INVESTMENT ADVISORY COUNCIL
Wednesday, September 12, 2012

MEETING NO. 398

Members present:

Neil Budnick, Chairman
Janice (Jan) Carpenter
Thomas Fiore, representing Benjamin Barnes**
Michael Freeman
Laurence N. Hale
Joshua Hall
David (Duke) Himmelreich
William Murray
Carol Thomas
Peter Thor*

Absent:

Thomas Barnes
Denise L. Nappier, Treasurer

Others present:

Christine Shaw, Deputy Treasurer
Lee Ann Palladino, Chief Investment Officer
Gary Carter, Interim Deputy Chief Investment Officer
Gregory Franklin, Assistant Treasurer
Robert Scott, Assistant General Counsel
Shelagh McClure, Director of Compliance
Joanne Dombrosky, Principal Investment Officer
Terrence Purcell, Interim Principal Investment Officer
Cherie Santos-Wuest, Principal Investment Officer
Reginald Tucker, Investment Officer
Linda Tudan, Executive Assistant
Winifred (Winnie) Scalora, Administrative Assistant

Guests:

Melissa Albanesi, State Street Global Advisors
Kathy Altenhoff, TPG Credit Management, L.P.
Bradley Atkins, Franklin Park Associates
Scott Booth, The Townsend Group
Evan Carruthers, TPG Credit Management, L.P.
Jeanna Cullins, Hewitt EnnisKnupp, Inc.
Mary Dunleavy, State Street Bank & Trust
Behdad Eghbali, Clearlake Capital Group, L.P.
Jose´ Feliciano, Clearlake Capital Group, L.P.
Sean Gill, NEPC
Will Greene, Loop Capital Markets
Robin Kaplan-Cho, Connecticut Education Association
Jill Kitazaki, Denning & Company
Chris Keber, Starwood Capital Group Global, L.P.
Rory O'Neill, TPG Credit Management, L.P.

*** Arrived at 10:14 a.m.**
**** Left at 10:10 a.m.**

Lisa Rotenberg, Goldman Sachs Asset Management
Joseph (Joe) D. Roxe, Former IAC Chairman
Claire Shaughnessy, Hewitt EnnisKnupp, Inc.
Jerome Silvey, Starwood Capital Group Global, L.P.
Diane Smola, Hewitt EnnisKnupp, Inc.
Michael Stark, The Townsend Group
Trish Verrochi, Armstrong Shaw Associates Inc.

With a quorum present, Chairman Neil Budnick called the Investment Advisory Council ("IAC") meeting to order at 9:02 a.m. Chairman Budnick welcomed former IAC Chairman Joseph D. Roxe to the meeting.

Mr. Roxe said he was pleased with Governor Dannel Malloy's appointment of Mr. Budnick as chairman, and he commented on Chairman Budnick's vast experience. Next, he thanked the members of the IAC; Treasurer Denise L. Nappier; Chief Investment Officer ("CIO") Lee Ann Palladino and Winnie Scalora. He cited their excellent work and accomplishments during his tenure on behalf of the citizens of the State of Connecticut. In closing, Mr. Roxe said that he enjoyed working with the IAC members and the entire staff of the Office of the Treasurer ("OTT"). Chairman Budnick thanked Mr. Roxe for his dedication and service as IAC Chairman for the past three and a half years.

Deputy Treasurer Christine Shaw also expressed gratitude to former Chairman Roxe on behalf of Treasurer Nappier and the people of the State of Connecticut. She said that Mr. Roxe's insights were greatly appreciated, and commented that he served as chair during the challenging times of the Great Recession and guided the IAC from the lows of 2009 to the current highs. She noted that the Connecticut Retirement Plans and Trust Funds ("CRPTF") earned its best three-year performance of 10.5% as of the end of Fiscal Year 2012.

Deputy Treasurer Shaw then read the following resolution on behalf of Treasurer Nappier, regarding the service of former IAC Chairman Roxe:

WHEREAS, *the protection and growth of the assets of the Connecticut Retirement Plans and Trust Funds (CRPTF) are essential to the future financial security of government workers and retirees of the State of Connecticut, as well as to the economic strength of our State; and*

WHEREAS, *the Investment Advisory Council is instrumental in the stewardship of the investment of the assets of the CRPTF; and*

WHEREAS, *the Investment Advisory Council and State Treasurer Denise Nappier wish to recognize Joseph Roxe for his outstanding contributions as Chairman of the Investment Advisory Council from April 8, 2009 through August 31, 2012; and*

WHEREAS, *the work of the Council has benefited from the overall thoroughness, keen business insight, resourcefulness and unsurpassed resolve that he, as Chairman, exhibited in meeting the obligations of Council membership and in engaging the Council to perform at its best; and*

WHEREAS, *his commitment to serve the people of Connecticut was demonstrated in his support for the establishment of the Alternative Investment Fund to mitigate the volatility of the pension plans and to protect the plans against the effects of inflation and deflation; and*

WHEREAS, *through his diligent efforts on Council committees, including the Personnel Committee, Chairman Roxe played a key role in the hiring of the Chief Investment Officer and Deputy Chief Investment Officer for the CRPTF; and*

WHEREAS, *his participation in the State Treasurer's 2011-2012 Asset Allocation/Liability Study brought forth his consultation and sage advice regarding the investment policy and strategy for the CRPTF; and*

WHEREAS, *during his tenure, Chairman Roxe led the Council to approve a forward looking and comprehensive set of revisions to the Investment Policy Statement in August of 2012, thereby enabling more strategic investments while maintaining a diversified portfolio to increase assets with prudent risk exposure; and*

WHEREAS, *Mr. Roxe's deep business experience in the financial services industry and investment community was of immeasurable benefit in the review of the many investment opportunities presented to the Council that will generate investment returns for the CRPTF for years to come; and*

WHEREAS, *his sincerity, integrity and camaraderie will be greatly missed by his colleagues;*

NOW THEREFORE BE IT RESOLVED *that the Investment Advisory Council and State Treasurer Denise Nappier, for themselves and on behalf of the people of Connecticut, express their gratitude and deep appreciation, and acknowledge the substantial contributions of Joseph D. Roxe during his service as Chairman of the Council.*

Former Chairman Roxe thanked Deputy Treasurer Shaw. Chairman Budnick wished Mr. Roxe well.

Approval of Minutes of the August 8, 2012 IAC Meeting

Chairman Budnick asked for comments on the Minutes of the August 8, 2012 IAC meeting. **There being no comments, a motion was made by Janice Carpenter, seconded by Laurence Hale, that the Minutes of the August 8, 2012 IAC meeting be accepted as drafted.**

The motion was passed with the exception of Michael Freeman and Carol Thomas who abstained due to their absence from the last meeting.

Comments by the Deputy Treasurer

Deputy Treasurer Shaw began by providing a brief update regarding the alleged LIBOR manipulation and the Treasury's investigation. She commented that last month Treasurer Nappier reported to the IAC on her staff's efforts to identify the extent of the OTT's exposure to the manipulations, and noted that the review was ongoing. Deputy Treasurer Shaw said that as further evidence of the developing nature of this controversy, Connecticut's Attorney General George Jepsen joined New York's Attorney General in issuing subpoenas to seven banks as part of the ongoing investigation of the manipulation of the LIBOR: Deutsche Bank, Royal Bank of Scotland, HSBC, JP Morgan, Barclays, Citigroup and UBS. She added that the OTT would continue to monitor developments and continue to keep the IAC posted as they arise.

Deputy Treasurer Shaw then commented on today's agenda, which included three investment opportunities presented for the IAC's consideration and advice; two for the Private Investment Fund ("PIF") and the third for the Real Estate Fund ("REF"). First, she said that Clearlake Capital Partners III, L.P. ("Clearlake III"), a $600 million private equity fund with a focus on special situations, distressed and value investments in small and middle markets would be presented, and Treasurer Nappier was considering an investment of up to $50 million. Next, Deputy Treasurer Shaw said that a second investment opportunity for the PIF, TPG Credit Strategies Fund II, L.P. ("TPG Credit II"), an $800 million fund focusing on distressed asset investing primarily in the aviation and European non-performing loan market segments would be presented, and Treasurer Nappier likewise was considering an investment of up to $50 million. Lastly, she said that Starwood Distressed Opportunity Fund IX, L.P. ("Starwood IX"), a $2 to $3 billion commingled opportunistic fund, would be presented as a potential REF investment. Deputy Treasurer Shaw noted the OTT's solid history of doing business with the General Partner, Starwood Capital Group, and stated that the CRPTF had current investments of $50 million each to Starwood Opportunity Fund VII, L.P. ("Starwood VII") and Starwood Opportunity Fund VIII, L.P. ("Starwood VIII"). She said that Treasurer Nappier was considering an investment of up to $50 million to Starwood IX.

<u>Update on the Market and the CRPTF's Final Performance for the Months Ended July 31, 2012, Combined Investment Funds Review, Watch List and Connecticut Horizon Fund as of June 30, 2012</u>

Ms. Palladino provided an update on the capital market environment, its impact on the performance of the CRPTF and the economic outlook. She began by reporting on the performance for the CRPTF for the month ended July 31, 2012, which was 1.07%. Ms. Palladino said that the returns on the equities allocations, which represented 55% of the CRPTF, were positive contributors earning 80 basis points ("bps") for U.S. equities and 160 bps for international equities, with the bulk of the upswing emanating from the European markets. However, she said that the best performing asset for the CRPTF continued to be fixed income, which earned 1.96% on average for the month ended July 31, 2012. Ms. Palladino discussed the global economic theme that contributed to the positive returns posted in July.

Next, Ms. Palladino commented on the CRPTF's Watch List, which included Hartford Investment Management Company, an Inflation Linked Bond Fund mandate; and Numeric Investors, LLC, an active extension strategy in the Mutual Equity Fund ("MEF"). She noted that the firms were placed on Watch in June 2012 because the CRPTF's assets in each strategy represented greater than 20% of each firm's strategy assets, thereby exceeding the Investment

Policy Statement's ("IPS") guidelines; and that both firms were being assessed in terms of performance, ability to attract strategy assets, and strategic fit within the CRPTF.

Ms. Palladino then introduced Claire Shaugnessy and Diane Smola, Partner and Senior Consultant respectively, of Hewitt EnnisKnupp, who reported on the Combined Investment Fund ("CIF"). Ms. Smola reported that the FY 2012 capital markets had a very difficult year characterized by significant volatility.

Ms. Shaugnessy reported that the CRPTF returned negative 2% for the quarter ended June 30, 2012 and returned negative 90 bps for FY 2012. Regarding the Teachers' Retirement Fund ("TERF"), the State Employees' Retirement Fund ("SERF") and the Municipal Employees' Retirement Fund ("MERF"), she said that the range of returns was slightly different because they reflected the different asset allocation strategies for these plans.

Ms. Shaugnessy reported on the performance of the public market asset classes within the CRPTF and noted they all performed in the top half against the universe, with the exceptions of the Emerging Market Debt Fund and the Liquidity Fund due to a mismatch in the benchmarks, which was currently being addressed.

In response to Chairman Budnick, Ms. Palladino said that a new asset allocation was just approved and when it was established, long-term investing was primarily considered. She added that there were bands around policy targets that allow for tactical positioning of the portfolio.

Next, Ms. Smola reported on the Connecticut Horizon Fund ("CHF") as of March 31, 2012, which was designed to afford the CRPTF the opportunity to generate excess returns above the benchmark through investment in minority, women-owned, emerging firms and Connecticut-based investment managers. She reported that four fund-of-fund managers comprised the CHF, and the Fund underperformed its benchmark by 2.7% for the quarter, down 2.3% fiscal year-to-date. Ms. Smola reported that the CHF outperformed by 66 bps and 77 bps, for the five year trailing period and since inception, respectively. She spoke about the diversity of the management of the funds and noted that women-owned firms held the highest percentage at 35%.

<u>Consideration of the Search Process for a Global Master Custodian</u>

Gary Carter, Interim Deputy CIO, provided a project plan timeline and evaluation/selection criteria for a Global Master Custodian. He said that the current contract terminates on June 30, 2013, and a competitive search using the Request-for-Proposal ("RFP") process was required. Mr. Carter said that the CRPTF hired Callan Associates to assist in conducting the search. He noted that the RFP would allow the CRPTF to identify a Global Master Custodian with expertise in securities lending, foreign exchange, performance analytics and risk management services. Mr. Carter added that both all-inclusive firms and unbundled specialty firms would be considered. He commented that the RFP was developed utilizing resources within the Treasury in the form of a core team consisting of operational development, accounting and administrative personnel within the Pension Fund Management Division, as well as input from the Cash

Management, Policy and Legal areas. Next, Mr. Carter discussed the selection criteria and the major milestones associated with this search.

Chairman Budnick asked for a motion to endorse the search process for a Global Master Custodian. **Ms. Thomas entered a motion to move forward with this search. Mr. Hale seconded the motion. The motion was passed unanimously.**

Presentation by and Consideration of Clearlake Capital III, L.P.

Terrence Purcell, Interim Principal Investment Officer ("PIO"), provided opening remarks and introduced Clearlake III, a private investment opportunity. Mr. Purcell introduced Bradley Atkins, Chief Executive Officer of Franklin Park, the CRPTF's consultant for the PIF. Next, he commented on the investment strategy of Clearlake Capital Group, L.P. ("Clearlake"), and said that Clearlake III was formed to invest in special situations, distressed and value investments in small and middle-market U.S. companies, targeting \$600 million to \$750 million in capital commitments. Mr. Purcell said that since Clearlake's founding in 2006, the General Partner had invested about \$531 million across two private equity funds that both ranked within the top quartile compared to U.S. buyout managers of the same vintage years. Next, he commented on Clearlake III's fit within the CRPTF, its market opportunity, qualifications, strategy, strength and track record.

Ms. Thomas posed a question about Clearlake's experience investing outside the U.S. to which Mr. Atkins said that it intended to focus on U.S. investments, but added that Clearlake did have some experience with opportunistic deals outside the U.S.

Presentation by Clearlake Capital Group, L.P.

Clearlake, represented by Partners and Co-Founders Behdad Eghbali and Jose Feliciano, made a presentation to the IAC. Mr. Feliciano began by providing a brief overview of Clearlake, its founders and differentiated investment strategy. He commented on Clearlake's industry-focused approach and experience in areas not traditionally well understood by the credit markets. Mr. Feliciano said that Clearlake sought to take advantage of market dislocations, out-of-favor industries and companies in transition across all economic cycles by improving operations to create value. Finally, he spoke about two prior Clearlake deals that occurred during past market dislocations and created true enterprise value without leverage. Next, Mr. Eghbali commented on Clearlake's cohesive investment team with complementary backgrounds in distressed, turnaround and private equity investing.

Mr. Feliciano remarked about Clearlake's historical investment performance and low loss ratio. He concluded the presentation by providing portfolio overviews on Clearlake's Fund I and II, noting the success of both Funds.

In response to Ms. Thomas' questions, Mr. Eghbali said the Clearlake team had experience investing outside the U.S. through its portfolio companies and that it used great discretion when investing internationally. In response to Ms. Carpenter, Mr. Feliciano commented on Clearlake's dealing with Triax in Fund I, and its ability to protect the downside in this investment. In response to Chairman Budnick, Mr. Eghbali said that Clearlake used leverage modestly and only with companies having positive steady cash flow streams.

Roll Call of Reactions to Clearlake Capital III, L.P.

Chairman Budnick requested the IAC members to provide input on Clearlake III. Mr. Freeman, Ms. Carpenter, William Murray, Mr. Himmelreich, Peter Thor, Joshua Hall, Mr. Hale, Ms. Thomas and Chairman Budnick all supported the investment. Mr. Freeman noted that Clearlake's track record was good.

Chairman Budnick asked for a motion to waive the 45-day comment period for Clearlake III. **A motion was made by Mr. Murray, seconded by Mr. Freeman, to waive the 45-day comment period for Clearlake Capital III, L.P. The motion was passed unanimously.**

Presentation by and Consideration of TPG Credit Strategies Fund II, L.P.

Mr. Purcell provided opening remarks and introduced TPG Credit II, a private investment opportunity. He said that TPG Credit II was formed to primarily invest in distressed assets, specifically in the aviation and European non-performing loan ("NPL") segments. Next, Mr. Purcell said that TPG Credit Management, L.P. ("TPG") is a Minnesota-based firm with two European satellite offices and approximately $2.5 billion of assets under management. He commented that TPG Credit II was expected to generate a double-digit cash flow return, which was especially attractive in the current low rate environment, and that the income stream was expected to account for more than half of its total return of 1.6 times to 2.0 times the total invested capital. Finally, Mr. Purcell said that TPG management believed that the Fund's relatively small size would provide an abundant supply of attractive distressed investment opportunities for TPG Credit II with limited competition.

In response to Mr. Thor, Mr. Atkins acknowledged that the 5.8% net internal rate of return ("IRR") on TPG's prior fund was modest and noted that the fund was formed just prior to the market crash. He added that TPG's broader track record was attractive.

Presentation by TPG Credit Management, L.P.

TPG, represented by Evan Carruthers, Partner, Rory O'Neill, Chief Executive Officer and Jill Kitazaki, President of Denning & Company, made a presentation to the IAC. Mr. O'Neill began by providing a brief history of TPG, and noted that the firm focused on small balanced distressed investing in asset-rich investments that are not driven by capital markets conditions. Mr. O'Neill next commented on TPG's senior leadership team and its seasoned professionals.

Mr. Carruthers commented on TPG's sub-strategies including aviation, European non-performing loans and U.S. distressed assets, and detailed TPG's aviation investment process and said that it had not lost any money on these transactions to date. He further commented on TPG's investments in U.S. distressed assets, which are non-performing loans typically sold by banks. Mr. O'Neill provided an update for TPG Credit II, noting a current gross IRR of 29% and a 14% current yield. Mr. O'Neill said that about 40% of current capital had been invested.

Chairman Budnick posed a question regarding TPG's competitive advantage in aviation. Mr. O'Neill cited the precipitous drop in asset prices and the relative stability of the parts market. Mr. Thor asked about the impact of regulation on TPG's bottom line. Mr. O'Neill responded that the regulatory environment was very stable and that he expected the aircraft maintenance requirements to be maintained on both older and newer planes. In response to Mr. Thor's comment about TPG's low workforce diversity, Mr. O'Neill stated that TPG's diversity in its London office, its joint venture and its business partnerships was satisfactory, but added that it was working to improve workforce diversity in the Minneapolis office. Mr. Freeman asked if TPG had a plan in place to rectify these diversity issues, to which Mr. O'Neill added that it was increasing its efforts in London and acknowledged the need for improvements in Minneapolis as well.

Roll Call of Reactions to TPG Credit Strategies Fund II, L.P.

Chairman Budnick requested the IAC members to provide input on TPG Credit II. Ms. Thomas, Messrs. Hale, Hall, Thor, Himmelreich and Murray, Ms. Carpenter, Mr. Freeman and Chairman Budnick all supported the investment. There was a discussion regarding TPG's diversity statistics and several of the IAC members expressed concern about its need for a more diverse workforce. Ms. Palladino assured the IAC that Treasurer Nappier had discussed TPG's lack of diversity with the management team and obtained their commitment to the CRPTF's Diversity Principles. Mr. Freeman said that Connecticut had always taken diversity issues into consideration and that he believed Treasurer Nappier would continue to monitor TPG's diversity as well as bring this issue to the attention of other firms. All agreed that the investment was sound.

Chairman Budnick asked for a motion to waive the 45-day comment period for TPG Credit II. **A motion was made by Ms. Thomas, seconded by Mr. Murray, to waive the 45-day comment period for TPG Credit Strategies Fund II, L.P. The motion was passed unanimously.**

<u>Presentation by and Consideration of Starwood Global Opportunity Fund IX, L.P.</u>

Cherie Santos-Wuest, PIO, provided opening remarks and introduced Starwood IX, a real estate investment opportunity for the REF. She first introduced Scott Booth, Principal of The Townsend Group, consultant for the REF. Ms. Santos-Wuest said that Starwood IX, a $2.3 billion real estate fund, targeted distressed nonperforming loans and equity in unstable or undercapitalized real estate assets, portfolios and operating companies. She said the Fund's target was 16% net IRR and noted that Starwood Capital Group ("Starwood"), a Connecticut-based firm, was well known to the CRPTF staff. Ms. Santos-Wuest said that Starwood managed two funds for the CRPTF, with aggregate commitments of $100 million and noted that both funds were currently outperforming their vintage peer groups. Next, Ms. Santos-Wuest commented on Starwood's expertise in mid-market asset acquisition and restructuring, and said the company was well known in the industry and for their expertise in the distressed markets, which was key to its success in the current market environment. Finally, she remarked about the success of Starwood's two earlier funds and noted that the funds' management fees and preferred returns were favorable to investors.

Mr. Thor posed a question regarding Starwood's stability due to its large number of staff turnovers, to which Ms. Santos-Wuest responded that the key managers were incentivized and did remain in place. In response to Mr. Hale, Mr. Booth said that an additional commitment of $50 million would rank this particular manager fifth in terms of exposure to individual managers, which was within the policy guidelines. In response to Chairman Budnick's question regarding key person risk, Ms. Santos-Wuest said that no key persons were expected to leave the firm. Mr. Booth also added that the firm was deep and it had a key-man provision.

Presentation by Starwood Capital Group

Starwood, represented by Chris Keber, Director, and Jerome Silvey, Executive Vice President and Chief Financial Officer, made a presentation to the IAC. Mr. Silvey began with a brief overview of Starwood and its cohesive team that had $21 billion in assets under management. Next, he spoke about Starwood IX's investment opportunities, which primarily focused on distressed debt as an investment strategy. Mr. Silvey further commented on the fund's structure, and noted that as a real estate firm managing investments for third party investors like the CRPTF there were no acquisition, disposition, financing, investment banking, or advisory fees.

Mr. Keber commented on the affect of the recent financial crisis on Starwood, and said that currently Starwood was in an environment where it could purchase quality investments below their replacement costs. He added that Starwood's leverage was low compared to its competitors.

Mr. Silvey said that Starwood had successfully invested over $12 billion of equity in more than 465 transactions across virtually all real estate asset classes representing $33 billion in assets. He closed by highlighting Starwood IX's fundraising status and its investments to date, and noted that it was already profitable in its first quarter.

Chairman Budnick asked about Starwood's leverage strategy. Mr. Silvey cited the economic environment and said that it was better to take less risk, even with a slightly lower return.

Roll Call of Reactions to Starwood Global Opportunity Fund IX, L.P.

Chairman Budnick requested the IAC members to provide input on Starwood Fund IX. Mr. Freeman, Ms. Carpenter, Messrs. Murray, Himmelreich, Thor, Hall and Hale, Ms. Thomas and Chairman Budnick were in favor of the investment. Mr. Freeman added that he had no concerns. Mr. Murray said he liked the relationship with Starwood and the fact they are in Connecticut.

Chairman Budnick asked for a motion to waive the 45-day comment period for Starwood Fund IX. **A motion was made by Ms. Thomas, seconded by Mr. Freeman, to waive the 45-day**

comment period for Starwood Global Opportunity Fund IX, L.P. The motion was passed unanimously.

Private Investment Fund Review as of March 31, 2012

Mr. Purcell and Mr. Atkins reported on the PIF for the quarter. Mr. Purcell stated that the PIF earned 6.8% for the rolling twelve-months ended March 31, 2012, on the strength of a 4.3% advance in the first calendar quarter of 2012. He said that the recent strength in the public equity markets had caused the PIF to trail the Standard & Poor's 500's returns on a one-year and three-year basis, but noted that the PIF's returns on a five-year, ten-year, and inception-to-date basis continued to outpace public equity market returns. Mr. Purcell commented that the majority of the PIF's individual vintage years starting in 2002 continued to generate returns above the median and often near the top quartile benchmark. He noted that among the most significant developments in the PIF during the quarter ended June 30, 2012 were the closings of the CRPTF's commitments to Vista Equity Partners IV, L.P., Pegasus Partners V, L.P. and RFE Investment Partners VIII, L.P. for a combined total commitment of $165 million to existing General Partners.

Mr. Atkins commented on the investment performance by vintage year for the PIF's underlying funds. He reported that since inception in 1987, the PIF's total net IRR was 7.4%. Mr. Atkins noted that performance for the PIF had been poor from 1992 through 1999. Since 2002, he said that the PIF's vintage year funds performed well as of the March 31, 2012, and noted that the total net IRR was 25.7% for the 2002 vintage year funds, followed by double digit returns for both the 2003 and 2004 vintage year funds.

Next, Mr. Atkins reported on the two fund-of-funds that the CRPTF committed to in 2005 and 2006 that were managed by Parish Capital Partners. He said that in April 2012, the General Partners sold the business to a third-party manager named StepStone Partners, and added there was no real impact to the CRPTF other than the fact that the manager of the funds changed and the CRPTF negotiated a lower fee for the funds.

Alternative Investment Fund Review as of June 30, 2012

Mr. Purcell and Sean Gill, Partner of NEPC, reported on the performance of the Alternative Investment Fund ("AIF") for the quarter ended June 30, 2012. Mr. Purcell provided background on the hedge fund-of-funds program, citing the four Prudence Crandall funds that had the majority of the AIF's committed capital. He said that the hedge fund-of-funds portfolio declined 1.92% for the quarter ended June 30, 2012, but noted that it outperformed the HFRI Fund-of-Funds Composite Index, which dropped 2.21%; and outperformed the S&P 500's return of negative 2.8%. Mr. Purcell remarked that the AIF's hedge fund-of-funds program continued to be well-diversified across underlying funds as well as strategies and the overall portfolio's concentration increased slightly to 119 total hedge funds, with only modest overlap of underlying managers among the four portfolios, and that the combined market value of the four Prudence Crandall Funds was approximately $488 million as of June 30, 2012.

Regarding the real asset investments within the AIF portfolio, Mr. Purcell noted the CRPTF's commitment of $125 million to two private market real asset investments in 2011, and said that the IRR increased from 19.2% to just over 22% during the quarter ended March 31, 2012. In closing, he said that Treasurer Nappier approved an investment of $50 million in Marathon European Credit Opportunities Fund, the first opportunistic investment to be included in the AIF.

Mr. Gill said the AIF was well diversified and that the fixed income and credit-related strategies helped during the half-year ended September 30, 2012.

Real Estate Fund Review as of March 31, 2012

Ms. Santos-Wuest reported on the REF for the quarter ended March 31, 2012 with a net return of 3.1%, noting that it outperformed its NPI benchmark by approximately 50 bps. She said that the REF had rebounded with one, three and five-year returns of 8.5%, 0.3% and negative 6.4%, respectively, and that the CRPTF's subsequent investments in 2010 and 2011 had been very accretive to the REF.

Ms. Santos-Wuest said that since inception, the REF had produced an 8.8% return. She reported that the total allocation to real estate had been increased from 5% to 7% in accordance with the most recent IPS update, and the allocation to core was increased to 50% in an effort to lower risks and reduce volatility.

In terms of high level attribution, Mr. Booth commented on all three segments of the REF. He said that the core and high-return segments were slightly dilutive and that the value-add segment was the real driver of the quarterly performance, with a 4.2% net return driven by the REF's debt-oriented investments in 2010. He added that these investments had posted solid returns for the quarter ended March 31, 2012.

Mr. Booth and Ms. Santos-Wuest agreed that the economy was in the midst of an uneven recovery, and that the REF's European investments were performing well. Mr. Booth commented that the REF had been improving as a result of adding capital at the most difficult time and that the REF had been producing steadily recovering returns. Regarding the legacy assets, he said that the clean-up of residuals from investments made in the 1990s would also improve earnings for the REF.

Short-Term Investment Fund Review as of June 30, 2012

Chairman Budnick tabled the Short-Term Investment Fund review until the next IAC Meeting.

Other Business

Ms. Palladino presented the IAC budget for the fiscal year ended June 30, 2012. Deputy Treasurer Shaw commented that a farewell luncheon was being planned for former Chairman Roxe. Chairman Budnick invited the IAC members to submit agenda items for the next IAC meeting.

Comments by the Chairman

Chairman Budnick commented on the meeting.

There being no further business, the meeting was adjourned at 12:39 p.m.

This meeting was electronically recorded.

Respectfully submitted,

CHRISTINE SHAW
DEPUTY TREASURER
for
DENISE L. NAPPIER
SECRETARY

Reviewed by

Neil J Budnick

NEIL BUDNICK
CHAIRMAN