State of Rhode Island
Annual Report of the Treasury Department
Fiscal Year 2007

The Honorable Frank T. Caprio
General Treasurer

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

Frank T. Caprio
General Treasurer

February 08

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

I am pleased to submit to you the annual report of the Office of the General Treasurer for fiscal year ending June 30, 2007 pursuant to Section 42-10-17 of the General Laws of Rhode Island.

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

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

Sincerely,

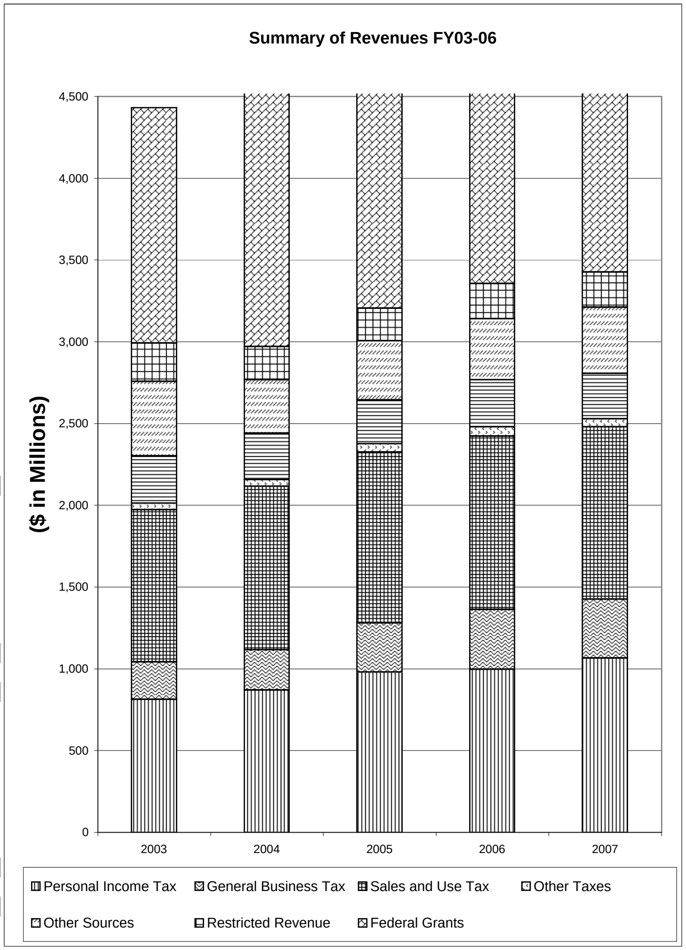
Frank T. Caprio

Frank T. Caprio
General Treasurer

REVENUES AND EXPENDITURES

State of Rhode Island
Summary of Revenues
June 30,2007

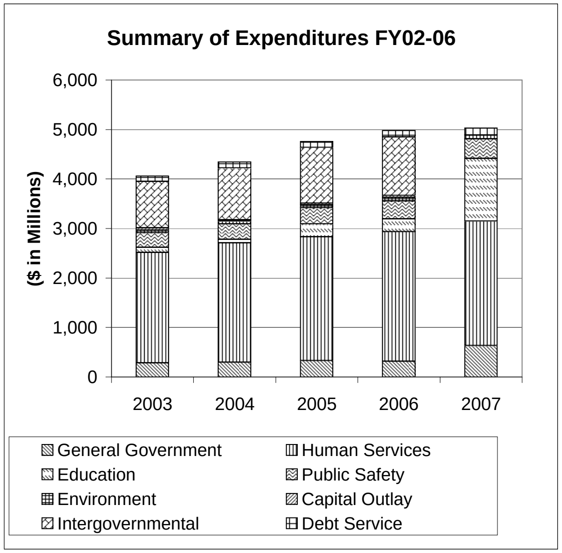
	2007	2006	2005	2004	2003
PERSONAL INCOME TAX	$ 1,065,367,000	$ 996,792,000	$ 979,082,000	$ 870,203,000	$ 813,341,000
GENERAL BUSINESS TAXES:					
Business Corporations	$ 148,149,000	$ 165,054,000	$ 116,026,000	$ 75,972,000	$ 56,416,000
Franchise				$ 24,000	$ 6,402,000
Gross Earnings Tax-Public Utilities	$ 102,109,000	$ 96,027,000	$ 86,358,000	$ 92,210,000	$ 76,134,000
Income Tax-Financial Institutions	$ 4,423,000	$ 3,989,000	$ (1,480,000)	$ (7,296,000)	$ 9,804,000
Tax on Insurance Companies	$ 56,624,000	$ 52,878,000	$ 53,333,000	$ 43,419,000	$ 51,288,000
Tax on Deposits-Banking Institutions	$ 1,674,000	$ 1,494,000	$ 1,524,000	$ 1,580,000	$ 1,698,000
Health Care Provider Assessment	$ 47,970,000	$ 47,002,000	$ 46,827,000	$ 40,317,000	$ 28,141,000
SALES AND USE TAXES:					
Sales and Use Tax	$ 873,204,000	$ 869,163,000	$ 847,727,000	$ 822,855,000	$ 777,365,000
Motor Vehicle Tax	$ 46,879,000	$ 52,626,000	$ 47,137,000	$ 47,356,000	$ 47,251,000
Gasoline Tax	$ 1,312,000	$ 31,000	$ 1,961,000	$ 860,000	$ 1,022,000
Cigarette Tax	$ 120,481,000	$ 126,341,000	$ 136,342,000	$ 117,263,000	$ 94,379,000
Alcohol	$ 10,706,000	$ 10,870,000	$ 10,537,000	$ 10,342,000	$ 10,059,000
Controlled Substances		$ -	$ -	$ -	$ -
OTHER TAXES:					
Inheritance and Gift	$ 34,684,000	$ 39,204,000	$ 32,981,000	$ 23,905,000	$ 24,352,000
Racing and Athletics	$ 2,921,000	$ 3,490,000	$ 3,991,000	$ 4,587,000	$ 4,939,000
Realty Transfer Tax	$ 12,737,000	$ 14,592,000	$ 14,423,000	$ 13,037,000	$ 9,781,000
	$ 2,529,240,000	$ 2,479,553,000	$ 2,376,769,000	$ 2,156,634,000	$ 2,012,372,000
DEPARTMENTAL RECEIPTS	$ 277,790,000	$ 287,315,000	$ 267,953,000	$ 285,005,000	$ 290,255,000
	$ 277,790,000	$ 287,315,000	$ 267,953,000	$ 285,005,000	$ 290,255,000
Total Taxes and Departmentals	$ 2,807,030,000	$ 2,766,868,000	$ 2,644,721,000	$ 2,441,639,000	$ 2,302,627,000
OTHER SOURCES					
Gas Tax Transfer	$ 4,705,000	$ 4,322,000	$ 9,023,000	$ 7,760,000	$ 25,506,000
Other Miscellaneous	$ 67,471,000	$ 31,163,000	$ 28,197,000	$ 19,706,000	$ 184,087,000
Lottery	$ 320,990,000	$ 323,899,000	$ 307,550,000	$ 281,142,000	$ 236,540,000
Unclaimed Property	$ 11,457,000	$ 14,243,000	$ 15,618,000	$ 17,042,000	$ 8,458,000
Total Other Sources	$ 404,623,000	$ 373,627,000	$ 360,388,000	$ 325,650,000	$ 454,591,000
Total General Revenues	$ 3,211,653,000	$ 3,140,495,000	$ 3,005,109,000	$ 2,767,289,000	$ 2,757,218,000
Restricted Revenue/Other	$ 215,061,000	$ 216,018,000	$ 200,547,000	$ 202,861,000	$ 235,860,000
Federal Grants	$ 1,629,715,000	$ 1,713,287,000	$ 1,655,563,000	$ 1,664,496,000	$ 1,437,560,000
	$ 5,056,429,000	$ 5,069,800,000	$ 4,861,219,000	$ 4,634,646,000	$ 4,430,638,000



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

Summary of Expenditures FY03-07
by Functional Unit of Government

		2007		2006		2005		2004		2003
General Government	$	633,893,000.00	$	318,675,000.00	$	329,197,000.00	$	297,662,000.00	$	283,618,000.00
Human Services	$	2,512,286,000.00	$	2,614,712,000.00	$	2,504,107,000.00	$	2,409,512,000.00	$	2,232,252,000.00
Education	$	1,267,255,000.00	$	263,735,000.00	$	255,762,000.00	$	71,990,000.00	$	101,270,000.00
Public Safety	$	396,029,000.00	$	361,567,000.00	$	328,824,000.00	$	311,642,000.00	$	297,070,000.00
Environment	$	81,518,000.00	$	69,538,000.00	$	62,338,000.00	$	57,916,000.00	$	53,170,000.00
Capital Outlay			$	35,479,000.00	$	33,105,000.00	$	27,696,000.00	$	42,999,000.00
Intergovernmental			$	1,186,887,000.00	$	1,121,818,000.00	$	1,046,510,000.00	$	937,237,000.00
Debt Service	$	141,350,000.00	$	125,081,000.00	$	125,141,000.00	$	119,040,000.00	$	111,159,000.00
Total Expenditures	$	5,032,331,000.00	$	4,975,674,000.00	$	4,760,292,000.00	$	4,341,968,000.00	$	4,058,775,000.00



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

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

SHORT TERM CASH AND INVESTMENTS

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

Investment Purchase Analysis - By Fund FY07

Fund	Type	Quantity	Principal	Interest	Total	Investments	% Rate	Maturity (Days)
General Fund	CD	2	$ 11,500,000	$ 12,093	$ 11,512,093	0.07	5.21	
	PIP	33	$ 257,824,060	$ 441,278	$ 258,265,338	1.49	5.04	
	CP	173	$ 2,308,723,638	$ 885,362	$ 2,309,609,000	13.39	5.22	2.64
	Repo	0	$ -	$ -	$ -	0.00		
	MM	65	$ 585,287,706	$ 1,031,217	$ 586,318,923	3.39	5.14	
	ETD	0	$ -	$ -	$ -	0.00		
	Agency	135	$ 2,078,305,247	$ 564,087,571	$ 2,642,392,818	12.05	5.09	1.39
	Total	**408**	**$ 5,241,640,651**	**$ 566,457,521**	**$ 5,808,098,172**	**30.39**	**4.84**	**1.58**
Pension C	CP	40	$ 32,658,663	$ 6,337	$ 32,665,000	0.19	5.22	1.34
	Agency	193	$ 163,547,296	$ 37,704	$ 163,585,000	0.95	5.05	1.64
	Total	**233**	**$ 196,205,959**	**$ 44,041**	**$ 196,250,000**	**1.14**	**5.04**	**1.23**
Payroll A	CP	42	$ 37,829,651	$ 10,349	$ 37,840,000	0.22	5.22	1.89
	Agency	197	$ 181,720,512	$ 49,488	$ 181,770,000	1.05	5.10	1.92
	Total	**239**	**$ 219,550,162**	**$ 59,838**	**$ 219,610,000**	**1.27**	**5.13**	**1.42**
General Fund HAVA	PIP	21	$ 19,026	$ 19,174	$ 38,199	0.00	5.06	
	MM	12	$ 84,937	$ 69,259	$ 154,196	0.00	6.49	
	Total	**33**	**$ 103,962**	**$ 88,433**	**$ 192,395**	**0.00**	**5.42**	
Historic Preservation	CD	7	$ 3,449,260	$ 25,364	$ 3,474,625	0.02	5.18	51.14
(General Fund)	**Total**	**7**	**$ 3,449,260**	**$ 25,364**	**$ 3,474,625**	**0.02**	**5.18**	**51.14**
Health Insurance Fund	PIP	44	$ 142,218,778	$ 496,646	$ 142,715,424	0.82	4.90	
	CD	26	$ 80,254,883	$ 119,173	$ 80,374,056	0.47	5.19	10.29
	CP	58	$ 290,858,580	$ 341,420	$ 291,200,000	1.69	6.57	8.06
	Agency	36	$ 189,620,879	$ 79,121	$ 189,700,000	1.10	5.09	2.95
	Total	**164**	**$ 702,953,121**	**$ 1,036,359**	**$ 703,989,480**	**4.08**	**5.12**	**5.97**

CD = Certificate of Deposit
PIP = Premium Investment Product
CP = Commercial Paper
Repo = Repurchase Agreements
MM = Money Market Accounts
Agency = Agency Paper (Federal)

Source Data: This data is pulled from the State's investment software system: si50. This spreadsheet discloses the Investment ***Purchase*** activity for FY07 stratified by Fund and by Type of Investment Instrument.
**** Please note that MM and PIP investments are not included in Average Maturity calculations as they do not have a fixed duration.**

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

Investment Purchase Analysis - By Fund FY07

Fund	Type	Quantity		Principal		Interest		Total	Investments	% Rate	Maturity (Days)
Highway/ISTEA	CD	1	$	2,000,000	$	2,026	$	2,002,026	0.01	5.21	
	PIP	46	$	164,653,566	$	282,696	$	164,936,262	0.95	5.36	
	CP	40	$	162,507,921	$	53,494	$	162,561,415	0.94	5.22	1.79
University College	PIP	12	$	16,609,146	$	9,184	$	16,618,330	0.10	5.07	
	CP	46	$	96,065,343	$	34,657	$	96,100,000	0.56	5.22	3.30
	Agency	121	$	232,326,174	$	73,826	$	232,400,000	1.35	5.08	2.25
	Total	**179**	**$**	**345,000,663**	**$**	**117,668**	**$**	**345,118,330**	**2.00**	**5.11**	**1.87**
Auto Equipment	CD	0	$	-	$	-	$	-	0.00		
	Repo	0	$	-	$	-	$	-	0.00		
	Agency	0	$	-	$	-	$	-	0.00		
	Total	**0**	**$**	**-**	**$**	**-**	**$**	**-**	**0.00**		
Auto Equipment	PIP	17	$	5,867,335	$	68,296	$	5,935,631	0.03	5.08	
	CD	7	$	3,510,613	$	3,546	$	3,514,159	0.02	5.19	7.00
	Total	**17**	**$**	**5,867,335**	**$**	**68,296**	**$**	**5,935,631**	**0.03**	**5.08**	**7.00**
	Agency	167	$	432,512,135	$	537,865	$	433,050,000	2.51	5.16	8.68
	Total	**298**	**$**	**749,836,595**	**$**	**5,071,151**	**$**	**754,907,746**	**4.35**	**5.14**	**7.90**
Permanent School Fund	CD	29	$	21,867,199	$	39,302	$	21,906,500	0.13	5.18	12.48
	CP	0	$	-	$	-	$	-	0.00		
	Repo	0	$	-	$	-	$	-	0.00		
	Agency	0	$	-	$	-	$	-	0.00		
	CP	0	$	-	$	-	$	-	0.00		
	Repo	0	$	-	$	-	$	-	0.00		
	Disco	0	$	-	$	-	$	-	0.00		
	Total	**29**	**$**	**21,867,199**	**$**	**39,302**	**$**	**21,906,500**	**0.13**	**5.18**	**12.48**
Employees Retirement	CD	81	$	197,601,144	$	444,245	$	198,045,389	1.15	5.19	15.60
	PIP	36	$	77,936,517	$	240,933	$	78,177,450	0.45	5.01	
	CP	39	$	193,327,285	$	372,715	$	193,700,000	1.12	5.24	13.24
	Agency	14	$	64,414,880	$	35,120	$	64,450,000	0.37	5.07	3.87
	CP	18	$	44,355,854	$	94,146	$	44,450,000	0.26	5.24	14.57
	Agency	5	$	1,399,180	$	820	$	1,400,000	0.01	5.20	4.14
	Total	**105**	**$**	**86,038,693**	**$**	**203,581**	**$**	**86,242,274**	**0.50**	**5.18**	**6.45**

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

Investment Purchase Analysis - By Fund FY07

Fund	Type	Quantity		Principal		Interest		Total	Investments	% Rate	Maturity (Days)
	PIP	15	$	2,314,785	$	112,589	$	2,427,375	0.01	5.04	
	CP	0	$	-	$	-	$	-	0.00		
	Repo	0	$	-	$	-	$	-	0.00		
	Agency	0	$	-	$	-	$	-	0.00		
	Total	**20**	**$**	**4,341,412**	**$**	**115,839**	**$**	**4,457,251**	**0.03**	**5.03**	**11.25**
Bond Capital	CD	9	$	13,705,266	$	13,940	$	13,719,207	0.08	5.18	7.07
	PIP	34	$	43,179,812	$	75,038	$	43,254,850	0.25	7.17	
	CP	8	$	22,773,171	$	26,829	$	22,800,000	0.13	5.23	8.10
	Total	**66**	**$**	**106,099,329**	**$**	**124,728**	**$**	**106,224,057**	**0.62**	**4.98**	**5.44**
Higher Ed	Agency	7	$	7,997,729	$	2,271	$	8,000,000	0.05	5.11	2.00
	Total	**7**	**$**	**7,997,729**	**$**	**2,271**	**$**	**8,000,000**	**0.05**	**5.25**	2.00
	Repo	0	$	-	$	-	$	-	0.00		
	MM	0	$	-	$	-	$	-	0.00		
	Agency	196	$	915,921,700	$	278,300	$	916,200,000	5.31	5.08	2.15
	Total	**344**	**$**	**1,723,654,410**	**$**	**1,397,065**	**$**	**1,725,051,476**	**9.99**	**5.18**	**3.66**
Industrial Building & Mtg	CD	0	$	-	$	-	$	-	0.00		
	PIP	13	$	558,892	$	61,351	$	620,243	0.00	5.05	
	CP	0	$	-	$	-	$	-	0.00		
	Repo	0	$	-	$	-	$	-	0.00		
	Agency	0	$	-	$	-	$	-	0.00		
	Total	**13**	**$**	**558,892**	**$**	**61,351**	**$**	**620,243**	**0.00**	**5.05**	

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

Investment Purchase Analysis - By Fund FY07

Fund	Type	Quantity	Principal	Interest	Total	Investments	% Rate	Maturity (Days)
Sweep Investments	Sweep Repo							
Employees Retirement			$ 166,712,332	$ 31,919	$ 166,744,251		4.65	
RI Clean Water			$ 85,216,636	$ 15,214	$ 85,231,850		4.65	
Permanent School			$ 56,852,744	$ 13,742	$ 56,866,487		4.65	
Industrial Facilities			$ 71,151,725	$ 18,874	$ 71,170,599		4.65	
Municipal Employees Retirement			$ 86,989,657	$ 11,509	$ 87,001,167		4.65	
Judicial Retirement			$ 32,106,401	$ 6,109	$ 32,112,510		4.65	
State Police Retirement			$ 56,397,196	$ 10,762	$ 56,407,959		4.65	
Auto Equipment			$ 112,254,673	$ 20,277	$ 112,274,950		4.65	
Correctional Industries			$ 334,069,322	$ 62,084	$ 334,131,407		4.65	
Bond Capital			$ 73,711,465	$ 8,918	$ 73,720,383		4.65	
ISTEA			$ 348,468,252	$ 67,291	$ 348,535,544		4.65	
Child Support			$ 1,328,162,233	$ 243,848	$ 1,328,406,081		4.65	
Tax Refund			$ 281,416,542	$ 55,039	$ 281,471,580		4.65	
Merchant Std			$ 710,443,228	$ 130,436	$ 710,573,664		4.65	
Rite Care			$ 93,213,635	$ 17,151	$ 93,230,786		4.65	
Disbursement Account			$ 2,436,095,208	$ 427,092	$ 2,436,522,300		4.65	
Total Sweep Investment			**$ 6,273,261,250**	**$ 1,140,266**	**$ 6,274,401,516**		**4.65**	
Total Short-Term YTD	CD	255	$ 478,422,059	$ 1,024,293	$ 479,446,352	2.77	5.20	14.84
	PIP	340	$ 1,077,527,392	$ 3,795,835	$ 1,081,323,228	6.25	5.06	
	CP	648	$ 4,102,113,924	$ 2,960,478	$ 4,105,074,401	23.79	5.24	4.96
	Repo	0	$ -	$ -	$ -	0.00	0.00	
	MM	114	$ 693,136,152	$ 4,934,468	$ 698,070,621	4.02	5.16	
	ETD	0	$ -	$ -	$ -	0.00		
	Agency	1,174	$ 4,622,089,592	$ 1,765,408	$ 4,623,855,000	26.80	5.11	2.69
	Sweep Repo		$ 6,273,261,250	$ 1,140,266	$ 6,274,401,516	36.37	4.65	
	Total	**2,531**	**$ 17,246,550,369**	**$ 15,620,749**	**$ 17,262,171,117**	**100.00**	**5.08**	**1.73**

State of Rhode Island
Office of the General Treasurer
Short Term Investments Portfolio by Fund
As of June 30, 2007

	Investment Principal*	Cash Balance	Total Value @ Maturity
GENERAL FUND	$ 125,725,312	$ 17,416,209	$ 143,141,521
PENSION C	$ 2,798,880	$ 1,457,571	$ 4,256,451
PAYROLL A	$ 2,998,800	$ 1,076,308	$ 4,075,108
GENERAL FUND H.A.V.A.	$ 1,141,324	$ -	$ 1,141,324
GENERAL FUND (HIST PRES)	$ 503,369	$ -	$ 503,369
HEALTH INSURANCE FUND	$ 23,558,678	$ 375,064	$ 23,933,743
HIGHWAY FUND	$ 18,077,755	$ 1,467,364	$ 19,545,119
UNIVERSITY COLLEGE	$ 9,146	$ 36,961	$ 46,107
PROV. RIVER RELOCATION	$ -	$ -	$ -
AUTO EQUIPMENT SERVICE	$ 975,906	$ 319	$ 976,225
T.D.I. RESERVE (DET)	$ 104,037,651	$ 271,352	$ 104,309,004
E.T. CLEARANCE	$ -	$ 8,428	$ 8,428
PERMANENT SCHOOL FUND	$ 868,444	$ 316,024	$ 1,184,468
EMP RETIREMENT FUND	$ 6,658,976	$ 2,344,216	$ 9,003,192
MUN EMP RETIREMENT FUND	$ 2,369,089	$ 31,866	$ 2,400,955
INTERNAL SERVICE FUNDS		$ 4,488,492	
TAX REFUND	$ 906,930	$ 25,370	$ 932,300
CHILD SUPPORT	$ 6,341,102	$ 276,238	$ 6,617,340
JUDICIAL RETIREMENT	$ 211,886	$ -	$ 211,886
STATE POLICE RETIREMENT	$ 343,155	$ -	$ 343,155
CORRECTIONAL INDUSTRIES	$ 1,158,567	$ 1,037,293	$ 2,195,860
MERCHANT STD DEPOSIT ACCT	$ 135,873	$ 102,799	$ 238,672
RITE SHARE	$ 46,309	$ 1,049	$ 47,358
STATE OF RI PARKING COMPANY	$ -	$ 50,000	$ 50,000
RI PUBLIC TELECOMM. AUTH	$ -	$ 862	$ 862
EMPLOYMENT SECURITY BENEFIT	$ -	$ 5,720,783	$ 5,720,783
RECORD CENTER	$ -	$ 432,610	$ 432,610
DEM (Recreation)	$ -	$ 1,128,349	$ 1,128,349
PENSION DIRECT DEPOSIT	$ -	$ 7,992	$ 7,992
SUPPORT SERVICES PAYROLL	$ -	$ 9,936	$ 9,936
DEPARTMENT OF HUMAN SERVICES PAYROLL	$ -	$ 237,186	$ 237,186
GPA	$ -	$ 13,100	$ 13,100
SPECIAL PAYROLL	$ -	$ 10,701	$ 10,701
COMBINED TAX ACCOUNT	$ -	$ 114,646	$ 114,646
WORKERS COMPENSATION	$ -	$ 2,369,589	$ 2,369,589
DBR REAL ESTATE ESCROW ACCT	$ -	$ 513,045	$ 513,045
R.I. CLEAN WATER ACT	$ 3,303,302	$ -	$ 3,303,302
BOND CAPITAL FUND	$ 300,580	$ -	$ 300,580
R.I. HIGHER EDUCATION	$ -	$ 326,355	$ 326,355
STATE LOTTERY FUND	$ 11,828,746	$ 211,597	$ 12,040,342
INDUS. BLDG. & MTG. INS.	$ 1,310,141	$ 906,745	$ 2,216,886
TOBACCO SETTLEMENT	$ 152,500,000	$ -	$ 152,500,000
	$ -	$ -	$ -
Subtotal	$ 468,109,921	$ 42,786,420	$ 510,896,342

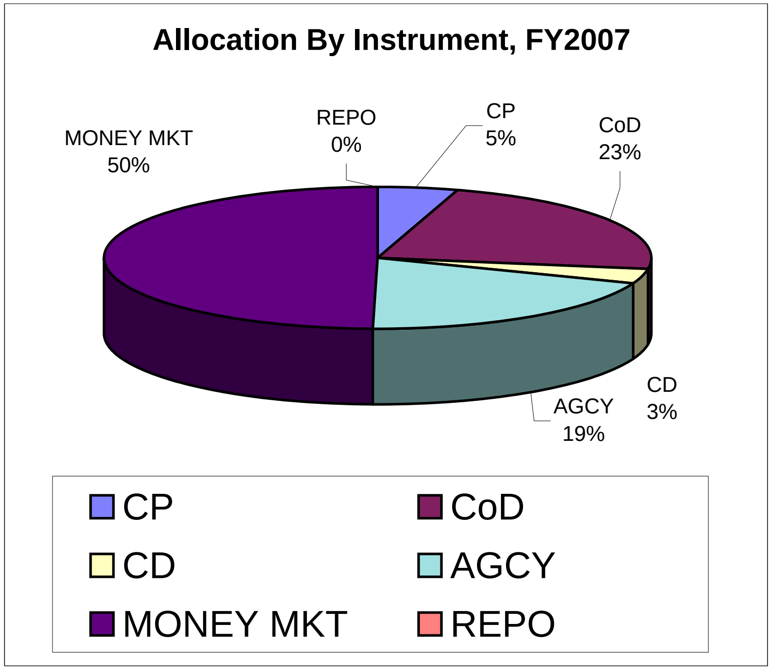
*** Includes Sweep Investment Balance on June 30, 2007**

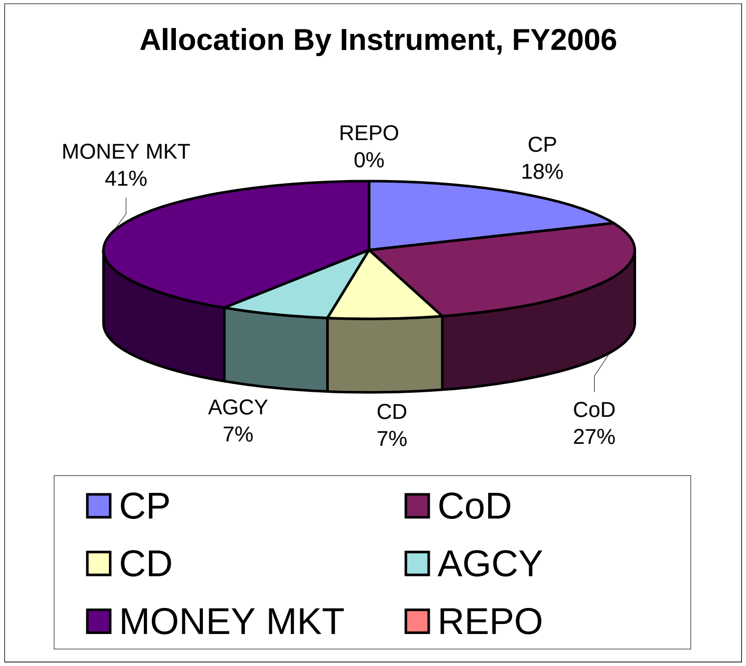
Source Data: Investment Principal and Sweeps are sourced from the State Investment System: si50 and the Citizens Bank GPS system, respectively. The Cash Balance information is sourced from Account Reconciliation data from the Treasury's business office.

State of Rhode Island
Office of the General Treasurer
Short Term Investments Portfolio by Fund
As of June 30, 2007

	Investment Principal*	Cash Balance	Total Value @ Maturity
CLEAN WATER 1993 SER. A	$ -	$ -	$ -
CLEAN WATER 1991 SERIES A	$ 146,007	$ -	$ 146,007
CLEAN WATER 96 SERIES A	$ -	$ -	$ -
CLEAN WATER CCDL 1994 (A)	$ 6,072	$ -	$ 6,072
CAP DEV. OF 1997 SERIES A	$ 19,398	$ -	$ 19,398
CLEAN WATER CCDL 2002 A	$ 289,225	$ -	$ 289,225
CLEAN WATER 2004 SERIES A	$ 697,304	$ -	$ 697,304
CLN WATER CCDL 2005 SER E	$ 882,280	$ -	$ 882,280
CLN WATER CCDL 2006 SER C	$ -	$ -	$ -
CAP DEV. OF 1997 SERIES A	$ 7,066	$ -	$ 7,066
RI POLLUT. CONT 94 SER. A	$ 6,349	$ -	$ 6,349
CCDL99A 1999A	$ 336,466	$ -	$ 336,466
BOND 2001	$ -	$ -	$ -
POLLUTION CNTRL 2002 A	$ -	$ -	$ -
POLL.CONTRL 2004 SERIES A	$ -	$ -	$ -
POLLUTION CON 2005 SER C	$ -	$ -	$ -
POLUTION CTRL CCDL 2005 E	$ -	$ -	$ -
POLUTION CTRL CCDL 2006 C	$ 1,475,547	$ -	$ 1,475,547
G.O. NOTE 1991 SER. B	$ 3,800	$ -	$ 3,800
BOND CCDL 1993 SERIES A	$ -	$ -	$ -
BOND CCDL 1994 SERIES A	$ 432,316	$ -	$ 432,316
BOND CCBL96A	$ 761,373	$ -	$ 761,373
CAP DEV OF 1997 SERIES A	$ 298,254	$ -	$ 298,254
CCDL 1998B	$ 2,124,656	$ -	$ 2,124,656
CCDL99A 1999A	$ -	$ -	$ -
MMG099 1999	$ 2,852	$ -	$ 2,852
BOND CAPITAL CCDL2000A	$ 1,520,266	$ -	$ 1,520,266
MULTI-MODAL GEN OBL 2000	$ 2,824	$ -	$ 2,824
BOND 2001	$ -	$ -	$ -
BOND CCDL 2002 SERIES A	$ -	$ -	$ -
CCDL 2004 SERIES A	$ 11,753,940	$ -	$ 11,753,940
BOND CCDL 2005 SERIES C	$ 20,283,167	$ -	$ 20,283,167
BOND CCDL 2005 SERIES E	$ 8,235,591	$ -	$ 8,235,591
BOND CCDL 2006 SERIES B	$ 22,710	$ -	$ 22,710
BOND CCDL 2006 SERIES C	$ 70,102,710	$ -	$ 70,102,710
Subtotal Bond Proceed Accounts	$ 119,410,173		$ 119,410,173
Total Short Term Portfolio	$ 571,647,916		

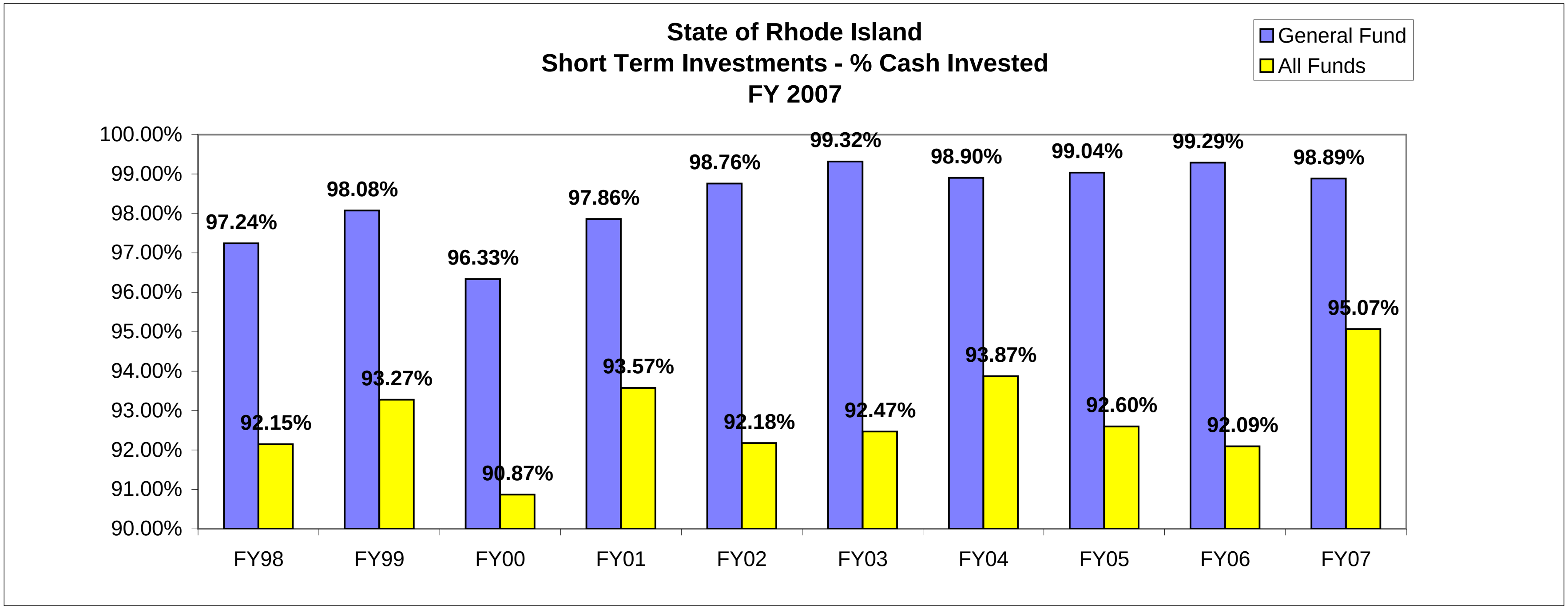
Short-Term Cash Investments





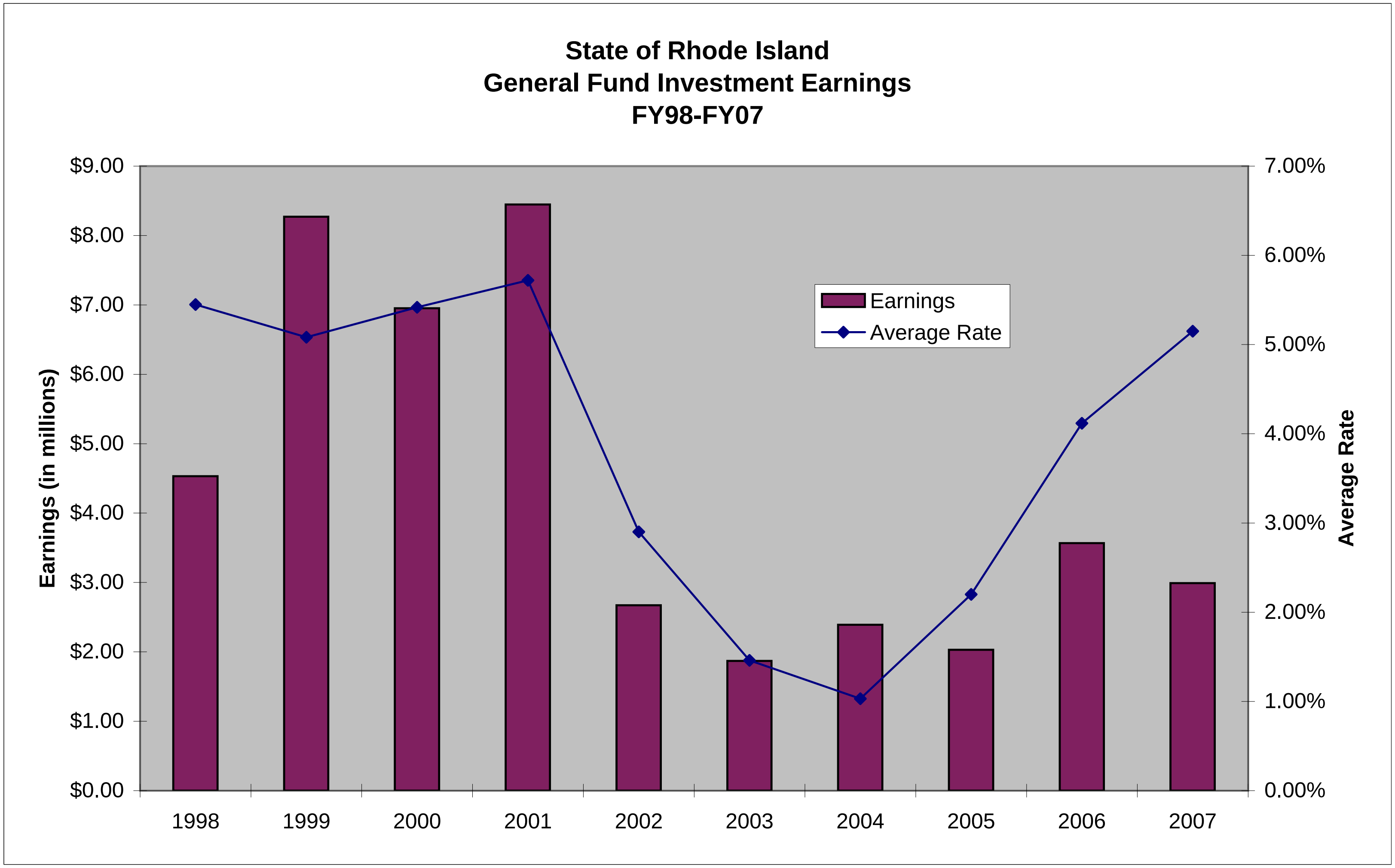
Maximum Exposure Guidelines: Repo - 100%, Agency - 75%, MM - 75%, CD - 25%, Cp - 25%, Cod - 25%

Commentary: The allocation of Short Term Cash Investments in FY2007 differed modestly from FY2006. Changes to allocation are made based on the goal of achieving maximum yield with minimal risk, for a duration that matches the projected cash needs of the constituent account. Cash Management is required by statute to limit the exposure by instrument as well as issuer. Compliance is monitored on a daily basis. The exposure limitations by instrument are listed above.



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

Commentary: The ratio of General Fund Cash Invested for FY 2007 remained high, only off it's peak by .24%. The ratio of All Funds Cash Invested for FY2007 reached it's highest point in the past decade. The gap in performance between the General Fund ratio vs. the All Funds ratio is largely the result of statutory prohibitions on the investment of certain funds. For example, certain allocations of Federal funds are prohibited from being invested by Cash Management. Therefore, All Funds Cash Invested cannot be regarded as a performance metric, but is presented only for illustrative purposes.



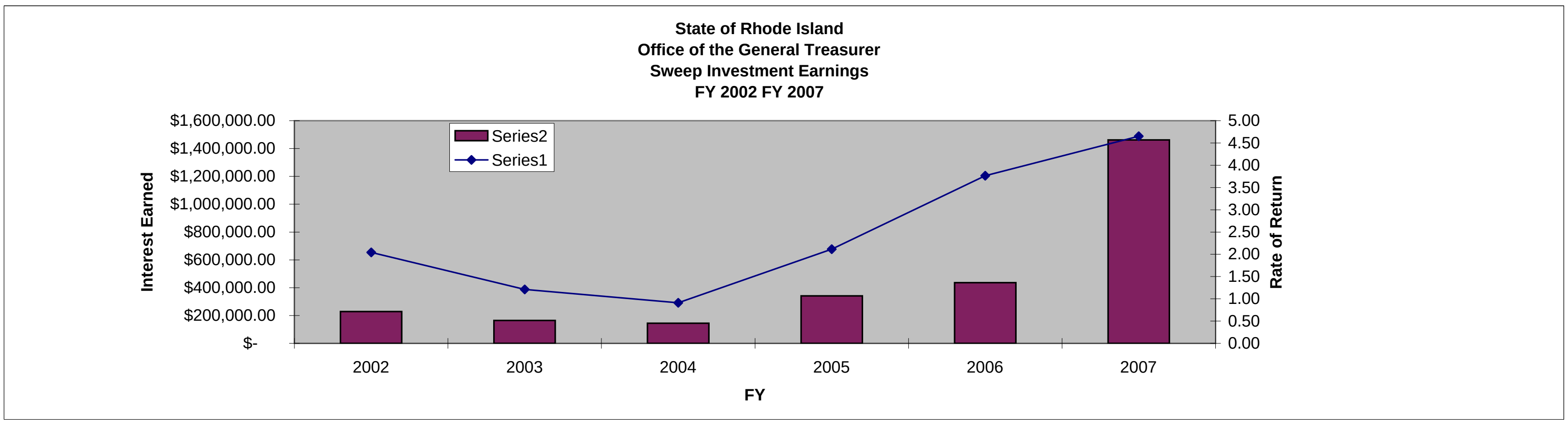
Source Data: Investment Earnings information and Average Rate information is obtained from the State Investment Software: si50. The Average Rate is the Weighted Average interest rate for an entire fiscal year's short-term investments.

Commentary: In FY2007, earnings were pressured for a few reasons. First, the average duration of investment was down from 6 days in FY06 to 4 days in FY07, as liquidity needs dictated shorter maturities. Second, a new Disbursement Account was created in FY2007 for the disbursement of all funds. This significantly reduced the amount of funds available for short term investing in the General Fund. However, it is important to note that this reduction was largely counterbalanced with a commensurate increase in sweep income via the Disbursement Account. (see next slide.)

State of Rhode Island
Office of the General Treasurer
Sweep Earnings FY2002-2007

Sweep Investments	2002 Sweep Investments				2003 Sweep Investments				2004 Sweep Investments			
	Principal	Interest	Total	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total	Rate
Employees Retirement	$ 112,444,635	$ 8,495	$ 112,453,130	2.04	$ 91,557,590	$ 4,679	$ 91,562,270	1.21	$ 130,810,741	$ 4,897	$ 130,815,638	0.91
RI Clean Water	$ 41,907,216	$ 3,284	$ 41,910,499	2.04	$ 49,855,400	$ 2,745	$ 49,858,145	1.21	$ 58,888,102	$ 2,080	$ 58,890,182	0.91
Permanent School	$ 33,341,436	$ 2,709	$ 33,344,145	2.04	$ 41,418,305	$ 2,049	$ 41,420,354	1.21	$ 51,343,657	$ 1,896	$ 51,345,554	0.91
Industrial Facilities	$ 39,527,561	$ 3,126	$ 39,530,687	2.04	$ 46,912,741	$ 2,341	$ 46,915,082	1.21	$ 58,155,491	$ 2,114	$ 58,157,605	0.91
Municipal Employees Retirement	$ 40,096,762	$ 3,141	$ 40,099,903	2.04	$ 55,815,309	$ 2,758	$ 55,818,067	1.21	$ 67,065,941	$ 2,486	$ 67,068,427	0.91
Judicial Retirement	$ 15,418,908	$ 1,358	$ 15,420,266	2.04	$ 20,270,109	$ 1,044	$ 20,271,153	1.21	$ 25,339,221	$ 1,009	$ 25,340,230	0.91
State Police Retirement	$ 21,483,379	$ 1,892	$ 21,485,271	2.04	$ 37,456,417	$ 2,004	$ 37,458,421	1.21	$ 32,697,541	$ 1,303	$ 32,698,844	0.91
Auto Equipment	$ 56,050,427	$ 5,452	$ 56,055,879	2.55	$ 228,310,061	$ 11,463	$ 228,321,524	1.21	$ 131,631,647	$ 4,894	$ 131,636,541	0.91
Correctional Industries	$ 55,071,190	$ 5,111	$ 55,076,301	2.04	$ 84,189,220	$ 4,753	$ 84,193,973	1.21	$ 265,469,626	$ 9,644	$ 265,479,270	0.91
Bond Capital	$ 95,335,241	$ 10,282	$ 95,345,523	2.04	$ 166,726,547	$ 8,191	$ 166,734,738	1.21	$ 141,499,173	$ 5,280	$ 141,504,453	0.91
ISTEA	$ 131,204,138	$ 11,111	$ 131,215,249	2.04	$ 363,696,694	$ 18,040	$ 363,714,734	1.21	$ 401,260,949	$ 13,038	$ 401,273,987	0.91
Child Support	$ 401,211,030	$ 35,374	$ 401,246,404	2.04	$ 1,445,264,761	$ 72,075	$ 1,445,336,836	1.21	$ 1,619,935,173	$ 59,766	$ 1,619,994,940	0.91
Tax Refund	$ 1,478,699,016	$ 112,609	$ 1,478,811,625	2.04	$ 540,718,977	$ 26,087	$ 540,745,064	1.21	$ 595,130,631	$ 22,559	$ 595,153,190	0.91
Merchant Std	$ 291,803,221	$ 23,119	$ 291,826,339	2.04	$ 5,081,246	$ 198	$ 5,081,444	1.21	$ 72,713,949	$ 2,796	$ 72,716,745	0.91
Rite Care	$ 17,818,598	$ 1,136	$ 17,819,734	2.04	$ 119,688,414	$ 5,804	$ 119,694,218	1.21	$ 277,927,183	$ 10,654	$ 277,937,838	0.91
Disbursement Account***												
Total Sweep Investment	$ 2,831,412,757	$ 228,199	$ 2,831,640,956	2.04	$ 3,296,961,790	$ 164,231	$ 3,297,126,022	1.21	$ 3,929,869,024	$ 144,418	$ 3,930,013,443	0.91

Sweep Investments	2005 Sweep Investments				2006 Sweep Investments				2007 Sweep Investments			
	Principal	Interest	Total	Rate	Principal	Interest	Total	Rate	Principal	Interest	Total	Rate
Employees Retirement	$ 210,357,872	$ 16,369	$ 210,374,242	2.11	$ 109,047,169	$ 15,758	$ 109,062,927	3.76	$ 238,999,846	$ 47,178	$ 239,047,023	4.65
RI Clean Water	$ 78,458,511	$ 7,214	$ 78,465,726	2.11	$ 62,682,857	$ 9,501	$ 62,692,358	3.76	$ 114,691,303	$ 21,346	$ 114,712,649	4.65
Permanent School	$ 59,911,135	$ 4,923	$ 59,916,058	2.11	$ 41,777,871	$ 6,140	$ 41,784,011	3.76	$ 100,872,806	$ 25,331	$ 100,898,138	4.65
Industrial Facilities	$ 66,076,627	$ 5,700	$ 66,082,327	2.11	$ 69,935,214	$ 10,253	$ 69,945,467	3.76	$ 151,843,668	$ 39,304	$ 151,882,972	4.65
Municipal Employees Retirement	$ 88,472,895	$ 7,305	$ 88,480,200	2.11	$ 64,978,524	$ 9,635	$ 64,988,159	3.76	$ 127,691,932	$ 15,457	$ 127,707,389	4.65
Judicial Retirement	$ 26,489,562	$ 2,374	$ 26,491,937	2.11	$ 23,427,624	$ 3,658	$ 23,431,282	3.76	$ 45,409,088	$ 8,874	$ 45,417,962	4.65
State Police Retirement	$ 36,177,087	$ 3,270	$ 36,180,357	2.11	$ 31,935,125	$ 4,976	$ 31,940,100	3.76	$ 71,935,541	$ 14,101	$ 71,949,641	4.65
Auto Equipment	$ 150,309,354	$ 12,605	$ 150,321,959	2.11	$ 94,512,688	$ 13,749	$ 94,526,437	3.76	$ 169,937,529	$ 31,188	$ 169,968,717	4.65
Correctional Industries	$ 243,958,871	$ 21,851	$ 243,980,722	2.11	$ 261,866,939	$ 37,432	$ 261,904,371	3.76	$ 706,853,026	$ 133,643	$ 706,986,669	4.65
Bond Capital	$ 98,874,952	$ 7,767	$ 98,882,719	2.11	$ 114,614,985	$ 15,415	$ 114,630,401	3.76	$ 125,695,778	$ 14,013	$ 125,709,791	4.65
ISTEA	$ 469,243,937	$ 36,383	$ 469,280,320	2.11	$ 329,254,544	$ 46,705	$ 329,301,249	3.76	$ 571,588,133	$ 116,954	$ 571,705,087	4.65
Child Support	$ 1,159,309,353	$ 96,911	$ 1,159,406,265	2.11	$ 766,681,807	$ 110,771	$ 766,792,578	3.76	$ 1,845,423,404	$ 350,859	$ 1,845,774,263	4.65
Tax Refund	$ 528,689,344	$ 46,968	$ 528,736,312	2.11	$ 300,936,902	$ 48,112	$ 300,985,013	3.76	$ 300,710,772	$ 58,981	$ 300,769,753	4.65
Merchant Std	$ 713,071,757	$ 59,831	$ 713,131,587	2.11	$ 641,486,746	$ 89,886	$ 641,576,632	3.76	$ 1,105,122,608	$ 207,956	$ 1,105,330,564	4.65
Rite Care	$ 151,850,089	$ 11,625	$ 151,861,714	2.11	$ 92,570,648	$ 13,659	$ 92,584,307	3.76	$ 148,435,768	$ 27,914	$ 148,463,682	4.65
Disbursement Account***									$ 1,890,360,619	$ 348,591	$ 1,890,709,210	4.65
Total Sweep Investment	$ 4,081,251,347	$ 341,097	$ 4,081,592,445	2.11	$ 3,005,709,643	$ 435,650	$ 3,006,145,293	3.76	$ 7,715,571,823	$ 1,461,688	$ 7,717,033,511	4.65



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

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

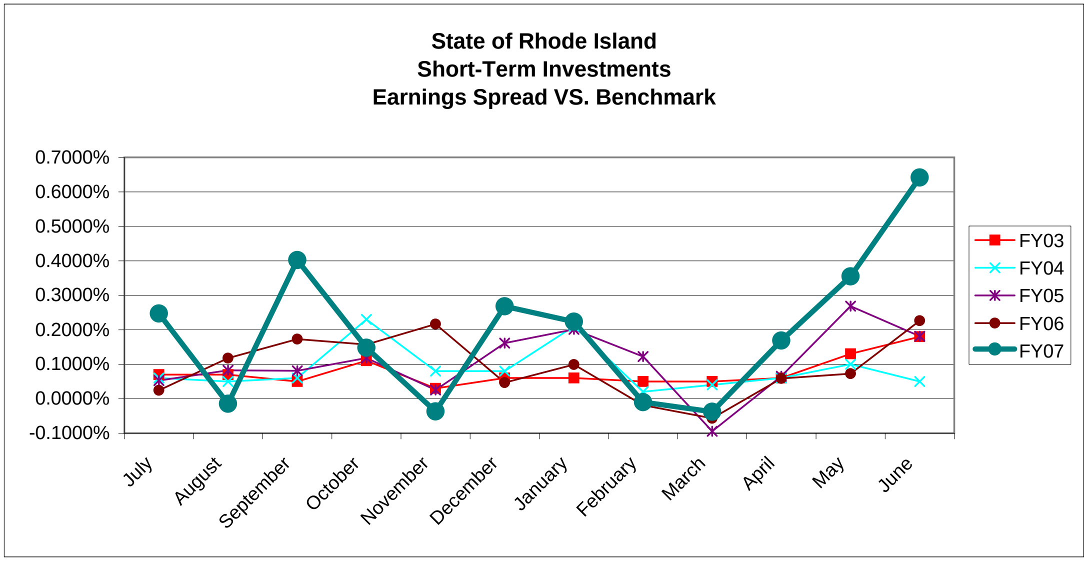
Commentary: While the year-over year increase in earnings is strongly correlated to the increase in rates, the creation of a new Disbursement account for FY2007 helped drive a significant increase in earnings. As noted on the previous slide, this increase counterbalanced a decrease in General Fund earnings.

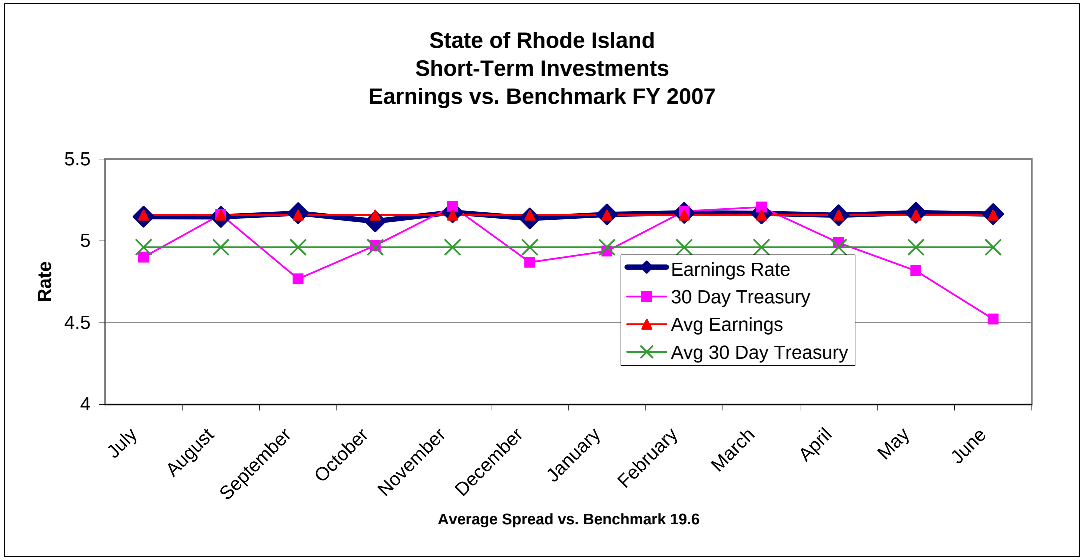
State of Rhode Island
Office of the General Treasurer
Schedule of Interest Earned
FY 2007

Fund	Count	Amt. Matured	Interest Earned	(W)Avg Interest Rate	(W)Avg Duration
GeneralFund	394	$ 5,262,614,209.93	$ 2,991,144.32	5.15%	2.39
Pension C	294	$ 193,407,079.18	$ 42,920.82	5.10%	1.57
Payroll A	238	$ 216,551,362.43	$ 58,637.57	5.13%	1.90
Health Insurance Fund	166	$ 712,425,951.98	$ 1,068,928.17	5.12%	6.94
GeneralFund HAVA	33	$ 103,962.37	$ 88,432.53	6.23%	
General Fund Historic Preservation	7	$ 3,424,319.46	$ 24,941.00	5.14%	51.11
Highway/ISTEA	188	$ 678,055,953.67	$ 407,470.77	5.19%	1.59
University College	179	$ 345,000,662.52	$ 117,667.75	5.12%	2.32
Auto Equipment	24	$ 9,377,948.20	$ 71,841.27	5.12%	7.00
TDI Reserve	299	$ 750,829,545.77	$ 5,078,200.14	5.20%	8.94
Permanent School Fund	29	$ 21,846,045.82	$ 39,251.15	5.18%	12.48
Employees Retirement	171	$ 542,779,826.93	$ 1,129,129.79	5.17%	13.32
Municipal Employees Retirement	98	$ 51,611,123.83	$ 131,149.95	5.18%	15.38
RI Clean Water	24	$ 7,826,547.25	$ 119,379.23	5.15%	8.55
Bond Capital	67	$ 114,599,329.03	$ 133,107.11	5.91%	5.66
RI State Lottery	326	$ 1,707,060,047.02	$ 1,172,005.90	5.14%	4.76
Industrial Bldg. and Mortgage Ins	13	$ 558,891.60	$ 61,351.06	5.05%	
Higher Education	7	$ 7,997,728.61	$ 2,271.39	5.13%	
Total Short Term Investments	**2557**	**$ 10,626,070,535.60**	**$ 12,737,829.92**	**5.16%**	**4.45**

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

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





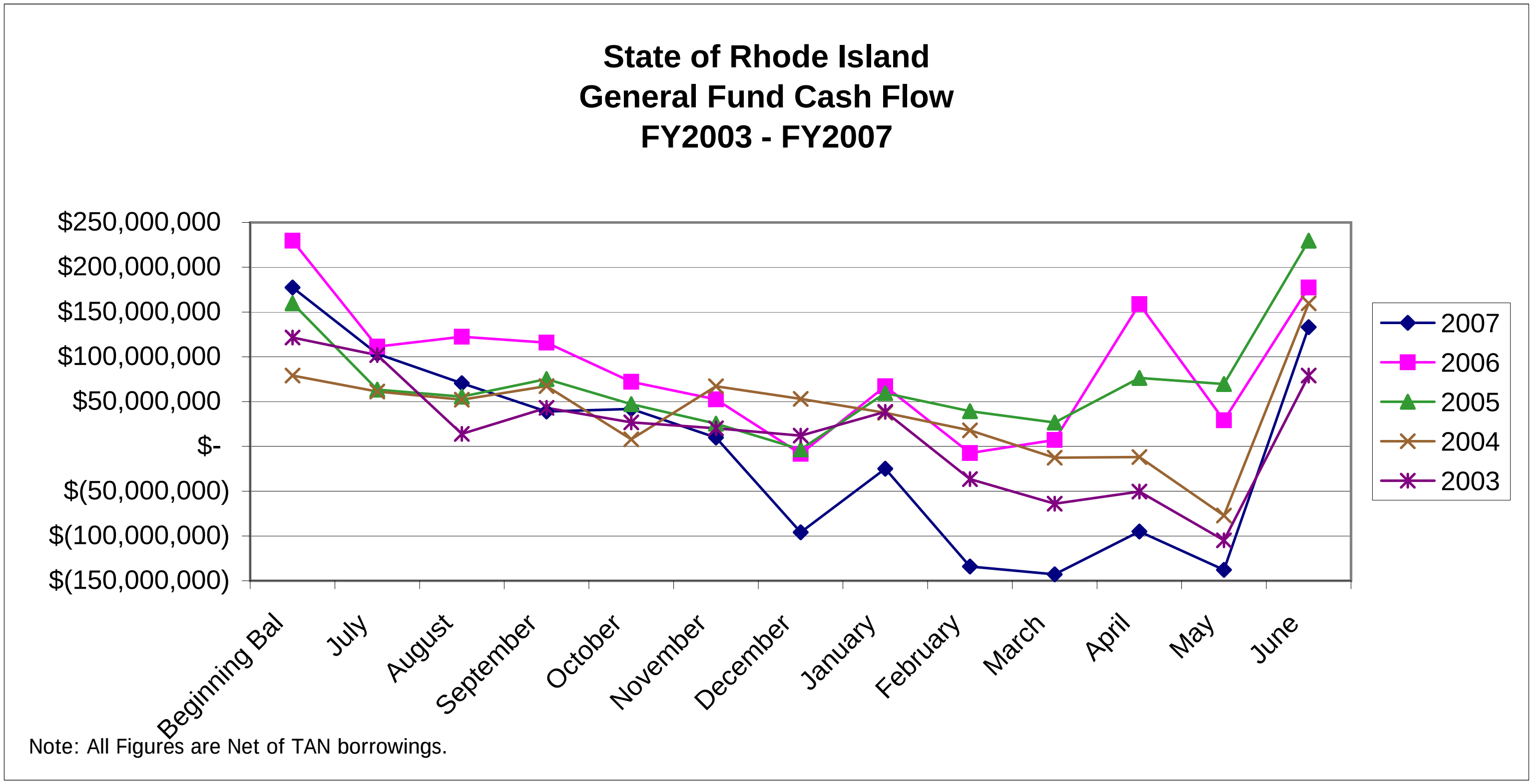
Source Data: This Avg Earnings and Earnings Rate are derived from the State Investment System: si50. The Benchmark is the 30 Day Treasury Bill. The Benchmark data is derived from the Federal Reserve Board Statistical release, H15
Commentary: The State's Short-Term Investments outperformed their benchmark, the 30-Day T-Bill, in 8 out of 12 months for FY2007, with an average spread over the benchmark of 19.6 basis points-- the highest margin since FY 2001

2007_FY_ANNUAL_REPORT_OF_THE_TREASURY_DEPT1.xls :Inv Vs. Bench

State of Rhode Island
Office of the General Treasurer
Cash Flow Analysis Summary
FISCAL 2007

	July 2006	August 2006	September 2006	October 2006	November 2006	December 2006	January 2007	February 2007	March 2007	April 2007	May 2007	June 2007	**TOTAL 2007**
Estimated Beginning Balance	177,416,022	103,433,694	70,491,356	38,890,180	41,800,566	9,852,714	11,113,811	82,037,148	1,938,338	1,253,971	49,117,784	6,287,865	**177,416,022**
Receipts:													
Taxation / DMV	197,731,614	197,662,803	262,852,335	200,849,299	183,768,355	208,189,386	272,950,062	184,848,102	318,272,400	339,206,256	198,273,194	399,826,869	**2,964,430,675**
Federal Grants	127,715,383	115,286,502	118,411,166	119,135,120	151,771,531	170,335,720	153,296,669	131,317,216	189,354,480	147,122,486	141,511,581	235,822,860	**1,801,080,713**
Departmental Receipts	28,180,315	29,162,446	28,907,525	29,907,554	26,348,499	19,940,623	23,080,034	32,271,983	23,377,579	23,321,727	32,335,101	40,699,302	**337,532,688**
Lottery Transfers	-	26,600,000	27,599,490	46,600,000	4,700,000	38,600,000	9,700,000	25,800,000	38,800,000	14,200,000	30,100,000	56,732,124	**319,431,614**
Other receipts	69,062,784	50,908,418	43,977,186	102,930,172	77,245,434	63,431,846	56,342,274	54,935,108	70,310,572	61,819,355	62,330,948	123,854,449	**837,148,547**
TANS Drawdown / Inter-fund Transfers	-	-	-	-	-	107,000,000	-	29,000,000	8,200,000	-	-	27,237,533	**171,437,533**
Total Cash Available	**600,106,118**	**523,053,864**	**552,239,058**	**538,312,324**	**485,634,384**	**617,350,290**	**526,482,850**	**540,209,557**	**650,253,369**	**586,923,795**	**513,668,608**	**890,461,002**	**6,608,477,793**
Disbursements:													
Social Programs	156,706,688	103,891,436	191,025,780	115,978,781	151,503,649	197,752,287	113,046,622	157,056,258	206,639,190	117,785,862	153,174,353	242,861,308	**1,907,422,215**
Payroll / Pension	124,786,154	115,452,400	112,610,655	113,860,453	105,059,682	144,480,210	134,201,519	89,857,671	97,658,702	104,300,085	109,019,497	168,384,230	**1,419,671,258**
Transfers to other Funds	35,196,482	51,188,369	42,710,777	28,641,117	30,921,336	31,963,045	19,276,114	28,006,304	41,992,211	23,692,214	26,189,846	47,488,798	**407,266,611**
Municipal Payments	68,650,866	65,625,072	71,763,076	129,000,000	62,150,000	70,000,000	15,000,000	17,161,385	-	-	-	-	**499,350,399**
Debt Service	10,552,400	33,406,365	6,990,589	22,362,526	24,127,187	5,213,685	3,060,912	26,863,392	1,221,169	7,022,750	25,032,494	7,373,413	**173,226,881**
Check Clearing / Disbursement	55,665,341	73,914,914	73,890,297	79,482,986	88,714,209	94,202,481	148,454,888	171,612,989	242,093,026	235,289,696	142,996,149	137,082,970	**1,543,399,946**
TANS / TDI Repayment	-	-	-	-	-	50,142,429	-	-	-	-	-	122,663,333	**172,805,762**
Tax Refund	9,228,269	4,328,735	6,319,592	2,982,098	7,870,401	6,361,912	6,011,327	41,376,385	49,041,359	46,786,791	42,974,369	15,162,895	**238,444,133**
Other	35,886,224	4,755,216	8,038,113	4,203,798	5,435,207	6,120,430	5,394,320	6,336,836	10,353,742	2,928,613	7,994,034	16,385,231	**113,831,764**
Total Disbursements	**496,672,424**	**452,562,507**	**513,348,879**	**496,511,759**	**475,781,670**	**606,236,478**	**444,445,702**	**538,271,219**	**648,999,398**	**537,806,011**	**507,380,743**	**757,402,179**	**6,475,418,970**
Month Ending Cash Position	**103,433,694**	**70,491,356**	**38,890,180**	**41,800,566**	**9,852,714**	**11,113,811**	**82,037,148**	**1,938,338**	**1,253,971**	**49,117,784**	**6,287,865**	**133,058,823**	**133,058,823**

Source Data: This data is derived from actual daily Cash Flow figures for daily operations maintained by Treasury Cash Management



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

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

Cash Management Summary
All Funds

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

SPECIAL FUNDS

ABRAHAM TOURO FUND
INVESTMENT SUMMARY
JUNE 30, 2007 and 2006

FUND NAME	6/30/2007 MARKET VALUE	6/30/2006 MARKET VALUE
Abraham Touro Fund (Fidelity Balanced Fund)	$ 2,476,014	$ 2,154,904
Total Special Funds	$ 2,476,014	$ 2,154,904

Source Data: Bank Account Statement for Period Ending June 30, 2007 and June 30, 2006 respectively.

ACCOUNTS RECEIVABLE

State of Rhode Island
Office of the General Treasuer
Municipal Pension Contribution Delinquency
as of July 15, 2007, 2006, 2005, 2004, 2003

	July, 2007 Total Arrears	Last Payroll Date Received	July, 2006 Total Arrears	Last Payroll Date Received	July, 2005 Total Arrears*	Last Payroll Ending Date Received	July, 2004 Total Arrears	Last Payroll Ending Date Received	July,2003 Total Arrears	Last Payroll Ending Date Received
Teachers										
Barrington										
Burrillville										
Chariho Regional										
Coventry										
East Providence										
Foster										
Gloucester										
Jamestown										
Johnston										
Lincoln**							$ 658,226.00		$ 1,715,629.48	
Little Compton										
N Providence										
N Smithfield										
Providence (long term subs)	$ 66,371.54		$ 259,018.46							
Smithfield										
South Kingstown										
Southern RI Collaborative										
Urban Collaborative										
West Bay Collaborative										
Westerly										
Subtotal Teachers	$ 66,371.54		$ 259,018.46				$ 658,226.00		$ 1,715,629.48	

Source Data: ERSRI Delinquency Statistics.

DEBT SERVICE

State of Rhode Island
Office of the General Treasurer
Debt Service Inventory by Maturity Date
Fiscal Year 2007

Amount of Original Issue	Description of Issue	Year	Series	Maturity Date	Principal Paid in FY 07	(Actual) Interest Paid in FY 07	Principal Outstanding 6/30/2007	(Projected) Interest Outstanding 6/30/2007
$ 33,745,000.00	G.O. CCDL of 1995, Series A	1995	A	8/1/2006	$ 1,805,000.00	$ 46,930.00	$ -	$ -
$ 39,805,000.00	G.O. CCDL of 2002, Refunding Series A	2002	Refunding Series A	12/1/2006	$ 1,615,000.00	$ 32,300.00	$ -	$ -
$ 120,000,000.00	G.O. Tax Anticipation Notes - Fiscal Year 2007	2007	TAN's	6/29/2007	$ 120,000,000.00	$ 2,663,333.33	$ -	$ -
$ 15,925,000.00	G.O. CCDL of 1995, Series B	1995	B	8/1/2007	$ 850,000.00	$ 72,450.00	$ 900,000.00	$ 24,750.00
$ 57,835,000.00	G.O. CCDL of 1996, Series A	1996	A	8/1/2007	$ -	$ 161,650.00	$ 3,050,000.00	$ 80,825.00
$ 81,040,000.00	G.O. CCDL of 1996, Refunding Series	1996	Refunding	8/1/2007	$ 9,492,705.00	$ 895,984.25	$ 5,742,134.00	$ 152,166.55
$ 75,775,000.00	G.O. CCDL of 1997, Series A	1997	A	8/1/2008	$ -	$ 197,715.00	$ 4,035,000.00	$ 296,572.50
$ 67,625,000.00	Refunding Bond Authority State Public Projects, 2003 Series A	2003	Refunding Series A	10/1/2008	$ 10,635,000.00	$ 1,540,875.00	$ 25,500,000.00	$ 1,055,500.00
$ 647,490.20	G.O. CCDL of 1993 Refunding Series (CAB's)	1993	Refunding	6/15/2009	$ 185,647.10	$ 4,724,352.90	$ 118,316.15	$ 3,926,683.85
$ 35,990,000.00	G.O. CCDL of 1997, Refunding Series	1997	Refunding	8/1/2009	$ 3,894,300.00	$ 379,557.50	$ 5,644,000.00	$ 705,500.00
$ 65,720,000.00	G.O. CCDL of 1998, Series A	1998	A	9/1/2009	$ -	$ 276,062.50	$ 2,315,000.00	$ 289,375.00
$ 28,185,000.00	LPC, Correctional Facilities - 1997 Refunding (Intake Center)	1997	Refunding	10/1/2009	$ 2,495,000.00	$ 496,518.76	$ 8,160,000.00	$ 643,659.38
$ 39,875,000.00	Refunding Bond Authority State Public Projects, 1998 Series A	1998	Refunding Series A	2/1/2010	$ 6,975,000.00	$ 1,243,931.26	$ 17,210,000.00	$ 2,045,718.76
$ 63,120,000.00	G.O. CCDL of 1999, Series A	1999	A	9/1/2010	$ -	$ 141,250.00	$ 2,825,000.00	$ 494,375.00
$ 57,230,000.00	G.O. CCDL of 2000, Series A	2000	A	7/15/2011	$ -	$ 380,750.00	$ 2,890,000.00	$ 650,250.00
$ 6,950,000.00	LPC, State Vehicles Project - 2005 Series C	2005	C	4/1/2012	$ 1,255,000.00	$ 207,725.00	$ 4,435,000.00	$ 429,812.50
$ 3,890,000.00	C.O.P. in L.P.A. (State Vehicles Projects), 2002 Series A	2002	A	12/15/2012	$ 270,000.00	$ 63,787.50	$ 1,620,000.00	$ 190,957.50
$ 6,000,000.00	LPC, State Vehicles Project - 2006 Series A	2006	A	4/15/2013	$ 1,365,000.00	$ 188,760.00	$ 4,635,000.00	$ 497,376.00
$ 62,765,000.00	G.O. CCDL of 2002, Refunding Series C	2002	Refunding Series C	11/1/2013	$ 5,070,000.00	$ 2,571,750.00	$ 47,005,000.00	$ 8,467,500.00
$ 9,100,000.00	LPC, State Vehicles Project - 2007 Series C	2007	C	5/1/2014	$ -	$ -	$ 9,100,000.00	$ 1,026,849.65
$ 63,005,000.00	G.O. CCDL of 2001, Refunding Series B	2001	Refunding Series B	6/1/2014	$ -	$ 526,000.00	$ 10,200,000.00	$ 3,010,000.00
$ 82,470,000.00	G.O. CCDL of 1998, Refunding Series A	1998	Refunding Series A	7/15/2014	$ 7,140,000.00	$ 3,487,218.78	$ 65,590,000.00	$ 11,478,934.55
$ 8,360,000.00	G.O. CCDL of 2005, Refunding Series B	2005	Refunding Series B	8/1/2014	$ 80,000.00	$ 313,868.76	$ 8,120,000.00	$ 1,495,096.94
$ 55,990,000.00	G.O. CCDL of 2001, Refunding Series A	2001	Refunding Series A	8/1/2015	$ 55,000.00	$ 2,530,252.50	$ 49,175,000.00	$ 14,029,008.75
$ 65,830,000.00	G.O. CCDL of 2004, Refunding Series B	2004	Refunding Series B	8/1/2015	$ 3,900,000.00	$ 2,893,461.26	$ 60,875,000.00	$ 15,770,064.40
$ 4,500,000.00	Certificates of Participation, Series 1995 - Attorney General	1995	1995	10/1/2015	$ 220,000.00	$ 142,295.00	$ 2,575,000.00	$ 670,480.00
$ 77,140,000.00	G.O. CCDL of 2002, Series B	2002	B	11/1/2015	$ 3,275,000.00	$ 3,432,050.00	$ 32,125,000.00	$ 7,598,806.25
$ 24,000,000.00	LPC, Howard Center Improvements - 1997 Series	1997	1997	10/1/2016	$ 1,180,000.00	$ 880,183.76	$ 15,970,000.00	$ 4,652,959.42
$ 23,490,000.00	LPC, Information Technology Project - 2007 Series A	2007	A	5/1/2017	$ -	$ -	$ 23,490,000.00	$ 5,922,879.69
$ 33,335,000.00	LPC, Shepard's Building - 1997 Refunding Series A	1997	Refunding Series A	6/1/2017	$ 1,520,000.00	$ 1,201,047.50	$ 22,135,000.00	$ 6,696,150.00
$ 56,315,000.00	G.O. CCDL of 2005, Refunding Series D	2005	Refunding Series D	7/15/2018	$ -	$ 2,628,750.00	$ 55,465,000.00	$ 18,373,150.00
$ 52,335,000.00	G.O. CCDL of 2005, Refunding Series A	2005	Refunding Series A	8/1/2018	$ 50,000.00	$ 2,550,908.76	$ 51,575,000.00	$ 24,601,705.74

State of Rhode Island
Office of the General Treasurer
Debt Service Inventory by Maturity Date
Fiscal Year 2007

Amount of Original Issue	Description of Issue	Year	Series	Maturity Date	Principal Paid in FY 07	(Actual) Interest Paid in FY 07	Principal Outstanding 6/30/2007	(Projected) Interest Outstanding 6/30/2007
$ 135,400,000.00	G.O. CCDL of 2001, Series C	2001	C	9/1/2020	$ -	$ 4,266,700.00	$ 53,805,000.00	$ 27,624,750.00
$ 28,180,000.00	LPC, Central Power Plant Project - 2000 Series C	2000	C	10/1/2020	$ 1,080,000.00	$ 1,173,860.00	$ 22,360,000.00	$ 9,217,666.28
$ 74,835,000.00	G.O. CCDL of 2006, Refunding Series A	2006	Refunding Series A	8/1/2022	$ 75,000.00	$ 1,196,965.10	$ 74,760,000.00	$ 36,819,081.27
$ 79,770,000.00	G.O. CCDL of 2004, Series A	2004	A	2/1/2023	$ 3,115,000.00	$ 3,124,650.00	$ 70,345,000.00	$ 29,882,500.00
$ 12,735,000.00	LPC, Energy Conservation Project - 2007 Series B	2007	B	5/1/2023	$ -	$ -	$ 12,735,000.00	$ 5,110,266.19
$ 58,910,000.00	LPC, Kent County Courthouse Project - 2004 Series A	2004	A	10/1/2023	$ 2,280,000.00	$ 2,336,552.50	$ 54,405,000.00	$ 24,109,488.75
$ 87,095,000.00	G.O. CCDL of 2005, Series C	2005	C	2/15/2024	$ 2,990,000.00	$ 3,900,375.00	$ 81,250,000.00	$ 39,747,587.50
$ 51,985,000.00	LPC, Training School Project - 2005 Series A	2005	A	10/1/2024	$ 1,780,000.00	$ 2,437,025.00	$ 50,205,000.00	$ 25,644,000.00
$ 21,565,000.00	LPC, Traffic Tribunal Project - 2005 Series B	2005	B	10/1/2024	$ 800,000.00	$ 876,992.50	$ 20,765,000.00	$ 9,414,246.35
$ 93,385,000.00	G.O. CCDL of 2005, Series E	2005	E	11/1/2025	$ 2,860,000.00	$ 4,296,671.26	$ 90,525,000.00	$ 45,774,672.05
$ 98,105,000.00	G.O. CCDL of 2006, Series C	2006	C	11/15/2025	$ -	$ 2,652,269.38	$ 98,105,000.00	$ 50,529,886.25
$ 20,680,000.00	G.O. CDL of 2006, Series B	2006	B	8/1/2026	$ -	$ 303,888.16	$ 20,680,000.00	$ 10,468,574.50
			Subtotal from the DBC system.		$ 198,307,652.10	$ 63,437,668.22	$ 1,192,419,450.15	$ 449,619,826.57
$ 31,365,000.00	Multi - Modal G.O. Bonds CCDL of 2000, Series B	2000	Multi-Modal Ser. B	8/1/2010	$ 3,300,000.00	$ 602,251.24	$ 16,365,000.00	$ 809,600.00
	Subtotal including variable rate issue from the Excel worksheets.				$ 201,607,652.10	$ 64,039,919.46	$ 1,208,784,450.15	$ 450,429,426.57
								$ 1,208,784,450.15
			Total outstanding debt @ 6/30/07					$ 1,659,213,876.72
$ 11,825,000.00	R.I.E.D.C. McCoy Stadium Issue, Series 1998	1998	McCoy Stadium	12/1/2010	$ 970,000.00	$ 190,078.76	$ 4,275,000.00	$ 218,813.00
					$ 202,577,652.10	$ 64,229,998.22		
					$ 64,229,998.22			
	Total FY 07 debt service payments made by Treasury including McCoy Stadium from the Excel cumulative worksheets.				$ 266,807,650.32			

Source Data: DBC Debt Management Software. Data as of 06/30/2007

State of Rhode Island

Office of the General Treasurer

Debt Service System Inventory of Matured or Retired Issues

Fiscal Year 2007

File #	Amount of Original Issue	Description of Issue	Paying Agent	Year	Series	Type	Bond Use	Specific Use	Maturity or Retirement Date
53	33,745,000.00	G.O. CCDL of 1995, Series A	U.S. Bank	1995	A	CCDL	Direct	General Obligation	8/1/2006
95	39,805,000.00	G.O. CCDL of 2002, Refunding Series A	U.S. Bank	2002	unding Serie	CCDL	Direct	General Obligation	12/1/2006

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

Fiscal Year	Principal	Interest	Total Gross Debt Service	Less: Offsets & Self Supporting	Excess Two Cents of Gas Tax held by Trustee(2)	Net Debt Service Payable
2007	$ 97,384,653.00	$75,943,336.00	$ 175,427,989.00	$ (5,604,514.00)	$ 2,629,022.00	$ 172,452,497.00
2008	$ 112,652,988.00	$85,367,963.00	$ 198,905,952.00	$ (8,315,167.00)	$ 2,623,172.00	$ 193,213,957.00
2009	$ 126,287,854.00	$85,004,907.00	$ 211,292,761.00	$ (7,481,128.00)	$ 2,228,233.00	$ 206,039,866.00
2010	$ 124,731,092.00	$85,649,703.00	$ 210,380,794.00	$ (7,893,489.00)	$ 2,424,248.00	$ 204,911,553.00
2011	$ 113,652,994.00	$85,422,730.00	$ 199,075,724.00	$ (3,728,691.00)	$ 2,191,698.00	$ 197,538,731.00
2012	$ 123,614,371.00	$85,077,784.00	$ 208,692,155.00	$ (3,690,390.00)	$ 2,131,448.00	$ 207,133,213.00
2013	$ 132,529,009.00	$83,715,718.00	$ 216,244,727.00	$ (2,864,205.00)	$ 2,131,067.00	$ 215,511,589.00
2014	$ 130,271,581.00	$82,496,151.00	$ 212,767,732.00	$ (1,646,375.00)	$ 2,133,505.00	$ 213,254,862.00
2015	$ 127,668,646.00	$81,082,273.00	$ 208,750,919.00	$ (1,646,295.00)	$ 1,897,336.00	$ 209,001,960.00
2016	$ 127,821,242.00	$79,897,823.00	$ 207,719,066.00	$ (1,819,509.00)	$ 1,874,736.00	$ 207,774,293.00
2017	$ 132,581,568.00	$78,612,901.00	$ 211,194,469.00	$ (2,671,092.00)	$ 2,457,905.00	$ 210,981,282.00
2018	$ 125,956,358.00	$77,319,599.00	$ 203,275,957.00	$ (1,578,160.00)	$ 2,434,725.00	$ 204,132,522.00
2019	$ 131,647,850.00	$76,201,469.00	$ 207,849,319.00	$ (1,582,410.00)	$ 2,432,137.00	$ 208,699,046.00
2020	$ 129,643,515.00	$74,934,315.00	$ 204,577,830.00	$ (1,578,660.00)	$ 3,100,512.00	$ 206,099,682.00
2021	$ 133,505,970.00	$73,669,872.00	$ 207,175,842.00	$ 287,160.00	$ 3,041,687.00	$ 210,504,689.00
2022	$ 128,898,644.00	$72,442,408.00	$ 201,341,052.00	$ 287,160.00	$ 2,879,018.00	$ 204,507,230.00
2023	$ 138,646,257.00	$71,106,429.00	$ 209,752,686.00	$ (3,688,809.00)	$ 5,805,461.00	$ 211,869,338.00
2024	$ 123,915,355.00	$69,424,065.00	$ 193,339,420.00	$ 152,999.00	$ 3,585,426.00	$ 197,077,845.00
2025	$ 121,157,046.00	$68,378,218.00	$ 189,535,264.00	$ (2,407,686.00)	$ 5,891,113.00	$ 193,018,691.00
2026	$ 123,908,246.00	$67,468,066.00	$ 191,376,312.00	$ 62,811.00	$ 3,849,989.00	$ 195,289,112.00
2027	$ 112,226,045.00	$66,651,894.00	$ 178,877,939.00	$ (1,633,089.00)	$ 443,964.00	$ 177,688,814.00
	$ 2,618,701,284	**$1,625,867,624**	**$ 4,247,553,909**	**$ (59,039,539)**	**$ 58,186,402**	**$ 4,246,700,772**

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

Source Data: Page 31 of Appendix C of the 2008 Capital Budget

RI EMPLOYEES RETIREMENT SYSTEM

State of Rhode Island
Office of the General Treasurer

ASSET ALLOCATION REPORT
June 30, 2007

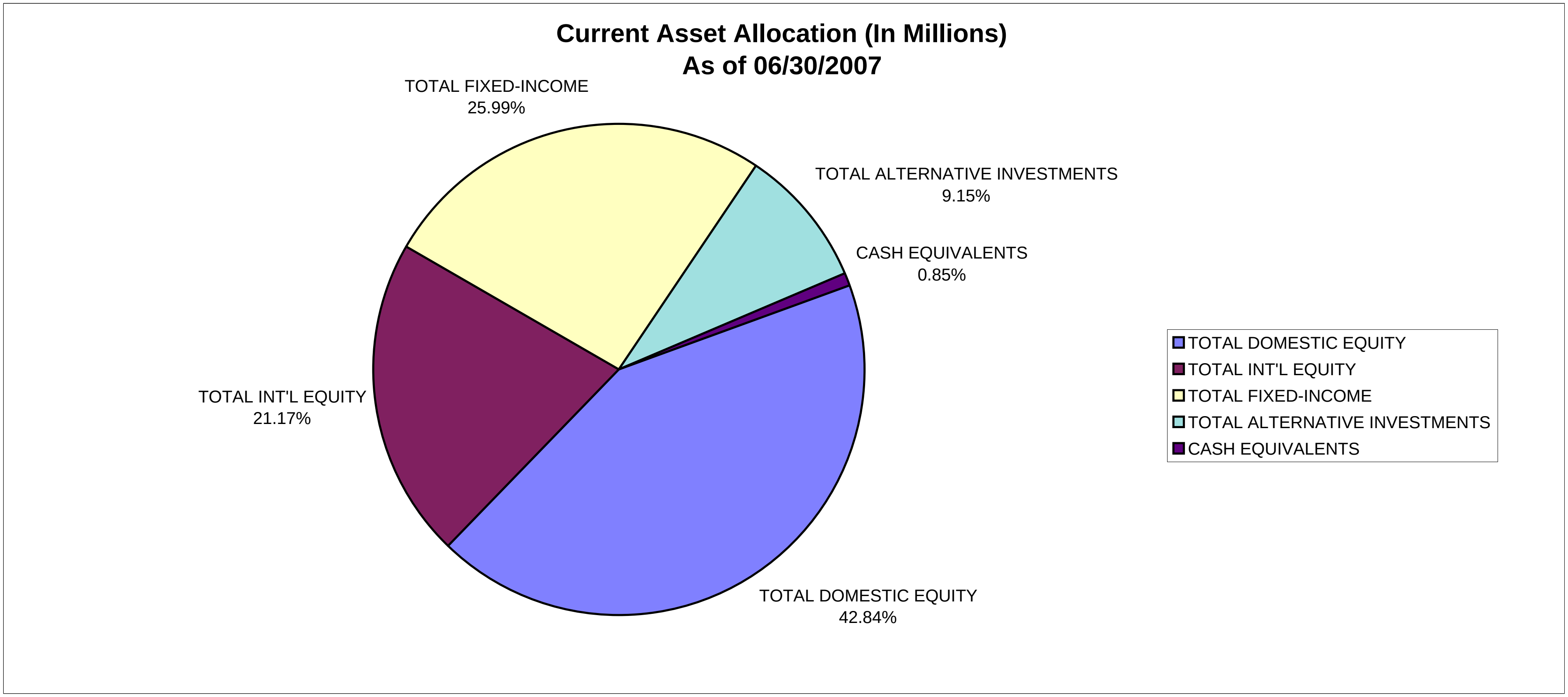
	Style Mandate	Actual (Millions $)		Target (Millions $)		Difference (Millions $)
Domestic Equity						
SSgA S&P 500 Index Fund	Passive	$ 1,731.14	20.7%	$ 1,733.24	20.75%	$ (2.10)
SSgA Core	Active core	$ 382.58	4.6%	$ 375.88	4.50%	$ 6.70
PIMCO	Enhanced Equity	$ 582.95	7.0%	$ 563.83	6.75%	$ 19.12
NorthPointe Capital	Small Cap Value	$ 424.24	5.1%	$ 417.65	5.00%	$ 6.59
Wellington Mgmt	Small Cap Core	$ 452.07	5.4%	$ 459.41	5.50%	$ (7.34)
Shott Capital	Alternative Distribution	$ 5.57	0.1%	$ -	0.00%	$ 5.57
TOTAL DOMESTIC EQUITY		**$ 3,578.55**	**42.8%**	**$ 3,550.02**	**42.50%**	**$ 28.53**
International Equity						
Boston Company	MSCI ACWI	$ 571.33	6.8%	$ 557.14	6.67%	$ 14.19
Goldman Sachs	MSCI ACWI	$ 599.50	7.2%	$ 557.14	6.67%	$ 42.35
Mondrian	MSCI ACWI	$ 597.00	7.1%	$ 556.31	6.66%	$ 40.69
TOTAL INT'L EQUITY		**$ 1,767.95**	**21.2%**	**$ 1,670.60**	**20.00%**	**$ 97.35**
Domestic Fixed Income						
Fidelity Management & Research	Mortgages	$ 486.44	5.8%	$ 522.06	6.25%	$ (35.62)
Brown Brothers, Harriman	Opportunistic Core	$ 296.34	3.5%	$ 313.24	3.75%	$ (16.89)
Taplin, Canida & Habacht	Corporates	$ 300.95	3.6%	$ 313.24	3.75%	$ (12.29)
Mackay Shields	High yield	$ 135.85	1.6%	$ 156.62	1.88%	$ (20.77)
Brown Brothers, Harriman TIPS	TIPS	$ 523.79	6.3%	$ 626.47	7.50%	$ (102.68)
Fixed Income Cash Account		$ 427.24	5.1%	$ -	0.00%	$ 427.24
TOTAL FIXED-INCOME		**$ 2,171.26**	**26.0%**	**$ 2,088.24**	**25.00%**	**$ 83.01**
Alternative Investments						
Real Estate	Real Estate	$ 302.32	3.6%	$ 417.65	**5.00%**	$ (115.33)
Pacific Corp Group	Private Equity	$ 462.22	5.5%	$ 626.47	**7.50%**	$ (164.26)
TOTAL ALTERNATIVE INVESTMENTS		**$ 764.54**	**9.2%**	**$ 1,044.12**	**12.50%**	**$ (279.58)**
CASH EQUIVALENTS	STIF, Yield+	$ 70.69	0.8%	$ -	0.00%	$ 70.69
TOTAL ASSETS		**$ 8,352.98**	**100.0%**	**$ 8,352.98**	**100.00%**	**$ 0.00**

ALLOCATION BY MANAGEMENT STYLE

Domestic Equity						
Core		$ 382.58	4.6%	$ 375.88	4.50%	$ 6.70
Index		$ 1,731.14	20.7%	$ 1,733.24	17.75%	$ (2.10)
Enhanced Equity		$ 582.95	7.0%	$ 563.83	6.75%	$ 19.12
Active Small Cap		$ 876.32	10.6%	$ 877.06	13.50%	$ (0.75)
TOTAL DOMESTIC EQUITY		**$ 3,578.55**	**42.8%**	**$ 3,550.02**	**42.50%**	**$ 28.53**
International Equity						
Active		$ 1,767.95	21.2%	$ 1,670.60	20.00%	$ 97.35
TOTAL INT'L EQUITY		**$ 1,767.95**	**21.2%**	**$ 1,670.60**	**20.00%**	**$ 97.35**
Domestic Fixed Income						
Mortgage		$ 486.44	5.8%	$ 522.06	6.25%	$ (35.62)
Core		$ 296.34	3.5%	$ 313.24	3.75%	$ (16.89)
Corporates		$ 300.95	3.6%	$ 313.24	3.75%	$ (12.29)
High Yield		$ 136.49	1.6%	$ 313.24	3.75%	$ (176.74)
TIPS		$ 523.79	6.3%	$ 626.47	7.50%	$ (102.68)
Other		$ 427.24	5.1%	$ -	0.00%	$ 427.24
TOTAL FIXED-INCOME		**$ 2,171.26**	**26.0%**	**$ 2,088.24**	**25.00%**	**$ 83.01**
Alternative Investments						
Real Estate		$ 302.32	3.6%	$ 417.65	**5.00%**	$ (115.33)
Other Alternative Investments		$ 462.22	5.5%	$ 626.47	**7.50%**	$ (164.26)
TOTAL ALTERNATIVE INVESTMENTS		**$ 764.54**	**9.2%**	**$ 1,044.12**	**12.50%**	**$ (279.58)**
CASH EQUIVALENTS	STIF, Yield+	**$ 70.69**	**0.8%**	**$ -**	**0.00%**	**$ 70.69**
TOTAL ASSETS		**$ 8,352.98**	**100.0%**	**$ 8,352.98**	**100.00%**	**$ 0.00**

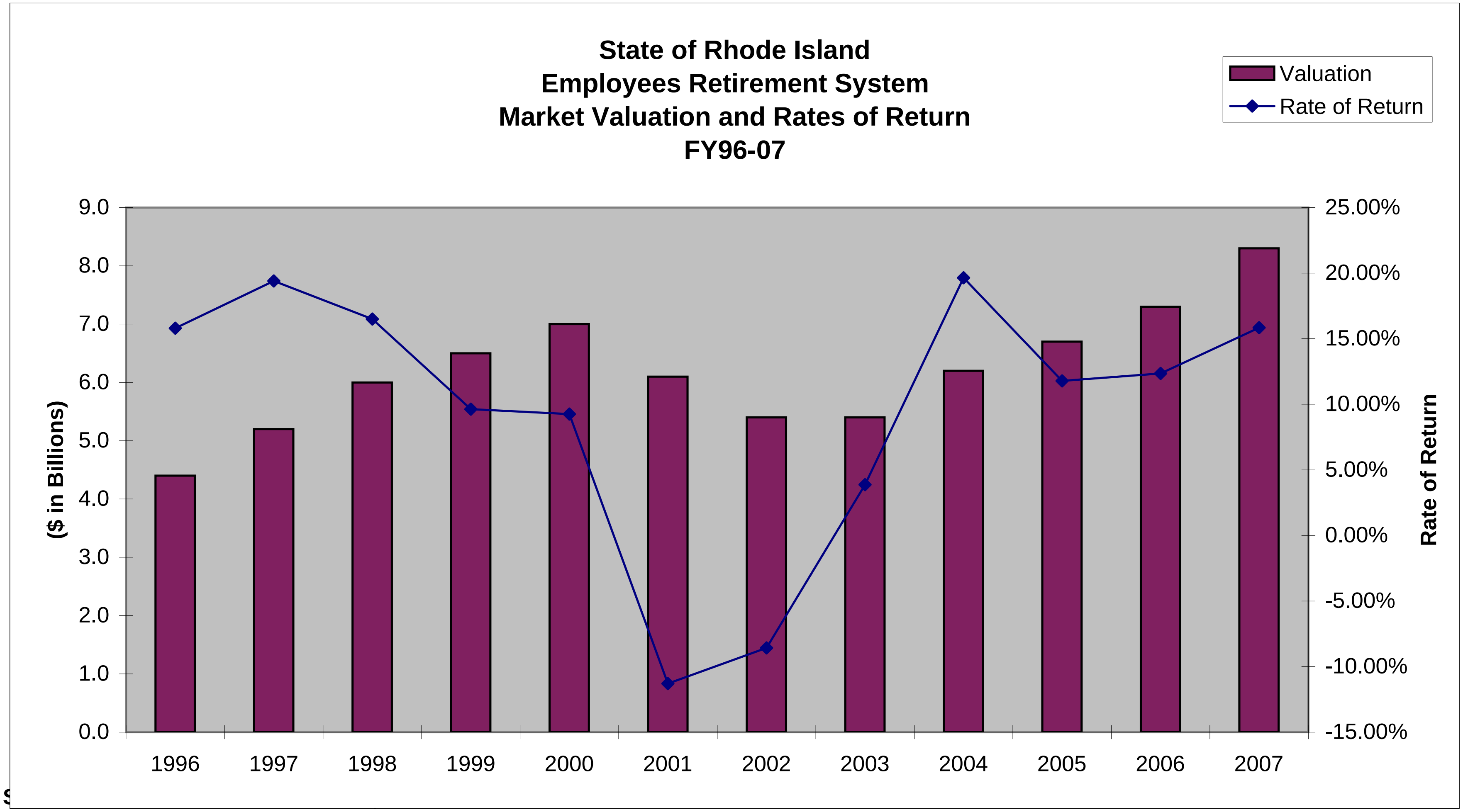
Source Data: State Street Monthly Reports.

State of Rhode Island
Office of the General Treasurer



Asset Class	**Asset Value as of 06/30/2007**	
TOTAL DOMESTIC EQUITY	$	3,578.55
TOTAL INT'L EQUITY	$	1,767.95
TOTAL FIXED-INCOME	$	2,171.26
TOTAL ALTERNATIVE INVESTMENTS	$	764.54
CASH EQUIVALENTS	$	70.69
TOTAL	**$**	**8,352.98**

Source Data: State Street Analytics Data as of 06/30/2007



2007_FY_ANNUAL_REPORT_OF_THE_TREASURY_DEPT1.xls : RetirementValuation07

Investment	Inception Date	Commitment	Funding Through June 30, 2006	Unfunded Balance	Market Value at June 30, 2007
ABS Capital Partners II	July,1996	$ 5,000,000	$ 4,761,393	$ 238,607	$ 279,539
Alta BioPharma Partners	April,1998	$ 10,000,000	$ 10,000,000	$ -	$ 287,850
Alta BioPharma Partners III	November,2003	$ 15,000,000	$ 9,000,000	$ 6,000,000	$ 10,102,264
Alta California Partners II	December,1998	$ 10,000,000	$ 10,000,000	$ -	$ 2,847,614
Alta California Partners III	March,2001	$ 15,000,000	$ 13,500,000	$ 1,500,000	$ 9,383,265
Alta Partners VIII	November,2006	$ 15,000,000	$ -	$ 15,000,000	$ 2,773,542
Apollo Investment Fund IV	June,1998	$ 15,000,000	$ 15,090,395	$ -	$ 7,086,564
Apollo Investment Fund VI	May,2006	$ 20,000,000	$ 150,046	$ 19,849,954	$ 8,392,495
Aurora Equity Partners II	May,1998	$ 15,000,000	$ 16,659,385	$ -	$ 12,868,834
Aurora Equity Partners III	November,2004	$ 15,000,000	$ 5,791,781	$ 9,208,219	$ 4,872,036
Avenue Special Situations Fund IV	March,2006	$ 20,000,000	$ 20,000,000	$ -	$ 705,902
Avenue Special Situations III	January,2003	$ 15,000,000	$ 11,129,214	$ 3,870,786	$ 23,796,573
Birch Hill Equity Partners (US) III	December,2005	$ 15,064,022	$ 2,223,884	$ 12,840,138	$ 6,230,298
Blackstone Capital Partners III	November,1997	$ 20,000,000	$ 21,617,799	$ -	$ 7,096,659
Blackstone Capital Partners IV	January,2003	$ 25,000,000	$ 23,499,780	$ 1,500,220	$ 23,301,679
Blackstone Capital Partners V	January,2006	$ 20,000,000	$ 2,299,995	$ 17,700,005	$ 8,444,418
Boston Ventures V	November,1996	$ 5,000,000	$ 5,745,426	$ -	$ 2,651,257
Castile Ventures III	December,2006	$ 5,000,000	$ -	$ 5,000,000	$ 594,267
Catterton Partners V	October,2003	$ 15,000,000	$ 11,095,415	$ 3,904,585	$ 12,914,924
Catterton Partners VI	December,2006	$ 15,000,000	$ -	$ 15,000,000	$ 4,377,665
Centerbridge Capital Partners	August,2006	$ 15,000,000	$ 0	$ 15,000,000	$ 374,187
Charterhouse Capital Partners VII	January,2003	$ 15,397,500	$ 15,302,254	$ 95,246	$ 15,269,704
Charterhouse Capital Partners VIII	April,2006	$ 17,829,000	$ 92,497	$ 17,736,503	$ 9,379,626
Coller International Partners IV	November,2002	$ 15,000,000	$ 10,410,000	$ 4,590,000	$ 8,569,158
Coller International Partners V	December,2006	$ 15,000,000	$ 0	$ 15,000,000	$ 1,507,563
Crossroads Providence	December,1988	$ 45,000,000	$ 45,000,000	$ -	$ 796,695
CVC European Equity Partners II	July,1998	$ 15,000,000	$ 17,207,361	$ -	$ 4,557,848
CVC European Equity Partners III	September,2001	$ 20,000,000	$ 22,345,747	$ -	$ 14,561,363
CVC European Equity Partners IV	August,2005	$ 20,012,850	$ 6,247,064	$ 13,765,786	$ 9,655,094
Doughty Hanson Fund II	March,1996	$ 5,300,000	$ 4,616,921	$ 683,079	$ 346,007
Doughty Hanson Fund III	November,1997	$ 15,000,000	$ 14,766,991	$ 233,009	$ 5,161,854
Fenway Partners Capital Fund II	September,1998	$ 15,000,000	$ 17,782,218	$ -	$ 7,947,869
First Reserve Fund IX	April,2001	$ 20,000,000	$ 16,744,978	$ 3,255,022	$ 13,415,000
First Reserve Fund VIII	April,1998	$ 15,000,000	$ 14,494,872	$ 505,128	$ 1,501,000
First Reserve Fund X	October,2004	$ 20,000,000	$ 18,420,088	$ 1,579,912	$ 222,000
First Reserve Fund XI	June,2006	$ 20,000,000	$ 1,674,396	$ 18,325,604	$ 183,000
Focus Ventures III	August,2006	$ 15,000,000	$ -	$ 15,000,000	$ 3,245,119
Granite Global Ventures II	November,2004	$ 15,000,000	$ 8,108,185	$ 6,891,815	$ 11,990,065
Granite Global Ventures III	November,2006	$ 15,000,000	$ -	$ 15,000,000	$ 3,526,698
Green Equity Investors IV	September,2003	$ 15,000,000	$ 8,812,933	$ 6,187,067	$ 13,663,070
Green Equity Investors V	March,2007	$ 20,000,000	$ 0	$ 20,000,000	$ 0
Harvest Partners III	December,1997	$ 15,000,000	$ 14,457,086	$ 542,914	$ 521,524
Harvest Partners IV	November,2001	$ 15,000,000	$ 12,162,239	$ 2,837,761	$ 11,535,201
Heritage Fund II	August,1997	$ 5,000,000	$ 4,987,144	$ 12,856	$ 171,608
Kayne Anderson Energy Fund III	April,2005	$ 15,000,000	$ 2,853,200	$ 12,146,800	$ 3,871,520
Kayne Anderson Energy Fund IV	July,2007	$ 15,000,000	$ -	$ 15,000,000	$ -
Leapfrog Ventures II	March,2005	$ 10,000,000	$ 2,370,000	$ 7,630,000	$ 3,413,048
Leeds Weld Equity Partners IV	November,2004	$ 10,000,000	$ 5,573,118	$ 4,426,882	$ 7,266,843
Lehman Brothers Merchant Banking Partners IV	January,1900	$ 15,000,000	$ -	$ 15,000,000	$ 0
Lighthouse Capital Partners V	December,2003	$ 11,250,000	$ 9,450,000	$ 1,800,000	$ 10,860,474
Lighthouse Capital Partners VI	March,2007	$ 15,000,000	$ 0	$ 15,000,000	$ 0
LNK Partners	April,2006	$ 12,500,000	$ 139,624	$ 12,360,376	$ 1,672,938
MatlinPatterson Global Opps Fund	January,2002	$ 15,000,000	$ 15,088,828	$ -	$ 10,538,151
MHR Institutional Partners III	October,2006	$ 20,000,000	$ -	$ 20,000,000	$ 5,424,347
Narragansett Capital Partners-B	March,1987	$ 3,000,000	$ 3,915,985	$ -	$ -
Narragansett First Fund	December,1982	$ 1,000,000	$ 969,411	$ 30,589	$ -
Nautic Partners V	April,2001	$ 20,000,000	$ 18,397,204	$ 1,602,796	$ 13,669,904
Nautic Partners VI	May,2007	$ 20,000,000	$ 0	$ 20,000,000	$ 2,608,430
Nordic Capital Fund III	February,1998	$ 10,000,000	$ 10,017,368	$ -	$ 5,748,407
Nordic Capital Fund V	August,2003	$ 15,021,862	$ 18,244,103	$ -	$ 24,301,936
Nordic Capital Fund VI	May,2006	$ 18,061,500	$ 181,989	$ 17,879,511	$ 8,684,124
OCM Opportunities Fund	January,1996	$ 8,000,000	$ 8,000,000	$ -	$ 73,726
OCM Opportunities Fund II	October,1997	$ 12,000,000	$ 12,000,000	$ -	$ 135,428
OCM Principal Opportunities Fund	November,1996	$ 5,000,000	$ 5,000,000	$ -	$ 1,085,702
Parthenon Investors	February,1999	$ 15,000,000	$ 17,489,082	$ -	$ 8,265,636
Parthenon Investors II	January,2001	$ 20,000,000	$ 18,723,794	$ 1,276,206	$ 12,071,467
Providence Equity Partners	December,1996	$ 10,000,000	$ 14,675,142	$ -	$ 1,640,791
Providence Equity Partners III	January,1999	$ 15,000,000	$ 16,490,503	$ -	$ 453,466
Providence Equity Partners IV	November,2000	$ 25,000,000	$ 33,399,515	$ -	$ 14,777,916
Providence Equity Partners V	April,2005	$ 25,000,000	$ 17,243,906	$ 7,756,094	$ 25,014,031

State of Rhode Island
Office of the General Treasurer
Private Equity
FY 2007

Investment	Inception Date	Commitment	Funding Through June 30, 2006	Unfunded Balance	Market Value at June 30, 2007
Providence Equity Partners VI	March,2007	$ 25,000,000	$ -	$ 25,000,000	$ 3,218,011
SKM Equity Fund II	March,1997	$ 10,000,000	$ 9,185,577	$ 814,423	$ 1,771,644
Thomas H. Lee Equity Fund IV	April,1998	$ 9,000,000	$ 8,668,964	$ 331,036	$ 1,099,503
Thomas McNerney & Partners	October,2002	$ 15,000,000	$ 8,100,000	$ 6,900,000	$ 7,831,589
Thomas, McNerney & Partners II	November,2006	$ 15,000,000	$ -	$ 15,000,000	$ 1,497,813
TPG Partners II	June,1997	$ 10,000,000	$ 10,741,756	$ -	$ 2,860,317
TPG Partners IV	February,2004	$ 15,000,000	$ 11,392,963	$ 3,607,037	$ 16,694,950
TPG Partners V	June,2006	$ 20,000,000	$ 175,317	$ 19,824,683	$ 5,665,334
VS&A Communications Partners III	December,1998	$ 15,000,000	$ 13,991,749	$ 1,008,251	$ 5,325,854
W Capital Partners	March,2004	$ 15,000,000	$ 5,907,000	$ 9,093,000	$ 9,787,778
Washington & Congress Capital Partners, L.P. (fka Trium	February,1998	$ 15,000,000	$ 14,929,587	$ 70,413	$ 1,770,491
Wellspring Capital Partners II	February,1998	$ 15,000,000	$ 15,359,102	$ -	$ 678,403
Wellspring Capital Partners III	December,2002	$ 20,000,000	$ 20,349,518	$ -	$ 17,327,040
Wellspring Capital Partners IV	June,2006	$ 20,000,000	$ 1,459,218	$ 18,540,782	$ 3,896,141
Welsh, Carson, Anderson & Stowe VII	December,1995	$ 15,000,000	$ 15,000,000	$ -	$ 1,662,549
Willis Stein & Partners	June,1996	$ 5,000,000	$ 5,006,918	$ -	$ 251,096
		$ 1,293,436,734	$ 806,687,929	$ 486,748,805	$ 530,025,696

State of Rhode Island
Office of the General Treasurer
Real Estate
FY 2007

Manager	Inception Date	Partnership Commitment	Prior Funding Thru June 2006	Unfunded Balance	Market Values at June 30,2006
Heitman Fund IV **	March, 1989		$ -	$ -	$ -
RREEF America REIT II	June, 2005	$ 35,000,000.00	$ 35,000,000.00	$ -	$ 41,768,391.00
Prime Property Fund	September, 2005	$ 35,000,000.00	$ 35,000,000.00	$ -	$ 48,910,957.00
PRISA	September, 2005	$ 50,000,000.00	$ 50,000,000.00	$ -	$ 66,092,441.00
PRISA II	June, 2007	$ 15,000,000.00	$ 3,000,000.00	$ 12,000,000.00	$ 3,000,000.00
JP Morgan Strategic Property Fund	March, 2006	$ 50,000,000.00	$ 50,000,000.00	$ -	$ 62,135,094.00
LaSalle Income & Growth Fund IV	June, 2005	$ 15,000,000.00	$ 11,903,217.00	$ 3,096,783.00	$ 12,578,517.00
Capmark Commercial Realty Partners II	March, 2006	$ 15,000,000.00	$ 10,790,355.00	$ 4,209,645.00	$ 12,798,295.00
JP Morgan Alternative Property Fund	March, 2006	$ 20,000,000.00	$ 20,000,000.00	$ -	$ 21,631,307.00
Fillmore East Fund	December, 2005	$ 10,000,000.00	$ 6,649,872.00	$ 3,350,128.00	$ 6,531,637.00
TA Fund VIII	September, 2006	$ 15,000,000.00	$ 3,750,000.00	$ 11,250,000.00	$ 3,656,769.00
Fremont Strategic Property Partners II	December, 2004	$ 15,000,000.00	$ 8,555,968.00	$ 6,444,032.00	$ 7,902,385.00
Tri Continental Capital VII	June, 2005	$ 15,000,000.00	$ 10,830,109.00	$ 4,169,891.00	$ 12,334,665.00
Starwood Capital Hospitality Fund I	September, 2005	$ 10,000,000.00	$ 4,500,000.00	$ 5,500,000.00	$ 7,504,081.00
Westbrook Real Estate Fund VI	June, 2006	$ 15,000,000.00	$ 15,000,000.00	$ -	$ 14,097,746.00
Walton Real Estate Fund V	September, 2006	$ 20,000,000.00	$ 15,095,474.00	$ 4,904,526.00	$ 15,380,523.00
Westbrook Real Estate Fund VII	June, 2007	$ 15,000,000.00	$ -	$ 15,000,000.00	$ (22,770.00)
		$ 350,000,000.00	**$ 280,074,995.00**	**$ 69,925,005.00**	**$ 336,300,038.00**

MINUTES FROM FY2007
STATE INVESTMENT COMMISSION MEETINGS

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting August 30, 2006

A State Investment Commission ("SIC") meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, August 30, 2006. The Treasurer called the meeting to order at 9:05 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Dr. Robert McKenna, Ms. Marcia Reback, Mr. John Treat, and General Treasurer Paul J. Tavares. Also present were: Ms. Joan M. Caine, Deputy Treasurer for Finance, Jayne Donegan, Esq., of Brown Rudnick Berlack Israels, Legal Counsel to the Commission, Mr. William Bensur and Mr. Stephen Marshall of Wilshire Associates Incorporated, General Consultant to the Commission, Mr. Frank Blaschka of The Townsend Group, Real Estate Consultant to the Commission, and other members of the Treasurer's Staff. Mr. Jeffrey Britt was absent.

State Investment Commission Minutes. Mr. Costello moved, Mr. Treat seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Dr. McKenna, Ms. Reback, Mr. Treat, and Treasurer Tavares.

VOTED: To approve the Minutes of the June 28, 2006 regular meeting and to approve and seal the Minutes of the June 28, 2006 Executive Session.

Proposed Investment in Westbrook Real Estate Fund VII, L.P. ("Westbrook VII"). Mr. Frank Blaschka of The Townsend Group gave a brief overview of Westbrook VII, a high return non-core fund. He noted that the Employees' Retirement System of Rhode Island ("ERSRI") invested in Westbrook Real Estate Fund VI. Because of the strength of the deal flow, Westbrook is returning to the market for Fund VII to raise capital to allow them to take advantage of compelling investment opportunities consistent with their historical strategies.

Mr. Paul D. Kazilionis, Founder and Chief Executive Officer represented Westbrook VII. He explained that Westbrook VII will pursue opportunistic real estate investing within the following areas: undervalued assets and portfolios; corporate and government divestitures; urgent recapitalizations; and dysfunctional ownership. The fund intends to focus on major cities in the United States, Europe, and Japan such as Washington, DC, New York, San Francisco, London, Paris and Tokyo. There are no limits on the international exposure, which is a change from the 45% international limit in fund VI.

Mr. Kazilionis noted that Westbrook VII will focus on high quality, well-located properties with an emphasis on privately negotiated transactions. The target IRR for US investments is 18-22%+, for European investments 20-25%+, and in Japan the target IRR is 25-30%+. He reviewed performance for Westbrook V which is projected to achieve an aggregate IRR in excess of 30% and 66% of the total capital commitments have been returned. Westbrook VI is expected to be fully invested within 45-60 days. It is projecting a 20% IRR but expectations are that the returns will be significantly higher. Fund VI has already returned 11%.

Mr. Kazilionis noted that liquidity in the markets is so great that the funds are reaching their exit values sooner than expected. Properties that were expected to be held for 3-5 years, are finding liquidity in 1-2 years. He stressed that Westbrook has a very focused investment strategy, very specific markets, and a real focus on private originations.

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

VOTED: To invest up to $15 million in Westbrook Real Estate Fund VII, L.P. contingent upon satisfactory review and negotiation of investment and other legal documents.

Gateway Eight Update - Great Point Investors ("Great Point") and The Townsend Group ("Townsend"). Mr. Gary R. Schwandt, Principal, Mr. Joseph Versaggi, Principal and Mr. Andrew LeStage, Vice President represented Great Point and Mr. Frank Blaschka represented Townsend. Mr. LeStage reported that the sale of the Gateway Eight Building to Commonwealth Ventures for $20 million was finalized on August 2, 2006.

Ms. Caine reminded the Commission that in May 2005, the developer of the Gateway Building "tossed the keys" to ERSRI in Bankruptcy Court. Because ERSRI was in no position to take over management of the building, she called Mr. Blaschka at Townsend for a recommendation of a firm able to help ERSRI take over the operation and control of the building. At that point insurance protection was needed along with security services and operational and systems managers. Mr. Blaschka recommended Great Point Investors in Boston. After her call to Great Point, Mr. Versaggi was on the premises within 24 hours and essentially took over management of the building. Ms. Caine thanked everyone involved and stated that it was because of the Great Point team and Mr. Blaschka's connection that the end result is so favorable.

Treasurer Tavares thanked Mr. Blaschka and the Great Point team as well as Commission members for their diligence and support given throughout this ordeal. The Treasurer also thanked Ms. Caine and staff.

Ms. Caine reported that she is preparing a detailed list of costs and expenses incurred in the management of the property so that we can notify the Economic Development Corporation ("EDC") of the deficit as EDC had provided a $3 million guaranty. She expects the deficit to be between $1.5 to $2 million. The EDC will then notify the Governor of the demand under the guaranty. It is then up to the General Assembly to put that appropriation into the Governor's budget. It will probably be about a year before the issue is resolved.

Ms. Caine also noted that the SIC and the City of Providence entered into a Liquidating Trust Agreement to attempt to recapture approximately $2 million in back taxes from BFDS, the former tenant who exited its lease early. The attorneys are in mediation discussions to try to recapture a portion of that $2 million which will be split between the SIC and the City of Providence.

Mr. Schwandt thanked Mr. Blaschka for his recommendation which enabled Great Point the opportunity to work with the SIC. He also thanked Ms. Caine and staff and stated that he could not imagine a better group of people to work with. He also noted that although the SIC had not met Mr. Versaggi previously, that he had been the initial contact and was also involved in all the advice given and the decisions made that Mr. LeStage and he delivered to the SIC.

Mr. Versaggi thanked Ms. Caine for her kind words. He explained that the Gateway experience enabled Great Point to employ a number of the skills they possess in the value added or enhanced investment practice. Those skills will be offered to clients in the form of a fund Great Point is raising and they would welcome the opportunity to discuss it with the SIC at a future time.

The Treasurer asked that the Minutes also reflect his thanks to Attorney William Baldiga of Brown Rudnick Berlack Israels who represented ERSRI in the bankruptcy. He noted that if it were not for his knowledge, professionalism and tenacity ERSRI may not have attained the same outcome. He again thanked all those involved for their teamwork in resolving the Gateway Eight Building matter.

Wilshire Associates Incorporated - Asset /Liability Analysis Report. Mr. Bensur introduced Mr. Stephen Marshall, an actuary from Wilshire's Santa Monica, California office. Mr. Bensur noted that most defined benefit plans exist in an underfunded status. He noted that by mid 2008 to 2009 there will be more inactive participants in the system than active employees. Institutional investors are actively seeking higher returns and/or a lower risk profile by investing in non-traditional asset classes such as private equity, real estate, hedge funds, and commodities.

Mr. Bensur noted that the actuarial discount rate assumption is 8.25% and that the current asset allocation policy is expected to generate a long-term return of 8.08%. The asset allocation policy decision alone will have a limited impact on the unfunded liability status of the ERSRI. Additional total contributions will be required to achieve improved funded status. He stated that the ERSRI portfolio (the "Fund") has had top quartile returns over both three and five years. The Fund beat the policy benchmark by 100 basis points on a net basis for three years and by 50 basis points over a five year period.

Note: Dr. McKenna left the meeting at 10:40 a.m.

Mr. Bensur presented six alternative policy portfolio examples as follows: Lower Risk (Alt. A), introduce Commodities (Alt. B), No Home Country Bias (Alt. C), Higher Return (Alt. D), introduce Commodities and Increase Private Equity (Alt. E), and No Country Bias, introduce Commodities and increase Private Equity (Alt. F). The six Alternative Portfolios project the following median returns: Alternative A (7.81%); Alternative B (7.98%); Alternative C (8.08%); Alternative D (8.24%); Alternative E (8.25%); and Alternative F (8.28%). He noted that Alternatives E and F seem like the most efficient from a statistical standpoint and are reasonable for consideration.

Mr. Bensur noted that over the last five years, the Wilshire 5000 (all US stocks) was up 4%. The All Country World ex-US Index was up 11.85%. Over the last ten years, the Wilshire 5000 was up 8.5% and the All Country World ex-US Index was up 7.2%.

Ms. Caine stated that another consideration would be to invest in international bonds, a sector where many other public funds are invested. She suggested that rather than have a specific allocation to global bonds, it may make sense to allow a domestic fixed income manager to have the capability to invest tactically in the foreign bond market. Mr. Bensur noted that investing in foreign bonds would be a risk reducer rather than a return generator.

Mr. Bensur noted that the asset allocation policy decision alone will have a limited impact on the unfunded liability status of the pension fund. He again stressed that the only way to close the gap between accrued liability and projected market value of assets is to increase contributions. He also recommended maintaining a broadly diversified investment approach, continuing to identify diversified sources of value added investment opportunities, and continuing to rebalance to target allocations.

Ms. Caine encouraged the SIC to continue to think "outside" the public pension fund universe and, similar to the SIC's decision to increase international equities several years ago, consider the investment allocation of endowments.

Mr. Bensur stated that many pension funds have been increasing exposure to "inflation sensitive" assets which would include TIPS and real estate, which ERSRI has exposure to, as well as commodities. He also noted that many pension funds are moving toward the elimination of home-country bias in equities such as a 50-50 balance between US and non-US equities. Wilshire also recommends that ERSRI consider expanding the portable alpha program to include additional strategies such as global macro, currencies, and long-short.

He noted that Wasatch Advisors has trailed its benchmark by 4.50% since inception in March of 2002. MacKay Shields has experienced organization turnover and Shenkman has trailed its benchmark by 5.13% since inception in September of 2002.

Mr. Marshall explained that the core business of a pension plan is to pay benefits promised to its participants. The primary risk to the core business is to have insufficient assets to pay promised benefits. Therefore it is in the best interest of the plan participants to make promised benefits as secure as possible. He noted that Alternatives A and B are too conservative. Alternatives E and F provide savings as they are more diversified with higher returns and a lower standard deviation.

Treasurer Tavares noted that Wilshire's report was given on an informational basis for Commission members. There will be more information forthcoming on bonds and commodities eventually, but that no votes are to be taken at this point with regard to managers or allocations. He noted that Ms. Caine and Mr. Bensur will be looking at measures to be taken and will come back to the Commission with recommendations.

<u>Wilshire Associates Incorporated - Capital Market Review</u>. Mr. Bensur distributed his Capital Market Review noting that equities are up 5.5%, international equities are up 13%, and bonds are up about 2%.

<u>Deputy Treasurer for Finance Report</u>. Ms. Caine distributed a graph that State Street Bank & Trust Co. ("State Street") provided which illustrates that for the one, three, five and seven year time periods, the ERSRI portfolio has outperformed its benchmark and consistently ranks between the 9^{th} and 28^{th} percentile among public funds (>$1 billion). This is a dramatic improvement over the ten year time period when the portfolio underperformed its benchmark and ranked near the bottom of the public fund universe (85^{th} percentile).

Ms. Caine noted that she is a member of the National Association of State Investment Officers ("NASIO") and attends an annual forum where ideas and information is shared regarding various pension portfolios and investment strategies. She noted that the endowment universe consistently outperforms the public fund universe year in and year out. Endowment funds have a larger exposure to private equity and other alternative assets relative to public funds.

Ms. Caine noted that in 1999 ERSRI was invested in 32 private equity partnerships and as of 8/30/06 there are 75 partnerships in the ERSRI portfolio. Private equity provides a good diversification, superior returns and our consultant helps to ensure that we implement that strategy thoughtfully with particular focus on vintage year, sector and partnership exposures. She also recommended that the SIC consider increasing its allocation to private equity from 7.5% to 10%.

Ms. Caine has restructured the Investments Department as part of a succession plan as staff retires. She has broadened job descriptions of staff to allow for more dedicated resources for the pension plan and introduced Cheryl Melise who recently joined the department.

Ms. Caine stated that at September's meeting she would like to bring in State Street Global Markets to explain their cash liquidity management program. It would be a way to streamline the rebalancing process that staff performs every month and enable ERSRI to equitize the portfolio's cash. The program monitors target allocations and enhances rebalancing thereby reducing transaction costs.

Ms. Reback requested that the actuary be brought before the Commission at some point. Ms. Gallogly requested that Commission members be provided with a packet of information which would be useful with a new Treasurer coming in.

General Treasurer's Report. Treasurer Tavares noted that a nationally known website - SavingForCollege.com has conducted a study regarding the performance of the 529 Plans and it has ranked Rhode Island as #1 as of June 30, 2006. Rhode Island is still number one for direct sales, broker sales and performance over a three year period.

Ms. Reback moved, Mr. Treat seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Ms. Reback, Mr. Treat, and Treasurer Tavares. (Note: Dr. McKenna was not present for this vote.)

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 11:25 a.m.

Respectfully submitted,

Paul J. Tavares
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting September 27, 2006

A State Investment Commission ("SIC") meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, September 27, 2006. The Treasurer called the meeting to order at 9:05 a.m.

Membership Roll Call. Present were: Mr. Jeffrey Britt, Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. John Treat, and General Treasurer Paul J. Tavares. Also present were: Ms. Joan M. Caine, Deputy Treasurer for Finance, Jayne Donegan, Esq., of Brown Rudnick Berlack Israels, Legal Counsel to the Commission, Mr. William Bensur of Wilshire Associates Incorporated, General Consultant to the Commission, Mr. Christopher Bower, Ms. Kara King, Mr. Tom Keck, and Mr. Mark Oemcke of Pacific Corporate Group, Alternative Investments Consultant to the Commission, and other members of the Treasurer's Staff. Ms. Reback arrived at 9:06 a.m. and Dr. Robert McKenna was absent.

State Investment Commission Minutes. Ms. Gallogly moved, Mr. Britt seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Britt, Mr. Costello, Ms. Gallogly, Mr. Treat, and Treasurer Tavares. Ms. Reback was not present for this vote.

VOTED: To approve the Minutes of the August 30, 2006 regular meeting.

Pacific Corporate Group ("PCG") Organizational Update. Ms. Caine introduced Mr. Christopher Bower, Founder and Chief Executive Officer of PCG, Ms. Kara King, Head of Monitoring & Reporting, Mr. Tom Keck, Head of Research and Mr. Mark Oemcke, Chief Operating Officer. Ms. Caine noted that the relationship with PCG has been a long-standing and profitable one. Although the private equity sector of the portfolio is only 7.5%, it has delivered strong returns of over 16% annualized since inception consistently beating the benchmark. Ms. Caine noted that recent senior staff departures have caused concern as it is not the first time PCG has experienced sudden departures. The four individuals who recently resigned are: president, Monte Brem and managing directors Tara Blackburn, Stephen Moseley and Michael Russell.

Mr. Bower explained that PCG has been investing on behalf of the Employees' Retirement System of RI ("ERSRI") since 1995. The firm was started in 1979 and has grown approximately 50% over the last year to nearly 60 people with 11 managing directors. Recent hires include Michelle Davidson and David Scopelliti who have backgrounds in private equity. He explained that private equity is a long-term asset class. He stressed that PCG still has a large team, a deep bench and institutionalized investment processes. Although the departures are unfortunate, Mr. Bower noted that PCG is well situated to continue to implement its proven and successful investment strategy which has delivered outstanding returns for its clients.

Mr. Bower explained that PCG Asset Management oversees more than $15 billion of private equity commitments through a combination of discretionary management and advisory arrangements and PCG Capital Partners makes direct investments in operating companies through the PCG Corporate Partners Fund and co-investment funds. The four departing individuals had approached Mr. Bower to renegotiate their contracts and also wanted some changes in governance and operations. Those changes were taken under consideration and agreed to and

PCG researched comparable compensation packages. After further negotiations, the compensation issues were unable to be resolved.

Mr. Bower reported that CalPERS has been a client for 18 years and PCG has returned an IRR of 18% to them; the State of Oregon has been a client for 15 years and PCG returned 17.5%, New York City has been a client for 10 years and PCG has returned 13%. PCG is one of the largest, oldest and most successful firms in the business. PCG has changed over the years, institutionalized, rallied and met obligations with no change in performance despite some departures.

Mr. Keck gave an overview of the background and highlighted the new structure of PCG. The parent company is PCG Holdings with two subsidiaries: PCG Asset Management and PCG Capital Partners. The role of president of PCG Asset Management has been replaced by a Management Committee. Client service responsibilities of Tara Blackburn have been allocated to Michelle Davidson and those of Michael Russell have initially been assumed by Michelle Davidson and Kara King. Under the old structure, PCG Holdings owned 70% of the assets with senior employees having a contingent 30% interest. Under the new structure, PCG Holdings owns 50% with the PCG asset management team having 50% ownership rights. Full ownership rights now vest over five years. However, the holding company, PCG Holdings, has only one member, Chris Bower.

Mr. Bower noted that PCG asset management clients are assessing the impact of the recent departures, and several clients are looking to the PCG's larger clients to assist in that evaluation. CalPERS is currently conducting due diligence and will announce their determination within the next few weeks. So far no client has taken any negative action.

Treasurer Tavares thanked Mr. Bower and asked that he continue to keep the Treasurer's office apprised of the situation going forward.

Treasurer Tavares explained that ERSRI has no financial exposure to be concerned with, and the technical reporting has remained entirely intact with no changes. He also noted that the research and due diligence teams are still completely intact. He feels there is no immediate risk to the pension fund. Ms. Caine explained that she contacted other state plans in Oregon, Illinois and Colorado and while they agree with Ms. Caine that there is no reason to take any immediate action, some states will be pursuing a request for proposal process. She stated that there is a very limited group of consultants that offer what ERSRI has now which is a non-discretionary relationship. Treasurer Tavares indicated that staff would continue to monitor the situation.

Coller International Partners V, L.P. ("Coller V"). Ms. King gave a brief overview of Coller V noting that it is a "re-up" as ERSRI had invested $15 million in Coller IV in 2002. This fund is the only secondary relationship held in the portfolio and it had an IRR of 26.4% as of 6/30/06. Mr. Keck noted that Coller is one of the few secondary funds that PCG is recommending.

Mr. Frank Morgan, Partner represented Coller V. He noted that Coller has been in business for 16 years with four funds and has produced consistent top-quartile returns for all funds. Coller has the largest team of investment professionals dedicated to secondaries which is its exclusive focus and is an acknowledged leader in direct secondaries as well. He explained that Fund V will acquire a diversified portfolio of interests in established private equity funds from institutional holders seeking liquidity through secondary market transactions. The fund will also pursue direct private equity investments into portfolios of corporate assets not held in traditional fund structures.

He noted that Coller V will be diversified by manager, investment strategy, vintage year and industry sector. Target fund size is $3 billion with a hard cap of $3.75 billion and will focus on investments in Europe and the US. The net IRR's of Coller's previous four funds are as follows: Coller I - 23%; Coller II - 25%, Coller III - 17%, and Coller IV - 30%. Coller's strategy includes creating investment opportunities, staying flexible and disciplined and anticipating the market.

Note: Ms. Reback left the meeting at 10:18 a.m.

Mr. Britt moved, Ms. Gallogly seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Britt, Mr. Costello, Ms. Gallogly, Mr. Treat, and Treasurer Tavares. Ms. Reback was not present for this vote.

VOTED: To invest up to $15 million in Coller International Partners V, L.P. contingent upon satisfactory review and negotiation of investment and other legal documents.

Granite Global Ventures III, L.P. ("Granite III"). Ms. King gave a brief overview of Granite III noting it is a "re-up" as ERSRI invested $15 million in Granite Global II in 2004. Granite III has a late-stage growth focus and along with ERSRI's investment in Focus Ventures III are the only two relationships that give exposure to this category. Mr. Keck noted that Granite has a great reputation in the market and is able to get into the most attractive deals. Granite III is being formed to make investments primarily in expansion stage information technology companies with select healthcare investments split equally between the US and China. Granite III will continue to focus on mid and late stage companies with proven technology and products, revenue visibility, established management teams and a clear path to liquidity.

Mr. Hany Nada, Founding Managing Director, Mr. Stephen Hyndman, CFO and Mr. Jack Troy of Troy Investments (Placement Agent) represented Granite III. Mr. Nada noted that Granite Fund I has returned a net IRR of 21%. Fund II has had one exit and expects several more in the near future. Granite III will leverage its networks and presence in the US and China to assist its portfolio companies in extending their reach into the global markets. It will introduce strategic partners and help businesses to expand operations, develop new customer relationships and take advantage of lower cost structures through outsourced business processes.

Granite III will build a portfolio of approximately 30 to 35 companies, investing in six to ten new companies per year. They expect to invest $3 to $12 million per investment and seek a board seat on the majority of its investments. Target fund size is $350 million with a hard-cap of $400 million.

Mr. Costello moved, Mr. Treat seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Britt, Mr. Costello, Ms. Gallogly, Mr. Treat, and Treasurer Tavares. Ms. Reback was not present for this vote.

VOTED: To invest up to $15 million in Granite Global Ventures III, L.P. contingent upon satisfactory review and negotiation of investment and other legal documents.

Manager Review - Shenkman Capital Management, Inc. ("Shenkman"). Ms. Kim Hekking, Senior Vice President and Mr. Mark Shenkman, President represented Shenkman. Mr. Shenkman noted that the firm was hired four years ago when default rates in high yield bonds had hit 11% per year. Shenkman has had no departures, no changes in ownership or management and has $10.3 billion of assets under management. Shenkman employs a bottom-up, fundamental credit analysis with intensive credit research utilizing internally developed proprietary tools.

Mr. Shenkman noted that bonds under $80 and rated CCC have led performance recently and the same situation happened in 2003 and 2004. Shenkman outperformed in 2005 when CCC bonds did not do well. Shenkman will consistently underperform when CCC bonds outperform because Shenkman is a traditional high yield manager with a focus on higher quality NIG bonds.

Mr. Shenkman explained that Shenkman believes the credit cycle is at its peak and turning. He expects a declining GDP in 2007, a tightening of credit standards and concerns about credit problems and higher standards going forward. He noted the positive high yield market drivers: a strong US economy, default rates have been low, demand has been very strong and now interest rates are in their favor with 10 year treasuries down. Mr. Shenkman noted that Shenkman has a better chance now to outperform because their average price has come in line with the index. On a risk adjusted basis Shenkman has done well.

Mr. Shenkman stated that in 2002 the portfolio value was $95 million and now the portfolio value is $126.8 million. During that four year period, Shenkman has generated interest income, dividends and accrued income of $36.2 million. The high yield markets have had 147 defaults and Shenkman has had none.

Mr. Bensur noted that Shenkman had been hired four years ago along with MacKay Shields as they had complimentary styles. He stated that the portfolio trails the benchmark by 2.54% on a three-year basis and by 5.14% since inception. Mr. Shenkman asked the Commission to consider the fact that they've only had one part of the credit cycle, only expansion. Shenkman believes 2007 will bring a different credit cycle which favors their style.

Wilshire Associates Incorporated - Manager Continuation Policy Analysis. Mr. Bensur briefly reviewed the investment managers noting that it is Wilshire's recommendation to continue to retain all of the following four US Equity managers for their current assignments: NorthPointe Capital, PIMCO StocksPlus, State Street Global Advisors and Wellington Management Co. Wilshire recommends terminating Wasatch Advisors, Inc. because of poor performance. He noted that Wasatch has been an asset gatherer in the small cap growth space which has increased their capitalization and hurt their performance.

Wilshire also recommends continuing to retain The Boston Company Asset Management, Goldman Sachs Asset Management and Mondrian Investment Partners, Ltd. For their Non-US Equity assignments. Of the five fixed income managers, Wilshire recommends continuing to retain the following for their current assignments: Brown Brothers Harriman & Co., Fidelity Management Trust Co., and Taplin, Canida & Habacht, Inc. With regard to MacKay Shields, LLC, it is Wilshire's recommendation to continue to monitor them regarding their personnel developments. With regard to Shenkman Capital Management, it is Wilshire's recommendation to continue to monitor their performance as they are officially on the "Watch List" and Wilshire believes that it is the wrong time to make a change at this point.

Mr. Bensur also recommended maintaining the current public market target exposures to US Equity (42.5%), non-US equity (20.0%) and fixed income (25.0%). He noted that given the recent outperformance of small stocks, Wilshire is recommending that the investment structure adjust the large stock to small stock ratio from 70%-30% to 75%-25% to reflect market profile and opportunity. Wilshire also recommends utilizing the passive/index exposure on a temporary basis (45% to 50%) to manage this transition and to eventually expand the enhanced index/portable alpha exposure from 15% to 20%.

Mr. Treat moved, Mr. Costello seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Britt, Mr. Costello, Ms. Gallogly, Mr. Treat, and Treasurer Tavares. Ms. Reback was not present for this vote.

VOTED: To accept Wilshire Associates' recommendations in the Manager Continuation Policy Analysis Report presented at the September 27, 2006 SIC meeting to terminate Wasatch Advisors Inc. effective immediately based on poor performance and to invest the assets in a State Street Global Advisors large cap US equity index to be determined by staff and consultant.

State Street Global Markets ("SSgM")- Portfolio Solutions. Ms. Caine stated that SSgM is here today to follow up on a former presentation she gave the Commission regarding services SSgM provides that we are not utilizing at this time but that may be beneficial to the plan. SSgM provides an overlay service which would help staff to rebalance the portfolio on a monthly basis back to target more efficiently. SSgM could also potentially equitize some of the residual cash which would add some incremental value - estimated between 10 to 20 basis points.

Ms. Lisa Tyrrell, Vice President of State Street Bank & Trust Co. introduced Mr. Ross McLellan, Managing Director of SSgM. Mr. McLellan noted the first service SSgM provides is a strategic rebalancing program. He stated that asset allocation variances occur with large plans and the cost of physical trading can be expensive. Derivatives can be used to rebalance assets and plans are becoming more comfortable using them. Physical trading costs for US large cap equity are 20 basis points per transaction and using futures trading costs would be 2 basis points. In the US small cap equity space the savings would be over 68 basis points per transaction.

Strategic rebalancing would include setting up a dedicated account with the custodian for this purpose. This would eliminate staff from having to go to over-allocated managers and take money away for the purpose of giving it to an under-allocated manager. For larger clients like ERSRI, the potential benefit is the savings on transaction costs over a long period of time and a more streamlined process.

Mr. McLellan stated the second service SSgM offers is a cash equitization product that essentially sweeps the active investment managers' cash and equitizes it. He stated that most managers keep about a 3% cash balance so for an S&P manager over the last five years approximately 27 basis points (after fees) could be picked up by being in a cash equitization program. He noted that the less cash on hand, there is less potential for upside and downside returns.

The third service SSgM offers is a liquidity management program. Mr. McLellan noted that pension plans have cash flow needs for normal operations such as paying benefits, fees, private equity capital calls, etc. and that money must come from the investment managers. There are transaction costs incurred when raising cash which can be a drag on performance. SSgM can utilize unrivaled liquidity pools to cross assets and equitize until cash is needed and thereby eliminate many transaction and commission costs. The client determines which managers to take assets from.

Treasurer Tavares and Ms. Caine noted that ERSRI does experience cash flow problems on a monthly basis anywhere from $18 to $28 million. The Treasurer explained he wanted the SIC to be aware that there are vehicles and tools in the marketplace designed to streamline some of these processes. He asked Ms. Caine to evaluate the need for these services and report back to the Commission.

General Treasurer's Report. The Treasurer announced that as of 9/22/06 the CollegeBound*fund* has over $7 billion of assets. There are 475,000 accounts nationally and RI has 16,421 accounts. The value of the RI portfolio is $178 million. Rhode Island has also been ranked as the top performer in the nation for the third year in a row by savingforcollege.com.

Ms. Gallogly moved, Mr. Britt moved and the following motion was passed unanimously. The following members voted in favor: Mr. Britt, Mr. Costello, Ms. Gallogly, Mr. Treat, and Treasurer Tavares. Ms. Reback was not present for this vote.

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 11:50 a.m.

Respectfully submitted,

Paul J. Tavares
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting October 25, 2006

A State Investment Commission ("SIC") meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, October 25, 2006. The Treasurer called the meeting to order at 9:05 a.m.

Membership Roll Call. Present were: Mr. Jeffrey Britt, Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Ms. Marcia Reback, Mr. John Treat, and General Treasurer Paul J. Tavares. Also present were: Ms. Joan M. Caine, Deputy Treasurer for Finance, Jayne Donegan, Esq., of Brown Rudnick Berlack Israels, Legal Counsel to the Commission, Mr. David Lindberg, of Wilshire Associates Incorporated, General Consultant to the Commission, Ms. Michelle Davidson and Mr. David Scopelliti of Pacific Corporate Group, Alternative Investments Consultant to the Commission, and other members of the Treasurer's Staff. Dr. Robert McKenna was absent.

State Investment Commission Minutes. Ms. Reback moved, Mr. Treat seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Britt, Mr. Costello, Ms. Gallogly, Ms. Reback, Mr. Treat, and Treasurer Tavares.

VOTED: To approve the Minutes of the September 27, 2006 regular meeting.

Kayne Anderson Energy Fund IV, L.P. ("KA Fund IV"). Ms. Davidson gave a brief overview of KA Fund IV noting that it is a "re-up" as ERSRI had invested $15 million in Kayne Anderson Fund III in 2004. KA Fund IV is being formed to pursue equity and equity-related investments in North American energy exploration and production companies.

Mr. Kevin D. Welsh, Senior Managing Director represented KA Fund IV. He noted that KA Fund IV will partner with experienced management teams and work to acquire, develop and exploit North American oil and gas assets. Investments will range from $10 to $100 million and look to finance an inflection point in a company's growth through the acquisition of a property or the acceleration of a developmental drilling opportunity. Approximately 70% of investments will be in natural gas and 30% in oil.

Kayne Anderson energy has earned top quartile returns across all three of its prior funds, yielding a net IRR of 33.8% and a gross IRR of 44.5% on its realized investments. The target size of Fund IV is approximately $850 million with a hard cap of $950 million. Investments will be made in approximately 12 to 18 companies with enterprise values up to $250 million at the time of investment. Typical holding period is two to six years.

Mr. Britt moved, Mr. Treat seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Britt, Mr. Costello, Ms. Gallogly, Ms. Reback, Mr. Treat, and Treasurer Tavares.

VOTED: To invest up to $15 million in Kayne Anderson Energy Fund IV, L.P., contingent upon satisfactory review and negotiation of investment and other legal documents.

Nautic Partners VI, L.P. ("Nautic VI"). Mr. Scopelliti gave a brief overview noting that Nautic VI is being formed to make investments primarily in North America middle-market companies. The fund will invest principally in four sectors: business services, manufacturing, healthcare, and communications. Nautic VI is a "re-up" as ERSRI had invested $20 million in Nautic Partners V, L.P. in 2001.

Mr. Rory Smith, Managing Director and Mr. Scott Hilinski, Managing Director represented Nautic VI. Mr. Smith reminded Commission members that Nautic Partners is the successor firm to Fleet Equity Partners, the private equity arm of Fleet Bank, which was formed in 1986. Nautic VI will be the second independent fund formed since Nautic Partners spun out from Fleet Bank in 2000. Nautic VI plans to continue the investment strategy in Fund V investing between $25 million and $75 million per investment across a range of opportunities including growth, consolidation, recapitalization and leveraged buyout transactions.

Mr. Hilinski noted the target size of the fund is $1.2 billion and the general partner will commit at least 2% of the aggregate capital commitments. Nautic Partners has an aggregate IRR of 35.5% on 68 realized investments, and a 52.1% IRR on 5 realized investments in Fund V. As of September 30, 2006 Fund V reported a 30% gross IRR with 17 companies remaining in the portfolio.

Ms. Gallogly moved, Mr. Britt seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Britt, Mr. Costello, Ms. Gallogly, Ms. Reback, Mr. Treat, and Treasurer Tavares.

VOTED: To invest up to $20 million in Nautic Partners VI, L.P., contingent upon satisfactory review and negotiation of investment and other legal documents.

Castile Ventures III, L.P. ("Castile III"). Ms. Davidson gave a brief overview of Castile III which is being formed to continue the same investment strategy of its two predecessor funds by investing in early stage information technology ("IT") companies across the U.S., with a particular focus on investments in New England.

Ms. Nina F. Saberi, Founder and Partner and Mr. David Duval, Partner represented Castile III. Ms. Saberi noted that Castile III will focus on multiple sectors within IT, including communications and enterprise networking, components and subsystems, enterprise software, information technology infrastructure, and security. Castile III's proposed early stage portfolio allocation targets are: 30% on investments at pre-plan (formation) stage, 40% in pre-product (development) stage, and 30% in pre-revenue (initial expansion) stage.

Mr. Duval stated that Castile III will invest in 15 to 18 companies, committing an average of $6 to $10 million per investment. Castile aims to lead or co-lead each investment with an ownership percentage of at least 20% and to obtain at least one active board seat in the majority of its portfolio companies. Target size of the fund is $100 million with a hard-cap of $130 million. It is expected that 60% of investments will be in New England, 20% in the New York/New Jersey area and 20% on the west coast.

Ms. Reback moved, Mr. Britt seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Britt, Mr. Costello, Ms. Gallogly, Ms. Reback, Mr. Treat, and Treasurer Tavares.

VOTED: To invest up to $5 million in Castile Ventures III, L.P., contingent upon satisfactory review and negotiation of investment and other legal documents.

Deferred Compensation (457) Plan - ING. Ms. Caine welcomed the following representatives from ING to the meeting: Ms. Marlene Oien, Regional Manager, Mr. Richard Thornburg, National Accounts Manager, Mr. James Bogoian, Senior Fund Analyst and Mr. Michael Eldredge, Investment Product Manager. She explained that she's been working the last few months with ING to enhance the investment option menu that ING offers participants. She noted that ING is one of three 457 providers, the other two being Fidelity and VALIC.

Ms. Caine noted that in October of 2004, Phase I of changes to the investment options offered in ING's 457 plan was approved by the SIC. She and ING have discussed, subject to approval by the SIC**,** on additional proposed changes to the fund options offered as part of Phase II, to further enhance the diversification of the menu of options, including the addition of life cycle funds.

However, prior to proposing the new options she wanted to apprise the Commission of recent regulatory developments affecting ING. She reminded Commission members that in late 2003, market-timing and frequent trading activities at numerous financial institutions was disclosed. These activities were industry-wide and included mutual fund firms the SIC has had relationships with - Putnam Investments (terminated), Alliance Capital (529 Plan) and ING.

Between 2004 and 2006 numerous conference calls with representatives of ING and written communication from ING indicated that an internal investigation uncovered isolated cases of market timing and when questioned if RI's 457 plan and its participants were affected, ING responded that they did not affect Rhode Island's plan. A 6/12/06 letter from ING states that market timing/inappropriate frequent trading arrangements did not occur in ING's retirement services business.

The second regulatory development relates to a revenue share issue. ING offers its own proprietary funds as part of the plan as well as non-proprietary funds such as Oppenheimer and Janus funds. ING receive fees, called "revenue share" from these non-proprietary fund families for including them in ING's plans. Revenue sharing has been a standard practice and not unusual in the mutual fund world. However, the issue that arose was how well those revenue share arrangements have been disclosed to plan sponsors as well as participants.

In February 2005 as these regulatory issues were coming to light, Ms. Caine conducted a survey with all three 457 providers asking them for very specific details on expense ratios, management fees, 12(b)1 fees, etc. and also asked for specific detail on the revenue generated from these plans. Staff received responses from all three providers and ING provided details on revenue and expenses which indicated a range of net income between $90 and $191 million annually.

This past summer two high profile investigations in the states of New Hampshire and New York regarding ING reached a critical point. In New Hampshire the issue being investigated related to market-timing and failure to disclose revenue share arrangements. In New York the investigation focused on unions and the fact that ING paid a teachers union undisclosed fees over time to represent ING funds. In early October, 2006 the press revealed that New Hampshire had settled with ING in the amount of $3 million. In the settlement agreement, ING does not admit or deny any wrongdoing, but admits it did not retained e-mails that were necessary or requested as part of the investigation. The New York settlement, negotiated by the NY Attorney General's Office, amounted to $30 million.

As a result of the settlement announcements on October 10th, Ms. Caine and Chief of Staff George Carvalho, had a conference call with Ms. Oien on October 12th to again inquire how these issues affected Rhode Island's plan. Ms. Oien responded that ING did not think that the issues affected Rhode Island's plan directly. Ms. Caine asked Ms. Oien how New Hampshire and New York arrived at the settlement figures. Ms. Oien did not know how New York's settlement figure was arrived at, but knew that New Hampshire settled for 10% of the New York's figure making it more of an arbitrary determination.

On October 24th Mr. Carvalho and Ms. Caine held a meeting with the Department of Administration (DOA), as they jointly manage the 457 plan with the SIC, and the Department of Business Regulation (DBR) to share information and coordinate efforts. Representatives of the DBR indicated that the agency had issued a subpoena to ING seeking information regarding the New Hampshire and New York settlements as well as additional information concerning the Rhode Island plan. The three agencies agreed that they would work in a cooperative effort to determine whether any participants in the Rhode Island plan had been impacted.

After summarizing these allegations and settlements, Ms. Caine indicated that she would like to give ING representatives the opportunity to share their perspective on these developments, but that she does have some specific questions she would like them to address. She reminded the Commission that in October 2004 they approved ING's proposal to remove Janus funds from ING's 457 investment menu, one of which was replaced with an Oppenheimer fund based on the fact that the expense ratio was the same, it was a better performing fund and it had higher Morningstar rank. She noted that the New Hampshire plan's replacement of the Janus fund with the Oppenheimer fund and the revenue share arrangements is highlighted in the New Hampshire documents.

ING has admitted both verbally and in writing that while it complied with the disclosure rules and regulations, its disclosure probably could have been better. Ms. Caine noted she still has questions as to where the revenue share is included in the data ING has provided us – is it in the12 (b)-1category, or expense ratio or some other category – and would like some clarification on that particular fund (Oppenheimer) to determine if the Rhode Island plan was affected in the same way as New Hampshire. Ms. Caine then asked the ING representatives to provide their perspective and suggested we go back to these questions.

Ms. Oien indicated that there were two items that they would like to discuss: 1) to provide a regulatory update, which Rich Thornburg will cover and 2) discuss investment option proposals/changes for the SIC's consideration, which Jim Bogoian and Mike Eldredge will assist with.

Mr. Thornburg of ING explained that the settlements took place on October 10, 2006 with the New York Attorney General's Office and the State Securities Bureau of the State of New Hampshire. He noted that the findings of the NY Attorney General related to the endorsement that ING had paid to the members' benefit trust of the NY State United Teachers since the inception of the program in 1989. The NY Attorney General findings stated that ING paid the endorsement but did not properly disclose the extent of the endorsement payment to the member benefit trust. At the same time, the state of New Hampshire had approached ING with an administrative action in June 2006 which related to various allegations that ING somehow encouraged market timing or acted in a way that encouraged market timing within some of the funds that were included in the State of New Hampshire Deferred Compensation Plan. New Hampshire also claimed that ING inadequately disclosed revenue that was received in various fund substitutions. New Hampshire's Petition also refers to ING's alleged failure to retain e-mails related to the investigation.

Mr. Thornburg stated that on October 10th ING settled these matters with the NY Attorney General's Office and with the New Hampshire Securities Bureau. As part of that settlement ING neither admits nor denies the allegations. The settlement with the New York State United Teachers was $30 million. That amount was specifically determined as a multiple of the endorsement that had been paid by ING over the course of this arrangement beginning in 1989 and was arrived at mutually between ING and the NY Attorney General's Office. That amount will be paid in the form of restitution to New York State United Teachers as a flat dollar amount of $100 per participant. There are approximately 66,000 current and former members in the New York State United Teachers Union. The remaining balance of the $30 million settlement will be distributed on the basis of the average month end balance of these participants during the determination period which begins in January of 2001 through June of 2006.

In the case of New Hampshire, ING agreed to a settlement, but had initially disagreed as to the facts. Mr. Thornburg clarified that the NY State Teachers Union settled with Attorney General Spitzer in June of this year, independent of ING's settlement, for $100,000. ING agreed to set aside its differences with New Hampshire and saw an opportunity to work constructively with the NY Attorney General's Office to dispose of the allegations. Contemporaneously, the State of New Hampshire had allied themselves with the New York Attorney General's Office. ING saw a way to dispose of both matters at the same time and did so reaching agreement in the case of New Hampshire reaching a settlement in the amount of a fraction (10%) of the amount agreed upon by the NY Attorney General's Office. In the case of New Hampshire, the settlement will be distributed with $225,000 going to the State Securities Bureau to cover the cost of the investigation and the balance, $2,775,000, will be distributed to approximately 5,000 participants ($555/participant) in the State of New Hampshire Deferred Compensation Plan.

ING is obliged to create a scheme of distribution and submit it to the State of New Hampshire within 60 days of the Order and are in the process of doing so. ING expects it to be a simple ratable distribution based on month-end balances during a determination period which is deemed to begin in May of 2000 and end in May of 2006. Mr. Thornburg noted that the findings and the Consent Agreement in the case of New Hampshire are available to the public on the websites of the State of New York and the State of New Hampshire.

Ms. Caine responded that she had copies of the New Hampshire documents and noted that the Oppenheimer fund is specifically mentioned in the Order and she questioned whether or not Rhode Island plan was affected in the same way as the New Hampshire plan given that we implemented the same fund substitution (the Janus fund replaced by the Oppenheimer fund). She asked ING to tell the Commission if our 457 plan was impacted or not.

Ms. Oien responded that she was not sure exactly what document Ms. Caine was referencing related to New Hampshire. She confirmed that ING did implement a fund substitution related to the Janus fund in late 2004 in Rhode Island's plan and without knowing the details of that document she couldn't be certain if what's there is factual. Ms. Caine responded that the document she was referring to was the New Hampshire Bureau of Securities Regulation's Order. Ms. Oien asked if that was the original administrative action filed in June of 2006. Mr. Carvalho responded, yes, it was the original Complaint (June, 2006) that outlines the funds involved, specifically the Janus Aspen Series.

Ms. Oien replied that New Hampshire had alleged that by virtue of the movement from the Janus Aspen Series to the receiving of whatever the alternative option they chose, that there was a revenue component that was not clear to them? Or that they were directed? Ms. Oien then stated that the administrative action alleges that (undisclosed revenue component), but that she does not know that there was a final factual finding as it relates to that allegation.

Mr.Thornberg then stated that what ING has agreed to in the settlement is to set aside that dispute and to move forward. Mr. Thornburg added that one of the key elements of the settlements with both New York and New Hampshire involves ING's agreement to enter into a new phase of disclosures related to their retirement products. This would take the form of a one page document that outlines fees and expenses on an average basis that a participant of the plan would pay. They are settling on the actual date that ING would distribute that document. In the New York agreement it is 180 days after the settlement date of October 10, 2006, that ING would have to make that disclosure document available to participants in all of their plans which would include 401k plans, 457 deferred compensation plans and 403(b) plans in all states. This disclosure, in terms of public policy, was sought after by the New York Attorney General's office as part of the settlement.

Ms. Caine noted that the New Hampshire Order says on page 8 that ING "received greater fees (excluding supplemental payments) on the investment products that were mapped into the Plan - the ING Oppenheimer Strategic Income Portfolio, the ING Oppenheimer Global Portfolio (which is the fund that Rhode Island added as a replacement) - than on the Janus Aspen Series of funds." Ms. Oien asked Mr. Eldgredge if he recalled what the revenue share was on those particular funds as part of the fund substitution effort.

Ms. Caine informed the Commission that the Rhode Island Department of Business Regulation ("DBR") issued a subpoena to ING on October 19th for document production and the deadline for receipt of those documents is in early November. DBR may also follow up and put in writing some more detailed questions that relate to those options.

Mr. Carvalho asked if ING has done an analysis of Rhode Island's plan with respect to those investments. Mr. Eldredge replied that he and Mr. Bogoian were there today to discuss the analysis from the standpoint of the quality, substance and style of the funds offered in the plan. After working for several months with Ms. Caine, they have brought an investment option proposal before the Commission today. While the plan is a good one, there is an opportunity to improve a couple of funds. This analysis is in the presentation book and in that analysis is a revenue sharing column. Mr. Eldredge noted that there has been much discussion on the revenue share, an arrangement which is standard in the industry.

Ms. Caine said that before we get into discussion of the fund option analysis, there are a few more items to cover. She explained the importance of including life cycle funds, which are currently not offered in ING's RI 457 plan. These funds have become increasingly important tool for participants and, as part of Congress' Principal Protection Act, lifecycle funds are now the fall back provision/default option, replacing money market funds. She sees the absence of life cycle funds as the biggest investment option gap in the plan.

Ms. Caine explained that the SIC, as outlined in the contract, is charged with approving all funds, additions and deletions of funds options in the 457 plan. She noted that a Legg Mason fund appears to be part of ING's Rhode Island plan but that it was never approved by the

Commission and she would like ING to explain how that fund became part of our plan without approval.

Treasurer Tavares thanked George Carvalho and specifically Joan Caine for their continued due diligence. He stated that the SIC takes very seriously its due diligence requirement as it relates to any regulatory matters. Our track record is clear with Putman and other firms in the past. He stated that the Commission would not discuss any further investment fund proposals from ING until the SIC receives satisfactory answers to any pending regulatory questions. DBR has issued a subpoena for information and the SIC will work closely with DBR as well as with the Department of Administration. He stressed that he expects the full cooperation of ING with regard to those queries, in particular any and all actions that affected the Rhode Island plan. He would like clarification on the reasons and justification for the option change/transfer to the Oppenheimer fund, which may or may not offset the revenue share issue. He would also like ING to revisit the market timing issues and confirm if Rhode Island's plan was or was not affected. He expects full cooperation on the part of ING to determine if the State of Rhode Island has been affected by these issues before going forward with future investment option changes or continuing the relationship with ING.

The Treasurer will respect the timeframe put forth from DBR to ING for the production of information. He stated that he wanted Commission members to become familiar with the situation and the challenges before them which will transfer to a new administration. He and Ms. Caine will continue to work with DBR to gather the information they will be receiving. He told ING that they will be receiving a separate inquiry from the Treasurer's Office with specific questions and he expects a full and timely response to those questions.

Ms. Oien thanked the Commission and looks forward responding in specific detail to any questions. Mr. Thornburg stated that the Commission could expect ING's full cooperation in the investigation and that ING's general counsel would be in direct contact with DBR. Ms. Reback requested that Commission members receive a copy of the letter sent to ING.

Treasurer Tavares again thanked Ms. Caine for her hard work behind the scenes in this investigation. Ms. Caine said that she would be sharing her files with DBR and noted that the State of New Hampshire was significantly helped by their consultant in this investigation and that most state plans have a consultant to help oversee their 457 plan. She noted that, in addition to her other responsibilities, it is difficult to monitor all of the investment options in the 457 plan (60) effectively.

Treasurer Tavares again stated the 457 plan falls under the direction of the Department of Administration and Rhode Island does not have a consultant to advise and assist with the 457 plan. The SIC does not have an official role as to the administration of the plan and how it's presented to employees. The SICs role is to review investments and performance. The Treasurer stated he is on the record dating back several years stating his position that the lack of a consultant for 457 plan is a weakness and there may be some future exposure that needs to be addressed and has communicated this to two former Directors of Administration as well as the current Director. The challenge is that the SIC cannot pay for a 457 plan consultant as the assets of the pension plan (the defined benefit plan) are exclusively for benefit of the pension fund participants. The compensation would either have to be funded by DOA or by the investment providers.

At one point a firm approached the Treasurer and offered consulting services for free, requiring access to the employee base. The Treasurer stated that a Request for Proposals should be issued if a decision is made to hire a consultant. He has made Department of Administration aware of this proposal. While the SIC is fulfilling it's duty as it relates to the 457 plan, he remains concerned that the lack of consultant could be a problem at some point.

Ms. Caine noted that the three providers of the 457 plan are VALIC, Fidelity and ING and each offers 20 fund options for a total of 60 funds. The Treasurer stated that the 457 plan is regulated by legislation which states that the SIC shall select three firms to provide services to employees.

A discussion ensued regarding how employees make investment decisions in the plan. Ms. Gallogly mentioned that New Hampshire pays a consultant to assist its employees, but it's built into the fees that the participants pay. Rhode Island's three providers provide pamphlets and brochures for employees and toll-free telephone numbers and Internet services. Mr. Costello noted that one way to compensate a consultant would be to have each of the three providers pay one-third of the fees. Commission members also discussed various options for engaging a consultant to oversee and monitor the investment options of the three providers. Mr. Lindberg noted that Wilshire Associates provides investment advisory services to the state of Louisiana Deferred Compensation Program and the fee is rolled into the administrative fees.

Treasurer Tavares stated that Ms. Caine would continue to work with DBR and he will again notify the Department of Administration his concerns about oversight of the 457 plan in writing.

<u>Brown Rudnick Berlack Israels, LLP ("Brown Rudnick") Contract</u>. Mr. Carvalho reported that the contract with Brown Rudnick for general representation will expire on October 31, 2006. He and staff recommend renewal for one year under the current terms and conditions.

Mr. Britt suggested that perhaps the renewal should be for a shorter time period because a new administration is coming in. Treasurer Tavares stated that he didn't want to leave the new Treasurer without representation immediately upon taking office. He did not feel a one year renewal would be too long a period and is consistent with previous renewals. However, Treasurer Tavares did indicate that the SIC could recommend a shorter time period if the Commission chose to do so.

Ms. Reback moved, Mr. Treat seconded and the following motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Ms. Reback, Mr. Treat, and Treasurer Tavares. Mr. Britt abstained from voting.

VOTED: To approve the engagement of Brown Rudnick Berlack Israels to serve as General Counsel to the State Investment Commission for a period of one year ending October 31, 2007 under the same terms and conditions of the existing contract.

<u>Cash Management - Ocean Bank, FSB ("Ocean Bank"</u>). Ms. Reback stated that she has a conflict of interest with regard to Ocean Bank. Treasurer Tavares asked that the record show that Ms. Reback will not participate in the discussions and will not vote on this issue.

Mr. Corsino Delgado, Cash Manager requested that Ocean Bank, formerly known as Home Loan and Investment Bank, headquartered in Warwick, RI be added to the approved list of short-term issuers for the State of Rhode Island. He noted that Ocean Bank is a $300 million federal saving bank privately held by current CEO and founder John Murphy. It has a rating of "outstanding" for Community Reinvestment Act (CRA) during the most recent regulatory examination. Ocean Bank is financially sound, with practically zero debt on its balance sheet.

He explained that Ocean Bank meets and/or exceeds all SIC criteria for short-term vendor selection except one which is that it must have a minimum investment grade credit of Aa2 and AAA from Moody's and S&P respectively. Being that Ocean Bank is a private company, it does not have a rating. As such, Ocean Bank's addition to the approved list of issuers requires SIC approval. Mr. Delgado noted that, if approved, the maximum amount invested would be $1 million, initially starting with $100,000 which is the FDIC insurance limit. No one fund would have more than $100,000. He explained that there are other short-term vendors that offer CDs, however they are not active and their rates are not competitive.

Mr. Costello stated that he thought not having a rating agency rating was an important factor. Mr. Treat stated he was not familiar with the bank, its founder or any of its lending practices. Ms. Gallogly stated that perhaps DBR's banking division could be helpful in this determination. In light of the Commission's suggestions, Treasurer Tavares recommended that Mr. Delgado contact DBR and come back to the Commission in the near future with more information.

Note: Mr. Britt left the meeting at 11:00 a.m.

Wilshire Associates Incorporated - Capital Market Review. Mr. Lindberg noted that oil prices continue to drop, gasoline prices are moderating, and the Dow continues to climb and is up approximately 13% year-to-date. The US Equity market is up 12% year-to-date. Currently small cap stocks are outperforming large cap stocks. Developed markets are outperforming emerging markets with strong US equity returns across the board. In fixed income, high yield is up 8%. The pension fund is up approximately 9% through September, 2006.

Deputy Treasurer for Finance Report. Ms. Caine stated that State Street Global Advisors' ("SSgA") Global Markets Group handled the Wasatch Advisors transition to save on transaction costs. She noted that both the Wasatch portfolio and SSgA's Russell 1000 portfolio have been moved to an SSgA S&P 500 index portfolio to meet Wilshire's recommended allocations. Wilshire recommended a month ago to change the large cap exposure within the domestic equity portfolio from 70% to 75% and reduce small cap from 30% to 25%.

Ms. Caine distributed the Townsend Group's Second Quarter Performance Report noting that the real estate investments outperformed the NPI benchmark over the past year ending 6/30/06 by 270 basis points. She noted that the pension fund is up 9% year-to-date. The return for one year is 11.5%, the two-year annualized return is 14%, the three-year return is 14%, the four-year return is almost 16%, and the five year return is 10%.

Ms. Caine reminded Commission members that the next meeting of the SIC will be held on Wednesday, December 6, 2006 at 9:00 a.m.

Ms. Gallogly moved, Ms. Reback seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Ms. Reback, Mr. Treat, and Treasurer Tavares. Mr. Britt was not present for this vote.

VOTED: To adjourn the meeting.

There being no further business, the meeting adjourned at 11:15 a.m.

Respectfully submitted,

Paul J. Tavares
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting December 6, 2006

A State Investment Commission ("SIC") meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, December 6, 2006. The Treasurer called the meeting to order at 9:20 a.m.

Commission members present were: Mr. Michael Costello, Dr. Robert J. McKenna, Ms. Marcia Reback and General Treasurer Paul J. Tavares. Also present were: Ms. Joan M. Caine, Deputy Treasurer for Finance, Mr. George Carvalho, Chief of Staff, Jayne Donegan, Esq., of Brown Rudnick Berlack Israels, Legal Counsel to the Commission, Mr. William Bensur, of Wilshire Associates Incorporated, General Consultant to the Commission, Ms. Michelle Davidson of Pacific Corporate Group ("PCG"), Alternative Investments Consultant to the Commission, Mr. Frank Blaschka of The Townsend Group, Real Estate Consultant to the Commission and other members of the Treasurer's Staff. Ms. Rosemary Booth Gallogly, Mr. Jeffrey Britt and Mr. John Treat were absent.

Treasurer Tavares announced that for the first time in his eight-year term of office only four members of the SIC were in attendance which meant that there was not a quorum for voting purposes. He explained that all three private equity groups and the two real estate groups in attendance today will be heard but that a vote on the investments will have to be taken at a subsequent meeting.

Ms. Caine asked Ms. Davidson if a delay on the votes for the three groups PCG brought today would effect the Employees' Retirement System of Rhode Island's ("ERSRI") ability to invest in the funds. Ms. Davidson indicated that she did not believe the delay would cause ERSRI to forfeit participation in the funds, but would confirm with each fund.

Providence Equity Partners VI, L.P. ("PEP VI"). Ms. Davidson gave a brief overview of PEP VI noting that it is a "re-up" as ERSRI has invested in four previous PEP funds. Target size of PEP VI is approximately $8 billion. She noted that net performance across PEP's four funds is 50%. PEP has a solid reputation in the media and communications fields which attracts good deal flow. Ms. Julie Fisher, Head of Investor Relations and Mr. Mark Pelson, Managing Director represented PEP VI.

PEP VI will pursue the same investment strategy as its prior private equity funds by acquiring either a controlling interest or a non-controlling interest, accompanied by certain negative control features and board representation. The fund will focus on wireless telephony (cellular, personal communication systems and enhanced specialized mobile radio systems), competitive local and long distance telephone networks, internet service providers, cable television systems and networks, paging/advance messaging systems, wireless data networks, newspaper and magazine publishing, radio and television broadcasting, in-store advertising, directories, and other media and communications sub-sectors.

Mr. Pelson reported that PEP is the largest private equity firm specializing in the media, communications and information services sectors with approximately $9 billion of equity capital under management. Ms. Fisher noted that PEP now has offices in New York and London. He noted that PEP I had a realized IRR of 47%, and PEP II a realized IRR of 117%. Mr. Pelson stressed that PEP III returned 21% which was during an extremely difficult investment period.

PEP IV has an IRR of 59% and still holds some investments. PEP V has no realized investments as of yet.

PEP VI will pursue opportunities on a global scale, targeting individual investments of $500 million on average. The General Partner and its affiliates will make a commitment of at least $200 million to PEP VI, a portion of which will be paid in cash and a portion funded by a reduction in the management fee otherwise payable by the limited partners.

Ms. Caine distributed PCG's general Client Alert Memorandum regarding the antitrust class-action lawsuit and Department of Justice investigation of certain private equity funds. She noted that it is a sensitive legal matter, but requested that PEP and PCG discuss their perspective on the trend and what we can expect going forward. Ms. Davidson noted that the memo was informational only and that most private equity firms do not believe anything will come of it. Ms. Fisher noted that PEP is not involved in the Dept. of Justice investigation. As far as the class-action lawsuit, PEP was named along with a dozen or so other general partners. PEP believes the lawsuit is without merit and intends to contest the lawsuit vigorously.

Treasurer Tavares requested that to the extent possible PEP keep the lines of communication open and keep the SIC informed of any and all information available. He also noted that the SIC has had a very successful relationship with PEP for many years and both PCG and staff recommend a $25 million investment in PEP VI. The Treasurer noted the intent will be to approve the investment at a subsequent meeting and thanked Mr. Pelson and Ms. Fisher for their presentation.

Green Equity Investors V, L.P. ("GEI V"). Ms. Davidson gave a brief overview of GEI V noting that it is a "re-up" as ERSRI invested in GEI IV. Target size of GEI V is approximately $4 billion. GEI are value investors with a partnership approach of teaming up with management. She noted that since 1989 GEI has invested approximately $2.5 billion in forty deals and has a net return of 28%.

Mr. Jonathan D. Sokoloff, Managing Partner and Mr. Timothy J. Flynn, Partner represented GEI V. Mr. Sokoloff noted that the GEI V will pursue a wide range of investments primarily in US-based upper middle-market companies. GEI V will follow the value-oriented investment strategy pursued by its former funds. GEI V will utilize a generalist strategy with a preference for consumer related companies in the retail, consumer products, distribution, media, business services, and healthcare sectors.

GEI V will pursue control acquisitions of established middle market companies across North America, and expects to deploy approximately $500 million to $1 billion per year over the six-year investment period. Mr. Sokoloff stated that approximately three quarters of the funds are expected to come from existing limited partners. The general partner and its affiliates will make a commitment of at least $175 million to GEI V, a portion of which will be paid in cash and a portion funded by a reduction in the management fees.

Mr. Flynn noted that realized and publicly traded investments have a gross IRR of 41.1%. GEI V will focus on growth companies at the upper end of middle market. He reiterated the six areas of focus noting that they represent 98% of invested equity with 45%of domestic GDP. GEI portfolios grew at nearly 2x the market growth.

Mr. Sokoloff noted that most transactions in today's environment require 30% - 40% equity contributions. Due to their focus on growth companies and conservative leverage, GEI's transactions typically require higher equity contributions. They have limited their commitment in each deal to no more than 10% of the fund size in order to achieve diversification.

Treasurer Tavares stated that both PCG and staff recommend a $15 million investment in GEI V. He noted that the intent will be to approve the investment at a subsequent meeting because of quorum problems and thanked Mr. Sokoloff and Mr. Flynn for their presentation.

<u>Lighthouse Capital Partners VI, L.P. ("LCP VI")</u>. Ms. Davidson gave a brief overview of LCP VI noting that it is a "re-up" as ERSRI invested in LCP V. She noted that LCP has raised five funds focused exclusively on venture lending, with total investments of approximately $1.2 billion. She stated that this strategy was pioneered by LCP and has the benefits and upside of investing in the venture space but with lower risk and volatility given that they have a debt component. The two earliest funds have had strong net returns of 37% and the other over 70%. The other three funds are still in the early stage.

Mr. Ned Hazen, Managing Director represented LCP VI. Mr. Hazen stated that LCP is the leader in this venture/debt market measured by returns, by the experience of the team, by the track record of returning capital to the limited partners, by the size of their funds, and by their deal referral network. He explained that LCP lends money to companies that are cash flow negative.

Mr. Hazen noted that LCP VI will utilize a variety of equity-oriented debt instruments, including secured loans coupled with warrants and/or rights to purchase stock, and secured convertible debt. These instruments will generally have terms ranging from 24 to 48 months and feature a current income stream of principal and interest payments, as well as an equity component with long-term capital appreciation potential. They typically invest in early to expansion stage venture capital backed companies alongside their series A or B equity financings.

LCP VI will build a diversified portfolio of investments across the information technology and life science venture sectors. The information technology strategy will include infrastructure software, datacenter systems, data storage products and services, communications equipment, semiconductors, and the Internet. The life science investments will focus on diagnostic and therapeutic biotechnology, biotechnology tools, and medical devices. LCP VI will also opportunistically invest in alternative energy companies. Target size of LCP VI is approximately $350 million with a hard-cap of $400 million.

Treasurer Tavares stated that both PCG and staff recommend a $15 million investment in LCP VI. He noted that the intent will be to approve the investment at a subsequent meeting because of quorum problems.

Ms. Caine distributed copies of PCG's CEO Chris Bower's letter to the Treasurer and Commission regarding CalPERS review of the PCG relationship and its decision to continue to work with PCG and asked Ms. Davidson for an update. Ms. Davidson stated that PCG has been talking to clients and a number of them have positively voted to continue their relationship with PCG. She noted that PCG is working on formalizing the structure separating capital partners and asset management into two legal entities, which she expects to take place in early 2007.

Ms. Davidson stated that PCG has two clients that have issued a Request for Proposal ("RFP"). Colorado Fire & Police issued an RFP as a natural progression because PCG's contract is due to expire at the end of this year. The State of Oregon, a very long time client, issued an RFP and invited PCG to re-bid. That decision will be made in early 2007. PCG has also added a managing director focusing primarily on the venture space. She also noted that one marketing professional has since left the firm.

Treasurer Tavares asked that Ms. Davidson communicate to Mr. Bower that it would be in PCG's best interests to continue to keep the lines of communication open and to document any changes in writing especially in light of a new administration coming in.

Treasurer Tavares explained to Mr. Blaschka that because of the lack of a quorum, the Commission will hear the real estate fund presentations, but is unable to take any official action on the proposed real estate investments today.

<u>AEW Core Open-End Fund ("AEW"</u>). Mr. Frank Blaschka gave a brief overview of AEW which is an open-end core fund. This is newly established core fund which will be structured as a perpetual life vehicle, open to investors for quarterly contributions and redemptions of capital. AEW seeks to raise up to $800 million of seed capital from a select group of investors which exclusively includes The Townsend Group and its clients.

In order to compensate for the likely underperformance in the initial period and concentration risks inherent in a start up core fund compared to the existing open-end core funds, Townsend noted the following comparative advantages of the AEW fund: a substantial reduction in fees, a strong firm composite performance, and an experienced fund team and platform.

Mr. Daniel J. Bradley, Principal and Portfolio Manager, Mr. Renny Merritt, Principal and Mr. Robert J. Plumb, Principal and Head of Acquisitions represented AEW. Mr. Merritt noted that this open-end core fund is AEW's most important new strategic initiative. The fund will focus on four major property types: office, retail, industrial and multi-family and invest in top-tier markets across the US. AEW will utilize a modest level of leverage of up to 30% and will make investments that range in size of $50 - $100 million. AEW's benchmark will be the NCREIF Open-end Diversified Core Equity Index (NECREIF-ODCE).

Mr. Merritt noted that AEW has $37.3 billion in property and securities under management in North America and Europe (including $6.4 billion of core assets in North America). AEW's core investments have outperformed the benchmark by 800 basis points over five years and 250 basis points over ten years.

Mr. Bradley described the fund's team and explained that they have a long history of executing core real estate strategies with a seasoned acquisition team based in Boston and Los Angeles. He stressed that AEW has one of the most experienced and integrated research teams in the industry. AEW has a 25-year history of core investing with a disciplined investment process.

Mr. Plumb described AEW's research-driven investment principals. AEW invests in markets where supply constraints work to keep the market in equilibrium and allow for growth in rent and thus, value. AEW invests in markets with educated populations and strong job growth seeking America's changing demographics and the impact they will have for economic growth and demand for real estate. They take advantage of trends and markets that are affected by an increasingly globalized world economy. He noted that the portfolio will be diversified by economic drivers as the composition of the industry drivers of a metro area will substantially define that area's economic growth and thus, real estate values.

Treasurer Tavares explained that a formal vote could not be taken today, but he noted the intent will be to approve the investment at a subsequent meeting. He then thanked Mr. Bradley, Mr. Merritt and Mr. Plumb for their presentation.

<u>Heitman Value Partners II ("HVP II"</u>). Mr. Blaschka gave a brief overview of HVP II which is an enhanced return, closed-end commingled fund seeking to raise $800 million. HVP II will seek to create a diversified portfolio of investments in traditional as well as specialty

property types using joint ventures with local operators, consisting primarily of public or private real estate firms. He noted the HVP II is an experienced joint venture investor with favorable firm performance. HVP II will invest in the traditional types of real estate such as retail, office, industrial and multi-family; but they may also invest in specialty property types which include medical office space, senior housing, self-storage, and student housing.

Mr. Maury Tognarelli, President and CEO and Ms. Kathy Sandstrom, Senior Vice President represented HVP II. Mr. Tognarelli noted that Heitman has approximately $16.5 billion of assets under management and is 50% employee-owned with a 50% financial partner. The Heitman value-added track record includes 31 separate ventures over the last 13 years and has $2.4 billion of equity invested or committed in $7.4 billion of real estate. Realized net returns on liquidated investments is 16.7%.

Ms. Sandstrom stated that the greatest risk in this specific strategy is execution risk. One of the ways HVP has found to help mitigate the risk in value-added investing is by pairing up with operating partners. HVP II will partner with the best operators in either a specific market that they think is worthy of investment or in a specific sector where they are a specialist in executing this strategy. She noted that HVP II expects to renovate apartment buildings and re-organize office space to be more efficient and more attractive to users. They will also take an under-managed asset and put in a new management and leasing team.

HVP's operating partners are required to be co-investors which is an incentive for success. Their track record has proven that their strategy makes for a better chance of reaching stated results, which for this fund is approximately 12-14% net of all fees. Target size of the fund is $800 million to be deployed in 15 - 20 joint ventures diversified by both property type and geography. Each investment will hold multiple assets. No more than 40% of equity will be invested in any one property type and no more than 25% of equity will be invested in any one investment. Heitman is investing $15 million in HVP II.

Treasurer Tavares apologized for the unique situation today with the SIC's quorum problem and noted the intent will be to approve the investment at a subsequent meeting.

Treasurer Tavares requested a recess from 11:25 a.m to 11:30 a.m.

<u>Wilshire Associates Incorporated - Capital Market Review</u>. Mr. Bensur stated that he was honored to have been able to work with Treasurer Tavares and his Staff for the last eight years noting that under the Treasurer's leadership the pension fund has done extremely well. In his capital market review he noted that economic growth continues and inflation concerns seem to have diminished. Through 12/5/06 the S&P 500 is up 15.2%. Smalls stocks have come back strongly to 18.4%. The DJ Wilshire 5000 is up 15.5% through 12/5/06. Non-US equity has outperformed US equity. The EAFE (developed markets) and the All Country World ex-US markets are up approximately 23%. Emerging markets are up approximately 27% though 12/1/06. Fixed income is up 5% to date and High Yield is up 11% year-to date.

<u>Deputy Treasurer for Finance Report</u>. Ms. Caine gave an update on the ING investigation noting that she met with the Department of Regulation ("DBR") and has distributed copies of Treasury's ING files to DBR, DOA and legal counsel. She distributed copies of an article from <u>Pensions & Investments</u> that indicates ERSRI is far from the only plan sponsor dealing with this issue. There are nine corporate 401K plans that have filed class action lawsuits alleging conflicts of interests and fiduciaries failing to scrutinize and disclose fees.

The Department of Labor has issued a guidance report that provides fiduciaries a checklist of questions that should be asked of financial institutions before being hired. The revenue sharing issue is a common one. Florida just filed suit against its 457 provider. Based on her conversation with DBR, she expects the investigation will be prolonged as it is not clear cut. She noted that while ING has stated it complied with the SEC Rules and Regulations with regard to fee disclosure, they admit they probably could have done a better job.

Ms. Caine reminded Commission members that Ms. Gallogly had requested that this administration provide SIC members with a book with all information pertinent to the SIC. She distributed books to all members in attendance and described the comprehensive package: Section I includes the general laws that apply to the SIC's fiduciary responsibility, Section II focuses on the existing Asset Allocation Policy, Section III includes the Investment Manager Investment Policy Statements, Section IV includes the Manager Continuation Policy, Section V includes the details on the Alternative Program's policies, procedures and strategy, Section VI is the guidelines for hiring the investment managers, along with the Manager Watch List, and Proxy Voting Policy. The last section includes the Cash Management Short-Term investment guidelines.

She noted that she is in the process of updating the Investment Policy Statements of both the CollegeBound*fund* manager, Alliance Capital, and Mondrian Investment Partners. Treasurer Tavares thanked Ms. Caine and Jan Roberts for their efforts in putting this book together.

Ms. Caine distributed a list of proposed meeting dates for 2007 which is based on the same schedule of the last few years, with meetings on the fourth Wednesday of every month, subject to the review and approval of the Treasurer-Elect.

<u>Treasurer's Report</u>. Treasurer Tavares reminded Commission members that his campaign slogan was "No tricks, no gimmicks just a Treasurer who will do what is right", which became a mantra for how he operated. He stated that he had surrounded himself with an extremely competent staff, great consultants and dedicated, hard-working board and commission members. He thanked all for their committed time and energy which has been a valuable part of how the system has progressed.

He stated he was proud and honored to have had the opportunity to work with everyone present. He personally thanked Mr. Bensur for his efforts and tenacity in keeping the pension fund growing. He also thanked Mr. Blaschka for his help with the Gateway Eight building and its ultimate sale. He then thanked Ms. Caine and her staff. He noted that it has been very rewarding to be surrounded by true professionals who dedicated their time above and beyond expectations. He stated he was proud of how everyone dealt with the challenges they faced.

Ms. Reback suggested the SIC hold a special meeting later in December to vote on the proposals presented today and Mr. Costello concurred.

Treasurer Tavares distributed a report on Investment Portfolio Highlights that Ms. Caine had prepared noting that the pension fund was valued at $6.2 billion as of 12/31/98 and presently has a market value of $7.8 billion. Ms. Caine noted that funds asset allocation decisions are based on a long-term and thoughtful process based on the asset/liability studies that Wilshire conducts along with the plan's actuary. The SIC has made strategic decisions based on Wilshire's recommendation to reduce the active market exposure in efficient markets where it's difficult to beat the index over long periods of time and increase active management in inefficient markets. The key drivers impacting recent performance have been the non-US equity portfolio, the re-activated private equity portfolio and the real estate portfolio.

Treasurer Tavares noted a seven-year superior performance which replaced sub-par historical performance. Over the last seven years, the fund's investment performance has improved relative to its peer universe. For the last one, three and five year periods, the fund has ranked in the top 13th, 9th and 28th percentile respectively. This is a dramatic improvement over the fund's 10-year rank of 84th percentile. The fund's performance also compares favorably to the TUCS and Compass public fund universes.

Ms. Caine noted that it takes time to move a $7 billion portfolio. It took nearly two years to complete RFPs and replace several legacy active managers that were underperforming and to increase our exposure and reallocate assets to international equities, domestic small-cap stocks, high yield bonds and establish index and enhanced index mandates. She noted that with the completion of the portfolio's major restructuring in 2002, it has been outperforming its benchmark on a consistent basis. Treasurer Tavares summarized other cost reduction and revenue enhancement initiatives that resulted in an annual savings of over $7 million. The Treasurer also noted that he has prepared a Term-End Report which is presently being printed and will be distributed as soon as possible.

Treasurer Tavares distributed Citations to Ms. Reback, Dr. McKenna and Mr. Costello.

Mr. Costello stated that he has been on the Commission for the Treasurer's entire term of eight years and it has been an honor and a privilege to serve with the Treasurer. He thanked Ms. Caine, Ms. Roberts and staff for their honest and forthright approach. He noted that being a member of the SIC has been a tremendously positive experience and he applauds all the work of the Treasurer and staff.

Dr. McKenna thanked the Treasurer for his fine leadership and thanked staff for their hard work. He noted that the CollegeBound*fund* has been enormously successful and Rhode Island's CollegeBound*fund* ranks second in the country after leading for the last few years. He thanked Treasurer Tavares for his commitment to higher education.

Ms. Reback stated that she has served on many boards and commissions which have been led by politicians and that Treasurer Tavares has run the State Investment Commission and the Retirement Board scrupulously. There have been no political considerations that have interfered with your work or interfered with the work of the people. She noted that the Treasurer has been extraordinary in selecting people to work for him who have done an incredible job.

Treasurer Tavares thanked everyone for their kind words noting that it means a lot to him. He values the friendships made during his term in office.

The meeting ended at 12:10 p.m.

Respectfully submitted,

Paul J. Tavares
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting January 24, 2007

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, January 24, 2007. The Treasurer called the meeting to order at 9:05 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Dr. Robert McKenna, Ms. Marcia Reback, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Deputy General Treasurer for Finance; Jayne Donegan, Esq., of Brown Rudnick Berlack Israels, Legal Counsel to the Commission; Mr. William Bensur, of Wilshire Associates Incorporated, General Consultant to the Commission; Ms. Michelle Davidson and Mr. David Fann of the Pacific Corporate Group, Alternative Investments Consultants to the Commission; and other members of the Treasurer's staff. Mr. John Treat was absent.

State Investment Commission Minutes. Ms. Reback moved, Dr. McKenna seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Dr. McKenna, Ms. Reback, and Treasurer Caprio.

VOTED: To approve the Minutes of the December 6, 2006 regular meeting.

Treasurer Caprio announced that presentations for Alternative Investments were made at the previous meeting but not voted upon given that meeting failed to achieve a quorum. He introduced Ms. Davidson of PCG and asked her to summarize those presentations and to give a brief overview of subsequent changes or developments. Treasurer Caprio noted for the record that detailed descriptions of the previous presentations are available in the Minutes from the December 2006 meeting, and that the SIC has already invested in previous funds formed by these particular entities in the past.

Providence Equity Partners Fund VI, L.P. (PEP Fund VI). Ms. Davidson gave a brief reintroduction to the fund, summarizing the presentations delivered in the December 2006 SIC meeting and introducing new developments since that meeting. Ms. Davidson noted that the global media and communications group, based in Providence, has been investing for about 17 years with the same strategy and extremely strong track record. Since 1993 the group has invested about $7.3 billion with net returns of about 37%. Performance across all four funds in which Rhode Island has invested is in the top quartile with net returns of roughly 50%.

Ms. Davidson noted two changes to the fund since the previous SIC meeting: First, that former Managing Director Michael Angelakis has left Providence Equity Partners to become CFO of Comcast, which leaves a remaining team of 14 managing directors. Second, there has been a favorable change to the terms of investment in the reduction of the carried interest to be received by the General Partner from 25% to 20%. Ms. Davidson recommended approval of the investment in the amount of $25 million.

Ms. Reback inquired as to what "carried interest" means, and Ms. Davidson replied that it is the share of the fund's profits that Providence Equity Partners receive.

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

VOTED: To invest up to $25 million in PEP Fund VI, L. P., contingent upon satisfactory review and negotiation of investment and other legal documents.

<u>Green Equity Investors V, L.P. (GEI V).</u> Ms. Davidson delivered a brief reintroduction to GEI V, stating that the real estate fund has a strong management team and has been investing for roughly 16 years with the same strategy and strong, consistent performance. Ms. Davidson noticed that the fund focuses on upper middle-market companies. Target size for the fund is approximately $4 billion. Since 1989 the firm has invested roughly $2.5 billion with net returns of 28%. Based on this, Ms. Davidson recommended approval of the investment in GEI V in the amount of $20 million.

Treasurer Caprio announced a vote on investment in GEI V in the amount of up to $15 million, upon which Ms. Donegan observed a discrepancy in numbers and inquired to confirm the amount of investment. Treasurer Caprio noted that the amount was recorded in the previous Minutes and the current agenda as $15 million rather than $20 million. A discussion ensued with the resolution being that the SIC would vote to approve the investment of up to $15 million, and the matter could be revisited in the future. Treasurer Caprio restated the amount of investment as up to $15 million in GEI V.

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

VOTED: To invest up to $15 million in GEI V, L.P., contingent upon satisfactory review and negotiation of investment and other legal documents.

<u>Lighthouse Capital Partners VI, L.P. (LCP VI).</u> Ms. Davidson handed the presentation to her colleague, Mr. Fann, also of PCG. Mr. Fann presented LCP as having five funds focused exclusively on venture lending, with investments totaling approximately $1.2 billion. Mr. Fann stated that the performance of the first two Lighthouse funds has been extremely strong (with returns of 37.5%), but the last three have been more challenging, which he characterized as reflective of venture capital overall. Mr. Fann noted that 3 of 5 managing directors of LCP's previous fund had departed due to a combination of personal career advancement and/or wealth of the directors, leaving a fairly new team. Mr. Fann asserted, however, that the legal structure

has been consistent despite these changes. Mr. Fann thus recommended approval of the investment in LCP VI in the amount of $15 million.

Treasurer Caprio inquired as to whether the aforementioned changes were very recent. Mr. Fann replied that they were not, and had occurred over the course of the last 18 months. Treasurer Caprio asked him to clarify the state of the current management team, and Mr. Fann replied that there remained 5 managing directors in total, and that the former directors had been replaced.

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

VOTED: To invest up to $15 million in LCP VI, L.P., contingent upon satisfactory review and negotiation of investment and other legal documents.

Treasurer Caprio interjected to excuse those members with time constraints and thanked them for their efforts to attend the meeting so that the group could achieve its quorum. Ms. Gallogly thanked the Treasurer and exited at 9:25 a.m to attend a budget meeting with Governor Carcieri. Ms. Reback stated that she could allow further time in the meeting and would stay. The group proceeded with the rest of the agenda.

<u>Wilshire Associates Incorporated – Capital Market Review.</u> Mr. Bensur thanked Treasurer Caprio for his introduction and distributed materials to the group. He began by stating that the month of December [2006] saw a rather strong marketplace in terms of both U.S. stocks and non-U.S. equities, reflective of the overall economy created by such factors as reduced oil costs (from $70 to around $52-$53 per barrel), the rebound of homebuilders, reasonable inflation rates of 2-2.5%, and increased buyer and investor confidence. The marketplace had improved stability and earnings growth rates for many U.S. corporations have been in line or above expectations.

Mr. Bensur stressed that the major story of the past year was that of the emerging markets, especially China and India, both of which enjoyed double-digit growth rates of approximately 9-10%. Mr. Bensur explained that as an asset class these markets have the goods and services desired by the rest of the world, such as inexpensive and relatively well-educated labor forces, and commodity-driven economies. There is strong international investment participation as a result.

Mr. Bensur stated that in 2006 fixed income markets behaved roughly in line with expectations. He observed there was a strange event in May when risk preferences were turned upside-down, with stock prices falling as bond yields rose. However, the late 3rd and 4th quarters saw fairly strong markets across the board.

Mr. Bensur stated that in general the Dow Jones Wilshire 5000 (indicative of the total U.S. equity market) in 2006 was up 15.8%; small cap stocks were up aggressively about 18.4%, and large cap stocks performed identically to the total market. In general the 4th quarter was very strong, with small cap stocks in particular up about 9%. In terms of non-U.S. equities, continuing a trend of the past 4-5 years, non-U.S. markets outperformed the U.S. market in 2006. Mr. Bensur observed that the Rhode Island Treasury's money managers have been participating in these markets to the benefit of the retirement system; state investments have targeted about 20% foreign equities, and are now slightly above that.

The year to date in 2007 has seen a relatively flat market overall, with U.S. stocks up about 1%. So far this year bond markets and fixed income markets have also been flat. Lastly, high yield spreads to Treasuries were fairly tight going into last year and tightened more during the year, with a particularly strong increase of 4.5% in the 4th quarter. They also remain mostly flat in the YTD, up about 1%.

Mr. Bensur opened for questions, and Mr. Costello asked what Wilshire's expectations of the various markets are for the upcoming year. Mr. Bensur stated that the group is completing its asset allocation recommendations for the year, which haven't changed substantially, but the preview predicts about 8.25% for U.S. and non-U.S. equities, and 5.25% for fixed income.

Treasurer Caprio asked how 2007's flat January correlates to other years and what it bodes for the next 11 months. Mr. Bensur replied that the rules of the current market have changed dramatically, making such correlations and advanced predictions difficult. In general, however, Mr. Bensur believes that current asset allocation policy and investment structure policy are sound and do not require revision barring major changes in the market. Mr. Bensur pointed out that for the past three years, Rhode Island has been in the 14th percentile ranking among public retirement systems, and in the 27th percentile over five years.

Mr. Costello asked about the 8.25% investment benchmark of the retirement system, and Mr. Bensur replied that to achieve over that would reduce the unfunded liability, and to achieve less would add to it. Mr. Costello pointed out this might be difficult to achieve, and Mr. Bensur answered that the Rhode Island Employees' Retirement System (RIERS) has migrated out into Alternative Investments, such as by systematically building a real estate program through the Townsend Group, to improve expected return and diversify the asset base.

Treasurer Caprio clarified that there is a difference in the numbers projected by Wilshire of a benchmark of low 8% returns, and the retirement system's statement of a necessity of 8.25%. Mr. Bensur answered that this stems from a market disconnect. He referenced changes in estimates and goals that occurred in the 1990s which may have contributed to this disconnect. On average, Wilshire's surveys show that Rhode Island's public fund peers have benchmarks of 8.0% return. Mr. Bensur acknowledged that 8.25% is high but not unusual, as Wilshire has clients in the 8.5% range; it is, however, a struggle to reach a benchmark higher than the typical public fund average. Mr. Costello inquired as to the corporate world's numbers, and Mr. Bensur replied that corporate numbers are different because of accounting rules.

Treasurer Caprio asked what the genesis of the Universe Comparison chart is, and how the funds represented were chosen for inclusion. Mr. Bensur answered that all funds included in the survey are related to Wilshire in some way, whether as direct clients or as participants within larger funds. Treasurer Caprio clarified that the comparison does not include entities directly represented by any of Wilshire's competitors per se.

Treasurer Caprio thanked Mr. Bensur for his report, and announced the Legal Counsel Report.

Legal Counsel Report. Ms. Donegan stated that there was no report for this month. Treasurer Caprio thanked Ms. Donegan and requested that she include the Treasury in the process as she receives legal documents from the equity firms, specifically requesting copies for himself and Mr. Dingley. Ms. Donegan acceded.

No further discussion ensued, and Treasurer Caprio introduced his Deputy Treasurer, Mr. Goodreau.

Deputy Treasurer for Finance Report. Mr. Goodreau took a moment to address the SIC members and others present for the meeting, commenting that he looks forward to his role in the Treasury and with the SIC. He hopes to make himself as accessible and helpful as possible to the group, and thanked them for the opportunity to work with them.

Treasurer's Report. Treasurer Caprio began by thanking the remaining SIC members for all of their hard work, with special thanks to Ms. Gallogly for rearranging her schedule with Governor Carcieri to help achieve a quorum.

Treasurer Caprio announced as per the State Senate rostrum, which he noted is public information at this point, he has reappointed Ms. Reback to the SIC for another term. Treasurer Caprio further announced that he has nominated, and submitted to the Senate for approval, Robert Giudici and Andrew Reilly to fill two of the remaining vacancies on the SIC, pending approval by the State Senate. Mr. Giudici is a CPA with a corporate background, and Mr. Reilly has a strong background in investments.

Finally, Treasurer Caprio alerted the group to the fact that Wilshire Associates are completing their evaluation of the investment managers of the System in accordance with the SIC's Investment Manager Continuation Policy. Treasurer Caprio stated that his administration plans to examine all investment managers with which the Treasury works, and that changes will be entertained regarding at least one manager that has remained on the watch list for an extensive period of time. Mr. Bensur commented that the report will be ready for the February meeting, and the Treasurer returned that they eagerly await it.

Treasurer Caprio then introduced two other members of his staff to the group: Mr. Dingley, Chief of Staff, and Ms. Dietsch, Aide to the Deputy General Treasurer. He thanked them for their work in the past month of transition. Finally, he asked for suggestions and input as to the structure and scheduling of the SIC meetings henceforth.

Some discussion of previous SIC meeting schedules followed, but there was no formal decision taken.

Mr. Costello inquired to clarify the total number of members on the SIC, and whether there would be additional appointments or changes to the group. Treasurer Caprio answered that the SIC is a nine member commission, and that Mr. Jeff Britt, who formerly held a position appointed by the Governor, had submitted a letter of resignation. The group will await a new appointment by the Governor to fill that seat.

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

Respectfully submitted,

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting February 28, 2007

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, February 28, 2007. The Treasurer called the meeting to order at 9:05 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Giudici, Dr. Robert McKenna, Mr. Andrew Reilly, Mr. John Treat, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Deputy General Treasurer for Finance; Mr. William Bensur, of Wilshire Associates Incorporated, General Consultant to the Commission; and other members of the Treasurer's staff. Ms. Marcia Reback was absent.

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

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

Green Equity Investors V, L.P. (GEI V). Treasurer Caprio announced that a mistake had been made in the January SIC meeting in terms of the amount approved for investment in Green Equity Partners Fund V L.P. (GEP). He stated that the members had voted to approve $15 million, and that the correct amount of recommended investment is $20 million. Treasurer Caprio explained that the discrepancy stemmed from a transition between Treasury administrations from the one under former Treasurer Paul Tavares to the present, and from further review with PCG and other consultants. Treasurer Caprio therefore recommended increased investment from the amount of $15 million to $20 million in GEP.

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

VOTED: To invest up to $20 million in GEP Fund V, L. P., contingent upon satisfactory review and negotiation of investment and other legal documents.

Short Term Investments – BankRI. Treasurer Caprio announced the interest of BankRI to become one of the State of Rhode Island's short term investment vendors. Treasurer Caprio deferred to Mr. Vincent Izzo, Acting Cash Manager, who stated that BankRI has met all qualifying criteria to be added to the list of vendors. He explained that the State of Rhode Island typically has 11-12 active managers, but currently has 11 total managers of whom only eight are active. Treasurer Caprio asked for questions, and there being none, referred the members to materials distributed on BankRI. Treasurer Caprio then recommended that BankRI be added to the list of active managers.

Dr. McKenna moved, Mr. Treat seconded, and the following motion was passed unanimously. The following members voted in favor: Ms. Gallogly, Mr. Giudici, Mr. Reilly, Mr. Treat, and Treasurer Caprio. Treasurer Caprio noted for the record that Mr. Costello removed himself from this vote.

VOTED: To add BankRI as an active manager to the list of vendors for short term investments.

Wilshire Associates Incorporated – Capital Market Review. Mr. Bensur summarized the three items on his agenda for presentation: capital market review, year-end performance summary, and management continuation policy review. Mr. Bensur began with the capital markets update and noted the previous day of volatility, specifically in reference to China and other emerging markets. He stated that the report was prepared two days prior and therefore the data would not reflect the latest fluctuations.

Mr. Bensur began his overview by stating that in general fundamentals remained in place despite fluctuations to indicate a market that is reasonably healthy, with company earnings that are in line with and above expectations and consumer confidence remaining largely in tact. Mr. Bensur observed that the housing markets are flattening but there remains reasonable expectation of some revaluation.

Mr. Bensur stated that while Chinese markets were the catalyst for recent market fluctuations, these fluctuations are likely part of a process of self-correction inherent in the evolutionary nature of an economy that has migrated over the last one hundred years from foundations of agriculture to manufacturing to service, with business cycles that are less dramatic and less frequent. Mr. Bensur observed that overall markets have seen solid expansion since 2002, and in that context, the previous day's losses (around 3.5%, following an 8-9% initial loss and 4% recovery) is most likely a normal revaluation of the risk profile of the markets.

Mr. Bensur stated that U.S. markets continue to be encouraged by companies' profitability. He observed that the big surprise in U.S. equities is the continued strength of small cap stocks, which remain ahead of large cap. Mr. Bensur stated that U.S. markets are forecasting modest economic growth overall.

Mr. Bensur stated that international markets remain attractive despite recent losses. Non-U.S. equities continue to outperform U.S. equities as they have for the past 5-6 years, driven by emerging markets that have pursued better economic and political policies, in addition to having commodities-based economies and relatively inexpensive yet educated workforces that are attractive to foreign investors.

In terms of fixed income markets, Mr. Bensur stated that there continues to be an unusual situation of an inverted yield curve combined with tight high yield spreads to Treasuries, which sends mixed signals to investors. Mr. Bensur explained that inverted yield curves typically forecast economic recession, while tight high yield spreads typically indicate economic strength.

Mr. Bensur reiterated the long-term strategy of RIERS investments, and that going forward, fluctuations in the market are to be expected within the context of a long-term strategy. Mr. Bensur stated that he believes RIERS investments are very well-structured for this long-term purpose, requiring little reaction on volatile market days such as the previous one.

Wilshire Associates Incorporated – Year-End Summary. Mr. Bensur introduced a comparison of RIERS investments to peer funds, in terms of performance and asset allocation. Mr. Bensur stated that RIERS investment allocations are roughly on par with peer funds in terms of U.S. equities (43% of fund) and alternative investments (6%), above average in terms of non-U.S. equities (24%), and slightly below average in terms of fixed income (23%).

Mr. Bensur summarized the total fund performance over one-, three-, and five-year bases: one-year (2006) saw 15% returns, which were slightly below policy. Three-year returns saw strong returns of 12.4% and a ranking in the 29th percentile (higher than 70% of RIERS peer funds). Five-year returns were likewise strong with 9.8% returns and a ranking in the 20th percentile (higher than 80% of peer funds).

Mr. Costello inquired as to how securities lending and other revenues are accounted for in these figures. Mr. Bensur replied that he believes securities revenues come into the system and are accounted for incrementally on a total fund basis.

Treasurer Caprio asked Mr. Bensur to describe the difference between actual and policy performance. Mr. Bensur explained that policy benchmarks are derived from calculations related to target asset allocations and past performance numbers. Mr. Bensur explained that drift is a large factor contributing to differences between target and actual performance, such as the 4% that RIERS invests (24% total) above its policy target of 20% asset allocation in non-U.S. equities, which yielded positive returns for the fund. Another contributing factor is the mix of both active and passive alternative investments employed by the fund.

Mr. Giudici expressed concern as to the capacity for the RIERS fund to react to market changes, and inquired as to whether there are formalized guidelines in place, and whether they are monitored on an ongoing basis. Mr. Bensur answered affirmatively on both counts. He further stated that he believes the fund is well-structured to weather volatility, having a central anchor of fixed income along with more active investments that will serve the fund well in the long term. Treasurer Caprio requested that Mr. Giudici receive a copy of the fund's investment policy.

Mr. Bensur moved on to the individual performance analyses of each of the three sectors comprising RIERS fund investments: U.S. Equities, non-U.S. equities, and fixed income. Mr. Bensur cited strong U.S. equity performance in both short (one-year) and long (seven-year) terms as evidence of the efficacy of the fund's structure. Mr. Bensur moved to non-U.S. equities, in which Mr. Bensur pointed to a disappointing period during May-June 2006 when the markets' risk preference shifted away from emerging markets and the fund netted a 1-2% loss; the markets flatlined until September before rising again sharply in the fourth quarter. Mr. Bensur said that while this struggle was disappointing it was not uncommon, and he believed the general fund structure was sound. Mr. Bensur pointed to solid returns over time: RIERS investments saw returns in the top quartile over one- and three-year periods, and missed the top quartile by roughly 2% over five years. Mr. Bensur finally moved to fixed income investments, citing again their importance as an anchor for the fund, with returns well in line with expectation over the long term.

Ms. Gallogly inquired if there is anything the fund can do in terms of structure, specifically in relation to emerging markets and other risks, to better guard against market volatility. Mr. Bensur replied that there are limitations in place for both cash allocation and investment benchmarks that prevent investment managers from being overly reactive to market changes, and that over time the structure has proven sound.

Treasurer Caprio thanked Mr. Bensur for his review and introduced the management continuation policy overview, stating that it is performed every six months (in June and December) by the SIC.

<u>Wilshire Associates Incorporated – Management Continuation Policy Overview.</u> Mr. Bensur gave a brief history of the policy, which was implemented in January 2000, and used as one tool to evaluate investment managers. He stated that Wilshire utilizes a three-year trailing basis for evaluation, and that managers may be terminated and/or replaced when it is determined that their skill levels have dropped.

In terms of non-U.S. equity managers, Mr. Bensur commented that Boston Company has struggled somewhat in their performance but that he believes the firm is solid and worth retaining.

Mr. Bensur recommended termination of Shenkman Capital Management (Shenkman), which has shown disappointing performance. Mr. Bensur attributed this poor performance to, among other reasons, the fact that Shenkman has quadrupled its assets and is unsuccessfully applying its strategies over this greatly increased asset base. Mr. Bensur stated that while it is somewhat expensive to RIERS to change managers, he believes it a prudent move for the fund to terminate its relationship with Shenkman.

Mr. Costello questioned Wilshire's strategy in terms of high yield investments and long term returns, stating that the decision to terminate a high yield investor such as Shenkman indicates a major shift in asset allocation in terms of long-range perspective. Mr. Costello further stated that he would like Mr. Bensur to clarify whether this is indeed a long-term decision, or something more temporary. Mr. Bensur replied that Wilshire prefers high yield for solid returns over time, and that the issue would be revisited and/or qualifiers could be established for reevaluation. Mr. Bensur added that he believes a temporary reduction of risk exposure is most prudent for the fund until the credit environment returns to more normal conditions.

Treasurer Caprio interjected that the fund has the option to redeploy the cash from Shenkman to its other existing managers, both high yield and fixed income, in addition to using it for day-to-day cash operations, and this has been part of the internal staff discussions with Wilshire.

Mr. Costello inquired whether the fund would consider allocating more of this capital to high yield investors. Treasurer Caprio confirmed that as a possibility, and added that the reduction from two high-yield managers to one reflects an earlier composite of investment managers in the fund, which was originally structured with only one high-yield manager and added a second more recently.

There was some discussion of the long process of adding new managers to the fund, and the possibility of allocating more capital to existing managers in the high yield sector rather than selecting new managers and forging new relationships.

Mr. Bensur moved to discuss the performance of other managers in the fund, which he characterized as in line with benchmarks with the exception of Wellington Management Company (Wellington), which has shown somewhat disappointing returns. Mr. Bensur explained that the firm has reduced its risk exposures resulting in poor relative performance, but that he believes the firm remains sound and is not cause for concern.

Treasurer Caprio thanked Mr. Bensur for his report. There being no questions from the members, Treasurer Caprio then entertained a motion incorporating the recommendations of Wilshire, and pursuant to management continuation policy, that the SIC terminate the RIERS fund's investment relationship with Shenkman Capital Management, and to instruct staff and consultants to liquidate holdings at the lowest possible transaction cost and without market disruption over the course of the next 45 days as necessary, and then to utilize the proceeds for daily cash needs of the fund and to redeploy excess cash to the fixed income investment structure.

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

VOTED: To terminate the relationship with Shenkman Capital Management, removing them from the RIERS fund investment manager list, to utilize proceeds for daily fund cash needs, and to redeploy excess cash to existing fixed income investment structure.

Legal Counsel Report. Ms. Donegan was not present for the meeting and there was no legal counsel report this month. Treasurer Caprio directed the SIC to await the report for the next meeting in March, and introduced Deputy Treasurer Goodreau.

Deputy Treasurer for Finance Report. Mr. Goodreau thanked the council, and stated that the termination of Shenkman is indication of the top to bottom review that the office of Treasurer is in the initial stages of conducting. Mr. Goodreau further stated that he considered the decision a matter of policy, and that the Treasury staff is thoroughly investigating whether any other changes should be undertaken.

Treasurer's Report. Treasurer Caprio thanked Mr. Goodreau for his comments. He announced the creation of an SIC subcommittee for issues of audit and governance, featuring Mr. Reilly and Mr. Giudici in addition to himself as the three initial members, with the possibility of adding more. Treasurer Caprio extended an open invitation to interested members.

Treasurer Caprio made brief comments about the previous day's unusual market fluctuations, stating that they will be watched closely. He further announced that State Street consultants are providing daily numbers, and that the RIERS fund netted losses of only slightly more than 1% in the downturn. He noted that this minimal loss is indication of the successful diversification and asset allocation of the fund.

Finally, there being no questions from the members and no new business, Treasurer Caprio welcomed the two new members of the SIC, Mr. Giudici and Mr. Reilly, as well as Mr. Treat, who was not present at the previous meeting.

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

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 10:20 a.m.

Respectfully submitted,

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting March 28, 2007

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, March 28, 2007. The Treasurer called the meeting to order at 9:05 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Giudici, Dr. Robert McKenna, Ms. Marcia Reback, Mr. Andrew Reilly, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Deputy General Treasurer for Finance; Jayne Donegan, Esq., of Brown Rudnick Berlack Israels, Legal Counsel to the Commission; Mr. David Lindberg, of Wilshire Associates Incorporated, General Consultant to the Commission; Mr. David Fann of the Pacific Corporate Group, Alternative Investments Consultants to the Commission; Ms. Lisa Tyrrell and Ms. Lara Callahan of State Street Corporation; and other members of the Treasurer's staff.

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

VOTED: To approve the Minutes of the February 28, 2007 regular meeting.

Private Equity Review (Pacific Corporate Group). Treasurer Caprio introduced Mr. Fann of Pacific Corporate Group (PCG). Mr. Fann briefly outlined his overview of the fund, stating that the portfolio on an aggregate basis has outperformed all benchmarks including venture capital and the S&P 500. Mr. Fann noted that in terms of asset allocation, PCG has shifted sector focus funds from special situations classification to corporate finance in general, which has yielded an ostensible over-allocation in corporate finance. He explained the reasoning behind this as both temporary and a function of the reclassification of corporate finance, anticipating that the asset allocation will readjust by the end of 2007.

Mr. Costello inquired as to PCG's approach to fund size, and Mr. Fann replied that PCG believes in a diversified approach. He further stated that while there is currently a bias towards middle- and large-sized funds, this is a temporal phenomenon given the recent successes of these types of funds in the marketplace.

Treasurer Caprio asked Mr. Fann for information particular to Lehman Brothers (Lehman), an alternative investment firm seeking investment in their new fund by the ERSRI. Mr. Fann stated that Lehman is a merchant banking organization currently raising a fourth fund with a target size of $1.5 billion. He introduced the firm as one that has invested $3.4 billion in 41 companies since 1989 with impressive net internal returns of 29.7% (gross 37%). Mr. Fann characterized the fund as high quality and compelling, and a good fit in the context of the ERSRI portfolio. Mr. Fann stated that PCG recommends investment in Lehman by the ERSRI in the amount of $15 million in Lehman Brothers Fund IV (LB IV).

Lehman Brothers presentation. Treasurer Caprio thanked Mr. Fann and introduced Danny James of Lehman for his presentation to the Commission.

Mr. James thanked Treasurer Caprio for his introduction and introduced himself to the Commission as a member of the Lehman organization for twenty years. Mr. James characterized Lehman as a firm competing exclusively in middle markets, targeting companies valued between roughly $700 million and $1 billion. He stated that the firm is by far the largest investor in its funds, oftentimes at five to ten times the shared risk as its limited partners. He emphasized that a chief advantage of Lehman is that the firm does not believe in solely investing with outside capital, but is committed to high levels of risk sharing and investment with the firm's own capital.

Mr. James explained that Lehman employs a business model similar to the bulk of private equity firms, in which Lehman receives 20% carried interest from returns. He stated further that Lehman emphasizes risk-reward, whereas offering economic incentive for success secures better performance for all involved investors.

Mr. James gave an overview of Lehman Brothers Fund III, stating that the fund exemplifies the firm's commitment to diversification as well as its overall solid returns. He further stated that sixteen of seventeen deals closed by the fund were proprietary in nature, exemplifying the firm's success in following through on potential ventures.

Moving to Fund IV, Mr. James emphasized the firm's commitment to remaining in the middle market, and to diversification by geography and industry. And finally, Mr. James assured the Commission that investment in LB IV would work alongside rather than in competition with the ERSRI's other investments.

Mr. Giudici inquired as to the internal structure of Lehman, with particular respect to the number of members and the firm's investment philosophy. Mr. James responded that Lehman utilizes a "farm system" approach, typically hiring first-year analysts and/or first-year MBAs who are then trained and promoted within the firm. Mr. James characterized the approach as a collegial one that emphasizes partnership and risk-sharing in its investments. He noted that the same strategy is employed by the firm's European partners.

Ms. Gallogly asked Mr. James to elaborate on the firm's performance and transaction history. Mr. James responded that Lehman has exercised 42 transactions since 1989 and has lost all its money only once. He characterized this instance as an anomaly resultant from complications related to the firm's founder and family, which have since been corrected. Mr. James stated that Lehman approaches its capital seriously with the assumption and expectation of good performance, underscored by the firm's insistence on risk-sharing by its members and partners. He further stated that Lehman is firmly opposed to bankruptcy, more so than other firms, and approaches risk with caution.

Mr. Costello inquired as to how many deals Mr. James expected to do in Fund IV, and Mr. James responded that he expects fifteen to twenty deals over the next three- to five-year period. Mr. James then asked the Commission for any further questions regarding Lehman or LB IV, and there were none.

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

VOTED: To invest up to $15 million in LB IV, contingent upon satisfactory review and negotiation of investment and other legal documents.

Short Term Investments – Webster Bank. Treasurer Caprio introduced Mr. Vincent Izzo for his presentation to the Commission on Webster Bank (WB). Mr. Izzo began by stating that the ERSRI typically operates with twelve vendors, and currently has only eight active vendors. Mr. Izzo stated that a full review of WB had been performed and discussed by the Deputy Treasurer and his staff. He noted that WB is a growing presence in Rhode Island, and is the second largest independent bank in New England, with rates in line with or better than its competitors. Mr. Izzo stated that WB meets all the criteria required by the Commission, and concluded with the recommendation that WB be adopted as a short-term investments vendor for the ERSRI.

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

VOTED: To add Webster Bank as an active manager to the list of vendors for short term investments.

Wilshire Associates Incorporated – Capital Market Review. Treasurer Caprio introduced Mr. Lindberg of Wilshire for his update on capital markets. Mr. Lindberg thanked Treasurer Caprio for his introduction and distributed materials to the group. He began by characterizing the recent period in the marketplace as one of volatility, and quite different from the same period in recent years. Mr. Lindberg stated that the long-term strategy of the ERSRI weathers this volatility well, and urged the Commission to stay focused on the long term policy.

Mr. Lindberg stated that January 2007 saw positive returns, followed by a decline in February, and then a moderate upturn in March in terms of the equity markets. In the year to date, businesses have shown solid growth and consumer spending remains strong.

The real estate market has seen significant and continuing declines, particularly in terms of home sales. There remains some concern regarding inflation rates.

Stocks on the S&P 500 are up about 1% year to date. Small cap stocks have continued to outperform large cap stocks, continuing the trend for the last six years. Equities in emerging markets have cooled somewhat relative to developed markets, although international markets overall remain strong in the year to date. Fixed income equities are up 1.6%, and high yield equities have seen solid returns of 2.5% despite rather compressed spreads and an inverted yield curve.

Ms. Gallogly inquired as to the status of the rebalancing of the ERSRI portfolio as approved in the February 2007 SIC meeting. Mr. Goodreau answered that the rebalancing has indeed taken place, and would address the matter in more detail in his report to the Commission. Mr. Goodreau noted that the money liquidated from Shenkman Capital will be reflected in the asset allocation numbers under the fixed income category.

Treasurer Caprio thanked Mr. Lindberg for his report, and announced the Legal Counsel Report.

<u>Legal Counsel Report.</u> Ms. Donegan stated that there was no legal report for this month. Treasurer Caprio thanked her, and moved toDeputy Treasurer Goodreau for his report.

<u>Deputy Treasurer for Finance Report.</u> Mr. Goodreau thanked the Treasurer and focused his report on the status of funds with Shenkman Capital, formerly an investment manager for the ERSRI. Mr. Goodreau reiterated that the liquidation from Shenkman Capital, which was approved in the previous SIC meeting, had been completed and that the resultant shift will be visible in the next month's portfolio numbers. Mr. Goodreau stated that this rebalancing is reflective of the due diligence in monitoring the performances and practices of the entities with which the State of Rhode Island maintains investment relationships.

<u>Treasurer's Report.</u> Treasurer Caprio thanked Mr. Goodreau for his report. The Treasurer then stated that he intends to establish a subcommittee for alternative investments, for the purpose of reviewing both current and potential funds for investment by the ERSRI. Additionally, this subcommittee will aid the SIC in creating a clear process for approaching investment by the ERSRI in new and/or potential funds. Treasurer Caprio announced that Mr. Reilly has been appointed to this committee, and extended an invitation to other interested members. The Treasurer stated that he also intends to establish a subcommittee on asset allocation, and extended an invitation to interested members as well.

Treasurer Caprio then presented the Commission with an update on legislative matters, particularly the issue of divestment in the amount of $2 million from Sudan by the State of Rhode Island. The Treasurer noted that the issue is set for a vote in the State

House of Representatives, and that the $2 million divestment would have minimal impact on the ERSRI but would send a strong message from the state.

Finally, there being no questions from the members and no new business, Treasurer Caprio looked to the Commission to adjourn the meeting.

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

VOTED: To adjourn the meeting.

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

Respectfully submitted,

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting April 25, 2007

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, April 25, 2007. The Treasurer called the meeting to order at 9:05 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Giudici, Ms. Marcia Reback, Mr. Andrew Reilly, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Deputy General Treasurer for Finance; Brian Gallogly, Esq., of Brown Rudnick Berlack Israels, Legal Counsel to the Commission; Ms. Michelle Davidson, of the Pacific Corporate Group, Alternative Investments Consultants to the Commission; Ms. Lisa Tyrrell and Ms. Lara Callahan of State Street Corporation; and other members of the Treasurer's staff. Dr. Robert McKenna was absent.

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

VOTED: To approve the Minutes of the March 28, 2007 regular meeting.

Dr. McKenna arrived at 9:10am, and his attendance was noted for the record.

Treasurer Caprio alerted the group to a typographical error in the staff summary section of the SIC book for this month, which incorrectly states a "decrease" rather than an "increase" in the portfolio. Treasurer Caprio reiterated for the record that the portfolio experienced an increase, not a decrease, and that a corrected page would be submitted to all SIC members.

Short Term Investments – Washington Trust. Treasurer Caprio introduced Mr. Vincent Izzo for his presentation to the Commission on Washington Trust (WT). Mr. Izzo began by stating that the ERSRI makes an effort to invest with a local focus, as evidenced by the addition of local entity Webster Bank in the previous SIC meeting and again this month with WT. Mr. Izzo then gave an overview of WT, noting that a full review of WT had been performed and discussed by the Deputy Treasurer and his staff. He noted that WT does not issue publicly traded debt and thus is not rated by an agency such as Moody's or Standard and Poor's, but that WT is rated by a rating service and ranks very highly on that scale. Mr. Izzo stated that WT meets all the criteria required by the Commission, and concluded with the recommendation that WT be adopted as a short-term investments vendor for the ERSRI, bringing the total number of active vendors to eleven.

Ms. Gallogly inquired as to the standard in terms of a rating agency used by banks with which the ERSRI maintains relationships, and whether this is part of the ERSRI investment policy. Mr. Izzo answered yes on both counts, and reiterated that WT meets those standards.

Mr. Costello asked for confirmation of how many managers the ERSRI retains. Mr. Izzo stated that up to fifteen managers is a comfortable number for the ERSRI, and that currently two other managers in addition to WT are under consideration.

Mr. Costello moved, Mr. Giudici seconded, and the following motion passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Mr. Reilly, Ms. Reback, and Treasurer Caprio. It is noted for the record that Mr. Treat recused himself from this vote.

VOTED: To add Washington Trust as an active manager to the list of vendors for short term investments.

Before moving to the next item on the agenda for review, Treasurer Caprio asked Mr. Izzo for an update on the auction of investments that will be offered to the public by the State. Mr. Izzo stated that the Treasurer's staff has been developing the criteria for auction and a list of potential vendors, and hopes to have a proposal ready to present to the Commission by the next month's meeting.

Ms. Reback inquired as to what exactly will be auctioned, and Treasurer Caprio answered that bond rates will be offered by various banking institutions for 6-month savings CDs. Both approved and non-approved vendors will be able to participate, with benefits both in terms of marketing purposes and beneficial rates of return. Treasurer Caprio noted that similar programs have been employed by other states to positive results.

<u>Alternative Investments (Pacific Corporate Group)</u>. Treasurer Caprio introduced Ms. Davidson of Pacific Corporate Group (PCG) to give a brief overview of the Paladin Capital Group (Paladin) and Paladin Capital III (PC III), up for review and investment by the Commission. Ms. Davidson stated that Paladin is raising up to $500 million for a third fund to pursue the same strategy as their prior fund, which focused on technology companies that offered solutions to help critical infrastructure defend against or recover from natural disasters and homeland security threats. She stated that PCG believes Paladin is a clear leader in this niche, and has assembled an unparalleled team with expertise in fields including national defense, security, technology and intelligence. Principals include former directors of the NSA and CIA, and a strong group of strategic advisors as an additional resource. PCG finds compelling Paladin's concept of dual use, requiring companies in which they invest to have the ability to secure contracts in both the government and the private sector, thus limiting investment risk. Ms. Davidson articulated one primary concern with Paladin, which is that a substantial amount of their prior fund remained unrealized and thus supplied a less clear indicator of future

performance. She stated, however, that PCG views Paladin's strong team as a mitigating factor, and has confidence that Paladin will be able to execute their plan.

Ms. Gallogly asked if ERSRI invested in the prior fund, and Ms. Davidson answered that this would be a new relationship for the ERSRI.

Mr. Costello inquired as to why Paladin was categorized within the PCG report as a venture capital firm if the group does not typically pursue startups. Ms. Davidson replied that while not the traditional model of venture capital, there is a wider category of venture capital into which Paladin falls. She stated that because Paladin invests in technology companies, and is not involved in leverage buyouts per se, the group falls under the definition of venture capital.

Ms. Reback inquired whether Paladin supports any companies such as Halliburton that would indirectly support mercenaries. Ms. Davidson replied that her understanding was that Paladin pursued no such investments, but deflected to Paladin representatives for their presentation to the group.

Paladin Capital Group presentation. Treasurer Caprio presented Mr. Michael Steed and Lieutenant General Kenneth Minihan of the Paladin Capital Group for their presentation. Mr. Steed began by stating that Paladin was founded in 2001, and had a first fund of $208 million, which was a classic opportunity fund. Following the events of 9/11, the group convened with the idea of developing a strategy of investment in a way that would respond in both a civic and financial way to those events. The group examined the critical infrastructure of the United States in relation to vulnerabilities to natural disasters, terrorism, and other illegal activities. As a result, the group put together a fund that would invest in companies that could contribute solutions to those vulnerabilities as well as bring positive financial returns.

Mr. Steed stated that nearly all the companies in that initial fund are re-upping for the successor fund. In the initial fund twenty-one transactions were closed, fifteen of which closed within the past two years, including one excellent realization. Mr. Steed concurred with Ms. Davidson's assessment of the fund as being rather young, but also stated that the companies within the fund continue to mature nicely. Mr. Steed stated that four of the fund's companies are in early stages of venture capital investment, and the remainder are in what he termed "B", "C", and "D" stages of growth, which he defined as "classic growth equities". Mr. Steed then deferred to Lt. Gen. Minihan to give an overview of the investment team, which Mr. Steed characterized as the top team in the country in focusing on homeland security and critical infrastructure issues.

Lt. Gen. Minihan stated that Paladin assembled its investment advisory team primarily with the concept of dual use in mind, feeling a need for expertise in areas of national security and the public sector as well as technology development and financial growth. He stated that Paladin's team of strategic advisors thus possesses a broad range of areas of expertise. Lt. Gen. Minihan introduced himself as having served thirty-three years in the United States Air Force, before entering the field of national security and developing expertise in technological development and security infrastructures. He gave an overview of the diversity of the Paladin advisory team, which includes members with backgrounds similar to his own as well as: a medical doctor with interest in long-term modernization of medical care facilities; a hardware and software technological expert; a co-founder of Disney Imagineering who helped design and build Disney and other large-scale theme parks; a Nobel Prize-winner in science with an understanding of biological and chemical hazards; a former ambassador to China with expertise in Asian markets.

Mr. Costello inquired as to whether all the members involved with PCIII were also involved in the initial fund. Mr. Steed answered yes, with the exception of one member who left the firm in order to remain near his home in Boston, and there are also four new members in addition to those involved with the initial fund.

Mr. Steed went on to elaborate the terms “homeland” (the global environment, rather than just the United States), “security” (assurance of the ability to continue work and play in the global environment despite threats), and “critical infrastructure” (the mechanisms and systems relied upon daily for work and play in the global environment) as Paladin defines them. He observed that the realization of vulnerabilities to these systems occurred in the mid-1990s, but that the incidents of 9/11 accelerated the need to find solutions to these vulnerabilities.

Mr. Steed stated that PCIII is a multi-stage fund. Paladin considers several pillars with regard to security: the ability to defend, to cope, and to recover. Using these criteria, Paladin widens the field of consideration for companies of potential investment. Dual use is a critical screen Paladin employs, and companies must scale on both the commercial side and the governmental or defense side. Paladin does not consider itself a defense fund, does not fund weapons or combat, and tends to avoid transactions with companies that are strictly defense-oriented. Mr. Steed further emphasized that companies’ commercial viability is a stronger deciding factor for investment than other facets under evaluation. Companies must appeal to commercial and federal interests.

Ms. Reback asked for clarification of what Paladin means by “services” when it lists its investment companies as providing products, technologies, and services. Lt. Gen. Minihan cited GlassHouse Technologies, Inc., based in Boston, which is a technology consulting service that provides consulting services to the government and other entities with respect to electronic storage systems that are agnostic to those entities’ existing technologies.

Mr. Reilly asked whether the focus of PCIII would be similar to the initial fund, as the language surrounding PCIII appears to be more heavily focused on the homeland security sector. Lt. Gen. Minihan answered that the core business of PCII will be continued in PCIII, with the additional opportunity to do more early-stage investment in PCIII.

Mr. Reilly asked the Paladin representatives to address the competition in their field of investment, which he anticipated had become crowded since Paladin’s initial fund. Mr. Steed answered that since PCII, risk has shifted from technology to management and growth; Paladin can now, with greater knowledge of technologies, examine companies in earlier stages of growth and acquire better deals. Mr. Steed further observed that Paladin attracts companies because it offers value-added benefits in addition to funding. Finally, Mr. Steed asserted that there is no other fund comparable to Paladin in the United States, and that while competition exists for individual deals, as an entity Paladin dominates the niche in a focused way while also expanding outside that niche with PCIII.

Treasurer Caprio stated to the group that Mr. Reilly has been performing an in-depth analysis of Paladin over the past month as part of his work with the subcommittee on private equity. Treasurer Caprio stated that he anticipates the subcommittee will hold a public meeting for anyone who wishes to participate, in addition to following up with the SIC in future meetings. The analyses generated by the subcommittee will serve as an additional tool to the analyses presented by PCG.

Mr. Costello asked for further information about the single full exit Paladin exercised. Mr. Steed answered that the one full exit was from an investment partnership with a company that produced new technologies for visual monitoring systems. Mr. Steed explained that this company generated novel technologies and had governmental grants, and Paladin anticipated a strong commercial market. According to Mr. Steed, slower-than-expected growth in relevant commercial markets presented problems for continued investment, and Paladin made the decision to divest; Paladin sold the company for $4.5 million, at a loss of roughly $6 million. Mr. Steed stated that the fund structure cushions the loss to investors in such cases, requiring Paladin to make up the loss before sharing profits with investors.

Mr. Giudici asked Mr. Steed to elaborate on Paladin's investment team. Mr. Steed answered that there is an investment committee and a deal flow committee that meet on a weekly basis. Mr. Giudici inquired as to the monitoring of investments, and Mr. Steed replied that the team monitors investments on a minute-to-minute basis. He further stated that Paladin's monitoring can be fairly in-depth, going so far as to rearrange management in a company if performance does not meet expectations.

Ms. Gallogly asked for further information about fund performance given that Paladin experienced one full exit in PCII. Mr. Steed replied that he and one other founding partner have a demonstrable performance history in Washington, D.C.-based ULICO, a holding company for subsidiary Union Life Insurance Company, from 1991 to 1999 with an internal rate of return IRR of 81% for realized deals, 90% for realized and unrealized. PCI has an overall IRR of around 17% to date (target of 20%), with an exit from one transaction at as much as 41% IRR. PCII closed in 2004 and currently has an IRR of just under 10%. He reiterated that PCII is a very young fund with twenty-one total companies, fifteen of them realized in the last twenty-four months.

Treasurer Caprio then entertained a motion for investment in PC III in the amount of $15 million, pending satisfactory legal review. Mr. Treat moved, Ms. Reback seconded, and the following motion was passed with one negative vote. The following members voted in favor: Mr. Costello, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio. Ms. Gallogly voted against the motion, citing concerns about a lack of fund performance history.

VOTED: To invest up to $15 million in PC III, contingent upon satisfactory review and negotiation of investment and other legal documents.

Ned Davis Research – Capital Market Review. Treasurer Caprio and Mr. Goodreau stated that he would partially combine the Deputy Treasurer's report with the Capital Market Review, which would be presented by Mr. Ed Cliffold, Senior Global Analyst of Ned Davis Research (NDR), in absence of consultants from the Wilshire group, who were not able to attend. Mr. Goodreau stated that his investment staff had performed due diligence with regard to asset allocation and market research. Mr. Goodreau stated his interest in acquiring as much outside, unbiased research tools as possible to better guide the ERSRI investment decisions. He further stated that he believed NDR to be among the best sources for this sort of information. After some initial technical difficulty in arranging a conference call via speakerphone, it was determined that the call would take place via cellular phone speaker. Mr. Goodreau placed the call and, when it was determined that the group could properly hear Mr. Cliffold, Mr. Cliffold proceeded with his overview.

Mr. Cliffold introduced himself to the group and stated that NDR was founded in 1980 and currently provides financial markets research for more than one thousand entities globally. He stated that NDR considers itself a disciplined risk manager, relying heavily on historical data for context as well as a number of trend indicators. He stated that his overview would touch on current conditions, what those conditions mean to the ERSRI, and finally global markets.

Mr. Cliffold began his overview by explaining that a comparison of earnings expectations with actual earnings in the current cycle shows that analysts' expectations of earnings have been too conservative, which indicates that sentiment has remained somewhat in check despite the bull market. He noted that this is something worth watching closely in the near future, with respect to how long the current trend and rate of earnings growth will continue. Mr. Cliffold further explained that the economy appears to be in a state of soft decline, of which one major indicator is the decline of the lagging housing market. One area of special concern is credit spreads for asset backed securities, which could negatively affect other areas of the economy.

Mr. Cliffold stated that the S&P 500 has declined a significant amount, but qualified this by saying that using the past seven to eight years for comparison is unwise given that this bubble period produced numbers atypical to a broader historical consideration of the economy.

Mr. Cliffold stated that in terms of small and large cap stocks, large caps tend to outperform small caps later in the economic cycle as large caps are typically more economically sensitive. He observed that that trend indicators have begun to favor large cap stocks. Mr. Cliffold stated that value is more favorable than growth currently, but that analysts are watching growth-oriented stocks in fields such as health care for signs of rebound.

Mr. Cliffold moved to international markets, pointing out that Asian markets, specifically China, India, Indonesia, Japan and South Korea, have been driving the global economy. He stated that this should serve as an example that the United States investors should remain continuously watchful of the global economy. Resource markets such as Latin America continue to be favorable as well.

Mr. Goodreau inquired as to how other pension funds have used analysts' estimates to tailor their own investments. Mr. Cliffold responded that the pension funds typically use these estimates as best their investment policy allows, depending upon the flexibility these policies allow for reaction. Less flexibility yields less reactivity, and some performance is generally lost. He stated that models can be tailored to the particulars of each pension fund's policy to reap the greatest benefits within those parameters. Mr. Cliffold interjected that most pension funds like to use these models as an anchor to guide their investments, as a tool to clarify sometimes overwhelming or irrelevant economic data that exists on the whole.

Treasurer Caprio thanked Mr. Cliffold for his report, stated that he believes it very important for the group as a whole to determine the ERSRI asset allocation and the general direction of investments. Mr. Goodreau concurred, and stated that research provided by consultants should be treated as an unbiased eye to the economy, which the group should use to contextualize or guide investment decisions. He further stated that he believed that utilizing as many outside, unbiased tools as possible is best for sound investment decisions.

Legal Counsel Report. Mr. Gallogly stated that there was no report for the month, but took the opportunity to introduce himself to the group as the new legal counsel and replacement for Ms. Jayne Donegan, who had left the firm Brown Rudnick Israels for another position. Mr. Gallogly stated his enthusiasm to work with the group, and Treasurer Caprio thanked him for his efforts thus far and going forward.

Deputy Treasurer for Finance Report. Having presented his report to the group as part of the Capital Markets Review, Mr. Goodreau had nothing further.

Treasurer's Report. Treasurer Caprio stated that he would like to address security lending issues, which the staff has examined for the past month. He stated that just over $1.3 billion in stock is currently lent by the ERSRI to other entities, and that the ERSRI receives 102% of the stock value in cash from these borrowing entities, which is in turn invested in a vehicle with State Street consisting of three funds: the "A Fund", the "D Fund", and the "Renaissance Fund." Treasurer Caprio clarified that the overall fund totaled approximately $100 billion, of which the ERSRI funds constituted roughly $1.3 billion. At the time of review, the "A Fund" consisted of various rated instruments (mostly AA and AAA bonds) with no exposure to mortgage-backed or credit-card securities, as opposed to the "D Fund," which had 60% exposure to mortgage and credit-card securities (some of which were unrated). Rhode Island had traditionally been involved with the "A Fund," but had switched from "A" to "D" with the approval of the Commission in 2006. Treasurer Caprio stated that following a conference call between himself and Mr. Goodreau and representatives of State Street, and given current economic conditions, he believed it prudent to scale back on the risk in this area, switching money from the "D Fund" to the "A Fund". Since it was consistent with the Commission's approval for the ERSRI to be invested in the "A Fund", Mr. Goodreau and Treasurer Caprio approved the switch from "D" back into "A", which has since been completed.

Ms. Reback motioned to request confirmation to the Commission of the movement of funds from "D" to "A". Mr. Costello seconded, and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

Ms. Reback additionally requested advance notice in the future of any such movements on behalf of the ERSRI. Mr. Goodreau agreed.

VOTED: To receive confirmation to the State Investment Commission (SIC) of the movement of ERSRI funds from the "D Fund" to the "A Fund" within the State Street investment vehicle.

There being no questions from the members and no new business, Treasurer Caprio looked to the Commission to adjourn the meeting.

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

VOTED: To adjourn the meeting.

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

Respectfully submitted,

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting May 30 2007

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, May 30, 2007. The Treasurer called the meeting to order at 9:10 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Giudici, Dr. Robert McKenna, Mr. Andrew Reilly, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Deputy General Treasurer for Finance; Brian Gallogly, Esq., of Brown Rudnick Berlack Israels, Legal Counsel to the Commission; William Bensur, of Wilshire Associates Incorporated, General Consultant to the Commission; Ms. Lisa Tyrrell and Ms. Lara Callahan of State Street Corporation; and other members of the Treasurer's staff. Ms. Marcia Reback was absent.

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

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

Treasurer Caprio alerted the group that the Townsend Group, real estate consultants to the Commission, had no representative present. Mr. Goodreau explained that representatives of Prudential Real Estate Investors, and PRISA II, a real-estate fund, would make a presentation to the Commission in absence of Townsend representatives. Treasurer Caprio asked Mr. Goodreau for a brief overview of PRISA II, and Mr. Goodreau described the fund as one which possesses a great track record and a more conservative approach to real estate investments. He stated that after discussions between himself and Townsend representatives, he had concluded that PRISA II offers the advantages of a lower fee and an efficient way for the Employees' Retirement System of Rhode Island (ERSRI) portfolio to gain exposure in an underexposed area. He then introduced Mr. Kevin Smith and Mr. Terry McHugh, representatives for PRISA II.

Mr. Smith thanked Mr. Goodreau for his introduction. He gave a brief overview of the fund, which he described as the core fund of Prudential Real Estate Investors with a history of more than 27 years and a long track record of consistent performance to benchmarks. He stated that he believed the fund to be a good opportunity for the State of Rhode Island, and that the fund is only brought out every few years for investment; the current window of opportunity for investment closes on June 1, 2007, or within two days of the May SIC meeting. He further stated that PRISA II is an open-end, enhanced-return pooled fund which began operations in July 1980, and is only open for new investments periodically, with the last reopening in second-quarter 2004.

Mr. McHugh continued that PRISA II has re-opened the fund in 2007 due to existing strong deal flow, need for capital, and strong market fundamentals. He stated that expected capital to be raised for the fund is $3 billion, from existing and new investors, in addition to $250 million for the Prudential defined contribution fund. 25% of this capital is expected to be drawn in 2007, with roughly 19% by June 29, 2007. He described the acquisition strategy as having participation in development at the local level, and an 80% focus on the coastal region given the high concentration of real estate growth and value in that region.

Mr. Smith stated that as of March 31, 2007, PRISA II owned 92 investments with a Gross Asset Value of $6.2 billion and Net Asset value of $4.4 bullion. PRISA II produced more than 4% Total Gross Return in the first-quarter 2007, and rolling four-quarters' Total Gross Return is just less than 20%. After the initial June 29, 2007 draw down of capital, PRISA II leverage was expected to be in the mid-20% range. He concluded by stating that PRISA II expectations for 2007 were to produce a Total Gross Return of 11-14%, and that Prudential is significantly ahead of those projections at present. Mr. Smith and Mr. McHugh then opened for questions by Commission members.

Mr. Giudici asked the representatives to contextualize current market valuations in historical context. Mr. McHugh responded that he does not characterize the current market as having a collapse in value, but rather a steadying, and that he believes that it will stabilize. He further stated that rents are still increasing, and that a stable market is desirable for returns.

Mr. Treat inquired as to the saturation and high vacancy rates in the condominium market in Florida. Mr. McHugh acknowledged the saturation but stated that Prudential has fared well in that market, with two current projects slated for completion. He attributed Prudential's success in this sector to appropriate pricing.

Mr. Giudici inquired as to the state of the commercial sector, and Mr. McHugh answered that offices in coastal regions, particularly the East Coast, San Francisco and Southern California, remain steady. He stated that strong job growth continues to fuel strong demand for office space, but the demand is typically taking the form of leasing opportunities for extant buildings rather than new construction. Mr. Giudici further inquired as to the impact on the commercial sector of mortgage foreclosures in the residential market, and Mr. McHugh responded that to date there has not been a tremendous correlation between the two.

Mr. Reilly asked whether there are markets that Prudential may have avoided in the past, and are now more bullish in pursuing. Mr. McHugh answered that the fund remains unenthusiastic about office space in the Midwest region, but has grown more comfortable with the opportunities and connections in Midwestern retail space.

Mr. Goodreau stated his concerns about liquidity and potential changes in availability of capital due to unstable interest rates. Mr. McHugh stated that the availability of capital for the next three years is not a concern for Prudential; for the market as a whole, he stated that continued raising interest rates might yield fewer buyers but would not likely yield a decrease in available capital.

In conclusion, Mr. Smith reiterated that he believes PRISA II is an excellent fit with the ERSRI portfolio, and feasible despite the near date of closure given that the ERSRI already invests in other Prudential funds and thus benefits from an abbreviated documentation process.

Treasurer Caprio thanked Mr. Smith and Mr. McHugh for their presentation. He informed the Commission that Townsend had recommended investment in Prudential PRISA II in the amount of $15 million, and that the ERSRI has $70 million available for real estate allocation. Mr. Smith informed the Commission that PRISA II was currently oversubscribed by approximately 35%. To achieve the $15 million investment target recommended by Townsend, Treasurer Caprio entertained a motion for investment in the amount of up to $20 million, pending satisfactory legal review. Mr. Treat moved, Ms. Gallogly seconded and the following motion was passed unanimously. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

VOTED: To invest up to $20 million in PRISA II, contingent upon satisfactory review and negotiation of investment and other legal documents.

Capital Market Review – Wilshire Associates. Treasurer Caprio introduced Mr. Bensur for his presentation to the Commission. Mr. Bensur began by stating that the global market is currently unstable due to recent, uncertain market conditions in China. The U.S. economy as a whole has entered a very long business cycle, which will be characterized by greater stability but more moderate growth, as the U.S. economy has matured from one based in manufacturing to one based in service. In general business earnings growth is still increasing but at steadying rates. Consumer confidence is moderate due to concerns over market volatility; consumer net wealth and spending continues to grow, but housing wealth is being replaced by market wealth.

Mr. Bensur said that he expects growth in both U.S. and non-U.S. equities as long as liquidity remains open; U.S. equities continue to see lower growth and returns than non-U.S. equities as they have since the beginning of the decade, and emerging markets continue to outpace developed ones. Mr. Bensur stated that fixed income continues to be uneventful due to a flat yield curve, yet the ERSRI should still fare well in this sector given the fund's long-term strategy. Mid- and small-cap stocks continue to outperform large-cap stocks.

In terms of performance, Mr. Bensur stated that a review conducted by himself and Mr. Goodreau revealed that, overall, the ERSRI portfolio is performing in line with expectations. From a macro perspective, asset allocations are in line with policy and managers are performing to portfolio benchmarks.

Mr. Bensur gave a brief overview of asset allocation for the purposes of the recent subcommittee appointed to review this facet of the portfolio. He underscored the importance of asset allocation as the most important tool of the ERSRI as a public fund, setting the philosophy and structure for investment and incorporating forward-looking strategy in order to weather various instabilities over time. Mr. Bensur gave a brief overview of the history of the fund's asset allocation, and a summary of current allocation. He outlined a ten-year forecast of expectations for the fund, which sees a median rate of return of about 8%.

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

Deputy Treasurer for Finance Report. Mr. Goodreau commented on the asset allocation review mentioned in Mr. Bensur's report, stating that he expected the assigned subcommittee to meet sometime in the near future. In addition, his staff had been devoting a large percentage of time to surveying and monitoring the fund's allocation, and various means of calculating and assessing it. Mr. Goodreau stated that he determined the fund to have underperformed this month by roughly 30 basis points, or $24 million dollars, almost all of which is due to the way private equity is calculated; adjusting for accounting practice and lag time brings the performance in line with expectation. He reiterated a disconnect in the calculation, which he attributes to a function of accounting and hopes to gain clarity on this issue by the next SIC meeting.

Some discussion ensued among Mr. Reilly, Mr. Giudici, and Mr. Goodreau as to the specifics of accounting practice. Mr. Goodreau concluded that this was something he intends to examine closely and resolve in the near future.

Treasurer's Report. Treasurer Caprio announced to the Commission a meeting of the Subcommittee for Alternative Investments, to be held on June 15. The meeting will be chaired by Mr. Reilly, and all interested SIC members are invited to attend. Treasurer Caprio stated that in the future, he hopes that all managers who present to the Commission will first be screened by the subcommittee as a means of streamlining the process. Treasurer Caprio addressed the security lending program that had been discussed in the previous meeting, informing the Commission that the change of one fund to another for collateral had resulted in a positive return of $164,000. He also stated that he looks forward to the correction of accounting practices so that it most accurately portrays the portfolio numbers. Treasurer Caprio concluded with an update of the portfolio value, which he stated is approaching $8.3 billion in value, with an increase of $225 million, as of April 30, 2007.

There being no questions from the members and no new business, Treasurer Caprio looked to the Commission to adjourn the meeting.

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

VOTED: To adjourn the meeting.

There being no further business, the meeting was adjourned at 10:30 a.m.

Respectfully submitted,

Frank T. Caprio
General Treasurer

State of Rhode Island and Providence Plantations
STATE INVESTMENT COMMISSION

Regular Meeting June 27, 2007

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Wednesday, June 27, 2007. The Treasurer called the meeting to order at 9:05 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Gaudreau, Ms. Marcia Reback, Mr. Andrew Reilly, Mr. John Treat, and General Treasurer Frank T. Caprio. Mr. Robert Giudici and Dr. Robert McKenna were absent. Also present were: Mr. Kenneth E. Goodreau, Deputy General Treasurer for Finance; Mr. Brian Gallogly, Esq., of Brown Rudnick Berlack Israels, Legal Counsel to the Commission; Ms. Felicia Bennett, of Wilshire Associates Incorporated, General Consultant to the Commission; Ms. Lisa Tyrrell and Ms. Lara Callahan of State Street Corporation; Ms. Michelle Davidson, of Pacific Corporate Group (PCG), Alternative Investments Consultants to the Commission; and other members of the Treasurer's staff.

State Investment Commission Minutes. Treasurer Caprio noted the omission of Mr. Treat's name from the list of members present at the May 30, 2007 meeting. With this correction noted, the Treasurer entertained a motion for approval of the minutes. Mr. Reilly moved, Mr. Treat seconded and the following motion was passed unanimously. The following members voted in favor: Ms. Gallogly, Mr. Gaudreau, Mr. Reilly, Mr. Treat, and Treasurer Caprio. Mr. Costello and Ms. Reback recused themselves from this vote given their absence from the previous meeting.

VOTED: To approve the Minutes of the May 30, 2007 regular meeting.

Subcommittee for Alternative Investments. Treasurer Caprio asked Mr. Reilly and Mr. Goodreau to summarize the first meeting of the Subcommittee for Alternative Investments (S-AI), held June 15, 2007. Mr. Reilly gave a brief overview of the meeting, which interviewed seven companies for presentation to the Commission. Mr. Reilly concluded that the S-AI was subsequently recommending for investment W Capital (in the amount of $15 million), Avenue Capital (in the amount of $20 million) and Magna Hospitality Group (in the amount of $4 million). Mr. Reilly stated that both W and Avenue are firms of previous investment by the Employees' Retirement System of Rhode Island (ERSRI), while Magna would be a new relationship. Mr. Goodreau added that, as per the report presented to Commission members, as much as $7.5 million is available for investment in Magna, but a consultation with the Townsend Group, real estate consultants to the Commission, had determined that $4 million is appropriate for the fund at this time.

Treasurer Caprio explained that no representatives for W and Avenue were present because both are existing relationships for the fund, and thus are not required to make presentations to the Commission. The Treasurer asked Ms. Davidson of PCG to give an overview of the two firms.

<u>Avenue Special Situations Fund V, L.P. (Ave V).</u> Ms. Davidson stated that Ave V is being formed by Avenue Capital Partners, LLC (Avenue) primarily to make non-controlling investments in debt, equity, or other obligations of companies in financial distress. She stated that Avenue maintains offices in New York, London, Luxembourg, New Delhi, Bangkok, Shanghai, and several other East Asian cities; Ave V will be managed primarily from Avenue's New York office and will target North American investments.

Ave V will continue to utilize the same top-down, value investing approach it has employed through four prior distressed funds. Ave V will invest in companies in which there is anticipated turnaround, companies trading below liquidation value, or companies that are undervalued. Avenue has targeted a fund size of $4.5 to $5 billion. A hard cap has not been determined. Avenue anticipates a first close on April 18, 2007, and anticipates additional closings.

Ms. Davidson concluded that PCG's review determined Ave V to be an opportunity for the ERSRI to participate in a differentiated portfolio of private equity investments, with potential returns that justify associated risks. Ms. Davidson stated that investment in Ave V is complementary to the ERSRI's existing Special Situations commitments and provides further diversification to the overall portfolio.

Treasurer Caprio stated that the ERSRI's existing relationship with Avenue enables investment in Ave V, whereas a state without such an existing relationship might not have the opportunity.

Mr. Costello inquired as to how the amount of proposed investment was determined. Ms. Davidson answered that the number was reached based on a pacing model and a survey of market-based opportunities, looking at the ERSRI's target for private equity by year and sector, and mindful of diversification as well as policy parameters.

Ms. Gallogly commented that she would support a better allocation strategy that would reward existing, well-performing funds with further or increased investment. In response, Ms. Davidson suggested the possibility of a twice-yearly update of the pacing model to better reach targets.

Mr. Reilly added that he believed a revision of allocation strategy would be beneficial due to changes in the landscape of investments related to "mega-funds". Mr. Reilly further suggested that the ERSRI consider reallocating to firms and funds that are truly venture capital rather than buyout firms.

Treasurer Caprio then entertained a motion for investment in Ave V. Ms. Gallogly moved, Mr. Reilly seconded, and the following motion was passed unanimously. The following members voted in favor: Ms. Gallogly, Mr. Gaudreau, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

VOTED: To invest up to $20 million in Ave V, contingent upon satisfactory review and negotiation of investment and other legal documents.

W Capital Partners II, L.P. (WII). Ms. Davidson continued with her overview of W Capital Partners (W) and their second fund (WII) for investment by the ERSRI. She stated that W was formed in 2001 and has since managed nineteen portfolios representing more than two hundred investments totaling some $170 million. As of September 30, 2006, W's investments generated a gross IRR of 39% and a gross TVM of 1.4x; W's first fund ranks in the first quartile relative to data for U.S. venture capital funds. Ms. Davidson stated that W's investment team has broad experience investing across a wide range of industries and at various stages including buyout, growth equity, and across the venture capital spectrum. W pursues direct secondary investments, which Ms. Davidson characterized as a recently emerged niche market opportunity.

Ms. Davidson continued that WII was formed to acquire direct private equity portfolios through the secondary market, and to proactively manage the acquired portfolio companies to generate capital appreciation. W will seek to acquire portfolios valued between $5-100 million with underlying individual investment values ranging from $2-30 million. W expects WII to build a portfolio of primarily North American assets that are diversified by industry sector and vintage of original investment. WII will also pursue assets along a broad range of strategies including multiple stages of venture capital, growth equity and buyouts, with particular emphasis on mid- to late-stage venture capital and growth equity investments.

Ms. Davidson concluded that a new commitment to WII would be allocated 100% to the Special Situations Investment sub-sector, and would also provide a further degree of diversification to the overall portfolio. She noted that the $15 million proposed investment is the same amount as the ERSRI's investment in the original fund.

Ms. Gallogly asked for clarification of W's loss ratio, in comparison with that of other similar firms (such as Avenue). Ms. Davidson answered that W has higher loss ratios reflective of the volatility inherent to their strategy (i.e. purchasing secondary portfolios). She advised the Commission to focus on returns to gauge W's performance, which she judged as quite strong.

Treasurer Caprio entertained a motion for investment in WII. Mr. Reilly moved, Ms. Gallogly seconded, and the following motion was passed unanimously. The following members voted in favor: Ms. Gallogly, Mr. Gaudreau, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

VOTED: To invest up to $15 million in WII, contingent upon satisfactory review and negotiation of investment and other legal documents.

Magna Hotel Fund III (MHF III). Mr. Goodreau prefaced his overview of Magna Hospitality Group, L.C. (Magna) and MHF III by apologizing for the absence of the Townsend Group, real estate consultant to the Commission, and stating that pressing circumstances had prevented representatives from attending. Mr. Goodreau stated, however, that his communication with Townsend had been consistent and solid in relation to Magna and the general portfolio.

Mr. Goodreau then gave an overview of Magna, stating that he had personally observed the organization and interacted with its management team, based in East Greenwich, Rhode Island, and that he was pleased to see a local company with such successful returns. Mr. Goodreau characterized Magna as a company that develops, manages, and operates hotels. He stated that the company has proven success in its operations, and since 1999 has invested or committed to invest approximately $400 million in twenty-seven real estate-related investments, having an aggregate value of approximately $700 million. Mr. Goodreau noted that Magna Capital Management, a subsidiary of Magna, is the sponsor of MHF III.

Mr. Goodreau stated that MHF III has a target size of $50 to $75 million. The first closing will be held at the end of June 2007, with the second close targeted for July or August 2007. MHF III is expected to have a gross return of 25%, with net returns of 20% based on fee structure.

Treasurer Caprio commented that Magna is based in Rhode Island but maintains only one local investment. He believes that the thirteen locally-based Magna employees, however, represent the ERSRI's desire to work with the best and the brightest local companies, and to encourage growth within the state. Treasurer Caprio stated that, in addition to being a prudent investment for the ERSRI, he believes that the state's investment will have the effect of boosting Magna's ability to fundraise.

Mr. Goodreau introduced Mr. Robert Indeglia, President and CEO of Magna, who then gave a brief overview of the company as well as his own professional history. He summarized Magna's investment history, stating that the company currently maintains investment in twenty-one hotel properties. Mr. Indeglia underscored that while Magna is a locally-based company, the focus for investment in hotels is not necessarily Rhode Island, but wherever the best investments can be found. He concluded that for MHF III, he expects 6-10 limited partners, and anticipates placing funds within 2-3 years (with liquidation in less than sixteen years).

Ms. Gallogly inquired as to the participation and influence of limited partners in Magna's investments. Mr. Indeglia answered that, while partners are involved in advising committees, Magna is heavily reliant on its own management team for direction and control of day-to-day decisions.

Ms. Reback inquired as to the language presented in Townsend's report on Magna, which she believed to imply that Magna "tends to avoid investment" in union properties. Mr. Indeglia could not comment on the genesis of Townsend's statement, but clarified that Magna does not expressly avoid or commit to investment in a property based on union presence or lack thereof. He stated that the primary factor in Magna's investments is always a property's assessed potential for positive growth and returns, regardless of union presence.

There being no further questions, Treasurer Caprio entertained a motion for investment in MHF III. Ms. Reback motioned, Mr. Reilly seconded, and the following motion was passed unanimously. The following members voted in favor: Ms. Gallogly, Mr. Gaudreau, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

VOTED: To invest up to $4 million in WHF III, contingent upon satisfactory review and negotiation of investment and other legal documents.

Following the vote there was some discussion of the S-AI as a means of streamlining the process for presenting and evaluating potential alternative investments to the Commission. Mr. Goodreau and Mr. Reilly stated that they believe the S-AI serves as an additional tool, rather than a substitute or shortcut, for more thorough evaluations than can be performed in SIC meetings alone.

Ms. Reback voiced objection on the grounds of limited time, stating that she would like to take part in all evaluations but was unable to commit to the extra time required by the S-AI. Treasurer Caprio agreed with her concerns for thoroughness, but echoed Mr. Goodreau's and Mr. Reilly's sentiments that the S-AI would be utilized as an additional tool of evaluation, not something to supplant the due diligence already performed by Commission members and consultants to the Commission. Treasurer Caprio also stated that firms without prior relationships with the ERSRI will still be required to be present for review at the SIC meetings, in addition to any S-AI meetings in advance.

<u>Wellington Management Company, LLP – Technical Equity Product (WTEP).</u> Mr. Goodreau gave an overview of Wellington Management Company, LLP (Wellington) and WTEP for potential investment. He stated that the ERSRI has an ongoing and solid relationship with Wellington in other areas, and that Wellington has consistently delivered outstanding numbers. Mr. Goodreau commented that he believes the investment is an opportunity to leverage an existing relationship, and to explore a new tool for assessing and improving fund performance. He further stated that the ERSRI's ongoing relationship with Wellington enabled this investment opportunity that might otherwise be unavailable.

Mr. Goodreau noted that the WTEP is classified as an S&P fund, and recommended moving $50 million from S&P exposure (totaling $1.7 billion) for investment in WTEP. Mr. Goodreau stated that given the existing relationship with Wellington and the impending deadline for investment, he wanted to introduce a discussion before losing the opportunity. Once the ERSRI is invested at an initial, lower level, he believes there will be opportunities for further investment.

There was some discussion of the fee structure, which some members believed to be unusually high for institutional investors. Mr. Treat inquired as to whether there were other state or institutional investors in WTEP, and the nature of their fees. Mr. Goodreau stated that he was aware of one other state investor, North Carolina, which had committed $1 billion to WTEP, but was unaware of their fee structure. Mr. Costello asked if Wilshire is recommending WTEP for investment, and Ms. Bennett confirmed Wilshire's recommendation. Mr. Costello then motioned to move $50 million from S&P exposure to WTEP recognizing Wilshire's approval of the transaction, and with some attempt to negotiate the fees to a more institutional level.

Treasurer Caprio asked Mr. Goodreau to have a discussion with North Carolina and update the Commission at a future meeting, and Mr. Goodreau agreed. Treasurer Caprio then entertained a motion for investment based on Mr. Costello's suggestions. Mr. Costello moved, Mr. Treat seconded, and the following motion was passed unanimously. The following members voted in favor: Ms. Gallogly, Mr. Gaudreau, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

VOTED: To move $50 million from allocation in S&P exposure for investment in WTEP, contingent upon satisfactory review and negotiation of investment and other legal documents.

<u>Capital Market Review – Wilshire Associates.</u> Ms. Bennett began her overview by saying that, following strong U.S. markets in the months of April and May, there appeared to be some slowing down in the month of June, which Ms. Bennett attributed to mixed news about the overall economy. She reported that overall economic growth is slower in 2007, although businesses are showing quarterly earnings growth in excess of expectations, and that cheap, available credit remains in good supply. The service sector remains healthy, but the factory sector shows some signs of slowing. Consumer net worth continues to rise and retail sales posted a healthy increase in May, but job growth is sluggish and unemployment remains at 4.5%. In terms of the housing market, new home sales and starts decreased, and prices overall have fallen. As a result of these and other factors, Ms. Bennett observed that consumer confidence has reached a ten-month low.

The U.S. equity market has been volatile, which Ms. Bennett noted should be positive for active managers. In the year to date, large cap stocks outperformed small cap stocks for the first time in roughly six years. Sub-prime mortgage issues may pose a problem for some, such as Lehman Brothers and Bear Stearns, especially in terms of loan defaults. Private equity capital has been flowing into the market to take advantage of the cheaply available credit. Emerging markets (up 18% year-to-date) continue to lead developed markets. European returns have tempered somewhat in 2007 after a strong showing in 2006. Overall in the year to date, Ms. Bennett reported the fund is performing roughly in line with its benchmarks.

<u>Legal Counsel Report.</u> Mr. Gallogly stated that there was no report for the month.

Deputy Treasurer for Finance Report. Mr. Goodreau focused his report on the matter of accounting discrepancies that he addressed in a previous meeting. He stated that certain accounting practices related to private equity can yield some numbers which deceptively appear negative, when in fact the performance is positive. Mr. Goodreau explained that he has therefore classified private equity as a sub-sector in performance reports to yield a more accurate gauge of success. He stated that overall the fund was down roughly eight basis points from its benchmark for the month.

Treasurer's Report. Treasurer Caprio announced that he anticipated the fund would end on yet another high mark in the month of June after previously peaking in May. He thanked Mr. Goodreau and Mr. Reilly for their work with the Subcommittee for Alternative Investments (SA-I) and looks forward to their continued due diligence. Treasurer Caprio reported that he had visited the State Street organization in Boston, and thanked Ms. Tyrrell and Ms. Callahan for their invitation to do so. Finally, Treasurer Caprio noted that due to a legislative statute, SIC members are required to participate in a mandatory training session related to their membership obligations. A training session is scheduled for July 18, 2007, and future sessions are possible for those who are unable to attend.

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

VOTED: To adjourn the meeting.

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

Respectfully submitted,

Frank T. Caprio
General Treasurer