

INVESTMENT ADVISORY COUNCIL
Wednesday, January 9, 2013

MEETING NO. 401

Members present:

Neil G. Budnick, Chairman
Janice (Jan) Carpenter
Thomas Fiore, representing Benjamin Barnes*
Michael Freeman
Laurence N. Hale***
Joshua Hall
David (Duke) Himmelreich
William Murray
Denise L. Nappier, Treasurer
Carol Thomas
Peter Thor**

Others present:

Christine Shaw, Deputy Treasurer
Lee Ann Palladino, Chief Investment Officer
Gary Carter, Interim Deputy Chief Investment Officer
Catherine LaMarr, General Counsel
Shelagh McClure, Director of Compliance
Joanne Dombrosky, Principal Investment Officer
Terrence Purcell, Interim Principal Investment Officer
Cherie Santos-Wuest, Principal Investment Officer
Reginald Tucker, Investment Officer
Linda Tudan, Executive Assistant
Winifred (Winnie) Scalora, Executive Secretary
Jessica Stabler, Administrative Assistant

Guests:

Melissa Albanesi, State Street Global Advisors
Bradley Atkins, Franklin Park Associates
Benjamin Blakney, Courtland Partners, Ltd.
Yue Bonnet, Palladium Equity Partners, LLC
Scott Booth, The Townsend Group
Vonda Brunsting, Service Employees International Union
Judy Chambers, Pension Consulting Alliance
Julia Damelio, Courtland Partners, Ltd.
Mary Dunleavy, State Street Bank & Trust
Christy Fields, Pension Consulting Alliance
William Foster, Courtland Partners, Ltd.
Sean Gill, NEPC
David Glickman, Pension Consulting Alliance
Will Greene, Loop Capital Markets
Jonathan Hogstad, Service Employees International Union
Michael Humphrey, Courtland Partners, Ltd.

* Arrived at 9:12 a.m.

** Arrived at 9:40 a.m.

*** Arrived at 10:00 a.m.

Robin Kaplan-Cho, Connecticut Education Association
Robert Kochis, The Townsend Group
Louis Laccavole, SOC Teachers' Retirement Board
David Perez, Palladium Equity Partners, LLC
Marcos Rodriguez, Palladium Equity Partners, LLC
Claire Shaughnessy, Hewitt EnnisKnupp, Inc.
Lindsey Sugar, Pension Consulting Alliance
Kevin Vandolder, Hewitt EnnisKnupp, Inc.

Chairman Neil G. Budnick asked everyone to bow their heads for a moment of silence in memory of the victims of the Sandy Hook shooting on December 14, 2012.

With a quorum present, Chairman Budnick called the Investment Advisory Council ("IAC") meeting to order at 9:02 a.m.

Approval of Minutes of the December 12, 2012 IAC Meeting

Chairman Budnick called for a motion to approve the minutes of the December 12, 2012 IAC meeting. **There being no comments, a motion was made by Jan Carpenter, seconded by Carol Thomas, that the minutes of the December 12, 2012 IAC meeting be accepted as drafted. The motion was passed unanimously.**

Approval of the Revised Minutes of the August 8, 2012 IAC Meeting

Lee Ann Palladino, Chief Investment Officer, stated that the August 8, 2012 IAC meeting minutes needed clarification regarding the adoption of the Investment Policy Statement ("IPS") by Treasurer Denise L. Nappier and the subsequent approval by the IAC. Ms. Palladino said that the adoption and approval were done correctly and that the resolution presented was accurate, but it was necessary to clarify that Treasurer Nappier's adoption date was July 24, 2012, and that the IPS was adopted in substantially the same form as presented at the June 13, 2012 IAC meeting. The purpose of the revision to the minutes is to reflect these technical dates in the approval process.

Chairman Budnick called for a motion to approve the revised minutes of the August 8, 2012 IAC Meeting. **There being no comments, a motion was made by William Murray, seconded by David Himmelreich, that the revised minutes of the August 8, 2012 IAC meeting be accepted as drafted. The motion was passed with the exception of Ms. Thomas who abstained due to her absence from the August 8, 2012 IAC meeting.**

Comments by the Treasurer

Treasurer Denise L. Nappier began her remarks by welcoming everyone to the first IAC meeting of 2013. Next, Treasurer Nappier commented on recent legislation and fiscal issues before the Connecticut General Assembly and the U.S. Congress. She said that Governor Malloy signed a budget deficit-mitigation bill passed by the General Assembly in a Special Legislative Session

held in late December 2012, and she noted that the deficit had exceeded the general fund appropriations by 1%, which triggered a statutory requirement that the Governor submit a budget reduction plan. Treasurer Nappier stated that the plan included spending cuts that nearly covered the entire \$365 million projected deficit. She said that when the General Assembly next convenes the State will face an approximate \$2 billion shortfall over the next two years. Treasurer Nappier commented that with a shortfall that significant, many will be asked to sharpen their pencils, and that the Office of the Treasurer (“OTT”) planned to do its part over the coming months. On a related note, Treasurer Nappier said that the U.S. Congress came together in a bipartisan manner, more or less, to fend off the most immediate and severe consequences of the “fiscal cliff”. She noted that the legislation made strides toward resolving the combination of automatic tax hikes and spending cuts that took effect at midnight on January 1, 2013. Treasurer Nappier said that the bill preserved the 2012 tax rates for the majority of Americans, protected the extension of benefits for the unemployed, but it did not extend the 2% payroll tax holiday that was passed in 2010. She also noted that the Senate bill delayed the automatic spending cuts, the “sequester,” for two months. Treasurer Nappier remarked that the markets had responded positively and the passage of the legislation was well received by the international markets. Treasurer Nappier noted that the Dow returned over 2% for a 300-point gain at the close of the first trading day of 2013.

Next, Treasurer Nappier commented on the performance of the Connecticut Retirement Plans and Trust Funds (“CRPTF”) as of November 30, 2012. She reported that the CRPTF, the State Employees’ Retirement Fund and the Teachers’ Retirement Fund all earned nearly 12% for the calendar year-to-date and the one-year time horizons. Treasurer Nappier said that the Municipal Employees Retirement Fund earned 12% for the one-year horizon and just below 11% for the calendar year-to-date time horizon. She added that each of the three funds outperformed their actuarial return assumptions. Treasurer Nappier commented that the November 2012 returns were an illustration of a significantly recovered second half of the 2012 calendar year and factored into the vastly improved first half of fiscal year (“FY”) 2013, and added that while the remainder of FY 2013 was still uncertain with respect to legislative and fiscal matters, the CRPTF was on solid footing going into the new calendar year.

Treasurer Nappier then reviewed the agenda and said that the amendments to the IPS, Part II Article XV, and Appendix A Section I, concerning the Other Post-Employment Benefits (“OPEB”) Trust Fund, which she adopted on January 2, 2013 in substantially the same form as the recommended amendments that were presented to at the December 12, 2012 IAC meeting, were being presented for approval by the IAC. She noted that these amendments placed the State of Connecticut’s OPEB Trust Fund within the CRPTF for the purpose of investing its assets, which currently equaled about \$86 million.

Next, Treasurer Nappier said that Palladium Equity Partners IV, L.P. (“Palladium IV”), a Private Investment Fund (“PIF”) opportunity, was being presented for consideration. She noted that Palladium IV was an \$800 million private equity fund with a corporate finance strategy focused on potential control investments in lower-middle market companies, and it would provide the CRPTF with exposure to such buyout investments that specifically capitalized on the buying

power and growth of the U.S. Hispanic market. Treasurer Nappier said that she was considering an investment of up to \$20 million, with the ability to commit an additional \$20 million subject to further evaluation and based on the investment merits. She remarked about the advantages of investing early on in a fundraising period versus investing in the last close, and added that the benefit of presenting her recommendation to the IAC in this manner was to increase the opportunity set of any particular investment by committing a lower dollar in the beginning and preserving the option to invest more should the investment merits warrant additional dollars. Treasurer Nappier added that this was not an open-ended commitment and the investment was subject to all parameters outlined in the IPS.

Finally, Treasurer Nappier said that three semi-finalists for the real estate investment consultant mandate would be presented for consideration. She noted that a competitive search was conducted through a Request for Proposal (“RFP”) process and that the search plan was presented at the May 12, 2012 IAC meeting. Treasurer Nappier said that ten candidate firms responded to the RFP and were fully vetted and evaluated against the screening and selection criteria endorsed by the IAC. She said that her recommendation culminated in the selection of three semi-finalist candidates: Courtland Partners, Ltd. (“Courtland”); Pension Consulting Alliance (“PCA”); and The Townsend Group (“Townsend”). Treasurer Nappier said that the contract with CRPTF’s current real estate investment consultant, The Townsend Group, would expire on February 28, 2013, and she requested the IAC’s consideration of a waiver of the 45-day comment period, which would allow her to commence contract negotiations and report on the designation of preferred vendor status at the February 13, 2013 IAC meeting. She thanked Mr. Murray for attending a majority of the interview sessions and assisting in the vetting of the candidates.

Update on the Market and the CRPTF’s Final Performance for the Month Ended November 30, 2012

Ms. Palladino provided an update on the capital market environment, its impact on the performance of the CRPTF and the economic outlook. She noted that the performance for the CRPTF for the month ended November 30, 2012 had been provided to the IAC and that a quarterly performance review would be provided at the February 13, 2013 meeting.

Ms. Palladino discussed the capital market outlook for 2013, which will likely be influenced by: the bottoming of interest rates; strengthening of financial institutions; and the re-levering of the global economy. She stated that every asset class within the CRPTF had posted positive performance for calendar year 2012, benefiting from both positive economic growth and easy monetary policies. Ms. Palladino discussed each asset class in which the CRPTF invests, the transition to new asset allocation policy weights, and how the portfolio was tactically positioned.

Consideration of the Treasurer’s Adopted Amendments to the Investment Policy Statement

Ms. Palladino stated that at the December 12, 2012 IAC meeting, Treasurer Nappier presented her draft revised IPS, Part II Article XV and Appendix A Section I, as it related to the addition of

the OPEB Trust Fund. She said that Part II Article XV discussed the statutory purpose and asset allocation of the trust and that the Appendix set the asset allocation at 100% to the Liquidity Fund until such time that the Asset/Liability Study is completed. Ms. Palladino stated that at the December 12, 2012 IAC meeting, there was no formal input by the IAC members, and Treasurer Nappier adopted the revisions to the IPS on January 2, 2013 in substantially the same form as she presented them to the IAC at the December 12, 2012 IAC meeting. She said that Treasurer Nappier was putting the adopted IPS forth to the IAC for their consideration and vote.

Chairman Budnick called for a motion to approve the Treasurer's January 2, 2013 adopted amendments to the IPS. Michael Freeman moved for approval of the adopted amendments. Ms. Thomas seconded the motion. The motion was passed unanimously to approve the amendments to the IPS as adopted by Treasurer Nappier.

Presentation by and Consideration of Palladium Equity Partners IV, L.P.

Terrence Purcell, Interim Principal Investment Officer ("PIO"), provided opening remarks and introduced Palladium IV, a private equity investment opportunity managed by Palladium Equity Partners, LLC ("Palladium"). Mr. Purcell also introduced Bradley Atkins, Chief Executive Officer of Franklin Park, the CRPTF's consultant for the PIF. Mr. Purcell commented on Palladium IV's fit within the CRPTF, its market opportunity, qualifications, strategy, strength and track record. Mr. Purcell said that Palladium IV was building on the strategy that the General Partner had established for Palladium III, the firm's predecessor fund. He noted that Palladium III, a 2005 vintage year fund, raised \$775 million and had generated a 17.1% net internal rate of return ("IRR") to date and had realized \$508 million or 79% of that capital as of June 30, 2012, which ranked it in the first quartile of private equity returns for that vintage year. Finally, Mr. Purcell noted Palladium's focus on the consumer services, financial, healthcare, industrial and business services sectors.

In response to Chairman Budnick, Mr. Atkins said that Palladium focused on the U.S. Hispanic market. Treasurer Nappier noted that only \$2 billion of private equity was currently focused on the U.S. Hispanic market and that Palladium had a competitive edge with about 50% of the capital targeted to this market. In response to Ms. Thomas, Treasurer Nappier reiterated that the CRPTF would commit no more than \$40 million, based on the investment merits of Palladium IV and its conformance to the IPS. Discussion ensued regarding Palladium's investments and overall returns, and Mr. Atkins noted that the U.S. Hispanic market included firms that were owned by Hispanics and not just firms that marketed to Hispanics.

Presentation by Palladium Equity Partners IV, L.P.

Palladium, -- represented by Marcos Rodriguez, Managing Member; David Perez, Managing Director; and Yue Bonnet, Vice President -- made a presentation to the IAC. Mr. Rodriguez introduced the team and provided a brief executive summary on Palladium, noting that Palladium was recognized as a leader in the U.S. Hispanic market. Next, he commented on Palladium's differentiated strategy, value-add approach and proven performance. Mr. Rodriguez spoke about

the young demographic of the U.S. Hispanic population which is growing almost twice as fast as the non-Hispanic population.

Next, Mr. Rodriguez commented on Palladium's disciplined approach, competitive advantage in sourcing and value creation, and prudent leverage ratios. He said that Palladium's cohesive and seasoned team had grown with the company and all team members had a vested interest in the firm. Ms. Bonnet commented on Palladium's systematic, disciplined and proven value creation approach and noted that it transformed founder-owned businesses into professional enterprises. Ms. Bonnet said that Palladium had doubled the earnings before interest, taxes, depreciation and amortization ("EBITDA") of its portfolio companies since acquisition. She noted that Palladium had generated liquidity for its investors for 14 consecutive quarters.

Next, Mr. Perez said and that Palladium III ranked favorably relative to 2005 vintage peers. Mr. Perez commented on Palladium's record 2012 distributions. Next, he commented on Palladium IV, which would follow Fund III's successful strategy, and noted that it was well-positioned to generate attractive, risk-adjusted returns. In closing, Mr. Perez highlighted various portfolio companies.

In response to Mr. Himmelreich, Mr. Perez spoke about Palladium III's investment in a mineral company which mined Gilsonite, an essential rare mineral in the shale, oil and gas industry. Further discussion ensued regarding the various portfolio companies that were purchased by Palladium.

Roll Call of Reactions to Palladium Equity Partners IV, L.P.

Chairman Budnick requested the IAC members to provide input on Palladium IV. Messrs. Freeman, Murray, Himmelreich and Thor, Joshua Hall, Laurence Hale, Ms. Thomas and Chairman Budnick all supported the investment. Ms. Carpenter and Mr. Fiore passed on the investment. Mr. Freeman added that he did not have any overwhelming concerns. Messrs. Murray, Himmelreich and Hall each noted the importance of investing in the sector. Mr. Thor added that that this was a fairly new market and he was satisfied with Palladium's responses to the IAC's questions. Mr. Hale added that it was an interesting opportunity, but said it was important to be cautious in considering the size of the investment. Chairman Budnick agreed that it was a good time to enter the market sector with this investment. Treasurer Nappier noted private equity firms' willingness to negotiate fees, and Mr. Purcell said Palladium was open to discussions with respect to a lower fee and an earlier fee step-down.

Chairman Budnick called for a motion to waive the 45-day comment period for Palladium IV. **A motion was made by Ms. Thomas, seconded by Mr. Himmelreich, to waive the 45-day comment period for Palladium Equity Partners IV, L.P. The motion was passed unanimously.**

Presentation and Consideration of Three Semi-finalists for Real Estate Fund Consultant

Cherie Santos-Wuest, PIO, delivered opening remarks and introduced the following firms that

provided presentations for REF consultant: Courtland; PCA; and Townsend. Ms. Santos-Wuest said that all three firms were well respected firms that possessed the necessary skill sets to provide the CRPTF with real estate investment consulting services, and that all three firms had various levels of experience with both public and private sponsored funds. She noted that the REF's current consultant, Townsend, was one of the three semi-finalists presenting and that its current contract was due to expire on February 28, 2013. Ms. Santos-Wuest commented on the OTT's search and due diligence process that was led by Pension Funds Management ("PFM") staff with the assistance of the Legal, Compliance and Policy units. Finally, she provided a brief overview of each of the three semi-finalists, and she highlighted each firm's attributes and skills. Ms. Santos-Wuest discussed the fee proposal presented by each candidate.

Presentation by Courtland Partners, Ltd.

Courtland -- represented by Michael Humphrey, Managing Principal; Benjamin Blakney and William Foster, Managing Directors; and Julia Damelio, Analyst -- made a presentation to the IAC on its real estate investment consulting services. Mr. Blakney began by stating that Courtland considered itself to be a real asset consultant. Next, he provided an overview of Courtland, and noted that it was one of the largest global real assets advisors with respect to client assets under management. Mr. Blakney said that Courtland's primary focus was as a fiduciary-focused consultant, and noted that about 95% of its real estate consulting engagements were non-discretionary. Next, he provided an overview of Courtland's experienced team of more than 30 professionals. Mr. Blakney commented on Courtland's experience with public pension funds, and noted that its state public pension funds represented about 76% of its clients.

Mr. Humphrey detailed the types of real estate that Courtland, focused on and commented on Courtland's infrastructure. Mr. Humphrey said that Courtland was an international firm, and he commented on its ability to advise on international investments. He said that Courtland did not offer fund-of-funds products and its priority was to stay focused on being a fiduciary.

Chairman Budnick posed a question on Courtland's due diligence with respect to opportunistic managers, to which Mr. Humphrey said that Courtland was unique because it could call upon a diverse, experienced and talented team to provide extensive due diligence. Mr. Fiore asked what Courtland learned during the financial crises. Mr. Humphrey responded that Courtland learned that in-depth research was necessary and its strengths included an infrastructure that enabled extensive research. In response to Mr. Freeman's question regarding what Courtland would do for the REF, Mr. Humphrey said that it would focus on market conditions and on a real estate pacing plan for the REF. He said the Courtland would also focus on the REF's risk and return profile across core, value and opportunistic strategies, leverage and property type, location issues.

Presentation by Pension Consulting Alliance

PCA -- represented by David Glickman and Christy Fields, Managing Directors; Lindsey Sugar, Senior Vice President; and Judy Chambers -- made a presentation to the IAC on its firm's real

estate investment consulting services. Ms. Fields introduced the PCA team. Each commented on their expertise within PCA and highlighted how his or her individual expertise could benefit the REF. Ms. Chambers provided a brief overview of PCA and said that its only business was non-discretionary investment consulting and noted that 80% of its client base consisted of public pension plans. In response to Chairman Budnick's comments regarding PCA's fee structure, Ms. Chambers said that PCA provided excellent customized service for its clients and it made sure that its current clients received appropriate attention before it added clients. She added that as such, PCA's fees may be higher than other real estate consultant firms, but its fees were negotiable. Next, she commented on PCA's differentiating features and customized solutions, and she noted that it was flexible, responsive and innovative. Finally, Ms. Chambers highlighted PCA's client base.

Mr. Glickman provided an overview of PCA's quarterly review process and said that it could provide the REF with the ability to avoid missteps. He said that PCA would be extremely focused on risk both intrinsically and within the context of how the REF portfolio related to the overall CRPTF, and he provided examples. He commented on market trends and spoke about performance in a downturn, the importance of preserving capital and the use of leverage.

Next, Ms. Fields commented on PCA's due diligence process and its macro views with respect to its clients' needs. She said that the alignment of interest was absolutely key to good execution on manager selection and that second to asset allocation, manager selection was the most critical component for the success of the REF program. In closing, Ms. Fields commented on how PCA had differentiated itself in the consulting world, and said that PCA was conflict-free, provided only nondiscretionary consulting services to its clients and sought to form a smaller number of long-lived, trust-based relationships to whom it could add value.

Presentation by The Townsend Group

Townsend -- represented by Scott Booth and Robert Kochis, Principals -- made a presentation to the IAC on its firm's real estate investment consulting services. Mr. Kochis began by commenting on Townsend's experienced team of 77 people. He then provided a synopsis of Townsend's history with the CRPTF since 2008. Next, Mr. Kochis commented on Townsend's other clients, which included more than 40 public pension plans. He said that Townsend, founded in 1983, was majority owned by Connecticut-based Aligned Asset Managers, 30% employee owned, and its original founders were still with the firm. Mr. Kochis commented on Townsend's global capabilities in the real estate and real asset sector. Mr. Kochis remarked about the current trend towards real asset investing, which included primarily private market sectors that are tied to a hard asset such as land, which typically included agriculture, timber, infrastructure, energy and other natural resources, and he said that Townsend had been involved in all of those sectors for over ten years.

Next, Mr. Kochis said that Townsend's clients had invested about \$71 billion globally since 2004 with significant dollars invested in the U.S., Europe, Asia and Latin America, and he commented on Townsend's role in assisting investors execute on a global basis with offices

throughout the world. Finally, Mr. Kochis spoke about Townsend's team and resources that would be available to the CRPTF. Next, Mr. Booth commented on Townsend's role as a service provider to the CRPTF and he reported on the positive results that accrued to the CRPTF's REF program since the beginning of its contract period.

Chairman Budnick commented that the advantage for Townsend was the existing relationship, but he added that the CRPTF would now expect a higher level of analysis and transparency, and asked what Townsend could do to help improve the REF portfolio. Mr. Booth responded that the REF should take advantage of emerging managers opportunities and broaden the funds that were under consideration to include operator models, versus allocator models in order to team with entrepreneurial groups that are aligned with the REF's investments and decrease management fees. He added that the real estate industry was trending toward this approach, but still had not uniformly embraced it. Mr. Booth said that Townsend could enable the REF to save one to two hundred basis points off the top line of the performance of its funds by eliminating a double promote.

Roll Call of Reactions for the Semi-finalists for the Real Estate Fund Consultants

The IAC members discussed each of the firm's negotiable fees and expressed concern about PCA's high fees. Ms. Santos-Wuest noted that PFM staff had discussed PCA's willingness to negotiate their proposed fee. Chairman Budnick asked the IAC members to provide feedback on the presentations of Courtland, PCA and Townsend. Ms. Thomas ranked Townsend first, followed by Courtland, and would not consider PCA. Messrs. Hale, Hall, Thor, Freeman and Chairman Budnick ranked Townsend first, Courtland second and PCA third. Mr. Fiore ranked PCA first, with Courtland and Townsend in a tie for second. Mr. Himmelreich ranked Courtland first, PCA second and Townsend third. Mr. Murray ranked PCA first, Townsend second and Courtland third. Ms. Carpenter only approved of Townsend. Ms. Thomas said that she was impressed by Mr. Booth's comments on how Townsend would change going forward and noted that the CRPTF results page of the presentation was excellent. Mr. Hale added that PCA's fees were too high. Mr. Thor commented that Townsend's presentation was superior. Mr. Himmelreich liked PCA's rationalization of the REF strategy. Mr. Murray added that he liked PCA's customization. Chairman Budnick said that the overall consensus was that the IAC preferred Townsend and said his belief was that the IAC would support the Treasurer in whatever decision she made. Members of the IAC expressed agreement.

Chairman Budnick called for a motion to waive the 45-day comment period for the three semi-finalists for REF consultant. **A motion was made by Ms. Thomas, seconded by Mr. Freeman to waive the 45-day comment period for Courtland Partners, Ltd., Pension Consulting Alliance and The Townsend Group. The motion was passed unanimously.**

Other Business

Mr. Himmelreich said that the IAC Audit Committee met with the State Auditors of Public Accounts concerning the CRPTF after the December 12, 2012 IAC meeting. He said that the

auditors reported no findings for fiscal year ended June 30, 2012 to the Audit Committee, and he was very pleased with the audit. In response to Chairman Budnick, Mr. Himmelreich said the auditors would provide a letter.

Chairman Budnick invited the IAC members to submit agenda items for the February 13, 2013 IAC meeting.

Comments by the Chairman

There being no further business, the meeting was adjourned at 12:42 p.m.

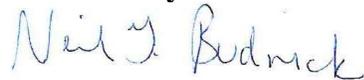
This meeting was electronically recorded.

Respectfully submitted,



**DENISE L. NAPPIER
SECRETARY**

Reviewed by



**NEIL G. BUDNICK
CHAIRMAN**