk.

Manager Continuation Policy Analysis & Review – The Boston Company. Mr. Bensus stated that The Boston Company is down 10% for the year relative to market opportunity. In August or September 2007, The Boston Company came before the Commission. At that time, the Staff and Commission decided to watch their performance for the next six months before making any decisions. Mr. Bensus recommended no action be taken at this time, as during these challenging and volatile times in the equity market this product is expected to do well. When there is enough significant cyclical recovery, this will be the appropriate time to make a recommendation to terminate or maintain the relationship with The Boston Company. An index exposure would provide an appropriate short term alternative. This will accomplish two things: anchor this portion of the portfolio to the Non-U.S. Equity market and reduce fees. Mr. Bensus suggested watching the fund into the second quarter of 2008.

Alternative Investments Consultant – PCG. Treasurer Caprio stated that Ms. Davidson will be giving a review of 2007 allocation performance to Mr. Goodreau and will report to the Commission at a later date. The Treasurer remarked that all numbers are very strong and as of December 31, 2007, we were fully allocated in the Private Equity portion of the portfolio, so there is no urgency to add new investments.

Legal Counsel RFP Recommendations. Treasurer Caprio explained the need to obtain RFP's for all service providers within the Treasury Department when contracts are

expiring. This is prudent in regard to cost efficiency and superior service. As such, when the legal contract was near expiration an RFP was issued. He remarked that Brown Rudnick Berlack Israels has done a great job, but their fee structure is more in line with New York legal fees; they admittedly do not have the flexibility to bring their fees within our expectations. The relationship with Brown Rudnick Berlack Israels will continue to be positive and they have agreed to assist the Commission in the future, if needed.

Mr. Mark Dingley, Legal Counsel/Chief of Staff, announced that a sub-committee of the Commission made the following recommendations: Adler Pollack & Sheehan will handle all investment transactions and Rodio & Ursillo will handle all administrative services. These changes will continue to provide the Commission with superior service while reducing costs. The Treasurer added that with Mr. Dingley's past experience as General Legal Counsel to a publicly traded company, a fair amount of legal work can be done in house resulting in additional savings. The Treasurer entertained a motion for approval of the recommendations of the Legal Sub-Committee as stated on the Legal RFP Summary. Mr. Treat so moved, Mr. Reilly and Ms. Gallogly seconded. The motion was passed and the following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Mr. Reilly, Mr. Treat, and Treasurer Caprio. Ms. Reback was absent.

**VOTED: To approve the recommendations from the Legal Sub-Committee for change in Legal Counsel as stated on the Legal RFP Summary.**

Deputy Treasurer for Finance Report. Mr. Goodreau stated we are in a credit crunch which is affecting the amount of money our Private Equity Firms are requesting. Capital calls are becoming more aggressive while business is slowing down, so we are not recouping the capital contributions. For the short term, we will start looking into new Private Equity opportunities once the markets have made a correction. Mr. Costello and Mr. Reilly both remarked that Private Equity is a lucrative investment and should not be tabled for a lengthy period. Mr. Gaudreau replied that is not his intention. He will be meeting with Ms. Davidson of PCG to discuss our Private Equity allocations and will report back to the Commission.

Treasurer's Report. The Treasurer commended the Commission and Staff for deciding to add Wellington Management Company to our team of managers. He stated this is an example of superior performance (alpha) by an active manager in a fund of a manageable size. This is the type of manager, within Domestic Equity, that the Commission will be looking for in the future.

Treasurer Caprio noted that we have received all RFP's from the companies interested in the Consultant position. A sub-committee is being formed and the Treasurer encouraged all Members and Staff to join the committee to participate in the selection process. Mr. Gaudreau and Mr. Reilly have already expressed an interest to serve on the sub-committee. The Treasurer hopes to have some recommendations for the February SIC Meeting.

New Business. There being no questions and no new business, Treasurer Caprio entertained a motion to adjourn the meeting. Mr. Costello moved, Ms. Gallogly

seconded and the motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Mr. Reilly, Mr. Treat, and Treasurer Caprio. Ms. Reback was absent.

**VOTED: To adjourn the meeting**

There being no further business, the meeting was adjourned at 11:00 a.m.

Respectfully submitted,

Frank T. Caprio  
General Treasurer



**State of Rhode Island and Providence Plantations  
STATE INVESTMENT COMMISSION**

**Regular Meeting February 27, 2008**

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, February 27, 2008. The Treasurer called the meeting to order at 9:00 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Gaudreau, Mr. Robert Giudici, Dr. Robert McKenna, Mr. John Treat, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Deputy General Treasurer for Finance; Sarah Dowling, of Adler Pollock & Sheehan and Mr. Joseph Rodio of Rodio & Ursillo, Legal Counsel to the Commission; Mr. William Bensus, of Wilshire Associates Incorporated, General Consultant to the Commission; Ms. Lisa Tyrrell of the State Street Corporation; and other members of the Treasurer's staff. Ms. Reback and Mr. Reilly were absent.

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

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

Manager Continuation Policy Analysis & Review – NorthPointe Capital. Mr. Bensus stated that NorthPointe Capital was retained in 2002 to provide strategic exposure to the small core value segment of the U.S. equity market. The objective of the fund is to generate a total return of 200 basis points, net of fees, over the Russell 2000 Index for a three to five year period and rank in the top 30% of all professionally managed small cap value accounts. The net return lags the index by 48 basis points over the three year period, but exceeds the benchmark by 70 basis points, net of fees, since inception. As of December 31, 2007, the portfolio's market value was \$376.7 million. NorthPointe comprises 10.6% of the total U.S. equity structure, which is about half of the small cap allocation within the portfolio.

Mr. Bensus introduced Kenneth C. Hudson, Partner and Chief Marketing Officer and Jeffrey C. Pethrick, Founding Partner & Portfolio Manager. Mr. Pethrick went on to give a brief history of the Firm. It was started in 2000 with Nationwide Insurance Company as a substantial equity partner. In October 2007 they bought Nationwide's equity share in NorthPointe. The Firm is now owned in its entirety by the employees; this allowed them to expand from four original partners to eleven.

Mr. Pethrick stated that NorthPointe has been in the top quartile of all small cap managers in the U.S. since inception. The last five years have been a very difficult period. Particularly 2007, where NorthPointe lagged the benchmark by 450 basis points. Despite the current volatility in the market, the philosophy of the Company continues to be that fundamental progress in companies drives valuations over an extended period of time.

Treasurer Caprio asked Mr. Pethrick to specify when he felt this period of volatility began. Mr. Pethrick responded that he was referring to the last three years which have been extremely volatile. He went on to explain that hedge funds have increased in the last eight years from approximately 1000 funds to 8000 funds. Since these funds are very flexible and are able to move money quickly according to market conditions, they are well suited for the current environment. This has required NorthPointe to focus on the solid fundamental companies within their portfolio.

Mr. Pethrick stated from 2002 to 2008 there has been a deep market value, meaning the market has chased the lowest priced to book stocks, highest leveraged stocks, and companies leveraged toward a cyclical recovery. Mr. Pethrick went on to explain that NorthPointe is a core value or relative value manager. Over a long period of time being a relative value manager will result in good returns. Past performance has indicated that seven out of ten years will produce a market that is more “middle of the road” without the extremes we saw in 2007. The market has been in an environment where small core stocks have been moving up since 1999 and this trend should continue.

Mr. Pethrick gave a review of NorthPointe’s performance for 2007. There was a big gap between the Russell 2000 Value which was down 10% and the Russell 2000 Growth which was up about 6%. This resulted in a 1600 basis point swing concentrated in the highest growth and beta type of stocks. The risk within the portfolio is reduced by diversification in market segments. Last year financials were one of the worst performing sectors of the portfolio. Relative to financials, NorthPointe was very under weight compared to the Russell 2000 Value but slightly over weight compared to the Russell 2000. Being over weight in technology was another disappointment resulting in a loss of 200 basis points. The high risk and beta technology funds were in favor as opposed to the conservative funds that NorthPointe carries in the portfolio. By the end of 2007 they corrected this situation by adding conservative value funds in both health care and technology. Future growth is expected to be 14% - 15% which is substantially better than the Russell 2000 Value and in line with the Russell 2000. The portfolio consists of high quality, conservative companies which will give an exceptional rate of return over time. The average rate of return since inception has been 14.8%. The portfolio started with \$100 million and over the last five years ERSRI has added \$54 million; today the portfolio is worth \$376 million. NorthPointe stated that they were hired for small core space and their strategy works well and surpasses the benchmark consistently over time. They are a solid manager and are highly motivated toward achieving our investment goals.

Treasurer Caprio asked if we are still their largest client. Mr. Pethrick replied that our portfolio has the largest dollar investment within their Firm. Treasurer Caprio asked whether the Russell 2000 or the Russell 2000 Value Index is their benchmark. Mr. Pethrick replied that the Russell 2000 is the benchmark, but they strive to surpass both.

Mr. Costello asked what NorthPointe is doing to protect ERSRI against the effect hedge funds are having on our portfolio. Mr. Pethrick replied that he does not believe the current 8000 active hedge funds are here to stay. In the last five years the average hedge fund has barely had a rate of return above treasuries but they continue to charge a 2% fee

and 20% on the up side. These funds are giving mediocre returns with huge fees. The situation is not being ignored and NorthPointe is being proactive to minimize the effect on our portfolio.

Wilshire Associates Incorporated – Capital Markets Review. Mr. Bensus began by stating that inflation is over 4%; there are talks of recession and stagflation. It is unclear whether the economic stimulus package will have any significant affect on the economy. Consumer confidence fell to a sixteen year low in February. The U.S. equity market will be volatile through 2008. Value is outpacing growth, with large and small caps remaining comparable. The U.S. mortgage crisis has had a negative affect on emerging and developed markets as they continue to fall. The Federal Reserve has cut rates by 1.25% in eight days with more cuts anticipated. The auction-rate markets are having a very difficult time raising capital. The treasury yield curve has fallen and yield versus treasury spreads have widened.

Mr. Bensus gave the following report regarding market conditions as of the close of business on February 21, 2008: S&P 500 was down 5.5%; small caps were down 5.9 % but have recovered somewhat in the past two days; Wilshire 5000 was down 5.5 % but has recovered by 2.5-3% in the past two days; the developed markets were down about 6% ; emerging markets were down 4.5% ; the ACW was down about 5.5%; bond indexes were up about 20 basis points; high yield was down about 2% on a year to date basis.

Mr. Bensus went on to give a brief overview of asset allocation relative to other large defined benefit retirement plans. ERSRI is performing in the top quartile in comparison to other large state public funds. This was a result of returns from alternative investments, real estate, and private equity. The traditional asset classes have not performed as well in terms of excess returns. The Boston Company and Goldman Sachs struggled last year in non-U.S. equity space. This situation will continue to be monitored.

Ms. Gallogly asked Mr. Bensus if it was possible to attribute poor performance to individual managers. Mr. Bensus replied that NorthPointe and Wellington under performed in small cap exposure within U.S. equity. The Boston Company was responsible for poor returns in non-U.S. equity and recently Goldman Sachs has under performed. Taplin, Canida & Habacht has not performed well in fixed income, which is related to the credit spread. Mr. Goodreau stated that Fidelity has also under performed against their benchmark in fixed income.

Mr. Bensus went on to give a brief history of the total fund performance. The market value of the portfolio in December 31, 1983 was \$0.7 billion. The ending market value as of December 31, 2007 was \$8.5 billion. The portfolio's annualized compounded rate of return over this 24 year period was 10.80% per year. The unfunded liability at 2007 year end was approximately 50%.

Proposed Investment in Point 406 Ventures I, L.P. Ms. Michelle Davidson of Pacific Corporate Group gave an overview of Point 406 Ventures, I. The Firm, which is located in the Boston area, was founded in 2005 by General Partners Larry Begley, Maria Cirino, and Liam Donohue to make seed and early stage investments in information technology and technology-enabled services. Point 406 will build a Venture Capital

Portfolio of approximately 20 to 25 companies and make four to five new investments per year concentrated in the Northeast Region. The General Partner expects to invest \$6 to \$10 million in each company, with initial investment sizes ranging from \$0.5 million to \$3 million. Ownership stakes for each company will be 20% to 80%. The fund is targeting \$150 million in aggregate commitments. Ms. Davidson stated it has been a challenge finding firms who invest in early stage venture capital which results in less exposure to risk. A commitment to the Fund is complementary to ERSRI's existing venture capital commitments and provides the overall portfolio with additional diversification. The management fee is 2.5% of aggregate commitments with a carried interest split of 80%/20%.

Ms. Maria Cirino, General Partner and Mr. Greg Dracon, Co-Founder and Principal, represented Point 406 Ventures, I. Ms. Cirino began by giving an overview of the experience of the investment team. Treasurer Caprio added that PCG made a recommendation for investment in November 2007 but a commitment was not made at that time due to market volatility. Ms. Cirino went on to explain why early stage venture capital is an asset to the portfolio: venture capital outperforms buyouts and other classes of private equity; early stage venture capital leads all venture capital fund types by a considerable margin; early stage venture capital significantly outperforms public markets over time. Mr. Dracon explained who their extensive network of investors is and the strategies used when choosing new investors. They look at fifteen hundred to two thousand potential investments each year, but only choose to make an offer to four to six companies.

Mr. Costello stated that it is rare for the Commission to be asked to invest \$10 million in a first fund. He asked Ms. Davidson to explain the reasons she suggests this size investment. She replied that the combination of expertise among the Principals is one reason. They have solid venture capital experience combined with operating experience. The portfolio already has significant momentum which validates the opportunity and strategy of the team. Ms. Davidson has done extensive research on each of the nine companies which make up their portfolio and feels confident this is a good fit for ERSRI. Ms. Davidson remarked that ERSRI did invest in a first time fund in 2002 with Thomas McNerney Partners with a commitment of \$15 million.

Ms. Gallogly asked what the management fee will be over the life of the fund. Ms. Cirino explained that fees are used to fund operations to run the Firm. The carried interest split is 20% of the profit on the liquidity. Ms. Davidson interjected that the fee will never exceed 2.5% over the life of the fund.

Mr. Costello moved, Ms. Gallogly and Mr. Gaudreau seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Mr. Treat, and Treasurer Caprio.

**VOTED: To invest \$10 million in Point 406 Ventures I, L.P. contingent upon satisfactory review and negotiation of investment and other legal documents.**

Legal Counsel Report. Treasurer Caprio introduced the new Legal Counsel as Ms. Sarah Dowling of Adler Pollock & Sheehan P.C., who will be handling all investment transactions and Mr. Joseph Rodio from Rodio & Ursillo Ltd, who will handle administrative transactions. This change will be beneficial as it will lower costs associated with legal fees.

Deputy Treasurer for Finance Report. Mr. Goodreau announced the first sub-committee meeting for the selection of Consultant to the Commission was held last week. He thanked Mr. Costello, Mr. Goodreau, Mr. Reilly and Mr. Treat for their participation. The next meeting will be scheduled shortly with intentions of narrowing the choices to three to four of the most qualified firms.

Treasurer's Report. Treasurer Caprio complimented the efforts and dedication of all those who are participating in the Consultant selection process. He noted that there will be another meeting scheduled in March.

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

**VOTED: To adjourn the meeting.**

There being no further business, the meeting was adjourned at 11:30 a.m.

Respectfully submitted,

Frank T. Caprio  
General Treasurer



**State of Rhode Island and Providence Plantations  
STATE INVESTMENT COMMISSION**

**Regular Meeting March 26, 2008**

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, March 26, 2008. The Treasurer called the meeting to order at 9:05 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. Dr. Robert McKenna arrived at 9:10 am. Also present were: Mr. Kenneth E. Goodreau, Deputy General Treasurer for Finance; Mr. Joseph Rodio of Rodio & Ursillo, Legal Counsel to the Commission; Mr. William Bensusan, General Consultant to the Commission; Ms. Michelle Davidson and Mr. Tom Bernhardt of the Pacific Corporate Group, Alternative Investments Consultants to the Commission; Ms. Lisa Tyrrell of the State Street Corporation; and other members of the Treasurer's staff.

State Investment Commission Minutes. The Treasurer entertained a motion for approval of the minutes. Mr. Treat moved, Mr. Giudici 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 Treasurer Caprio.

**VOTED: To approve the Minutes of the February 27, 2008 regular meeting.**

Capital Market Review – Wilshire Associates. Mr. Bensusan began his review by stating that the Federal Reserve backed the Bear Stearns buyout by JP Morgan and initiated overnight lending to primary dealers. Consumer confidence is at a 16 year low and consumers are feeling tapped out. Volatility is expected to continue in U.S. equity throughout 2008. As of the close of business on March 25, 2008, U.S. equity was down 7.5%; non-U.S. equity was down 9%; emerging markets were down 10.5%; fixed income was up 1.8%; high yield markets were down about 2.4%. TIPS were up 4% and continue to perform well within fixed income.

A major concern is the lack of new money coming into the market. Value is outpacing growth and large caps are leading small caps. Emerging and developed markets have declined in 2008. Inflation remains more of a concern in Europe than in the U.S. The U.S. mortgage crisis is affecting international markets. Regarding fixed income, the current federal funds rate is 2.25% and the current federal discount rate is 2.50%. The Federal Reserve loaned \$200 billion in treasuries for mortgage related debt. The yield spread has compressed as flight to quality begins to reverse. The ten year treasury yield is now 3.49%.

Performance Attributions Fourth Quarter 2007 - Wilshire Associates. U.S. equity performed against the benchmark as follows: NorthPointe was down 41 basis points; PIMCO added about 5 basis points; SSgA 1000 was up about 12 basis points; Wellington

small cap lost about 33 basis points; Wellington Technical added about 13 basis points. The total loss in U.S. Equity for the quarter was 79 basis points.

Non-U.S. equity allocations within the portfolio performed against the benchmark as follows: The Boston Company was down 28 basis points and continues to struggle; Goldman Sachs was down 51 basis points; Mondrian did well, picking up about 27 basis points. Non-U.S. equity was under the benchmark by 52 basis points for the quarter.

Fixed income performed against the benchmark as follows: Brown Brothers was down about 26 basis points; Brown Brothers TIPS was up about 8 basis points; Pyramis was down about 38 basis points; MacKay was flat; Taplin was down about 28 basis points. In total, fixed income was down 66 basis points against the benchmark for the quarter.

Treasurer Caprio asked Mr. Bensur to include the Investment Manager Performance as a regular addition to his report in the future.

*Alternative Investments Consultant PCG – Nordic Capital Partners Fund VII.*  
Mr. Goodreau explained that the representatives from Nordic Capital Partners were unable to attend this meeting due to time constraints; they will be attending the April 23, 2008 meeting. Treasurer Caprio explained that Fund VII, L.P. will be closing soon and if the Commission waits until the April 23, 2008 meeting to invest it may be too late. The Treasurer stated that Nordic Capital Partners has been one of our outstanding Investment Managers. He recommended the Commission take action today by voting, with the understanding that the Commission can exit the Fund between now and the time of the presentation on April 23, 2008.

Prior to the discussion regarding Nordic Fund VII, Ms. Davidson introduced Tom Bernhardt as the new Head of Research for PCG. Tom went on to give a description of his qualifications and offered his assistance as a non-discretionary advisor to the Commission.

Since inception in 1990 Nordic Capital has achieved net returns of 46 % with no capital losses and 2.07 as an investment multiple. There have been 55 investments to date. Ms. Davidson stated ERSRI has a ten year investment history with Nordic Capital and they have performed extremely well during this period with no loss of capital. Commitments to the prior three funds have totaled about \$43 million with net returns of 31.6% which is more than two times the invested capital. Nordic will be raising €3.7 billion in commitments for Fund VII and has set a hard cap of €4.3 billion. As of March Fund VII has secured commitments of approximately €3.2 billion. The Fund will be over-subscribed due to the outstanding performance of the previous funds.

Nordic Capital Fund VII will make controlled investments in companies primarily located in Denmark, Finland, Norway and Sweden. They will target middle-market control buyout opportunities with enterprise values ranging from €200 million to €2.5 billion. The sectors they typically pursue are health care, industrials, and consumer discretionary industries. Fund VII will be slightly different than previous Funds because they will have the ability to invest 50% in greater Europe and 10% outside of Europe entirely. This change in mandate is simply to give the Fund more flexibility. Should Nordic Capital choose to invest in these geographical areas they will execute the same



level of discipline demonstrated in the past. Commitment to the Fund is complementary to ERSRI's existing corporate finance commitments and provides the overall portfolio with a further degree of diversification. The Firm historically relies on Nordic Banks for debt funding and the banks remain interested in continuing to support Nordic's investments alleviating concerns of credit tightness.

The management team, consisting of thirty two investment professionals, is very stable. The remarkable stability of the senior management team, and the fact that Partners are typically "home grown" provide evidence of management's commitment to the Firm.

Mr. Costello noted that Fund V and Fund VI have a substantial amount of remaining money to be invested and monitored. He asked Ms. Davidson if this should be an area of concern. Ms. Davidson replied Nordic has added eight investment professionals to the team since Fund VI which gives them adequate staff to monitor both existing funds and new funds.

Fund VII's management fee will be 1.75% of committed capital during the investment period, and 1.75% of net invested capital with a 20% annual reduction thereafter. The terms include a 100% offset of all additive fees earned by the Firm, which helps to reduce management fees and preserves the alignment of interests between the Firm and Limited Partners.

Ms. Davidson suggested the Commission make a commitment of €15 million which translates to approximately \$23 million. The commitment should be made in Euros to avoid dollar fluctuation. Mr. Costello asked if the Commission should consider increasing the investment amount to make the process more manageable. He also asked if any of the existing clients have decided not to invest in Fund VII. Ms. Davidson replied that all existing clients have opted to invest in Fund VII. Regarding increasing the dollar amount of the investment, she explained that 7% of the portfolio is committed to private equity which translates to ten to twelve investments per year. On a per fund basis the target size ranges from \$10 to \$30 million. Ms. Davidson stated the Commission could consider increasing the percentage of private equity allocation within the portfolio to achieve larger commitments. Mr. Costello asked if the Commission could work on a strategy to address this issue and narrow the mix, as this has been an ongoing issue. Treasurer Caprio added that the amount of investments that come before the Commission each month are manageable in regard to the Commission's time, and although private equity is less than 10% of the portfolio, a fair amount of time is dedicated to this allocation.

Mr. Costello asked how the difference in exchange rate between the euro and the dollar will affect the Fund's performance. Michelle replied that PCG has monitored the affect of the exchange rates. It is 28% net on the U.S. dollar and is very strong. . Treasurer Caprio said he has been approached by companies that advise institutions on currency risks within private equity and actively manage equity portfolios. He felt it would be wise to request proposals in the future to see if this would benefit the portfolio.

Treasurer Caprio stated he would like Nordic Capital to attend the next SIC Meeting, but suggested it would be prudent to pass the motion to invest at this time. The motion would be subject to completion of legal documentation and satisfactory continuation and finalization of due diligence. Dr. McKenna entertained a motion to except PCG's recommendation to commit €15 million, approx \$23 million, to Nordic Capital Fund VII, L.P. Mr. Reilly moved and Ms. Gallogly seconded, and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED: To except PCG's recommendation that the SIC commit €15 million, approximately \$23 million, to Nordic Capital Fund VII, L.P. subject to terms 1-5 as outlined in the following excerpt from the PCG memo.**

**Conclusion:**

The Fund offers RISIC an opportunity to participate in a differentiated portfolio of private equity investments. PCG's review of the General Partner and the proposed Fund indicates that the potential returns available justify the risks associated with an investment in the Fund. PCG recommends that RISIC commit €15 million<sup>1</sup> to the Fund. PCG's recommendation is contingent upon the following:

- (1) Satisfactory negotiation or clarification of certain terms of the investment;
- (2) Satisfactory completion of legal documents;
- (3) Satisfactory continuation and finalization of due diligence;
- (4) No material changes to the investment opportunity as presented; and
- (5) Confidentiality maintained regarding the commitment of the RISIC to the Partnership until such time as all the preceding conditions are met.

<sup>1</sup> Equates to approximately \$23.0 million based on the 3/11/08 exchange rate of 1.5329 USD/EUR.

Short Term Investment – Addition of Suppliers. Mr. Vincent Izzo, Cash Manager, explained that in order to mitigate risk the Short Term Investments Managers performance is continuously monitored. He suggested additional services be provided by Sovereign Bank, who currently is one of our Short Term Managers and Bank of New York Mellon, which is a new addition. He went on to inform the Commission of the criteria for performance and capital ratios which qualify both Banks as acceptable Managers. Mr. Izzo stated that each Short Term Investment Manager is evaluated on a monthly basis and results are published in the monthly SIC Book. Treasurer Caprio thanked Mr. Izzo and his team, as well as the Commission, for their continuing efforts to monitor the viability of short term investments and performance for each Short Term Investment Manager.

Treasurer Caprio entertained a motion to accept Sovereign Bank and Bank of New York Mellon as approved additions to the Short Term Investment Manager Vendor List. Ms. Reback moved, Ms. Gallogly and Dr. Mc Kenna seconded, and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED: To accept Sovereign Bank and Bank of New York Mellon as approved additions to the Short Term Investment Manager Vendor List.**

Legal Counsel Report. Mr. Joseph Rodio from Rodio & Ursillo Ltd, Legal Counsel to the Commission, indicated there were no legal developments for the month.

Deputy Treasurer for Finance report. Mr. Goodreau had no comments for this month.

Treasurer's Report. Treasurer Caprio advised the Commission that ERSRI has a small cap investment with Security Capital Assurance through Wellington Management Group. The investment was approximately \$4 million. In June 2007 Security Capital Assurance undertook a stock offering at \$31.00 per share and failed to disclose significant exposure to the sub-prime market. It was later discovered that they had substantial exposure to sub-prime securities. The shares rapidly lost value and are now worth \$2.00 per share. A number of firms petitioned to be lead counsel in a class action suit against Security Capital Assurance. The court has not finalized their actions, but it appears ERSRI may be designated as lead plaintiff through our Counsel, Bernstien Liebhard & Lifshitz, LLP of New York. They will be bringing action in Federal Court in the Southern District of New York. This Law Firm is one of two approved firms who monitor our portfolio for securities violations through State Street Bank and Trust.

The Treasurer noted that it has been over two years since the Commission has entertained the possibility of adding new Security Litigation Firms to our list. Mr. Dingley will be placing a RFP in Pension Investments Magazine to see if adding or making changes to the present representation makes sense at this time. There is no fee associated with this litigation service. Mr. Dingley will keep the Commission apprised of the situation.

New Business. There being no further new business, the Treasurer entertained a motion to adjourn.

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

**VOTED: To adjourn the meeting.**

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

Respectfully submitted,

Frank T. Caprio  
General Treasurer

**State of Rhode Island and Providence Plantations  
STATE INVESTMENT COMMISSION**

**Regular Meeting April 23, 2008**

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, April 23, 2008. The Treasurer called the meeting to order at 9:05 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Gaudreau, Mr. Andrew Reilly, Mr. John Treat, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth Goodreau, Deputy General Treasurer for Finance; Ms. Sarah Dowling, Legal Counsel to the Commission; Ms. Michelle Davidson of the Pacific Corporate Group, Alternative Investments Consultant to the Commission; Ms. Lisa Tyrrell of the State Street Corporation; and other members of the Treasurer's staff.

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. Costello, Ms. Gallogly, Mr. Gaudreau, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED: To approve the Minutes of the March 26, 2008 regular meeting.**

Capital Market Review – Wilshire Associates. Mr. Bensusan was not able to attend the SIC Meeting this month. Treasurer Caprio stated that Deputy Treasurer Goodreau would give the Market Review later during the meeting.

Alternative Investments Consultant PCG – TPG Capital Fund VI. Ms. Davidson stated that TPG Fund VI is currently targeting aggregate capital commitments in excess of \$15 billion. ERSRI has had a relationship with TPG since 1997, committing over \$45 million in three prior funds. They have a very flexible approach to industries, investment structures and geography, which helps to diversify risk across the portfolio. TPG Capital pursues a broad range of equity and equity-related investments, primarily in large cap companies in North America, Europe, and Asia through acquisitions and restructurings. 50% of Fund VI may be invested outside of North America, increasing international exposure and diversification within the portfolio. TPG Capital has invested \$19 billion in 122 investments over a fifteen year period with achieved net returns of 27% and they have been a top quartile performer. Ms. Davidson recommended that ERSRI commit \$20 million to Fund VI based on the experience and strategy of the team, along with prior performance.

Ms. Davidson introduced Kristin Horne from TPG Capital. Ms. Horne stated that TPG has excellent investment judgment, deal skills and portfolio management. She stated that TPG's global platform has grown to include several distinct investment disciplines such as buyouts, venture capital, hedge funds, and capital markets vehicles. The experience of the Firm's broad and diverse group of professionals, combined with the collaborative investment environment, provides TPG with additional industry insight,

unique sources of deal flow, localized knowledge of international markets, and capital markets expertise.

TPG has sector specialization, meaning they have teams of professionals who focus on certain industry and geographical sectors affording TPG the flexibility to adapt to changing market environments on a global basis. They have twenty four individuals within their operational group who focus 75% to 80% of their time actively pairing with management teams within the portfolio companies to create value through strategic planning, operational productivity and cost reduction initiatives. Ms. Horne stated that more than 50% of TPG's equity appreciation within the Firm's thirty five most successful transactions is directly attributed to operating improvements rather than market-related multiple expansion.

In order to control risk, TPG aims to deploy half of all invested capital in lower operating risk businesses and half in higher operating risk businesses that are underwritten to significantly higher return expectations. They have structured the portfolio to withstand a sustained economic downturn.

Ms. Horne stated that global private equity growth was unprecedented in the last two years. Over 85% of the growth came from deals larger than \$2 billion driven by the public to private market and dominated by U.S. volumes. The growth was caused by a shift in value from mid cap companies to large cap companies. The cost of capital shifted and the CLO market drove access to additional financing at lower cost with better terms. This enabled TPG to make investments that previously were not accessible to them.

Mr. Costello asked if the rates of return will be lower when buying larger public companies as opposed to the smaller private companies. Ms. Horne replied that large cap companies will be held longer, so by definition the IRR may look lower than in the past, but the returns should be comparable and there should be higher multiples of money. Mr. Goodreau alluded to the success of the investment in MEMC and asked if it will be more difficult going forward to find these types of investments. Ms. Horne replied that TPG will continue to look for these opportunities, but each deal has a different investment element which means TPG will need to calibrate the risk differently to ensure a profitable investment. Mr. Reilly asked if Ms. Horne would address the issue of how debt affected ERSRI's rate of return. Ms Horne stated that debt pay-down / recaps did not drive their returns. Returns were driven by IPO's and strategic take-outs.

Treasurer Caprio thanked Ms. Horne and asked if anyone had questions. The Treasurer then entertained a motion for investment in TPG Partners Fund VI. Mr. Reilly motioned, Mr. Costello and Mr. Gaudreau 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 Treasurer Caprio.

**VOTED: To invest \$20 million in TPG Partners Fund VI, contingent upon satisfactory review and negotiation of investment and legal documents with no material changes to the opportunity as presented.**

Treasurer Caprio noted that Constellation Ventures was on the Agenda for this meeting, but the final report for the investment was not available. Therefore, the presentation from Constellation Ventures Fund III will be rescheduled. He then announced that Mr. Morgan Olsson from Nordic Capital was ready to give the presentation regarding Nordic Capital Fund VII. Nordic Capital was not able to attend the March 26, 2008 meeting, but the Commission committed \$20 million to Fund VII at that time, subject to satisfactory presentation at this SIC Meeting.

Ms. Davidson from PCG introduced Mr. Olsson from Nordic Capital. Mr. Olsson stated that the Company was started eighteen years ago with a dedicated focus on the buy-out market in the Nordic Region. The Firm has thirty two investment professionals in six countries and will be adding seven to nine professionals by the end of 2008. No Partner has ever left the Firm and there is virtually no turnover within the staff, indicating Nordic's historical success should continue.

Prior Funds have invested approximately €3,897 million in fifty six investments. As of December 31, 2007, Nordic has achieved a gross internal rate of return of approximately 75% on realized investments and a multiple of 3.7 times invested capital. Mr. Olsson commented that Fund VII has commitments of €3.3 billion to date, mostly from prior investors. The target of €3.7 billion should be secured by May 2008. Nordic Capital is seeking €600 million of additional commitments from new investors. A final closing of Fund VII will take place on or before June 30, 2008.

Mr. Olsson stated Fund VII will invest a minimum of 50% in the Nordic Region; of the remaining 50%, a maximum of 20% may be invested outside Europe. There will be fifteen to twenty investments resulting in ten to fifteen Portfolio Companies. Nordic does not have a particular industry focus, but historically has invested in pharmaceuticals, health care, industrials, and consumer discretionary industries, among others. As the business cycle extended, Fund V and Fund VI have only invested in non-cyclical companies, such as healthcare, as these sectors are less likely to be affected by economic trends. These types of companies now account for over 80% of the portfolio's investment cost. Mr. Olsson then went over the success of each Portfolio Company and stated that four or five of them will be exited within one year.

Mr. Olsson explained that the Firm has historically relied on Nordic banks for debt funding. He indicated that Nordic banks are willing to support the types of investments made by Nordic Capital and financing will not be an issue. He also commented that the Northern Europe Buyout Market remains very robust. He thanked the Commission for this new opportunity and their continued support.

Mr. Costello thanked Mr. Olsson for the positive performance of prior funds. He then asked for Mr. Olsson's opinion in regard to the current private equity market. Mr. Olsson replied he felt the media was over reacting in regard to the negativity of the future of private equity. He stated leverage is not the only way that private equity investments gain money. Companies relying on leverage only will not be profitable in the current market environment. The Firms who focus on profit improvement, rather than just leverage, have a greater opportunity to succeed in the current private equity market.

Mr. Reilly stated that companies are paying leverage multiples from nine to ten, which limits growth potential. He asked Mr. Olsson what an average multiple would be for Fund V and Fund VI. Mr. Olsson replied that going above a leverage multiple of six to seven times EBITDA (earnings before interest, taxes, depreciation, and amortization) in debt financing is risky.

Treasurer Caprio asked Mr. Olsson to expound on non-cyclical versus cyclical investments. Mr. Olsson explained that cyclical investment will always affect the market. He does not believe that cyclical investments will be in favor for at least one to two years. The economy was over heated last year which prompted Nordic Partners to look at non-cyclical investments, such as healthcare and utilities. These non-cyclical investments should continue to make healthy returns for the next four to five years. He added that diversity is also a very important element of a profitable portfolio. Treasurer Caprio thanked Mr. Olsson for attending the Meeting.

Legal Counsel Report. Ms. Sarah Dowling of Adler Pollack & Sheehan P.C., Legal Counsel to the Commission, stated that the contract for Nordic Fund VII is complete and ready to sign. Treasurer Caprio thanked Ms. Dowling for providing the Commission with an additional summarized report regarding the structure of this contract and all contracts going forward.

Deputy Treasurer for Finance report. Mr. Goodreau gave a brief Capital Market Review, as Mr. Bensur, General Consultant to the Commission, was not present. He stated that March was a very volatile month. The closing of Bear Stearns caused extreme volatility during the middle of the month. April has been significantly better. The portfolio held the benchmark for March. International markets continue to under perform; North Pointe continues to lag the benchmark. In general, the portfolio has held policy fairly well. Mr. Goodreau remarked that there was a slight recovery in April and some signs of stabilization. However, the market will continue to be affected by some degree of volatility.

Mr. Costello stated that private equity shows a 7% loss for the quarter. He then asked Mr. Goodreau how we attain values on private equity. Mr. Goodreau explained that the quarterly report has a significant lag time and the 7% loss is not an accurate number. He stated that the Investment Staff has been working for weeks on a new electronic report to track private equity numbers more accurately on a monthly basis. Sam Bynum, Investment Audit Manager, takes the distribution and capital call spread sheets from our Investment Staff and reconciles the data against PCG's and State Street Bank's data on a daily basis to ensure the values are accurate. This new procedure has been put in place to comply with the Auditor General's recommendation.

Treasurer's Report. Treasurer Caprio stated that there will likely be a change in Retirement Health Benefits as of September 30, 2008. There may be two thousand to three thousand employees retiring at that time, which is at least double the normal number of retirements per year. The unfunded liability will be re-calculated at that time by the Actuaries and the Commission will be kept apprised of these changes, as well as legislative changes regarding the Retirement Board and State Investment Commission.

Treasurer Caprio announced the second meeting of the RFP Review Sub-Committee will be on May 5, 2008. He thanked the members for their continuing participation and support.

New Business. There being no further new business, the Treasurer entertained a motion to adjourn.

Ms. Reback moved, Mr. Giudici 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 Treasurer Caprio.

**VOTED: To adjourn the meeting.**

There being no further business, the meeting was adjourned at 10:25 a.m.

Respectfully submitted,

Frank T. Caprio  
General Treasurer



**State of Rhode Island and Providence Plantations  
STATE INVESTMENT COMMISSION**

**Regular Meeting May, 2008**

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, May 28, 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 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, Deputy General Treasurer for Finance; Mr. Paul Campellone, of Adler Pollock & Sheehan, Legal Counsel to the Commission; Mr. William Bensus, General Consultant to the Commission; Ms. Michelle Davidson of the Pacific Corporate Group, Alternative Investments Consultant to the Commission; Ms. Lisa Tyrrell of the State Street Corporation; and other members of the Treasurer's staff. Mr. Robert Gaudreau was not present. Mr. Costello and Dr. McKenna left at 11:00 a.m.

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

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

Manager Continuation Policy Analysis Fourth Quarter –Wilshire Associates. Mr. Bensus stated that the U.S. Equity Portfolio structure and the U.S. Equity Managers are performing in line with expectations. He recommended the Commission retain all U.S. Equity Managers: NorthPointe, PIMCO, SSgA S&P 500 Index, Wellington Small Core, and Wellington Technical. Mr. Bensus went on to explain that the Commission should re-visit the idea of adding alpha transfer capabilities within the U.S. equity investment structure.

Mr. Bensus remarked that within the non-U.S. equity sector, The Boston Company has been on the watch list for many months. In April they were approximately 26 basis points above the benchmark, but lost their relative performance gains in May. Mr. Bensus recommended conducting a non-U.S. investment structure analysis, considering termination of The Boston Company, and adding a passive anchor to the non-U.S. equity portfolio. A passive non-U.S. equity index allocation will reduce the risk of under-performance, which may also reduce the probability of out-performance. Goldman Sachs under-performed slightly for the quarter, but has performed well in the past. Mondrian was once again the top performer in the non-U.S. equity sector.

The Fixed Income investment structure within the portfolio is solid. Brown Brothers Harriman (TIPS) has performed extremely well. Pyramis Global Advisors, Brown Brothers Harriman (Core Fixed Income), and Taplin, Canida & Habacht have been negatively affected by lack of bids for securities. As the market recovers and the bidding improves, the pricing will be reflected in the portfolio, which should recoup some of these losses. Mr. Bensus recommended retaining all of the current Fixed Income Managers. Treasurer Caprio asked

Mr. Bensur to compare the March 31, 2008 Quarterly Report sent to the Commission by Pyramis Global Advisors to the chart labeled “Excess Return versus Lehman Mortgage Index” in Wilshire’s report. The Treasurer remarked that during the last three years Pyramis was down 1.14% against the benchmark amid favorable market conditions. Mr. Bensur stated that from June 2007 through May 2008 they lost all the gains they had achieved. Most recently, 1.6% was lost during the March quarter. Prior to June 2007 they were in line with expectations. Mr. Bensur then recommended the Commission wait for the portfolio performance to recover, as this is a seasoned investment which is not principle impaired. Treasurer Caprio observed that the Lehman benchmark is up 8% for the year, but Pyramis is only up 4%. He then noted that other Fixed Income Managers were facing the same market issues as Pyramis, but were able to meet or exceed the benchmark. The Treasurer suggested that representatives from Pyramis appear before the Commission to discuss these issues.

Ms. Reback asked about MacKay Shields performance. Mr. Bensur replied that MacKay Shields has been on a watch list regarding management personnel changes for the last two years. They have been adding to their Staff and retaining Senior Staff Members. Mr. Bensur will recommend that they be taken off the watch list. Over the long term, MacKay Shields has done an excellent job, earning 2% net of fees over the benchmark.

*Performance Attributions First Quarter 2008 - Wilshire Associates.* Mr. Bensur observed that the absolute rate of return was down 6.3% for the first quarter. The policy benchmark was down 5.8% for the same period. U.S. Equity lost about 26 basis points and non-U.S. Equity lost about 5 basis points. Alternative Investments continue to perform well and added about 9 basis points. Real Estate was down about 9 basis points, Fixed Income was down 26 basis points and Cash picked up about 4 basis points.

Mr. Costello asked what level of confidence Mr. Bensur has in pricing challenges in a three month period in regard to performance of Alternatives, Real Estate, and Fixed Income. Mr. Bensur replied that it would be difficult to assess performance in these areas in such a short period of time. He stated that there is a lag time and a huge residual when calculating the attributions during a three or four month period. However, it may be more feasible to predict performance of attributions by linking the quarters together over a twelve month period.

Over the past five years the fund return has been 13.78%, which exceeds the total fund benchmark by 40 basis points, net of fees. Mr. Bensur advised the Commission to continue to stay on asset allocation targets and explore new investment ideas to add value to the portfolio in areas such as U.S. equity. He noted it would also be helpful to re-structure the non-U.S. equity portion of the portfolio.

*Capital Market Review – Wilshire Associates.* Mr. Bensur began his review by stating that oil and commodities will see more volatility in the next two months. He referred to the DJ-AIG Commodities, which is a diversified investment including metals, agriculture, and energy. Last year this asset allocation was up 16.2% against the benchmark, the first quarter it was up 9.5% and year to date through May 23<sup>rd</sup> it was up 18.7%. Real Estate benchmarks, both U.S. and Global, were down 17% last year but have recovered slightly.

Through the close of business on May 27, 2008, the Wilshire 5000 was down 4.2%, Emerging Markets were down 2.9%, Developed Markets were down 2.7%, the Total Market

was down 2.7%, and the Lehman Aggregate was up 1.6%. The majority of ERSRI's assets are in public equity which is down approximately 3% across the board, making it very difficult to generate returns at this time.

Treasurer Caprio introduced Ms. Davidson from PCG who presented two Funds for investment consideration to the Commission.

*Alternative Investments Consultant PCG – Apollo Investment Fund VII.* Ms. Davidson stated that Apollo Fund VII will be pursuing private equity and equity-related opportunities as well as debt-security investments. Apollo is seeking capital commitments of approximately \$15 billion and has already closed on \$13 billion. Apollo Investments has achieved net returns of approximately 29% in six prior funds through various economic cycles over an eighteen year period. Their loss ratios are very low indicating that returns are achieved without taking on excessive risk. The Fund will focus on classic buyouts, corporate partner buyouts, and distressed investments across a broad range of industries, predominantly in North America. Approximately \$200 million to \$1.5 billion of equity will be invested in twenty to twenty five companies. The final closing is expected to occur sometime in mid/late 2008. The General Partner and its affiliates will make a commitment of at least \$250 million to the Fund, equating to approximately 1.67% of the anticipated Fund commitments. The majority of this commitment will be in cash, but a percentage may be funded by a reduction in ERSRI's management fee. Ms. Davidson commented that her review of the General Partner and proposed Fund indicates that the potential returns justify the risks associated with investment in Fund VII.

Ms. Davidson introduced Eric Zinterhofer, Senior Partner, and Stephanie Drescher, Partner, from Apollo Investments. Mr. Zinterhofer gave a brief history of the Firm stating it was founded in 1990 and has managed \$40 billion since inception with gross returns of 41% and 29% net. They have an integrated platform between Private Equity and Capital Markets and a Staff with significant credit expertise, which enhances their ability to make profitable buyout investments. The Founding Partners have been together for twenty years and the Senior Partners have worked together thirteen years. There is an extremely long apprenticeship period because the professionals at Apollo are expected to be adept in distressed buyouts as well as traditional leverage buyouts before becoming a Partner. This expertise has made Apollo Investments successful across all economic cycles. Due to the current market environment, Apollo Fund VII has shifted its focus to distressed opportunities. As the economy begins to recover, Fund VII will move toward traditional leveraged buyouts. With the exception of Harrah's Entertainment, Apollo does not partner with other firms to avoid double exposure to large buyouts of multiple funds.

ERSRI is currently invested in Fund VI. Ms. Drescher gave a brief overview of the performance of Fund VI stating it is fully committed. The IRR currently is 58% gross and 42% net. The Fund has realized an increase in value of \$1.5 billion above cost since inception. The portfolio represents a number of exclusive situations and many strategic platforms across industries well known to Apollo. Fund VI has distributed \$1.3 billion or 27% of invested and committed capital as of December 30, 2007. Mr. Reilly asked how much of the portfolio has been realized. Ms. Drescher replied the realized portion of the portfolio is \$1.3 billion. Treasurer Caprio asked how often the estimated fair value of the Fund is updated. Ms. Drescher replied it is updated quarterly and the value stated in this presentation is as of December 31, 2007. Ms. Drescher noted that from December 2007 to

March 2008 the net returns were down slightly, to approximately \$1.1 billion. The IRR continues to be in excess of 30% and the portfolio recovered slightly in April.

Treasurer Caprio mentioned the estimated fair value of Harrah's Entertainment in this report is not a reflection of the value as of April 2008. Mr. Zinterhofer concurred and there was a discussion regarding the past, present, and future strategy of this investment.

Mr. Reilly inquired when there would be more realized proceeds in debt securities. Mr. Zinterhofer explained that there are many different categories within debt securities. He anticipates returns will be realized in all categories within three years.

Mr. Zinterhofer ended his presentation by referring to updates and case studies for Fund VI. He thanked the Commission and offered to answer any questions the Commission may have regarding Apollo Investments in the future.

Treasurer Caprio thanked Ms. Drescher and Mr. Zinterhofer for their presentation. He then entertained a motion for investment in Apollo Investment Fund VII. Ms. Reback moved, Mr. Reilly and Mr. Giudici seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED: To accept PCG's recommendation that the SIC commit up to \$25 million in Apollo Investment Fund VII, contingent upon the conditions documented in PCG's Investment Memorandum dated May 2, 2008, and upon satisfactory review and negotiation of investment and legal documents with no material changes to the opportunity as presented.**

Treasurer Caprio advised the Commission that CVC European Equity Partners was not able to attend this Meeting. Since there are no immediate time constraints in regard to the closing date of Fund V, the Treasurer entertained a motion to continue the CVC European Equity Fund V discussion at the next SIC Meeting. Dr. McKenna moved, Mr. Treat and Mr. Giudici seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED: To continue the discussion regarding investment in CVC European Equity Partners V during the June 25, 2008 SIC Meeting.**

*Alternative Investments Consultant PCG – Constellation Ventures III.* Ms. Davidson stated that Constellation Ventures III is being formed to make stage diversified investments in digital media, communications and information technology sub-sectors. The Fund is targeting \$250 million in commitments, with a hard cap of \$350 million. Four initial investments, totaling \$12.4 million, have been made as of January 31, 2008. Constellation will build a portfolio of approximately twenty to twenty five companies with initial investment sizes ranging from \$5 million to \$10 million. The Fund will invest primarily in the U.S.; however, up to 33.3% may be invested outside North America, with a particular focus on Europe. The Fund has had two closings totaling \$120 million and expects to hold a final closing by June 30, 2008. Since inception, the General Partners have established a strategic partnership with Bear Sterns. JP Morgan is in the process of acquiring Bear Sterns

and has accepted full responsibility for Bear Stern's capital commitment to the Fund, which is approximately \$50 million. The investment professionals of the Fund will commit \$19.3 million. Ms. Davidson noted that a commitment to Fund III is complimentary to ERSRI's current Venture Capital Portfolio.

Ms. Davidson introduced Clifford Friedman, Founding Partner of Constellation Ventures. Mr. Friedman explained that Constellation Ventures III has invested, committed, and reserved \$73 million through May 2008. Since 1998, Constellation has invested approximately \$365 million in forty portfolio companies across two Funds. As of December 31, 2007, the Firm has realized \$298 million with an unrealized value of \$309 million. They have generated a combined gross IRR and gross total value multiple of 12.7% and 1.7x, respectively. The net IRR and net total value multiple are 7.9% and 1.4x, respectively.

Fund II has returned nearly 100% of invested capital, which is driving the establishment of Fund III. Mr. Friedman went on to review investments made in Fund II, explaining the high level of expertise and the consistent and thematic strategic planning done by the investment professionals at Constellation Ventures.

Constellation Ventures believes the convergence of media, communications, and technology will present compelling and unique investment opportunities during the next five to seven years. Constellation Venture Fund III has five investments to date based on this concept. Mr. Friedman explained the technology and current performance of each investment. The Investment Partners have a large ownership stake in all deals, which is approximately 8% of capital. Mr. Costello remarked that the Partners are contributing a significant amount of capital knowing there is a risk of substantial write-offs. He asked Mr. Friedman what he is doing to mitigate this risk. Mr. Friedman noted that some investments in Fund II did not perform well, such as Verance Corporation. To mitigate risk and to avoid under performance in the future, Constellation now does long stage platform investing using a broader portfolio. He concluded that he believes the 2000 Portfolio will be about 2.2x cash on cash at close, and Fund III should have much better returns than Fund II.

Treasurer Caprio thanked Mr. Friedman and then entertained a motion for investment in Constellation Ventures Fund III. 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. Reilly, Mr. Treat, and Treasurer Caprio.

**VOTED: To accept PCG's recommendation that the SIC commit up to \$15 million in Constellation Ventures Fund III, contingent upon the conditions documented in PCG's Investment Memorandum dated May 2,2008, and upon satisfactory review and negotiation of investment and legal documents with no material changes to the opportunity as presented.**

Legal Counsel Report. Mr. Paul Campellone, of Adler Pollock & Sheehan, Legal Counsel to the Commission, indicated there were no legal developments for the month.

Deputy Treasurer for Finance report. Mr. Goodreau noted the Portfolio is doing relatively well, despite the current volatility. The Fixed Income sector continues to under

perform. The portfolio is under weight in the High Yield sector which has been a positive in this market environment. The Wellington Portfolio has out performed the benchmark by about 13% in the last six months. The Boston Company, who has been routinely under performing, was 25 basis points above their benchmark for the month.

Treasurer's Report. Treasurer Caprio advised the Commission that the Investment Sub-Committee has completed interviewing all applicants for the position of General Consultant. A Sub-Committee Meeting will be scheduled to discuss the results of the interviews, with intentions of reporting the findings to the Commission during the June SIC Meeting.

The Treasurer expressed the importance of the Treasury Internship Program and introduced two members who are currently participating: Janine Kwoh, who attends Brown University and Charles Moroni, who attends Skidmore College. They will be attending meetings and have been doing research regarding our Investment Portfolio.

New Business. There being no further new business, the Treasurer entertained a motion to adjourn.

Ms. Reback 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.

**VOTED: To adjourn the meeting.**

There being no further business, the meeting was adjourned at 11:07 a.m.

Respectfully submitted,

Frank T. Caprio  
General Treasurer

**State of Rhode Island and Providence Plantations  
STATE INVESTMENT COMMISSION**

**Regular Meeting June 25, 2008**

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, June 25, 2008. The Treasurer called the meeting to order at 9:11 a.m.

*Membership Roll Call.* Present were: Ms. Rosemary Booth Gallogly, Mr. Robert Gaudreau, Mr. Robert Giudici, Dr. Robert McKenna, Ms. Marcia Reback, Mr. Andrew Reilly, 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, Legal Counsel to the Commission; Mr. Joseph Pezza, of Rodio & Ursillo, Legal Counsel to the Commission; Ms. Michelle Davidson of the Pacific Corporate Group, Alternative Investments Consultant to the Commission; Ms. Lisa Tyrrell of the State Street Corporation; and other members of the Treasurer's staff. Mr. Costello and Mr. Treat were 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. Gaudreau, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, and Treasurer Caprio.

**VOTED: To approve the Minutes of the May 28, 2008 regular meeting.**

Due to the request by one of the SIC Members for time consideration, the Treasurer began the Meeting with item #5 from the Agenda.

*RFP Subcommittee Recommendation and Review-General Consultant Search.* The Treasurer referred to the memo in the Consultant Presentations booklet, which summarizes that an RFP was published in December 2007 in national publications requesting proposals for consultants to ERSRI. The Commission received numerous responses, and the Subcommittee met on February 19 to determine which firms the Committee wished to interview. On April 9, 2008 and May 5, 2008, the Subcommittee met and heard presentations from the finalists. On June 12, 2008, the Subcommittee met, reviewed, and approved the recommendation outlined in this memo. All these meetings were posted as public meetings. The Committee and Staff recommended splitting the consultant's responsibilities into three roles: a General Policy Consultant, an Implementation Manager, and a Manager Search and Database Services Component.

To fill the General Policy Consultant role, the Subcommittee and Staff recommended Pension Consulting Alliance. PCA is the lead consultant to CALSTERS, which is the second largest U.S. pension fund along with other large funds. Industry polls and publications, including Pensions and Investments, have consistently ranked PCA as one of the top ten Consulting Organizations. CEO and Founder Allan Emkin was a former Wilshire representative to R.I. in the 1980's and is familiar with ERSRI, having been part of the implementation of its current structure. He will personally handle our account, which will give the Commission and Staff the distinct advantage of an upper level relationship with the

Firm. The Treasurer emphasized that although there may be three proposed consultants, the fees would remain the same or less than the fees currently paid to our Consultant. The General Policy Consultant will attend the SIC meetings consistent with current practice.

Improvement of the portfolio's efficiency is the primary function of the Implementation Manager. The group that was recommended for this role was the Russell Investment Group. Russell Investment Group is a top rated Pension Consultant in the category of assets under advisement and a pioneer in the pension universe, and is the industry standard in beta overlay and exposure management. The Firm was a clear choice for the Subcommittee given its consistently high performance, industry leadership, and low fee structure.

The third component, Manager Search and Database Services, is an assignment-based function. The Commission would not pay a monthly fee to the Firm, but will have access to their extensive database. Fees will be incurred only when the SIC Members request their services. The Firm that is recommended for this role is Brockhouse & Cooper, which is a Firm that currently provides these services to two of the largest funds in the world: Ontario Teachers Pension and ABP Investments. Their extensive databases, covering both domestic and international investment firms, will allow Staff to conduct far more in-depth manager searches in a user friendly format than is currently possible.

Mr. Goodreau added that although the Commission only meets once a month, he would like the Members to understand that this was a very painstaking, long due diligence process that the Treasurer, his Staff, and the Subcommittee went through over the past six months. The architecture and methodology behind what the Commission is trying to do started very specifically with the careful wording of the RFP under the Treasurer's direction. With the proposed structure, the consultants would constantly be testing each other, and would give the program a checks and balances framework that is not currently available. Mr. Goodreau then thanked the Subcommittee for their diligence and hard work.

Ms. Reback asked what the difference was between a General Consultant and an Implementation Manager. The Treasurer replied that the Implementation Manager would deal with day-to-day issues within the portfolio, such as moving asset allocations. Currently when implementing that strategy, there are certain time lags that affect the portfolio's performance. The Implementation Manager would assist in that process using strategies that will eliminate this two to three day lag. As the Commission conducts additional asset allocation studies and investment guideline studies, the General Consultant will provide the guidance and oversight required as the fiduciary.

The Treasurer noted that the Firms had already given extensive presentations to the Subcommittee, and asked them to give an abbreviated version to introduce their Firm and their goals in partnering with the SIC going forward.

General Consultant Presentation—Pension Consulting Alliance, Inc. Mr. Allan Emkin, CEO of PCA, stated that he started PCA in 1988. Prior to that he was with Wilshire Associates, and was the first Wilshire Consultant to the SIC. PCA's only business is pension consulting; they do not manage assets or sell services to investment managers. Mr. Emkin stressed that consulting is a service rather than a commodity, so the advice PCA provides is



unique to each client's circumstance and facts. They conduct a variety of services for clients: general consulting, private equity consulting, and real estate consulting. PCA is unique in that they like to work with other consulting Firms and have worked with every major specialist Firm in the country. They have worked with Russell Investments for years. They have an office in New York, and are in the process of expanding East Coast staffing. Most of the staff that works with clients have more than a decade of institutional consulting experience, and are highly motivated because their compensation is directly linked to client retention. They have only lost one staff member in twenty years. The Firm is also hired to do unique projects. They were retained by the State of New Jersey for an infrastructure project, and by the State of New York for a private equity program. They help clients with private equity searches and orchestrate consultant searches. In this role, they recuse themselves from being considered as a candidate, and only act as an independent resource.

PCA rates among the highest in the country's top consulting organizations, according to *Pensions & Investments*. The Firm does not have any small clients—the average client has over 30 billion dollars in assets. They have a long term relationship with many of their clients, and have lost very few clients over the years. This year, they have been retained by the State of New Jersey, State of Hawaii, and the City of Seattle, among others.

The Treasurer asked Mr. Emkin to highlight points he made during a panel discussion at Harvard Law School on the future of pensions and investment management. Mr. Emkin replied that he could guarantee two things: the only thing that works in the business is diversification, and that there will be change. There are opportunities that the institutional investing community typically doesn't look at and these opportunities can earn an excellent rate of return and foster economic development.

The Treasurer stated that the current portfolio is diverse and has a sophisticated model, but stressed the need to look toward the future. Mr. Emkin pointed to the recent green initiatives of large corporations as a supporting example. The consultant's role in this process is to provide the concepts and information that can help clients make the best decisions for their portfolio.

PCA is structured differently than other consulting Firms because it outsources analyst, data entry, and computer programming positions. Mr. Emkin highlighted that their clients involve them in governance. The Firm has a unique design for public pension plans, asset liability products, and a joint venture with an actuarial Firm. They provide practical approaches to key investment processes, including a new real return asset class, which is designed to grow with inflation, and portable alpha programs. They hire people and give them one mandate so they can become an expert in their area.

The Treasurer then asked the SIC Members to introduce themselves to Mr. Emkin. After a brief introduction, the Treasurer mentioned that Mr. Costello and Mr. Treat were also Members of the Commission, but were not present at this meeting. The Treasurer asked for questions, and hearing none, thanked Mr. Emkin for his presentation.

*Implementation Manager Presentation—Russell Investments.* Mr. Cameron Lochhead and Mr. Greg Nordquist were representing Russell Investments. Mr. Lochhead is the Regional Director of Russell Investments and Mr. Nordquist is the Senior Portfolio

Manager. Mr. Lochhead stated that they were well-resourced with headquarters in Tacoma, Washington and 2,000 associates worldwide. They partner with the largest institutions, and do business with eighteen to twenty state funds, most of which are implementation relationships. They are one of the top one hundred money managers in the world, but are first and foremost an asset manager that hires managers and runs multi-asset class portfolios. Mr. Lochhead stated that they have discovered inefficiencies while fulfilling the role of fiduciary, and as a result they have become an expert in portfolio implementation techniques to reduce costs, take unintended risks out of the equation, and improve the efficiency of the portfolio. The Firm is client focused, which means they limit the amount of clients they service. Everything is customized to the specific needs of the staff and pension fund investment guidelines. Russell Investments has won many industry awards for its research and implementation techniques. They were ranked number thirty on the 2007 list of Fortune 100 Best Companies to Work for in America.

Mr. Nordquist then talked about the proposed assignment. As Implementation Manager, Russell would help develop a risk-return profile within the portfolio and maintain the broad asset allocation as determined by the SIC under the guidance of the General Policy Consultant. The goal is to maximize exposure to intended bets and minimize the unnecessary risk of exposures. He then spoke about the importance of cash flow management, and how they will work to ensure that the fund has enough cash available, yet have it exposed to the markets. This more opportunistic approach would lessen the Staff's administrative burdens. In regard to alternative investments, the Firm can help the Commission work through unpredictable cash flows and cash strikes. The Firm will also bring new research ideas and educational experiences as opportunities that the Commission can take advantage of. They have a gold-standard list of clients, and can cater to the size, needs, and staff to help accomplish each client's goals. Mr. Nordquist highlighted the Firm's focus on administrative alpha, or adding value to portfolios by improving implementation. This has added approximately 15 basis points per year to the average client's portfolio. He again emphasized the ability of the Firm to service large clients. Mr. Nordquist noted that sloppy implementation can add risk and take away return from a portfolio, while a well implemented strategy can be a competitive advantage in moving the portfolio forward and increasing returns. Their proposed platform is to be more nimble, "decide today, act today." Russell Investments offers flexibility for the Commission to get the desired risk-return profile.

The Treasurer then asked for questions. Mr. Goodreau emphasized that Russell Investments is not meant to be a replacement for the previous consulting service, but was an unexpected discovery that will help the Staff with day-to-day functions. With fast-moving markets and large sums of money, not being able to pay attention to details can cost a portfolio from 5 to 15 basis points over a year. This unintended risk results in inefficiencies in performance. Russell Investments has demonstrated the ability to help staff capitalize on the efficiencies of moving large sums of money.

*Manager Search Consultant Presentation— Brockhouse & Cooper* Mr. Ralph Loader, Chairman/CEO and Mr. Ryan Anderson, U.S. Global Broker, represented Brockhouse & Cooper. Mr. Loader explained the Firm was established in 1968 to serve institutional investors in all major world markets. Since 1987 the Firm has focused on the very specialized field of global investment manager structure and search, earning respected status as a leader in its field. They have developed and maintain a comprehensive database

which includes detailed investment manager profiles and detailed performance reports across a wide variety of geographic and style-based mandates. Clients may access this information via the web to conduct their own research and evaluation of investment managers. Their clients incur no fees for this service and the investment managers are not charged to participate in the database. During the last four years Brockhouse & Cooper has completed 484 investment manager searches with a total of \$48.6 billion in assets placed in the U.S., Canada, and internationally.

Brockhouse & Cooper's manager search process begins with a multi-factor ranking model involving all qualified candidates. The list of managers is then narrowed to ten to fifteen of the most qualified managers. This is followed by another detailed analysis with recommendations for three to five managers. At this point, Mr. Loader suggests his clients have an on site meeting with the finalists. During the final phase, Brockhouse & Cooper will negotiate implementation of contracts and fees, as required.

Treasurer Caprio asked if there were any questions. Ms. Reback asked about the fee structure and the contractual obligations of the proposed investment consultants. The Treasurer explained the cost will be no higher than the costs associated with our current consultant. The contracts are yet to be negotiated, but stipulations will be implemented within this motion to assure that the fees remain within the current fee structure. The length of the contracts will be two years, with a clause that allows exit from the contract with the appropriate notice, should the Commission find cause to end the relationship. There will also be an option to renew the contract without going through an additional RFP process. Mr. Giudici commended the Subcommittee for their time and effort and also for a job well done. He went on to state that during this complex economic environment, increasing our information and decision making resources is very important. He stated he would like to endorse the recommendation of the Subcommittee.

Treasurer Caprio entertained a motion to accept the recommendation of the Subcommittee with the following directive: the fee structure will be no higher than the fee structure with the existing consultant; the term of the agreement shall be for two years, with a stipulation that allows for exit from the contract with appropriate notice, should the Commission find cause to end the relationship; there will be an option to renew the contract without going through an additional RFP process. Dr. McKenna moved, Ms. Reback and Mr. Giudici seconded and the following motion was passed. The following members voted in favor: Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, and Treasurer Caprio.

**VOTED: To accept the recommendation of the Subcommittee with the following directive: the fee structure will be no higher than the fee structure in place with the existing consultant; the term of the agreement shall be for two years, with a stipulation that allows for exit from the contract with appropriate notice, should the Commission find cause to end the relationship; and the contract shall provide an option to renew without going through an additional RFP process.**

Alternative Investments Consultant PCG – CVC European Equity Partners V.  
Ms. Davidson explained that CVC European Equity Partners is forming Fund V to pursue large and mega-market European buyouts. This is an existing relationship, as the SIC has

invested in Funds II, III, and IV. The return on these Funds since inception has been 28%, with a multiple of more than 2 x's. They are currently one of our top performers. Fund V will primarily target companies headquartered in Western Europe but will have the ability to invest a limited amount of capital in the Asia Pacific region and the U.S. The fund will make investments in companies with enterprise values between €300 million and €10 billion. CVC Europe is managed by twelve Managing Partners and fifty five supporting investment professionals located in twelve offices throughout Europe, with one office in New York. The fund will make approximately twenty to thirty investments in a broad range of sectors including industrials, consumer discretionary, and materials. The first closing was held in April 2008 securing €4 billion in commitments with an expected total commitment of €1 billion. A hard cap has not yet been determined. A final close will be held near the end of the second quarter. Ms. Davidson stated that Fund V is complimentary to ERSRI's existing Corporate Finance commitments and recommended investment in Fund V.

Mark St. John represented CVC European Equity Partners. He is a Partner and has been with the Firm for ten years. He spoke of the large network and geographic diversification which enables their investment professionals to actively generate and pursue opportunities in local European and Asian markets, as well as provide constructive support to portfolio companies. They have nineteen offices across three continents. CVC has eight advisory boards located in Germany, Holland, Austria, Belgium, the Nordic Region, Italy, Spain, and the United Kingdom. The boards are comprised of successful European businessmen whose time commitments and involvement varies. The most active members assist in everything from sourcing investments to providing support and management advice to portfolio companies. There is a consistency of high returns in all four prior European funds, indicating strong investing discipline and good risk management. They are not a mega fund in terms of transaction size, but typically invest in the upper end of the middle market in Europe and Asia. When making investments, they are very aware of the down side and take steps to protect the investment.

Mr. St. John went on to explain the compensation structure within CVC. It is transparent and aligned so those individuals who have successful investments are rewarded. This means that a Junior Partner could conceivably make more money than a Partner. As a result, the Investment Team is very driven and they work very hard at making their investments successful. This is an important element of their business principles, as it drives performance and keeps losses down.

Mr. St. John explained that he believes this is one of the best times for making investments. Asset prices are coming down which allows CVC to buy companies with real value rather than buying and financing at a high level. Their current research has identified thousands of potential opportunities throughout Europe. Financing is more difficult, but it is still available.

Treasurer Caprio thanked Mr. St. John for his presentation. Ms. Reback remarked that €20 million is larger than commitments made in the past. Treasurer Caprio asked Ms. Davidson to comment on this remark. Ms. Davidson explained that when renewing existing

relationships, particularly those that have been very successful, it is advantageous to take a larger, more concentrated position. Treasurer Caprio added that the mandate states investments may be no more than 10% of any limited partnership; this investment currently is not even near 1%. He then entertained a motion for investment in CVC European Equity Partners Fund V. Ms. Gallogly moved, Ms. Reback seconded and the following motion was passed. The following members voted in favor: Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, and Treasurer Caprio.

**VOTED: To accept PCG's recommendation that the SIC commit up to €20 million in CVC European Equity Partners Fund V, contingent upon the conditions documented in PCG's Investment Memorandum dated May 13, 2008, and upon satisfactory review and negotiation of investment and legal documents with no material changes to the opportunity as presented.**

*Legal Counsel Report.* Ms. Sarah Dowling, of Adler Pollock & Sheehan, Legal Counsel to the Commission, asked the Commission to pass a resolution that the General Treasurer be authorized, empowered and directed, signing singly, to execute the Subscription Agreement, any Side Letter and any other ancillary documents related to investments made by ERSRI in private equity or real estate funds, the execution thereof by the General Treasurer to be conclusive evidence that the same are hereby authorized. Dr. McKenna moved, Ms. Reback seconded, and the following motion was passed. The following members voted in favor: Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, and Treasurer Caprio.

**VOTED: That the General Treasurer be authorized, empowered and directed, signing singly, to execute the Subscription Agreement, any Side Letter and any other ancillary documents related to investments made by ERSRI in private equity or real estate funds, the execution thereof by the General Treasurer to be conclusive evidence that the same are hereby authorized.**

*PCG Secondary Market Update.* Ms Davidson stated that in 2007 ERSRI conducted a strategic review of its private equity program. She explained that older funds have high administration fees and tend to become a burden within the portfolio. Selling these interests would free up capital to make new investments in higher performing funds. As a result, PCG has been reviewing various options relating to the sale of interests in sixteen funds. After filtering potential buyers based on size, strategy, and market reputation, PCG held discussion with fifteen institutions about the offering, with six Firms ultimately targeted. Pantheon Ventures and Fondinvest yielded the highest overall bids for specific interests. Pantheon submitted two different portfolio bids (Option A & Option B), as outlined on page 4 of PCG's report. Fondinvest submitted a single bid for CVC European Equity Partners II. By combining Pantheon's Option B bid with Fondinvest's offer, ERSRI would have the opportunity to optimize its portfolio sale value for selected interests. This sale will generate a cash distribution of about \$31 million. Capital calls would not be funded after the sale, which would reduce the amount of unfunded liability by \$5 million. The two bidders are strong secondary players and have cash in hand, so the ability to close is extremely high.

Mr. Reilly asked if there was an expiration date related to the bids. Ms. Davidson replied that typically the bids expire in thirty days. Ms. Reback suggested the SIC take a vote now regarding the acceptance of the two bids. Ms. Reback moved, Mr. Reilly seconded, and

the following motion was passed. The following members voted in favor: Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, and Treasurer Caprio.

**VOTED: To allow negotiation of contracts where the cash bid is a percent of market value as presented on page 6 of the PCG confidential memo “Sale of Interests in Private Equity Funds” dated June 25, 2008. If that percentage equals 85% or above, the Commission would allow the commencement of those negotiations and finalization of legal documents for approval.**

*Capital Market Review.* Deputy Treasurer Goodreau stated May was a good month. The S&P was up about 1.3%. The portfolio out performed in the equity space; the Wilshire Index was up about 2%, Wilshire 5000 was up about 2.3%, Wellington Technical Equity out performed the benchmark by almost 4%, SSgA Core was up about 50 basis points over the market, the Fixed Income portfolio was down about 30 basis points, the Lehman Aggregate was down about 75 basis points, the international portfolio was up 1.3%, and the MSCI Index was up 1.7%.

*Treasurer’s Report.* The Treasurer stated that the changes that were made during this meeting will bring new relationships to the Commission. The decision was made over a long period of time with many discussions. He feels very positive regarding future accomplishments with the addition of the new consultants and intends to have more open dialogue between the SIC Members and consultants. He thanked the Commission for being open minded and adopting the changes that the Subcommittee and Staff suggested.

*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: Ms. Gallogly, Mr. Gaudreau, Mr. Giudici, Ms. Reback, Mr. Reilly, and Treasurer Caprio.

**VOTED: To adjourn the meeting.**

There being no further business, the meeting was adjourned at 11:12 a.m.

Respectfully submitted,

Frank T. Caprio  
General Treasurer