

INVESTMENT ADVISORY COUNCIL  
Wednesday, January 8, 2014

**MEETING NO. 412**

**Members present:**

Janice (Jan) Carpenter  
Thomas Fiore, representing Benjamin Barnes  
Joshua Hall  
David (Duke) Himmelreich  
Steven Muench  
William Murray  
Denise L. Nappier, Treasurer  
Carol Thomas, Interim Chair  
Peter Thor

**Absent:**

Laurence N. Hale

**Others present:**

Christine Shaw, Deputy Treasurer  
Lee Ann Palladino, Chief Investment Officer  
Deborah Spalding, Deputy Chief Investment Officer  
Catherine E. LaMarr, General Counsel  
Shelagh McClure, Director of Compliance  
Gary Carter, Principal Investment Officer  
Joanne Dombrosky, Principal Investment Officer  
Terrence Purcell, Principal Investment Officer  
Cherie Santos-Wuest, Principal Investment Officer  
David Barrett, Director of Communications  
Francis Byrd, Assistant Treasurer - Policy  
Linda Tudan, Executive Assistant  
Christina McGinnis, Executive Secretary

**Guests:**

Melissa Albonesi, State Street Global Advisers  
Drianna Benner, Appomattox Advisory Inc.  
Dianna Di Iorio, Grosvenor Capital Management, L.P.  
Maryellen Fazzino, Morgan Stanley Alternative Investment  
Partners  
Will Greene, Loop Capital Markets  
Carla Harris, Morgan Stanley Alternative Investment Partners  
Jonathan Hogstad, Service Employees International Union  
Mustafa Jama, Morgan Stanley Alternative Investment  
Partners  
Lou Kahl, Hewitt EnnisKnupp, Inc.  
Robin Kaplan-Cho, Connecticut Education Association

Celia Peterson, Aetna Capital Management, LLC  
David S. Richter, Grosvenor Capital Management, L.P.  
Robert Rocco, Aetna Capital Management, LLC  
Jon Rooney, Aetna Capital Management, LLC  
Claire Shaughnessy, Hewitt EnnisKnupp, Inc.  
Diane Smola, Hewitt EnnisKnupp, Inc.  
Shaun Smyth, Aetna Capital Management, LLC  
Eric Stampfel, Morgan Stanley Alternative Investment  
Partners  
Kevin Sullivan, BNY Mellon Asset Management  
Kurt A. Summers, Jr., Grosvenor Capital Management, L.P.  
Alex Thomson, Woodcreek Capital Management  
Oscar Gill Vollmer, Appomattox Advisory Inc.  
Susan Webb, Appomattox Advisory 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 December 11, 2013 IAC Meeting**

Chair Thomas called for a motion to approve the minutes of the December 11, 2013 IAC meeting. **William Murray moved to approve the minutes of the December 11, 2013 IAC meeting as drafted. The motion was seconded by Janice Carpenter. There being no discussion, the Chair called for the vote. The motion passed unanimously.**

#### **Comments by the Treasurer**

Treasurer Denise L. Nappier began her opening remarks by commenting on the Connecticut Retirement Plans and Trust Funds ("CRPTF") investment performance results as of October 31, 2013. She discussed the strength in the equity markets, and said that the one year returns as of October 31, 2013 were 15.33% for the Teachers' Retirement Fund and 15.27% for the State Employees' Retirement Fund.

Next, Treasurer Nappier said that after considering feedback from the IAC and the due diligence process, she decided to commit up to \$150 million to Carlyle Global Market Strategies Finance, Inc., an investment opportunity for the High Yield Debt Fund. She said the commitment is subject to successful contract negotiation.

Next, Treasurer Nappier commented on the agenda and provided highlights on the four semi-finalist firms for the Alternative Investment Fund ("AIF") Fund-of-Hedge Fund ("FoHF") manager mandate for the Connecticut Horizon Fund ("CHF") portfolio: Aetna Capital Management, LLC; Appomattox Advisory Inc.; Grosvenor Capital Management, L.P.; and

Morgan Stanley Alternative Investment Partners. She said the scope of services for this mandate included the construction and management of a FoHF mandate for the CHF allocation within the AIF, and that the implementation of this phase of the CHF would continue to afford the CRPTF opportunities to access to a diversified portfolio of hedge fund strategies managed by minority/women-owned or led firms, Connecticut-based or emerging firms, and new and innovative investment strategies. Treasurer Nappier indicated she is considering an investment of up to \$175 million to this opportunity within the CRPTF's hedge fund aggregate allocation, which is within the overall IPS hedge fund strategy allocation of 60% of the 8% Alternative Investment Fund policy allocation. She added that the due diligence revealed investment managers who may have innovative ideas or products, such as a "seeding" platform, or a strategic fit in the opportunistic allocation of the global equity portfolios, and will present these opportunities in the near future.

#### **Update on the Market and the CRPTF Performance for Month Ended October 31, 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. Ms. Palladino began by discussing the CRPTF performance for the month ended October 31, 2013 and provided an update on calendar year 2013 results. She noted that while markets had continued to appreciate due to unprecedented monetary policy, the Federal Reserve ("Fed") Open Market Committee announced that it will begin to taper monetary policy in 2014. She added that this is likely to impact the CRPTF portfolio going forward and expected muted returns in 2014, compared to 2013. She then discussed the performance for the CRPTF over the short and long-term horizons. She noted that the CRPTF average returns as of October 31, 2013 for the one, three and five year horizons were 14.95%, 8.94% and 10.70%, respectively.

Finally, Ms. Palladino reported on the CRPTF Watch List, and stated that Hartford Investment Management Company ("HIMCO"), an inflation linked bond fund manager, remained on the watch list because the CRPTF assets represented more than 20% of the firm's strategy assets, thereby exceeding the Investment Policy Statement ("IPS") guidelines. She said that CRPTF assets as a percentage of the HIMCO strategy would be reduced below 20% by the end of January 2014. Ms. Palladino commented that once contracts were finalized for the global inflation linked bond managers, the allocation to HIMCO would be revisited and sized accordingly.

#### **Presentation by and Consideration of the Semi-Finalists for the Alternative Investment Fund-of-Hedge Fund Manager Search**

Terrence Purcell, Principal Investment Officer, provided opening remarks and introduced the four semi-finalist firms for the Alternative Investment FoHF mandate for the CHF portfolio: Aetna Capital Management, LLC; Appomattox Advisory Inc.; Grosvenor Capital Management, L.P.; and Morgan Stanley Alternative Investment Partners. Jacob Walthour, Managing Director at Cliffwater LLC, the alternative investment consultant to the CRPTF, was also present. Mr.

Purcell stated that Treasurer Nappier was considering a commitment of up to \$175 million to one or more of the firms with a mandate to construct and manage the CHF portfolio within the AIF. Mr. Purcell discussed the search process and the expectations for the CHF FoHF program.

Next, Mr. Purcell commented on the managers' skills and capabilities in terms of their due diligence process, risk management and access to this market segment, and provided a summary on each of the four semi-finalists.

Several IAC members posed questions regarding the fee proposal, allocation of minority managers, workforce diversity and the CHF portfolio, to which Mr. Purcell and Mr. Walthour answered satisfactorily.

### **Presentation by Aetna Capital Management, LLC**

Aetna Capital Management, LLC ("Aetna Capital") -- represented by Celia Peterson, CIO and Chief Compliance Officer; Robert Rocco and Jon Rooney, Managing Directors; and Shaun Smyth, Portfolio Specialist -- made a presentation to the IAC. Ms. Peterson began by introducing the team and gave a brief overview of their experience and relationship with their parent company, Aetna Inc. She said that Aetna Capital, a Connecticut-based investment adviser, incorporated a diversified hedge fund portfolio in 1998, and had a 13 year track record managing an \$85 million FoHF portfolio. Ms. Peterson said that their relationship with parent corporation Aetna Inc. had provided Aetna Capital with an institutional framework, an allocation of assets, and an operational infrastructure.

Finally, Ms. Peterson spoke about key individuals that would be involved in the mandate.

Next, Mr. Rooney discussed Aetna Capital's investment process and how the portfolio was constructed. Mr. Rooney then reviewed the portfolio and summarized how Aetna Capital would bring value to the CRPTF.

David Himmelreich posed a question regarding 2011 underperformance, to which Mr. Smyth stated performance was acceptable relative to the hedge fund industry and broader equity markets, and that diversification of hedge fund strategies contributed positively to performance. In response to a question from Joshua Hall concerning Aetna Capital's workforce diversity, Ms. Peterson distinguished between the women and minority hires at Aetna Inc. versus Aetna Capital. Thomas Fiore commented on Aetna Capital's universe of investment managers that meet the mandate criteria for the CHF, to which Mr. Smyth responded that the firm focused on smaller managers with strong performance. Mr. Murray posed a question regarding Aetna Inc.'s stance on right to work, to which Ms. Peterson discussed Aetna Inc. and Aetna Capital practices that demonstrated support of unions.

**Presentation by Appomattox Advisory Inc.**

Appomattox Advisory Inc. ("Appomattox") -- represented by Susan Webb, CIO; Oscar Gil Vollmer, Chief Financial Officer and Chief Operating Officer; and Drienne Benner, Managing Director -- made a presentation to the IAC. Ms. Benner introduced the team. Ms. Webb then stated that Appomattox, a New York-based investment manager, was founded in 2005 and was 100% employee and women/minority owned, with \$1.3 billion under management. Next, Ms. Webb highlighted Appomattox's investment process, portfolio objectives and manager selection. Mr. Vollmer then spoke about Appomattox's performance over the last 9 years and the ongoing screening process of their investment managers. In closing, Ms. Webb summarized Appomattox's experience, resources, and commitment to building a strategic partnership with the CRPTF.

Several IAC members posed questions regarding Appomattox's competitive advantages, investment review process and rate of growth, to which Ms. Webb answered satisfactorily.

**Presentation by Grosvenor Capital Management, L.P.**

Grosvenor Capital Management, L.P. ("Grosvenor")-- represented by Kurt A. Summers, Jr., Senior Vice President; David S. Richter, Managing Director; and Dianna Di Iorio, Vice President -- made a presentation to the IAC. Mr. Summers began by introducing the team and gave an overview of Grosvenor. He added that Grosvenor customized portfolios and used a bottom up assessment of qualitative and quantitative factors. Next, Ms. Summers spoke about Grosvenor's investment team members, organizational depth and diversity initiatives.

Mr. Richter provided an overview of Grosvenor's investment platform. He highlighted Grosvenor's strengths and discussed the firm's due diligence and approval process. Mr. Richter said that Grosvenor used a collaborative full due diligence and portfolio construction process.

Next, Ms. Di Iorio spoke about Grosvenor's women and minority hedge fund managers and the firm's ability to identify manager talent.

In closing, Mr. Summers provided an executive summary of the customized hedge fund proposal for the CRPTF. Lastly, Mr. Richter summarized the value Grosvenor would bring to the CRPTF as a fund-of-hedge fund manager.

Mr. Murray posed a question regarding Grosvenor's support of Renaissance 2010, to which Mr. Summers answered that the firm had supported the initiative at one time but that Renaissance 2010 no longer exists. In response to Steven Muench question about the ownership of the firm, Mr. Summers explained that a private equity firm owned a stake in Grosvenor's partnership but that the current Chairman, Chief Executive Officer and employees hold a majority ownership stake in the firm.

### **Presentation by Morgan Stanley Alternative Investment Partners**

Morgan Stanley Alternative Investment Partners ("Morgan Stanley") -- represented by Carla Harris, Vice President; Mustafa Jama, Managing Director; Eric Stampfel, Executive Director; and Maryellen Fazzino, Vice President -- made a presentation to the IAC. Ms. Harris began by introducing the team and provided a brief company overview. She said Morgan Stanley, a subsidiary of Morgan Stanley Investment Management, had \$18.3 billion of assets, including hedge funds. Ms. Harris then gave a summary of Morgan Stanley's emerging manager program and philosophy.

Next, Mr. Jama spoke about Morgan Stanley's performance, organization, investment philosophy, and approach and sourcing of emerging managers. In closing, Mr. Jama commented on a case study of a minority-owned long/short equity manager and its performance.

In response to a question posed by Chair Thomas regarding protecting the CRPTF from downside risk, Mr. Jama said that through their risk management and due diligence process they set and monitor volatility and drawdown across the portfolio.

### **Roll Call of Reactions to the Semi-Finalists for the Alternative Investment Fund-of-Hedge Fund Manager Search**

Messrs. Fiore, Himmelreich, Murray, Muench, Hall, Peter Thor, Ms. Carpenter, and Chair Thomas provided feedback to the Treasurer regarding the presentations of the four semi-finalist investment manager firms. Messrs. Fiore, Himmelreich, Muench, Peter Thor, Ms. Carpenter, and Chair Thomas most favored Appomatox. Mr. Murray favored Morgan Stanley and Mr. Hall favored Grosvenor. With the exception of Mr. Himmelreich, each of the IAC members least favored Aetna Capital; Mr. Murray, Mr. Muench, Mr. Hall, and Mr. Thor, would not consider them for the mandate. Mr. Himmelreich least favored Morgan Stanley and Grosvenor.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Mr. Thor, seconded by Mr. Himmelreich, to waive the 45-day comment period for the Alternative Investment Fund-of-Hedge Fund Manager. There being no discussion, the Chair called for a vote and the motion passed unanimously.**

### **Other Business**

Chair Thomas reviewed the IAC budget for the quarter ended September 30, 2013. She then invited the IAC members to submit agenda items for the February 11, 2014 IAC Meeting.

### **Comments by the Chair**

Chair Thomas commented on the IAC committee assignments and her intent to fill the Education Committee staff vacancies.

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**There being no further business, Chair Thomas called for a motion to adjourn the meeting. Mr. Hall moved to adjourn the meeting and the motion was seconded by Mr. Muench. There being no discussion, the meeting was adjourned at 11:46 a.m.**

**This meeting was electronically recorded.**

**Respectfully submitted,**



**DENISE L. NAPPIER  
SECRETARY**

**Reviewed by**



**CAROL THOMAS  
INTERIM CHAIR**