

INVESTMENT ADVISORY COUNCIL
Wednesday, March 12, 2014

MEETING NO. 414

Members present:

Janice (Jan) Carpenter
Joshua Hall
David (Duke) Himmelreich
Steven Muench
William Murray
Carol Thomas, Interim Chair
Peter Thor

Absent:

Thomas Fiore, representing Benjamin Barnes
Laurence N. Hale
Denise L. Nappier, Treasurer

Others present:

Christine Shaw, Deputy Treasurer
Lee Ann Palladino, Chief Investment Officer
Deborah Spalding, Deputy Chief Investment Officer
Catherine 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
Francis Byrd, Director of Policy
Linda Tudan, Executive Assistant
Christina McGinnis, Executive Secretary

Guests:

Melissa Albonesi, State Street Global Advisers
Bradley Atkins, Franklin Park Associates
Will Greene, Loop Capital Markets
Jonathan Hogstad, Service Employees International Union
Rob Kochis, The Townsend Group
Claire Shaughnessy, Hewitt EnnisKnupp, Inc.
Liz Smith, AllianceBernstein Institutional Investments
Diane Smola, Hewitt EnnisKnupp, Inc.
Michael Stark, The Townsend Group
Daniel Stern, Cliffwater LLC
Mark Sullivan, BNY Mellon Asset Management

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

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Approval of Minutes of the February 11, 2014 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the February 11, 2014 IAC meeting. **A motion was made by Peter Thor, seconded by David Himmelreich, to approve the minutes of the February 11, 2014 IAC meeting as drafted. There being no discussion, the Chair called for the vote. The motion passed unanimously.**

Comments by the Treasurer

Christine Shaw, Deputy Treasurer, provided the opening remarks in Treasurer Denise L. Nappier's absence. She announced that after considering the feedback from the IAC, the Private Investment Fund ("PIF") and Real Estate Fund ("REF") consultants and the due diligence process, Treasurer Nappier had decided to make commitments of \$25 million to GenNx360 Capital Partners II, L.P., and \$30 million to Gerding Edlen Green Cities II, L.P. Deputy Treasurer Shaw added that each of Treasurer Nappier's decisions was contingent upon successful contract negotiation.

Update on the Market, the CRPTF Final Performance for the Month Ended January 31, 2014; the CRPTF Watch List; the Combined Investment Funds and Connecticut Horizon Fund Reviews as of December 31, 2013

Lee Ann Palladino, Chief Investment Officer, 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. Next, she reported that through the month ended January 31, 2014, the Teachers' Retirement Fund ("TERF") and the State Employees' Retirement Fund ("SERF"), the State's two largest pension plans, returned 7.60% and 7.53%, respectively, fiscal year to date. She noted that the TERF's performance fiscal year to date was driven by global equities, which returned an average 11.2%; the fixed income portfolio, which returned an average .28%; and alternative investments, which returned an average 5.64%. Ms. Palladino stated that the performance remained solid over the longer term horizon with the TERF and SERF returning 11.91% and 12.04%, respectively, over the five year horizon. She commented on the various asset classes and discussed their performance versus the benchmark.

Finally, Ms. Palladino reported on the CRPTF Watch List, and stated that an existing Inflation Linked Bond Fund manager, Hartford Investment Management Company ("HIMCO"), remained on the CRPTF Watch List because it represented more than 20% of the firm's strategy assets, thereby exceeding the Investment Policy Statement's ("IPS") guidelines. She remarked that in January, the CRPTF reduced its investment in HIMCO to bring the mandate within the IPS guidelines. Ms. Palladino said that Ambassador Asset Management ("Ambassador") was added to the Watch List when the Office of the Treasurer ("OTT") was notified that the Securities and Exchange Commission had initiated fraud allegations against Ambassador for non-compliance with the firm's own internal guidelines and for misrepresentation of the level of risk in a former money market fund. She noted that legal and operational due diligence was being performed on Ambassador and that the firm would remain on Watch until completion of the due diligence and

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satisfactory resolution of the SEC allegation.

Next, Claire Shaughnessy, Partner, and Diane Smola, Senior Consultant, of Hewitt EnnisKnupp, Inc. (“HEK”), reported on the Combined Investment Funds (“CIF”) for the quarter ended December 31, 2013. Ms. Shaughnessy provided a market overview with comments on the public market global equities and fixed income markets.

Next, Ms. Smola provided a summary of the returns for the individual plans and trusts within the CRPTF. She reviewed the performance attribution as of December 31, 2013 for the TERF, the SERF and the Municipal Employees’ Retirement Fund. Ms. Smola then provided a report on the Connecticut Horizon Fund (“CHF”) as of December 31, 2013, and said that the fiscal year to date returns were 16.5% -- which outperformed the benchmark by 170 basis points (“bps”) for the quarter ended December 31, 2013. Ms. Smola stated that since inception, the public market CHF returned 7.4% versus its benchmark return of 7.3% -- an outperformance of 10 bps.

Alternative Investment Fund Review as of December 31, 2013

Terrence Purcell, Principal Investment Officer (“PIO”), reported on the performance of the Alternative Investment Fund (“AIF”) absolute return portfolio for the quarter ended December 31, 2013, and the real assets and opportunistic portfolios for the quarter ended September 30, 2013. His report consisted of an executive summary of portfolio investment activity and a performance update. He introduced the AIF’s consultant, Daniel Stern, Senior Managing Director of Cliffwater LLC, who assisted in presenting the quarterly report.

Mr. Purcell reported that since the inception of the AIF in early 2011, roughly 86% of the committed capital had been allocated to the fund-of-hedge fund portfolio as of December 31, 2013.

Mr. Purcell reported that the fund-of-hedge fund portfolio had earned 4.4% for the quarter ended December 31, 2013, and noted that these actual portfolio returns are recorded on a two-month lag. He said that this performance compared favorably with the 3.5% gains for both the HFRI Fund-of-Fund Composite Index and the HFRI Fund Weighted Composite Index. He said that the fund-of-hedge fund portfolio earned 12.75% for the year ended December 31, 2013, outperforming both the HFRI Fund-of-Fund Composite Index’s return of 8.7% and the broad HFRI Fund Weighted Composite Index’s 9.2% return. He commented that the AIF’s fund-of-hedge fund portfolio continued to be well-diversified across underlying managers and strategies. Mr. Purcell then reported on the AIF performance and exposure to real assets and opportunistic investments as of September 30, 2013.

Next, Mr. Stern commented on the fund-of-hedge fund portfolio and provided an update on the various hedge fund strategies.

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Private Investment Fund Review as of September 30, 2013

Mr. Purcell reported on the PIF for the quarter ended September 30, 2013. He introduced PIF's consultant, Bradley Atkins, Chief Executive Officer of Franklin Park Associates LLC, who assisted in presenting the quarterly report.

Mr. Purcell gave an executive summary that included a portfolio overview, benchmark performance, and portfolio investment activity. He said that the PIF portfolio gained 14.5% for the 12 months ended September 30, 2013 versus the PME S&P 500 index's advance of 19.1%, and that the 3-year PIF performance was 13.1%. Mr. Purcell said that for the 10-year and since inception horizons, PIF had returned 11.1% and 8.7% respectively, and had surpassed the S&P 500 benchmark return.

Next, Mr. Atkins provided an overview of the private equity landscape, including levels of fund raising and initial public offering activity. He also discussed the performance of the U.S. buyout and venture capital portfolios by vintage year.

Mr. Atkins then delivered a report on the CHF. He said that the CHF portfolio was still young and had not had enough time for the underlying managers to bring their investment portfolios toward significant fund exits.

Steve Muench posed a question regarding the returns of the fund investments made between 1987 and 1999, to which Mr. Atkins answered that the majority of underperforming managers were hired during the last phase of the Silvester administration.

Real Estate Fund Review as of September 30, 2013

Cherie Santos-Wuest, PIO, reported on the performance of the REF for the quarter ended September 30, 2013. She introduced the REF consultants, Rob Kochis, Principal, and Michael Stark, Associate, of The Townsend Group, who assisted in presenting the quarterly report.

Ms. Santos-Wuest reported on the fund's overall performance, the quarterly as well as the one-three- and five-year results, and the portfolio diversification versus investment guidelines and its NCREIF Property Index ("NPI") benchmark. Ms. Santos-Wuest spoke about the unfunded commitments, new commitments and new acquisitions for the Core Separate Account and fund vehicles within the REF. She reported that the REF returned 3.2% as of September 30, 2013, and 15.1%, 12.1% and -1.9% on a net basis over the past one- three- and 5-year horizons, respectively. She also noted that the REF had outperformed its NPI benchmark by 4.1% over the one-year horizon. Ms. Santos-Wuest discussed the improved REF performance, which she attributed to the recent fund commitments to core, value add and opportunistic strategies, vintage year allocation, and general partner selection.

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Mr. Kochis provided the IAC with an overview of the REF market and commented on capitalization rates, vacancy trends, U.S. labor force growth, and their impact on various sectors of the commercial real estate market.

Mr. Himmelreich posed a question regarding vintage year performance and whether the market value was updated every quarter, to which Ms. Santos-Wuest replied that market values were updated quarterly.

Short-Term Investment Fund Review as of December 31, 2013

Michael Terry, PIO, reported on the performance of the Short Term Investment Fund (“STIF”) for the quarter ended December 31, 2013. Mr. Terry said the STIF earned an annualized yield of 14 bps during the quarter, outperforming its benchmark by 12 bps and earning an additional \$1.4 million for investors. Mr. Terry stated that for the calendar year ended December 31, 2013, the fund earned an annual return of 12 bps, outperforming its benchmark by nine bps and earning an additional \$4.4 million for investors. He reported that STIF’s weighted average maturity is 42 days; one day liquidity is 49 percent of assets, and 56 percent of STIF’s assets are invested in securities issued, insured or guaranteed by the U.S. government or federal agencies, repurchase agreements backed by such securities, or in money market funds comprised of such securities. Mr. Terry stated that the STIF had \$4.4 billion in assets and \$50.3 million in reserves. Finally, he provided an economic overview which included current information on the economic growth rate, inflation rate and the short-term yield curve.

Report on Corporate Governance for Quarters ended September 30, 2013 and December 31, 2013

Francis Byrd, Assistant Treasurer for Policy, reported on corporate governance activities for the quarters ended September 30, 2013 and December 31, 2013. He began with an overview of the 2014 proxy season. Mr. Byrd stated that for the last two quarters of 2013, all of the international investment managers voted consistently with the CRPTF global proxy policies. Mr. Byrd reviewed the companies with which the CRPTF had filed environmental/social/governance (“ESG”) related shareholder proposals for the 2014 proxy season.

Chair Thomas called for a motion to accept the Corporate Governance report. **A motion was made by Jan Carpenter, seconded by William Murray, to accept the Corporate Governance report. There being no discussion, the Chair called for a vote. The motion was passed unanimously.**

Other Business

Chair Thomas invited the IAC members to submit agenda items for the April 9, 2014 IAC meeting. Next, she stated that the deadline for submission of the annual statement of financial interests is May 1, 2014.

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There being no further business, Chair Thomas called for a motion to adjourn the meeting. Mr. Himmelreich moved to adjourn the meeting and the motion was seconded by Mr. Thor. There being no discussion, the meeting was adjourned at 10:34 a.m.

This meeting was electronically recorded.

Respectfully submitted,



**CHRISTINE SHAW
DEPUTY TREASURER**

**for
DENISE L. NAPIER
SECRETARY**

Reviewed by



**CAROL THOMAS
INTERIM CHAIR**