

ALTERNATIVE INVESTMENT PORTFOLIO
CONSULTING AGREEMENT

Between

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

and

PACIFIC CORPORATE GROUP LLC

Dated as of March 22, 2006

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ALTERNATIVE INVESTMENT PORTFOLIO CONSULTING AGREEMENT

THIS ALTERNATIVE INVESTMENT PORTFOLIO CONSULTING AGREEMENT ("**Agreement**") is made, as of March 22, 2006, by and between Employees' Retirement System of the State of Rhode Island (the "**Client**") and Pacific Corporate Group LLC, a California corporation with its principal place of business at 1200 Prospect Street, Suite 200, La Jolla, California 92037 ("**Consultant**").

WHEREAS, the Client maintains a pension fund (the "**Portfolio**"), which it actively invests; and

WHEREAS, the Consultant has been providing investment consulting services to the Client with respect to the Portfolio's alternative investment asset class (the "**Alternative Investment Portfolio**") under an existing Consulting Agreement between the Client and the Consultant, dated as of May 23, 1995 (the "**Existing Agreement**");

WHEREAS, the Client seeks to continue to retain Consultant to provide investment consulting services, as more particularly described herein, with respect to the Alternative Investment Portfolio pursuant to this Agreement;

NOW, THEREFORE, in consideration of the promises and mutual covenants herein contained, the Client and Consultant do hereby agree as follows:

1. Engagement as Consultant.

The Client hereby engages Consultant, and Consultant hereby accepts such engagement, to provide investment consulting services to the Client with respect to the Alternative Investment Portfolio for the period and on the terms set forth in this Agreement. The Alternative Investment Portfolio's target allocation is 7.5% of the Portfolio. From time to time the Client may transfer other assets under its control to the Alternative Investment Portfolio or withdraw any assets from the Alternative Investment Portfolio upon written notice and consultation with the Consultant. Nothing in this Agreement shall constitute a commitment by the Client to maintain any minimum amount of assets in the Alternative Investment Portfolio.

2. Services/ Procedures.

Consultant will have no discretion in managing the Alternative Investments. Rather, the Consultant shall provide the Client investment consulting services described in the Scope of Services attached hereto as **Exhibit A** (the "**Services**"). The Consultant shall allocate such personnel and devote such efforts as are necessary for it to carry out its duties under this Agreement. The Consultant shall at all times maintain not less than two individuals to act as primary consultants to the Client account and shall not change any primary

consultant without prior consent of the Client.

All transactions will be consummated by payment to, or delivery by, the Custodian (as defined herein) on behalf of the Client, or such other party as the Client may designate in writing of all cash and/or securities due to or from the Alternative Investment Portfolio. Until the Consultant is otherwise notified in writing, the Custodian for the Client is State Street Bank and Trust Company ("**Custodian**"). Consultant generally will not act as custodian for the Alternative Investment Portfolio, unless mutually agreed upon by the Client and Consultant for a specified private equity fund and pursuant to a written agreement. Instructions of Consultant to the Client and/or the Custodian will be made in writing and sent by first-class mail or by messenger or by telecopy or by electronic communication, or at the option of Consultant, orally and confirmed in writing as soon as possible thereafter. Consultant will instruct the Custodian to provide Consultant with such periodic reports concerning the status of the Alternative Investment Portfolio as Consultant may reasonably request.

3. Compensation.

As compensation for providing the Services as listed in **Exhibit A**, Consultant shall be compensated as set forth in the Fee Schedule attached hereto as **Exhibit B** (the "**Fee Schedule**"). Such fees will be paid by the Client at the times and in the manner specified in the Fee Schedule. Consultant will not be paid or reimbursed for any expenses except to the extent permitted by the Fee Schedule.

4. Representations, Warranties and Agreements of Consultant.

Consultant:

- i) represents and warrants that it is duly registered as an investment adviser under the Investment Advisers Act of 1940;
- ii) acknowledges its status as a fiduciary with respect to the Client, and agrees to provide the Services hereunder in accordance with the fiduciary standards set forth in the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**");
- iii) represents and warrants that it meets the bonding requirements provided by Section 412 of ERISA or that it carries at least an equivalent surety bond applicable to Consultant's actions hereunder;
- iv) represents and warrants that it has carefully reviewed the Client's investment guidelines and reporting requirements attached hereto as **Exhibit C** (the "**Guidelines**");
- v) agrees that it will endeavor to identify investment opportunities in compliance with the Guidelines, as currently in effect and as modified from time to time by Client and notified to Consultant;

- vi) represents and warrants that it maintains at its expense an errors and omissions insurance policy providing a prudent amount of coverage for negligent acts or omissions and that such coverage is applicable to Consultant's actions hereunder;
- vii) represents and warrants that it has completed, obtained and performed all registrations, filings, approvals, authorizations, consents or examinations required by a government or a governmental authority for acts contemplated by this contract;
- viii) represents and warrants that it shall comply with applicable Rhode Island law regarding "Reporting of Political Contributions by State Vendors", R.I.G.L., Section 17-27-1 et seq.;
- ix) represents and warrants that it has not paid or incurred, and shall not pay or incur, any third party marketing, broker or sales fees in the procurement or continuation of this Agreement; Consultant agrees that it shall not directly or indirectly receive any benefit from recommendations or advice made to the Client and shall disclose to the Client (a) any personal investment or economic interest that may be enhanced by the recommendations made to the Client or (b) any situation in which the interests of the Client may be in material conflict with the interests of the Consultant or with those of other clients of the Consultant;
- x) represents and warrants that it is an equal opportunity employer as defined by federal law;
- xi) agrees that it will promptly inform the Client (within 24 hours if possible) if any of the following events occur:
 - (a) a substantial change in the ownership structure of Consultant;
 - (b) the departure from the Consultant of Tara Blackburn;
 - (c) a change in philosophy of the Consultant that represents a deviation from the philosophy represented to the Client in the past;
 - (d) any material adverse development in the ability of the Consultant to provide consulting services in accordance with this Agreement;
 - (e) the commencement by any governmental regulatory or law enforcement agency of any investigation, examination or other proceeding directly involving the Consultant, any affiliate of Consultant or any of its or their owners, officers, directors or employees, except such investigations, examinations or other proceedings (1) as are routinely conducted in the ordinary course of the Consultant's business, or (2) that do not affect the conduct of Consultant's business or do not otherwise relate to the activities of any such officer, director or employee in their

capacity as such; and

(f) any situation that has the potential to have a material impact on the professionalism, financial position or integrity of the Consultant or the Client.

5. Representations, Warranties and Agreements of the Client.

The Client:

- i) agrees to advise Consultant of the investment objectives of the Alternative Investment Portfolio and of any changes or modifications therein, and to notify Consultant of any additions to, withdrawals from or other events materially affecting the Alternative Investment Portfolio of which the Consultant would not otherwise have knowledge;
- ii) acknowledges Consultant has delivered to the Client, Consultant's current SEC Form ADV, Part II (Consultant's disclosure statement). The Client acknowledges receipt of such disclosure statement at least five (5) business days prior to the execution of this Agreement;
- iii) agrees to maintain the confidentiality of, and use only with respect to the Alternative Investment Portfolio, all advice provided by Consultant; and
- iv) agrees that Consultant may include Client's name in its informational and marketing materials.

6. Indemnification.

At all times the Consultant shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent expert acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. Neither the Consultant, nor any of its principals, officers, or employees, all of which for this Section 6 shall be included in the term "Consultant," will be responsible or liable, whether to the Client or any other person or entity, for any loss, liability, cost, expense or damage incurred or sustained by the Client ("Loss") arising out of (i) any of the services provided hereunder (including the recommendation or selection of investment opportunities); except where such Loss arose from Consultant's lack of good faith, negligence, willful misconduct or material breach of this Agreement in performing such services, or (ii) from any action or inaction by the Client or any other person or entity besides the Consultant, including, without limitation, any failure by the Client to comply with any instructions or recommendations of the Consultant hereunder. So long as the Consultant follows the directions of the Client in accordance with this Agreement, the Consultant will not be liable for any loss, liability, cost, expense or damage incurred by reason of the Consultant's compliance with such directions unless due to the Consultant's negligence, bad faith or willful misconduct in carrying out such directions. Nothing herein shall be construed to waive any liability that the Consultant has under

applicable federal or state securities laws, or ERISA.

Except to the extent provided above, the Consultant will indemnify and hold harmless the Client from and against all liability, loss, damage, costs and expenses (including reasonable attorneys fees and amounts paid in settlement) which the Client may incur or suffer which results from or arises out of the Consultant's negligence, bad faith, or willful misconduct or material breach of this Agreement.

The provisions of this Section 6 shall survive the termination of this Agreement.

7. Confidential Information.

Consultant understands and agrees that, in the performance of the Services under this Agreement or in contemplation thereof, Consultant may have access to private or confidential information which may be owned or controlled by the Client and that such information may contain proprietary or confidential details, the disclosure of which to third parties will be damaging to the Client. Consultant agrees that all information disclosed by the Client, the Client's custodian bank, investment managers, and general consultant to Consultant shall be held in confidence and used only in performance of the Services to be provided in connection with this Agreement.

Notwithstanding the foregoing, Consultant may disclose the identity of the Client and its client relationship with Consultant in response to requests for proposals, in presentations, and in other materials to other clients or prospective clients of Consultant. Consultant may furnish to the consultants of the Client and to statistical services any reports regarding the operations and results of investments in the Alternative Investment Portfolio (provided, however, that the Alternative Investment Portfolio will not be specifically identified except to the consultants of the Client).

8. Governing Law; Disputed Matters.

The formation, interpretation and performance of this Agreement shall be governed by the laws of the State of Rhode Island.

With respect to any controversy or dispute arising out of this Agreement, interpretation of any of the provisions hereof, or the actions of the Consultant or the Client hereunder, each of the parties consents to the non-exclusive jurisdiction of all of the federal courts in the State of Rhode Island, and waives any defense of forum non conveniens.

9. Authority.

Each of the individuals whose signature appears below warrants that he or she has full authority to execute this Agreement on behalf of the party on whose behalf he or she has affixed his or her signature to this Agreement.

The Client may from time to time designate any person or persons in addition to the General Treasurer to act on its behalf in giving instructions, directions, notices or other communications to Consultant and will certify the name of such person or persons to Consultant and give Consultant a specimen of his, her or their signatures. The authority

of any such person to act on behalf of the Client will continue until written notice to the contrary is given by the Client and received by Consultant.

10. Independent Contractor Status.

Consultant shall be deemed at all times to be an independent contractor and shall be wholly responsible for the manner in which Consultant performs the service required of Consultant by the terms of the Agreement. Subject to Section 6 above, Consultant shall be liable for the acts and omissions of it, its employees and its agents. Nothing contained herein shall be construed as creating an employment or agency relationship between the Client and Consultant.

Terms in this Agreement referring to direction from the Client shall be construed as providing for direction as to policy and the result of Consultant's work only and not as to the means by which such a result is obtained, provided such means are in conformity with this Agreement.

11. Notices.

All notices to be given by the parties hereto shall be in writing and served by personal delivery, facsimile or United States mail first class, postage prepaid, addressed as follows (or to any other address that wither party designates to the other):

TO THE CLIENT:

Employees' Retirement System of the State of Rhode Island
Attn: Joan Caine
Deputy Treasurer for Finance
40 Fountain Street
Providence, RI 02903

TO CONSULTANT:

Pacific Corporate Group LLC
1200 Prospect Street, Suite 200
La Jolla, California 92037
Attn: Tara Blackburn

12. Waiver.

The omission by either party at any time to enforce any default or right reserved to it, or to require performance of any of the terms, covenants, or provisions hereof by the other party at the time designated, shall not be a waiver of any such default or right to which the party is entitled, nor shall it in any way affect the right of the party to enforce such provisions thereafter.

13. Assignment.

It is understood and agreed that the services to be performed by the Consultant are personal in character and neither this Agreement nor any duties or obligations hereunder shall be assigned, sub-contracted, or delegated by the Consultant, by operation of law or otherwise, without the prior written consent of the Client.

14. Documents and Reports.

Consultant will keep full and complete records of all transactions in the Alternative Investment Portfolio and will render a statement thereof to the Client, together with a portfolio analysis of the Alternative Investment Portfolio and performance comparisons relating thereto, at the end of each quarter during the term of this Agreement. Consultant will furnish the Client with such additional reports on the Alternative Investment Portfolio as the Client may reasonably request from time to time. At the end of any calendar quarter during the term of this Agreement, Consultant will, upon the request of the Client, review the transactions in the Alternative Investment Portfolio with the Client or its agents as it may direct.

The accounting records of the Consultant shall be maintained in U.S. dollars. Consultant will furnish to the Client and its authorized representatives, on reasonable notice (which in no event need ever be more than five (5) business days), and during ordinary business hours, full access to the records maintained by Consultant with respect to this Agreement.

Any interest of Consultant in reports, memoranda, or other documents prepared by Consultant in connection with services to be performed under this Agreement shall become the property of and will be transmitted to the Client upon demand, and shall otherwise be subject to Consultant's normal retention policy.

Client acknowledges that Consultant requires information with respect to investments recommended pursuant to the terms of this Contract in order to maintain its track record current throughout the life of such investments. Client agrees to provide any information reasonably requested by Consultant in order to maintain such track record in accordance with industry standards.

15. Services Not Exclusive.

The Client understands and agrees:

- i) Consultant performs consulting and/or discretionary consulting services for various clients. Consultant and its officers may act and continue to act as traditional and discretionary investment consultants for other clients, and nothing in this Agreement shall in any way be deemed to restrict the right of Consultant to perform traditional and/or discretionary investment consulting services for any other client.
- ii) The Client understands that Consultant may provide consulting advice to other clients which may be similar or dissimilar to any such advice provided to the

Client, and Consultant may suggest action with respect to any of its other respective clients which may differ from suggestions made regarding the Alternative Investment Portfolio. However, nothing in this section shall be construed to relieve the Consultant of any of its duties or obligations as set forth in or arising under the other provisions of this Agreement.

16. Amendments.

This Agreement may be modified only by written instrument executed and approved in the same manner as this Agreement.

17. Headings.

The headings used in this Agreement are inserted for reference purposes only and shall not be deemed to limit or affect in any way the meaning or interpretation of any of the terms or provisions herein.

18. Entire Agreement.

This Agreement (including all schedules appended to this Agreement, all of which are hereby incorporated herein by reference) constitutes the entire agreement among the parties, supercedes and replaces the Existing Agreement in all respects, and all promises, representations, understandings, warranties and agreements with reference to the subject matter hereof and inducements to the making of this Agreement relied upon by any party hereto, have been expressed herein or in the documents incorporated herein by reference.

19. Term.

The term of this Agreement shall commence on March 22, 2006, and will continue until terminated as provided herein or upon mutual agreement of the parties.

The Client may, by thirty (30) days advance written notice to the Consultant, at any time, terminate this Agreement, including all of the Consultant's rights and responsibilities under this Agreement for any reason, subject to any payment due and owing to the Consultant. In addition, the Client may terminate this Agreement immediately upon notice to Consultant (i) upon repeated and habitual failure to perform its duties or obligations hereunder in a reasonably timely manner; (ii) Consultant's engaging in any act that has a direct, substantial and adverse effect on the Client's interests; (iii) upon any material breach by Consultant of its obligations hereunder, (iv) if Consultant files for bankruptcy or state law receivership, (v) if in the reasonable judgment of the Client, Consultant becomes financially unstable so as to jeopardize its ability to perform the services required under this Agreement, (vi) if Consultant is the subject of criminal investigation, indictment or conviction, (vii) Consultant's registration under the Investment Advisors Act of 1940 is terminated or suspended or Consultant has reason to believe that it may be terminated or suspended, or (viii) in the event of any material change in control of Consultant or a change in or departure of any of Consultant's key personnel that has a detrimental impact on the services to Client hereunder.

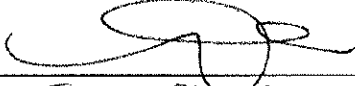
Upon termination of this Agreement, Consultant will immediately and in all cases within ten (10) business days, deliver to the Client all property and documents pertaining to Client then in the custody of Consultant, including Client's portfolio status and a final statement of account through the date of termination on a disk that may be retained by Client or transferred to another agent.

The Consultant, by thirty (30) days advance written notice to the Client, may terminate this Agreement and shall have no further obligation or liability to the Client. In the event of termination, the Consultant shall be paid on a pro-rata basis to the date of termination.

IN WITNESS WHEREOF, the parties have executed this Agreement as of March 22, 2006.


PACIFIC CORPORATE GROUP LLC

Consultant

By: 
Name: Tara A. Blackburn
Title: Managing Director
Date: 6.16.06

**EMPLOYEES' RETIREMENT SYSTEM OF THE STATE
OF RHODE ISLAND**

Client

By: 
Paul J. Tavares, General Treasurer and
Chairman of the State Investment Commission

Date: _____

EXHIBIT A

RHODE ISLAND EMPLOYEES' RETIREMENT SYSTEM

Scope of Services

**Pacific Corporate Group LLC
Alternative Investments Consultant for Private Equity**

Goal

The investment goal of the portfolio is to provide the SIC with a strategic allocation to the private equity segment of the global market known as alternative investments. Pacific Corporate Group LLC ("PCG") has been selected by the Rhode Island State Investment Commission as the Consultant to assist the SIC with this allocation. PCG's portfolio assignment is to advise the SIC in selecting suitable investments for the portfolio and to add value (net of management fees) relative to the returns that could be achieved through exposure to the public equity and debt markets.

Objective

The portfolio is expected to achieve long-term capital appreciate by investing primarily in partnerships holding interests in privately held companies. The performance results and investment characteristics of the portfolio will be measured and evaluated relative to the private equity market, and a universe of other limited partnership investments. The relative overall benchmark is defined as the Venture Economics Venture Capital Performance Indicator. The portfolio will be measured and evaluated relative to this benchmark or such other benchmark that SIC and Consultant mutually agree.

Guidelines

The following points highlight the services to be rendered by the Consultant:

- Written Strategy for Private Equity Investments

The Consultant shall develop a comprehensive private equity sub-sector allocation plan **on an annual basis** for SIC's investments within its 7.5% allocation to the asset class. In preparing the plan and targets, the Consultant shall take into account the existing investments.

- Performance Analysis and Reporting for the Asset Class

For each of SIC's private equity investments provide quarterly valuation and performance reporting. The analysis can be compiled from information received from the private equity manager and SIC's custodian. Assist in compiling valuation data related to private equity funds for preparation of the Client's fiscal year-end audit.

- Private Equity Oversight

- (a) Advise and provide analysis and services on questions or issues that arise in the course of overseeing the market and the portfolio. For example, advise SIC on appropriate benchmarks; calculation of custom benchmarks, if necessary; and on investment guidelines of fee structures for the SIC's private equity investments.
- (b) Upon request of the SIC, provide advice concerning private equity investments, terminations and exit strategies, including recommendations on underperforming or distressed investments.

- Private Equity Manager Search and Selection

For SIC's private equity portfolio, assist in the procuring of investments and managers. This assistance will include the following services:

- (a) Maintain or otherwise have access to a database of private equity investments and managers, including their strategies, organizations, and performance. Information should be available for a wide range of private equity investments.
- (b) Assist the SIC as requested, including (i) screening of prospective private equity investments and managers and recommendation of finalists; (ii) preparation of background material for the SIC; (iii) providing reasoned recommendations concerning the private equity investment and manager to the SIC; and (iv) performing the necessary business due diligence in conjunction with SIC's legal counsel to allow SIC to make the investment.

- Economically-Targeted Investments

Review all proposals for economically-targeted investments which meet the criteria for review by the Consultant, including analysis of financial merits and adherence to the SIC's Economically-Targeted Investment Policy, and make recommendation to the SIC regarding approval or rejection of proposal.

- Attendance at Meetings

Attend meetings of the SIC or the Treasury Department staff in Providence, RI., as needed.

EXHIBIT B

Compensation

Annual Fee of \$375,000, payable quarterly in arrears in the amount of \$93,750.

Please see wiring instructions below:

Account Name:	Pacific Corporate Group LLC
Account Number:	1892-02080-9
Routing Number:	121137522
Bank Name:	Comerica Bank
Address:	226 Airport Parkway San Jose, CA 95110

EXHIBIT C

EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND
ALTERNATIVE INVESTMENTS POLICIES AND PROCEDURES

I. **BACKGROUND**

The Employees' Retirement System of Rhode Island (the "System") has established the Alternative Investments Program (the "Program") overseen by the Rhode Island State Investment Commission ("RISIC" or the "Commission") to participate in attractive long-term investment opportunities and to provide diversification to the overall investment portfolio (the "Fund"). To date, investments in this investment category have included participation in buyouts, venture capital, sector focused, distressed, real estate and fund-of-funds limited partnerships.

II. **GENERAL POLICY**

Alternative Investments provide an appropriate addition to the System's investment portfolio and are compatible with the general objectives of the System, which include:

1. Providing a means to pay benefits to the System's participants and their beneficiaries.
2. Investing so as to produce a return on investment that is based on levels of liquidity and investment risk that are prudent and reasonable.
3. Attaining an adequate real return over the expected rate of inflation.
4. Complying with all applicable laws and regulations concerning the investment of pension assets.

Alternative Investments possess a higher degree of risk with a higher return potential than traditional investments. Accordingly, total rates of return are expected to be greater than those which may be obtained from conventional public equity or debt investments. They have a low correlation relative to other investment classes and should therefore contribute to the reduction of risk and the enhancement of returns on a total portfolio basis, as well as providing portfolio diversification.

III. **OBJECTIVES**

A. **PORTFOLIO INVESTMENT PERFORMANCE OBJECTIVE**

The performance objective for Program investments is significant long-term net returns to the System (e.g., after management fees and general partner's carried interest) above a benchmark reflecting public market alternatives or counterparts plus an appropriate premium to compensate for illiquidity, risk and expense. The performance objective should exceed a net internal rate of return of the Standard and Poor's 500 Index plus 500 basis points and may vary by the type of investment; for example, leveraged buyout or special situation. In addition, it may be prudent to compare the Program's performance against vintage year benchmarks provided by Venture Economics and Cambridge Associates. The performance objective, benchmark and premium will be periodically evaluated by the Consultant and Staff.

B. DIVERSIFICATION

Diversification reduces risk in the Program's investments, and the following types of diversification should be considered, including, but not limited to:

1. Stage – Diversify investments throughout the various financing stages from start-up through mezzanine financing to leveraged buyouts and recapitalizations.
2. Industry Sectors – Investments will be diversified among industry groupings.
3. Size of Investments – Investments will be diversified across a range of partnerships of varying sizes, generally with a minimum investment size of \$5 million and as much as 20% of a particular partnership, when appropriate.
4. Geographical - The System should consider geographical diversification in investment selection, and investments, to the extent appropriate, may be considered that benefit the overall economic health of Rhode Island, so long as and only if such investments would otherwise meet the investment criteria and quality standards of the Program.
5. Time – The System will endeavor to invest in a consistent manner over time, unless market conditions suggest otherwise.
6. Proposed Sub-Sector Allocation Targets – The System should target an optimized allocation on a dollar-weighted invested basis as follows:

	Domestic	International	Total
	Target	Target	Target
Corporate Finance	40-50%	5-15%	40-60%
Venture	10-20%	0-5%	10-20%
Special Situations	15-30%	0-5%	15-30%
TOTAL	85-95%	5-15%	100%

"Special Situations" currently includes sector-focused, real estate, distressed and secondaries funds

C. TOTAL PORTFOLIO DIVERSIFICATION

Correlation of the Program's investment return to other asset classes is not high, and the inclusion of Alternative Investments, therefore, provides an added measure of diversification to the Fund.

IV. PROCEDURES AND STANDARDS

A. PROCEDURES

1. The Consultant selected specifically for Alternative Investments will preliminarily screen available investments and identify those that meet the Program's general strategy, selection criteria and performance goals. The Consultant will coordinate the available investments received by Staff, the Commission and the Consultant. Such proposals may be rejected by Staff if they do not meet the Program's investment strategy or criteria.
2. The Consultant will preliminarily screen the documents pertinent to an investment opportunity, including the offering memorandum, and identify possible issues.

The Consultant and Staff may meet with the general partners or sponsors to discuss the investment.

3. The Consultant will identify to Staff those investments determined to best meet the Program's investment strategy and criteria for consideration for further screening and detailed review.
4. On completion of its screening and, if appropriate, full due diligence, the Consultant will provide a brief written report containing a summary of the proposed investment including a description of the general partner's background, track record and organization, the proposed investment strategy, the terms of the investment, the expected rate of return, the merits of the investment, issues and concerns surrounding the investment and how they might be resolved, and issues and provisions that should be subject to negotiation. Staff may determine to specifically request further screening of certain investment opportunities, including full due diligence.
5. The Consultant and Staff will discuss the investment opportunity and whether an investment is likely under the circumstances. Presentations and meetings between Staff and the general partners or sponsors will be arranged as necessary to address issues and questions.
6. The Consultant will prepare and submit to the Commission a written recommendation advocating approval or disapproval of the proposed investment and any contingencies to final investment.
7. Appropriate legal counsel will be furnished partnership documents for those investments recommended by the Consultant and approved by the Commission, and legal counsel will further identify legal issues and discuss these with the Consultant and Staff.

B. SELECTION CRITERIA

1. The System will generally invest with experienced organizations that have managed prior investments or partnerships. Primary emphasis will be on the quality and experience of the investment sponsor or manager and the risk/return profile of the proposed investment.
2. Additional criteria to be considered will include:
 - a) A well developed investment focus that meets the Program's objectives and a favorable assessment of the proposed investment's strategy and market conditions;
 - b) Relevant investment experience of partners and key staff, individually and as a team, as well as their stability;
 - c) Organizational depth and significant time commitment to the partnership's or project's interests;
 - d) Well-structured decision-making and transaction processes, including:
 - Deal flow and initial analysis of portfolio investments
 - Pricing, selection and negotiation of portfolio investments
 - Financial structuring of portfolio investments
 - Management or oversight of portfolio companies
 - Development of exit strategies;

- e) Consideration of relevant issues, such as conflicts of interest and alignment of interests, among others;
- f) Experience in, and a demonstrated record of, successful prior investments;
- g) Appropriate proposed terms and structure for the investment; and
- h) Fit with the Program's existing portfolio.

C. STANDARDS

1. Types of Allowable Investments

Any appropriate investment opportunity which has the potential for returns superior to traditional investment opportunities and which is not otherwise prohibited by the System investment policies or by law.

2. Prudent Expert Standard

The selection of Program investments will be guided by the applicable prudence standards and fiduciary duties under Rhode Island law and the investment policies of the Commission.

3. Negotiated Terms

Terms such as preferred returns, lower fee structures and profit splits should be negotiated where prudent.

V. STRATEGY

A. ALLOCATION

The allocation to the Program will be 7.5% of the System's total asset value. The System should be selective and invest such assets as are allocated to this Program prudently as opportunities become available. Diversification is important. On an annual basis, the Consultant and Staff will formally review the Program's size relative to its target allocation in order to manage to the target allocation.

B. METHOD OF PARTICIPATION

The Program will be invested in both larger well-established funds and in smaller new partnerships as appropriate opportunities are presented.

C. SIZE

All investment opportunities should be considered, and a diversity of size per investment up to \$25 million is recommended overall, generally subject to a targeted minimum investment of \$5 million per partnership investment.

VI. IMPLEMENTATION

A. CONSULTANT AND STAFF REQUIREMENTS

A Consultant will facilitate Program investments and appropriate Staff will be assigned as the workload necessitates.

B. LEGAL COUNSEL

Relevant legal advice may be obtained from the Office of the General Treasurer. However, due to the complex nature of some of the Program's investments, the necessity for expert, outside legal counsel may be required when deemed necessary by Staff.

VII. MONITORING

A. REPORTS

Reports prepared by the Consultant will be furnished on a quarterly basis covering the Program's performance from inception to date, individual investment performance and highlights of investment activity.

B. ADHERENCE TO STRATEGY

The actual strategy employed by general partners will be judged relative to stated objectives and strategies. The Consultant will interact with general partners periodically as necessary.

VIII. REVIEW AND MODIFICATION OF INVESTMENT POLICY STATEMENT

The Commission may review this policy statement and procedures from time to time to determine if modifications are necessary or desirable.