INVESTMENT ADVISORY COUNCIL
Wednesday, February 8, 2012

MEETING NO. 392

Members present:	Thomas Barnes Michael Freeman William Murray Denise L. Nappier, Treasurer Carol Thomas Peter Thor
Absent:	Thomas Fiore, representing Benjamin Barnes Laurence N. Hale David (Duke) Himmelreich Joseph (Joe) D. Roxe, Chairman
Others present:	Jonathan Harris, Deputy Treasurer Christine Shaw, Chief of Staff Lee Ann Palladino, Chief Investment Officer Gary Carter, Interim Deputy Chief Investment Officer Joanne Dombrosky, Principal Investment Officer Adrian Kingshott, Principal Investment Officer Donald Kirshbaum, Investment Officer-Policy Catherine LaMarr, General Counsel John Massey, Principal Investment Officer Shelagh McClure, Director of Compliance David Rivera, Director of Communications Reginald Tucker, Investment Officer Linda Tudan, Executive Assistant Winifred (Winnie) Scalora, Administrative Assistant
Guests:	Bradley Atkins, Franklin Park Associates Elizabeth Behake, AXA Real Estate Investment Manager Craig Cogut, Pegasus Capital Advisors, L.P. Mary Dunleavy, State Street Bank & Trust Michael Foster, RFE Investment Partners, L.P. Sean Gill, NEPC Will Greene, Loop Capital Markets Robin Kaplan-Cho, Connecticut Education Association Erik Knutzen, NEPC Louis Laccavole, SOC Teachers' Retirement Board James Parsons, RFE Investment Partners, L.P. David Pollak, Pegasus Capital Advisors, L.P. Nick Stanogev, BNY Mellon Cynthia Steer, BNY Mellon Robert Steyer, Pensions and Investments

Daniel Sullivan, Mariner Investment Group LLC
Claire Shaughnessy, Hewitt EnnisKnupp, Inc.
Kevin Vandolder, Hewitt EnnisKnupp, Inc.

In the absence of Chairman Joseph D. Roxe, Michael Freeman chaired the Investment Advisory Council ("IAC") meeting. With a quorum present, Chairman Freeman called the IAC meeting to order at 9:00 a.m.

Approval of Minutes of the December 14, 2011 IAC Meeting

Chairman Freeman asked for comments on the Minutes of the December 14, 2011 IAC meeting. **There being no comments, a motion was made by William Murray, seconded by Thomas Barnes, that the Minutes of the December 14, 2011 IAC meeting be accepted as drafted. The motion was passed with the exception of Mr. Freeman who abstained due to his absence from the meeting.**

Comments by the Treasurer

Treasurer Denise L. Nappier began her remarks by announcing the departure of Sharon Palmer from the IAC, effective this meeting. She noted that Ms. Palmer's first meeting was in September 2000. Treasurer Nappier said that the Office of the Treasurer ("OTT") and the IAC have been fortunate to have Ms. Palmer's sage input on the range of issues that came before the IAC.

Next, Treasurer Nappier announced her appointment of John Massey as Principal Investment Officer for Public Equities in the Pension Funds Management Division ("PFM"). She then commented on Mr. Massey's extensive public equity background. Mr. Massey thanked Treasurer Nappier for the opportunity to work at the OTT. Chairman Freeman welcomed Mr. Massey on behalf of the IAC.

Treasurer Nappier commented on the investment performance of the Connecticut Retirement Plans and Trust Funds ("CRPTF") and noted that as of December 31, 2011, fiscal year-to-date performance declined 6.22%; however, this was followed by a strong upward surge in January 2012. She further noted that the upsurge was not limited to the U.S. and that global equity markets increased, led by emerging markets returns of nearly 14% in January 2012. Also, on a positive note, Treasurer Nappier stated that as of December 31, 2011 the average annual rate of return of 9.95% for the past three years had exceeded the actuarial return assumptions of 8.25% and 8.5% for the State Employees' Retirement Fund ("SERF") and Teachers' Retirement Fund ("TERF"), respectively – a first since the significant losses of Fiscal Year ("FY") 2009.

Treasurer Nappier then spoke about Moody's Investors Service's decision to lower its rating on the State's general obligation ("GO") bonds from AA2 with a negative outlook to AA3 with a stable outlook. She added that the other two rating agencies, Fitch Ratings and Standard & Poor's, continued to rate Connecticut's GO credit at AA with a stable outlook. Treasurer Nappier said that while the State was paying down its debt, the budget reserve fund was depleted, post-employment benefits costs were high, pension funded ratios were among the lowest in the country, and those combined factors played a role in Moody's decision.

In that regard, Treasurer Nappier stated that the Offices of the Treasurer, Comptroller, and Policy and Management created a pension working group to determine the feasibility of accelerating improvements to the funded ratio of the SERF, which was followed by Governor Dannel Malloy's announcement to increase near-term contributions to the SERF; effectively bringing the Plan's funded ratio up to 80% seven years sooner than the current amortization schedule. Treasurer Nappier then highlighted the key points of the plan, which included the elimination of the State Employees Bargaining Agent Coalition ("SEBAC") provisions that provided an offset to the actuarially required contributions ("ARC") calculated by the State's actuary, and an appropriation of additional funds over and above the ARC starting in FY 2014. She added that Governor Malloy reported that this enhancement plan was estimated to save $5.8 billion during the length of the amortization period which ends in 2032, at which time the SERF would be 100% funded. Treasurer Nappier said that this would bring welcome stability to the financial footings of the SERF given market uncertainty, the 8.25% actuarial return assumption, and the Plan's cash flow requirements. She said that the SEBAC provisions were subject to the approval of the State Employees Retirement Commission and that the ARC for FY 2012 and FY 2013 were expected to be approved. Once approved, Treasurer Nappier said that updated figures would be incorporated into the asset/liability study.

Regarding the agenda, Treasurer Nappier commented on Pegasus Partners V, L.P. ("Pegasus V") and RFE Investment Partners VIII, L.P. ("RFE VIII"), two private equity fund offerings under consideration. She stated that she was recommending a commitment of up to $50 million to Pegasus V, which would fit into the opportunistic strategy of the private equity portfolio. Treasurer Nappier said that the fund focused on early, mid and late-stage growth equity in buyouts of middle market U.S. companies in the energy, natural resources, waste management, transportation and consumer product sectors. She then commented on the strong performance of Pegasus Fund IV, one of the CRPTF's 2007 vintage year funds and one of the best performing private equity funds in the portfolio with a 28.7% net internal rate of return ("IRR") since inception.

Next, Treasurer Nappier said that she was recommending a commitment of up to $40 million, but no more than 20% of the fund assets, to RFE VIII. She added that RFE VIII was focused on small market equity investments in small market companies, primarily located in the U.S., particularly in niche manufacturing, specialized business services and health-care services companies. Treasurer Nappier commented on the positive performance of RFE Funds VI and VII, 1998 and 2008 vintage year funds, respectively. She noted that the opportunity in RFE VIII would increase the Private Investment Fund's exposure to small leveraged-buyout private equity strategies, and that the Fund was expected to generate a 2.5 to three times multiple of capital invested and a gross IRR of approximately 25% to 30%.

Update on the Market and the CRPTF's Final Performance for the Months Ended November 30 and December 31, 2011

Lee Ann Palladino, Chief Investment Officer, provided an update on the capital market environment and its impact on the performance of the CRPTF. She added that during the first half of the 2011 calendar year, economic growth was strong, but declined during the second half of 2011 due to the lack of economic growth and sovereign debt risks that were taking place in both the U.S. and the Eurozone.

Ms. Palladino then reported on the performance of the CRPTF for the months ended November 30 and December 31, 2011. She commented that the CRPTF's 2011 calendar year's overall performance had been affected by the falling level of interest rates, which propped up the returns for the fixed income funds, and that slower economic growth and uncertainty around the world had caused the equity markets to fall, particularly in the emerging markets and Europe.

Finally, Ms. Palladino commented on how the market environment had affected both the short-term and long-term horizons for the TERF. She reported that as of December 31, 2011, the TERF declined 6.27%, underperforming its benchmark by 173 basis points ("bps"), fiscal year-to-date. Ms. Palladino noted that despite the market environment during the first half of FY 2012, the long-term trends were positive and that the TERF's three-year performance of 9.93% was well above the actuarial return assumption. For the calendar and fiscal years to date, Ms. Palladino reported strong results across all of the fixed income funds. She then discussed each combined investment fund. Ms. Palladino said that in January 2012, stock markets across the world rebounded and that the CRPTF's fiscal year-to-date performance would likely improve.

Next, Ms. Palladino commented on the performance of the Trusts. She said that in general, the Trusts outperformed the Plans over the past several years due to their high allocation to fixed income, but added that going forward the low interest rate environment would hinder performance expectations. Ms. Palladino added that the Trusts' asset allocations were being evaluated as part of the Asset Liability Study to emphasize income generation going forward and provide protection to the corpus of the Trusts.

Corporate Governance and MacBride Compliance

Donald Kirshbaum, Investment Officer for Policy, delivered a report on Corporate Governance and MacBride Compliance for the quarter ended September 30, 2011. Mr. Kirshbaum commented that the OTT's votes were consistent with prior quarters in terms of the number of its votes against management. Regarding MacBride compliance, he stated that all firms were in compliance. Mr. Kirshbaum then commented on companies that the OTT had been monitoring to ensure compliance.

Regarding the 2012 proxy season, he stated that the OTT filed six shareholder resolutions, and had recently withdrawn one after successful dialogue with the company. Next, Mr. Kirshbaum commented on the fifth Investor Summit on Climate Risk at the United Nations, and said that Treasurer Nappier was recognized for her leadership since 2003 when the first investor summit took place. He noted that over time, an evolution in investors' perceptions of climate risk had taken place along with the recognition of the risks and opportunities associated with sustainable investments.

Chairman Freeman thanked Mr. Kirshbaum for his very informative report.

Presentation by and Consideration of Pegasus Partners V, L.P.

Adrian Kingshott, Principal Investment Officer, provided opening remarks and introduced Pegasus V, a private investment opportunity. Mr. Kingshott began by saying that Pegasus Capital Advisors, L.P. ("Pegasus") could be categorized as a growth equity investor rather than a typical leveraged buyout firm. He said that Pegasus' strategy was to improve the management and operations of the business and to make follow-on investments. Mr. Kingshott said that Pegasus had already closed on investments in Fund V, including a waste management and recycling business that has a recycling center in Connecticut. Carol Thomas said that Fund V was twice the size of Fund IV, and she was concerned about Pegasus' ability to handle this increase to which Mr. Kingshott stated that the firm had plenty of human resources and that the large fund size was necessary to accomplish Pegasus' goals.

Presentation by Pegasus Capital Advisors, L.P.

Pegasus represented by Craig Cogut, Co-founder and Managing Partner, and David Pollak, Director of Marketing and Investor Relations made a presentation to the IAC. Mr. Cogut began by providing a firm overview. He commented on the firm's deep team of more than 60 knowledgeable investment and operating partners.

With respect to the increased fund size for Pegasus V, Mr. Cogut said that in addition to its large team, Pegasus was also able to source large, compelling transactions and that it had the infrastructure to appropriately invest funds.

Mr. Cogut next commented on Pegasus' investment approach. He said that its team of operating partners had proven ability to navigate complex situations within a middle market fund, and that Pegasus' focus to create fundamental value while using little or no leverage. Mr. Cogut next commented on Pegasus' process to mitigate downside risk and use of proprietary deal sourcing. He then highlighted Pegasus' transactions in Fund IV, and discussed pending litigation of one of the portfolio companies. Finally, Mr. Cogut provided highlights of the companies, in which Pegasus V was invested.

In response to Peter Thor's questions about Pegasus' relationship with unions and job creation, Mr. Cogut stated that most of the job creation was in U.S. companies due to expansion of its portfolio companies. He added that Pegasus has had a successful history of working with, and seeking collaboration with, unions. Ms. Thomas asked about management fees, to which Mr. Cogut stated that because Pegasus' management fees are necessary given the infrastructure needed to prudently invest the limited partners' capital, he believed its management fees were low in comparison to other firms.

Roll Call of Reactions for Pegasus Partners V, L.P.

Chairman Freeman requested the IAC members to provide input on Pegasus V. Ms. Thomas, Messrs. Thor, Barnes and Murray, and Chairman Freeman were all in favor of the investment. Chairman Freeman said that Pegasus was investing in an intriguing space and its track record and experienced staff mitigated his concerns about the increase in size of Pegasus V. He then said that there was a consensus to support the investment of up to $50 million in Pegasus V.

Chairman Freeman asked for a motion to waive the 45-day comment period for Pegasus V. **A motion was made by Ms. Thomas, seconded by Mr. Murray, to waive the 45-day comment period for Pegasus Partners V, L.P.**

Presentation by and Consideration of RFE Investment Partners VIII, L.P.

Mr. Kingshott provided opening remarks and introduced RFE VIII, a private investment opportunity. Mr. Kingshott began by commenting on the CRPTF's two prior investments with RFE Investment Partners, L.P. ("RFE"). He said that Fund VI, a first quartile fund launched in 1998, was close to being fully liquidated for a return of 2.3 times the CRPTF's invested capital. With respect to Fund VII, a 2008 vintage year fund, Mr. Kingshott said it was in the early stages of investment. He next commented on RFE's 15-year history with the CRPTF and its investing approach. In response to Ms. Thomas' question regarding the lag time between Fund VI and Fund VII, Mr. Kingshott said that because RFE was a small firm, it adhered to a methodical investment and realization approach and did not raise new funds until the current fund was exiting investments. In response to Mr. Freeman, he said that RFE VII was a young fund and that, combined with the economic market downturn, caused its inception-to-date return to be low but added that its revenue was increasing as planned.

Presentation by RFE Investment Partners, L.P.

RFE represented by Michael Foster and James Parsons, Managing Directors made a presentation to the IAC. Mr. Parsons began by providing an overview of RFE, and he noted that it was a 31-year old Connecticut-based firm with deep experience in the small buyout market. He next commented on RFE's performance for its seven buyout funds. Next, Mr. Parsons spoke about RFE's proven deal flow relationships. He then provided highlights on RFE's core team, which had a long history working together.

Regarding RFE VIII, Mr. Parsons said that $129.5 million of the $300 million in targeted commitments had closed for the controlled equity investments in growing small market buyouts in North America. Mr. Parsons then provided a status report of RFE fund investments as of September 30, 2011, and he noted that the companies in Fund VIII were similar to those in Fund VII.

Mr. Foster provided an overview of RFE VII's three successful Connecticut based companies. Mr. Parsons provided a summary of RFE's team and noted that its deep level of experience included managing directors with 19 years of average tenure at RFE. He next spoke about Funds

V and VI, which acquired and sold 19 successful platform buyouts and had doubled earnings with multiple expansions. Finally, Mr. Parsons provided a summary of key terms for RFE VIII.

In response to Ms. Thomas, Mr. Parsons said that the General Partner's commitment was the same as it was for Fund VI. In summary, he said that the RFE funds generated strong realized returns for the CRPTF and that RFE's track record was stable and continued to generate consistent returns over 31 years. Messrs. Foster and Parsons responded to Mr. Thor's questions on RFE's increased employment within its acquired companies in Connecticut and its efforts to create efficiencies to grow revenues. Mr. Foster added that RFE's philosophy was to create value by growing companies and not through cost reduction.

Roll Call of Reactions for RFE Investment Partners VIII, L.P.

Chairman Freeman requested the IAC members to provide feedback on RFE VIII. Ms. Thomas, Messrs. Barnes, Murray, Thor and Chairman Freeman were all in favor of the investment. Mr. Barnes added that small buyout funds were about the skillset of the people operating the fund and that RFE's track record was excellent. Chairman Freeman said that there was a consensus to support the investment of up to $40 million in RFE VIII.

Chairman Freeman asked for a motion to waive the 45-day comment period for RFE VIII. **A motion was made by Mr. Murray, seconded by Ms. Thomas, to waive the 45-day comment period for RFE Investment Partners VIII, L.P.**

Other Business

Chairman Freeman invited IAC members to submit agenda items for the March 14, 2012 IAC meeting.

Comments by the Chairman

Chairman Freeman thanked the IAC members for their input and feedback, and he thanked Chairman Roxe for the opportunity to chair the meeting.

Executive Session

A motion was made by Mr. Barnes, seconded by Ms. Thomas, that the IAC enter into Executive Session at 11:05 a.m. for discussion of strategy or negotiations with respect to pending claims or pending litigation. The motion was passed unanimously. Treasurer Nappier, Deputy Treasurer Jonathan Harris, Ms. Palladino and Catherine LaMarr, General Counsel, participated in the Executive Session. **A motion was made by Ms. Thomas, seconded by Mr. Barnes, that the IAC adjourn the Executive Session at 11:22 a.m. and enter into Regular Session. The motion was passed unanimously.**

Chairman Freeman noted that no votes were taken during Executive Session and that the session was for information purposes only.

There being no further business, the meeting was adjourned at 11:24 a.m.

This meeting was recorded on audio tape.

Respectfully submitted,

Denise L. Nappier

DENISE L. NAPPIER
SECRETARY

Reviewed by

Michael L. Freeman

MICHAEL FREEMAN
ACTING CHAIRMAN