

INVESTMENT ADVISORY COUNCIL
Wednesday, March 11, 2015

MEETING NO. 422

Members present:

Janice (Jan) Carpenter
Joshua Hall**
David (Duke) Himmelreich
William Murray
Denise L. Nappier, Treasurer
Carol Thomas, Interim Chair
Peter Thor*

Absent:

Thomas Fiore, representing Benjamin Barnes
Laurence Hale
Steven Muench

Others present:

Lee Ann Palladino, Chief Investment Officer
Deborah Spalding, Deputy Chief Investment Officer
David Barrett, Director of Communications
Joanne Dombrosky, Principal Investment Officer
Laura Jordan, Interim Assistant Treasurer
Catherine E. LaMarr, General Counsel
Christina McGinnis, Executive Secretary
Terrence Purcell, Principal Investment Officer
Cherie Santos-Wuest, Principal Investment Officer
Michael Terry, Principal Investment Officer
Linda Tudan, Executive Assistant

Guests:

Bradley Atkins, Franklin Park
Gustave Christakos, Deutsche Bank
Amy Dunn, Deutsche Bank
Will Greene, Loop Capital Markets
Mark Johnson, Cliffwater, LLC
Kevin Meehan, Goldman Sachs
Kristine O'Connor, Franklin Park
Claire Shaugnessy, AonHewitt Investment Consulting
Liz Smith, Alliance Bernstein
Diane Smola, AonHewitt Investment Consulting
Michael Stark, Townsend Group
Kevin Sullivan, Bank of New York Mellon
Arnold B. West, GIA Partners, LLC

*Arrived 9:04a.m.

**Late departure 10:55a.m.

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

Approval of Minutes of the February 11, 2015 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the February 11, 2015 IAC meeting. **William Murray moved to approve the minutes of the February 11, 2015 IAC meeting as drafted. The motion was seconded by Jan Carpenter. There being no discussion, the Chair called for the vote. The motion passed unanimously.**

Comments by the Treasurer

Treasurer Nappier began her opening remarks by informing the IAC members of a private equity overview being presented by Treasury investment professionals and Franklin Park Associates, LLC ("Franklin Park"), Private Investment Fund ("PIF") consultant for the Connecticut Retirement Plans and Trust Funds ("CRPTF"). She noted the timeliness of the presentation, with respect to new private equity directives regarding financial reform, stemming from the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and outlined the areas on which the presentation would focus.

Treasurer Nappier then announced that after considering feedback from the IAC, the Real Estate Fund ("REF") consultant, The Townsend Group ("Townsend"), and the due diligence process, she had decided to commit up to \$100 million to Blackstone Real Estate Partners VIII, L.P., an opportunistic real estate fund, and to commit up to \$40 million Landmark Real Estate Partners VII, L.P., an opportunistic real estate secondary fund. She said both decisions are contingent upon successful negotiation of the partnership documents.

Next, Treasurer Nappier discussed the investment performance as of January 31, 2015 for the State Employees' Retirement Fund ("SERF") and the Teachers' Retirement Fund ("TERF"), the two largest pension plans in the CRPTF. Fiscal year to date, the SERF and TERF returns were -0.58 % and -0.71%, respectively. She further stated that the mixed markets across the CRPTF has led to virtually flat performance results overall. Treasurer Nappier then added that solid returns were posted for the three and five year horizons in both pension funds, and that the SERF and TERF had each handily surpassed the respective actuarial assumed rates of return for the three and five year horizons.

Update on the market, and CRPTF Final Performance for Month Ended January 31, 2015

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. She reported that as of January 31, TERF and SERF returned -0.71% and -0.58%, respectively, for fiscal year to date 2015. Focusing specifically on TERF, Ms. Palladino said that the performance was driven by total global equity returns of -2.17%, representing 52.69% of the portfolio; total

fixed income returns of -1.90%, representing 20.22% of the portfolio; and a 4.65% return for alternative investments, representing 20.96% of the TERF. Ms. Palladino said the performance remained solid over the longer term, with the TERF and SERF returning 8.93% and 9.03%, respectively, over the five-year horizon.

Next, Ms. Palladino commented on the Watch List and stated that Pacific Investment Management Company ("PIMCO") would remain on Watch.

Claire Shaughnessy, Partner, and Diane Smola, Senior Consultant, of AonHewitt Investment Consulting ("AHIC"), reported on the Combined Investment Funds ("CIFS") for the quarter ended December 31, 2014. 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, 2014 for the TERF, the SERF and the Municipal Employees' Retirement Fund. She then provided a report on the Connecticut Horizon Fund ("CHF") as of December 31, 2014 and said that the fiscal year to date returns were 0.5% for the quarter ended December 31, 2014. Ms. Smola stated that since inception the public market CHF returned 7.0% versus its benchmark return of 7.4%, an underperformance of 40 basis points ("bps").

Ms. Palladino, Terrence Purcell, Principal Investment Officer ("PIO"), Catherine E. LaMarr, General Counsel, along with Bradley Atkins, Chief Executive Officer and Kristine O'Connor, Chief Financial Officer of Franklin Park, gave a presentation on the PIF to the IAC. They provided an extensive review of the strategic development of the fund, defined private equity terms, discussed Security Exchange Commission exams and current issues related to fees and expenses. Ms. LaMarr discussed the practices of due diligence, legal negotiations and monitoring. Next, Mr. Purcell reviewed the PIF program performance. They concluded that the CRPTF's private equity program was carefully designed to allow for flexible oversight as the private equity markets evolved. The basic tenets of the CRPTF investment policy guidelines were timeless and included requirements for transparency, appropriate disclosure, alignment of interest, and policies to address conflicts of interest.

Alternative Investment Fund Review as of December 31, 2014

Mr. Purcell reported on the Alternative Investment Fund ("AIF") for the quarters ended December 31, 2014 and September 30, 2014. His report consisted of an executive summary, portfolio overview, benchmark performance, portfolio investment activity and fund level performance. He introduced the AIF consultant to the CRPTF, Mark Johnson, Senior Managing Director of Cliffwater LLC, who assisted in presenting the quarterly report.

Mr. Purcell reported that as of December 31, 2014, nearly 90% of the AIF's committed capital was allocated to the fund-of-hedge fund portfolio. He stated that the diversified fund-of-hedge fund portfolio within the AIF had gained 0.62% for the quarter ended December 31, 2014. He

noted that this result marginally trailed the HFRI Fund-of-Funds Composite Index return of 0.93%, but modestly outperformed the broad HFRI Fund Weighted Composite Index return of 0.48%. Mr. Purcell added that the fund-of-hedge fund portfolio earned 3.05% for the twelve months ended December 31, 2014, slightly underperforming the HFRI Fund-of-Funds index return of 3.35% and the broad HFRI Fund Weighted Composite Index return of 3.33%. He commented that the AIF fund-of-hedge fund portfolio continued to be well-diversified across underlying managers and strategies.

Mr. Purcell next reported on the AIF exposure to real assets and opportunistic investments, and discussed performance results as of September 30, 2014. He stated that the real assets and opportunistic portfolios continued to perform well, with a combined net internal rate of return since inception of 14.20% in the September quarter, modestly higher than the 13.95% return through the June quarter. He remarked that no capital was contributed to the partnerships in the third quarter, while nearly \$28 million of capital was distributed back to Connecticut.

Next, Mr. Johnson commented on the fund-of-hedge fund portfolio and general hedge fund industry trends.

Private Investment Fund Review as of September 30, 2014

Mr. Purcell reported on the PIF for the quarter ended September 30, 2014. Mr. Atkins assisted in presenting the quarterly report.

Mr. Purcell presented a portfolio overview and discussed benchmark performance and portfolio investment activity. He said the PIF portfolio returned 15.4% for the twelve months ended September 30, 2014, versus a gain for the S&P 500 of 19.0% over the same period. He further commented on the portfolio's 3-year, 5-year and 10-year returns of 13.3%, 14.2% and 11.3%, respectively, versus the S&P 500's returns of 23.1%, 16.4% and 8.6% for those periods.

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

Next, Mr. Atkins reported on the CHF and stated that inception to date returns were 5.5 % through March quarter, as the portfolio continued to emerge from the J-curve.

Real Estate Fund Review as of September 30, 2014

Cherie Santos-Wuest, PIO, reported on the performance of the REF for the quarter ended September 30, 2014. She introduced the REF consultant, Michael Stark, Associate, of Townsend, who assisted in presenting the quarterly report.

Ms. Santos-Wuest reported on the REF's overall performance, including the quarterly, one, three and five year results, as well as the portfolio diversification versus investment guidelines and

versus its NCREIF Property Index (“NPI”) benchmark. Ms. Santos-Wuest then reviewed the unfunded commitments, new commitments and new acquisitions for the Core Separate Account and fund vehicles within the REF. She reported that as of September 30, 2014, the REF returned 3.5% for the quarter, and 12.0%, 12.2% and 9.9% on a net basis over the past one, three, and five year horizons, respectively. She also noted that the REF had outperformed the NPI benchmark by 90 bps over the quarter and by 70 bps over the one-year horizon.

Finally, Ms. Santos-Wuest discussed the trending improvement in the REF portfolio returns, which have outperformed the NPI benchmark 9 out of the last 11 quarters, which she attributed to the CRPTF’s steady pace of investment, in accordance with policy allocation and the ongoing improvement across many real estate markets in the U.S.

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

Securities Lending Review as of December 31, 2014

Amy Dunn, Director of Client Services, and Gustave Christakos, Assistant Vice President, of Deutsche Bank, reported on Securities Lending activity for the quarter ended December 31, 2014. Ms. Dunn provided an executive summary and reviewed the process by which Deutsche Bank generates income for the portfolio and securities lending activity for the CRPTF. She discussed the intrinsic value lending strategy and then reported fourth quarter securities lending returns of 7.23 bps, or \$2.7 million, net of fees, on the \$17.1 billion lendable portfolio. Ms. Dunn also noted that \$1.6 million of those earnings were derived from lending activity and \$1.09 million was earned from reinvestment of collateral; since inception, October 1, 2013, net of fees, earnings were \$15.5 million from securities lending. She said that over 17% of the cash collateral was invested overnight, and the balance invested in maturities of up to three month with a weighted average maturity of 40 days.

Next, Ms. Dunn discussed the market opportunities and reviewed earnings and performance highlights.

Short-Term Investment Fund Review as of December 31, 2014

Michael Terry, PIO, reported on the performance of the Short Term Investment Fund (“STIF”) for the quarter ending December 31, 2014. Mr. Terry said the STIF earned an annualized yield of 15 bps during the quarter, outperforming its benchmark by 13 bps. He stated that for the twelve month period ended December 31, 2014 the fund earned an annual return of 15 bps, outperforming its benchmark by 1 basis point. He noted that currently the STIF had \$4.6 billion in assets and \$50.3 million in reserves. Finally, Mr. Terry reported that the fund’s weighted average maturity was 40 days at the end of the period; daily liquidity was 63% of assets; 65% of STIF’s assets were invested in securities issued, insured or guaranteed by the U.S. government or

federal agencies, in repurchase agreements backed by such securities, or in money funds comprised of such securities.

Mr. Terry also provided an economic overview including economic growth, the inflation rate and the short-term yield curve.

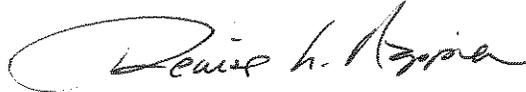
Other Business

Chair Thomas invited the IAC members to submit agenda items for the April 8, 2015 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 Duke Himmelreich. There being no discussion, the meeting was adjourned at 12:07 p.m.

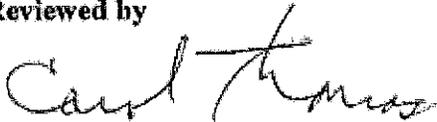
This meeting was electronically recorded.

Respectfully submitted,



**DENISE L. NAPPIER
SECRETARY**

Reviewed by



**CAROL THOMAS
INTERIM CHAIR**