

INVESTMENT ADVISORY COUNCIL  
Wednesday, December 12, 2012

**MEETING NO. 400**

**Members present:**

Janice (Jan) Carpenter  
Michael Freeman  
Joshua Hall  
David (Duke) Himmelreich  
William Murray  
Denise L. Nappier, Treasurer  
Carol Thomas  
Peter Thor

**Absent:**

Neil G. Budnick, Chairman  
Thomas Fiore, representing Benjamin Barnes  
Laurence N. Hale

**Others present:**

Christine Shaw, Deputy Treasurer  
Lee Ann Palladino, Chief Investment Officer  
Gary Carter, Interim Deputy Chief Investment Officer  
Catherine LaMarr, General Counsel  
Shelagh McClure, Director of Compliance  
Terrence Purcell, Interim Principal Investment Officer  
Winifred (Winnie) Scalora, Executive Secretary  
Jessica Stabler, Administrative Assistant

**Guests:**

Thomas Barnes  
Sean Gill, NEPC  
Will Greene, Loop Capital Markets  
Robin Kaplan-Cho, Connecticut Education Association  
Louis Laccavole, SOC Teachers' Retirement Board  
Lisa Rotenberg, Goldman Sachs  
Claire Shaughnessy, Hewitt EnnisKnupp, Inc.  
Diane Smola, Hewitt EnnisKnupp, Inc.  
Nick Stanojev, BNY Mellon Asset Management  
Jennifer Thomas Becker, Armstrong Shaw Associates Inc.  
Kevin Vandolder, Hewitt EnnisKnupp, Inc.

Due to the absence of Chairman Neil G. Budnick, Carol Thomas chaired the Investment Advisory Council ("IAC") meeting. With a quorum present, Chair Thomas called the IAC meeting to order at 9:02 a.m.

### **Approval of Minutes of the November 14, 2012 IAC Meeting**

Chair Thomas asked for comments on the minutes of the November 14, 2012 IAC meeting. **There being no comments, a motion was made by Peter Thor, seconded by Michael Freeman, that the minutes of the November 14, 2012 IAC meeting be accepted as drafted. The motion was passed with the exception of Joshua Hall who abstained due to his absence from the last meeting.**

### **Comments by the Treasurer**

Treasurer Denise L. Nappier began her remarks with good wishes for the happiest and healthiest holiday possible. She also expressed her optimism on the outlook for the Connecticut Retirement Plans and Trust Funds (CRPTF) given the prospects for new and defensive investment opportunities at the start of 2013, amid market driven challenges waiting for us. Adding some excitement to her good wishes, Treasurer Nappier congratulated Joshua Hall and his wife, Timcia, on the birth of their son, Jonathan Timothy.

Treasurer Nappier announced her decision to commit \$50 million to Court Square Capital Partners III, L.P. (“Court Square III”), a private equity corporate finance opportunity that focuses on upper middle market buyouts. She reminded the IAC that CRPTF had previously committed \$100 million to Court Square Capital Partners II, L.P. in 2006, which generated a 1.3 times net multiple on invested capital and earned a 9.7% net internal rate of return (“IRR”) to date. Treasurer Nappier said her commitment to Court Square III is subject to successful contract negotiations.

Treasurer Nappier then commented briefly on the October 31, 2012 investment performance as welcomed news for the State Employees’ Retirement Fund (“SERF”) in particular. She said the net returns for SERF were 10.33%, 8.55% and 8.54% for the 2012 calendar year-to-date, one-year and three-year time horizons, respectively; all outperforming the actuarial return assumptions. Treasurer Nappier also informed the IAC that the State Employees’ Retirement Commission announced that it had revised the actuarial return assumption for SERF from 8.25% to 8.00% as of July 1, 2012, and that she supported and advocated for a lower assumption.

Next, Treasurer Nappier highlighted some accomplishments of the CRPTF during Fiscal Year (“FY”) 2012. First, she said a comprehensive Asset Allocation and Liability Study (“A/L Study”) had been completed and the resulting product of the A/L Study formed the basis for the subsequent adoption and approval of revisions to the Investment Policy Statement (“IPS”), including changes to the asset allocation plan that are well underway.

With respect to investment service providers, Treasurer Nappier said that during the past fiscal year, four investment commitments totaling \$190 million were made to Private Investment Fund (“PIF”) managers; one investment commitment of \$100 million to a Real Estate Fund (“REF”) core strategy manager, and two investment commitments totaling \$115 million to a real asset manager and an opportunistic manager within the Alternative Investment Fund (“AIF”). In

addition, she said that competitive search project plans were launched for REF and AIF consultants; the searches were well underway with due diligence close to completion, and she expected the consultant finalists to be presented to the IAC for consideration in early 2013. Treasurer Nappier also made note of another competitive search began in FY 2012 for the procurement of a global master custodian, with the assistance of Callan Associates, the search consultant to the CRPTF, and that she also expects to present the custodian bank finalists to the IAC for consideration in early 2013. Next, Treasurer Nappier commented on the further expansion of the Connecticut Horizon Fund (“CHF”) initiative, within the AIF, which was being conducted through a competitive search for a separately managed account fund-of-hedge fund manager. She noted that this was a significant furtherance of the CHF program, which was first funded in 2005. Treasurer Nappier said that the CHF was currently an \$807 million fund-of-funds public market program with an additional \$155 million private equity allocation, which provided CRPTF access to a wider number of women-owned, minority-owned, Connecticut-based and emerging firms.

Regarding the asset recovery and prevention program, during FY 2012, Treasurer Nappier stated that over \$2 million was recovered on behalf of the CRPTF resulting from class action securities litigation, and that the CRPTF continued to closely monitor further opportunities to recover lost assets through active participation in class action litigation, and by simply filing claims. Treasurer Nappier reminded the IAC that CRPTF was currently the lead plaintiff in the Amgen Case; the U.S. Supreme Court heard the oral argument for the case on November 5, 2012, and the Court’s decision was expected in the spring of 2013.

Finally, Treasurer Nappier mentioned that her office and IAC bid farewell to Chairman Joseph Roxe and welcomed Neil Budnick as the new Chairman. She thanked all of the IAC members for their service during the past fiscal year and wished them all a Happy New Year.

Turning to today’s agenda, Treasurer Nappier said that her adopted amendment to the IPS on December 5, 2012, as recommended to the IAC for its review and feedback on November 14, 2012, would be presented for the IAC’s vote of approval. She reminded the IAC that the adopted amendment flows from the recent change in State law governing the MacBride Principles, and provides greater flexibility to engage companies and/or impose investment restrictions with divestment as a last resort.

Treasurer Nappier introduced another IPS matter on the agenda today concerning the State of Connecticut’s Other Post-Employment Benefits (“OPEB”) Trust Fund. She said the draft policy revision would enable the OPEB Trust Fund to be managed for investment purposes as part of the CRPTF, and that the asset size is currently \$74 million. She said the required legal notification of the availability of the draft revised IPS had been published in Connecticut newspapers of general circulation and posted on the OTT’s website.

**Update on the Market and the CRPTF Final Performance for the Month Ended October 31, 2012**

Lee Ann Palladino, Chief Investment Officer, began her comments by stating that a full review of the CRPTF performance would be provided at the quarterly IAC meeting, and noted that IAC members were provided with the CRPTF written report for the month ended October 31, 2012.

Ms. Palladino then provided a brief history of the following seven trusts that are part of the CRPTF: the School Fund; the Agricultural College Fund; the Andrew C. Clark Fund; the Arts Endowment Fund; the Soldiers', Sailors' and Marines' Fund; the Ida Eaton Cotton Fund; and the Hopemead Fund. Ms. Palladino discussed the policy oversight for each plan and trust, which outlines the investment authority, purpose, investment objectives and asset allocation.

Ms. Palladino also commented on the two trusts for which the A/L Study was not yet completed: the State's Attorneys' Retirement Fund ("SARF") and the Policemen and Firemen Survivors Benefit Fund ("POFI"). She noted that the SARF was established to provide retirement and other benefits to certain states attorneys and certain public defenders and their beneficiaries who have fulfilled the requirement set forth in its guidelines. Ms. Palladino said that the asset and liability information had been received for the POFI, which was funded at 81%, and that the information would be provided at the next Asset and Liability Working Group.

**Consideration of the Treasurer's Adopted Amendment to the Investment Policy Statement (MacBride Principles)**

Ms. Palladino stated that the amendment to the IPS Appendix C, Section I, reflected a general policy on the implementation of statutory investment restrictions and was adopted by Treasurer Nappier on December 5, 2012 in substantially the form of the Treasurer's recommended amendment as recommended at the November 14, 2012 IAC meeting.

Chair Thomas asked if any of the IAC members had questions or issues with the amendment to the IPS. None of the IAC members commented or posed questions.

**Chair Thomas called for a motion to approve the Treasurer's December 5, 2012 adopted amendment to the IPS. David Himmelreich moved for approval of the adopted amendment. Janice Carpenter seconded the motion. The motion was passed unanimously to approve the amendment to the IPS as adopted by Treasurer Nappier.**

**Consideration of Draft Revisions to the Investment Policy Statement (OPEB Trust Fund)**

Ms. Palladino presented the Treasurer's draft revisions to the IPS Part II, Article XV and Appendix A, Section I in order to accommodate the addition of the OPEB Trust Fund. Ms. Palladino said that the OPEB Trust Fund is the vehicle through which a formalized funding plan is utilized in response to the rapidly increasing OPEB liability for the State. She stated that Part II, Article XV of the IPS detailed the addition of the OPEB Trust Fund and outlined the investment authority, statement of purpose, investment objectives and asset allocation of the trust

fund; and Appendix A, Section I, Plans and Trust Funds Asset Allocation, reflected 100% allocation to short-term investment strategies. Ms. Palladino added that the asset allocation would be revisited upon the completion of an A/L Study of the OPEB Trust Fund.

In response to Mr. Himmelreich's question regarding the funding of OPEB, Treasurer Nappier stated that it included both employer and employee contributions. William Murray posed a question regarding the public act. Deputy Treasurer Christine Shaw replied that Public Act 07-1 established the trust, and subsequent agreements in 2009 and 2011 addressed the funding of said trust. Discussion ensued regarding the need for oversight of the OPEB investments.

### **Alternative Investment Fund Review as of September 30, 2012**

Terrence Purcell, Interim Principal Investment Officer, and Sean Gill, Partner of NEPC, reported on the performance of the AIF for the quarter ended September 30, 2012. Mr. Purcell reported that the hedge fund-of-funds portion of the portfolio posted gains of 3.36% for the quarter ended September 30, 2012, and noted that it outperformed the HFRI Fund-of-Funds Composite Index, which earned 2.37%. He noted that the credit-related strategies were strong performers, particularly in the higher yielding sectors of fixed income, and that long/short equity also contributed positively. Mr. Purcell stated that the hedge fund-of-funds portfolio gained 5.8% compared to the HFRI Fund-of-Funds Composite Index return of 2.9% for the rolling twelve-month period ended September 30, 2012. He noted that the liquidity profile of the underlying funds remained strong and that over 93% of the assets in the combined portfolio maintained liquidity of one year or less and more than 82% of the assets had liquidity terms of six months or less.

Regarding the real asset investments within the AIF portfolio, Mr. Purcell reported that during the quarter ended June 30, 2012, an additional \$7 million was contributed to the two private market real asset investments, and the IRR of the investments was slightly over 20%. In closing, he commented on the CRPTF's first AIF opportunistic investment of \$50 million in Marathon European Credit Opportunities Fund, L.P., which had called \$10 million in capital to date and had already generated positive results.

Mr. Gill stated that the performance of the CRPTF's hedge fund-of-fund managers was relatively strong and better than most of its peers. In response to Mr. Himmelreich's questions regarding the hedge fund-of-fund managers, Mr. Gill said that they did not actively manage the funds but were the allocators to the underlying hedge fund managers.

### **Other Business**

Chair Thomas invited the IAC members to submit agenda items for the January 9, 2013 IAC meeting. Mr. Himmelreich announced that there would be an Audit Committee meeting following the regular IAC meeting.

**Comments by the Chair**

There being no further business, the meeting was adjourned at 10:00 a.m.

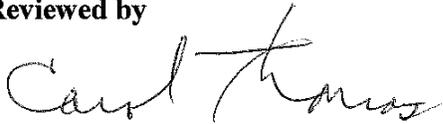
**This meeting was electronically recorded.**

**Respectfully submitted,**

A handwritten signature in cursive script, appearing to read "Denise L. Napier".

**DENISE L. NAPPIER  
SECRETARY**

**Reviewed by**

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

**CAROL THOMAS  
ACTING CHAIR**