



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
PHILADELPHIA REGIONAL OFFICE  
MELLON INDEPENDENCE CENTER  
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May 8, 2009

**VIA FEDEX**

Frank J. Karpinski, Executive Director  
Employees Retirement System of Rhode Island  
40 Fountain St., 1<sup>st</sup> Floor  
Providence, RI 02903

Re: Certain Public Pension Fund Activities (MP-01603)

Dear Mr. Karpinski:

The staff of the Division of Enforcement of the Securities and Exchange Commission ("Commission") is conducting a confidential informal inquiry in the above-referenced matter. In connection with this inquiry, the staff requests that you voluntarily provide the documents and/or information requested in the attachment to Annette Zambrano at the address set forth above by May 20, 2009.

This inquiry is confidential, and should not be construed as an indication by the Commission or its staff that any violation of law has occurred, or as an adverse reflection upon any person, entity or security. The enclosed Commission Form 1662 includes a list of routine uses of information provided to the Commission, and also includes other important information. The staff also requests that you not destroy or alter, or cause to be destroyed or altered, any documents requested in the attachment, or that in any way relate to the documents requested in the attachment.

The staff appreciates your assistance with this inquiry. If you have any questions concerning these requests, please contact me at the above address or call me at (215) 597-3100.

Very truly yours,

A handwritten signature in black ink, appearing to read "Mark R. Zehner".

Mark R. Zehner  
Regional Municipal Securities Counsel

Enclosures: Attachment  
SEC Form 1662

## Attachment

### **A. Background Information**

1. Identify each statewide pension or retirement fund within the state of Rhode Island.
  - a. Provide name and address information for the primary points of contact for each fund identified.
  - b. Provide the most recent number of employees covered by each pension fund identified.
  - c. Provide the most recent amount of assets figure for each pension fund identified.
2. Are there departments or entities within the State government with oversight and decision-making responsibilities for any of the pension funds identified in Question A.1 above?
  - a. Provide name and address information for the primary points of contact for each government department or entity identified.
3. Has the State or any of the pension funds identified in Question A.1 above employed or retained within the last three years any non-state employees, contractors, consultants, placement agents, managers or advisors to serve in paid or unpaid advisory capacities in connection with the management, administration or investment decision-making of any of the State's pension funds?
  - a. Provide name and address information for the primary points of contact for each non-state employee, contractor, consultant, placement agent, manager or advisor identified, together with a brief description of the services they provide.
4. Identify each State investment board, advisory council, department or other similar State entity with the authority to set investment policy, retain consultants, advisors or other intermediaries or oversee investment decision-making with respect to amounts held in any of the pension funds identified in Question A.1 above.
5. Identify any and all private actuaries and accountants employed or retained by the State or any of the pension funds identified in Question A.1 above in connection with the management, administration or investment decision-making of the State's pension funds.
  - a. Provide name and address information for the primary points of contact for each actuary and accountant identified.
6. Have any of the State's pension funds identified in Question A.1 above been the subject of any state attorney general, inspector general or similar external review, audit or

government investigation during the past three (3) years? If so, please describe the circumstances and the results of such review, audit or investigation.

- a. Provide name and address information for the primary points of contact for each attorney general, inspector general, external auditor or government investigator identified.

**B. Disclosure of Unfunded or Underfunded Liabilities**

1. Identify each department or entity within State government that has oversight and disclosure responsibilities for disclosure documents prepared in connection with the State's general obligation bonds or similar State-supported bond issues ("Official Statements").

- a. Provide name and address information for the primary points of contact for each government department or entity identified.

2. During the past five (5) years, have any of the State's pension funds identified in Question A.1 above changed their actuarial asset valuation methods, namely, have any of the pension funds changed from smoothed value to market value (or vice versa) or from smoothed value to book value (or vice versa)?

3. If the answer to Question B.2 is yes:

- a. Provide an explanation for the change(s) and the effects of the change(s).
- b. Describe how the change was disclosed in Official Statements or other required continuing disclosure reports.

4. During the past five (5) years, have any of the pension funds identified in Question A.1 above changed their actuarial methods and assumptions, including, but not limited to, the actuarial cost method, the amortization method, or the method of determining the actuarial value of plan assets?

5. If the answer to Question B.4 is yes:

- a. Provide an explanation for the change(s) and the effects of the change(s).
- b. Describe how the change was disclosed in Official Statements or other required continuing disclosure reports.

6. During the past five (5) years, have any of the pension funds identified in Question A.1 above created a separate asset account to separately account for investment earnings in excess of a stipulated benchmark?

7. If the answer to Question B.6 is yes:

- a. Describe why the separate asset account was created.

- b. Describe how the separate asset account was created.
- c. Describe how the funds in the asset account have been used, including the date that was used to determine the investment earnings.
- d. Describe how the creation of the separate asset account and its use was disclosed in Official Statements or other required continuing disclosure reports.

8. Please identify whether Official Statements in the past five (5) years have included the following information relating to the pension funds identified in Question A.1 above:

- a. Funded ratio (including trends);
- b. Information related to unfunded actuarial accrued liability (UAAL) (including trends);
- c. ARC-related information (including trends);
- d. Measures related to annual pension cost (APC);
- e. Measures involving information about contributions, including, but not limited to, comparisons of contribution amounts by employers and employees, trends in contributions, and trends in the percentage of the ARC contributed;
- f. Net Pension Obligation (NPO);
- g. Information reported by the pension plan, including trends in system assets and liabilities, investment return, and investment policies.

9. Please identify whether the Official Statements in the past five (5) years have included the following market value information relating to the pension funds identified in Question A.1 above:

- a. Funded ratio (including trends);
- b. Assets (including trends);
- c. Liabilities (including trends); and
- d. Ratio of Actuarial Value of Assets (AVA) to Market Value of Assets (MVA) (including trends).

10. If the State has changed its Official Statements in the last five (5) years to include or exclude any of the items in Question B.9, provide an explanation as to why they were excluded or included.

11. If the State has changed its Official Statements in the last five (5) years to include or exclude any of items in Question B.8, provide an explanation as to why they were excluded or included.

12. In the past five (5) years, has the State taken a "Pension Holiday" or otherwise not made contributions to pension funds?

13. If the answer to Question B.12 is yes:
  - a. Provide an explanation as to why contributions were not made.
  - b. Describe how the failure to make contributions was disclosed in the Official Statements and other required disclosure statements.
14. Did the State consider what effect(s) the failure to make contributions would have on future pension obligations?
15. If the answer to Question B.14 is yes:
  - a. Describe what the effects were.
  - b. Describe how those effects were disclosed in Official Statements or other required disclosure statements.
16. In the past five (5) years, has the State adopted a “phase-in plan” or other method which resulted in the State making less than the Annual Required Contribution (as determined by the actuary) for a set number of years?
17. If the answer to Question B.16 is yes:
  - a. Provide an explanation as to why the plan or method was adopted.
  - b. Did the State adhere to the plan or method?
  - c. Describe how the plan or method was disclosed in Official Statements or other required continuing disclosure reports.
  - d. Did the State consider what effect(s) the phase-in plan or method would have on future pension obligations?
    - i. If the answer is yes, what were the effects and were those effects disclosed in Official Statements or other required continuing disclosure reports?
18. Is the State or any of the pension funds identified in Question A.1 above aware of the Securities and Exchange Commission’s Order Instituting Cease-And-Desist Proceedings, Making Findings, and Imposing a Cease-And-Desist Order Pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934 in the Matter of City of San Diego, California (Securities Act Rel. No. 8751 (Nov. 14, 2006))?
19. If the answer to Question B.18 is yes, state whether and to what extent the State or any of the pension funds identified in Question A.1 above has taken any action, made any changes in its policies or procedures, or made any other changes in response to this Order.

20. Does the State or any of the pension funds identified in Question A.1 above provide training to employees responsible for creating and/or updating disclosures regarding pension funds in Official Statements or other required continuing disclosure reports?

21. If the answer to Question B.20 is yes:

a. When did the State or pension fund institute the training?

b. Describe the nature of the training and the employees required to participate in the training.

22. Has the State analyzed its ability to fund future pension obligations over the next 10 or more years?

23. If the answer to Question 22 is yes:

a. Describe the results of that analysis.

b. Describe how those results were disclosed in Official Statements or other required continuing disclosure reports.

### **C. Disclosure of Investment Risks**

1. During the last 5 years, have any of the pension funds identified in Question A.1 above or government entities identified in Questions A.2, A.4 above discussed with an investment adviser any investment product, program or strategy for which the level of risk associated with that investment product, program, or strategy may have been inadequately disclosed?

2. If the answer to Question C.1 is yes, identify for each incident the investment adviser, investment product program or strategy, and the time period, and describe both the disclosure provided and the relevant risk.

3. During the last 5 years, have any of the pension funds identified in Question A.1 above or government entities identified in Questions A.2 or A.4 above experienced any unexpected liquidity, credit, market or other risk by virtue of an investment product, program or strategy suggested or recommended by an investment adviser that may have been inadequately disclosed at the time you made the investment?

4. If the answer to Question C.3 is yes, identify for each incident the relevant investment product, program or strategy, the relevant investment adviser, and the disclosures provided at the time of the investment, and describe the unexpected risk.

5. During the last 5 years, have any of the pension funds identified in Question A.1 above or government entities identified in Question A.4 above invested in a bond fund,

hedge fund, private equity fund, cash collateral pool or similar investment vehicle where the actual investments were different than the stated investment objectives?

6. If the answer to Question C.5 is yes, identify for each incident the relevant bond fund, hedge fund, private equity fund, cash collateral pool or similar investment vehicle, the date and amount of your investment(s), and the stated investment objectives, and describe why the actual investments differed from those investment objectives.

**D. Payments and Conflicts of Interest**

1. State whether any of the pension funds identified in Question A.1 above or government entities identified in Questions A.2 or A.4 above have rules, regulations and policies and procedures regarding payments in connection with solicitations or responses to requests for proposals to provide services in connection with State pension funds.

2. Has any person in a position to exert influence over (a) any investment or management decision of a State pension fund or (b) the decision to hire or retain an investment adviser, investment company or money manager, ever directly or indirectly solicited a payment of any kind from a person seeking to obtain business from or provide services to the pension fund?

3. If the answer to Question D.2 is yes:

- a. Identify each person who made any such solicitation and the position he or she held at the time of the solicitation.
- b. State whether each person making such a solicitation was registered with the Securities and Exchange Commission ("SEC") or a state regulatory authority. If the answer is yes, identify the agency with which the person was registered.
- c. Identify each person to whom any such solicitation was made and the position he or she held at that time.
- d. State whether each recipient of such a solicitation was registered with the SEC or a state regulatory authority. If the answer is yes, identify the agency with which the person was registered.
- e. Detail each term of the solicitation.
- f. Identify the business obtained because of a favorable response to the solicitation.
- g. Identify the business denied because of an unfavorable response to the solicitation.

4. In connection with the investment or management of any amounts held in any pension fund identified in Question A.1 above, has any person ever directly or indirectly paid a finders' or placement fee or other valuable consideration?

5. If the answer to Question D.3 is yes:

- a. Identify each person who made such a payment and the position he or she held at the time of the payment.
- b. State whether each person making such a payment was registered with the SEC or a state regulatory authority. If the answer is yes, identify the agency with which each person was registered.
- c. Identify each person who was the recipient of such a payment and the position he or she held at the time of payment.
- d. State whether each recipient of such a payment was registered with the SEC or a state regulatory authority. If the answer is yes, identify the agency with which each person was registered.
- e. Detail the nature and amount of each such payment.
- f. Detail the services performed in exchange for each such payment.
- g. State whether or not the payments were disclosed.
- h. State to whom the payments were disclosed.
- i. State the frequency with which such payments and/or other consideration were paid to a given person.

6. Has any person in any firm, which was paid either directly or indirectly a finders or placement fee or other consideration in connection with the investment or management of any amounts held in any pension fund identified in Question A.1 above, ever directly or indirectly contributed to the election campaign of any State official who could exert influence over the investment decisions of the pension fund or to any political action committee ("PAC") associated with said official?

7. If the answer to Question D.6 is yes, for each such contribution:

- a. Identify each person making such a contribution and the position he or she held at the time of the contribution.
- b. State whether each person making such a contribution was registered with the SEC or a state regulatory authority. If the answer is yes, identify the agency with which each person was registered.
- c. Identify the person or PAC to whom each contribution was made.



- d. Identify the date of each contribution.
  - e. Identify the amount of each contribution.
  - f. Identify the means employed to make each contribution.
8. Has anyone in any firm in which pension funds were invested or, which was charged with the management of pension funds, ever directly or indirectly contributed to the election campaign of an official who could exert influence over the investment decisions of the pension fund or to any PAC associated with said official?
9. If the answer to Question D.8 is yes, for each such contribution:
- a. Identify each person making such a contribution and the position the person held at the time the contribution was made.
  - b. State whether each person making such a contribution was registered with the SEC or a state regulatory authority. If the answer is yes, identify the agency with which each person was registered.
  - c. Identify the person or PAC to whom each contribution was made.
  - d. Identify the date of each contribution.
  - e. Identify the amount of each contribution.
  - f. Identify the means employed to make each contribution.
10. Have any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2 or A.4 above ever entered into or is it aware of any *quid pro quo* arrangements with any person in exchange for the investment or management of pension funds?
11. If the answer to Question D.10 is yes,
- a. Identify each party to each *quid pro quo* arrangement and the position each party held at the time the arrangement was entered into and during the life of the arrangement.
  - b. State whether each party to each *quid pro quo* arrangement was registered with the SEC or a state regulatory authority. If the answer is yes, identify the agency with which each person was registered.
  - c. Detail each term of each *quid pro quo* arrangement.
12. Do any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2 or A.4 above have a conflicts of

interest policy that governs actual or potential conflicts of interest between State decision-makers having responsibility for the management, administration and investment decision-making activities of State pension funds, on one hand, and the investment advisors, investment managers and consultants who provide or seek to provide services to or on behalf of such funds or the entities that oversee them, on the other?

a. If so, please describe such policies.

13. Do any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2 or A.4 above maintain records of payments, gifts, contributions, in-kind exchanges or other direct or indirect consideration received by persons having management, administration or investment decision-making responsibilities for or in connection with the pension funds identified in Question A.1 above?

a. If so, please describe the associated reporting and record-keeping policies and procedures.

**E. Internal Controls to Ensure Compliance with Federal Securities Laws**

1. Do any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2, A.4 or B.1 above have policies and procedures to ensure compliance with the federal securities laws?

2. If the answer to Question E.1 is yes, please produce a copy of such policies and procedures.

3. Do any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2, A.4 or B.1 above provide federal securities law training to its employees responsible for its pension funds?

4. If the answer to Question E.3 is yes, please describe such training.

5. Do any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2, A.4 or B.1 above have a compliance officer who is responsible for ensuring compliance with the federal securities laws?

6. If the answer to Question E.5 is yes, please describe the compliance officer's duties.

7. Do any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2, A.4 or B.1 above have policies and procedures to prevent the misuse of material nonpublic information in connection with the purchase or sale of securities?

8. If the answer to Question E.7 is yes, please produce a copy of such policies and procedures.

9. Do any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2, A.4 or B.1 above provide training to its employees to prevent the misuse of material nonpublic information in connection with the purchase or sale of securities?

10. If the answer to Question E.9 is yes, please describe such training.

11. Are any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2, A.4 or B.1 above aware of the Securities and Exchange Commission's Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934: The Retirement Systems of Alabama, Securities Exchange Act Rel. No. 57446 (March 6, 2008)?

12. If the answer to Question E.11 is yes, state whether and to what extent any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2, A.4 or B.1 above have taken any action, made any changes in its policies or procedures, or made any other changes in response to this Report.

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Supplemental Information for Persons Requested to Supply Information Voluntarily or Directed to Supply Information Pursuant to a Commission Subpoena

### False Statements and Documents

Section 1001 of Title 18 of the United States Code provides as follows:

Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both.

### Testimony

If your testimony is taken, you should be aware of the following:

1. *Record.* Your testimony will be transcribed by a reporter. If you desire to go off the record, please indicate this to the Commission employee taking your testimony, who will determine whether to grant your request. The reporter will not go off the record at your, or your counsel's, direction.
2. *Counsel.* You have the right to be accompanied, represented and advised by counsel of your choice. Your counsel may advise you before, during and after your testimony; question you briefly at the conclusion of your testimony to clarify any of the answers you give during testimony; and make summary notes during your testimony solely for your use. If you are accompanied by counsel, you may consult privately.

If you are not accompanied by counsel, please advise the Commission employee taking your testimony whenever during your testimony you desire to be accompanied, represented and advised by counsel. Your testimony will be adjourned to afford you the opportunity to arrange to do so.

You may be represented by counsel who also represents other persons involved in the Commission's investigation. This multiple representation, however, presents a potential conflict of interest if one client's interests are or may be adverse to another's. If you are represented by counsel who also represents other persons involved in the investigation, the Commission will assume that you and counsel have discussed and resolved all issues concerning possible conflicts of interest. The choice of counsel, and the responsibility for that choice, is yours.

3. *Transcript Availability.* Rule 6 of the Commission's Rules Relating to Investigations, 17 CFR 203.6, states:

A person who has submitted documentary evidence or testimony in a formal investigative proceeding shall be entitled, upon written request, to procure a copy of his documentary evidence or a transcript of his testimony on payment of the appropriate fees: *Provided, however,* That in a nonpublic formal investigative proceeding the Commission may for good cause deny such request. In any event, any witness, upon proper identification, shall have the right to inspect the official transcript of the witness' own testimony.

If you wish to purchase a copy of the transcript of your testimony, the reporter will provide you with a copy of the appropriate form. Persons requested to supply information voluntarily will be allowed the rights provided by this rule.

4. *Perjury.* Section 1621 of Title 18 of the United States Code provides as follows:

Whoever . . . having taken an oath before a competent tribunal, officer, or person, in any case in which a law of the United States authorizes an oath to be administered, that he will testify, declare, depose, or certify truly . . . willfully and contrary to such oath states or subscribes any material matter which he does not believe to be true . . . is guilty of perjury and shall, except as otherwise expressly provided by law, be fined under this title or imprisoned not more than five years or both . . . .

5. *Fifth Amendment and Voluntary Testimony.* Information you give may be used against you in any federal, state, local or foreign administrative, civil or criminal proceeding brought by the Commission or any other agency.

You may refuse, in accordance with the rights guaranteed to you by the Fifth Amendment to the Constitution of the United States, to give any information that may tend to incriminate you or subject you to fine, penalty or forfeiture.

If your testimony is not pursuant to subpoena, your appearance to testify is voluntary, you need not answer any question, and you may leave whenever you wish. Your cooperation is, however, appreciated.

6. *Formal Order Availability.* If the Commission has issued a formal order of investigation, it will be shown to you during your testimony, at your request. If you desire a copy of the formal order, please make your request in writing.

### **Submissions and Settlements**

Rule 5(c) of the Commission's Rules on Informal and Other Procedures, 17 CFR 202.5(c), states:

Persons who become involved in . . . investigations may, on their own initiative, submit a written statement to the Commission setting forth their interests and position in regard to the subject matter of the investigation. Upon request, the staff, in its discretion, may advise such persons of the general nature of the investigation, including the indicated violations as they pertain to them, and the amount of time that may be available for preparing and submitting a statement prior to the presentation of a staff recommendation to the Commission for the commencement of an administrative or injunction proceeding. Submissions by interested persons should be forwarded to the appropriate Division Director, Regional Director, or District Administrator with a copy to the staff members conducting the investigation and should be clearly referenced to the specific investigation to which they relate. In the event a recommendation for the commencement of an enforcement proceeding is presented by the staff, any submissions by interested persons will be forwarded to the Commission in conjunction with the staff memorandum.

The staff of the Commission routinely seeks to introduce submissions made pursuant to Rule 5(c) as evidence in Commission enforcement proceedings, when the staff deems appropriate.

Rule 5(f) of the Commission's Rules on Informal and Other Procedures, 17 CFR 202.5(f), states:

In the course of the Commission's investigations, civil lawsuits, and administrative proceedings, the staff, with appropriate authorization, may discuss with persons involved the disposition of such matters by consent, by settlement, or in some other manner. It is the policy of the Commission, however, that the disposition of any such matter may not, expressly or impliedly, extend to any criminal charges that have been, or may be, brought against any such person or any recommendation with respect thereto. Accordingly, any person involved in an enforcement matter before the Commission who consents, or agrees to consent, to any judgment or order does so solely for the purpose of resolving the claims against him in that investigative, civil, or administrative matter and not for the purpose of resolving any criminal charges that have been, or might be, brought against him. This policy reflects the fact that neither the Commission nor its staff has the authority or responsibility for instituting, conducting, settling, or otherwise disposing of criminal proceedings. That authority and responsibility are vested in the Attorney General and representatives of the Department of Justice.

### **Freedom of Information Act**

The Freedom of Information Act, 5 U.S.C. 552 (the "FOIA"), generally provides for disclosure of information to the public. Rule 83 of the Commission's Rules on Information and Requests, 17 CFR 200.83, provides a procedure by which a person can make a written request that information submitted to the Commission not be disclosed under the FOIA. That rule states that no determination as to the validity of such a request will be made until a request for disclosure of the information under the FOIA is received. Accordingly, no response to a request that information not be disclosed under the FOIA is necessary or will be given until a request for disclosure under the FOIA is received. If you desire an acknowledgment of receipt of your written request that information not be disclosed under the FOIA, please provide a duplicate request, together with a stamped, self-addressed envelope.

### **Authority for Solicitation of Information**

*Persons Directed to Supply Information Pursuant to Subpoena.* The authority for requiring production of information is set forth in the subpoena. Disclosure of the information to the Commission is mandatory, subject to the valid assertion of any legal right or privilege you might have.

*Persons Requested to Supply Information Voluntarily.* One or more of the following provisions authorizes the Commission to solicit the information requested: Sections 19 and/or 20 of the Securities Act of 1933; Section 21 of the Securities Exchange Act of 1934; Section 321 of the Trust Indenture Act of 1939; Section 42 of the Investment Company Act of 1940; Section 209

of the Investment Advisers Act of 1940; and 17 CFR 202.5. Disclosure of the requested information to the Commission is voluntary on your part.

### Effect of Not Supplying Information

*Persons Directed to Supply Information Pursuant to Subpoena.* If you fail to comply with the subpoena, the Commission may seek a court order requiring you to do so. If such an order is obtained and you thereafter fail to supply the information, you may be subject to civil and/or criminal sanctions for contempt of court. In addition, if the subpoena was issued pursuant to the Securities Exchange Act of 1934, the Investment Company Act of 1940, and/or the Investment Advisers Act of 1940, and if you, without just cause, fail or refuse to attend and testify, or to answer any lawful inquiry, or to produce books, papers, correspondence, memoranda, and other records in compliance with the subpoena, you may be found guilty of a misdemeanor and fined not more than \$1,000 or imprisoned for a term of not more than one year, or both.

*Persons Requested to Supply Information Voluntarily.* There are no direct sanctions and thus no direct effects for failing to provide all or any part of the requested information.

### Principal Uses of Information

The Commission's principal purpose in soliciting the information is to gather facts in order to determine whether any person has violated, is violating, or is about to violate any provision of the federal securities laws or rules for which the Commission has enforcement authority, such as rules of securities exchanges and the rules of the Municipal Securities Rulemaking Board. Facts developed may, however, constitute violations of other laws or rules. Information provided may be used in Commission and other agency enforcement proceedings. Unless the Commission or its staff explicitly agrees to the contrary in writing, you should not assume that the Commission or its staff acquiesces in, accedes to, or concurs or agrees with, any position, condition, request, reservation of right, understanding, or any other statement that purports, or may be deemed, to be or to reflect a limitation upon the Commission's receipt, use, disposition, transfer, or retention, in accordance with applicable law, of information provided.

### Routine Uses of Information

The Commission often makes its files available to other governmental agencies, particularly United States Attorneys and state prosecutors. There is a likelihood that information supplied by you will be made available to such agencies where appropriate. Whether or not the Commission makes its files available to other governmental agencies is, in general, a confidential matter between the Commission and such other governmental agencies.

Set forth below is a list of the routine uses which may be made of the information furnished.

1. To coordinate law enforcement activities between the SEC and other federal, state, local or foreign law enforcement agencies, securities self-regulatory organizations, and foreign securities authorities.
2. By SEC personnel for purposes of investigating possible violations of, or to conduct investigations authorized by, the federal securities laws.
3. Where there is an indication of a violation or potential violation of law, whether civil, criminal or regulatory in nature, and whether arising by general statute or particular program statute, or by regulation, rule or order issued pursuant thereto, the relevant records in the system of records may be referred to the appropriate agency, whether federal, state, or local, a foreign governmental authority or foreign securities authority, or a securities self-regulatory organization charged with the responsibility of investigating or prosecuting such violation or charged with enforcing or implementing the statute or rule, regulation or order issued pursuant thereto.
4. In any proceeding where the federal securities laws are in issue or in which the Commission, or past or present members of its staff, is a party or otherwise involved in an official capacity.
5. To a federal, state, local or foreign governmental authority or foreign securities authority maintaining civil, criminal or other relevant enforcement information or other pertinent information, such as current licenses, if necessary to obtain information relevant to an agency decision concerning the hiring or retention of an employee, the issuance of a security clearance, the letting of a contract, or the issuance of a license, grant or other benefit.
6. To a federal, state, local or foreign governmental authority or foreign securities authority, in response to its request, in connection with the hiring or retention of an employee, the issuance of a security clearance, the reporting of an investigation of an employee, the letting of a contract, or the issuance of a license, grant or other benefit by the requesting agency, to the extent that the information is relevant and necessary to the requesting agency's decision on the matter.
7. In connection with proceedings by the Commission pursuant to Rule 102(e) of its Rules of Practice, 17 CFR 201.102(e).

8. When considered appropriate, records in this system may be disclosed to a bar association, the American Institute of Certified Public Accountants, a state accountancy board or other federal, state, local or foreign licensing or oversight authority, foreign securities authority, or professional association or self-regulatory authority performing similar functions, for possible disciplinary or other action.
9. In connection with investigations or disciplinary proceedings by a state securities regulatory authority, a foreign securities authority, or by a self-regulatory organization involving one or more of its members.
10. As a data source for management information for production of summary descriptive statistics and analytical studies in support of the function for which the records are collected and maintained or for related personnel management functions or manpower studies, and to respond to general requests for statistical information (without personal identification of individuals) under the Freedom of Information Act or to locate specific individuals for personnel research or other personnel management functions.
11. In connection with their regulatory and enforcement responsibilities mandated by the federal securities laws (as defined in Section 3(a)(47) of the Securities Exchange Act of 1934, 15 U.S.C. 78c(a)(47)), or state or foreign laws regulating securities or other related matters, records may be disclosed to national securities associations that are registered with the Commission, the Municipal Securities Rulemaking Board, the Securities Investor Protection Corporation, the federal banking authorities, including but not limited to, the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, state securities regulatory or law enforcement agencies or organizations, or regulatory law enforcement agencies of a foreign government, or foreign securities authority.
12. To any trustee, receiver, master, special counsel, or other individual or entity that is appointed by a court of competent jurisdiction or as a result of an agreement between the parties in connection with litigation or administrative proceedings involving allegations of violations of the federal securities laws (as defined in Section 3(a)(47) of the Securities Exchange Act of 1934, 15 U.S.C. 78c(a)(47)) or the Commission's Rules of Practice, 17 CFR 202.100-900, or otherwise, where such trustee, receiver, master, special counsel or other individual or entity is specifically designated to perform particular functions with respect to, or as a result of, the pending action or proceeding or in connection with the administration and enforcement by the Commission of the federal securities laws or the Commission's Rules of Practice.
13. To any persons during the course of any inquiry or investigation conducted by the Commission's staff, or in connection with civil litigation, if the staff has reason to believe that the person to whom the record is disclosed may have further information about the matters related therein, and those matters appeared to be relevant at the time to the subject matter of the inquiry.
14. To any person with whom the Commission contracts to reproduce, by typing, photocopy or other means, any record within this system for use by the Commission and its staff in connection with their official duties or to any person who is utilized by the Commission to perform clerical or stenographic functions relating to the official business of the Commission.
15. Inclusion in reports published by the Commission pursuant to authority granted in the federal securities laws (as defined in Section 3(a)(47) of the Securities Exchange Act of 1934, 15 U.S.C. 78c(a)(47)).
16. To members of advisory committees that are created by the Commission or by the Congress to render advice and recommendations to the Commission or to the Congress, to be used solely in connection with their official designated functions.
17. To any person who is or has agreed to be subject to the Commission's Rules of Conduct, 17 CFR 200.735-1 to 735-18, and who assists in the investigation by the Commission of possible violations of federal securities laws (as defined in Section 3(a)(47) of the Securities Exchange Act of 1934, 15 U.S.C. 78c(a)(47)), in the preparation or conduct of enforcement actions brought by the Commission for such violations, or otherwise in connection with the Commission's enforcement or regulatory functions under the federal securities laws.
18. Disclosure may be made to a Congressional office from the record of an individual in response to an inquiry from the Congressional office made at the request of that individual.
19. To respond to inquiries from Members of Congress, the press and the public which relate to specific matters that the Commission has investigated and to matters under the Commission's jurisdiction.
20. To prepare and publish information relating to violations of the federal securities laws as provided in 15 U.S.C. 78c(a)(47)), as amended.
21. To respond to subpoenas in any litigation or other proceeding.
22. To a trustee in bankruptcy.

23. To any governmental agency, governmental or private collection agent, consumer reporting agency or commercial reporting agency, governmental or private employer of a debtor, or any other person, for collection, including collection by administrative offset, federal salary offset, tax refund offset, or administrative wage garnishment, of amounts owed as a result of Commission civil or administrative proceedings.

*Small Business Owners:* The SEC always welcomes comments on how it can better assist small businesses. If you have comments about the SEC's enforcement of the securities laws, please contact the Office of Chief Counsel in the SEC's Division of Enforcement at 202-942-4530 or the SEC's Small Business Ombudsman at 202-942-2950. If you would prefer to comment to someone outside of the SEC, you can contact the Small Business Regulatory Enforcement Ombudsman at <http://www.sba.gov/ombudsman> or toll free at 888-REG-FAIR. The Ombudsman's office receives comments from small businesses and annually evaluates federal agency enforcement activities for their responsiveness to the special needs of small business.





# Employees' Retirement System of Rhode Island

ERSRI Board: June 11, 2009

Frank T. Caprio  
General Treasurer  
Chairman

William B. Finelli  
Vice Chairman

Gary R. Alger

Daniel L. Beardsley

Frank R. Benell, Jr.

Rosemary Booth Gallogly

Roger P. Boudreau

Michael R. Boyce

M. Carl Heintzelman

John P. Maguire

John J. Meehan

Louis M. Prata

Linda C. Riendeau

Susan K. Rodriguez

Jean Rondeau

Mark R. Zehner, Esq.  
Regional Municipal Securities Counsel  
U.S. Securities and Exchange Commission  
Philadelphia Regional Office  
Mellon Independence Center  
701 Market Street, Suite 2000  
Philadelphia, PA 19106-1532

Dear Attorney Zehner:

We are pleased to provide you with the following information in response to your letter dated May 8, 2009. Please note that responses made "to our knowledge" means to the actual knowledge of Mark Dingley, Esq., Chief Legal Counsel/Chief of Staff, Office of the General Treasurer, Frank J. Karpinski, Executive Director of the Employees Retirement System of Rhode Island ("ERSRI") and Kenneth Goodreau, Chief Investment Officer for ERSRI, without independent investigation.

## A. Background Information

1. Identify each statewide pension or retirement fund within the state of Rhode Island.

Frank J. Karpinski  
Executive Director

<u>Plan Name</u>	<u>Type of Plan</u>
Employees' Retirement System (ERS)	Cost-sharing multiple-employer defined benefit plan
Municipal Employees' Retirement System (MERS)	Agent multiple-employer defined benefit plan
State Police Retirement Benefits Trust (SPRBT)	Single-employer defined benefit plan
Judicial Retirement Benefits Trust (JRBT)	Single-employer defined benefit plan

- a. Provide name and address information for the primary points of contact for each fund identified.

Frank J. Karpinski, Executive Director  
 40 Fountain Street, 1st Floor  
 Providence, RI 02903-1854

Kenneth Goodreau, Chief Investment Officer  
 40 Fountain Street, 8th Floor  
 Providence, RI 02903-1854

- b. Provide the most recent number of employees covered by each pension fund identified.

As of June 30, 2008

	<i>Retirees and Beneficiaries</i>	<i>Terminated employee members entitled to but not yet receiving benefits</i>	<i>Active Vested</i>	<i>Active Non-vested</i>	<i>Total by Plan</i>
<b><u>ERS</u></b>					
State Employees	10,163	2,405	7,487	5,085	25,140
Teachers	9,118	2,257	7,436	6,710	25,521
<b><u>MERS</u></b>					
General Employees	3,713	2,077	2,927	4,036	12,753
Public Safety	417	102	641	729	1,889
<b><u>SPRBT</u></b>	3	2	-	179	184
<b><u>JRBT</u></b>	5	-	8	36	49
<i>Total by type</i>	23,419	6,843	18,499	16,775	65,536

- c. Provide the most recent amount of assets figure for each pension fund identified.

The pension funds are managed through a collective trust. As a result, the most recent asset information available on a plan by plan basis is as of June 30, 2008.

Plan	Asset Value as of 6/30/2008
ERS	\$6,621,796,818
MERS	\$1,113,362,690
SPRBT	\$51,566,725
JRBT	\$32,654,159

2. Are there departments or entities within the State government with oversight and decision-making responsibilities for any of the pension funds identified in Question A.1 above?

Yes

- a. Provide name and address information for the primary points of contact for each government department or entity identified.

Agency	Name	Contact Information
Employees' Retirement System of Rhode Island Board of Trustees	Chairman/State Treasurer Frank T. Caprio	State House, Room 102 Providence, RI 02903
Rhode Island State Investment Commission	Chairman/State Treasurer Frank T. Caprio	State House, Room 102 Providence, RI 02903
State of Rhode Island General Assembly	Hon. William Murphy, Speaker of the House of Representatives Hon. Teresa Paiva-Weed, Senate President	State House Providence, RI 02903

3. Has the State or any of the pension funds identified in Question A.1 above employed or retained within the last three years any non-state employees, contractors, consultants, placement agents, managers or advisors to serve in paid or unpaid advisory capacities in connection with the management, administration or investment decision making of any of the State's pension funds?

Yes.

- a. Provide name and address information for the primary points of contact for each non-state employee, contractor, consultant, placement agent, manager or advisor identified, together with a brief description of the services they provide.

Name	Address	Service Provided
Sriram Ramanujam Saber Government Solutions	1800 SW First Avenue Suite 350 Portland, OR 97201	IT Services / Recordkeeping
Michael P. Robinson, Esq. Shechtman, Halperin Savage, LLP	1080 Main Street, Pawtucket, RI 02860	Legal Counsel to Retirement Board
Frederick P. McClure Hinckley Allen & Snyder, LLP	50 Kennedy Plaza Providence, RI 02903	Tax Counsel to Retirement Board
Scott Kitlinski UNICOM	1026 Park East Drive PO Box 1499 Woonsocket, RI 02895	IT System Security Services
Jan Hartford CEM Benchmarking Inc.	80 Richmond Street West, Suite 1300 Toronto ON Canada M5H 2A4	Pension Administration Benchmarking Service
Lisa A. Tyrell, Vice President State Street Bank & Trust Co.	State Street Financial Center Lafayette Corporate Center 2 Avenue De Lafayette Boston, MA 02111	Custodial Bank
Anthony Frammartino The Townsend Group	Skylight Office Tower 1660 West 2 <sup>nd</sup> Street, Suite 450 Cleveland, Ohio 44113	Real Estate Consultant
Matthew Bucci, AVP, Client Service The Boston Company Asset Mgmt.	Mellon Financial Center One Boston Place-024- 0122 (for MP) Boston, MA 02108-4408	International Equity
Dennis T. Byrne Goldman Sachs Asset Mgmt	32 Old Slip, 32nd Floor New York, NY 10005	International Equity

Name	Address	Service Provided
Beth Gripper MacKay Shields	9 West 57th Street New York, NY 10019	Domestic Fixed Income (High Yield Bond)
Laura A. Conlon Mondrian Investment Partners Ltd.	Two Commerce Square 2001 Market Street Suite 3810 Philadelphia, PA 19103- 7039	International Equity
John Burns Pension Consulting Alliance	15760 Ventura Blvd. Suite 700 Encino, CA 91436	General Policy Consultant
John Nelson, Managing Director Brown Brothers Harriman	140 Broadway New York, NY 10005-1101	Domestic Fixed Income and TIPS
Art Greenwood, SVP & Relationship Mgr. Fidelity Management Trust Co.	82 Devonshire Street (V5B) Boston, MA 02109	Domestic Fixed Income
Jeff Pethridge North Pointe Capital	101 W. Big Beaver Road, Suite 745 Troy, MI 48084	Domestic Equity (small cap core/val)
Melody Rollins, VP - Acct Manager PIMCO	1345 Ave. of the Americas 4th floor New York, NY 10105	Domestic Equity (enhanced equity index)
Elizabeth O'Hara, Vice President Wellington Management	75 State Street Boston, MA 02109	Domestic Equity (small cap core/val)
Craig Degiacomo State Street Global Advisors	State Street Financial Center One Lincoln Street 33 <sup>rd</sup> Floor Boston, MA 02111.	Domestic Equity
Sarah T. Dowling, Esq. Adler Pollock & Sheehan	One Citizens Plaza, 7 <sup>th</sup> Floor Providence, RI 02903	Investment & Legal Counsel to SIC
David Ursillo, Esq. Rodio & Ursillo	86 Weybosset Street Providence, Rhode Island 02903	Administrative Legal Counsel to SIC

4. Identify each State investment board, advisory council, department or other similar State entity with the authority to set investment policy, retain consultants, advisors or other intermediaries or oversee investment decision-making with respect to amounts held in any of the pension funds identified in Question A.1 above.

Name	Function
Rhode Island State Investment Commission	Statutory body charged with investment oversight and decision making.
Rhode Island General Treasurer's Office	Administrative staff.

5. Identify any and all private actuaries and accountants employed or retained by the State or any of the pension funds identified in Question A.1 above in connection with the management, administration or investment decision-making of the State's pension funds.

System Actuary – Gabriel, Roeder, Smith and Company (GRS)

- a. Provide name and address information for the primary points of contact for each actuary and accountant identified.

Mr. J. Christian Conradi  
 Senior Consultant  
 Gabriel, Roeder, Smith & Company  
 5605 N. MacArthur Blvd., Suite 870  
 Irving, TX 75038-2631

6. Have any of the State's pension funds identified in Question A.1 above been the subject of any state attorney general, inspector general or similar external review, audit or government investigation during the past three (3) years? If so, please describe the circumstances and the results of such review, audit or investigation.

The State Auditor General performs a System Audit annually, the results of which are posted on the State's website. There have been no non-routine reviews, audits or investigations.

- a. Provide name and address information for the primary points of contact for each attorney general, inspector general, external auditor or government investigator identified.

Ernest A. Almonte, CPA, CFF  
 State of Rhode Island Office of the Auditor General  
 36 Weybosset Street  
 Providence, RI 02903-2800

**B. Disclosure of Unfunded or Underfunded Liabilities**

1. Identify each department or entity within State government that has oversight and disclosure responsibilities for disclosure documents prepared in connection with the State's general obligation bonds or similar State-supported bond issues ("Official Statements").

The Rhode Island State Budget Office and the Office of the General Treasurer.

- a. Provide name and address information for the primary points of contact for each government department or entity identified.

Rosemary Booth Gallogly Executive Director/State Budget Officer	One Capitol Hill Providence, RI 02908
Mark Dingley, Esq. Chief Legal Counsel/Chief of Staff, Office of the General Treasurer	Room 102 - State House. Providence, RI 02903

2. During the past five (5) years, have any of the State's pension funds identified in Question A.1 above changed their actuarial asset valuation methods, namely, have any of the pension funds changed from smoothed value to market value (or vice versa) or from smoothed value to book value (or vice versa)?

No

3. If the answer to Question B.2 is yes:

Not Applicable

- a. Provide an explanation for the change(s) and the effects of the change(s).

Not Applicable

- b. Describe how the change was disclosed in Official Statements or other required continuing disclosure reports.

Not Applicable

4. During the past five (5) years, have any of the pension funds identified in Question A. 1 above changed their actuarial methods and assumptions, including, but not limited to, the actuarial cost method, the amortization method, or the method of determining the actuarial value of plan assets?

No, as to the actuarial cost method, the amortization method or the method of determining the actuarial value of plan assets, but routine adjustments have been made as the result of an experience study. (See Question 5 below).

5. If the answer to Question B.4 is yes:

- a. Provide an explanation for the change(s) and the effects of the change(s).

For the ERS Plan, the actuarial assumptions were changed as a result of the experience study approved by the Board on June 13, 2007. Changes were made to the mortality rates for teachers and salary increase, termination, retirement, and disability rates for state employees and teachers as well as an increase in the payroll growth assumption. The actuary (GRS) believed the assumptions are internally consistent and are reasonable based on the actual experience of ERSRI.

Under Rhode Island General Laws, the employer contribution rates for the funds listed in A 1 are certified annually by the State of Rhode Island Retirement Board. These rates are determined actuarially, based on the plan provisions in effect as of the valuation date, the actuarial assumptions adopted by the Board, and the methodology set forth in the statutes. The Board's current policy is that the contribution rates determined by a given actuarial valuation become effective two years after the valuation date. For example, the rates determined by the June 30, 2006 actuarial valuation will be applicable for the year beginning July 1, 2008 and ending June 30, 2009.

The actuarial cost method and the amortization periods are set by statute. Contribution rates and liabilities are computed using the Entry Age actuarial cost method. The amortization rate is determined as a level percent of pay. Separate employer contribution rates are determined for state employees and for teachers.

*Effect of the assumption changes*

For state employees, the funded ratio decreased slightly based on the revised assumptions to 54.6% from 55.5%. For teachers, the funded ratio decreased based on the revised assumptions to 52.7% from 55.2%.

The revised assumptions decrease the employer contribution rate for state employees from 21.19% (current assumptions) to 21.13% (revised assumptions). This decrease occurs despite the increase in the normal cost and the UAAL because the increase in the payroll growth assumption decreases the necessary amortization charge.

For teachers, the increase in the employer rate is 2.33 percentage points, from 22.70% (current assumptions) to 25.03% (revised assumptions). The change for teachers was principally due to the change in the post-retirement mortality assumptions.



For the *MERS* plan, changes were made to the salary increase, termination and retirement rates for both general and police and fire employees. Disability rates were increased for police and fire employees. The payroll growth assumption was increased for both groups.

*Effect of the assumption changes*

The effects to the *MERS* plans are described in the summary information below:

Item	Before Assumption Changes	After Assumption Changes
Average normal cost (pct. of salary)	14.16%	14.69%
Unfunded actuarial accrued liability (UAAL, millions)	\$158.4	\$139.8
Funded ratio	85.7%	87.1%
Weighted average contribution rate	10.79%	10.87%
Total FY 2009 contributions (millions)	\$30.3	\$30.6

On average, there is little change in average contributions. It should be noted that, at the unit level, there can be significant changes in contribution rates due to the revised assumptions. Most of the contribution rates for the general employee units will increase, while the contribution rates for most of the police/fire units will decrease. The average general employee unit will see a contribution increase of about 1% of salary, while the average police/fire unit will see a decrease of almost 3.00% of salary.

For the *SPRBT* plan, the following recommended changes were made:

The current retirement assumption was that all members will retire at the earlier of (a) the time at which the member is at least age 50 and has earned at least 21 years of service, or (b) the time the member reaches 25 years of service. Although there was not sufficient experience for this plan due to its longevity, the actuary modified the assumption to more closely reflect the retirement experience for the group of state police not covered in this plan (members hired before July 1, 1987).

The salary assumption was modified by lowering the wage inflation rate applicable to all members, but increasing the service-related component. The wage inflation assumption was 5.00%, and this was decreased to 4.50% in line with the assumption for state employees. The actuary increased the service-related component of the salary increase rate.

The payroll growth rate was changed to 4.50%, the wage inflation rate. Active mortality rates were set as 65% of the post-retirement mortality rates.

*Effect of the assumption changes*

For the state police, the funded ratio increased slightly based on the revised assumptions to 86.0% from 83.4% based on the current assumptions.

The revised assumptions decrease the employer contribution rate for state police from 30.47% (current assumptions) to 30.06% (revised assumptions).

For the *JRBT* plan, the following recommended changes were made:

A decrease to the salary increase assumption from 5.25% to 4.50%, in line with the wage inflation assumption made for ERSRI. A decrease in the payroll growth assumption from 5.25% to 4.50% to be consistent with the change above (it did not include any allowance for future membership growth). The retirement assumption was modified to reflect that one-third of judges are assumed to retire when they first become eligible for a reduced retirement benefit, with the remainder retiring when first eligible for an unreduced retirement benefit. Active mortality rates were set at 65% of the post-retirement mortality rates.

*Effect of the assumption changes*

For the judges, the funded ratio increased slightly based on the revised assumptions to 86.8% from 86.5% based on the current assumptions.

The adopted assumptions decreased the employer contribution rate for state police from 33.16% (current assumptions) to 32.35% (revised assumptions).

- b. Describe how the change was disclosed in Official Statements or other required continuing disclosure reports.

With regard to Official Statement disclosures, the individual actuarial changes were not disclosed, but the impact of these changes as reflected in GASB 25 disclosures are provided.

The changes are identified in system ERSRI Financial Statements consistent with GASB 25, *Notes to Required Supplementary Information*.

6. During the past five (5) years, have any of the pension funds identified in Question A. 1 above created a separate asset account to separately account for investment earnings in excess of a stipulated benchmark?

No

7. If the answer to Question B.6 is yes:

Not Applicable

- a. Describe why the separate asset account was created.
  - b. Describe how the separate asset account was created.
  - c. Describe how the funds in the asset account have been used, including the date that was used to determine the investment earnings.
  - d. Describe how the creation of the separate asset account and its use was disclosed in Official Statements or other required continuing disclosure reports.
8. Please identify whether Official Statements in the past five (5) years have included the following information relating to the pension funds identified in Question A.1 above:
- a. Funded ratio (including trends);  
Schedule of Funding Progress included (from GASB No. 25)
  - b. Information related to unfunded actuarial accrued liability (UAAL) (including trends);  
Schedule of Funding Progress included (from GASB No. 25)
  - c. ARC-related information (including trends);  
Included Schedules Of Contributions From The Employers and Other Contributing Entities (from GASB No. 25)
  - d. Measures related to annual pension cost (APC);  
The funds listed in Question A.1 have made all actuarially required contributions thus no APC measure exists.
  - e. Measures involving information about contributions, including, but not limited to; comparisons of contribution amounts by employers and employees, trends in contributions, and trends in the percentage of the ARC contributed;  
Included Schedule of Funding Progress and Schedules of Contributions from the Employers and Other Contributing Entity (from GASB No. 25) which provide this information.

f. Net Pension Obligation (NPO);

The funds listed in Question A.1 have made all actuarially required contributions thus no NPO exists.

g. Information reported by the pension plan, including trends in system assets and liabilities, investment return, and investment policies.

Not provided.

9. Please identify whether the Official Statements in the past five (5) years have included the following market value information relating to the pension funds identified in Question A.1 above:

a. Funded ratio (including trends);

Schedule of Funding Progress included (from GASB No. 25)

b. Assets (including trends);

Schedule of Funding Progress included (from GASB No. 25)

c. Liabilities (including trends); and

Schedule of Funding Progress included (from GASB No. 25)

d. Ratio of Actuarial Value of Assets (AVA) to Market Value of Assets (MVA) (including trends).

Not provided

10. If the State has changed its Official Statements in the last five (5) years to include or exclude any of the items in Question B.9, provide an explanation as to why they were excluded or included.

There were no changes with respect to these items.

11. If the State has changed its Official Statements in the last five (5) years to include or exclude any of items in Question B.8, provide an explanation as to why they were excluded or included.

There were no changes with respect to these items.

12. In the past five (5) years, has the State taken a "Pension Holiday" or otherwise not made contributions to pension funds?

No.

13. If the answer to Question B.12 is yes:

Not applicable

a. Provide an explanation as to why contributions were not made.

- b. Describe how the failure to make contributions was disclosed in the Official Statements and other required disclosure statements.
14. Did the State consider what effect(s) the failure to make contributions would have on future pension obligations?  
Not applicable
15. If the answer to Question B.14 is yes:  
Not applicable
- a. Describe what the effects were.
- b. Describe how those effects were disclosed in Official Statements or other required disclosure statements.
16. In the past five (5) years, has the State adopted a "phase-in plan" or other method which resulted in the State making less than the Annual Required Contribution (as determined by the actuary) for a set number of years?  
No
17. If the answer to Question B.16 is yes:  
Not applicable
- a. Provide an explanation as to why the plan or method was adopted.
- b. Did the State adhere to the plan or method?
- c. Describe how the plan or method was disclosed in Official Statements or other required continuing disclosure reports,
- d. Did the State consider what effect(s) the phase-in plan or method would have on future pension obligations?  
i. If the answer is yes, what were the effects and were those effects disclosed in Official Statements or other required continuing disclosure reports?
18. Is the State or any of the pension funds identified in Question A.1 above aware of the Securities and Exchange Commission's Order Instituting Cease-And-Desist Proceedings, Making Findings, and Imposing a Cease-And-Desist Order Pursuant to Section 8A of the Securities Act of 1933 and Section 21 C of the Securities Exchange Act of 1934 in the Matter of City of San Diego, California (Securities Act Rel. No. 8751 (Nov. 14, 2006))?  
Yes.
19. If the answer to Question B.18 is yes, state whether and to what extent the State or any of the pension funds identified in Question A.1 above has taken

any action, made any changes in its policies or procedures, or made any other changes in response to this Order.

Reviewed by disclosure counsel for the State and disclosures in Official Statements were enhanced.

20. Does the State or any of the pension funds identified in Question A.1 above provide training to employees responsible for creating and/or updating disclosures regarding pension funds in Official Statements or other required continuing disclosure reports?

No. Primary responsibility for these matters is delegated to outside Bond Counsel and Disclosure Counsel.

21. If the answer to Question B 20 is yes:

Not applicable.

a. When did the State or pension fund institute the training?

b. Describe the nature of the training and the employees required to participate in the training.

22. Has the State analyzed its ability to fund future pension obligations over the next 10 or more years?

The State regularly reviews the actuarial assumptions and potential future pension obligations. As a result of recent market conditions, the State has undertaken a more comprehensive analysis.

23. If the answer to Question 22 is yes:

a. Describe the results of that analysis.

This analysis is currently in process. The Rhode Island State General Assembly and The Office of the Governor of the State of Rhode Island have performed several analyses and formed commissions to study all aspects of the funds described in Question A.1. The analyses are currently ongoing and may result in modifications to the pension system to enhance the funds' ability to meet future pension obligations.

b. Describe how those results were disclosed in Official Statements or other required continuing disclosure reports.

To be determined by the outcome of pension reforms.

### C. Disclosure of Investment Risks

1. During the last 5 years, have any of the pension funds identified in Question A.1 above or government entities identified in Questions A.2, A.4 above discussed with an investment adviser any investment product, program or

strategy for which the level of risk associated with that investment product, program, or strategy may have been inadequately disclosed?

Not to our knowledge.

It is important to understand the structure of the Employees Retirement System of Rhode Island ("ERSRI") investment program. ERSRI does not make direct investment in securities (other than in private equity funds). The pension funds assets are managed by external portfolio managers (either in separate accounts or private funds), each of whom is bound by fiduciary duty.

The current Administration of the General Treasurer (an elected position) has been in office since January of 2007. The following responses reflect the processes and procedures in place under the current Administration and the operations of ERSRI during that time frame. The responses do not address procedures or operations of ERSRI prior to that time, which may have varied during the five year period referenced in the questions.

The selection of investment managers is the responsibility of a board, the State Investment Commission (SIC). By statute, the SIC is comprised of:

- the General Treasurer, ex officio (or a deputy general treasurer as his or her designee), who acts as chairperson;
- the State Director of Administration, ex officio (or any assistant director of administration as his or her designee);
- a director of the higher education assistance authority (or his or her designee) appointed by the General Treasurer;
- an active or retired teacher, state, or municipal employee member of the retirement system or official from the teacher, state, or municipal employee unions appointed by the General Treasurer;
- the executive director of the state retirement board as a nonvoting member;
- two members of the general public appointed by the General Treasurer; and
- three members of the general public appointed by the Governor.

The members of the general public appointed by the Governor and the General Treasurer have three year terms and must be qualified by training or experience in the field of investment or finance.

The SIC's decisions are highlighted in a publicly disclosed monthly medium in which the minutes and reports are posted for public record.

The SIC has the ability to hire consultants to guide investment decisions. The current active consultants to the plan are as follows:

Pension Consulting Alliance – General  
Pacific Corporate Group -- Private Equity  
Townsend Group -- Real Estate  
Russell Investments – Asset Allocation

Each consulting firm and the investment management firms the SIC has engaged have been chosen after undergoing a rigorous RFP process. The process is clearly defined in the SIC policy and procedures booklet under appendix 3.8. See Exhibit 1.

We have also attached the rules and regulations governing the SIC (please see attached Exhibit 2).

2. If the answer to Question C.1 is yes, identify for each incident the investment adviser, investment product program or strategy, and the time period, and describe both the disclosure provided and the relevant risk.

Not applicable.

3. During the last 5 years, have any of the pension funds identified in Question A.1 above or government entities identified in Questions A.2 or A.4 above experienced any unexpected liquidity, credit, market or other risk by virtue of an investment product, program or strategy suggested or recommended by an investment adviser that may have been inadequately disclosed at the time you made the investment?

Not to our knowledge.

4. If the answer to Question C.3 is yes, identify for each incident the relevant investment product, program or strategy, the relevant investment adviser, and the disclosures provided at the time of the investment, and describe the unexpected risk.

Not applicable.

5. During the last 5 years, have any of the pension funds identified in Question A.1 above or government entities identified in Question A.4 above invested in a bond fund, hedge fund, private equity fund, cash collateral pool or similar investment vehicle where the actual investments were different than the stated investment objectives?

Not to our knowledge.



6. If the answer to Question C.5 is yes, identify for each incident the relevant bond fund, hedge fund, private equity fund, cash collateral pool or similar investment vehicle, the date and amount of your investment(s), and the stated investment objectives, and describe why the actual investments differed from those investment objectives.

Not applicable.

**D. Payments and Conflicts of interest**

1. State whether any of the pension funds identified in Question A. 1 above or government entities identified in Questions A.2 or A.4 above have rules, regulations and policies and procedures regarding payments in connection with solicitations or responses to requests for proposals to provide services in connection with State pension funds.

Yes, we believe the rules found in our SIC policy and procedure booklet clearly define how the ERSRI program is managed and monitored.  
(Please see attached Exhibits 1 and 2)

2. Has any person in a position to exert influence over (a) any investment or management decision of a State pension fund or (b) the decision to hire or retain an investment adviser, investment company or money manager, ever directly or indirectly solicited a payment of any kind from a person seeking to obtain business from or provide services to the pension fund?

Not to our knowledge.

3. If the answer to Question D.2 is yes:

Not applicable.

- a. Identify each person who made any such solicitation and the position he or she held at the time of the solicitation.
- b. State whether each person making such a solicitation was registered with the Securities and Exchange Commission ("SEC") or a state regulatory authority. If the answer is yes, identify the agency with which the person was registered.
- c. Identify each person to whom any such solicitation was made and the position he or she held at that time.
- d. State whether each recipient of such a solicitation was registered with the SEC or a state regulatory authority. If the answer is yes, identify the agency with which the person was registered.
- e. Detail each term of the solicitation.
- f. Identify the business obtained because of a favorable response to the solicitation.

- g. Identify the business denied because of an unfavorable response to the solicitation.
4. In connection with the investment or management of any amounts held in any pension fund identified in Question A. I above, has any person ever directly or indirectly paid a finders' or placement fee or other valuable consideration?

Yes. In those limited instances where placement fees have been paid, we have been advised by our private equity consultant PCG Asset Management that none of the fees were paid by ERSRI. Instead, all fees were paid by the General Partners of the Funds. See answer to Question D.5 below.

To our knowledge, no finder or referral fees have been paid in connection with the retention by ERSRI of any investment manager except as noted above.

5. If the answer to Question D.3 is yes:

Rhode Island's private equity portfolio is monitored by our private equity consultant PCG Asset Management. PCG is currently canvassing the general partners of our private equity investments to obtain the requested information which will be provided to the SEC after it is assembled.

- a. Identify each person who made such a payment and the position he or she held at the time of the payment.
- b. State whether each person making such a payment was registered with the SEC or a state regulatory authority. If the answer is yes, identify the agency with which each person was registered.
- c. Identify each person who was the recipient of such a payment and the position he or she held at the time of payment.
- d. State whether each recipient of such a payment was registered with the SEC or a state regulatory authority. If the answer is yes, identify the agency with which each person was registered.
- e. Detail the nature and amount of each such payment.
- f. Detail the services performed in exchange for each such payment.
- g. State whether or not the payments were disclosed,
- h. State to whom the payments were disclosed.
- i. State the frequency with which such payments and/or other consideration were paid to a given person.

6. Has any person in any firm, which was paid either directly or indirectly a finder's or placement fee or other consideration in connection with the investment or management of any amounts held in any pension fund identified in Question A.1 above, ever directly or indirectly contributed to the election campaign of any State official who could exert influence over the investment decisions of the pension fund or to any political action committee ("PAC") associated with said official?

Not to our knowledge. The Rhode Island Board of Elections maintains a public data base of all political contributions to Rhode Island public officials. We have entered into this data base the names of the firms that have been identified as receiving placement fees and these firms do not appear in the political contribution data base. We have not canvassed such firms regarding political contributions.

7. If the answer to Question D.6 is yes, for each such contribution:

Not applicable.

- a. Identify each person making such a contribution and the position he or she held at the time of the contribution.
  - b. State whether each person making such a contribution was registered with the SEC or a state regulatory authority. If the answer is yes, identify the agency with which each person was registered.
  - c. Identify the person or PAC to whom each contribution was made.
  - d. Identify the date of each contribution.
  - e. Identify the amount of each contribution.
  - f. Identify the means employed to make each contribution.
8. Has anyone in any firm in which pension funds were invested or, which was charged with the management of pension funds, ever directly or indirectly contributed to the election campaign of an official who could exert influence over the investment decisions of the pension fund or to any PAC associated with said official?

Not to our knowledge. The Rhode Island Board of Elections maintains a public data base of all political contributions to Rhode Island public officials. We have entered into this data base the names of the firms which are charged with management of pension funds and these firms do not appear in the political contribution data base. We have not canvassed such firms regarding political contributions.

9. If the answer to Question D.8 is yes, for each such contribution:

Not applicable.

- a. Identify each person making such a contribution and the position the person held at the time the contribution was made.
- b. State whether each person making such a contribution was registered with the SEC or a state regulatory authority. If the answer is yes, identify the agency with which each person was registered.
- c. Identify the person or PAC to whom each contribution was made.
- d. Identify the date of each contribution.
- e. Identify the amount of each contribution.
- f. Identify the means employed to make each contribution.

10. Have any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2 or A.4 above ever entered into or is it aware of any quid pro quo arrangements with any person in exchange for the investment or management of pension funds?

Not to our knowledge.

11. If the answer to Question D. 10 is yes,

Not applicable.

- a. Identify each party to each quid pro quo arrangement and the position each party held at the time the arrangement was entered into and during the life of the arrangement.
- b. State whether each party to each quid pro quo arrangement was registered with the SEC or a state regulatory authority. If the answer is yes, identify the agency with which each person was registered.
- c. Detail each term of each quid pro quo arrangement.

12. Do any of the pension funds identified in Question A. 1 above or any of the government entities identified in Questions A.2 or A.4 above have a conflicts of interest policy that governs actual or potential conflicts of interest between State decision-makers having responsibility for the management, administration and investment decision-making activities of State pension funds, on one hand, and the investment advisors, investment managers and consultants who provide or seek to provide services to or on behalf of such funds or the entities that oversee them, on the other?

Yes.

- a. If so, please describe such policies.

Please see Exhibit 2, Policy and Procedures 2.3.2

13. Do any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2 or A.4 above maintain records of payments, gifts, contributions, in-kind exchanges or other direct or indirect consideration received by persons having management, administration or investment decision-making responsibilities for or in connection with the pension funds identified in Question A. 1 above?

Yes, we maintain records of all payments made by the pension funds. Gifts, contributions, etc are prohibited. Please see Exhibit 2, Section 1.2.2. Monthly reports are made public record.

- a. If so, please describe the associated reporting and record-keeping policies and procedures.

Treasury staff makes and records all payments by the pension funds.

**E. Internal Controls to Ensure Compliance with Federal Securities Laws**

We once again put our answer in the context of how the ERSRI program is managed. All investments are made by investment managers (either through separate accounts or funds managed by such managers).

The Treasury department does not have the ability or authority to direct specific securities transactions. The following questions are best answered by our custodian bank, State Street, who acts as our trustee of the plan, and the investment managers, all of whom are bound by fiduciary duty.

1. Do any of the pension funds identified in Question A. 1 above or any of the government entities identified in Questions A.2; A.4 or B.1 above have policies and procedures to ensure compliance with the federal securities laws?

The pension funds do not have policies and procedures related to compliance with federal securities laws since they do not make direct investments.

2. If the answer to Question E.1 is yes, please produce a copy of such policies and procedures.

These matters are handled by our custodian, State Street Bank and Trust, and the investment managers. Please see answer to Question A.3 for State Street and investment manager contact information.

3. Do any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2, A.4 or B.1 above provide federal securities law training to its employees responsible for its pension funds?

No direct training is provided by the State. We believe this question is appropriately addressed to the Fund's external managers.

4. If the answer to Question E.3 is yes, please describe such training.

Not applicable.

5. Do any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2, A.4 or B.1 above have a compliance officer who is responsible for ensuring compliance with the federal securities laws?

No, compliance is handled by the investment managers and our custodian, State Street.

6. If the answer to Question E.5 is yes, please describe the compliance officer's duties.

Not applicable.

7. Do any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2, A.4 or B.1 above have policies and procedures to prevent the misuse of material nonpublic information in connection with the purchase or sale of securities?

Not provided at the State level because State employees do not have investment authority. We believe that these policies exist at the investment manager level pursuant to code of ethics requirements for registered investment advisers.

8. If the answer to Question E.7 is yes, please produce a copy of such policies and procedures.

Not applicable.

9. Do any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2, A.4 or B.1 above provide training to its employees to prevent the misuse of material nonpublic information in connection with the purchase or sale of securities?

No. See answer to Question E.7 above.

10. If the answer to Question E.9 is yes, please describe such training.

Not applicable.

11. Are any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A.2, A.4 or B.1 above aware of the Securities and Exchange Commission's Report of Investigation Pursuant to Section 21(a of the Securities Exchange Act of 1934: The Retirement Systems of Alabama, Securities Exchange Act Rel. No. 57446 (March 6, 2008)?

Yes, Staff is aware of this report and its relevance.

12. If the answer to Question E.11 is yes, state whether and to what extent any of the pension funds identified in Question A.1 above or any of the government entities identified in Questions A, 2, A.4 or B.1 above have taken any action, made any changes in its policies or procedures, or made any other changes in response to this Report.

Staff does not have the authority to make investment transactions or the ability to purchase or sell individual securities.

We trust the information is responsive to your request. Should you have any questions, please feel free to contact me at 401-457-3950.

Sincerely,



Frank J. Karpinski  
Executive Director

cc: Mr. Mark Dingley, Esq., Chief Legal Counsel/Chief of Staff,  
Office of the General Treasurer  
Mr. Kenneth Goodreau, Chief Investment Officer, ERSRI,

# Exhibit 1



## APPENDIX 3.8

### RULES OF THE STATE INVESTMENT COMMISSION FOR SELECTING INVESTMENT MANAGERS, CONSULTANTS AND CUSTODIANS

#### 1. Introduction

The State Investment Commission (the "Commission") was created for the purpose of investing moneys of the state fund structure. The Commission is authorized by Rhode Island General Laws § 35-10-1(c) to "engage one or more fund managers and to delegate to the manager or managers the authority to carry out the investment of the funds within the Commission's control, or any portion thereof, in accordance with the objectives of the Commission as set forth in its Statement of Investment Objectives and Policies".

The purpose of these rules is to establish procedures and guidelines to be followed in the future employment of the Commission's investment managers, as well as its consultants and custodians. In carrying out these procedures and guidelines, the Commission shall give primary consideration to its fiduciary duty in the investment of the monies of the state fund structure.

#### 2. Office of the General Treasurer

The Office of the General Treasurer shall supply the staff and support for the Commission to carry out these procedures and guidelines.

#### 3. Procedures for Selecting Investment Managers, Consultants and Custodians

The procedure which the Commission shall follow in selecting its investment managers, consultants and custodians is as follows:

##### 3.1 Requests for Proposals; Requests for Qualifications

3.1.1 Requests for Proposals. The Commission shall prepare a written Request for Proposals from investment managers, consultants and custodians to provide information regarding their firm's capabilities and proposing to render the services sought by the Commission. The Requests for Proposals shall set forth the terms of the proposed engagement and may outline the minimum criteria for selection. The Commission may reserve to itself the options of: modifying the terms of the proposed engagement; revising the minimum qualifications and all other required qualifications; and otherwise making any changes of any nature whatsoever, which the Commission deems advisable, including not making a selection.

3.1.2 Requests for Qualifications. In lieu of Requests for Proposals, when the Commission deems it appropriate, the Commission shall request statements of qualifications from firms to be solicited for possible selection.

3.2 Identification of Firms to be Solicited for Possible Selection.

3.2.1 Compilation of Firm Lists. The Commission may compile a list of firms for the Commission to approach based on its familiarity with the financial community. In addition, the Commission may rely on the advice of its consultants or other advisors to identify firms to approach. Moreover, if it so elects, the Commission may delegate entirely to its consultants or other advisors the identification of appropriate firms to approach.

3.2.2 Advertising. If the Commission deems it necessary or advisable, the Commission may place an advertisement or cause an advertisement of its upcoming search to be placed in a publication circulated in the industry. This will have the effect of soliciting firms with an interest in providing services to the Commission.

3.3 Review of Proposals. The Office of the General Treasurer shall review all proposals or statements of qualifications, as the case may be. The Office of the General Treasurer may utilize the assistance of the Commission's consultants or advisors to assist in the process of evaluating the proposals and statements of qualifications.

3.4 Recommendations to Commission. The General Treasurer shall recommend to the Commission a list of finalist firms. In addition, the Commission may elect to delegate to the Office of the General Treasurer, the responsibility for selecting a firm, in accordance with any terms and conditions that the Commission may specify.

4. Guidelines for Selection

4.1 Expertise, Etc. Criteria for evaluation of candidates shall include, but shall not be limited to:

4.1.1 Competence to perform the services as reflected by expertise in providing the required services, qualifications of the firm, and the experience, qualifications and competence of persons who would be assigned to perform the services;

4.1.2 Ability to perform the services as reflected by other commitments and availability of adequate personnel, equipment, and facilities to perform the services;

4.1.3 Past performance as reflected by the evaluation of other clients which have retained the services of the firm with respect to such factors as performance, quality of work, and responsiveness; and

4.1.4 Where applicable, the firm's proposed approach to the assignment.

Further, the Committee shall evaluate the proposals in light of: the criteria set forth in the solicitation, statements submitted in response to the search, and any other required statements of qualifications and performance data.

#### 4.2 Cost

It is expected that the firms will charge a fee for services rendered to the Commission. The Commission shall review the fee structure of the firms wishing to serve the Commission. Cost shall not, however, be the sole determining factor in the selection process.

#### 5. Negotiations

After selection of a firm, the Commission may, if it deems it advisable, negotiate with the firm selected to secure more advantageous terms and conditions and/or to reduce fees or other costs.

#### 6. Modifications to Engagements

The Commission intends whenever possible and practicable, to continue its practice of entering into agreements which are terminable at will by either party, after a brief notice period (often thirty days). Accordingly, the Commission, if it so deems advisable, may modify the terms of the engagement of any firm (subject to the firm's consent), without engaging in a search for another firm. Such modifications may include but are not limited to: changes in the fee, expansion or other modification of the investment guidelines, changes in the amount or percentage of funds under management, changes to the scope of services including expanding the mandate for investment managers to include additional assignments and extension of the expiration date of the contract.

# Exhibit 2

## 1. Overall Policy - Legal Requirements

### 1.1 State Statutes - State Investment Commission

#### 1.1.1 Authority

The State of Rhode Island operates within the framework of the Constitution of the State which authorizes the establishment of statutes passed by the legislature and approved by the Governor. While the Constitution provides for the elected office of General Treasurer, laws have been passed establishing investment responsibility of State funds to the State Investment Commission.

Chapter 10 of Title 35 of the General Laws describes the structure of the Commission and its powers and responsibilities. Copies of the statutes are set forth in Appendix 1.1.

#### 1.1.2 Funds Subject to Investment

All Funds Subject to Investment - Employees' Retirement Fund, General Fund, etc.

The State Investment Commission is required by Section 35-10-2 to, "in its absolute discretion determine which moneys of the state fund structure are not immediately required for expenditure and shall invest such moneys. . . ."

The funds enumerated by Section 35-10-2 include the following:

- Employees' Retirement Fund
- General Fund of the State
- Special Revenue Funds
- Trust and Agency Funds including the Veterans' Home Fund
- Permanent School Fund
- Touro Jewish Synagogue Fund
- Rhode Island Temporary Disability Insurance Reserve Fund

#### Bond Proceeds

Section 35-10-3 directs the State Investment Commission to invest the proceeds of all bond issues not immediately required.

## State Funds

Several provisions of the Rhode Island General Laws govern the investment of short term state funds. They are:

- 35-4-4.1 -
- 35-4-4.7 State Linked Deposit Policy
- 35-4-5 State Funds - Deposit of Funds - Purchase of Bonds
- 35-10-6(a) Investment of funds not immediately required
- 35-10-11 Additional investment powers

### 1.1.3 Permitted Investments

The institutions and instruments in which the State Investment Commission may invest are set forth in statutes, which include the following:

- 35-10-6 Investment of Funds Not Immediately Required
- 35-10-11 Additional Investment Powers of the SIC
- 35-4-4.3 CRA Linked Deposits
- 35-4-5(a) Deposit of State Funds, Purchase of Bonds
- 19-3-1(f) Financial Institutions (These sections are cross-referenced by 35-10-6(a), which allows the SIC to invest in any security or investment in which financial institutions may invest).
- 19-3-5 Non-legal Investments
- 19-3-6 Special Investments
- 19-3-7(a) Holding of ownership of real estate
- 19-3-8 Prudent Person Rule

## 1.2 State Statutes - General Treasurer

### 1.2.1 Delegation of Authority by State Investment Commission to the Treasurer

Pursuant to Section 35-10-1(c), the General Assembly delegated to the Office of the General Treasurer the responsibility for carrying out day to day cash investments. . . "and because of the importance of speedy action, investments in obligations of the United States Government or certificates of deposit maturing within one year. . . within the framework of a policy established by the Commission . . ."

### 1.2.2 Investment reporting

Section 42-10-17 mandates that an annual report be presented by the General Treasurer to the General Assembly relating to the close of a fiscal year. The statute requires that the report shall include the following items:

- Receipts and payments from General Treasury and from all other funds and accounts under the General Treasurer's control
- Financial institutions in which funds are deposited and rates of interest paid thereon
- Receipts of State Treasury showing the several sources of revenue
- Account of taxes received

### 1.3 Other State Statutes

The Commission, the Office of the General Treasurer and all consultants, investment managers and others with which the State Investment Commission does business shall comply with all other applicable state statutes and regulations, including without limitation the Code of Ethics set forth in Rhode Island General Laws Sections 36-14-1 et. seq., as amended from time to time.

## 2. Short Term Investment Policies

### 2.1 Funds Subject to Short-Term Investment Policies

Those funds of the State for which short term investments are purchased and which are subject to this investment policy are listed in Appendix 2.1.

### 2.2 Investment Objectives

#### 2.2.1 Maintenance of Appropriate Liquidity

In order to provide sufficient liquidity to cover all disbursements of the State, investments will be structured in a manner to match the cash flow requirements of the account groups for which the State Investment Commission invests.

#### 2.2.2 Safety

All short term investments will be purchased with the intent of preserving capital. Investments will be made to minimize the volatility of principal value, liquidity risk and credit risk. Furthermore, whenever possible, the short term investment portfolio will be structured to minimize interest rate (reinvestment) risk, by matching the maturities of investments with the requirements for funds disbursement.

### 2.2.3 Legal Conformance

Consistent with the preceding section, no investments will be made in direct or indirect violation of the State statutes dealing with the investment of State funds.

### 2.2.4 Rate of Return

The State Investment Commission seeks to achieve the highest possible rate of return on purchased investments. The rate of return on the short term investment portfolio will be compared to a short term U.S. Treasury security benchmark for purposes of quantifying relative performance over time. However, rate of return considerations will be subject to the constraints of liquidity requirements, legal conformance and safety considerations, as set forth herein.

## 2.3 Operations

### 2.3.1 Monitoring the Portfolio

The State Investment Commission will monitor the investment transactions on a monthly basis by reports prepared by the General Treasurer's office. These reports will outline the structure of the portfolio and any variances to the provisions outlined in the policies. In addition, the reports will present the market value of the portfolio.

### 2.3.2 Ethics and Conflicts of Interest

Employees of the General Treasurer's office involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the short term investment program, or that could impair their ability to make impartial decisions.

### 2.3.3 Internal Controls

In administering the short term investment policies of the State, the General Treasurer's office will implement an appropriate system of internal control to prevent any loss of public funds due to fraud, error, misrepresentation or imprudent actions. This system of internal controls will be subject to review annually as part of the audit process performed by the Auditor General.



#### 2.3.4 Acceptable Investments

The State Investment Commission may only invest in the following instruments in accordance with this policy:

- U. S. Treasury Bills, short term obligations issued by the United States Government with maturities of less than 1 year.
- U. S. Treasury Notes or Bonds issued by the United States Government with a remaining maturity of less than 1 year.
- U. S. Agency obligations, short term obligations of U. S. Government Agencies or Instrumentalities, with maturities of less than 1 year. However, investments in U.S. Agency obligations that have been securitized in a collateralized mortgage trust is prohibited.
- Certificates of deposit, CDs issued by financial institutions for specific maturities at a stated rate of interest. Financial institutions seeking to participate in issuing CDs to the State must meet or exceed standards established within Section 2.5.1 of these policies, listed as "Selection Criteria - Financial Institutions". In addition, investments may only be purchased from financial institutions which maintain an investment grade credit rating from Moody's Investors Service or Standard & Poor's Corporation.
- Repurchase Agreements. A repurchase agreement is a contractual obligation between the State and the seller ("Repo"). In a Repo, the seller receives cash and delivers U.S. Treasury securities with maturities of no longer than 3 years as collateral to a third party custodian designated by the State Investment Commission. The collateral value will be maintained at a minimum value of 102% of principal, and will be marked to market weekly. The Repo seller agrees to repurchase the securities at predetermined dates and rates. Repos may only be purchased from financial institutions or broker/dealers who have signed a master repurchase agreement acceptable to the State Investment Commission. The approved form of Master Repurchase Agreement is attached as Appendix 2.3.4. Reverse Repurchase Agreements are prohibited.
- Commercial paper. Commercial paper is a promissory note issued by a corporation for a specific maturity at a stated rate of interest. To be eligible for purchase, the rating on the commercial paper must be at least A1/P1 by Moody's Investors Service and Standard & Poor's Corporation. Exceptions may be granted by the Commission regarding the credit rating restriction if a sufficient credit enhancement (Letter of Credit, insurance etc.) exists to collateralize the commercial paper. Direct purchase is subject to Commission approval.

- Eurodollar Time Deposits. A Eurodollar Time Deposit is an offshore deposit in a domestic bank with a foreign branch. These deposits are the obligations of the domestic bank, but are subject to the banking regulations of a foreign country. As such, Eurodollar Time Deposits enjoy more flexible bank reserve requirements and do not carry federal deposit insurance. For this reason, Eurodollar Time Deposits typically offer a premium yield over domestic bank time deposits. To be eligible for purchase, the Eurodollar Time Deposit must be a deposit of a domestic commercial bank. The maximum maturity of a Eurodollar Time Deposit will be limited to sixty days.
- Money Market Mutual Funds. State funds may be invested in money market mutual funds whose portfolios consist of U. S. Treasury Securities, U. S. Agency obligations and repurchase agreements fully collateralized by such securities. A money market mutual fund must be registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and subject to Rule 2a-7 to qualify for investment.
- Other short-term instruments. State funds may be invested in other short-term instruments as they may be developed, subject to the approval of the Commission.

#### 2.3.5 Safekeeping of Securities

All securities will be held by the State's custodian, State Street Bank and Trust Company or by its subcustodian agent; unless otherwise directed to another custodian by the Commission. Securities lending by the safekeeping agent is not permitted.

#### 2.3.6 Delivery vs Payment

In utilizing the delivery versus payment (DVP) process, the State will not release funds to the selling institution until the security has been received by the State's custodian.

#### 2.3.7 Collateralization

Beginning October 1, 1991 Chapter 10.1 of Title 35 of the General Laws entitled "Collateralization of Public Deposits" went into effect. All investments shall be made in accordance with that law.

#### 2.3.8 Competitive Bid Pricing

At all times, investment instruments must be purchased utilizing a competitive bid process. If a specific maturity date is known, bids must be requested for instruments meeting that maturity.

## 2.4 Portfolio Diversification

State funds held in short term instruments will be diversified sufficiently to reduce overall portfolio risk. Proper diversification will include diversification by maturity, by instrument and by institution.

### 2.4.1 By Maturity

Whenever possible, maturities of investments purchased shall be scheduled to coincide with projected cash flow requirements. However, the maturity characteristics of the portfolio must comply with the following schedule:

<u>Total Portfolio Investments Maturing</u>	<u>Required Minimum Percentage of Total Portfolio</u>
1 Year or Under	100%
270 Days or Under	50%
90 Days or Under	25%
30 Days or Under	10%

### 2.4.2 By Investment Instrument

The following schedule will be utilized as maximum percentages of the State's total short term portfolio:

U. S. Treasury Bills, Notes or Bonds	100% of portfolio
U. S. Agency Obligations	75% of portfolio
U. S. Government Money Market Mutual Fund	50% of portfolio
Certificates of Deposit	25% of portfolio
Repurchase Agreements	100% of portfolio
Commercial Paper/Eurodollar Time Deposits	15% of portfolio

### 2.4.3 By Financial Institution or Corporate Entity

The following schedule will be utilized as maximum percentages of investments to be purchased from any one issuer as a percentage of the State's total short term portfolio.

U. S. Treasury Bills, Notes or Bonds	100% of portfolio
U. S. Agency Obligations	35% of portfolio
U. S. Government Money Market Mutual Fund	35% of portfolio
Certificates of Deposit	10% of portfolio
Repurchase Agreements	20% of portfolio
Commercial Paper/Eurodollar Time Deposits	15% of portfolio

Note: Any combination of CDs and Commercial Paper and Eurodollar Time Deposits of one underlying financial institution must not exceed 15% of the total portfolio.

## 2.5 Vendor Selection Criteria

All financial institutions and broker/dealers desiring to become qualified bidders for investment transactions must supply the following:

- Current audited financial report
- Proof of National Association of Securities Dealers registration
- Certification of having read this investment policy.
- A letter from an officer of the financial institution or broker/dealer, which details the securities to be sold to the State.

The General Treasurer's office shall maintain a listing of all authorized financial institutions and broker/dealers. Any financial institution or broker/dealer is eligible to make a written formal application to the General Treasurer's office and if the institution meets or exceeds the guidelines outlined below, it will be added to the list. Institutions which subsequently fail to meet the minimum criteria will be removed.

Notwithstanding any of the foregoing, the General Treasurer's office reserves the right, in its sole discretion, to withdraw its approval of any financial institution or broker/dealer at any time, without notice. Furthermore, the criteria for vendor selection and investment consideration are separate and distinct.

Selection of financial institutions in which the state invests funds will be made by the General Treasurer's office, by consulting with creditworthiness research reports prepared by Veribanc, Inc., a nationally recognized rating service. At a minimum, the General Treasurer's office will keep these ratings on file and comment to the Commission quarterly on any changes in ratings.

As a result of the analysis, only those financial institutions meeting or exceeding the following criteria may be included in the list.

### 2.5.1 Commercial Banks

- (i) The financial institution must be covered by Federal Deposit Insurance
- (ii) The financial institution must meet or exceed the following:
  - a. Exist and operate for at least 3 years,
  - b. A Veribanc rating of yellow one star or better,
  - c. Return on assets within a six quarter period must be positive for at least four out of six consecutive quarters; and
  - d. Non performing assets as a percentage of total assets may not exceed 3%.

Any banking institution that does not meet these minimum criteria may be approved by exception by the State Investment Commission.

#### 2.5.2 Broker/Dealers

Only approved broker/dealers will be used by the State. Broker/dealers must be regulated by the Securities and Exchange Commission and be members in good standing of the National Association of Securities Dealers. In addition, the broker/dealers must meet or exceed the following criteria:

- a. Exist and operate for at least 3 years,
- b. Maintain at least \$2.5 million in capital, and
- c. Return on assets within a six quarter period must be positive for at least four quarters on a calendar quarter basis.

Any broker/dealer that does not meet these minimum criteria may be approved by exception by the State Investment Commission.

#### 2.6 Preference for Banks with Outstanding Community Reinvestment Act Ratings

The State's Linked Deposit Policy is set forth in Rhode Island General Laws Sections 35-4-4.1 through 35-4-4.7. The policy aims to increase the availability of capital and banking services in low and moderate income neighborhoods in Rhode Island. The law requires that the State give preference by investing in institutions achieving an "outstanding" Community Reinvestment Act rating.

The Guidelines for determining the preference are set forth in Appendix 2.6.

### 3. Long Term Investment Policies

#### 3.1 Prudent Person Standard

The statutes referred to in Section 1.1.1.3 of this Statement of Investment Policies provide a list of the types of investments in which the State Investment Commission is authorized to invest. However, despite the lists of enumerated permitted investments, the Commission is also authorized by

Section 35-10-6 to invest the funds within its control and not immediately required, in accordance with the "prudent person standard". Section 35-10-6 requires that the Commission "shall adopt a statement of investment objectives and policies consistent with the prudent person standard".

Section 35-10-6(a) defines the prudent person standard as follows:

"that standard of care employed solely in the interest of the participants and beneficiaries of the funds and:

(A) For the exclusive purpose of:

- (i) Providing benefits to participants and their beneficiaries; and
- (ii) Defraying reasonable expenses of administering the funds;

(B) With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims;

(C) By diversifying the investments of the fund so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so."

The State Investment Commission may, consistent with §35-10-6(a) and decisions of the Rhode Island Supreme Court interpreting said statute, consult the American Law Institute's Restatement of the Law Third on Trusts, Prudent Investor Rule, as amended from time to time. The Restatement focuses on the investment portfolio as a whole and the investment strategy on which it is based, rather than viewing a specific investment in isolation.

The Commission has engaged Wilshire Associates as its consultant for the investment program for the Employee's Retirement System. The fundamental component of the investment plan is diversification through an asset allocation plan described in Section 3.2 below.

In addition, the Commission has been charged with the responsibility of investing the funds for the Touro Synagogue Fund, pursuant to Rhode Island General Laws Section 35-9-1. That law requires that the Commission invest the fund in accordance with the prudent investor rule.

### 3.2 Asset Allocation

In consultation with its consultant, Wilshire Associates, the Commission has adopted a Strategic Asset Allocation Plan to diversify the types of investments in which the Employees' Retirement System may invest. It allocates the types of investment styles by percentage of assets of the fund with recommended policy targets and recommended ranges. The Asset Allocation Plan for the Employees' Retirement System is set forth in Appendix 3.2. (For the Alternative

Investments program, the asset allocation within that asset class is set forth in Appendix 3.4).

To implement its Asset Allocation Plan for the Employees' Retirement System, the Commission engages the services of various investment manager firms and the Commission grants discretion to each manager to invest the fund's assets in accordance with the investment style for which the manager has been retained.

As to the Touro Synagogue Fund, the Commission has engaged Brown Brothers Harriman & Co. to invest the fund in a diversified portfolio of holdings.

### 3.3 Investment Guidelines for Investment Managers

Each investment manager retained by the Commission to invest certain funds of the Employees' Retirement System shall invest in accordance with guidelines specified by the Commission. The investment guidelines adopted by the Commission are set forth in Appendix 3.3.

### 3.4 Alternative Investments and Economically Targeted Investments

The Commission adopted a policy for its selection of economically-targeted investments for the Employees' Retirement System. In connection with the "Economically-Targeted Investment Policy" of the Commission, the Commission also adopted "Alternative Investments Funding Procedures". Both of these items are set forth in Appendix 3.4.

The Commission has adopted Allocation Guidelines for its Alternative Investments Program. These Guidelines are set forth in Appendix 3.4.

In addition, the Commission adopted Alternative Investments Policies and Procedures which are also set forth in Appendix 3.4.

### 3.5 Emerging Investment Manager Program

The Commission adopted guidelines establishing a policy and procedures for the Commission's Emerging Investment Manager Program for the Employees' Retirement System, as set forth in Appendix 3.5.

### 3.6 Proxy Voting Policy

The Commission's Proxy Voting Policy is set forth in Appendix 3.6.

### 3.7 Transaction Execution Policy

The Commission's Transaction Execution Policy is set forth in Appendix 3.7.

### 3.8 Selecting Investment Managers, Consultants and Custodians

The Commission's Rules for Selecting Investment Managers, Consultants and Custodians are set forth in Appendix 3.8.

**Employees' Retirement System of Rhode Island  
Projection Results Based on the June 30, 2007 Actuarial Valuation  
State Employees**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Valuation as of June 30,	Fiscal Year Ending June 30,	Market Return for Fiscal Year	Employer Contribution Rate for Fiscal Year	Compensation for Fiscal Year (in Millions)	Employer Contributions for Fiscal Year (in Millions)	Actuarial Liability (AAL, in Millions)	Actuarial Value of Assets at Valuation Date (AVA, in Millions)	Unfunded Actuarial Liability at Valuation Date (UAL, in Millions)	Funded Ratio at Valuation Date	Employer Contribution Rate Calculated in Actuarial Valuation	Market Value of Assets at Valuation Date (MVA, in Millions)	Funded Ratio Using MVA at Valuation Date
2007												
2008	2008	8.25%	20.77%	\$ 660.0	\$ 137.1	\$ 4,332.9	\$ 2,493.4	\$ 1,839.5	57.5%	20.69%	\$ 2,791.6	64.4%
2009	2009	8.25%	21.13%	676.4	142.9	4,499.9	2,779.3	1,720.6	61.8%	19.39%	2,965.0	65.9%
2010	2010	8.25%	20.69%	697.5	144.3	4,663.3	3,030.6	1,632.7	65.0%	18.50%	3,140.8	67.4%
2011	2011	8.25%	19.39%	720.4	139.7	4,825.7	3,270.0	1,555.7	67.8%	17.78%	3,317.6	68.7%
2012	2012	8.25%	18.50%	745.5	137.9	4,987.1	3,489.3	1,497.8	70.0%	17.27%	3,489.3	70.0%
2013	2013	8.25%	17.78%	771.8	137.2	5,147.3	3,658.3	1,489.0	71.1%	17.38%	3,658.3	71.1%
2014	2014	8.25%	17.27%	799.9	138.1	5,306.2	3,825.5	1,480.7	72.1%	17.48%	3,825.5	72.1%
2015	2015	8.25%	17.38%	829.9	144.2	5,464.2	3,992.8	1,471.4	73.1%	17.56%	3,992.8	73.1%
2016	2016	8.25%	17.48%	861.4	150.6	5,621.6	4,166.0	1,455.6	74.1%	17.62%	4,166.0	74.1%
2017	2017	8.25%	17.56%	894.4	157.1	5,778.0	4,345.6	1,432.5	75.2%	17.69%	4,345.6	75.2%
2018	2018	8.25%	17.62%	929.2	163.7	5,932.6	4,531.2	1,401.3	76.4%	17.73%	4,531.2	76.4%
2019	2019	8.25%	17.69%	966.1	170.9	6,085.5	4,724.1	1,361.4	77.6%	17.75%	4,724.1	77.6%
2020	2020	8.25%	17.73%	1,005.1	178.2	6,236.7	4,925.4	1,311.3	79.0%	17.76%	4,925.4	79.0%
2021	2021	8.25%	17.75%	1,046.3	185.7	6,385.9	5,135.7	1,250.2	80.4%	17.75%	5,135.7	80.4%
2022	2022	8.25%	17.76%	1,089.4	193.5	6,533.2	5,356.2	1,177.0	82.0%	17.73%	5,356.2	82.0%
2023	2023	8.25%	17.75%	1,135.0	201.5	6,678.5	5,588.1	1,090.3	83.7%	17.70%	5,588.1	83.7%
2024	2024	8.25%	17.73%	1,183.2	209.8	6,822.5	5,833.5	989.0	85.5%	17.63%	5,833.5	85.5%
2025	2025	8.25%	17.70%	1,234.7	218.5	6,967.1	6,095.4	871.7	87.5%	17.51%	6,095.4	87.5%
2026	2026	8.25%	17.63%	1,287.5	227.0	7,112.3	6,376.2	736.1	89.6%	17.38%	6,376.2	89.6%
2027	2027	8.25%	17.51%	1,344.0	235.3	7,259.5	6,677.9	581.6	92.0%	17.06%	6,677.9	92.0%
2028	2028	8.25%	17.38%	1,403.0	243.8	7,410.5	7,004.1	406.4	94.5%	1.69%	7,004.1	94.5%
2029	2029	8.25%	17.06%	1,464.9	249.9	7,574.2	7,365.4	208.8	97.2%	1.69%	7,365.4	97.2%
2030	2030	8.25%	1.69%	1,530.2	25.9	7,745.5	7,756.0	(10.5)	100.1%	1.68%	7,756.0	100.1%
2031	2031	8.25%	1.69%	1,598.6	27.0	7,926.3	7,940.2	(13.8)	100.2%	1.67%	7,940.2	100.2%
2032	2032	8.25%	1.68%	1,669.8	28.1	8,118.2	8,135.9	(17.7)	100.2%	1.66%	8,135.9	100.2%
2033	2033	8.25%	1.67%	1,744.5	29.1	8,323.0	8,345.0	(21.9)	100.3%	1.66%	8,345.0	100.3%
2034	2034	8.25%	1.66%	1,821.5	30.2	8,541.3	8,568.0	(26.7)	100.3%	1.65%	8,568.0	100.3%
2035	2035	8.25%	1.66%	1,902.7	31.6	8,773.1	8,805.1	(31.9)	100.4%	1.65%	8,805.1	100.4%
2036	2036	8.25%	1.65%	1,985.1	32.8	9,018.1	9,056.1	(38.0)	100.4%	1.65%	9,056.1	100.4%
2037	2037	8.25%	1.65%	2,073.9	34.2	9,278.0	9,322.2	(44.2)	100.5%	1.65%	9,322.2	100.5%
2038	2038	8.25%	1.65%	2,165.2	35.7	9,554.0	9,605.4	(51.4)	100.5%	1.65%	9,605.4	100.5%



**Employees' Retirement System of Rhode Island  
Teachers**  
**Projection Results Based on the June 30, 2007 Actuarial Valuation**

Valuation as of June 30, (1)	Fiscal Year Ending June 30, (2)	Market Return for Fiscal Year (3)	Employer Contribution Rate for Fiscal Year (4)	Compensation for Fiscal Year (in Millions) (5)	Employer Contributions for Fiscal Year (in Millions) (6)	Actuarial Liability at Valuation Date (AAL, in Millions) (7)	Actuarial Value of Assets at Valuation Date (AVA, in Millions) (8)	Unfunded Actuarial Liability at Valuation Date (UAAI, in Millions) (9)	Funded Ratio at Valuation Date (10)	Employer Contribution Rate Calculated in Actuarial Valuation (11)	Market Value of Assets at Valuation Date (MVA, in Millions) (12)	Funded Ratio Using MVA at Valuation Date (13)
2007	2008	8.25%	22.01%	\$ 959.4	\$ 211.2	\$ 6,750.1	\$ 3,738.0	\$ 3,012.1	55.4%	23.88%	\$ 4,185.4	62.0%
2008	2009	8.25%	25.03%	993.3	248.6	7,006.8	4,152.8	2,854.0	59.3%	22.32%	4,430.8	63.2%
2009	2010	8.25%	23.88%	1,031.3	246.3	7,269.7	4,554.6	2,715.1	62.7%	21.27%	4,719.5	64.9%
2010	2011	8.25%	21.32%	1,072.2	239.3	7,542.5	4,945.4	2,597.1	65.6%	20.41%	5,016.7	66.5%
2011	2012	8.25%	21.27%	1,115.2	237.2	7,826.3	5,318.8	2,507.5	68.0%	19.79%	5,318.8	68.0%
2012	2013	8.25%	20.41%	1,159.8	236.7	8,121.6	5,630.7	2,490.9	69.3%	19.79%	5,630.7	69.3%
2013	2014	8.25%	19.79%	1,206.1	238.7	8,428.2	2,474.2	2,455.0	70.6%	19.80%	5,954.0	70.6%
2014	2015	8.25%	19.79%	1,253.4	248.0	8,745.0	6,290.0	2,455.0	71.9%	19.82%	6,290.0	71.9%
2015	2016	8.25%	19.80%	1,303.1	258.0	9,071.6	6,646.1	2,425.5	73.3%	19.83%	6,646.1	73.3%
2016	2017	8.25%	19.82%	1,353.9	268.3	9,407.4	7,023.5	2,383.9	74.7%	19.85%	7,023.5	74.7%
2017	2018	8.25%	19.83%	1,405.7	278.7	9,751.2	7,422.1	2,329.1	76.1%	19.89%	7,422.1	76.1%
2018	2019	8.25%	19.85%	1,460.4	289.9	10,103.3	7,843.2	2,260.1	77.6%	19.89%	7,843.2	77.6%
2019	2020	8.25%	19.89%	1,515.9	301.5	10,461.8	8,287.1	2,174.7	79.2%	19.93%	8,287.1	79.2%
2020	2021	8.25%	19.89%	1,573.7	313.0	10,826.5	8,755.3	2,071.2	80.9%	19.96%	8,755.3	80.9%
2021	2022	8.25%	19.93%	1,633.7	325.6	11,197.0	9,248.6	1,948.4	82.6%	19.97%	9,248.6	82.6%
2022	2023	8.25%	19.96%	1,697.0	338.7	11,574.0	9,770.3	1,803.7	84.4%	19.97%	9,770.3	84.4%
2023	2024	8.25%	19.97%	1,762.6	352.0	11,956.8	10,322.3	1,634.5	86.3%	19.96%	10,322.3	86.3%
2024	2025	8.25%	19.97%	1,831.3	365.7	12,345.8	10,906.8	1,439.0	88.3%	19.92%	10,906.8	88.3%
2025	2026	8.25%	19.96%	1,906.1	380.4	12,744.9	11,529.9	1,215.0	90.5%	19.78%	11,529.9	90.5%
2026	2027	8.25%	19.92%	1,983.1	395.0	13,154.1	12,195.5	958.6	92.7%	19.45%	12,195.5	92.7%
2027	2028	8.25%	19.78%	2,064.2	408.3	13,576.0	12,908.4	667.6	95.1%	2.27%	12,908.4	95.1%
2028	2029	8.25%	19.45%	2,148.5	417.9	14,018.8	13,678.3	340.5	97.6%	2.27%	13,678.3	97.6%
2029	2030	8.25%	2.27%	2,234.1	50.7	14,474.3	14,496.6	(22.3)	100.2%	2.27%	14,496.6	100.2%
2030	2031	8.25%	2.27%	2,323.0	52.7	14,943.7	14,975.0	(31.3)	100.2%	2.27%	14,975.0	100.2%
2031	2032	8.25%	2.27%	2,412.7	54.8	15,424.7	15,466.5	(41.8)	100.3%	2.27%	15,466.5	100.3%
2032	2033	8.25%	2.27%	2,504.2	56.8	15,915.1	15,968.9	(53.8)	100.3%	2.27%	15,968.9	100.3%
2033	2034	8.25%	2.27%	2,595.9	58.9	16,408.4	16,476.1	(67.7)	100.4%	2.27%	16,476.1	100.4%
2034	2035	8.25%	2.27%	2,696.0	61.2	16,909.0	16,991.5	(82.5)	100.5%	2.27%	16,991.5	100.5%
2035	2036	8.25%	2.27%	2,803.9	63.6	17,419.2	17,517.4	(98.2)	100.6%	2.27%	17,517.4	100.6%
2036	2037	8.25%	2.27%	2,916.6	66.2	17,937.7	18,053.4	(115.7)	100.6%	2.28%	18,053.4	100.6%
2037	2038	8.25%	2.27%	3,038.7	69.0	18,466.6	18,600.8	(134.2)	100.7%	2.28%	18,600.8	100.7%

#### **D. Payments and Conflicts of interest**

4.

Pacific Corporate Group Asset Management, Rhode Island's private equity consultant, has advised the State that fees paid to placement agents are paid by the private equity fund and then offset against the management fees of the general partner and have no financial impact on the Rhode Island State Investment Commission. Townsend, Rhode Island's real estate consultant, advised that there were no placement fees paid on any of the four real estate investments made since the beginning of 2007 (beginning of current administration).

5.

Pacific Corporate Group Asset Management has returned the following information regarding placement fees received from the general partners of the State's private equity investments:

##### **I. Fenway Partners Capital Fund III**

The CFO of the Management Company of the Fund initiates payment after the approval of the Operating Committee of the Management Company. The CFO of Fenway Partners is not registered with the SEC or any state regulatory agency. Mr. Marvin Rosen, Principal for Diamond Edge Capital Partners, received the payments. Diamond Edge is registered as a broker-dealer with the SEC and the National Association of Securities Dealers, Inc., and in the states where it solicits Investor Prospects.

Fenway paid Diamond Edge \$262,500 (1.75 percent of the \$15 million committed capital by Rhode Island). The fee was paid by Fenway and offset against the management fees of the general partner. Fenway made the payments in eight equal quarterly installments starting 30 days after the receipt of the capital commitment. Diamond Edge provided Fenway with additional information on fund raising because it has expertise in raising capital from institutional investors and public pension funds. These payments were disclosed to PCG Asset Management and in audited financial statements of Fenway Partners Capital Fund III, L.P.

#### II. Perseus Partners VII

Rhode Island has been advised by its private equity consultant Pacific Corporate Group Asset Management and the General Partner of Perseus Partners VII, that no placement fees were paid in connection with RISIC's investment.

#### III. Point 406 Ventures I

Rhode Island has been advised by its private equity consultant Pacific Corporate Group Asset Management and the General Partner of Point 406 Ventures I, that no placement fees were paid in connection with RISIC's investment.

#### IV. Point Judith Venture Fund II

Rhode Island has been advised by its private equity consultant Pacific Corporate Group Asset Management and the General Partner of Point Judith Venture Fund II, that no placement fees were paid in connection with RISIC's investment.

V. Avenue Special Situations Fund V

Rhode Island has been advised by its private equity consultant Pacific Corporate Group Asset Management and the General Partner of Avenue Special Situations Fund V, that no placement fees were paid in connection with RISIC's investment.

VI. Constellation Ventures III

Constellation Ventures Management III, L.P. made payment on behalf of its Fund, Constellation Ventures III. The signatory on the check was Denise Moore, Vice President and Senior Finance Operations Manager for JP Morgan Chase Bank, Corporate Finance Controllers Office. (JP Morgan, through its controlling subsidiaries, owns a controlling interest in Constellation Growth Capital, LLC, which serves as the managing member of the General Partner.) Neither the General Partner, nor Denise Moore is registered with the SEC or state regulatory authority.

Constellation paid Diamond Edge Capital Partners, LLC \$262,500 (1.75 percent of the total capital commitment in Constellation Ventures III by Rhode Island) in one payment on October 24, 2008. The fee was paid by Constellation

and offset against the management fees of the general partner. In return, Diamond Edge served as a placement agent with respect to ERSRI's capital commitment to Constellation Ventures III.

Constellation Ventures Management notified ERSRI that it had agreed to pay a percentage of the capital commitment to Diamond Edge. The General Partner made the payment and did not charge ERSRI. Constellation Ventures Management disclosed the payment in an investor disclosure statement delivered to and acknowledged by, Frank T. Caprio, General Treasurer, on behalf of the Rhode Island State Pension Plan.

VII. Green Equity Investors V

Rhode Island has been advised by its private equity consultant Pacific Corporate Group Asset Management and the General Partner of Green Equity Investors V, that no placement fees were paid in connection with RISIC's investment.

VIII. Lighthouse Capital Partners VI

Rhode Island has been advised by its private equity consultant Pacific Corporate Group Asset Management and the General Partner of Lighthouse Capital Partners VI, that no placement fees were paid in connection with RISIC's investment.

IX. Providence Equity Partners VI

Rhode Island has been advised by its private equity consultant Pacific Corporate Group Asset Management and the General Partner of Providence Equity Partners VI, that no placement fees were paid in connection with RISIC's investment.

X. Trilantic Partners IV

Rhode Island has been advised by its private equity consultant Pacific Corporate Group Asset Management and the General Partner of Trilantic Partners IV, that no placement fees were paid in connection with RISIC's investment.

XI. W Capital II

W Capital Management did not name a specific individual who made payments and the position he/she held. Rather, W Capital Management names itself as the person who made payments on behalf of the Fund, W Capital II. W Capital Management is not registered with the SEC.

W Capital Management made payment to Probitas Funds Group, LLC, a licensed broker-dealer, registered with the SEC, in the amount of \$76,985. The fee was paid by W Capital Management and offset against the management fees of the general partner. The fee was based on the total monies raised for the fund from all investors, save certain affiliates of the issuer. Probitas waived 20 percent of its cash fee in exchange for an interest in the general partner's carried interest.

W Capital Management states that Probitas provided the following services:

1. Oversight of the general marketing program for the proposed offering
2. Advice regarding the structure and size of the Fund, and the timing and strategy of the private placement
3. Identification and contact with prospective investors in the Fund
4. Advice regarding the expectations of investors in the current market environment
5. Assistance in negotiations with such prospective investors
6. Preparation of the Offering Materials
7. Preparation of a due diligence package for prospective investors

XII. WLR Recovery Fund IV

Rhode Island has been advised by its private equity consultant Pacific Corporate Group Asset Management and the General Partner of WLR Recovery Fund IV, that no placement fees were paid in connection with RISIC's investment.

XIII. Apollo Investment Fund VII

Apollo Management VII, L.P. made payments on behalf of Apollo Investment Fund VII, L.P. Apollo Management VII is a wholly owned subsidiary of Apollo Management, L.P., an investment advisor registered with the SEC.

Apollo Management made payment to Diamond Edge Capital, LLC, which is also registered with the SEC, in the amount of \$437,500 (1.75 percent of ERSRI's commitment) payable in seven installments over a three year period. The

fee was paid by Apollo and offset against the management fees of the general partner. Diamond Edge assisted in securing ERSRI's commitment to invest in Apollo Investment Fund VII. Apollo states that it disclosed the payment in question to ERSRI, but it did not specify the time, place and manner of disclosure.

XIV. Bain Capital Fund X

Rhode Island has been advised by its private equity consultant Pacific Corporate Group Asset Management and the General Partner of Bain Capital Fund X, that no placement fees were paid in connection with RISIC's investment.

XV. CVC European Equity Partners V

Rhode Island has been advised by its private equity consultant Pacific Corporate Group Asset Management and the General Partner of CVC European Equity Partners V, that no placement fees were paid in connection with RISIC's investment.

XVI. Nordic Capital VII

Nordic Capital states that the General Partner did not pay advisory fees to the global fund raising advisor in relation to Rhode Island's commitment. Nordic Capital notes that it was following a global fund raising advisory agreement, where the advisory fee was to be paid in respect of commitments raised during the term of the global fund raising advisory agreement but only to the extent that such commitments were in excess of a specified threshold. Consequentially, no



payment was made with respect to Rhode Island's commitment to Nordic Capital VII.

XVII. Paladin III

Rhode Island has been advised by its private equity consultant Pacific Corporate Group Asset Management and the General Partner of Paladin III, that no placement fees were paid in connection with RISIC's investment.

XVIII. TPG Partners VI

Rhode Island has been advised by its private equity consultant Pacific Corporate Group Asset Management and the General Partner of TPG Partners VI, that no placement fees were paid in connection with RISIC's investment.