

INVESTMENT ADVISORY COUNCIL
Wednesday, June 10, 2015

MEETING NO. 424

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 Hale

Others present:

Christine Shaw, Deputy Treasurer
Lee Ann Palladino, Chief Investment Officer
Deborah Spalding, Deputy Chief Investment Officer
David Barrett, Director of Communications
Joanne Dombrosky, Principal Investment Officer
Wayne Hypolite, Executive Assistant
Laura Jordan, Interim Assistant Treasurer
Catherine LaMarr, Legal Counsel
Shelagh McClure, Director of Compliance
Christina McGinnis, Executive Secretary
Terrence Purcell, Principal Investment Officer
Cherie Santos-Wuest, Principal Investment Officer
Linda Tudan, Executive Assistant

Guests:

Melissa Albonesi, State Street Global Advisors
Bradley Atkins, Franklin Park Associates, LLC
Taylor Cannon, Intern
Claybourne Coutts, Intern
Breana Green, Intern
Will Greene, Loop Capital
Eduardo Gonzalez, Edgon Financial LLC
Jasmine Holmes-Spruell, Intern
Mitchell Honan, Intern
Mark Johnson, Cliffwater, LLC
Robyn Kaplan-Cho, Connecticut Education Association
Vignesh Krishna Kumar, Intern

*Arrival 9:04 a.m.

Daria Marvasti, Intern
Heidi Milne, ArcLight Energy Partners
Dan Revers, ArcLight Energy Partners
Rick Scarola, Covenant Capital Group
Claire Shaughnessy, AonHewitt Investment Consulting
Liz Smith, Alliance Bernstein
Diane Smola, AonHewitt Investment Consulting
Patrick Spauster, Intern
Michael Stark, The Townsend Group
Briana Succop, Covenant Capital Group
Govan White, Covenant Capital Group

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 May 13, 2015 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the May 13, 2015 IAC meeting. **William Murray moved to approve the minutes of the May 13, 2015 IAC meeting as drafted. The motion was seconded by Duke Himmelreich. Jan Carpenter requested a point of clarification to a comment attributed to her in the May minutes. There being no further discussion, the Chair called for the vote. The minutes were approved as amended.**

Comments by the Treasurer

Treasurer Denise L. Nappier began her opening remarks by commenting on the 2015 legislative session, and reported that the adopted budget for the 2016/2017 biennium included full funding of the State's actuarially recommended contribution to the State Employees' Retirement Fund ("SERF"). She then stated that in accordance with the 2008 pension obligation bond covenant, initiated by the Office of the State Treasurer ("OTT"), the General Assembly also appropriated full funding of the actuarially recommended contribution to the Teachers' Retirement Fund ("TERF"). Treasurer Nappier then discussed legislative changes made to the spending cap which were, over the long term, beneficial to the TERF.

Next, Treasurer Nappier welcomed the summer interns, noted the diverse backgrounds and interests that each brought to the OTT, and asked that they stand and introduce themselves.

She then offered congratulations to Chief Investment Officer ("CIO") Lee Ann Palladino, on her retirement from the OTT and state service. She also acknowledged the retirements of Director of Compliance, Shelagh McClure, and Principal Investment Officer ("PIO"), Gary Carter. Treasurer Nappier added that she had named Deputy CIO Deborah Spalding as Interim CIO effective July 1st. She extended her deepest gratitude for their professionalism and dedication to the Connecticut Treasury and wished them all a peaceful and rewarding retirement.

Next, Treasurer Nappier discussed the agenda, and stated that two investment opportunities would be presented for the IAC's consideration: Covenant Apartment Fund VIII, L.P. ("Covenant VIII"), a value-add real estate opportunity; and ArcLight Energy Partners Fund VI, L.P. ("ArcLight VI"), a private equity opportunity for the Alternative Investment Fund ("AIF"). Treasurer Nappier said she was considering an investment of up to \$30 million in Covenant VIII, which would focus on a strategy of acquiring, renovating and repositioning apartment communities in U.S. Southeastern and mid-Atlantic states; and was considering an investment of up to \$85 million in ArcLight VI, which would focus on investments in North American energy infrastructure assets that would provide stable and predictable base cash flows, capital preservation and value creation opportunities.

Treasurer Nappier then announced that after having considered feedback from the IAC, the Private Investment Fund ("PIF") consultant, Franklin Park Associates ("Franklin Park"), and the due diligence process, she had decided to make three investment commitments for the PIF in the Connecticut Retirement Plans and Trust Funds ("CRPTF"): Connecticut Growth Capital, LLC, with a commitment up to \$75 million; Nutmeg Opportunities Fund II, LLC, with a commitment up to \$150 million -- \$50 million of which would be earmarked for the in-state investment program; and Constitution Fund V, LLC, with a commitment up to \$180 million -- \$20 million of which would be dedicated to the in-state investment program. She noted that each commitment was contingent upon successful negotiation of the partnership documents.

Finally, Treasurer Nappier discussed the investment performance as of April 30, 2015 for the SERF and TERF, the two largest pension plans in the CRPTF. The SERF and TERF fiscal year to date returns were 3.55% and 3.48%, respectively. Treasurer Nappier added that the investment performance as of April 30, 2015 was better over the longer horizon, with the three- and five-year returns in both pension funds at 9.59% and 8.51% for the SERF, respectively; and 9.57% and 8.44%, respectively, for the TERF.

Update on the Market, the CRPTF's Final Performance for Month Ended April 30, 2015

Ms. Palladino provided an update on the capital market environment, its impact on the performance of the CRPTF and the economic outlook. Focusing specifically on TERF, Ms. Palladino said that the performance was driven by total global equity returns of 4.56%, representing 53.12% of the portfolio; total fixed income returns of -0.54%, representing 20.33% of the portfolio; and a 6.31% return for alternative investments, representing 20.22% of the TERF. Ms. Palladino said the performance remained solid over the longer term, with the TERF and SERF returning 8.44% and 8.51%, respectively, over the five-year horizon.

Next, Ms. Palladino reviewed the risk profile of each of the combined investment funds ("CIF") and compared it to the June 30, 2011 risk profile. She noted that with the exception of the emerging markets, the risk and return profile of the CIFs improved and produced better risk-adjusted returns. She commented that the improvement in the risk-adjusted returns was due to the overall lower volatility in the market as well as the annual repositioning and optimization of

the CIFs. Ms. Palladino concluded her remarks by stating that risk management was a forward looking function and one that focused on avoiding the unanticipated loss of market value. Next, she commented on the work that had taken place within the risk function that led to these results, and noted that Ms. Spalding had plans to bring the risk function to the next level by utilizing technology platforms available at our custodian and through other vendors.

Next, Claire Shaughnessy, Partner, and Diane Smola, Senior Consultant, of AonHewitt Investment Consulting, reported on the CIF for the quarter ended March 31, 2015. Ms. Shaughnessy provided a market overview with comments on the public market global equities and fixed income markets.

Finally, Ms. Smola provided a summary of the returns for the individual plans and trusts within the CRPTF. She reviewed the performance attribution as of March 31, 2015 for the TERF, SERF and the Municipal Employees' Retirement Fund. Ms. Smola then provided a report on the Connecticut Horizon Fund ("CHF") as of March 31, 2015, and said that the CHF out-paced its benchmark by 10 basis points ("bps") during the first quarter; and that the fiscal year to date return was 3.4% and outperformed its benchmark by 10 bps. Ms. Smola stated that since inception the public market CHF returned 7.1% versus its benchmark return of 7.5% -- an underperformance of 40 bps.

Presentation by and Consideration of Covenant Apartment Fund VIII, L.P

Cherie Santos-Wuest, PIO, provided opening remarks and introduced Covenant VIII, a Real Estate Fund ("REF") investment opportunity. She introduced the REF consultant to the CRPTF, Michael Stark, Associate of The Townsend Group ("Townsend"). Ms. Santos-Wuest stated that Treasurer Nappier was considering an investment of up to \$30 million in Covenant VIII, a \$300 million value-add real estate fund, which is a follow-on fund to the CRPTF investment in Covenant V and VI. Ms. Santos-Wuest also described the strong performance of the investments in Covenant V and VI, both of which ranked at or just below the top-quartile for their respective peer vintage groups. The General Partner of the Fund is Covenant Apartment Investors VIII, LLC ("Covenant"), located in Nashville, Tennessee. Next, Ms. Santos-Wuest gave an overview of the investment merits of Covenant VIII, and said the commitment would be an opportunity to meet the REF target allocation goals and enhance the REF portfolio returns.

Questions were posed by several IAC members regarding fees, leverage multiples, and recourse indebtedness, to which Ms. Santos-Wuest and Mr. Stark answered satisfactorily.

Presentation by Covenant Apartment Fund VIII, L.P.

Covenant VIII, represented by Frederic Scarola, Managing Partner/Co-founder and Principal; Govan White, Managing Partner/Co-founder and Principal; and Briana Succop, Vice President, made a presentation to the IAC. Mr. White began by introducing Mr. Scarola and Ms. Succop and gave a brief overview of the firm, investment strategy and execution. He stated that

Covenant specialized in the multifamily sector in major southeastern and mid-Atlantic markets and that their value-add investment strategy focused on transforming properties into premier, institutional quality assets through renovation and repositioning while maximizing operating cash flow. Mr. White added that Covenant was a significant real estate investor in the southeast U.S. for over 14 years, and discussed the firm's recognition for investment diversification, investment strategy and results. Mr. White said that the firm repositioned the targeted properties through strategic, operational and physical enhancements. He talked about Covenant's sustainability initiatives to identify, analyze and manage climate risk and opportunities. In closing, Mr. White gave a market update and the initial investments of Covenant VIII.

Chair Thomas posed a question regarding the firm's employment as all Caucasian, to which Mr. White answered that the firm had recently become more diversified firm and had focused on minority recruitment. He added that half of their officers in middle management were female and as a firm had developed other relationships through initiatives with Toigo and University of Florida.

Roll Call of Reactions to Covenant Apartment Fund VIII, L.P.

Thomas Fiore, Messrs. Himmelreich and Murray, Steven Muench, Peter Thor, Joshua Hall, Ms. Carpenter and Chair Thomas provided feedback to the Treasurer.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Mr. Himmelreich, seconded by Ms. Carpenter, to waive the 45-day comment period for Covenant Apartment Fund VIII, L.P. There being no discussion, the Chair put the question to a vote and the motion passed unanimously.**

Real Estate Fund Review as of December 31, 2014

Ms. Santos-Wuest reported on the performance of the REF for the quarter ended December 31, 2014. Mr. Stark assisted in presenting the quarterly report. Ms. Santos-Wuest reported on the REF's overall performance and the portfolio diversification versus investment guidelines and 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 December 31, 2014, the REF returned 3.6% for the quarter, and 12.2%, 12.9% and 12.1% on a net basis over the past one, three and five-year horizons, respectively. She also noted that the REF had outperformed its NPI benchmark by 60 bps over the quarter and by 40 bps over the one-year horizon. Finally, Ms. Santos-Wuest discussed the trending improvement in the REF portfolio returns, which have outperformed its NPI benchmark 10 out of the last 12 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.

Mr. Stark provided the IAC with an overview of the REF portfolio, along with a discussion of 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.

Presentation by and Consideration of ArcLight Energy Partners Fund VI, L.P

Terrence Purcell, PIO, provided opening remarks and introduced ArcLight VI, an AIF investment opportunity. He introduced the AIF consultant to the CRPTF, Mark Johnson, Senior Managing Director of Cliffwater LLC. Mr. Purcell stated that Treasurer Nappier was considering an investment of up to \$85 million in ArcLight VI, a \$4 billion energy infrastructure fund. ArcLight VI is a follow-on fund to ArcLight Energy Partners Fund V, L.P. ("ArcLight V"), to which Connecticut committed \$65 million in December 2011. Mr. Purcell also described the strong performance of ArcLight V and the prior fund offerings from ArcLight Capital Partners, LLC, the General Partner of ArcLight VI. Next, Mr. Purcell gave an overview of the investment merits of ArcLight VI. He said the commitment to ArcLight VI would be a timely opportunity for the AIF given the recent dislocation in energy markets.

IAC members posed questions regarding ArcLight's energy infrastructure, personnel restructuring, to which Mr. Johnson and Mr. Purcell answered satisfactorily.

Presentation by ArcLight Energy Partners Fund VI, L.P

ArcLight VI, represented by Dan Revers, Managing Partner and Heidi Milne, Director, Public Relations, made a presentation to the IAC. Mr. Revers began by introducing Ms. Milne and gave a brief firm overview, their strategy and investment team. He said the private equity firm was focused on North American energy infrastructure assets, primarily mainstream and power opportunities and production assets. He added that they have a seasoned investment team including both in-house and affiliated technical, operational, and commercial specialists.

Next, Mr. Revers discussed the firm's historical results across market cycles and dislocations, shale revolution and the energy value chain. Mr. Revers continued and gave an overview of their affiliate, Consolidated Asset Management Services, based in Houston, Texas.

Several IAC members posed questions regarding a dedicated staff for environmental, social and governance issues; production power; corporate citizenship; commodity cycles; and workforce diversity, to which Mr. Revers responded.

Roll Call of Reactions to ArcLight Energy Partners Fund VI, L.P.

Mr. Muench, Ms. Carpenter, Messrs. Murray, Himmelreich, Fiore, Thor, Hall and Chair Thomas provided feedback to the Treasurer.

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 ArcLight Energy Partners Fund VI, L.P. There being no discussion, the Chair put the question to a vote and the motion passed unanimously.**

Alternative Investment Fund Review as of March 31, 2015

Mr. Purcell reported on the AIF for the quarter ended March 31, 2015, assisted by Mr. Johnson. Mr. Purcell reported that as of December 31, 2014, nearly 90% of the AIF 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 1.99% for the quarter ended March 31, 2015. He noted that this result marginally trailed the HFRI Fund-of-Funds Composite Index return of 2.51% as well as the broad HFRI Fund Weighted Composite Index return of 2.42%. Mr. Purcell noted that the portfolio's three-year annualized return of 7.25% continued to outpace the HFRI Fund-of-Funds Composite Index return of 5.38% as well as the Fund Weighted Composite Index return of 5.35%.

Next, he reported on the AIF exposure to real assets and opportunistic investments, and noted that the performance results were as of December 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 10%, down from the previous quarter. He noted that the weakness in the quarter was primarily due to the substantial weakness in energy investments during the reported three months. He remarked that \$1.2 million of capital was contributed to the partnerships in the fourth quarter, while more than \$21 million of capital was distributed back to the CRPTF.

Next, Mr. Johnson commented on the fund-of-hedge fund portfolio and general hedge fund industry trends. He added that the 2% return on an absolute basis was positive. Mr. Johnson said that the real assets and opportunistic portfolio showed strong distributions during the fourth quarter.

Finally, he stated that overall, all of the AIF and CHF fund managers were in compliance with their guidelines and each of the different portfolios exceeded their benchmark since inception over the last three years.

Private Investment Fund Review as of December 31, 2014

Mr. Purcell reported on the PIF for the quarter ended December 31, 2014. He introduced the PIF consultant, Bradley Atkins, Chief Executive Officer of Franklin Park, who assisted in presenting the quarterly report.

Mr. Purcell presented a portfolio overview as well as benchmark performance and portfolio investment activity. He said the PIF portfolio returned 12.5% for the twelve months ended September 30, 2014, slightly less than the S&P 500 Index's gain of 13.7% over the same period.

He further commented on the portfolio's three-year, five-year and ten-year returns of 13.9%, 13.8% and 10.9%, respectively, versus the S&P 500's returns of 20.5%, 15.4% and 8.1% for those timeframes.

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 U.S. buyout and venture capital portfolios by vintage year.

Report on the CRPTF Compliance Policy for Implementation of Statutory Investment Restrictions

Shelagh McClure, Director of Compliance, provided information on the status of the Sudan, Iran and MacBride initiatives. She reported on the activities regarding the CRPTF investments in companies doing business in Iran and Sudan, and investments in companies doing business in Northern Ireland that have not implemented the MacBride Principles. She added that the employment law in Northern Ireland embodied all the provisions of the MacBride principles which were supported by the CRPTF's MacBride law when it was enacted back in the 1980's. Ms. McClure noted that at that time the legislature was not amenable to the idea of repealing the MacBride law but had indicated it would consider a sunset provision, dependent upon the success of the Northern Ireland peace agreement. She said the MacBride statute would sunset on January 1, 2020, absent further action undertaken by the General Assembly. Ms. McClure stated that negotiations over Iran's nuclear program were ongoing, creating another potential obstacle regarding access to sites and the speed of sanction relief for the Iranians.

Lastly, she gave an overview on Sudan and said the sanction program would remain intact unless the Office of the President repealed the executive order under which the sanction was enacted. Ms. McClure said that no additional direct engagement was undertaken in the past year and the conflict in Sudan continues with little change or improvement. She added that complicating factors are the development of mining interests, particularly the extraction of gold which has led to conflict and reported human rights abuses.

Chair Thomas called for a motion to accept the report on the Compliance Policy for Implementation of Statutory Investment Restrictions. **A motion was made by Mr. Hall, seconded by Ms. Carpenter, to accept the report on the Compliance Policy for Implementation of Statutory Investment Restrictions. There being no discussion, Chair Thomas put the question to a vote and the motion passed unanimously.**

Other Business

Chair Thomas invited the IAC members to submit agenda items for the July 8, 2015 IAC meeting.

There being no further business, Chair Thomas called for a motion to adjourn the meeting.

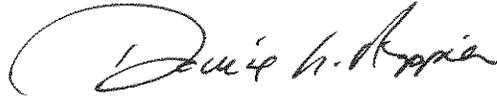
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Mr. Muench moved to adjourn the meeting and the motion was seconded by Ms. Carpenter. There being no discussion, the meeting was adjourned at 12:25 p.m.

The meeting was electronically recorded.

Respectfully submitted,



**DENISE L. NAPPIER
SECRETARY**

Reviewed by



**CAROL THOMAS
INTERIM CHAIR**