

INVESTMENT ADVISORY COUNCIL
Wednesday, April 11, 2012

MEETING NO. 394

Members present:

Thomas Barnes
Janice (Jan) Carpenter
Thomas Fiore, representing Benjamin Barnes*
Michael Freeman
Laurence N. Hale
William Murray
Denise L. Nappier, Treasurer
Joseph (Joe) D. Roxe, Chairman
Peter Thor

Absent:

David (Duke) Himmelreich
Carol Thomas

Others present:

Jonathan Harris, Deputy Treasurer
Christine Shaw, Chief of Staff
Lee Ann Palladino, Chief Investment Officer
Gary Carter, Interim Deputy Chief Investment Officer
Gregory Franklin, Assistant Treasurer
Donald Kirshbaum, Investment Officer-Policy
Catherine LaMarr, General Counsel
Shelagh McClure, Director of Compliance
Terrence Purcell, Interim Principal Investment Officer
David Rivera, Director of Communications
Cherie Santos-Wuest, Principal Investment Officer
Reginald Tucker, Investment Officer
Linda Tudan, Executive Assistant
Winifred (Winnie) Scalora, Administrative Assistant

Guests:

Bradlee Berk, AllianceBernstein
Jeanna Cullins, Hewitt EnnisKnupp, Inc.
Mary Dunleavy, State Street Bank & Trust
Sean Gill, NEPC
Will Greene, Loop Capital Markets
Robin Kaplan-Cho, Connecticut Education Association
Louis Laccavole, SOC Teachers' Retirement Board
Claire Shaughnessy, Hewitt EnnisKnupp, Inc.
Alex Thomson, Woodcreek Capital Management
Kevin Vandolder, Hewitt EnnisKnupp, Inc.

Chairman Joseph D. Roxe called the Investment Advisory Council ("IAC") meeting to order at 9:00 a.m.

* Arrived at 9:10 a.m.

Approval of Minutes of the March 14, 2012 IAC Meeting

With a quorum present, Chairman Roxe asked for comments on the Minutes of the March 14, 2012 IAC meeting. **There being no comments, a motion was made by Michael Freeman, seconded by Laurence Hale, that the Minutes of the March 14, 2012 IAC meeting be accepted as drafted. The motion was passed with the exception of Thomas Barnes and William Murray who abstained due to their absence from the last meeting.**

Comments by the Treasurer

Treasurer Denise L. Nappier commented on the February 2012 investment performance for the Connecticut Retirement Plans and Trusts Funds (“CRPTF”) and noted that the assets under management were approaching the \$25 billion mark. Treasurer Nappier remarked that the investment returns were a reflection of the worldwide economic growth and strong capital market performance, which had culminated in a three-year return for the CRPTF of 16.26%.

She then introduced the new Principal Investment Officer for Real Estate, Cherie Santos-Wuest. Ms. Santos-Wuest stated she was happy to join the team, and thanked Treasurer Nappier for the opportunity and looked forward to the oversight of the real estate assets. On behalf of the IAC, Chairman Roxe welcomed Ms. Santos-Wuest and added that he had the opportunity to listen to her insightful and perceptive comments at the recent Asset/Liability Study (“A/L Study”) meetings.

Treasurer Nappier then announced that after considering the feedback from the IAC and the extensive due diligence process conducted by Office of the Treasurer’s (“OTT”) staff and the Private Investment Fund consultant, Franklin Park Associates, she decided to commit up to \$75 million in Vista Equity Partners Fund IV, L.P., a \$2.5 billion private equity buyout fund that will focus on controlled investments in U.S. and Canadian-based middle market software and technology-related service companies. She added that the commitment was contingent upon successful contract negotiations.

Regarding the agenda, Treasurer Nappier said that there would be a discussion on the progress of the A/L Study. She stated that every five years, the asset allocation for each of the CRPTF’s 14 plans and trusts was reviewed. Treasurer Nappier commented that asset allocation was the primary driver of investment performance and it was by far one of the most important considerations that came before the IAC. She noted her establishment of an A/L Study working group in late 2011 which included five IAC members, Pension Fund Management staff and the general investment consultant, Hewitt EnnisKnupp, Inc. (“Hewitt”). Treasurer Nappier said the study findings generally affirmed the direction and suitability of the asset class policy weights.

Treasurer Nappier then highlighted the progress of the A/L Study working group, noting that it covered much ground including: a methodical process in which each plan and trust’s objectives and risk tolerance were reviewed and confirmed; consideration of the actuarial assumptions that have been applied to the plan liabilities; modeling of the assets and liabilities; and finally,

consideration of various asset allocations. With respect to the trusts, Treasurer Nappier stated that the primary objective was to generate a sufficient stream of income for the beneficiaries, but the trusts were sensitive to the prospects of a low interest-rate environment due to their high allocation to fixed income investments. Therefore, she said that the trusts' allocations were revised to maximize both income generation and the preservation of capital. Regarding the pension plans, Treasurer Nappier stated that the capital market returns were expected to be hampered, particularly in the intermediate term, as a result of very low interest rates and underwhelming worldwide economic growth. She said that the guiding principles in conducting the A/L Study were to maintain the CRPTF's diversification strategy and to maximize the return potential, while prudently taking on risk under a variety of market and economic environments. She noted that liability analyses for the Policemen and Firemen Survivors' Benefit Fund and the State Attorneys' Retirement Fund were currently underway and asset allocations had yet to be determined for these plans. Next, she said that in accordance with state statute, the draft amendments to the Investment Policy Statement ("IPS"), notably the asset allocation models, would be incorporated in the IPS for the IAC's formal feedback at a subsequent IAC meeting. Lastly, she said the final step would be her adoption of the revised IPS and a vote by the IAC on the adopted IPS.

In closing, Treasurer Nappier commented on media reports concerning a request for proposal ("RFP") issued on April 5, 2012 by Connecticut's Office of the Attorney General ("OAG") for consulting services in connection with foreign currency transactions and cost analysis and, if necessary, assistance in an investigation and potential litigation. Treasurer Nappier stated that the OAG had worked with the OTT as it reviewed the foreign exchange trading history in light of certain allegations concerning State Street Bank and Trust's foreign currency exchange services and fees, and the RFP was part of that effort. She added that the OTT would continue to follow this matter closely.

Update on the Market and the CRPTF for the Month Ended February 29, 2012

Lee Ann Palladino, Chief Investment Officer ("CIO"), provided a report on the CRPTF performance for the months ended February 29, 2012, an update on the capital market environment, its impact on the performance of the CRPTF and the economic outlook. She began by stating that in general, the performance of the CRPTF benefited from economic growth in the U.S., temporary relief from the European debt situation and abundant liquidity in the markets. Ms. Palladino said that going forward, the economic environment may refocus its concerns on lagging economic growth. She stated that according to the International Monetary Fund's ("IMF") current projections, recovery was expected to stall in developed countries, worldwide economic growth was projected to decline, and downside risks would continue. Finally, she commented on continued concerns with respect to Spain, Portugal and Greece.

Next, Ms. Palladino discussed Ford Motor Company's ("Ford") proposal to allocate 80% of its pension plan assets to fixed income. Ms. Palladino noted that Ford's decision was in stark contrast to what most public pension plan sponsors were doing, particularly those with underfunded plans.

However, she added that Ford's decision was more about insulating the company's balance sheet against the risk of paying the annual contribution during a variety of economic scenarios. Chairman Roxe commented that Ford's immunization of its pension plan was puzzling and that it had locked in its unfunded obligation. Discussion ensued regarding the CRPTF's A/L Study, and Ms. Palladino concluded saying that the bottom line is that each plan or trust is unique and the asset allocation decisions takes many factors into consideration, such as demographics, liability profile, plan time horizon, and liquidity needs.

Next, Ms. Palladino commented on the recent annual review of the Developed Market International Stock Fund ("DMISF"), and stated that it covered the three to five-year horizon. She said that the DMISF had generated returns of 18.51% over the three year horizon and outpaced both its benchmark and the actuarially required rates of returns ("ROR") of 8.5% and 8.25%, and that DMISF's benchmark was 50% hedged. Ms. Palladino said that the general consensus of the DMISF managers and the CRPTF was that the markets were expected to be dominated by uncertainty and the magnitude and sustainability of the rebound in global growth was unclear. She commented that the balance between economic growth and preventive measures that infused liquidity into the market though monetary policy would be a market driver until such time as the worldwide deleveraging had been resolved.

Concluding with the CRPTF performance report as of February 29, 2012, Ms. Palladino reported that for 2012 year-to-date, the CRPTF had returned 7.03%. Ms. Palladino said that the positive equity performance calendar year-to-date was due to the resolution of the Greek issue and the upside surprise of U.S. economic growth, which helped to offset market declines during the first part of the fiscal year.

Chairman Roxe complimented Ms. Palladino's presentation and also commented that the consensus of the markets was that Spain and Portugal would not be able to implement the required austerity measures as it would drive the countries into recession, and as a result, he expected problems in the short-term for equities.

2012 A/L Study Executive Summary Update

Ms. Palladino provided an executive summary update on the progress of the 2012 A/L Study and the draft findings of the study for the CRPTF's 14 plans and trusts. Gary Carter, Interim Deputy CIO, and Kevin Vandolder, Principal and Claire Shaughnessy, Associate Partner of Hewitt participated in the discussion. Ms. Palladino began by providing an overview of the process involved in the A/L Study and highlighted the goals of the Study.

Next, Ms. Palladino provided a review of the investment objectives for the plans as stated in the current IPS. In response to Chairman Roxe, Mr. Vandolder stated that attempting to achieve a reasonable probability of earning the actuarial return assumption was something that the A/L Study working group reviewed closely in order to construct the most efficient portfolio.

Ms. Palladino then commented on Hewitt's analysis of the baseline data for the Teachers' Retirement Fund ("TERF"), State Employees' Retirement Fund ("SERF"), MERF, Probate Judges Employees' Retirement Fund ("PROB") and State Judges' Retirement Fund ("JURF"). She said that the goal was to maximize returns with an acceptable level of risk for TERF, SERF and JURF. She said that for the well-funded plans, PROB and MERF, the goal of the study was to meet the actuarially required ROR for a given level of risk that was not outsized. Ms. Palladino next spoke about the working group's key considerations during the review of the liability information, which included the funded status, net cash outflow, existing RORs and other actuarial assumptions. In responses to Laurence Hale's question regarding the SERF's negative cash flows, Treasurer Nappier stated that because of the aging of the plan participants, the liabilities had grown faster than the assets and that SERF, going forward, was not expected to turn to positive cash flow for several years.

Next, Ms. Palladino spoke about the asset allocation results. She first noted that the CRPTF's risk assets included U.S. and foreign equities, real estate, private equity and alternative investments. She compared the current and the proposed policy allocations for the TERF, SERF, MERF, PROB and JURF. Ms. Palladino noted that on a macro basis three significant changes came out of the A/L Study: a shift occurred in the amount that would be invested in return-seeking assets; a shift occurred from public equity markets to private equity markets allocations, and a reallocation among fixed income asset classes to help mitigate the potential risk of rising interest rates. In response to Mr. Freeman, Ms. Palladino stated that there would be a 2% increase in the Real Estate Fund and that would be invested in the high-quality, income-producing core real estate sector which had already proven its success for the CRPTF. In response to Ms. Carpenter, Treasurer Nappier stated that the CRPTF does not set the actuarially required ROR and that the CRPTF is only responsible for the assets; and in response to Mr. Hale, she stated that on many occasions she had requested that the actuarially required ROR be reduced. Chairman Roxe noted that the California Public Employees' Retirement System just decreased its actuarially required ROR to 7.5%.

Next, Ms. Palladino provided a review of the current investment objectives for the trusts. She stated that the goal was to provide a stream of income, take on prudent levels of risk, maintain or increase the corpus of the trust net of inflation and to maintain adequate levels of cash. Ms. Palladino then compared the current and the proposed policy allocations for the trust funds. In closing, she highlighted the recommended changes to the benchmarks for the combined investment fund as part of the 2012 study. Chairman Roxe commented on the time, effort and expertise that went into the study and said he was impressed with the work. He said that there would be further discussion at the subsequent IAC meetings and requested that any questions, comments or suggestions be directed to Ms. Palladino prior to the May meeting.

Corporate Governance and MacBride Compliance

Donald Kirshbaum, Investment Officer for Policy, delivered a report on Corporate Governance and MacBride Compliance for the quarter ended December 31, 2011. Mr. Kirshbaum commented that the OTT's votes were consistent with prior quarters in terms of the number of its

votes against management and all firms were in compliance with the MacBride Principles. He then commented on pending legislation to the McBride statute which is intended to make it compatible to the Sudan and Iran statutes which allows for discretionary divestment, and was expected to be approved by the General Assembly during this legislative session. In response to Chairman Roxe, Mr. Kirshbaum gave an overview of the MacBride Principles, and current statutes mandate divestment of those firms that do not comply.

Mr. Kirshbaum then commented on the Council of Institutional Investors (“CII”) Conference that he, Treasurer Nappier and Mr. Thor attended. He said that Treasurer Nappier moderated a panel sponsored by the Investor Network on Climate Risk regarding catastrophic weather risk.

Chairman Roxe then asked Mr. Thor to comment on the CII Conference. Mr. Thor highlighted an interesting discussion on private equity. He said the tone at the meeting was initially critical of private equity, but ultimately he was able to provide examples of private equity firms that had proven positive for the CRPTF, and employees in general, and said that the conference was valuable.

Other Business

Treasurer Nappier said that she intended to put language in the IPS with respect to seeking opportunities within Connecticut, especially venture capital, and the need to be cognizant of successful local investing. Chairman Roxe cited that this was another item to be considered in the IPS.

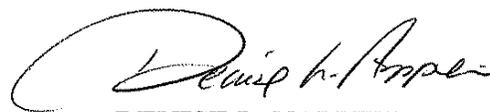
Chairman Roxe invited IAC members to submit agenda items for the May 9, 2012 IAC meeting.

Comments by the Chairman

There being no further business, the meeting was adjourned at 11:00 a.m.

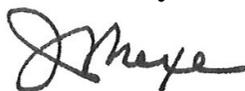
This meeting was recorded on audio tape.

Respectfully submitted,



DENISE L. NAPPIER
SECRETARY

Reviewed by



JOSEPH D. ROXE
CHAIRMAN