

INVESTMENT ADVISORY COUNCIL  
Wednesday, February 14, 2018

**MEETING NO. 449**

**Members present:**

Thomas Fiore, representing Benjamin Barnes  
Joshua Hall  
David (Duke) Himmelreich  
Michael LeClair  
Steven Muench  
William Murray  
Denise L. Nappier, Treasurer  
Carol Thomas, Interim Chair

**Others present:**

Lawrence Wilson, Deputy Treasurer  
Laurie Martin, Interim Chief Investment Officer  
Riju Das, Executive Assistant  
Joanne Dombrosky, Principal Investment Officer  
Mark Evans, Principal Investment Officer  
Karen Grenon, Legal Counsel  
Wayne Hypolite, Executive Assistant  
Catherine E. LaMarr, General Counsel  
Michael MacDonald, Interim Principal Investment Officer  
Christina McGinnis, Executive Secretary  
Christine Shaw, Chief Compliance Officer/Assistant Treasurer  
Linda Tudan, Executive Assistant

**Guests:**

Drienne Benner, Appomattox  
Afsaneh Beschloss, Rock Creek Group  
Natalie Birrell, Anchorage Capital Group  
Bill Boardman, KBI Global Investors  
LaRoy Brantley, Meketa Investment Group  
Ben Browning, K2 Advisors  
Jean-Francois Crousillat, K2 Advisors  
Phil Deeney, State Street Global Advisor  
Alifia Doriwala, Rock Creek Group  
John Estes, Anchorage Capital Group  
Robin Kaplan-Cho, Connecticut Education Association  
Pete Keliuotis, Cliffwater  
Ned Kwasniewski, IQeros  
Will Greene, Loop Capital  
Leanne Moore, Meketa Investment Group  
Christopher Morgan, K2 Advisors  
Mary Mustard, Meketa Investment Group  
Justin Rico Oyola, SEIU (Capital Stewardship Program)  
Craig Savitzky, PEI Media  
J. Schrank, Pensioner

Liz Smith, Alliance Bernstein  
Kathleen Kennedy Townsend, Rock Creek Group  
Arnold West, GIA Partners  
Peter, Woolley, Meketa Investment Group  
Ronald van der Wouden, Rock Creek Group  
Brian Vahey, Guest

With a quorum present, Interim Chair Carol Thomas called the Investment Advisory Council (“IAC”) meeting to order at 9:02 a.m.

#### **Approval of Minutes of the January 10, 2018 IAC Meeting**

Chair Thomas called for a motion to approve the minutes of the January 10, 2018 IAC meeting. **William Murray moved to approve the minutes of the January 10, 2018 IAC meeting. The motion was seconded by Duke Himmelreich. 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 commenting on the agenda and said there would be an Executive Session immediately following the regular meeting. She then stated that she had two investment-related announcements and that after giving consideration to the feedback from the IAC and to the extensive due diligence process conducted by investment professionals and the Private Investment Fund (“PIF”) consultant, StepStone Group (“StepStone”), she had decided to make a commitment of up to €80 million euros, the equivalent of approximately \$95 million, to EQT VIII, which would primarily focus on buyout investments in northern Europe. Treasurer Nappier added that this investment would provide the Connecticut Retirement Plans and Trust Funds (“CRPTF”) with a further opportunity for geographic diversification via a prominent European private equity manager effecting a buyout strategy embedded in the firm’s industrial history.

Additionally, she stated that after giving consideration to the feedback from the IAC and to the extensive due diligence process conducted by investment professionals and StepStone, she had decided to make a commitment of up to \$50 million to Siris Partners IV, L.P., whose General Partner, Siris Capital Group, was headquartered in New York. Treasurer Nappier said the fund would focus primarily on technology-focused buyout investments in North America. Further, she added that the CRPTF currently had exposure to Siris Partners II, L.P., through the M2 Connecticut Emerging Private Equity Fund-of-Funds L.P., within the PIF sleeve of the Connecticut Horizon Fund portfolio, under the management of Muller and Monroe.

Treasurer Nappier stated that each of these investment commitments were contingent upon successful negotiation of the partnership documents.

Treasurer Nappier then briefly commented on the one-year investment performance for the two largest pension plans in the CRPTF; the Teachers’ Retirement Fund (“TERF”), State Employees’ Retirement Fund (“SERF”), and also noted the investment performance of the Municipal Employees’ Retirement Fund (“MERF”), as of December 31, 2017. Treasurer Nappier stated

that the TERF and the SERF posted returns of 16.3% and 16.5%, respectively, outperforming the related benchmarks by 63 and 74 basis points (“bps”), respectively and that the MERF posted a return of 14.53%.

Treasurer Nappier then referenced the news clip regarding Governor Malloy’s proposed pension reform for the TERF. She said she strongly opposed the Governor’s proposal to restructure payments, which she indicated would violate the bond covenant and prompt a technical default of the State’s promise to bondholders. She further explained that this technical default would need to be included in bond disclosure documents, which could lead to less interest in the market for Connecticut bonds and possibly increase the overall cost of borrowing.

Lastly, Treasurer Nappier commented on the agenda and announced that there was an investment opportunity being presented for consideration by the IAC, Anchorage Illiquid Opportunities Fund VI, L.P. (“AIO VI”), an investment opportunity for the Alternative Investment Fund (“AIF”) of up to \$75 million. The fund is headquartered in New York, and would focus on investments in a concentrated portfolio of less liquid niche credit opportunities across the U.S., Europe, New Zealand and Australia. She stated that this investment would implement core investment strategies in distressed debt and secondary and primary markets with average investment sizes of \$30 million to \$70 million. Treasurer Nappier also stated that a presentation and discussion on liquid alternative investment strategies would be heard from two CRPTF managers within the AIF; K2 Advisors (“K2”) and The Rock Creek Group (“Rock Creek”). She mentioned that seeking a cost effective liquid investment option would enable the CRPTF to remain wholly invested at the AIF policy targets, as outlined in the Investment Policy Statement, and that the two managers provided an attractive liquid alternative product which would facilitate the AIF’s objective of investing in a multi-strategy portfolio offering liquid, diversified alternative investment exposures across multiple sub-strategies.

#### **Update on the Market, the Connecticut Retirement Plans and Trust Funds Final Performance for Month Ended December 31, 2017**

Laurie Martin, Interim Chief Investment Officer (“CIO”), provided an update on the capital market environment, its impact on the CRPTF performance and the economic outlook. Ms. Martin reported that for the month ending December 31, 2017, the TERF and SERF, the two largest pension plans, both returned 1.0%, respectively, and the MERF returned about 0.9%; all three funds underperformed their benchmarks by 25 bps for the month. She stated that the Developed Markets International Stock Fund and Emerging Markets International Stock Fund each outperformed but that returns were offset by the developed international equity currency overlay manager that underperformed by 94 bps for the month. Ms. Martin said the PIF underperformed the public S&P 500 index by 91 bps for the month, and the private market performance should outperform public markets in the longer term. She mentioned that in absolute terms, the Emerging Markets International Stock Fund had the strongest performance followed by the Emerging Market Debt Fund, at 3.8% and 1.5%, respectively. She then reviewed other major market events impacting performance for the month of December. Ms. Martin reported on December 2017 fiscal year to date and one-year performance and stated that halfway into the fiscal year, the CRPTF performance was still being driven by global equity

market returns with the TERS and the SERS both up over 7.0%, respectively, and MERS was up 6.2%. For the one year ending December 31, 2017, she reported that both the TERF and the SERF were up over 16.0%, respectively, and the MERF was up 14.5%. Ms. Martin commented that all the plans were outperforming their respective benchmarks for the one year, primarily driven by active management by global equity and emerging market debt managers.

### **Consideration of the Search Process for a Real Estate Fund Consultant**

Ms. Martin provided opening remarks and mentioned the Real Estate Fund (“REF”) consultant scope of services and the proposed project plan.

Chair Thomas asked for a motion to endorse the search process for an REF consultant. **A motion was made by Mr. Himmelreich, seconded by Michael LeClair, to endorse the REF consultant search. There being no discussion, the Chair put the question to a vote and the motion was passed unanimously.**

### **Presentation by and Consideration of Anchorage Illiquid Opportunities VI, L.P.**

Michael MacDonald, Interim Principal Investment Officer (“PIO”), provided opening remarks and introduced Anchorage Illiquid Opportunities Fund VI, L.P. (“AIO VI”), an AIF investment opportunity and added that the \$1 billion fund was being raised by Anchorage Capital Group, (“Anchorage”) headquartered in New York. He stated that it was a distressed credit opportunity and AIO VI would invest in a concentrated portfolio of less liquid niche credit opportunities across the U.S., Europe, New Zealand and Australia. Mr. MacDonald stated that an investment with AIO VI would provide the CRPTF with exposure to a proven distressed debt strategy led by an experienced investment team with an attractive historical performance record. He then spoke of the investment strategy and market opportunity of Anchorage Capital and stated that it invested in smaller, complex opportunities in the less liquid distress credit space across market cycles. Lastly, Mr. MacDonald commented on the firm’s management fees and governance provisions.

Anchorage Capital Group, represented by Natalie Birrell, Partner & Chief Operating Officer, and John Estes, Director-Business Development & Investor Relations, made a presentation to the IAC. Mr. Estes began and introduced the team. Ms. Birrell then gave a firm overview and stated that it was an experienced alternative asset manager with \$17 billion in assets under management founded in 2003, invested across the capital structure with a focus on investing across industries, as well as, developed countries. She added that the firm’s focus was to create both an institutional infrastructure and an institutional platform in asset management, to differentiate themselves in the market by pairing a fundamental research approach with an active trading approach. Ms. Birrell then spoke of the firm’s focus on four key pillars: research, trading platform, specialization teams, and institutional infrastructure. She gave an introduction to the AIO funds and stated that they were initially launched in 2009 to capture the illiquidity premium in the markets and discussed the investment strategies of the AIO VI.

Several IAC members posed questions regarding the market risk, AIO V, and governance provisions, to which Ms. Birrell and Mr. Estes answered to their satisfaction.

### **Roll Call of Reactions for Anchorage Illiquid Opportunities VI, L.P.**

Thomas Fiore, Messrs. Himmelreich, Murray, LeClair, Steven Muench, Joshua Hall, and Chair Thomas provided feedback on Anchorage and all were in favor of the AIO VI, AIF opportunity. Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Mr. Murray seconded by Mr. Hall, to waive the 45-day comment period for the Anchorage Illiquid Opportunities VI, L.P. There being no discussion, the Chair put the question to a vote and the motion was passed unanimously.**

### **Overview of and Presentation by Liquid Alternative Strategies**

Mr. MacDonald provided opening remarks and discussed the funding of an additional allocation to two existing investment managers, K2 and Rock Creek, for the liquid alternative strategies within the AIF. He stated that the purpose of the additional allocation would be to provide a cost effective, liquid investment option that would allow for the timely asset allocation rebalancing of the AIF and enable the CRPTF to remain fully invested at AIF policy targets. Mr. MacDonald added that both managers would provide a liquid alternative product that would accommodate AIF's objective of investing in a multi-strategy portfolio that offers liquid, diversified alternative investment exposures across multiple sub strategies.

Several IAC members posed questions regarding performance, policy target, returns, and strategy, to which Mr. MacDonald answered to their satisfaction.

K2, represented by Ben Browning, Senior Managing Director, Jean-Francois Crousillat, Managing Director, and Christopher Morgan, Senior Vice President, Institutional Relationship Manager, made a presentation to the IAC. Mr. Crousillat introduced the team and Mr. Browning gave an overview of the firm, founded in 1994, and stated they were based in Stamford, Connecticut and was one of the largest hedge fund advisory firms in the world with \$10.4 billion in assets under management. He said that K2 maintains a global presence with 43 professionals in offices in the U.S., U.K, Japan, Australia and Hong Kong, and was currently a subsidiary of Franklin Templeton Investments. Mr. Browning stated that K2 provided integrated hedge fund product solutions to hundreds of institutional and high net worth investors across the globe, including corporations, large public and union pension funds, insurance companies, foundations, and endowments. He then spoke about the benefits and the value of equity-focused strategies in alternatives and the challenges to investors, including lack of liquidity, transparency and fees. He added that K2 uses a wide range of hedge fund strategies that exhibit lower volatility and correlation to the broad capital markets to achieve investment objectives. Mr. Browning then talked about K2's history in liquid alternatives and the firm's liquid offerings. Lastly, Mr. Browning spoke about the proposal for the hedged strategies allocation and the CRPTF fees.

Several IAC members posed questions regarding the return objectives, investments, fees and expertise in investment staff, to which Ms. Birrell and Mr. Estes answered to their satisfaction.

The Rock Creek Group, represented by Afsaneh Beschloss, Founder and CEO, Alifia Doriwala, Managing Director, Ronald van der Wouden, Managing Director, and Kathleen Kennedy Townsend, Managing Director, also made a presentation to the IAC. Ms. Townsend began and

introduced the team and Ms. Beschloss gave a firm overview and stated they were based in Washington, DC, founded in 2002, as a preeminent hedge fund advisory firm with \$13.3 billion of assets under management. Ms. Beschloss then spoke about Rock Creek's competitive edge, investment team and the benefits of partnering with Rock Creek. She then discussed the strategic partnership with the CRPTF, the strong performance, risk management and cost over the last seven years. Ms. Beschloss then described the history and role of hedge funds in institutional portfolios and liquid hedge fund strategies. Ms. Doriwala gave an overview of the liquid hedge fund strategy and portfolio, highlights and opportunistic approach. Mr. van der Wouden spoke about the risk profile of the liquid strategy.

Several IAC members posed questions regarding the fee structure, and portfolio highlights, to which Ms. Doriwala answered to their satisfaction.

### **Other Business**

Chair Thomas then invited the IAC members to submit agenda items for the March 14, 2018 IAC meeting.

### **Executive Session**

**A motion was made by Mr. Muench, seconded by Mr. LeClair, that the IAC adjourn the Regular Session at 11:39 a.m. and enter into Executive Session to consider personnel matters. The motion was passed unanimously.** Lawrence Wilson, Deputy Treasurer participated in the Executive Session.

### **Regular Session**

Chair Thomas reconvened the regular session at 12:00 noon. She noted that no votes were taken during the Executive Session and personnel matters were discussed.

### **Consideration of the Appointment of the Chief Investment Officer**

Chair Thomas asked for a motion to accept the Council's consent to the hiring of the Treasurer's preferred candidate for the CIO, subject to salary negotiations within the previously approved salary range.

**A motion was made by Mr. Muench, seconded by Mr. Murray, to approve the appointment of the CIO for the CRPTF. The motion was passed unanimously.**

### **Consideration of the Appointment of the Principal Investment Officer**

Chair Thomas asked for a motion to accept the Council's consent to the hiring of the Treasurer's preferred candidate for the PIO for the REF, subject to salary negotiations within the previously approved salary range.

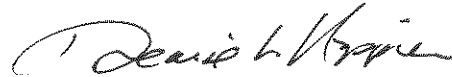
**A motion was made by Mr. Himmelreich, seconded by Mr. Murray, to approve the appointment of the PIO for the CRPTF. The motion was passed unanimously.**

**Comments by the Chair**

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 Mr. Murray. There being no discussion, the meeting was adjourned at 12:03 p.m.**

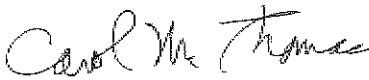
**This meeting was electronically recorded.**

**Respectfully submitted,**



**DENISE L. NAPPIER  
SECRETARY**

**Reviewed by,**



**CAROL THOMAS  
INTERIM CHAIR**