INVESTMENT ADVISORY COUNCIL
Wednesday, November 13, 2013

MEETING NO. 410

Members present:	Janice (Jan) Carpenter Joshua Hall David (Duke) Himmelreich Steven Muench William Murray Denise L. Nappier, Treasurer Carol Thomas, Interim Chair Peter Thor
Absent:	Thomas Fiore, representing Benjamin Barnes Laurence N. Hale
Others present:	Christine Shaw, Deputy Treasurer Lee Ann Palladino, Chief Investment Officer Gary Carter, Deputy Chief Investment Officer Catherine E. LaMarr, General Counsel Shelagh McClure, Director of Compliance Joanne Dombrosky, Principal Investment Officer Terrence Purcell, Principal Investment Officer Cherie Santos-Wuest, Principal Investment Officer Michael Terry, Principal Investment Officer David Barrett, Director of Communications Linda Tudan, Executive Assistant Winifred (Winnie) Scalora, Executive Secretary Christina McGinnis, Executive Secretary
Guests:	Bradley Atkins, Franklin Park Associates Will Greene, Loop Capital Markets Josh Harris, Apollo Global Management, LLC Jonathan Hogstad, Service Employees International Union Robin Kaplan-Cho, Connecticut Education Association Rob Kochis, The Townsend Group Holly McMullan, Apollo Global Management, LLC Stephen Nesbitt, Cliffwater LLC Barry Ritholtz, Fusion IQ Mike Sebastian, Hewitt EnnisKnupp, Inc. Claire Shaughnessy, Hewitt EnnisKnupp, Inc. Clancey Smith, BNY Mellon Asset Management Liz Smith, AllianceBernstein Institutional Investments Deborah Spalding

Mark Sullivan, BNY Mellon Asset Management
Michael Stark, The Townsend Group
Kevin Vandolder, Hewitt EnnisKnupp, Inc.
Jacob Walthour, Cliffwater LLC

With a quorum present, Chair Carol Thomas called the Investment Advisory Council ("IAC") meeting to order at 9:00 a.m.

Approval of Minutes of the September 11, 2013 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the September 11, 2013 IAC meeting. **David Himmelreich moved to approve the minutes of the September 11, 2013 IAC meeting as drafted. The motion was seconded by Peter Thor. There being no discussion, the Chair called for the vote. The motion passed unanimously.**

Approval of Minutes of the October 9, 2013 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the October 9, 2013 IAC meeting. **Janice Carpenter moved to approve the minutes of the October 9, 2013 IAC meeting as drafted. The motion was seconded by Steven Muench. There being no discussion, the Chair called for the vote. The motion passed unanimously.**

Comments by the Treasurer

Treasurer Denise L. Nappier introduced and welcomed Deborah Spalding to the Office of the Treasurer ("OTT") as the new Deputy Chief Investment Officer ("CIO"), effective November 15, 2013. She announced that Gary Carter, who served as Interim Deputy CIO, would take on the role as Principal Investment Officer ("PIO") of Risk Management. Finally, she wished Winnie Scalora well when she announced her retirement from OTT service.

Treasurer Nappier said that after considering the feedback from the IAC and the due diligence process, she decided to make commitments of $75 million to Yucaipa American Alliance Fund III, L.P. and $50 million to Altaris Health Partners III, L.P., and decided to hire four Global Treasury Inflation Protected Securities ("Global TIPS") managers: BlackRock Inc.; Colchester Global Investors; New Century Advisors; and Pacific Investment Management Company LLC. Treasurer Nappier added that each of her decisions was contingent upon successful contract negotiations.

Next, Treasurer Nappier commented on the agenda. She stated that a Private Investment Fund ("PIF") opportunity would be presented for consideration, Apollo Investment Fund VIII ("Apollo VIII"), which is a $15 billion private equity fund being raised by Apollo Global Management, LLC ("Apollo"). She said the fund is being formed to seek capital appreciation principally through distressed debt investments, corporate carve-outs and opportunistic buyouts. Treasurer Nappier clarified the relationship between Apollo and AREA Property Partners, a 1998 CRPTF investment in the Real Estate Fund ("REF"). She said that AREA, formerly known as Apollo Real Estate Advisors, was an affiliate of Apollo until Apollo severed the relationship in 2000.

Treasurer Nappier then highlighted the accomplishments of the Connecticut Retirement Plans and Trust Funds ("CRPTF") during Fiscal Year 2013. She reported on the completion of the 2012 Asset Allocation and Liability Study and the several amendments to the Investment Policy Statement ("IPS") that resulted, which reflect the asset allocation, projected capital market returns, liquidity requirements and other financial scenarios for each plan and trust. Treasurer Nappier stated that a new trust fund, the State of Connecticut Employees Retiree Health Care Trust Fund, also known as the OPEB Trust Fund, was added to the CRPTF during the past fiscal year.

Treasurer Nappier next discussed the investment activity in Fiscal Year 2013 and noted that three investment commitments to PIF partnerships totaling $140 million were closed; and an additional $195 million in commitments to three partnerships were pending successful contract negotiations as of June 30th, two of which closed during Fiscal Year 2014, and one is in the final stages of contract negotiations. She added that investment commitments totaling $150 million were made to two REF partnerships, with an additional $100 million committed to a third REF partnership pending successful contract negotiations as of June 30th (which ultimately closed during Fiscal Year 2014). Finally, she said that $360 million was invested in the Alternative Investment Fund ("AIF") absolute return strategy portfolios managed by our Fund of Hedge Fund managers.

Treasurer Nappier added that after conducting competitive searches, The Townsend Group ("Townsend") was retained as the REF Investment Consultant, and she hired Cliffwater as the AIF Investment Consultant. After completing one of the most complex competitive searches in years, Treasurer Nappier named The Bank of New York Mellon as the preferred vendor to provide master custodial services and Deutsche Bank to provide securities lending services, and that both contracts were executed subsequent to end of Fiscal Year 2013. The final competitive search launched in Fiscal Year 2013 was for Global TIPS managers in the Inflation Linked Bond Fund. Treasurer Nappier added that she named the preferred vendors for this mandate and contract negotiations had begun. She stated that the search for the expansion of the Connecticut Horizon Fund ("CHF") to include a mandate within the AIF, launched in June 2012, was nearing completion. Treasurer Nappier added that the CHF is now an $871 million fund-of-funds public market program and a $155 million private equity allocation that provides the OTT access to a wider number of women-owned, minority-owned, Connecticut-based and emerging firms.

Treasurer Nappier then updated the IAC on the CRPTF's Sudan and Iran initiatives. She indicated that she approved the CRPTF to divest from, and restrict future direct investment in, six companies actively engaged in business in the energy sector in Iran. Regarding Sudan, Treasurer Nappier approved the recommendation to prohibit future direct investments in three companies -- where the CRPTF presently did not hold an equity position – which reportedly provide military equipment to the Government of Sudan. Finally, Treasurer Nappier commented on the U.S. Supreme Court's decision concerning its landmark ruling in a securities fraud case against Amgen, Inc., which allows the CRPTF to assert claims in the case on behalf of a class of injured investors.

Finally, Treasurer Nappier extended her thanks to the members of the IAC, the CRPTF's consultants, and to staff of the Treasury for their contributions over the course of Fiscal Year 2013.

Update on the Market, the CRPTF's Final Performance for Quarter Ended September 30, 2013

Lee Ann Palladino, Chief Investment Officer ("CIO"), provided an update on the capital market environment, its impact on the performance of the CRPTF, and the economic outlook. She then updated the IAC on the progress made over the past year to bring the CRPTF into alignment with its new asset allocation, which included a reduction to fixed income and public market equities and a continued build-out of the AIF. Ms. Palladino described the priorities for Fiscal Year 2014, which included bringing the REF to the policy target allocation and a focus on real assets investment strategies. She said that more work will be done on the opportunistic allocations across all portfolios.

Ms. Palladino concluded her remarks by reviewing the quarterly results for the CRPTF.

Presentation by and Consideration of Apollo Investment Fund VIII, L.P.

Terrence Purcell, PIO, provided opening remarks and introduced Apollo and their fund offering Apollo VIII, a PIF opportunity. Bradley Atkins, Chief Executive Officer ("CEO") of Franklin Park Associates LLC ("Franklin Park"), the PIF consultant was also present. Mr. Purcell stated that Treasurer Nappier was considering an investment of up to $125 million in Apollo VIII, a large multi-strategy private equity fund managed by its General Partner, Apollo. He added that Apollo VIII is a publicly traded investment management firm which had a substantial presence not only in private equity but also in real estate and fixed income capital markets. He discussed Apollo's core investment strategy and its long successful track record.

Presentation by Apollo Global Management, LLC

Apollo -- represented by Josh Harris, CIO and Co-Founder, and Holly McMullan, Head of North America Business Development -- made a presentation to the IAC. Mr. Harris began by introducing the team and provided a brief review of Apollo, founded in 1990 by himself and partners Leon Black and Mark Rowan. Next, he commented on the company's business philosophy, its private investment portfolio performance and strategy.

Mr. Muench asked whether Apollo, espousing a socially responsible investment philosophy, was supportive of public education. Mr. Harris replied that they are a socially conscious firm that is pro education, and added that the firm works with the Philadelphia school system to enhance educational programs. Mr. Thor asked about Apollo's relationship with various unions and whether they believe in the workers' right to choose. Mr. Harris responded that the portfolio roughly doubles the national average in Taft-Hartley investors, and that Apollo does support workers' right to choose union membership. Finally, Joshua Hall directed a comment to Treasurer Nappier and questioned whether she was concerned that Apollo's Chair and CEO were positions held by a single individual, Leon Black. Treasurer Nappier discussed the due diligence process in general and Mr. Harris's question in particular. Treasurer Nappier clarified that the Franklin Park report and the Pension Fund Management Division's due diligence report indicated that Apollo became a publicly traded asset management company in 2011. Treasurer Nappier said that the proxy voting guidelines within the IPS addressed publicly traded companies and the separation of the positions of Chairman and CEO; however, there is no guideline in the IPS that prohibits the CRPTF from investing in such a company. She added that she is on record as supportive of the separate roles. She stated that in the case of Apollo, the due diligence process adequately considered the issue as a possible misalignment of interests between the limited partners and shareholders, and that she intended to fully consider this governance issue as she weighed the entire investment proposition prior to rendering her decision to commit to this opportunity.

Roll Call of Reactions to Apollo Investment Fund VIII, L.P.

Mr. Himmelreich, William Murray, Ms. Carpenter, Mr. Muench, Mr. Hall, Mr. Thor and Chair Thomas all supported an investment in Apollo VIII.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Mr. Himmelreich, seconded by Mr. Murray, to waive the 45-day comment period for Apollo Investment Fund VIII, L.P. There being no discussion, the Chair put the question to a vote and the motion passed unanimously.**

<u>Alternative Investment Fund Review as of September 30, 2013</u>

Mr. Purcell reported on the performance of the AIF for the quarter ended September 30, 2013. He introduced representatives of Cliffwater, LLC ("Cliffwater"), consultants to the AIF -- Jacob Walthour, Managing Director and Stephen Nesbitt, CEO -- who assisted in presenting the quarterly report.

Mr. Purcell reported that as of June 30, 2013, roughly 86% of the AIF's committed capital had been allocated to the Fund-of-Hedge Funds program begun in early 2011. He added that advantageous period of strength in the equities markets were utilized to migrate a small portion of the long-only public market positions into hedge funds to create more exposure to investments whose return streams were designed to carry low correlation to the returns of the public markets and to the overall returns of the CRPTF. Mr. Purcell reported that during the September quarter, $100 million was invested in the existing funds with favorable returns.

Mr. Purcell reported that the Fund-of-Hedge Funds portfolio within the AIF gained 2.35% for the quarter ended September 30, 2013, outperforming both the HFRI Fund-of-Funds Composite Index increase of 2.13%, as well as the HFRI Hedge Fund Composite Index's 2.2% gain.

During Fiscal Year 2013, Mr. Purcell reported that the Fund-of-Hedge Funds portfolio gained a strong 10.94% -- which compared favorably to both the HFRI Fund-of-Funds Composite Index return of 6.96% and outperformed the HFRI Hedge Fund Composite Index return of 7.13%. He also commented that the S&P 500 rose 19.3% for the twelve month period, and that Connecticut's hedge fund portfolio continued to capture a significant percentage of these equity market gains at lower levels of volatility. He added that all four of the original Prudence Crandall portfolios outperformed both the HFRI Hedge Fund Index and the HFRI Fund-of-Funds Composite index, and that the combined market value of the four funds increased during the quarter by $62 million -- thereby bringing the market value above $1 billion for the first time since the AIF's inception.

With respect to the AIF's real assets portfolio, Mr. Purcell said that the internal rate of return remained steady at approximately 17.2%, and that the opportunistic portfolio continued to generate strong results with invested capital gains of 8% as of June 30, 2013. In closing, Mr. Purcell said that as a result of the additional hedge fund investments and continued deployment of capital in the real assets and opportunistic portfolios, the AIF allocation as a percent of total portfolio assets had increased from 2% to 5% over the last three quarters and continued to move toward the policy target weight of 8% of total plan assets.

Next, Mr. Walthour commented that the strongest performance strategy this year was equity long/short, and that the weakest performance strategy year-to-date had been global macro. Lastly, Mr. Nesbitt touched upon the major sectors globally for opportunistic investing, such as energy, finance and the European banking system.

Private Investment Fund Review as of June 30, 2013

Mr. Purcell reported on the performance of the PIF for the quarter ended June 30, 2013. He commented on the overall returns for the PIF and reported a gain of 11.6% as of June 30, 2013, and noted the longer term returns of 8.0%, 11.1% and 8.5% for the 5-year, 10-year and inception-to-date periods, respectively. He added that all surpassed the S&P 500 benchmark return. Overall, he said that the PIF continued to demonstrate significantly positive momentum, with the vintage years since 2008 earning an aggregate net IRR of 13.0%, and remarked that the portfolio also remained well-diversified.

Next, Mr. Atkins provided an executive summary of the PIF's performance. He summarized the CHF results since its inception in 2008 with a net IRR 1.1% return. Finally, Mr. Atkins provided a market update for the PIF.

Real Estate Fund Review as of June 30, 2013

Cherie Santos-Wuest, PIO, reported on the performance of the REF for the quarter ended June 30, 2013. She introduced representatives of the REF's consultant, Townsend: Rob Kochis, Principal, and Michael Stark, Associate Consultant. Ms. Santos-Wuest stated that the REF portfolio had rebounded well across all markets and sectors since hitting its lowest point in 2009.

She said that net returns for the quarter ended June 30, 2013 had outperformed their benchmark by 40 basis points ("bps") and its one-year benchmark by 400 bps for the past year. She reported that net returns for the one-year, three-year and five-year periods were 15.1%, 11.7% and -4.6%, respectively. Ms. Santos-Wuest then discussed the sales and acquisitions of real estate properties during Fiscal Year 2013.

Mr. Kochis began by commenting on the commercial real estate markets, which were down 31% due to the global financial crisis and had since recovered about 24% to date. With respect to the REF core funds, Mr. Kochis reported that the funds were delivering above average returns. Finally, he discussed the portfolio of Connecticut-based investments from a historical perspective and said that, overall, it has had good results.

Mr. Himmelreich posed a question regarding improvements in values with opportunistic investments, to which Ms. Santos-Wuest responded.

Short-Term Investment Fund Review as of September 30, 2013

Michael Terry, PIO, reported on the performance of the Short-Term Investment Fund ("STIF") for the quarter ended September 30, 2013. He indicated that the STIF is currently paying 16 bps, which is above the one-year Treasury rate for daily liquidity. He also reported that during the first quarter of Fiscal Year 2014, STIF earned 11 bps and outperformed its benchmark by 9 bps. He added that for the twelve months ending September 30, 2013, STIF outperformed the benchmark by 10 bps. Mr. Terry continued that the reserves currently stand at $50.2 million, and for the first quarter of Fiscal Year 2014 the weighted average maturity was reduced from 45 days to 40 days. He said that STIF's liquidity, which was available on an overnight and same-day basis, was 48%, and that the portion of the STIF that is issued, insured, or guaranteed by the U.S. government was 71%.

Education Session on Alternative Investments

Barry Ritholtz, CEO and Director of Equity Research at Fusion IQ, began the alternative education session by presenting "Romancing Alpha, Forsaking Beta, the High Cost of Chasing Performance." Mr. Ritholtz discussed the hedge fund landscape, return strategies, fees charged by these firms, the risks associated with alpha-driven strategies and the difficulties associated with picking active managers. Mr. Ritholtz described the fee structure of hedge funds as creating a misalignment of interests between managers and investors. Mr. Ritholtz noted that empirical evidence showed private equity investments created the most alpha of all the alternative investment strategies. In conclusion, Mr. Ritholtz recommended that pension plans focus on asset allocation, including the exposure to alternative investments, and manager selection.

Michael Sebastian, Partner of Hewitt EnnisKnupp, presented "Go Big or Go Home: The Case for an Evolution in Risk Taking." During his presentation, Mr. Sebastian made the case for alternative investments as a key part of a pension plan's asset allocation strategy. He pointed out the benefits of these complex strategies and their role in overall portfolio diversification and risk reduction. Mr. Sebastian cited studies that showed the talent of hedge fund managers was measurable through performance persistence; the tendency of past outperformers which continue to outperform; and that these managers earned net returns competitive with traditional managers despite higher fee structures. He concluded by stating that institutional investors such as pension plans can benefit from alternative portfolios if the long term strategy takes into consideration the risk and complexity of alternative investments and if investors have the ability to identify managers with talent and skill.

Finally, Mr. Nesbitt and Mr. Walthour discussed institutional allocations to hedge fund strategies, negotiation of fees, and selection of top performing managers.

Discussion ensued among the IAC members regarding the definition of hedge funds, fee negotiation and the experience of the CRPTF's hedge fund program.

Other Business

Chair Thomas presented the draft IAC Meeting Schedule for the 2014 calendar year. **Mr. Thor moved to accept the IAC Meeting Schedule for the 2014 calendar year and the motion was seconded by Mr. Himmelreich. There being no discussion, the motion passed unanimously.**

Chair Thomas invited the IAC members to submit agenda items for the December 11, 2013 IAC meeting.

Mr. Himmelreich noted that there will be an Audit Committee meeting following the December IAC meeting.

Comments by the Chair

Chair Thomas did not provide additional comments on today's meeting.

There being no further business, Chair Thomas called for a motion to adjourn the meeting. Ms. Carpenter moved to adjourn the meeting and the motion was seconded by Mr. Himmelreich. There being no discussion, the meeting was adjourned at 1:03 p.m.

This meeting was electronically recorded.

Respectfully submitted,

CHRISTINE SHAW
DEPUTY TREASURER
for
DENISE L. NAPPIER
SECRETARY

Reviewed by

Carol Thomas

CAROL THOMAS
INTERIM CHAIR