

INVESTMENT ADVISORY COUNCIL
Wednesday, October 9, 2013

MEETING NO. 409

Members present:

Janice (Jan) Carpenter
Thomas Fiore, representing Benjamin Barnes*
Laurence N. Hale
Joshua Hall
Steven Muench
Denise L. Nappier, Treasurer
Carol Thomas, Chair
Peter Thor

Absent:

David (Duke) Himmelreich
William Murray

Others present:

Christine Shaw, Deputy Treasurer
Lee Ann Palladino, Chief Investment Officer
Gary Carter, Interim Deputy Chief Investment Officer
Francis Byrd, Assistant Treasurer - Policy
Catherine E. LaMarr, General Counsel
Joanne Dombrosky, Principal Investment Officer
Terrence Purcell, Principal Investment Officer
David Barrett, Director of Communications
Linda Tudan, Executive Assistant
Winifred (Winnie) Scalora, Executive Secretary

Guests:

Melissa Albanesi, State Street Global Advisors
Bradley Atkins, Franklin Park Associates
David Blair, Pacific Investment Management Company LLC
Kelly Campbell, BlackRock Inc.
Will Greene, Loop Capital Markets
Martin Hegarty, BlackRock Inc.
Jonathan Hogstad, Service Employees International Union
Robin Kaplan-Cho, Connecticut Education Association
Chloe Kelley, Pacific Investment Management Company LLC
Louis Laccavole, SOC Teachers' Retirement Board
Donald Leitch, Napier Park Global Capital
Keith Lloyd, Colchester Global Investors
Obie McKenzie, BlackRock Inc.
Nils Overdahl, New Century Advisors
Bonnie Pierce, New Century Advisors
Ellen Safir, New Century Advisors
Mamak Shahbazi, Colchester Global Investors

* Arrived at 9:05 a.m.

Claire Shaughnessy, Hewitt EnnisKnupp, Inc.
Clarissa Smith, BNY Mellon Asset Management
Diane Smola, Hewitt EnnisKnupp, Inc.
Cynthia Steer, BNY Mellon Asset Management
Mark Sullivan, BNY Mellon Asset Management
Buzz Thorman, Napier Park Global Capital
Daniel Tully, AHP GP III, L.P.
Mihir Worah, Pacific Investment Management Company LLC

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

Ratification of the Yucaipa American Alliance Fund III, L.P.

Chair Thomas announced that with the resignation of IAC Chairman Neil Budnick last month and the absence of a gubernatorial appointment of a chairperson or presiding official at the September 11, 2013 IAC meeting, a technical question was raised concerning the process by which a chair had been nominated for the meeting. Out of an abundance of caution and noting that the Governor had acted to nominate a chair prior to this October 9, 2013 IAC meeting, Chair Thomas called for feedback regarding the presentation of the Yucaipa American Alliance Fund III, L.P. (“YAAF III”) investment opportunity at the September 11, 2013 meeting.

Roll Call of Reactions to Yucaipa American Alliance Fund III, L.P.

Steven Muench, Jan Carpenter, Peter Thor, Thomas Fiore, Joshua Hall, Laurence Hale and Chair Thomas all supported an investment in YAAF III.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Ms. Carpenter, seconded by Mr. Hale to waive the 45-day comment period for Yucaipa American Alliance Fund III, L.P. The motion passed unanimously.**

Approval of Minutes of the September 11, 2013 IAC Meeting

Chair Thomas stated that the minutes of the September 11, 2013 IAC meeting were tabled for the November 13, 2013 IAC meeting.

Comments by the Treasurer

Treasurer Denise L. Nappier began her comments by noting that the failure of the federal government to proactively raise the debt ceiling had caused some volatility given the uncertainty of a potential U.S. default. Treasurer Nappier said that the Connecticut Retirement Plans and Trust Funds (“CRPTF”) had started the 2014 fiscal year on a positive note, despite the market’s continued volatility.

Treasurer Nappier commented on the agenda. She said that four semi-finalists for the Global

Treasury Inflation-Protected Securities (“Global TIPS”) mandate were being presented: BlackRock, Inc. (“BlackRock”), Colchester Global Investors (“Colchester”), New Century Advisors (“New Century”), and Pacific Investment Management Company, LLC (“PIMCO”). She noted that the screening and selection criteria were presented to the IAC in April 2013 for this competitive search. Treasurer Nappier said that it was her intention to select one or more firms to direct the investments of the Global TIPS in the Inflation Linked Bond Fund (“ILBF”) and to better diversify the risk-return profile of the ILBF by incorporating inflation rates of non-U.S. markets.

Next, Treasurer Nappier stated that a Private Investment Fund (“PIF”) opportunity would be presented for consideration, Altaris Health Partners III, L.P. (“Altaris III”), which is a \$425 million private equity fund being raised by the General Partner, Altaris Capital Partners (“Altaris”), and said that she was considering an investment of up to \$50 million. She noted that Altaris III was being formed to seek long-term capital appreciation principally through private equity investments in healthcare and related businesses primarily in the U.S. and secondarily in Western Europe. She added that the CRPTF previously invested a total of \$40 million in AIG Altaris Healthcare Partners, L.P. (“Fund I”) and AIG Altaris Health Partners II, L.P. (“Fund II”), which had generated 13.8% and 21.9% net internal rates of return (“IRR”), respectively as of March 31, 2013.

Update on the Market, the CRPTF Final Performance for Month Ended August 31, 2013

Lee Ann Palladino, Chief Investment Officer (“CIO”), provided an update on the capital market environment, its impact on the performance of the CRPTF and the economic outlook and provided an update on the master custodian conversion.

She said that as of October 1, 2013, the CRPTF’s master custodian services had been successfully converted from State Street Bank and Trust Co. (“State Street”) to Bank of New York Mellon (“BNY”) and that the securities lending services had been successfully converted from State Street to Deutsche Bank. Ms. Palladino recognized Mark Sullivan, Relationship Manager from BNY, and his team for making the master custodian services conversion a success. She also recognized Deutsche Bank’s staff for their efforts on the securities lending services conversion. Ms. Palladino thanked the State Street team for their excellent assistance throughout the entire conversion process and for its service as master custodian for the past 17 years. Finally, she thanked the Treasurer’s staff from the Pension Funds Management, Cash Management and the Treasury’s Legal Unit and gave special thanks to Gary Carter, Interim Deputy CIO, for his leadership on the conversion project.

Next, Ms. Palladino commented on the U.S. debt ceiling negotiations and their impact on the market. She said that there was concern about actions that credit rating agencies may take against the U.S. government if an agreement wasn’t reached. She said the most likely impact would be on the CRPTF’s short-term investments and strategies such as securities lending and the Liquidity Fund. She added that she did not expect the U.S. government to default. Ms. Palladino stated that as a long-term investor, her focus was on potential long-term events such as

a recession brought about by spending cuts and/or if the U.S. Treasury markets were permanently impaired. She stated that her staff was diligently monitoring the short-term disruptions and that all of the CRPTF's fixed income managers were queried to determine what preparations they had in place in order to deal with the issue. In closing, Ms. Palladino said that the situation was being watched carefully.

Presentation by and Consideration of the Global Treasury Inflation-Protected Securities Semi-finalists

Joanne Dombrosky, Principal Investment Officer ("PIO"), provided opening remarks and introduced the four Global TIPS investment opportunities: BlackRock, Colchester, New Century and PIMCO. She noted that all four were qualified, existing managers that offered best in class global inflation-linked products. Ms. Dombrosky stated that the opportunity set for inflation linked bonds had been expanded to a global benchmark to provide the CRPTF with the ability to move beyond the U.S. TIPS market in search of the best "real" yields, which was determined after the impact of inflation.

Next, Ms. Dombrosky commented on the managers' various capabilities, and she provided a summary on each of the four Global TIPS investment managers.

Presentation by BlackRock Inc.

BlackRock -- represented by Kelly Campbell, Martin Hegarty and Obie McKenzie, Managing Directors -- made a presentation to the IAC. Mr. McKenzie began by introducing the team and providing a brief overview of BlackRock. He said that BlackRock, a large institutionalized firm managed approximately \$4 trillion worth of assets with about one quarter in its fixed income platform, which included global inflation-linked bonds.

Next, Ms. Campbell commented on BlackRock's philosophy and noted that its team capitalized on the full breadth of BlackRock's fixed income platform. She also spoke about BlackRock's key individuals that would be involved in the mandate.

Next, Mr. Hegarty discussed BlackRock's working environment and its strategies. He said that BlackRock used a collaborative process that combined top-down and bottom-up investment insights. Mr. Hegarty then reviewed BlackRock's annual performance for the last five years versus its benchmark. In closing, he summarized the value BlackRock would bring to the CRPTF as a Global TIPS manager.

Chair Thomas posed a question regarding the maturity of securities that were under one year to which Mr. Hegarty stated that securities under one year were not included in the benchmark and added that he didn't expect inflation to rise significantly over the next year. He also commented on expected energy prices. In response to Mr. Muench's question regarding the pending U.S. debt ceiling crisis, Mr. Hegarty said that the concern was about whether the U.S. was willing to pay its debts, not whether it could pay.

Presentation by Colchester Global Investors

Colchester -- represented by Keith Lloyd, Chief Executive Officer (“CEO”), and Mamak Shahbazi, Head of Marketing and Client Services -- made a presentation to the IAC. Ms. Shahbazi began by highlighting Colchester’s ownership and structure. She said Colchester was an independent firm, majority-owned and controlled by its principals and that its business focused solely on sovereign bond and currency markets. Next, Ms. Shahbazi spoke about Colchester’s investment team members and noted their many years of expertise and experience working together.

Mr. Lloyd provided an overview of Colchester’s philosophy. He stated that Colchester, a value-oriented global fixed-income manager, invested primarily in high quality sovereign bond markets that offered attractive real yields and sound finances. With respect to currency management, Mr. Lloyd said that Colchester took factors into account such as real interest rates, current account balances and accumulated foreign assets/liabilities and analysis of global foreign exchange reserve holdings. In closing, Ms. Shahbazi commented on the difference between a hedged and unhedged program, and she said that Colchester had managed both programs for separate accounts.

Mr. Hale posed a question regarding pricing, to which Mr. Lloyd stated that the market was very liquid for sovereign bonds and that Colchester’s smaller size did not pose a problem for pricing. Mr. Fiore asked how often Colchester revised its portfolio, to which Mr. Lloyd stated that Colchester was an investor, not a trader, and it continuously reviewed rates and sought after potential opportunities. In response to Mr. Thor, Mr. Lloyd said that a U.S. default may result in a slide from its AAA/AA rating, and the consequences would be a financial disruption on a global basis which could cause significant short-term volatility in all asset classes. In terms of portfolios that Colchester currently managed, he said strategies were in place to actively hedge or mitigate that short-run risk.

Presentation by New Century Advisors

New Century -- represented by Ellen Safir, CIO; Nils Overdahl, Senior Portfolio Manager; and Bonnie Pierce, Managing Director -- made a presentation to the IAC. Ms. Pierce introduced the team and commented on each member’s background and experience. Next, she provided an overview of New Century, which she said was an employee-owned firm that focused solely on its clients. Ms. Pierce stated that New Century was a high-touch boutique institutional investment manager that provided its clients with easy access to its entire team. Next, Ms. Safir highlighted New Century’s investment process and its global inflation-linked strategy.

Next, Mr. Overdahl commented on New Century’s proprietary models and research process for both the top-down and bottom-up approaches for trade idea generation. He then remarked on the global inflation-linked performance over the last five years and said that New Century’s mission was to achieve superior risk-adjusted returns and also outperform its benchmark.

Mr. Fiore posed a question regarding New Century's ability to cover 22 markets given the size of its firm, to which Ms. Safir said that a typical equity analyst was able to cover more than 20 stocks and the team was more than capable of covering those markets with the depth and experience of its team. In response to Ms. Carpenter and Mr. Fiore's questions regarding audited financial statements, Ms. Safir said that New Century had never been required to provide audited financial statements since its inception, but that it would provide audited financials to the CRPTF as required.

Presentation by Pacific Investment Management Company LLC

PIMCO -- represented by David Blair, Senior Vice President; Chloe Kelley, Account Manager; and Mihir Worah, Managing Director; -- made a presentation to the IAC. Mr. Blair first provided a brief overview of PIMCO, and that it currently had \$2 trillion under management across fixed income, equity and asset allocation strategies.

Mr. Worah stated that PIMCO had a disciplined approach that combined broad global resources with deep inflation-linked bond expertise and a demonstrated record of tracking the strategy's benchmark while seeking to add excess return. Next, Mr. Worah provided an overview of PIMCO's global real return investment approach and its experienced team. In summary, Mr. Worah commented on PIMCO's performance over the ten-year horizon, and said that PIMCO would manage a portfolio with a 99% correlation to the CRPTF's chosen global inflation-linked bond index.

Mr. Hale posed questions regarding derivatives and counterparty risk. Mr. Worah stated that the CRPTF would set the guidelines with respect to the use of derivatives and, if permitted, PIMCO would utilize them in a risk-controlled manner.

Roll Call of Reactions to the Global Treasury Inflation-Protected Securities Semi-finalists

Mr. Hale found Colchester and PIMCO's presentations to be the best. Messrs. Hall, Thor, Muench and Ms. Carpenter agreed that all four candidates were acceptable. Mr. Fiore preferred Colchester, PIMCO and BlackRock. Chair Thomas added that PIMCO, Colchester; and New Century were all competent, but she didn't care for BlackRock's presentation.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Mr. Hale, seconded by Mr. Hall to waive the 45-day comment period for the Global Treasury Inflation-Protected Securities semi-finalists: BlackRock, Inc.; Colchester Global Investors Limited; New Century Advisors; and Pacific Investment Management Company, LLC. The motion was passed unanimously.**

Presentation by and Consideration of Altaris Health Partners III, L.P.

Terrence Purcell, PIO, provided opening remarks and introduced Altaris III. Bradley Atkins, CEO of Franklin Park Associates LLC, the CRPTF's consultant for the PIF, was also present. Mr. Purcell stated that Altaris III was formed to make control and influential minority

investments in companies that operated in the healthcare sector. He said that Altaris III was seeking to raise \$500 million in commitments and that management had already closed on \$450 million. Mr. Purcell said that Altaris was founded in 2002 with the involvement and sponsorship of the large insurance company American International Group ("AIG") and that it was now independently owned. In addition to Treasurer Nappier's comments on the CRPTF's two previous commitments to funds managed by Altaris, Mr. Purcell stated that Altaris I and Altaris II had distributed \$45.4 million and \$14.7 million of capital, respectively, back to the CRPTF as of March 31, 2013. He said that the combined net IRR of these two predecessor funds was 15.8%, spanning approximately \$536 million in deployed capital across 21 investments, 11 of which had either been partially or fully realized. Finally, he said that the firm's typical acquisition targets were small and mid-market companies with revenue bases between \$25 million and \$200 million per year, and that historical equity investments had been made at a minimum level of \$10 million at attractive entry prices with a modest use of leverage.

In response to Mr. Fiore, Mr. Atkins said that the partners had committed 2.5% to Altaris III. In response to Mr. Thor's question regarding the track record of Fund I, Mr. Atkins said that it earned a 13.8% return net of fees and expenses for the CRPTF, it realized eight of its 12 investments with over a 30% return on its eight realized deals and only one impairment across the portfolio. He added that the net return had been dragged down a bit by the longer hold for the unrealized deals and that it was a good fund even though it was only ranked second quartile versus the peer universe.

Presentation by AHP GP III, L.P.

Altaris -- represented by Daniel Tully, Founding Manager -- made a presentation to the IAC. Mr. Tully began by stating that Altaris concentrated on the middle market and was 100% focused on healthcare. Mr. Tully stated that by being industry specialized or focused, Altaris sourced deals, prepared due diligence and added more value to the companies. Next, he commented on the current and future needs of the healthcare system, and that the right investments could influence the direction of healthcare. Mr. Tully stated that Altaris had made 21 investments with eleven realizations that averaged a bit more than 39% from a net IRR perspective for slightly more than three times the initial capital invested.

Next, Mr. Tully commented on the Altaris team and noted that it would continue to be a small team with a focus on rigorous, disciplined teamwork. He spoke about the current healthcare landscape and noted that costs for the Affordable Care Act were actually very small in comparison to total healthcare costs. In closing, he provided an overview of Altaris' investment strategy from the investment opportunities to the creation of its portfolio that would ultimately provide premium valuations and attractive returns.

Roll Call of Reactions to Altaris Health Partners III, L.P.

Mr. Fiore, Ms. Carpenter, Messrs. Muench, Hale, Hall and Thor, and Chair Thomas all supported an investment in Altaris III.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Ms. Carpenter, seconded by Mr. Thor to waive the 45-day comment period for Altaris Health Partners III, L.P. The motion was passed unanimously.**

Corporate Governance Review

Francis Byrd, Assistant Treasurer - Policy, provided a review of the corporate governance activities for the quarters ended March 31, 2013 and June 30, 2013. For the quarter ended March 31, 2013, Mr. Byrd reported that there were 107 domestic meetings in which 941 votes were cast and that about 24% of those votes were against management proposals. With respect to the 448 international meetings, he said that 5,866 votes were cast and approximately 14% of those were cast against management's recommended vote. For the quarter ended June 30, 2013, Mr. Byrd reported that there were 983 domestic meetings in which 9,826 votes were cast that that 25% of those votes were against management's recommended vote. Concerning the 2507 international meetings, he reported that 42,765 votes were cast and that 15% were against management's recommended vote. Regarding the 2013 proxy and shareholder activism season, Mr. Byrd said that Treasurer Nappier advocated as a shareholder on corporate governance issues of executive compensation, board leadership structure, board diversity, climate risk and sustainability.

Next, Mr. Byrd reviewed the CRPTF's 2013 environmental social and governance shareholder initiatives. He noted that engagement continued with several companies including: JPMorgan Chase, where the resolution calling for the separation of the chairman and Chief Executive Officer roles had received 32.2% support; Wal-Mart, with respect to its claw-back disclosure proposal; Nabors, with respect to access to the proxy; and McKesson, with respect to the hold shares until retirement resolution.

Consideration of the Search Process for Corporate Governance Consultant

Mr. Byrd provided a project plan, timeline and screening/selection criteria for the search for a corporate governance consultant. He said that a competitive search would be conducted through a Request for Proposal ("RFP") and that the scope of the consultant mandate was to assist the Policy Unit in performing assignments related to its shareholder activism work, including but not limited to: on-going research and analysis focused on governance topics consistent with the proxy voting guidelines of the CRPTF as set forth in the Investment Policy Statement.

Treasurer Nappier added that the need for corporate governance consultant services had expanded in 2012 as a result of the departure of several senior staff professionals. Further, Treasurer Nappier said that she decided to use an expedited competitive search because the 2014 proxy voting season was currently underway, a time when due diligence needed to be completed followed by the filing of shareholder resolutions. Treasurer Nappier noted that the Policy Unit also housed the Treasury's representation on various quasi-public agencies where the Treasurer had statutory representation. Finally, Treasurer Nappier said that it was expected that that complement of outside consulting services and the work of the in-house professional staff would help to fulfill her fiduciary responsibilities.

Chair Thomas called for a motion to accept the project plan, timeline and screening/selection criteria for the search for corporate governance consultant. **A motion was made by Mr. Thor, seconded by Mr. Hall to accept the project plan, timeline and screening/selection criteria for a corporate governance consultant search. The motion was passed unanimously.**

Other Business

Chair Thomas invited the IAC members to submit agenda items for the November 13, 2013 IAC meeting. Next, she stated that the IAC meeting would adjourn for an Executive Session and that the IAC meeting would reconvene immediately following the Executive Session.

Executive Session

A motion was made by Ms. Carpenter, seconded by Mr. Hale, that the Investment Advisory Council adjourn the Regular Session at 12:28 p.m. and enter into Executive Session to consider an employment matter. The motion was passed unanimously. Ms. Palladino was invited to participate in the Executive Session.

Regular Session

Chair Thomas reconvened the regular session at 12:46 p.m. She noted that no votes were taken during the Executive Session.

Consideration of the Appointment of the Deputy Chief Investment Officer Appointment

Treasurer Nappier presented her recommendation to appoint Deborah Spalding as Deputy CIO, and she commented on Ms. Spalding's educational background and work experience. She noted that her recommendation of Ms. Spalding came after a competitive search with the assistance of Hudepohl & Associates, executive search firm for the CRPTF, and the IAC's Personnel Committee. Next, Treasurer Nappier recommended that the salary range for the Deputy CIO be set at \$175,000 to \$280,000. She asked that the IAC consider approving her recommendations.

Chair Thomas called for a motion to approve the recommendation of the appointment of Deborah Spalding as Deputy CIO for the CRPTF. **A motion was made by Mr. Muench, seconded by Mr. Thor, to approve the appointment of Deborah Spalding as Deputy Chief Investment Officer for the Connecticut Retirement Plans and Trust Funds. The motion was passed unanimously.**

Chair Thomas called for a motion to approve that the salary range for the Deputy CIO be set at \$175,000 to \$280,000. **A motion was made by Mr. Muench, seconded by Mr. Thor, to approve the salary range of \$175,000 to \$280,000 for the Deputy Chief Investment Officer. The motion was passed unanimously.**

Comments by the Chair

Chair Thomas did not provide additional comments on the meeting.

There being no further business, Chair Thomas adjourned the meeting at 12:50 p.m.

This meeting was electronically recorded.

Respectfully submitted,



DENISE L. NAPPIER
SECRETARY

Reviewed by



CAROL THOMAS
CHAIR