

INVESTMENT ADVISORY COUNCIL
Tuesday, February 11, 2014

MEETING NO. 413

Members present:

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

Absent:

No members absent.

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
Francis Byrd, Director of Policy
Linda Tudan, Executive Assistant
Christina McGinnis, Executive Secretary

Guests:

Melissa Albonesi, State Street Global Advisors
Bradley Atkins, Franklin Park
Ron Blaylock, GenNx360 Capital Partners
Molly Bordonaro, Senior Vice President, Gerding Edlen
Mark Edlen, CEO, Gerding Edlen
Jonathan Hogstad, Service Employees International Union
Mark Johnson, Cliffwater LLC
Rob Kochis, The Townsend Group
Stephen Nesbitt, Cliffwater LLC
Kelly Saito, President, Gerding Edlen
Claire Shaughnessy, Hewitt EnnisKnupp, Inc.
W. Andrew Shea, GenNx360 Capital Partners
James Shepard, GenNx360 Capital Partners

*Left at 11:30am

INVESTMENT ADVISORY COUNCIL
Tuesday, February 11, 2014

Diane Smola, Hewitt EnnisKnupp, Inc.
Michael Stark, The Townsend Group
Kevin Sullivan, BNY Mellon
Mark Sullivan, BNY Mellon
Lloyd Trotter, GenNx360 Capital Partners
Montague Yort, GenNx360 Capital Partners

With a quorum present, Chair Carol Thomas called the Investment Advisory Council ("IAC") meeting to order at 9:03 a.m.

Approval of Minutes of the January 8, 2014 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the January 8, 2014 IAC meeting. **Peter Thor moved to approve the minutes of the January 8, 2014 IAC meeting as drafted. The motion was seconded by David Himmelreich. There being no discussion, the Chair called for the vote. With one abstention from Laurence Hale, the motion passed unanimously.**

Comments by the Treasurer

Treasurer Denise L. Nappier opened her remarks with comments on the Connecticut Retirement Plans and Trust Funds ("CRPTF") investment performance results for calendar year ending December 31, 2013. She discussed the strength of the equity and real estate markets, and said that the one year investment returns as of December 31, 2013 were 14.23% for the Teachers Retirement Fund ("TERF") and 14.11% for the State Employees' Retirement Fund ("SERF"), both of which had significantly exceeded the actuarial assumed rates of return of 8.50% and 8.00%, respectively. Treasurer Nappier stated that the 2013 investment performance of TERF and SERF helped to solidify the soundness of the plans over the long-term, as evidenced by the plans' returns of 11.40% and 11.58%, respectively, over a five-year horizon.

Treasurer Nappier then announced that after considering the feedback of the IAC and the due diligence process, she decided to name Appomattox Advisory, Inc.; Grosvenor Capital Management, L.P.; and Morgan Stanley Alternative Investment Partners as preferred vendors for the Alternative Investment Fund ("AIF") Fund-of-Hedge Fund manager mandate for the Connecticut Horizon Fund portfolio, subject to successful contract negotiations.

Treasurer Nappier commented on the agenda and stated that two investment managers would present for consideration: GenNx360 Capital Partners II, L.P. ("GenNx360 II"), for an investment in the Private Investment Fund ("PIF"); and Gerding Edlen Green Cities II, L.P. ("GED II") for an investment in the Real Estate Fund ("REF"). Treasurer Nappier indicated that she was considering an investment of up to \$25 million in GenNx360 II, which would increase the PIF exposure to investments in small and middle market companies; and an investment of up

INVESTMENT ADVISORY COUNCIL
Tuesday, February 11, 2014

to \$30 million to GED II, stating it would increase the REF exposure to value-add through a niche strategy of re-tenanting and redeveloping properties to high-energy efficiency standards.

Next, Treasurer Nappier said that a report would be presented regarding the opportunistic allocation within the Core Fixed Income Fund ("CFIF") through two of the CRPTF's existing Fund-of-Hedge Fund strategic partners, The Rock Creek Group ("Rock Creek") and K2 Advisors ("K2"). She said the opportunistic credit sleeve under consideration would protect the CFIF from rising interest rates and enhance returns during the low interest rate environment.

The Treasurer then discussed the background of the AIF structure which she presented to the IAC in November of 2009, and recounted the Fund-of-Hedge Fund manager investment structure as the preferred method to access the absolute return market, diversify across various alternative strategies, allocate monies to real assets, and invest in other unique and/or new and innovative ideas that did not fit within the traditional parameters of the Combined Investment Funds ("CIF"). She said the AIF structure envisioned a global approach to alternative investments and stated it was contemplated that the strategies may be used in other CIFs in the future when opportunities arose. Treasurer Nappier detailed the competitive selection process that resulted in the consideration of K2 and Rock Creek. After reviewing the competitive proposals of all four Prudence Crandall managers, she indicated that she was considering an initial investment of up to \$550 million, with an allocation of \$275 million, each, to Rock Creek and K2.

Finally, Treasurer Nappier commented that the implementation of the opportunistic strategy within the CFIF will allow the CRPTF to be nimble and respond promptly as the fixed income investment landscape changes over time.

Update on the Market and the CRPTF Performance

Lee Ann Palladino, Chief Investment Officer, 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 November 30, 2013 and the quarter ended December 31, 2013, and reviewed the market themes for fiscal year 2014 that influenced investment performance.

In particular, Ms. Palladino said that monetary policy continued to be the most debated factor facing the markets and explained the impact on the U.S. Treasury and Agency markets.

Ms. Palladino then provided an executive summary of the investment performance of all 15 plans and trusts. Ms. Palladino discussed the performance of the two largest pension plans. She then highlighted the long-term performance of the Agricultural Fund which is 100% allocated to CFIF, as required by statute, and that while the longer-term horizon performance benefited from the reduction in interest rates, short-term performance was .58% fiscal year-to-date. Ms. Palladino also discussed the Soldiers, Sailors & Marines' Fund ("SSMF"). She noted that the 2012 Asset Allocation and Liability Study resulted in a revised asset allocation to better position

INVESTMENT ADVISORY COUNCIL
Tuesday, February 11, 2014

the SSMF and the other trust funds for real growth, while keeping the overall need for capital preservation as a core objective, and included a shift to a 70/30 split between fixed income and equities. This asset allocation had allowed the SSMF to participate in the recent equity market rally and had returned 4.99% fiscal year to date.

Presentation by and Consideration of GenNx360 Capital Partners II, L.P.

Terrence Purcell, Principal Investment Officer (“PIO”), provided opening remarks and introduced GenNx360 II; a PIF opportunity offered by GenNx360 Capital Partners (“GenNx360”), the General Partner. Bradley Atkins, Chief Executive Officer (“CEO”) of Franklin Park Associates LLC, the CRPTF’s consultant for the PIF, was also present. Mr. Purcell stated that Treasurer Nappier was considering an investment of up to \$25 million in GenNx360 II, a private equity fund focused on middle market buyout investments. He said that GenNx360 II was formed to make controlled investments in companies with annual revenues between \$75 million and \$500 million and that the companies would operate primarily in the industrial manufacturing, business-to-business, and service industries.

Next, he commented on the experience and background of the senior members of the General Partners: Ronald Blaylock, Lloyd Trotter, and Arthur Harper.

Several IAC members posed questions regarding fundraising, limited partner investors, and GenNx360’s management of leverage, to which Mr. Purcell and Mr. Atkins answered satisfactorily.

Presentation by GenNx360 Capital Partners II, L.P.

GenNx360 Capital Partners, L.P. -- represented by Ronald Blaylock, Lloyd Trotter and James Shepard, Founding Managing Partners, and Montague Yort and W. Andrew Shea, Managing Partners, made a presentation to the IAC. Mr. Blaylock introduced the team and gave a brief overview of their experience. Mr. Trotter provided an overview of GenNx360, and GenNx360 Fund I capital returned to date, and the raising of GenNx360 II. Mr. Trotter stated they intend on investing in businesses with \$75 million to \$500 million in revenue focused on industrial manufacturing and business services sectors. Mr. Trotter said the General Partner’s investment approach is to bring the best practices of a Fortune 500 company, in this case General Electric, to the purchasing and management of attractive middle market companies. He added that the GenNx360 targets companies for acquisition which have defensible and sustainable business models but where there are apparent opportunities for operational improvements. Mr. Trotter stated that the General Partner is attracted to companies marketing industrial products which have high value in the composition of an end product, but have low cost relative to that end product.

Next, Mr. Blaylock provided an overview of the value-add of their investment team, investment process, and a review of the megatrend investment themes targeted by GenNx360.

INVESTMENT ADVISORY COUNCIL
Tuesday, February 11, 2014

Finally, Mr. Shepard discussed GenNx360 II portfolio management and highlighted the due diligence steps employed in the acquisition process.

Chair Thomas posed a question regarding the performance of GenNx360 Fund I and the safeguards in place to mitigate portfolio losses to which Mr. Trotter responded the primary reason for the write-down of one investment was due to a high concentration risk. Mr. Thor asked how they had changed their business approach to address the concentration issue, to which Mr. Trotter answered that they now employ a more diversified approach. Thomas Fiore asked about the "Trotter Matrix", and Mr. Trotter replied it was a metric driven tool to apply best practices similar to those used at his former employer, General Electric. Next, Steven Muench posed a question regarding the outsourcing of their fund's financial accounting services. Mr. Trotter replied while it was outsourced, most of their high level financial professionals were located in the U.S.

Roll Call of Reactions to GenNx360 Capital Partners II, L.P.

Joshua Hall, Messrs. Hale, Thor, Fiore, Himmelreich, Muench, William Murray, Jan Carpenter and Chair Thomas provided feedback to the Treasurer on GenNx360 Capital Partners II, L.P. With the exception of Ms. Carpenter, all the IAC members supported an investment in GenNx360 II.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Mr. Thor, seconded by Mr. Hall, to waive the 45-day comment period for GenNx360 II. There being no discussion, Chair Thomas put the question to a vote and the motion was passed unanimously.**

Presentation and Consideration of the Opportunistic Credit Strategy

Mr. Purcell and Joanne Dombrosky, PIOs, provided opening remarks and introduced an opportunistic credit strategy as a CFIF opportunity. Ms. Dombrosky introduced representatives from Cliffwater, LLC ("Cliffwater"), consultants to the AIF – Stephen Nesbitt, CEO and Mark Johnson, Managing Director – who also were present.

Ms. Dombrosky stated that during the 2012 Asset Allocation and Liability Study, the projected capital market assumptions and general low level of interest rates led to a policy decision to allocate up to 30% to an opportunistic investment strategy within the CFIF to take advantage of shifts in the fixed income markets. Next, Ms. Dombrosky gave a detailed overview of the extensive due diligence process of the opportunistic credit strategy allocation which led to the use of existing fund-of-hedge-fund managers. Ms. Dombrosky discussed how these managers are expected to enhance total return, protect against rising interest rates and provide downside risk mitigation. She said the CFIF will also benefit from further diversification by employing the opportunistic allocation through the Prudence Crandall structure.

INVESTMENT ADVISORY COUNCIL

Tuesday, February 11, 2014

Next, Mr. Purcell discussed the utilization of the CRPTF's existing fund-of-hedge-fund partners for the opportunistic credit strategy allocation and described the competitive review of the proposals. He added that after extensive analysis of each proposal, K2 and Rock Creek were selected due to the proposed risk and return characteristics, favorable fee terms and structure, and each firm's performance to date within the AIF.

Mr. Nesbitt commented that Cliffwater concurs with the overall investment thesis, portfolio construction and selection of the fund-of-hedge-fund managers.

Mr. Purcell responded to a question from Mr. Muench and said that the best Prudence Crandall performers within the existing AIF allocation were K2 and Rock Creek for calendar year 2013. Mr. Muench then questioned if consideration was given to the potential benefit of economies of scale if all the assets were given to one party. Mr. Purcell responded that fees were aggressively negotiated and that the benefit of diversification and the reduction in manager concentration risk were also considered when recommending both managers for this mandate. Mr. Purcell noted the reduction in fees that would also be realized with the existing investment portfolios.

Ms. Carpenter asked about the investment guidelines that were specific to the credit opportunistic allocation outlined in the report and if they would be limited as a means to reduce risk. Mr. Purcell stated that the opportunistic strategy is being pursued to reduce the risk associated with the historic low level of interest rates and to maintain an ability to change positions quickly in anticipation of any potential adverse changes in the fixed income landscape. He reviewed the statistical summary, which indicated a lower volatility due to the ability to short, as well as a lack of correlation to both the existing CFIF managers and among the portfolio of opportunistic managers. Treasurer Nappier added that the investment guidelines, terms, and limitations would be specified within the contract language.

In response to Mr. Hall, Mr. Purcell described the ownership transactions that had occurred at K2 and Rock Creek over the past year and noted that each firm continues to operate autonomously. Mr. Himmelreich made a statement that he believed that this investment decision is a well thought out plan and appropriate given the present position of the fixed income markets, but cautioned that many other market participants were employing similar strategies. He said that ongoing oversight of this strategy is paramount to ensure a successful opportunistic investment program. Discussion ensued among all IAC members about the opportunistic CFIF strategy, and their questions and comments were satisfactorily answered.

Chair Thomas initially called for a motion to accept the report. Subsequent to that motion, Treasurer Nappier noted that the Investment Policy Statement "IPS" states the IAC shall endorse the opportunistic allocation within the CFIF, and stated that an endorsement as opposed to acceptance of the report was required. **A motion was made by Mr. Himmelreich, seconded by Mr. Hale, to endorse the opportunistic credit strategy. There being no discussion, Chair Thomas put the question to a vote and the motion was passed by a majority of the IAC**

INVESTMENT ADVISORY COUNCIL
Tuesday, February 11, 2014

members. Mr. Fiore was the only IAC member to cast a negative vote.

Presentation by and Consideration of Gerding Edlen Green Cities II, L.P.

Cherie Santos-Wuest, PIO, provided opening remarks and introduced GED II, an REF opportunity being offered by Gerding Edlen Fund Management II, LLC (the "General Partner"). Rob Kochis, Principal, and Mike Stark, Associate, the REF consultants of The Townsend Group ("Townsend"), were also present. Ms. Santos-Wuest stated that Treasurer Nappier was considering an investment of up to \$30 million in GED II, a \$250 million investment focused primarily on commercial properties, including multifamily and office properties in gateway cities across the country. She added that the GED II was a value-add strategy, concentrated on re-tenanting, repositioning/redeveloping, and retrofitting to high-energy efficiency standards.

Ms. Santos-Wuest then discussed the REF's value-add allocation within the REF and stated that value-add investments had fallen to 14% of the REF, below the IPS target range, and that an investment of up to \$30 million in GED II would increase the value-add allocation toward the policy target.

Next, Ms. Santos-Wuest gave an overview of GED II and highlighted the strengths, investment strategy and market opportunity, which include targeting the "Gen Y" population cohort who are driving demand for housing and work product in specific infill urban locations.

Mr. Thor posed a question regarding the income level of tenants GED II seeks to acquire, to which Ms. Santos-Wuest replied it would depend on the submarket and relative pricing of rents in different urban areas.

Gerding Edlen Management -- represented by Mark Edlen, CEO; Kelly Saito, President; and Molly Bordonaro, Senior Vice President; made a presentation to the IAC. Mr. Edlen began by introducing the team and provided an overview of Gerding Edlen, a full service real estate investment, development and property management firm. He discussed the investment management team, organizational depth and diversity initiatives.

Next, Ms. Bordonaro gave an overview of GED II and the investment strategy. She stated that the strategy would focus on top urban markets in the country and supply-constrained markets. She then stated that GED II has raised \$200 million to date. She further stated that the targeted performance return is an 18% net IRR to investors and that all projects on the development side are built with union labor.

Finally, Mr. Saito then gave an overview of several investments in GED Fund I that were made from 2010 through 2012. He discussed the six investments in GED II, background of property acquisitions, and project re-design.

INVESTMENT ADVISORY COUNCIL
Tuesday, February 11, 2014

Mr. Thor posed a question regarding affordable housing to lower income renters, to which Mr. Saito answered that most of the cities that are identified in GED II have required inclusionary housing or voluntary programs.

Roll Call of Reactions to Gerding Edlen Green Cities II, L.P.

Messrs. Thor, Hall, Hale, Muench, Murray, Himmelreich, Ms. Carpenter and Chair Thomas provided feedback to the Treasurer on GED II. Each of the IAC members supported an investment in GED II.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Mr. Himmelreich, seconded by Mr. Hall, to waive the 45-day comment period for GED II. There being no discussion, Chair Thomas put the question to a vote and the motion passed unanimously.**

Report on Corporate Governance

The report was tabled to the IAC Meeting scheduled for March 12, 2014.

Other Business

Chair Thomas invited the IAC members to submit agenda items for the March 12, 2014 IAC meeting.

There being no further business, Chair Thomas called for a motion to adjourn the meeting. Mr. Murray moved to adjourn the meeting and the motion was seconded by Mr. Hall. There being no discussion, the meeting was adjourned at 11:58 a.m.

This meeting was electronically recorded.

Respectfully submitted,



**DENISE L. NAPPIER
SECRETARY**

Reviewed by



**CAROL THOMAS
INTERIM CHAIR**