

INVESTMENT ADVISORY COUNCIL
Wednesday, October 12, 2016

MEETING NO. 435

Members present:

Thomas Fiore, representing Benjamin Barnes
Joshua Hall
David (Duke) Himmelreich
Michael LeClair*
Denise L. Nappier, Treasurer
Carol Thomas, Interim Chair

Absentees:

Steven Muench
William Murray

Others present:

Lawrence Wilson, Interim Deputy Treasurer
Deborah Spalding, Chief Investment Officer
David Barrett, Director of Communications
Karen Grenon, Assistant General Counsel
Mary Phil Guinan, Assistant Treasurer-Policy
Wayne Hypolite, Executive Assistant
Catherine E. LaMarr, General Counsel
Laurie Martin, Deputy Chief Investment Officer
Christina McGinnis, Executive Secretary
Christine Shaw, Chief Compliance Officer
Michael Terry, Principal Investment Officer
Linda Tudan, Executive Assistant

*Arrival 9:08a.m.

Guests:

Kristin DePlatchett, StepStone Group, LP
Michael Elio, StepStone Group, LP
Jacques Galante, Leeds Equity Partners
Paul Heffernan, Putnam Investments
Jim Hickey, Vista Equity Partners
Jim Kane, Unite Here
Jeffrey Leeds, Leeds Equity Partners
Christine Pastore, Vista Equity Partners
Claire Shaugnessy, AonHewitt Investment Consulting
Diane Smola, AonHewitt Investment Consulting
Arnold West, GIA Partners

With a quorum present, Interim Chair Carol Thomas called the Investment Advisory Council ("IAC") meeting to order at 9:04 a.m.

Approval of Minutes of the September 14, 2016 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the September 14, 2016 IAC meeting. **Duke Himmelreich moved to approve the minutes of the September 14, 2016 IAC meeting. The motion was seconded by Joshua Hall. 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 the new Deputy Chief Investment Officer, Laurie Martin. Deborah Spalding, Chief Investment Officer, then introduced Ms. Martin and spoke of her extensive background in investment management, investment accounting and treasury experience. Ms. Spalding added that Ms. Martin was a Certified Internal Auditor and a Certified Public Accountant. Ms. Martin was then invited to say a few words. Treasurer Nappier concluded by welcoming her on behalf of the Investment Advisory Council.

Treasurer Nappier then stated that after giving consideration to the feedback from the IAC and to the due diligence process conducted by the investment staff and the general investment consultant, AonHewitt, she had decided to hire all five of the semi-finalists that had presented at the September 14 IAC meeting for the High Yield Debt Fund (“HYDF”) manager mandate: AB, LP; Columbia Management Investment Advisers LLC; DDJ Capital Management, LLC; Nomura Corporate Research and Asset Management; and Shenkman Capital Management, Inc. She added that it was a competitive search, conducted through a Request for Proposals, intended to enable her to select one or more firms to direct the investments of the HYDF, which primarily invests in domestic below-investment grade debt securities. Each of the manager hires is contingent upon successful negotiation of the partnership documents.

Next, Treasurer Nappier discussed the agenda and then announced that two investment opportunities were being presented this morning for consideration by the IAC for the Private Investment Fund (“PIF”). The first presentation would be delivered by Leeds Equity Partners VI, L.P. (“Leeds VI”), a corporate finance buyout strategy opportunity; the general partner is Leeds Equity Partners, headquartered in New York City. She stated she was considering an investment of up to \$50 million in Leeds VI, which would primarily focus on investments within a set of industries collectively referred to as the “knowledge industries”, inclusive of the education, training, business and information services and software industries. The second opportunity would be presented by Vista Equity Partners Fund VI, L.P. (“Vista VI”), a corporate finance buyout strategy opportunity; the general partner is Vista Equity Partners, headquartered in Austin, Texas. She stated she was considering an investment of up to \$100 million in Vista VI, which would primarily focus on control oriented investments in upper-middle market enterprise software businesses within the United States. Treasurer Nappier commented that both firms have existing relationships with the Connecticut Retirement Plans and Trust Funds (“CRPTF”).

Lastly, Treasurer Nappier gave an update on the ongoing efforts to build a plausible pension plan funding reform that would help Connecticut to better manage its obligations to contribute annually to the pension fund. She spoke of the negotiations between Governor Malloy's administration and the State Employees' Union regarding the State's annual contribution to the State Employee's Retirement Fund ("SERF"); specifically, efforts to mitigate the anticipated spike in annual payments under the current amortization schedule. Treasurer Nappier further stated that meetings were held with the Office of Policy and Management, major credit agencies and the Office of the State Treasurer to address pension funding challenges.

Update on the Market, the Connecticut Retirement Plans and Trust Funds Final Performance for Month Ended August 31, 2016

Ms. Spalding provided an update on the capital market environment, its impact on the CRPTF performance and the economic outlook. She reported on the investment performance on the period ended August 31, 2016 for the two largest pension plans, State Employees' Retirement Fund ("SERF") and Teachers' Retirement Fund ("TERF"). Ms. Spalding said that the SERF was up 93 basis points ("bps"), while TERF was up 90 bps; each exceeding their benchmark by 33 bps and the Municipal Employees' Retirement Fund ("MERF") was up 1.07% and outperformed by 32 bps.

The fiscal year to date performance for SERF had returned 3.65% and modestly outperformed its benchmark by 15 bps; TERF returned 3.66%, and outperformed the bench by 20 bps; and MERF returned 3.46%, outperforming the benchmark by 7 bps. She added that fiscal year to date saw very strong performance in the equity markets, notably non U.S. equity markets, especially the emerging markets. Ms. Spalding added that the emerging markets had previously underperformed due to concerns over slower economic growth particularly out of China.

Presentation by and Consideration of Leeds Equity Partners VI, L.P.

Ms. Spalding provided opening remarks and introduced Leeds VI, a PIF opportunity. She introduced the PIF consultants to the CRPTF, Michael Elio, Partner, and Kristin DePlatchett, Principal, of StepStone Group ("StepStone"). Ms. Spalding stated that the Treasurer was considering an investment in Leeds VI for up to \$50 million. She stated that the CRPTF committed \$40 million to Leeds V in 2009, and added that Leeds VI would pursue control oriented investments of approximately \$75-\$100 million in small and lower-middle market businesses primarily within North America. Ms. Spalding discussed the firm's track record and its investment strategy.

Presentation by Leeds Equity Partners VI, L.P.

Leeds VI, represented by Jeffrey Leeds, President, and Jacques Galante, Managing Director, made a presentation to the IAC. Mr. Leeds began by introducing the team. He gave an overview of the firm and stated that they were a New York-based middle market buyout fund with strong focus on investing in the Knowledge Industries, such as education, training and information services. Mr. Leeds then spoke about investing in best businesses, the investment team and

expertise. Mr. Galante then gave an outlook on Leeds V and the investment performance. Mr. Leeds spoke in further detail about knowledge industries and gave an overview of the investment team. Lastly, Mr. Galante reviewed the proprietary qualification model and differentiated strategy.

Several IAC members posed questions surrounding their global scope, investment strategy, education management and personnel turnover, to which Mr. Leeds answered to their satisfaction.

Roll Call of Reactions of Leeds Equity Partners VI, L.P.

Thomas Fiore, Mr. Himmelreich, Michael LeClair, Mr. Hall, and Chair Thomas provided feedback to the Treasurer and all supported the Leeds VI PIF opportunity.

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

Presentation by and Consideration of Vista Equity Partners Fund VI, L.P.

Ms. Spalding provided opening remarks and introduced Vista VI, a PIF opportunity. She introduced the PIF consultants to the CRPTF, Mr. Elio and Ms. DePlatchett, of StepStone. Ms. Spalding stated that the Treasurer was considering an investment in Vista VI of up to \$100 million and that the fund would employ a buyout strategy and would pursue control-oriented investments in upper-middle market enterprise software businesses. She stated that in 2008, the CRPTF committed \$50 million to Vista III; and in 2012, \$75 million was committed to Vista IV. Ms. Spalding discussed the firm's buyout strategy, investment team, and track record.

Presentation by Vista Equity Partners Fund VI, L.P.

Vista VI, represented by Jim Hickey, Principal, and Christine Pastore, Head of Investor Relations, made a presentation to the IAC. Mr. Hickey began by introducing the team and gave an overview of the firm. He said that Vista's investment and senior team worked in conjunction with the consulting group to help strengthen operations through the implementation of standardized, proven processes and methodologies. Lastly, Mr. Hickey spoke of Vista's portfolio transformation and performance awards. Some IAC members posed questions to which Mr. Hickey answered to their satisfaction.

Roll Call of Reactions of Vista Equity Partners Fund VI, L.P.

Messrs. Hall, Fiore, Himmelreich, LeClair, and Chair Thomas provided feedback to the Treasurer and all supported the Vista VI PIF opportunity.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Mr. Hall, seconded by Mr. LeClair, to waive the 45-day comment period for Vista Equity Partners Fund VI, L.P. There being no discussion, the Chair put the question to a vote and the motion passed unanimously.**

Report on Corporate Governance as of June 30, 2016

Mary Phil Guinan, Assistant Treasurer-Policy, reported on the corporate governance activity for the quarter ending June 30, 2016. She began with an overview of the proxy voting activity from April 1, 2016 through June 30, 2016, and stated that there were 1,361 annual general meetings of domestic portfolio companies and that the CRPTF cast 13,877 votes, of which 75.9% supported management recommendations. Ms. Guinan continued that there were 2,749 international meetings held at which the CRPTF cast 38,388 votes; 85% of which were in support of management recommendations.

She then gave an overview on the shareholder engagement and the 2016 proxy season and stated that the CRPTF filed eighteen shareholder resolutions and reached agreements with five companies, which resulted in withdrawal of the resolutions, and thirteen resolutions went to a shareholder vote.

Ms. Guinan then commented on access to the proxy, diversity of board membership, and climate change. Lastly, she spoke about the Sandy Hook principles and stated that the CRPTF filed a shareholder resolution with Vista Outdoors, requesting that the company's board of directors report annually on actions the company has taken regarding the Sandy Hook Principles.

Short-Term Investment Fund Review as of June 30, 2016

Michael Terry, Principal Investment Officer, reported on the Short-Term Investment Fund ("STIF") performance for the quarter ending June 30, 2016. Mr. Terry said for fiscal year ending June 30, 2016, STIF achieved an annual return of 0.29%, exceeding its benchmark by 14 bps and earning an additional \$7 million in interest income for STIF investors. He added that STIF earned an average annualized yield of 0.038% during the quarter, and was 12 bps above its benchmark which resulted in an additional \$1.5 million for its state and local government investors. Mr. Terry stated that STIF builds its reserves at the annual rate of 10 bps until it reaches 1% of total assets, and currently the reserves total approximately \$51.8 million, slightly more than 1% of total assets. He noted that the fund was currently valued at \$5.6 billion; the highest balance for the fund, largely due to a bond sale, and will be in a reserve position for some time. Mr. Terry said the weighted average maturity of the portfolio was 31 days, and that currently STIF holds \$3.0 billion, or 58% of fund assets, in overnight investments or investments that are available on a same-day basis. He said 52% of STIF's assets were invested in securities issued, insured or guaranteed by the U.S. government or federal agencies, or in repurchase agreement backed by such securities.

Next, Mr. Terry spoke on the economic outlook and gave an overview of the market and portfolio performance.

Other Business

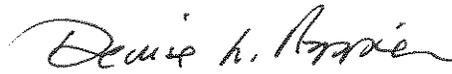
Chair Thomas invited the IAC members to submit agenda items for the November 9, 2016 IAC meeting. She remarked on the IAC expenditures for fiscal year ended June 30, 2016 and on the proposed budget for fiscal years ending June 30, 2017 and 2018.

Comments by the Chair

There being no further business, Chair Thomas called for a motion to adjourn the meeting. **Mr. Hall moved to adjourn the meeting and the motion was seconded by Mr. Fiore. There being no discussion, the meeting was adjourned at 11:07 a.m.**

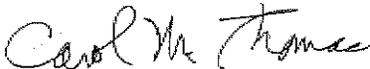
This meeting was electronically recorded.

Respectfully submitted,



**DENISE L. NAPPIER
SECRETARY**

Reviewed by,



**CAROL THOMAS
INTERIM CHAIR**