

INVESTMENT ADVISORY COUNCIL
Wednesday, September 12, 2018

MEETING NO. 455

Members present:

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

*Arrival 9:08a.m.

**Arrival 9:09a.m.

Absent:

Joshua Hall

Others present:

Lawrence Wilson, Interim Deputy Treasurer
Laurie Martin, Chief Investment Officer
David Barrett, Executive Assistant
Joanne Dombrosky, Principal Investment Officer
Mark Evans, Principal Investment Officer
Lyndsey Farris, Investment Officer
Karen Grenon, Legal Counsel
Danita Johnson, Principal Investment Officer
Catherine LaMarr, General Counsel
Michael MacDonald, Principal Investment Officer
Christina McGinnis, Executive Secretary
Christine Shaw, Chief Compliance Officer-Assistant
Treasurer
Michael Terry, Principal Investment Officer
Linda Tudan, Executive Assistant

Guests:

Drienne Benner, Appomattox
LaRoy Brantley, Meketa Investment Group
David Breach, Vista Equity Partners
Dyice Ellis-Beckham, Invesco
Christy Gahr, Meketa Investment Group
Pete Keliuotis, Cliffwater
Tim Maul, RBC Global Asset Management
Deirdre Guice Minor, T. Rowe Price
Greg Myers, Vista Equity Partners
Justin Rico Oyola, SEIU (Capital Stewardship Program)
Jeff Russell, Vista Equity Partners
Rick Scarola, Covenant Capital Group
Andrew Silva, Guest (OPM)
Liz Smith, AllianceBernstein
Kevin Sullivan, Bank of New York Mellon

Larry Tang, StepStone Group
Govan White, Covenant Capital Group
Danielle Wills, Covenant Capital Group
Peter Woolley, Meketa Investment Group

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

Approval of Minutes of the July 11, 2018 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the July 11, 2018 IAC meeting. **Duke Himmelreich moved to approve the minutes of the July 11, 2018 IAC meeting. The motion was seconded by William Murray. There being no further discussion, the Chair called for the vote. The motion passed.**

Comments by the Treasurer

Treasurer Denise L. Nappier began her opening remarks and announced 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, she had decided to make a commitment of up to €75 million, or approximately \$90 million, to ICG Europe Fund VII SCSp, (“ICG Europe VII”) headquartered in London. She added that ICG Europe VII would primarily focus on investments in mezzanine capital in middle market companies based in Europe and that this commitment provided the Connecticut Retirement Plans and Trust Funds (“CRPTF”) with increased exposure to European middle market private capital investments through ICG Europe, the largest investor of subordinated debt and intermediate capital in the region. Treasurer Nappier said the commitment was contingent upon successful negotiation of the partnership documents.

Additionally, she announced that after having completed a competitive search and having given consideration to the feedback from the IAC and the extensive due diligence findings by investment, Legal and Compliance staff, she had decided to hire NEPC, LLC (“NEPC”) for the Real Estate Investment Consultant mandate. Treasurer Nappier stated the search plan was presented and endorsed at the February 2018 IAC meeting and that eight candidate firms were fully vetted and presented for her consideration; and at this past July IAC meeting, there were three semi-finalists presented: Callan Associates, Inc., Meketa Investment Group (“Meketa”) and NEPC.

Treasurer Nappier announced that there were two investment opportunities being presented for consideration by the IAC: Covenant Apartment Fund IX, L.P., (“Covenant IX”) a Real Estate Fund (“REF”) opportunity and Vista Equity Partners Fund VII, L.P. (“Vista VII”), a PIF opportunity. She said the general partner was headquartered in Nashville, Tennessee and an investment opportunity of up to \$50 million in Covenant IX, which would primarily focus on acquiring multifamily assets located in the Southeastern, Midwestern and Mid-Atlantic states in the U.S. Treasurer Nappier added that the CRPTF was well acquainted with the firm, having invested in three previous funds; Covenant Apartment Fund (“CAF”) V, VI and VIII. Funds V and VI are liquidated and posted a net internal rate of return (“IRR”) of 3% and 14%, respectively, and Fund VIII achieved a 16% net IRR as of June 30, 2018. The second fund she

discussed was Vista VII, an investment opportunity for the PIF of up to \$100 million, headquartered in Austin, Texas and stated that it would primarily focus on control-oriented investments in middle market and large cap technology companies located in North America. Treasurer Nappier said that the CRPTF had committed \$50 million to Vista Equity Partners (“Vista”) Fund III; \$75 million to Fund IV and \$100 million to Fund VI. Vista Funds III, IV and VI generated net IRRs of 28.6%, 19.2% and 6.8%, respectively, as of March 31, 2018.

She gave recognition to Vista for its commitment to increasing the number of women in the financial services industry as demonstrated by its sponsorship of *Girls Who Invest*, a non-profit organization established in 2016 with a financial commitment of \$750,000 over three years and explained that the mission of this organization was to increase the number of women in portfolio management and executive leadership in the industry, with a goal of expanding the current 10% to 30% by 2030. She added that, to date, *Girls Who Invest* have built a conduit of talented and ambitious young women ready and eager to prosper in the industry through an intensive educational program, an important paid internship and a vigorous on-going community of support. Treasurer Nappier then commented on Vista’s recent acquisition of Datto, Inc., a Connecticut based company, and stated that Datto provided important business continuity, data protection, and managed networking solutions, that could produce ancillary economic benefits for our State of Connecticut. She said at the time of Vista’s acquisition of Datto in December 2017, the company had 437 Connecticut-based employees and since then that figure has grown to 463 Connecticut-based employees.

Finally, Treasurer Nappier briefly commented on the CRPTF investment performance for the fiscal year ending 2018, which resulted in lower positive returns when compared to the double digit positive returns for the fiscal year ending June 30, 2017 and calendar year ending December 2017. She stated that short-term volatility was the price for long-term outperformance. Treasurer Nappier added that for the fiscal year ending June 30, 2018, the CRPTF hit an all-time high in market value, posting an unaudited net asset value of \$34.2 billion and accounting for fees and expenses, including \$466 million of benefit payments in excess of total contributions received, the CRPTF’s value grew by more than \$1.6 billion during this past fiscal year. She then said the market value of the pension and trust funds at the beginning of Fiscal Year 2000, or six months into the tenure of her administration as State Treasurer, was \$19.8 billion and the value at the end of Fiscal Year 2018 was \$34.2 billion. Treasurer Nappier added that the \$14.4 billion value increase over this 19 year investment period was inclusive of net cash outflows associated with the payment of pension benefits of \$12.9 billion and \$27.3 billion in net investment returns, or a cumulative return of 198 percent. She noted that if the six months were added to this measurement period, accounting for when she assumed the Office of the Treasury in January 1999, the two largest pension funds the Teachers’ Retirement Fund (“TERF”), and the State Employees’ Retirement Fund (“SERF”), exceeded the average performance of our peers based on the InvestorForce peer universe survey. Lastly, she briefly spoke about the Wilshire Trust Universe Comparison (“TUCS”) ranking, which only reports the past 19 years, compared to the InvestorForce survey and asked our general consultant, Meketa, to offer some insight as to how the InvestorForce survey was designed which might further explain the difference between their ranking and that of TUCS.

Update on the Market, the Connecticut Retirement Plans and Trust Funds Final Performance for Month Ended June 30, 2018 and July 31, 2018

Laurie Martin, Chief Investment Officer, provided an update on the CRPTF performance and commented on the capital market environment and the economic outlook. She reported that for the 2018 fiscal year, the two largest pension plans, TERF and the SERF returned 7.04%, and 7.30%, respectively, and the Municipal Employees' Retirement Fund ("MERF") posted a return of 6.14%. She added that the fiscal year started out strong with the first six months of the year posting total returns close to 7%, the Emerging Market Equity was up 15.9%, and the S&P 500 was up 11.5% during this time. Ms. Martin added that volatility re-entered the capital markets in the second half of the year with US equities performing very strong and Developed International Equities and Emerging Market Equities experiencing steep losses. She commented that all three plans slightly underperformed their respective benchmarks by 66, 46 and 39 basis points ("bps"), respectively. AIF had the strongest outperformance versus its benchmark by 333 bps, followed by the REF by 157 bps, and the PIF by 111 bps. Ms. Martin stated that the largest underperformance came from the Emerging Markets Equity Fund, under its benchmark by 324 bps, followed by the Developed Markets International Fund under by 111 bps. She said positive for the fiscal year were the PIF, up 15.5% followed by the Mutual Equity Fund up 14.7%; the REF returned 8.7%; and the Developed International Equity Fund returned 6.5%, however, this positive performance was offset primarily by low and negative fixed income returns. Lastly, Ms. Martin reported for the month ending July 31, 2018, and the TERF returned 1.67% followed by the SERF, up 1.64% and the MERF up 1.50%; all three plans slightly underperformed their respective benchmarks by 21 to 23 bps, primarily due to the relative outperformance from the Emerging Market Debt Fund, followed by Inflation Linked Bonds ("ILB") and High Yield Bonds. She added that all asset classes with the exception of ILB posted positive returns for the month.

Combined Investment Funds Review as of June 30, 2018

Peter Woolley, Managing Principal and Co-Chief Executive Officer, and LaRoy Brantley, Principal, of Meketa, reported on the Combined Investment Funds and the Connecticut Horizon Fund ("CHF") for the quarter ending June 30, 2018. Mr. Woolley began and reported on the world markets for second quarter 2018 and stated that there were positive returns in US Equities and real estate investment trusts, up 10%, but there were negative returns from emerging market bonds and emerging market stocks. He added that the treasury inflation protected bonds outperformed the aggregate bond market. Mr. Woolley then highlighted current inflation, capital market outlook and valuations. He stated that looking ahead; trade wars, tariffs, and rising rates can create some headwinds for the U.S., China and the global economy. Next, Mr. Brantley gave a brief explanation and comparison of the TUCS reporting versus InvestorForce, a service based software solution platform used by Meketa. He then gave an overview on performance for the plans and trusts funds and focusing on performance for the three largest retirement plans, TERF, SERF and MERF, for the quarter ending June 30, 2018. Each trailed their respective custom benchmarks in the range of 20 to 50 bps; a slight underperformance. Mr. Brantley then reviewed the CHF and stated that the total market value was approximately \$1.4 billion, with returns of 3.4% for the quarter ending June 30, 2018 and 13.0% for fiscal year to date.

Presentation by and Consideration of Covenant Apartment Fund IX, L.P.

Danita Johnson, Principal Investment Officer (“PIO”), provided opening remarks and introduced Covenant IX, a REF opportunity. She stated that Covenant Capital Group, (“Covenant”) established in 2001, was a full service real estate and investment management firm based in Nashville, Tennessee, and since inception, the firm has acquired and operated multifamily properties, specializing in transforming B-quality properties into institutional-quality assets through renovation and repositioning while seeking to maximize operating cash flow for investors. Ms. Johnson added that the multifamily assets would be acquired in the Southeastern, Midwestern and Mid-Atlantic U.S. states. She spoke of the CRPTF’s long standing relationship with Covenant since 2007 and briefly gave an overview of the three previous funds the REF invested in, reviewed their track record, market opportunities, key strengths and redevelopment expertise. Ms. Johnson added that the Principals had a greater than 30-year track-record investing in U.S. multifamily real estate and had worked together for over 17 years. Lastly, she then reviewed the key risks and the status of fund raising.

Covenant IX, represented by Rick Scarola, Managing Partner, Govan White, Managing Partner, and Dani Wills, Vice President of Investor Relations, made a presentation to the IAC. Mr. White began and gave an overview of the firm and stated it was founded in 2001, and is a value-add investment manager with an exclusive focus on the acquisition and renovation of apartment communities with a geographic focus in U.S. only, with a Southeastern, Midwestern and Mid-Atlantic market focus. He then spoke about Covenant Fund IX and said it was formed in 2017 to provide investors with attractive risk-adjusted absolute returns through a portfolio of value-add investments in apartment communities. Mr. White added that the strategy was to identify and invest in apartment communities in well-located, supply-constrained markets that appear to have temporary or correctable flaws in the physical attributes, capital structures, tenancy and/or market position, the target return was 16% to 18%, with an eight year life and committed capital of \$344 million. He then spoke about the firm’s investment strategy and stated that they focus on acquisition, renovation and ownership of older apartment communities, addressing housing problems unique to each community through renovation and/or managerial and operational restructuring. Mr. Scarola stated they are centrally headquartered in Nashville, Tennessee and reviewed the firm’s target markets and the investment strategy cycle. Ms. Wills then discussed the firm’s sustainability initiatives. Next, Mr. White reviewed the Covenant team’s market knowledge and relationships, and investment performance. Lastly, Mr. Scarola spoke about the market opportunity.

Several IAC members posed questions regarding the past funds, duration of renovations and occupancy of renovated apartment complexes, to which the team answered to their satisfaction.

Roll Call of Reactions for Covenant Apartment Fund IX, L.P.

Steven Muench, Michael LeClair, Messrs. Murray, Himmelreich, Thomas Fiore, Patrick Sampson, and Chair Thomas provided feedback on the Covenant Apartment Fund IX REF opportunity.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Mr. Muench, seconded by Mr. Himmelreich, to waive the 45-day comment period for the**

Covenant Apartment Fund IX. There being no discussion, the Chair put the question to a vote and the motion was passed unanimously.

Presentation by and Consideration of Vista Equity Partners Fund VII, L.P.

Mark Evans, PIO, provided opening remarks and introduced Vista VII, a PIF opportunity, and said Vista VII was targeting a \$12 billion fundraise and as a result of the first close the firm held in August, the \$16 million hard cap was established. Mr. Evans stated Vista was founded in 2000, headquartered in Austin, TX, with office in San Francisco and Chicago, and was focused on control-oriented buyout investments in middle market and large cap technology companies primarily in North America and select international markets. He spoke of the investment strategy and market opportunities and added that the firm uses a multifaceted, proactive approach to developing investment themes and identifying specific attractive investment opportunities. Mr. Evans then spoke about the firm and management team, track record and key strengths. Several IAC members posed questions regarding the firm's loss ratio, corporate organization and acquisitions, to which the Mr. Evans answered to their satisfaction.

Vista VII, represented by David Breach, Chief Operating Officer, Greg Myers, Principal and Global Head of Investor Relations, and Jeff Russell, Senior Vice President, Investor Relations, made a presentation to the IAC. Mr. Breach began and introduced the team and gave an overview of the firm, which has over 110 investment professionals and that the firm's portfolio of companies represents the 4th largest enterprise software company to enhance the operational returns of businesses and generate returns for its investors. Mr. Breach reviewed the performance of Vista Funds IV, V and VI as of August, 31, 2018. He talked about enterprise software and software companies in Vista's portfolio. Mr. Breach reviewed the Vista team, diversity statistics and programs.

Roll Call of Reactions for Vista Equity Partners Fund VII, L.P.

Messrs. Fiore, Himmelreich, Murray, LeClair, Muench, Sampson, and Chair Thomas provided feedback on the Vista Equity Partners Fund VII PIF opportunity.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Mr. Muench, seconded by Mr. LeClair, to waive the 45-day comment period for the Vista Equity Partners Fund VII. There being no discussion, the Chair put the question to a vote and the motion was passed unanimously.**

Alternative Investment Fund Review as of June 30, 2018

Pete Keliuotis, Senior Managing Director of Cliffwater, LLC, presented the report for the quarter ending June 30, 2018 and began with an executive summary and overview of the portfolio and strategy performance. Mr. Keliuotis reported that at the end of the second quarter the allocation to AIF was 5.7% of total plan assets, or \$1,962.4 million, and the absolute return portfolio was just above target. He reviewed the asset class exposures for absolute return, real assets and opportunistic, as well as the performance and return drivers for all three sub asset classes. In the absolute return portfolio, Mr. Keliuotis stated that it provided significant alpha for the CRPTF, with each portfolio returning at least 1.50% versus the HFRI Fund of Funds Composite Index returning 0.41%. He continued and said the CRPTF's real assets holdings performed strongly

during the quarter due to higher energy prices and continued US domestic production. Mr. Keliuotis added that the CRPTF's opportunistic portfolio saw a modest uptick in fair value during the quarter. He then reviewed the CHF portion of AIF and discussed the return drivers and performance and stated that Appomattox underperformed due to exposure to opportunistic strategies.

Report on Corporate Governance

Christine Shaw, Chief Compliance Officer, Assistant Treasurer-Policy, reported on the Corporate Governance activity for the quarter ending June 30, 2018. She began with an overview of the proxy voting activity and stated that there were 1,367 annual meetings of domestic portfolio companies and that the CRPTF cast 13,965 votes, of which 77.42% supported management recommendations. Ms. Shaw said that there were 2,506 international meetings held at which the CRPTF cast 31,966 votes; 86.4% of which were in support of management recommendations. For the 2018 proxy season, she said the CRPTF co-filed one shareholder resolution since April 1, 2018 and was voted upon and two resolutions were withdrawn given successful settlement with the company. Ms. Shaw stated that the two companies were McKesson Corporation and Cardinal Health and explained that the CRPTF together with the New York State Common Retirement Fund, filed a resolution that asked the company to report to shareholders on the governance measures it has implemented to more effectively monitor and manage the financial and reputational risks related to the opioids crisis. She added that for Cardinal Health, the CRPTF along with Mercy Investment Services filed a May 2018 resolution similar to what was filed with McKesson.

Chair Thomas called for a motion to accept the report on Corporate Governance activities. **A motion was made by Mr. Murray, seconded by Mr. LeClair, to accept the report on Corporate Governance activities. There being no discussion, Chair Thomas put the question to a vote and the motion passed.**

Short-Term Investment Fund Review as of March June 30, 2018

Michael Terry, PIO, reported on the performance of the Short-Term Investment Fund ("STIF") for the quarter ending June 30, 2018 and stated that the STIF achieved an annualized return of 1.8%, which exceeded its primary benchmark by 8 bps, which resulted in an additional \$1.5 million for the investors. Mr. Terry said for the fiscal year ending June 30, 2018, STIF achieved an annualized return of 1.39%, which exceeded its primary benchmark by 12 bps, which resulted in an additional \$7 million for the investors. He added that STIF continued to outperform its benchmark while maintaining its conservative investment practices of high liquidity, short portfolio maturity, and restrictions on corporate securities. Mr. Terry stated that currently, STIF held \$2.7 billion, or 38% of fund assets in overnight investments and the weighted average maturity of the portfolio was 33 days. He said in addition to the fund's cautious investment practices, reserves were at the annual rate of 10 bps until they reach 1% of total assets and currently, STIF's reserves total approximately \$62.2 million, or slightly less than 1% of total assets.

Other Business

Chair Thomas invited the IAC members to submit agenda items for the October 10, 2018


meeting. She communicated that there would be an extra meeting scheduled in October for business purposes in addition to the IAC meeting scheduled for October 10, 2018; the date is to be announced.

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 Mr. Himmelreich. There being no discussion, the meeting was adjourned at 11:56 a.m.**

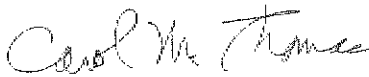
This meeting was electronically recorded.

Respectfully submitted,



**DENISE L. NAPIER
SECRETARY**

Reviewed by,



**CAROL THOMAS
INTERIM CHAIR**