

INVESTMENT ADVISORY COUNCIL  
Wednesday, December 11, 2013

**MEETING NO. 411**

**Members present:**

Janice (Jan) Carpenter  
Thomas Fiore, representing Benjamin Barnes  
Laurence N. Hale  
David (Duke) Himmelreich  
Steven Muench  
William Murray  
Carol Thomas, Interim Chair  
Peter Thor

**Absent:**

Denise L. Nappier, Treasurer  
Joshua Hall

**Others present:**

Christine Shaw, Deputy Treasurer  
Lee Ann Palladino, Chief Investment Officer  
Deborah Spalding, Deputy Chief Investment Officer  
Catherine E. LaMarr, General Counsel  
Shelagh McClure, Director of Compliance  
Gary Carter, Principal Investment Officer  
Joanne Dombrosky, Principal Investment Officer  
Terrence Purcell, Principal Investment Officer  
Cherie Santos-Wuest, Principal Investment Officer  
David Barrett, Director of Communications  
Linda Tudan, Executive Assistant  
Christina McGinnis, Executive Secretary

**Guests:**

Will Greene, Loop Capital Markets  
Lou Kahl, Hewitt EnnisKnupp, Inc.  
Robin Kaplan-Cho, Connecticut Education Association  
Louis Laccavole, CT Teachers' Retirement Board  
Mitch Petrick, Carlyle GMS Finance, Inc.  
Ken Kencel, Carlyle GMS Finance, Inc.  
Claire Shaughnessy, Hewitt EnnisKnupp, Inc.  
Mark Sullivan, BNY Mellon Asset Management  
Kevin Vandolder, Hewitt EnnisKnupp, Inc.

With a quorum present, Chair Carol Thomas called the Investment Advisory Council ("IAC") meeting to order at 9:03 a.m.

### **Approval of Minutes of the November 13, 2013 IAC Meeting**

Chair Thomas called for a motion to approve the minutes of the November 13, 2013 IAC meeting. **William Murray moved to approve the minutes of the November 13, 2013 IAC meeting as drafted. The motion was seconded by Jan Carpenter. There being no discussion, the Chair called for the vote. The motion passed. Two members abstained: Thomas Fiore and Laurence Hale.**

### **Comments by the Treasurer**

Christine Shaw, Deputy Treasurer, provided the opening remarks in Treasurer Denise L. Nappier's absence. She announced that after considering the feedback from the IAC as well as the results of the due diligence process, the Treasurer had decided to make a commitment of up to \$125 million to Apollo Investment Fund VIII, L.P., ("Apollo") subject to successful contract negotiations. She mentioned that Apollo will focus primarily on private equity investments, distressed debt investments, corporate carve-outs and opportunistic buyouts.

Deputy Treasurer Shaw then noted that October was the first month of operation for the Connecticut Retirement Plans and Trust Fund ("CRPTF") under the new master custodian, Bank of New York Mellon ("BNYM"). She added that while the conversion to BNYM was successfully completed, BNYM was still gathering performance reconciliation data and expected to have a full investment performance report completed for presentation at the January IAC meeting.

Next, Deputy Treasurer Shaw commented on the agenda. She stated that an investment opportunity would be presented for consideration, specifically, Carlyle Global Market Strategies Finance, Inc. ("GMS Finance), a High Yield Debt Fund ("HYDF") investment, managed by Carlyle Global Market Strategies ("Carlyle GMS"). Deputy Treasurer Shaw said that the Treasurer was considering an investment of up to \$150 million, and that the investment opportunity would offer exposure to senior, floating rate loans in an effort to moderate the adverse affect of rising interest rates. She added that the investment was expected to generate total net annualized returns between 9% and 11%.

### **Update on the Market and the CRPTF's Performance for Quarter Ended September 30, 2013**

Lee Ann Palladino, Chief Investment Officer, provided a market update and an overview of trends and themes that occurred in Calendar Year 2013. She remarked on the continued tailwind from monetary policy and a rotation out of bonds and into stocks, which the CRPTP benefitted from due to its large exposure to equities.

Next, she mentioned her recent attendance at the National Association of State Treasurers' Conference. She highlighted several noteworthy macro themes from the event, including an aging population and structural employment trends, both of which may mute economic growth, contrasted with new sources of economic growth from energy independence and access to low cost fuel.

Ms. Palladino concluded her remarks with an overview of asset allocation trends which are shifting away from traditional asset class based allocation toward risk regime analysis which is more dynamic and based on market and risk factors.

Next, Kevin Vandolder and Claire Shaughnessy, Partners of Hewitt EnnisKnupp, reported on the investment results for the Combined Investment Fund ("CIF") and the Connecticut Horizon Fund ("CHF"). He said for the quarter ended September 30, 2013, the CIF returned 4.7% while one-year returns were up 11.9%. Mr. Vandolder reviewed market highlights and discussed the increased volatility in global equity markets as well as the outperformance of lower quality bonds versus higher quality bonds during the quarter. With respect to fixed income markets, Mr. Vandolder reported that the treasury yield curve steepened during the third quarter and remained volatile.

Next, Ms. Shaughnessy provided a summary of the returns for the individual plans and trusts within the CRPTF. She said both the Teachers' Retirement Fund and the State Employees' Retirement Fund benefitted from an overweight to Domestic and Developed Market equities. Regarding the CHF, Ms. Shaughnessy reported strong returns of 8.1%, outperforming its benchmark for the quarter ended September 30, 2013. On a one year basis, the CHF returned 19.8%.

#### **Presentation by and Consideration of Carlyle Global Market Strategies Finance, Inc.**

Joanne Dombrosky, Principal Investment Officer, provided opening remarks and introduced Carlyle GMS Finance, an investment manager that focuses on direct loan investments to middle market companies. She said these floating rate investments would further diversify the HYDF portfolio due to low correlation with the high yield market and would help mitigate the negative impact of rising interest rates on the HYDF. Ms. Dombrosky stated that Carlyle GMS had created two parallel business development companies ("BDCs"), which would be a new vehicle for the HYDF. She explained that the two BDCs are public companies and registered with the SEC; they are required to have an independent board and to employ a valuation process supported by a third party outside vendor.

Next, Ms. Dombrosky answered questions posed by IAC members on rising interest rates and the fee structure of the proposed Carlyle investment.

#### **Presentation by Carlyle Global Market Strategies Finance, Inc.**

Carlyle, represented by Mitch Petrick, Managing Director, and Ken Kencel, President of Carlyle GMS, made a presentation to the IAC. Mr. Petrick provided an overview of Carlyle GMS and discussed the strategy, structure and competitive features of the proposed investment. He stated that Carlyle GMS lent to middle-market companies that are backed by financial sponsors, and that the product was positioned to provide stable returns through an economic cycle. Mr. Petrick continued that an investment in the two BDCs provided transparency along with a favorable fee structure.

Next, Mr. Kencel gave an overview of the middle-market lending environment, the expected future returns, and the absolute and relative historical credit performance. The middle market was seen as an attractive area due to its lower volatility, higher yields, and more conservative loan structures than the high yield market. He spoke about the history of BDCs and noted the benefits from a corporate governance standpoint. In closing, Mr. Kencel discussed Carlyle's investment team and the advantage of access to the entire Carlyle platform.

Ms. Carpenter queried about the number of BDCs and the competitiveness of the product compared to the market. Mr. Kencel estimated there were about 40 BDCs that represented \$35 billion in capital, but that this product was differentiated from the typical BDC as it focused on senior structures versus junior or subordinated loans. In response to questions by Mr. Hale and Mr. Fiore concerning the investment vehicle returns and the repayment of the BDC loan, Mr. Kencel informed them that under the BDC rules, the BDC would be responsible for repayment. He then described the structure of the co-investment vehicle, the strategy for launching an initial public offer, and the use of leverage to generate expected annualized returns of 9 to 11%.

#### **Roll Call of Reactions to Carlyle Global Market Strategies Finance, Inc.**

Messrs. Fiore, Himmelreich, Murray, Muench, Hale, Ms. Carpenter, Peter Thor and Chair Thomas all supported an investment in Carlyle.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Mr. Hale, seconded by Mr. Himmelreich, to waive the 45-day comment period for Carlyle GMS Finance, Inc. There being no discussion, the Chair put the question to a vote and the motion passed unanimously.**

#### **Other Business**

Chair Thomas invited the IAC members to submit agenda items for the January 8, 2014 IAC meeting.

#### **Comments by the Chair**

Chair Thomas commented on the current IAC committee assignments and invited the IAC members to review the current committee responsibilities, offer suggestions for improvement and provide feedback to her by December 16, 2013.

**There being no further business, Chair Thomas called for a motion to adjourn the meeting. Mr. Himmelreich moved to adjourn the meeting and the motion was seconded by Ms. Carpenter. There being no discussion, the meeting was adjourned at 10:36 a.m.**

**This meeting was electronically recorded.**

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Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Christine Shaw', written over the printed name.

**CHRISTINE SHAW  
DEPUTY TREASURER**

for  
**DENISE L. NAPPIER  
SECRETARY**

Reviewed by

A handwritten signature in black ink, appearing to read 'Carol Thomas', written over the printed name.

**CAROL THOMAS  
INTERIM CHAIR**