

MEETING NO. 431

Members present: Thomas Fiore, representing Benjamin Barnes*
Michael LeClair
Steven Muench
William Murray
Denise L. Nappier, Treasurer
Carol Thomas, Interim Chair
Peter Thor

Absentees: Joshua Hall
David (Duke) Himmelreich
Michael Kramer

Others present: Richard Gray, Deputy Treasurer
Deborah Spalding, Chief Investment Officer
David Barrett, Director of Communications
Joanne Dombrosky, Principal Investment Officer
Mary Phil Guinan, Assistant Treasurer-Policy
Linda Hershman, Chief of Staff
Catherine E. LaMarr, General Counsel
Christina McGinnis, Executive Secretary
Christine Shaw, Chief Compliance Officer
Linda Tudan, Executive Assistant

*Arrival 9:04a.m.

Guests: Tyler Christian, StepStone Group, LP
Kristin DePlatchett, StepStone Group, LP
John Griswold, Commonfund Institute
Robin Kaplan-Cho, Connecticut Education Association
Kevin Meehan, Goldman Sachs Asset Management
Aditya Raina, StepStone Group, LP
Jon Rather, Welsh Carson Anderson Stowe
Justin Rico Oyola, SEIU (Capital Stewardship Program)
Dominique Pierre-Louis, Alliance Bernstein
Liz Smith, Alliance Bernstein

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 March 9, 2016 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the March 9, 2016 IAC meeting. **Peter Thor moved to approve the minutes of the March 9, 2016 IAC meeting as drafted. The motion was seconded by William Murray. 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 recognizing former IAC members Jan Carpenter and Laurence Hale for their exemplary service and contribution to the IAC. She stated that Ms. Carpenter received a resolution as appreciation and then read aloud the resolution that would be given to Mr. Hale. Treasurer Nappier requested from Chair Thomas to call for a motion to adopt both resolutions and have the vote entered into the official meeting minutes.

Chair Thomas called for a motion to adopt both resolutions for Ms. Carpenter and Mr. Hale and that they be entered into the official meeting minutes. **A motion was made by Mr. Thor, seconded by Mr. Murray, to accept the adoption on both resolutions for Ms. Carpenter and Mr. Hale** and that they be entered into the official meeting minutes. **There being no discussion, Chair Thomas put the question to a vote and the motion passed unanimously.**

Treasurer Nappier then gave an update on two legislative proposals with Treasury impact that were under consideration by the General Assembly, as well as an update on the significant fiscal challenges before the State. She continued and spoke of the Raised Bill 5420 that would reclassify the Principal Investment Officer ("PIO") position to align with the classification for the Chief Investment Officer ("CIO") and the Deputy Chief Investment Officer. Treasurer Nappier stated that it would strengthen the Connecticut Retirement Plans and Trust Funds ("CRPTF") ability to improve the recruitment and retention of professional investment personnel with highly technical investment and securities expertise necessary to evaluate and monitor plan assets. She added that the Appropriations Committee voted favorably on the bill, and it would be making its way to the floor of the General Assembly. Treasurer Nappier then discussed another bill of interest to the CRPTF: Raised Bill 5418 that would transfer the authority of establishing the actuarial return assumption to the IAC. She stated that the current process involves coordination between the State Employees Retirement Commission and the Teachers' Retirement Board and their actuaries. Treasurer Nappier mentioned that the Office of the State Treasurer was not a sponsor of the bill and was not consulted regarding the bill. She added that her administration would not be in a position to make an informed decision on the merits of the bill, and declined to take a position other than to advise that language be included that would render the State's annual contributions as deemed appropriated.

Treasurer Nappier then discussed the investment performance as of February 29, 2016 for the State Employees' Retirement Fund ("SERF") and the Teachers' Retirement Fund ("TERF"), the two largest pension plans in the CRPTF. Both the TERF and SERF monthly returns were .04%, exceeding the benchmarks by 36 basis points ("bps"). Treasurer Nappier stated the TERF and SERF were up by 315 and 307 bps over the previous month results, respectively. She added that Deborah Spalding, CIO, would review in detail the February performance later in the meeting. Treasurer Nappier next spoke about the performance of the Connecticut Other Post-Employment Benefits Trust Fund ("OPEB"), the most recent trust fund to be designated as a component within the CRPTF. Referencing the 2015 Annual Report of the Treasurer, she stated that the OPEB was up 3.40% fiscal year ended June 30, 2015, outperforming all six pension funds and the other eight trust funds that comprise the CRPTF by a range of 55-182 bps. Treasurer Nappier added that the OPEB posted results of 11.75%, surpassing the actuarial assumed rate of return of 5.4%, outperforming seven of the eight trust funds by a range of 219-746 bps. She stated that the OPEB was the State's single largest unfunded liability.

Next, Treasurer Nappier discussed the agenda and spoke about the Connecticut Arts Endowment Fund ("Arts Fund") and added that it had performed well as evidenced by the growth of the

corpus. She mentioned that Christine Shaw, Chief Compliance Officer, and Ms. Spalding would be reporting an update on the Arts Fund.

Finally, Treasurer Nappier stated that an investment opportunity would be presented for the IAC's consideration; Welsh, Carson, Anderson & Stowe XII ("WCAS XII"), a Private Investment Fund ("PIF") opportunity with a focus on technology and healthcare. She added that the general partner was headquartered in New York, and that she was considering an investment of up to \$100 million in WCAS XII which would primarily focus on upper middle-market investments seeking superior risk-adjusted returns through buyout, restructuring and growth investments. She said that the CRPTF had invested in WCAS XI in 2009 and as of December 31, 2015, the fund had generated a net internal rate of return of 15%.

Update on the Market, the Connecticut Retirement Plans and Trust Funds Final Performance for Month Ended February 29, 2016

Ms. Spalding provided an update on the capital market environment, its impact on the CRPTF performance and the economic outlook. She then reported on the investment performance for the month ended February 29, 2016. Ms. Spalding stated that the TERF and SERF, the two largest pension plans, outperformed by 36 bps and the Municipal Employee's Retirement Fund outperformed by 30 bps. Although February was a weak month, Ms. Spalding said that the U.S. equities were up 14 bps against the Russell 3000, having contributed to strong performance in the small cap area. She added that after a period of significant downside volatility the emerging market had stabilized for the month. Ms. Spalding stated that March performance was positive in the markets and gave an overview of the markets in the U.S., Europe and Japan.

Report on status of the Connecticut Arts Endowment Fund

Ms. Shaw and Ms. Spalding reported on the status of the Arts Fund and reviewed the performance, history of the distributions, asset allocation strategy and a proposed spending policy. Ms. Shaw discussed the renewed interest on the part of the Arts Fund's beneficiaries in maximizing the income available for distribution in order to fulfill the objectives of the Fund. She said the Arts Fund was established by a Public Act in 1988 with the purpose of providing interest income from a principal amount that would last in perpetuity. She then reviewed the objectives of the Arts Fund as set forth in the Investment Policy Statement and the investment strategy.

Next, Ms. Spalding spoke about the trends in distribution and the growth of the corpus. She stated that since the asset allocation was rebalanced for the Arts Fund on September 1, 2012, the portfolio had returned 5.04%, while the customized benchmark returned 5.26. Ms. Spalding noted that the decline in distributions from 2006 to 2015 was due to lower income generation but noted that higher capital gains helped drive growth in the corpus from \$15.8 million to \$19 million net of distributions as of fiscal year end 2015. She then discussed the strategy for maximizing distributions and added that should the Arts Fund change to a spending policy approach, the asset allocation would be designed to maximize long term growth of the corpus while paying out a predetermined distribution. Lastly, Ms. Spalding said that based on an analysis of historical returns, past disbursement patterns, capital market assumptions from Aon Hewitt, and the Arts Fund's current asset allocation, the Treasury staff recommended that the total amount available for annual disbursement should be 4% of the average three year fiscal

year end market value, which would smooth distributions and help minimize the impact of market volatility.

Presentation by and Consideration of Welsh, Carson, Anderson & Stowe XII, L.P.

Ms. Spalding provided opening remarks and introduced WCAS XII, a PIF opportunity. She introduced the PIF consultants to the CRPTF, Kristin DePlatchett, Principal, and Aditya Raina, Associate, of StepStone Group (“StepStone”). Ms. Spalding stated that the Treasurer was considering an investment in WCAS XII for up to \$100 million and that the fund would primarily focus on upper middle-markets in two core industries: information technology and healthcare. She mentioned that the CRPTF invested had invested \$100 million in WCAS XI in 2009 and WCAS X in 2005 and gave an overview of their respective performances as of December 31, 2015. Ms. Spalding discussed the firm’s track record and strengths of its investment team, operating expertise and industry specialization. She then focused on the major risks and mitigants surrounding the high competition in the upper middle-market segment, recent performance patterns and organizational changes at the firm.

Several IAC members posed questions surrounding the performance and fundraising of WCAS IX and XI, which Ms. DePlatchett and Mr. Raina answered to their satisfaction.

Presentation by Welsh, Carson, Anderson & Stowe XII, L.P.

WCAS XII, represented by Jonathan Rather, Senior Partner, made a presentation to the IAC. Mr. Rather began by providing an executive summary and performance overview of WCAS XII. He said that the firm was one of the oldest private equity firms in the industry and specialized in information/business services and healthcare.

Mr. Rather discussed the fund’s track record and the organizational growth of the firm and team build-out. He highlighted the firm’s diversity and other major initiatives. Finally, he reviewed the performance for WCAS IX, X, and XI, and discussed the liquidity and fundraising and terms for WCAS XII.

Mr. Murray and Steven Muench posed questions, which Mr. Rather had answered to their satisfaction.

Roll Call of Reactions to Welsh, Carson, Anderson & Stowe XII, L.P.

Mr. Muench, Michael LeClair, Mr. Murray, Thomas Fiore, Mr. Thor, and Chair Thomas provided feedback to the Treasurer and all supported the WCAS XII PIF opportunity.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Mr. Murray, seconded by Mr. Muench, to waive the 45-day comment period for Welsh, Carson, Anderson Stowe XII, L.P. There being no discussion, the Chair put the question to a vote and the motion was passed.**

Other Business

Chair Thomas introduced and welcomed John S. Griswold, Founder and Senior Advisor of Commonfund Institute. She stated that Commonfund Institute worked with the investment side of non-profits and that Mr. Griswold served on many boards and investment committees and had

written several articles. Chair Thomas said Mr. Griswold was invited to speak on behalf of the IAC's Education Subcommittee and would provide remarks to the IAC members regarding the components of an effective board.

Mr. Griswold gave an overview of Commonfund Institute and spoke about his observations of the IAC meeting, stating he was impressed with the questions that were posed by the members, the due diligence that was prepared for the agenda items presented and the quality of discussion. He then remarked on the governing structure of the IAC and offered aids that would help the IAC members to meet its objectives and reviewed challenges they could face surrounding investment decisions. He posed questions to the IAC members; several IAC members commented and provided feedback.

Chair Thomas invited the IAC members to submit agenda items for the May 11, 2016 IAC meeting.

Executive Session

A motion was made by Mr. Thor, seconded by Mr. LeClair that the Investment Advisory Council adjourn the Regular Session at 11:19 a.m. and enter into Executive Session to consider a personnel matter. The motion was passed unanimously.

Regular Session

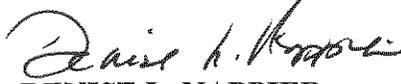
Chair Thomas reconvened the regular session at 12:04 p.m. She noted that no votes were taken during the executive session.

Comments by the Chair

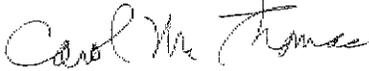
There being no further business, Chair Thomas called for a motion to adjourn the meeting. **Mr. Thor moved to adjourn the meeting and the motion was seconded by Mr. Fiore. There being no discussion, the meeting was adjourned at 12:06 p.m.**

This meeting was electronically recorded.

Respectfully submitted,


DENISE L. NAPPIER
SECRETARY

Reviewed by,



CAROL THOMAS
INTERIM CHAIR