

INVESTMENT ADVISORY COUNCIL
Wednesday, January 13, 2016

MEETING NO. 429

Members present:

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

Absentees:

Laurence Hale
Steven Muench

Others present:

Richard Gray, Deputy Treasurer
Deborah Spalding, Chief Investment Officer
David Barrett, Director of Communications
Joanne Dombrosky, Principal Investment Officer
Mary Phil Guinan, Assistant Treasurer-Policy
Linda Hershman, Chief of Staff
Wayne Hypolite, Executive Assistant
Catherine E. LaMarr, General Counsel
Christina McGinnis, Executive Secretary
Christine Shaw, Chief Compliance Officer
Michael Terry, Principal Investment Officer
Linda Tudan, Executive Assistant

Guests:

MariLu Cleary, Morgan Stanley
Kristin DePlatchett, StepStone Group, LP
Michael Elio, StepStone Group, LP
Robin Kaplan-Cho, Connecticut Education Association
Pete Keliuotis, Cliffwater LLC
Robert Kochis, The Townsend Group
Aditya Raina, StepStone Group, LP
Claire Shaughnessy, AonHewitt Investment Consulting
Alex Spodak, Alliance Berstein
Diane Smola, AonHewitt Investment Consulting

*Arrival 9:04a.m.

With a quorum present, Interim Chair Carol Thomas called the Investment Advisory Council ("IAC") meeting to order at 9:00 a.m.

Approval of Minutes of the December 9, 2015 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the December 9, 2015 IAC meeting. **William Murray moved to approve the minutes of the December 9, 2015 IAC meeting as drafted. The motion was seconded by Jan Carpenter. There being no further discussion, the Chair called for the vote. The motion passed unanimously.**

Comments by the Treasurer

Treasurer Denise L. Nappier began her opening remarks by welcoming the new Private Investment Fund (“PIF”) consulting firm, StepStone, as they present their first quarterly performance report to the IAC. She added that the PIF was our highest performing asset class for both fiscal year end 2015 and calendar year end 2015.

Next, she gave a brief update on the most recent investment results as of November 30, 2015 for the two largest pension plans in the Connecticut Retirement Plans and Trust Funds (“CRPTF”), the State Employees’ Retirement Fund (“SERF”) and the Teachers’ Retirement Fund (“TERF”). She stated that both SERF and TERF remained in negative territory fiscal year to date, adding that 2015 was a difficult fiscal year for the markets.

Treasurer Nappier then reviewed the Fiscal Year 2015 Annual Report and gave a brief update on the Short-Term Investment Fund (“STIF”). She noted that it earned an additional \$5.3 million for Connecticut’s agencies, authorities, municipalities and for some of the pension funds within the CRPTF, and exceeded its primary benchmarks by 12 basis points (“bps”). She said that for the 12-month period ended December 31, 2015, STIF achieved an annual return of .17%, exceeding its primary benchmark by 12 bps, and earned an additional \$6 million in interest income for STIF investors, including the CRPTF.

Finally, Treasurer Nappier commented that the June 30 Fiscal Year 2015 performance added \$910.2 million of market value to pension assets and, after net withdrawals of \$686.2 million which include benefit payments fees and expenses, the CRPTF ended the fiscal year with assets of \$29.7 billion; a \$224 million net increase from the previous year. She added that the three largest retirement funds, SERF, TERF and the Municipal Employees’ Retirement Fund (“MERF”) earned 2.84%, 2.79%, and 2.57%, respectively, for Fiscal Year June 30, 2015; the five year returns were 9.82%, 9.72% and 8.62%, respectively.

Update on the Market, the Connecticut Retirement Plans and Trust Funds (“CRPTF”) Final Performance for Month Ended November 30, 2015

Deborah Spalding, Chief Investment Officer, provided an update on the capital market environment, its impact on the CRPTF performance and the economic outlook. She reported on the period ended November 30, 2015 for the two largest pension plans, TERF and SERF. Focusing specifically on TERF, Ms. Spalding said that it returned negative 0.08%; 33bps above

its customized benchmark. The fiscal year to date performance was down 1.10% versus the benchmark of negative 1.60%. She continued and said that SERF was down 11 bps, beating its customized benchmark of negative 43 bps. This resulted in fiscal year to date performance of negative 1.11%; 48 bps above the customized benchmark of negative 1.59%.

Ms. Spalding then reported on the Combined Investment Funds ("CIF") for the quarter ended September 30, 2015. Claire Shaughnessy, Partner, AonHewitt Investment Consulting, provided a market overview with comments on global public market equities and fixed income markets. She also gave economic highlights and said higher volatility and divergence in the market was expected to continue.

Next, Ms. Spalding provided a summary of the returns for the individual plans and trusts within the CRPTF. She reviewed the performance attribution as of September 30, 2015 for the TERF, the SERF and the MERF. She then provided a report on the Connecticut Horizon Fund ("CHF") as of September 30, 2015, noting that the fiscal year to date returns were 8.3%. Diane Smola, Associate Partner, AonHewitt Investment Consulting, stated that since inception the public market CHF returned 5.9% versus its benchmark return of 6.2%, an underperformance of 30 bps.

Lastly, Ms. Spalding commented on the Watch List and stated that Grantham, Mayo, Van Otterloo and Company managed both a non-US developed market portfolio and an emerging market portfolio. She said it remained on the Watch List due to underperformance for the emerging market portfolio only.

Alternative Investment Fund Review as of September 30, 2015

Ms. Spalding reported on the Alternative Investment Fund ("AIF") for the quarter ended September 30, 2015. She introduced the AIF consultant to the CRPTF, Pete Keliuotis, Senior Managing Director of Cliffwater LLC. She gave an overview of the executive summary, portfolio overview, benchmark performance, portfolio investment activity and fund level performance.

Ms. Spalding reported that as of September 30, 2015, the HFRI Fund Weighted Composite Index returned -4.20% and was largely due to Event Driven and Equity Long/Short strategies. She added that the Global Macro strategies held out relatively well during the quarter ended September 30, 2015, with Discretionary Macro and Systematic Macro returning -.07% and .28%, respectively. Ms. Spalding commented that the AIF fund-of-hedge fund, Prudence Crandall A and B portfolios, were negative on an absolute basis for the quarter down, at -3.66%, which was in line with the hedge fund index and has returned a positive 3.69% since inception, more than 100 bps above the index. She said Prudence Crandall C returned negative 2.34% for quarter ended September 30, 2015 and down 4.24% since inception. Ms. Spalding stated that since inception the Prudence Crandall portfolios have outperformed the hedge fund-of-fund index by 163 bps annualized net of fees.

Ms. Spalding next reported on the AIF exposure to real assets and opportunistic investments, with performance results as of June 30, 2015. She stated that since inception the real assets allocation had generated a net Internal Rate of Return (“IRR”) of 8.01% versus the benchmark of 3.08%. She remarked that there was a need to increase allocations to real assets in order to generate investment returns that are less correlated with the traditional public equity markets.

Next, Mr. Keliuotis commented on the fund-of-hedge fund portfolio, real assets and opportunistic portfolio, and the AIF and CHF portfolios.

Private Investment Fund Review as of June 30, 2015

Ms. Spalding reported on the PIF for the quarter ended June 30, 2015. She introduced the PIF consultant, Michael Elio, Partner for StepStone, who assisted in presenting the quarterly report.

Ms. Spalding presented a portfolio overview as well as benchmark performance and portfolio investment activity. She said that since inception the PIF portfolio generated a net IRR of 9.1% versus a public market equivalent return of 6.4% for quarter ended June 30, 2015. She further commented that the 10-year the portfolio has returned 11.5% net IRR versus the public market equivalent of 8.5%. Ms. Spalding remarked on the vehicle performance and said that for the 10 years ending June 30, 2015, the portfolio’s Secondary Funds had the highest returns at 14.5%, followed by Primary Funds with 11%, and Fund-of-Funds with 10%, respectively. Regarding performance for the ten years ending June 30, 2015, she said that the portfolio of turnaround and growth equity funds had generated the highest returns, while the portfolio of mezzanine, multi-strategy, and venture capital funds have generated the lowest returns.

Next, Ms. Spalding gave a brief overview on the portfolio diversification and said it was relatively mature with only 14% of commitment less than five years old.

Mr. Elio provided an overview of the portfolio summary and stated that from the program’s inception through June 30, 2015, the PIF had committed \$7.4 billion, had made contributions of \$6.7 billion and received distributions of \$7.3 billion with a remaining value of \$2.6 billion. He further stated that the remaining value represents 8.9% of the total CRPTF assets and then remarked on the performance versus the benchmark and performance by strategy.

Finally, Mr. Elio discussed the performance of the US buyout and venture capital portfolios by vintage year.

Real Estate Fund Review as of June 30, 2015

Ms. Spalding reported on the performance of the Real Estate Fund (“REF”) for the quarter ended June 30, 2015, and the portfolio diversification versus investment guidelines and its NCREIF Property Index (“NPI”) benchmark. She introduced the REF consultant to the CRPTF, Robert

Kochis, Principal of The Townsend Group (“Townsend”), who assisted in presenting the quarterly report.

Ms. Spalding then reviewed the unfunded commitments, new commitments and new acquisitions for the Core Separate Account and fund vehicles within the REF. She remarked that the REF was 6.1% of the CIF quarter ended June 30, 2015 versus its target allocation of 7%, with \$605 million of unfunded commitments. She reported that as of June 30, 2015, the REF returned 4.5% for the quarter, and 14.7%, 13.8% and 12.3% on a net of fee basis over the past 1, 3 and 5-year horizons, respectively.

Mr. Stark provided the IAC with a market overview of the REF portfolio, along with a discussion of global economic outlook, and the broader real estate markets. He then commented on liquidations and stated that the liquidation sales of the CRPTF’s legacy investments were outpacing the capital calls on new investments. Lastly, Mr. Stark gave a highlight on the core portfolio.

Short-Term Investment Fund Review as of September 30, 2015

Michael Terry, Principal Investment Officer, reported on the performance of the STIF for the quarter ended September 30, 2015. Mr. Terry said the STIF earned an average annualized yield of 18 bps during the quarter, outperforming its benchmark by 13 bps. He stated that for the twelve month period ended September 30, 2015 the fund returned 16 bps, outperforming its benchmark by 13 bps, thereby earning an additional \$5.9 million. He noted that the fund’s daily liquidity currently was 53% of assets; 63% of STIF’s assets were invested in securities issued, insured or guaranteed by the U.S. government or federal agencies, in repurchase agreements backed by such securities, or in money funds comprised of such securities; and that its reserves totaled \$50.8 million.

Report on Corporate Governance

Mary Phil Guinan, Assistant Treasurer - Policy, reported on Corporate Governance activities for the quarter ended September 30, 2015. She began with an overview of the proxy voting activity for the second quarter of calendar year 2015 through June 30, 2015, and covered proxy voting and the upcoming 2016 shareholder engagement strategy. She stated that there were 1,368 annual meetings of domestic portfolio companies and that the CRPTF cast 13,731 votes, of which 75% were in support of management recommendations. Ms. Guinan continued that there were 2,492 international meetings held at which the CRPTF cast 36,439 votes, 85% of which were in support of management recommendations.

Ms. Guinan said that for the third quarter, July 1, 2015 through September 30, 2015 there were 138 annual meetings of domestic portfolio companies and that the CRPTF cast 1,117 votes, of which 73% were in support of management recommendations. She continued that there were 354 international meetings at which the CRPTF cast 3,599 votes, 81% of which were in support of

management recommendations. Ms. Guinan then gave an overview on the shareholder engagement and stated that the CRPTF filed a total of 25 shareholder resolutions in 2015 on proxy access, climate change, board diversity, independent board chair and disclosure of political and lobby in spending.

Chair Thomas called for a motion to accept the report on Corporate Governance activities. **A motion was made by Ms. Carpenter, seconded by Duke Himmelreich, 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

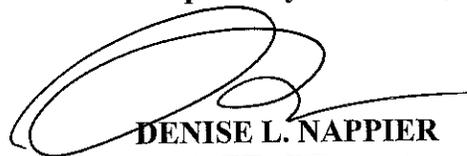
Chair Thomas invited the IAC members to submit agenda items for the February 10, 2016 IAC meeting.

Comments by the Chair

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 Peter Thor. There being no discussion, the meeting was adjourned at 10:49 a.m. This meeting was electronically recorded.**

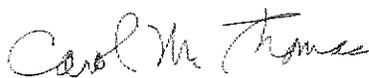
This meeting was electronically recorded.

Respectfully submitted,



**DENISE L. NAPPIER
SECRETARY**

Reviewed by,



**CAROL THOMAS
INTERIM CHAIR**

**Richard D. Gray
DEPUTY STATE TREASURER**