

INVESTMENT ADVISORY COUNCIL  
Wednesday, July 8, 2015

**MEETING NO. 425**

**Members present:**

Janice (Jan) Carpenter  
Laurence Hale  
David (Duke) Himmelreich  
Steven Muench  
William Murray  
Denise L. Nappier, Treasurer  
Carol Thomas, Interim Chair  
Peter Thor

**Absent:**

Thomas Fiore, representing Benjamin Barnes  
Joshua Hall

**Others present:**

Christine Shaw, Deputy Treasurer  
Deborah Spalding, Interim Chief Investment Officer  
David Barrett, Director of Communications  
Joanne Dombrosky, Principal Investment Officer  
Wayne Hypolite, Executive Assistant  
Harvey Kelly, Pension Fund Analyst  
Catherine E. LaMarr, Legal Counsel  
Christina McGinnis, Executive Secretary  
Michael Terry, Principal Investment Officer  
Linda Tudan, Executive Assistant

**Guests:**

Claybourne Coutts, Intern  
Breana Green, Intern  
Eduardo Gonzalez, Edgon Financial LLC  
Jasmyn Holmes-Spruell, Intern  
Mark Johnson, Cliffwater  
Jim Kane, Unite Here  
Vignesh Krishna Kumar, Intern  
Kristine O'Connor, Franklin Park  
Claire Shaugnessy, AonHewitt Investment Consulting  
Liz Smith, Alliance Bernstein  
Kanzanira Thornington, Intern

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 June 10, 2015 IAC Meeting**

Chair Thomas called for a motion to approve the minutes of the June 10, 2015 IAC meeting.

**Peter Thor moved to approve the minutes of the June 10, 2015 IAC meeting as drafted. The motion was seconded by Duke Himmelreich. There was one abstention from Laurence Hale. There being no further discussion, the Chair called for the vote. The motion passed unanimously.**

### **Comments by the Treasurer**

Treasurer Denise L. Nappier began her opening remarks by welcoming Deborah Spalding to her new role as Interim Chief Investment Officer (“CIO”). She stated that the Connecticut Retirement Plans and Trust Funds (“CRPTF”) was a finalist for the 2015 Hedge Fund Industry award, sponsored by *Institutional Investor* magazine, in the category of large public plan of the year. Treasurer Nappier added that the CRPTF won the award in 2014 and in the fiscal year ended June 2014, the hedge fund portfolio returned 7.5% net of fees, outperforming its customized benchmark by 701 basis points (“bps”) and by 440 bps since the inception of the hedge fund program.

Treasurer Nappier then stated that she had three investment-related announcements. After considering the feedback from the IAC and the due diligence process conducted by the investment staff and the Alternative Investment Fund (“AIF”) and the Real Estate Fund (“REF”) consultants, Cliffwater LLC and The Townsend Group, she decided to proceed with two investments: a commitment of up to \$85 million to ArcLight Energy Partners Fund VI, L.P., a private equity opportunity for the AIF, which will primarily be focused on investments in North American energy infrastructure assets; and a commitment of up to \$30 million to Covenant Apartment Fund VIII, L.P, a value-add real estate opportunity which will primarily be focused on a strategy of acquiring, renovating and repositioning apartment communities in U.S. Southeastern and Mid-Atlantic states. Both commitments are contingent upon successful negotiation of the partnership documents.

Treasurer Nappier then announced her decision regarding the private investment consultant selection. Commenting on the difficulty of the decision, she designated StepStone Group, LP (“StepStone”) as the preferred consultant for the Private Investment Fund (“PIF”). Treasurer Nappier said that the firm’s deep bench of investment professionals, its worldwide footprint, support of the United Nations’ Principles for Responsible Investment, and its ability to incorporate Environmental/Social/Governance elements were some of the factors of interest to the CRPTF which gave StepStone the competitive edge. She commented that Franklin Park Associates (“Franklin Park”), led by Brad Atkins, was to be credited for playing a pivotal role in revamping Connecticut’s private investment program following the administration of the Treasurer’s predecessor. She then gave accolades to both Brad Atkins and to Franklin Park for all of the important work accomplished and the strong ten-year portfolio performance of the PIF throughout the Nappier administration.

Next, Treasurer Nappier discussed the investment performance as of May 31, 2015 for the State Employees’ Retirement Fund (“SERF”) and the Teachers’ Retirement Fund (“TERF”). She said fiscal year to date returns were 4.32% and 4.29%, respectively, up from the April 30<sup>th</sup> results. Treasurer Nappier said the overall results posted for the three- and five-year returns in both

pension funds were at 11.58% and 9.75% for the SERF, respectively, and 11.54% and 9.67%, respectively, for the TERF. She added that the three- and five-year results have improved over those posted in April.

Finally, Treasurer Nappier discussed the agenda, and stated that an investment opportunity would be presented for the IAC's consideration -- Clearlake Capital Partners IV, L.P. ("Clearlake IV"), a distressed debt private investment opportunity for the PIF. She added that the general partner is Clearlake Capital Group, L.P. ("Clearlake") and was headquartered in Santa Monica, California, and that she is considering an investment of up to \$75 million.

#### **Update on the Market, the Connecticut Retirement Plans and Trust Funds' Final Performance for Months Ended May 31, 2015**

Ms. Spalding provided an update on the capital market environment, its impact on the performance of the CRPTF and the economic outlook. She noted that the three combined investment funds -- U.S. equities, private investments and real estate -- were the primary drivers of positive performance in the CRPTF fiscal year-to-date. Ms. Spalding then turned her remarks to the ongoing monetary problems in Greece and Puerto Rico, as well as the current economic climate in China, and the related economic and political consequences. She stated that while the CRPTF had little to no exposure to the fledgling currencies of Puerto Rico and Greece, ongoing uncertainty around Greece's participation in the Eurozone could lead to continued short term volatility in broader European markets. With regard to China, she said that the markets were reflecting concern that slower growth in China could have an adverse impact on overall global economic growth. Ms. Spalding said that the CRPTF continued to track exposures not only to the countries themselves, but also to the related drivers of market returns, including commodities and global growth expectations. She commented that the diversification of managers in TERF and SERF has provided downside protection in such market environments.

#### **Presentation by and Consideration of Clearlake Capital Partners IV, L.P.**

Ms. Spalding provided opening remarks and introduced Clearlake IV, a PIF opportunity. She introduced the PIF consultant to the CRPTF, Kristine O'Connor, Chief Financial Officer, of Franklin Park. Ms. Spalding stated that Treasurer Nappier was considering an investment of up to \$75 million in Clearlake IV, a \$1.4 billion private equity fund, with a proposed hard cap of \$1.35 billion. Ms. Spalding also described the strong performance of Connecticut's investment in Clearlake Capital Partners III in 2012, which had a net IRR of 23.7% as of December 31, 2014 and was ranked in the first quartile for their respective peer vintage group. She stated that the General Partner is a Santa Monica, California-based, minority-led, private equity company which primarily focused on special situations, distressed and value investments. Next, Ms. Spalding gave an overview of the investment merits of Clearlake IV and said the commitment would be an opportunity to meet the PIF target allocation goals and enhance the PIF portfolio returns.

Jan Carpenter and Chair Thomas posed questions regarding Clearlake's plans for staffing and allocation of investments, to which Ms. Spalding and Ms. O'Connor answered satisfactorily.

### **Presentation by Clearlake Capital Partners IV, L.P.**

Clearlake IV, represented by Jose Feliciano, Founding Partner, made a presentation to the IAC. Mr. Feliciano gave a brief overview of Clearlake's firm, investments, strategy and performance. He said that the firm started in 2006 and had a history of long-term strategic partnership with management to restore, transform and grow companies. Mr. Feliciano spoke about Clearlake's investment strategy and said that the firm targets special situations and stressed/distressed opportunities involving small and medium-sized companies with less than \$500 million of enterprise value. He stated that Clearlake would seek to take advantage of market dislocations, out-of-favor industries and companies in transition across all economic cycles. Mr. Feliciano said Clearlake had built a solid infrastructure/back office, and described the platform as an operations/people/strategy ("O.P.S.") playbook.

In closing, Mr. Feliciano gave an overview of their sourcing methods through the communities in distressed and secondary markets, supported by Clearlake's rigorous investment process and tools.

Several IAC members posed questions regarding sufficient back office support, union interaction, technology and future market drivers, to which Mr. Feliciano responded satisfactorily.

### **Roll Call of Reactions to Clearlake Capital Partners IV, L.P.**

William Murray, Steven Muench, Messrs. Himmelreich, Thor, Hale, 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 Ms. Carpenter, seconded by Mr. Hale, to waive the 45-day comment period for Clearlake Capital Partners IV, L.P. There being no discussion, the Chair put the question to a vote and the motion passed unanimously.**

### **Short-Term Investment Fund Review as of March 31, 2015**

Michael Terry, Principal Investment Officer ("PIO"), reported on the performance of the Short Term Investment Fund ("STIF") for the quarter ending March 31, 2015. Mr. Terry said the STIF earned an annualized yield of 15 bps during the quarter, outperforming its benchmark by 12 bps. He stated that for the twelve month period ended March 31, 2015 the fund earned an annual return of 15 bps, outperforming its benchmark by 13 bps. He noted that currently the STIF had \$4.8 billion in assets and \$50.5 million in reserves. Finally, Mr. Terry reported that the fund's weighted average maturity was 38 days at the end of the period; daily liquidity was 66% of assets; and 68% 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 current information on 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 September 9, 2015 IAC meeting.

**Executive Session**

**A motion was made by Mr. Thor, seconded by Mr. Himmelreich, that the Investment Advisory Council adjourn the Regular Session at 10:11 a.m. and enter into Executive Session to consider a personnel matter. The motion passed unanimously.** Christine Shaw, Deputy Treasurer, participated in the Executive Session.

**Regular Session**

Chair Thomas reconvened the regular session at 11:08 p.m. She noted that no votes were taken during Executive Session.

**Consideration of the Appointment of Chief Investment Officer**

Treasurer Nappier presented her recommendation to appoint Deborah Spalding as CIO. She asked that the IAC approve her recommendation.

Chair Thomas asked for a motion to approve the recommendation of the appointment of Deborah Spalding as CIO for the CRPTF effective immediately. She added that a search would commence for the positions of Deputy CIO and for the vacant PIO positions.

**A motion was made by Mr. Muench, seconded by Mr. Himmelreich, to approve the appointment of Deborah Spalding as CIO for the CRPTF effective immediately. The motion passed unanimously.**

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

**This meeting was electronically recorded.**

Respectfully submitted,

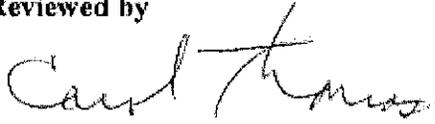


**DENISE L. NAPPIER  
SECRETARY**

INVESTMENT ADVISORY COUNCIL  
Wednesday, July 8, 2015

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**Reviewed by**

A handwritten signature in cursive script, appearing to read "Carol Thomas".

**CAROL THOMAS  
INTERIM CHAIR**