

INVESTMENT ADVISORY COUNCIL
Wednesday, April 10, 2013

MEETING NO. 404

Members present:

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

Absent:

David (Duke) Himmelreich

Others present:

Christine Shaw, Deputy Treasurer
Lee Ann Palladino, Chief Investment Officer
Gary Carter, Interim Deputy Chief Investment Officer
Catherine E. LaMarr, General Counsel
Joanne Dombrosky, Principal Investment Officer
Terrence Purcell, Principal Investment Officer
Reginald Tucker, Investment Officer
David Barrett, Director of Communications
Winifred (Winnie) Scalora, Executive Secretary

Guests:

Chad Alfeld, Landmark Partners
Bradley Atkins, Franklin Park Associates
Jeanna Cullins, Hewitt EnnisKnupp, Inc.
Mary Dunleavy, State Street Bank & Trust
Sean Gill, NEPC
Will Greene, Loop Capital Markets
Robin Kaplan-Cho, Connecticut Education Association
Eddie Keith, Landmark Partners
Louis Laccavole, SOC Teachers' Retirement Board
Bob Shanfield, Landmark Partners
Claire Shaughnessy, Hewitt EnnisKnupp, Inc.
Liz Smith, AllianceBernstein Institutional Investments
Diane Smola, Hewitt EnnisKnupp, Inc.

* Arrived at 9:02 a.m.

** Arrived at 9:06 a.m.

With a quorum present, Chairman Neil G. Budnick called the Investment Advisory Council (“IAC”) meeting to order at 9:00 a.m.

Approval of Minutes of the March 13, 2013 IAC Meeting

Chairman Budnick called for a motion to approve the minutes of the March 13, 2013 IAC meeting. **There being no comments, a motion was made by Carol Thomas, seconded by William Murray, that the minutes of the March 13, 2013 IAC meeting be accepted as drafted. The motion was passed unanimously.**

Performance for the Month Ended February 28, 2013

Lee Ann Palladino, Chief Investment Officer (“CIO”), provided an update on the capital market environment, its impact on the performance of the Connecticut Retirement Plans and Trust Funds (“CRPTF”) and the economic outlook. She began by commenting that the U.S. equity markets had surpassed the highs that were reached in October 2007 before the onset of the Great Recession, and added that since the beginning of the 2013 calendar year, the markets continued to be strong and the Russell 3000 index surged over 9% as significant tail risk events were removed in the U.S.

Ms. Palladino discussed the investment activity associated with the change of asset allocation, benchmarks, and upward movements in market values since the beginning of Fiscal Year (“FY”) 2013. She also discussed the positive trends in terms of performance versus the benchmark which had significantly improved over the past seven years.

Finally, Ms. Palladino provided a brief summary on the CRPTF’s two largest plans, the State Employees’ Retirement Fund and the Teacher’s Retirement Fund (“TERF”), and commented that solid progress had been made repositioning the portfolio.

Chairman Budnick posed a question regarding passive versus active management, to which Ms. Palladino responded that active management had struggled over the past several years, particularly in the highly efficient U.S. markets. She noted that high correlations had made it difficult for active managers to capitalize on market inefficiencies and that the unprecedented monetary policy and flight to quality had caused funds to flow into passive benchmarks. Treasurer Nappier added that the market was quite cyclical, passive managers had performed better, and that her overall perspective was to have exposure to both passive and active, but weighted more heavily toward passive. In response to Laurence Hale’s question regarding the Core Fixed Income Fund (“CFIF”), Ms. Palladino stated that over the past five years the makeup of the Barclay’s Aggregate benchmark had changed significantly given the expansion of U.S. monetary policy. She discussed the 30% in allocation to opportunistic fixed income investment which ultimately will be used to hedge the CFIF exposure to raising interest rates.

Comments by the Treasurer

Treasurer Denise L. Nappier began her comments by announcing that after considering the feedback from the IAC and the due diligence process, she decided to hire Cliffwater, LLC (“Cliffwater”) as the new Alternative Investment Fund (“AIF”) consultant, pending successful contract negotiations. She noted that the Office of the Treasurer (“OTT”) had a very productive five-year relationship with the incumbent, NEPC, which assisted the CRPTF with its first investments into the alternative strategies space. Treasurer Nappier stated that the AIF returned 7.36% over the past year, which was significantly ahead of its three-month Treasury-bill benchmark of 11 bps. She said that as the AIF continued to expand from a strategic perspective, she decided that Cliffwater, a consultant that specializes solely in the alternative space, was the most appropriate fit for the CRPTF. Treasurer Nappier then publicly thanked NEPC for their hard work and sage advice.

Turning to the performance of the CRPTF, Treasurer Nappier reported that as of February 28, 2013, the fiscal year-to-date performance was a solid 10.63%, and the one-year and three-year results were nearly as impressive at 9.22% and 9.36%, respectively. She noted that as FY 2013 continued its strong performance track, the ten-year results improved and stood at 7.69%, up slightly from 7.64% as of January 31, 2013.

Next, Treasurer Nappier said that she was presenting the proposed project plan for the Global Inflation Protected Securities (“Global TIPS”) Manager Search for consideration. She added that this competitive search would be conducted through a Request for Proposal (“RFP”) in order to select one or more firms to direct the investments of a Global TIPS mandate in the Inflation Linked Bond Fund (“ILBF”). Treasurer Nappier noted that the CRPTF currently had two domestic TIPS managers in the ILBF, and that the search was a result of the Asset Allocation and Liability Study (“A/L Study”) completed in 2012, which revised the benchmark for the ILBF to a global index in an attempt to better diversify the risk-return profile of the fund by incorporating inflation rates from non-U.S. markets.

Treasurer Nappier stated that, Landmark Equity Partners XV, L.P. (“Landmark XV”), a \$3.5 billion Private Investment Fund (PIF) opportunity would also be presented for consideration. She said that she was considering an investment of up to \$100 million in Landmark XV. Treasurer Nappier remarked that the Fund was being formed to acquire interests in private equity investments primarily through secondary market transactions, and that an investment would provide further strategic diversification within the PIF. Treasurer Nappier noted that in 2010 the CRPTF invested \$100 million in Landmark Equity Partners XIV, L.P. (“Fund XIV”), a similar secondary market strategy to Fund XV; and in 1998, the CRPTF invested \$140 million in Landmark Private Equity Fund VIII, L.P. (“Fund VIII”), a multi-strategy private equity fund. Treasurer Nappier stated that as of September 30, 2012, Landmark had returned 22.8% and 4.0% net internal rates of return for Fund XIV and Fund VIII, respectively.

Next, Treasurer Nappier said that she was presenting the amendment to the Investment Policy Statement (“IPS”), Appendix A, Section I for the IAC’s vote, which she adopted on April 2, 2013 in substantially the same form as the recommended amendment that was presented at the March 13th IAC meeting. She noted that as discussed at last month’s meeting, the IPS revision addressed an interim asset allocation for the Other Post-Employment Benefits (“OPEB”) Trust Fund to allocate 50% of the assets into a longer-term investment strategy, which would put its assets to work in a strategy that was more appropriately designed to meet its long term obligations. Treasurer Nappier stated that the balance of the assets would remain allocated to the Liquidity Fund, as an interim step, until completion of the A/L Study, which was in its final phase and was expected to be completed in early May 2013.

Finally, Treasurer Nappier said that the OTT had established formal operating procedures for asset allocation-related transactions to ensure proper authorization and compliance with the IPS. In response to Janice Carpenter, Treasurer Nappier stated that the OTT was nearing the end of its analysis of the fee proposals for custodial services.

Consideration of the Treasurer’s Adopted Amendment to the Investment Policy Statement Appendix - Other Post-Employment Benefits Trust Fund

Ms. Palladino stated that at the March 13, 2013 IAC meeting, Treasurer Nappier presented her draft revised IPS, Appendix A Section I, as it related to the asset allocation of the OPEB Trust Fund. She said that at the March meeting there was no formal feedback by the IAC members and that thereafter, Treasurer Nappier adopted the revisions to the IPS on April 2, 2013 in substantially the same form as she presented to the IAC at the March 13, 2013 meeting. She said that Treasurer Nappier was putting forth the adopted IPS to the IAC for their consideration and vote.

Chairman Budnick called for a motion to approve the Treasurer’s April 2, 2013 adopted amendment to the IPS. **Mr. Murray moved for approval of the adopted amendment. Ms. Thomas seconded the motion. The motion was passed unanimously to approve the amendment to the IPS as adopted by Treasurer Nappier.**

Consideration for the Search Process for a Global Treasury Inflation Protection Securities Manager

Joanne Dombrosky, Principal Investment Officer (“PIO”), provided a project plan timeline and evaluation/selection criteria for a Global TIPS Manager for the ILBF. Ms. Dombrosky noted that investing in global inflation-linked bonds provided diversification for the CRPTF, afforded global managers the opportunity to take advantage of the varying world-wide inflation rates and provided potential for incremental alpha. Next, Ms. Dombrosky commented on the screening and selection criteria. Finally, she discussed the proposed project plan and noted that full details regarding the RFP were to be posted on the Treasurer’s website on April 12, 2013.

Chairman Budnick called for a motion to endorse the search process for a Global TIPS Manager for the ILBF. **Ms. Thomas made a motion, seconded by Mr. Hale. The motion was passed unanimously.**

Presentation by and Consideration of Landmark Equity Partners XV, L.P.

Terrence Purcell, PIO, provided opening remarks and introduced Landmark XV a private investment opportunity. He introduced Bradley Atkins, Chief Executive Officer of Franklin Park Associates, LLC, the CRPTF's consultant for the PIF. Mr. Purcell stated that Landmark XV was formed to acquire interests in private equity limited partnerships through secondary market transactions. He noted that Landmark Inc. ("Landmark") was a Simsbury, Connecticut-based firm founded in 1989, and commented on the CRPTF's two prior investments in Landmark Funds VIII and XIV. Finally, he provided a brief history on Landmark, its investment strategy and geographic exposures. In response to Chairman Budnick, Mr. Purcell said that Landmark's approach was to avoid auctions, identify potential sellers and develop direct one-on-one relationships with the sellers.

Presentation by Landmark Equity Partners

Landmark -- represented by Chad Alfeld and Bob Shanfield, Partners, and Eddie Keith, Vice President -- made a presentation to the IAC. Mr. Alfeld introduced the team and provided a firm overview and highlighted Landmark's strategy. He said that Landmark's principal investment objective was secondary investments and noted that Landmark XV was a private equity secondary fund. Next, he provided a snapshot on the capital that Landmark raised to date, and he said that four of Landmark's partners were 100% dedicated to secondary private equity activity, and the other partners were involved in both private equity and additional activities. In closing, Mr. Alfeld discussed Landmark's historical secondary performance from the 1990 vintage years through the current vintages, and noted that it beat its benchmarks across the board.

Next, Mr. Shanfield commented on Landmark's strategy and its differentiated investment approach and noted that Landmark had returned over 30% of capital invested in Fund XIV back to its investors.

In closing, Mr. Alfeld said that the CRPTF had exposure to over 230 partnerships in Fund XIV, which included U.S. and Non-U.S. buyout, venture capital and mezzanine debt funds. He then provided a summary of the principal terms for Landmark XV.

In response to Ms. Carpenter, Mr. Alfeld spoke about Landmark's ownership changes that had occurred since 1990 by way of succession and the addition of a third-party owner Religare Global Asset Management. Mr. Alfeld added that all of Landmark's partners are owners in the firm. Mr. Keith emphasized that an investment committee continued to make investment decisions. Chairman Budnick posed a question regarding the size of Landmark XV, to which Mr. Alfeld said that the fund size was determined in order to limit the amount of idle capital, to

allow a faster pace for the return of capital, and to target small and large transactions to ensure diversification.

Roll Call of Reactions to Landmark Equity Partners XV, L.P.

Chairman Budnick asked the IAC members to provide input on Landmark XV. Thomas Fiore posed a question regarding Landmark's fee structure, to which Mr. Atkins suggested that three contract variables be considered: the fund size; the general partner commitment, and the fees. Each IAC member provided feedback on Landmark XV. Thomas Fiore, Mr. Murray, Ms. Carpenter, Ms. Thomas, Mr. Hale, Peter Thor and Chairman Budnick all supported the investment. Michael Freeman abstained from furnishing feedback, and said that he needed more information regarding Landmark's charitable work with respect to a possible conflict with Connecticut's teachers. Mr. Hall abstained and concurred with the comments made by Mr. Freeman. Chairman Budnick called for a motion to waive the 45-day comment period for Landmark XV. **A motion was made by Ms. Carpenter, seconded by Mr. Hale, to waive the 45-day comment period for Landmark Equity Partners XV, L.P. The motion was passed unanimously.**

Other Business

Ms. Palladino presented the preliminary IAC budget for FY 2013 and FY 2014. Chairman Budnick called for a motion to approve the IAC Budget for FY 2013/2014. **A motion was made by Mr. Freeman, seconded by Mr. Hale, to approve the IAC budget for FY 2013/2014. The motion was passed unanimously.**

Next, Chairman Budnick invited the IAC members to submit agenda items for the May 8, 2013 IAC meeting.

Executive Session

Chairman Budnick called for a motion to adjourn the IAC's Regular Session and enter into Executive Session to consider a personnel matter. **A motion was made by Ms. Thomas, seconded by Mr. Freeman, that the IAC adjourn the Regular Session at 10:40 a.m. and enter into Executive Session. The motion was passed unanimously.** Deputy Treasurer Christine Shaw participated in the Executive Session.

The IAC adjourned the Executive Session at 11:18 a.m. and entered into Regular Session.

Chairman Budnick noted that no votes were taken during the Executive Session and that a personnel matter was discussed.

Next, Deputy Treasurer Shaw commented on the allocation of half of the OPEB Trust Fund assets to various funds within the CIF, which was ratified by the IAC at last month's meeting. She said that since the allocation occurred prior to formed revision of the IPS, the Chairman and

members of the IAC requested that the Treasurer and her staff review relevant procedures. Toward that end, Deputy Treasurer Shaw said that the OTT bolstered its procedures governing the allocation of funds. She provided documentation that set forth detailed procedures for the initiation and execution of transactions related to any new or revised asset allocation strategy. Deputy Treasurer Shaw emphasized that these procedures would prevent a change to an asset allocation strategy that is contrary to what is set forth in the IPS. Deputy Treasurer Shaw noted that asset allocations, within policy ranges set forth by the IPS, as well as allocations that fall outside of policy bands due to market movements, will continue to be managed by the CIO through the normal course of business as outlined in the IPS.

Regarding the authorization of transactions, Treasurer Nappier commented on the procedures and stated that both the initiation and execution of transactions that would change the asset allocation cannot occur without proper authorization and supporting documentation that speak to the transaction's compliance within the IPS.

Mr. Murray posed a question with respect to how the OTT would follow the procedures if adequate staff was not in place, to which Treasurer Nappier said that backup staff would be identified to fill in if the primary person responsible was not available.

Deputy Treasurer Shaw noted that the IPS gives the Treasurer authority to establish written procedures governing the operation and administration of the Funds.

Comments by the Chairman

There being no further business, Chairman Budnick adjourned the meeting at 11:33 a.m.
This meeting was electronically recorded.

Respectfully submitted,



**DENISE L. NAPPIER
SECRETARY**

Reviewed by



**NEIL G. BUDNICK
CHAIRMAN**