

INVESTMENT ADVISORY COUNCIL  
Wednesday, December 10, 2014

**MEETING NO. 420**

**Members present:**

Janice (Jan) Carpenter  
Thomas Fiore, representing Benjamin Barnes  
Laurence Hale  
Joshua Hall  
David (Duke) Himmelreich\*  
Steven Muench  
William Murray\*\*  
Denise L. Nappier, Treasurer  
Carol Thomas, Interim Chair  
Peter Thor

**Others present:**

Christine Shaw, Deputy Treasurer  
Lee Ann Palladino, Chief Investment Officer  
Deborah Spalding, Deputy Chief Investment Officer  
David Barrett, Director of Communications  
Gary L. Carter, Principal Investment Officer  
Joanne Dombrosky, Principal Investment Officer  
Laura Jordan, Interim Assistant Treasurer  
Shelagh McClure, Director of Compliance  
Christina McGinnis, Executive Secretary  
Terrence Purcell, Principal Investment Officer  
Cherie Santos-Wuest, Principal Investment Officer  
Michael Terry, Principal Investment Officer  
Linda Tudan, Executive Assistant

**Guests:**

Bradley Atkins, Franklin Park Associates  
Chris Crevier, Neuberger Berman  
Will Greene, Loop Capital Markets  
Robin Kaplan-Cho, Connecticut Education Association  
Kevin Meehan, Goldman Sachs  
Claire Shaugnessy, Hewitt EnnisKnupp, Inc.  
Diane Smola, Hewitt EnnisKnupp, Inc.  
Kevin Sullivan, BNY Mellon Asset Servicing

\* Arrived at 9:12a.m.

\*\* Arrived at 9:24a.m.

With a quorum present, Interim Chair Carol Thomas called the Investment Advisory Council (“IAC”) meeting to order at 9:07 a.m.

### **Approval of Minutes of the November 12, 2014 IAC Meeting**

Chair Thomas called for a motion to approve the minutes of the November 12, 2014 IAC meeting. **Steven Muench moved to approve the minutes as drafted. The motion was seconded by Jan Carpenter. There was one abstention from Thomas Fiore. There being no discussion, the Chair called for the vote. The motion passed unanimously.**

### **Comments by the Treasurer**

Treasurer Nappier began her opening remarks by commenting on the biennial actuarial valuation reports as of June 30, 2014 for the State Employees’ Retirement System (“SERS”) and the Teachers’ Retirement System (“TRS”). She stated that the TRS had improved its funded ratio to 59% -- an increase of 3.8% over the June 30, 2012 reported funded ratio of 55.2%. Treasurer Nappier added that the SERS funded ratio was 41.5% -- a decrease from the 2012 reported funded ratio of 42.3%. She said that the reduction in the funded ratio was due to both market and non-market losses, with 80% attributable to non-market actuarial losses and 20% due to investment returns smoothed over 5 years, which included the significant downturn of 2009. Treasurer Nappier stated she was particularly concerned with the non-market factors -- such as greater than anticipated retirements, as well as the higher number of new employees brought into the plan than was anticipated -- that were the primary drivers of the growth in the unfunded liability. She said more attention was needed by all stakeholders, including the Governor, the Legislature, and union management, to enhance the financial health of the pension plans and reduce the burden on future generations of taxpayers.

Treasurer Nappier remarked that her Office would continue to seek innovative ways to address the unfunded liability of the pension plans and collaborate with the stakeholders to improve their financial soundness.

### **Update on the Market, the Connecticut Retirement Plans and Trust Funds (“CRPTF”) Final Performance for the Month Ended October 31, 2014**

Lee Ann Palladino, Chief Investment Officer (“CIO”), reported that the Treasurer had placed Pacific Investment Management Company (“PIMCO”) on the Watch List following the resignation of William Gross, Co-Founder and CIO of PIMCO. Ms. Palladino noted that the nearly \$300 million in the CRPTF PIMCO short duration mandate was not managed by Mr. Gross. Ms. Palladino reviewed the organizational changes and commented on PIMCO’s performance. She concluded that PIMCO would remain on watch while an assessment of the new roles and responsibilities within the organization took place.

Next, Ms. Palladino and Deputy Treasurer Christine Shaw gave an overview of the Office of the Treasurer (“OTT”) and its Pension Fund Management (“PFM”) division. Ms. Shaw summarized the organization of the Treasury, its divisions and units, and reviewed the treasurer’s constitutional and statutory mandates. Ms. Palladino discussed the organizational structure of PFM, which was designed to support the management of the Combined Investment Funds (“CIF”) with resources dedicated to global equity, fixed income, and alternative investment portfolios. She further clarified that the investment process is functionally implemented through three units: 1) Investment Oversight, 2) Operations and Performance Evaluation, and 3) Accounting and Control. Ms. Palladino then commented on how PFM implemented the asset allocation policy, CIF portfolio construction, money manager due diligence and ongoing investment oversight. Finally, she concluded the presentation by discussing the costs associated with operating the division and said that investment performance was presented net of fees and expenses.

Ms. Carpenter posed a question about how other states manage their investment portfolios, to which the Treasurer remarked that most states managed their portfolios externally. Duke Himmelreich commented that he supports the framework of external management, and noted that while external management might be a bit more expensive it provided solid controls for the oversight of a large institutional quality portfolio.

Next, Claire Shaughnessy, Partner, and Diane Smola, Senior Consultant, of Hewitt EnnisKnupp, reported on the CIF and the Connecticut Horizon Fund (“CHF”) for the quarter ended September 30, 2014. She then provided a market overview and commented on the global equity and fixed income markets. Ms. Shaughnessy compared the investment landscape during the quarter in terms of performance of various equity market capitalization portfolios, currencies, the level of interest rates, and changes in credit spreads.

Next, Ms. Smola summarized the returns for the individual plans and trusts within the CRPTF, and reviewed the performance attribution for the Teachers’ Retirement Fund, State Employees’ Retirement Fund and the Municipal Employees’ Retirement Fund.

Finally, Ms. Smola reported on the CHF for the period ended September 30, 2014. She said that for the first quarter, the CHF lagged its benchmark by 50 basis points (“bps”), a decline of 2.9% versus its benchmark. Since inception, Ms. Smola indicated that the public market CHF returned 6.8%, showing a 20 bps lag versus the benchmark return.

#### **Private Investment Fund Review as of June 30, 2014**

Terrence Purcell, Principal Investment Officer (“PIO”), reported on the Private Investment Fund (“PIF”) for the quarter ended June 30, 2014. He introduced the PIF consultant, Bradley Atkins, Chief Executive Officer of Franklin Park, who assisted in presenting the quarterly report.

Mr. Purcell presented a portfolio overview as well as benchmark performance and portfolio investment activity. He said the PIF portfolio returned 3.5% for the quarter ended March 30<sup>th</sup> and 17.9% for the fiscal year ended June 30, 2014, versus gains for the S&P 500 of 4.7% and 24.1%, respectively, over the same periods. He further commented on the portfolio's 3-year, 5-year and 10-year returns of 11.4%, 14.7% and 10.8%, respectively, versus the S&P 500's returns of 15.9%, 18.8% and 8.4% for those time horizons.

Mr. Atkins provided an overview of the private equity landscape, fund raising levels, and initial public offering activity. He also discussed the performance of the U.S. buyout and venture capital portfolios by vintage year.

Next, Mr. Atkins gave a market update and reported on the CHF, stating that inception to date returns rose to from 4.5% to 5.4% in the quarter ended June 30<sup>th</sup>, as the portfolio continued to emerge from the J-curve.

### **Report on Corporate Governance**

Laura Jordan, Interim Assistant Treasurer of Policy, reported on Corporate Governance activities for the quarter ended September 30, 2014. She began with an overview of the proxy voting activity for the second quarter of calendar year 2014 and covered proxy voting and the upcoming 2015 shareholder engagement strategy. She stated that there were 125 domestic annual general meetings of portfolio companies and that the CRPTF cast 1,080 votes, of which 72% were in support of management recommendations. Ms. Jordan continued that there were 369 international meetings at which the CRPTF cast 3,783 votes, 81% of which were in support of management recommendations. Ms. Jordan said that since the last Corporate Governance report on September 10<sup>th</sup>, the CRPTF had filed nine resolutions with portfolio companies for inclusion in their proxy statements.

Chair Thomas called for a motion to accept the report on Corporate Governance activities. **A motion was made by Peter Thor, seconded by William Murray, to accept the report on Corporate Governance activities. There being no discussion, Chair Thomas 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 14, 2014 IAC meeting and added that she would like to meet with the Education committee after the next IAC meeting in January.

**There being no further business, Chair Thomas called for a motion to adjourn the meeting. Mr. Murray moved to adjourn the meeting and the motion was seconded by Ms. Carpenter. There being no discussion, the meeting was adjourned at 11:30 a.m. This meeting was electronically recorded.**

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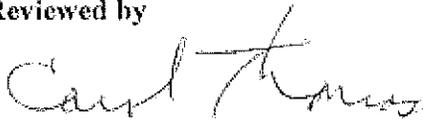
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Respectfully submitted,

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**  
**INTERIM CHAIR**