

INVESTMENT ADVISORY COUNCIL
Wednesday, October 10, 2018

MEETING NO. 456

Members present:

Thomas Fiore, representing Benjamin Barnes*
Joshua Hall
Steven Muench
William Murray
Patrick Sampson
Carol Thomas, Interim Chair
Lawrence Wilson, Interim Deputy Treasurer

*Arrival 9:08a.m

Absent:

David (Duke) Himmelreich
Michael LeClair
Denise L. Nappier, Treasurer

Others present:

Laurie Martin, Chief Investment Officer
David Barrett, Executive Assistant
Riju Das, Executive Assistant
Mark Evans, Principal Investment Officer
Karen Grenon, Legal Counsel
Wayne Hypolite, Executive Assistant
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
Linda Tudan, Executive Assistant

Guests:

Drienne Benner, Appomattox
William Boardman, KBI
Molly Bordonaro, Gerding Edlen
LaRoy Brantley, Meketa Investment Group
Michael Elio, StepStone Group
Christy Gahr, Meketa Investment Group
Will Greene, Loop Capital
Robin Kaplan-Cho, Connecticut Education Association
Pete Keliuotis, Cliffwater
Ned Kwasniewski, Iqeros
Alan Mattamana, Fairview Capital Partners
Tim Maul, RBC Global Asset Management
Chris Morgan, Franklin Templeton
Kola Olofinboba, Fairview Capital Partners
JoAnn Price, Fairview Capital Partners
Aditya Raina, StepStone Group
Kelly Saito, Gerding Edlen
Arnold West, GIA Partners
Peter Woolley, Meketa Investment Group

With a quorum present, Interim Chair Carol Thomas called the Investment Advisory Council (“IAC”) meeting to order at 9:00 a.m. She said that there would be an Asset Allocation meeting immediately following the IAC meeting. Chair Thomas then commented on the passing of Henry Parker, an IAC committee member who served from 1975 to 1986. She gave a brief background and offered her condolences to his friends and family.

Approval of Minutes of the September 12, 2018 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the September 12, 2018 IAC meeting. **William Murray moved to approve the minutes of the September 12, 2018 IAC meeting. The motion was seconded by Lawrence Wilson. There was one abstention, Joshua Hall. There being no further discussion, the Chair called for the vote. The motion passed.**

Comments by the Interim Deputy Treasurer

Mr. Wilson, Interim Deputy Treasurer, began his opening remarks and announced that Treasurer Denise L. Nappier would not be present. He then addressed the passing of Henry Parker and mentioned that Treasurer Nappier would be presenting for the IAC’s consideration a resolution at the next IAC meeting on October 24, 2018. Mr. Wilson continued and said that after giving consideration to the feedback from the IAC and to the extensive due diligence process conducted by investment professionals and the Real Estate Fund (“REF”) consultant, Meketa Investment Group, (“Meketa”), Treasurer Nappier had decided to make a commitment of up to \$50 million to Covenant Apartment Fund IX, L.P., headquartered in Nashville, Tennessee; the fund would primarily focus on acquiring and renovating multifamily assets located in the Southeastern, Midwestern and Mid-Atlantic U.S. Additionally, he stated 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”), the Treasurer had decided to make a commitment of up to \$100 million to Vista Equity Partners Fund VII, L.P., headquartered in Austin, Texas which would primarily focus on control-oriented buyout investments in middle market and large cap technology companies located in North America. Mr. Wilson added that both of these commitments were contingent upon successful negotiation of the partnership documents.

Mr. Wilson announced that there were two investment opportunities being presented for consideration by the IAC; one PIF and one REF opportunity. The first was Constitution Fund V, LLC (“Constitution V”), headquartered in West Hartford, Connecticut. He said the Treasurer was considering an opportunity of up to \$75 million in Constitution V Series C and \$25 million in Constitution V Series D. Mr. Wilson stated that the Series C capital would be utilized to create an investment portfolio of underlying venture capital and growth stage funds, and the Series D capital would focus on executing co-investments in late and growth stage companies located in Connecticut. He said the second presentation was Gerding Edlen Green Cities IV, L.P. (“Gerding IV”), a REF opportunity, headquartered in Portland, Oregon and that the Treasurer was considering an investment of up to \$75 million in Gerding IV, which would primarily focus on value-add and opportunistic investments in apartment and office properties in the U.S. by pursuing potential options to re-tenant, redevelop and retrofit to energy efficiency standards.

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

Laurie Martin, Chief Investment Officer, provided an update on the Connecticut Retirement Plans and Trust Funds (“CRPTF”) performance and commented on the capital market environment and the economic outlook. She reported that for the month ending August 31, 2018, the three largest plans, the State Employees’ Retirement Fund (“SERF”), the Teachers’ Retirement Fund (“TERF”) and the Municipal Employees’ Retirement Fund (“MERF”), all posted very modest positive returns. Ms. Martin said the SERF posted 30 basis points (“bps”), followed by the TERF at 28 bps and the MERF at 16 bps, and that all three plans slightly underperformed their respective benchmarks by 16 to 21 bps. She stated the two drivers of relative underperformance was the PIF, the Emerging Market Debt Fund (“EMDF”) and the Emerging Market International Stock Fund (“EMISF”). Ms. Martin added that the Alternative Investment Fund (“AIF”) outperformed its benchmark by 41 bps and that real asset energy funds within AIF had benefited from higher energy prices and continued increase in US production. She said the Mutual Equity Fund had positive returns and was up 3.5% followed by the PIF, up 1.6% and negative were the EMDF, the EMISF, and the Developed International Stock Fund, returning -4.3%, -2.9% and -1.4%, respectively. For fiscal year to date through August 31, 2018, SERF and TERF were up over 1.9% and MERF was up 1.7%.

Steve Muench posed a question in regard to the investment activity for the remainder of the year and the remainder of the Treasurer’s term, to which Mr. Wilson and Catherine LaMarr answered. Ms. LaMarr further responded by citing the State Treasurer’s statutory end-of-term protocol. She indicated that the Treasurer does not intend to bring recommendations to the IAC that cannot be fully completed by the end of the calendar year. Mr. Wilson added that analysis and due diligence activities would continue at full pace.

Presentation by and Consideration of Constitution Fund V, L.L.C.-Series C & Series D

Mark Evans, Principal Investment Officer (“PIO”), provided opening remarks and introduced Constitution V, a PIF opportunity. He said being presented was Series C and D and, should it be approved for consideration, would be created as part of the existing Constitution V investment vehicle. Mr. Evans stated that Fairview Capital Partners based in West Hartford, Connecticut, was the current managing member of the Fund and would continue in that role. He then gave an overview of the investment strategy and market opportunities for Series C and D and said the Series C would make commitments to underlying venture capital and growth stage funds and provide the CRPTF with exposure to high quality venture capital managers and the sub-strategy’s higher return potential; Series D would provide the CRPTF with exposure to late and growth stage Connecticut-based companies through direct co-investments. He talked about the firm’s management team and said Fairview’s six senior investment professionals comprise its investment committee; twenty three of its employees are located in its West Hartford headquarters, and a few employees based in San Francisco. Mr. Evans then reviewed the Fund’s track record, key strengths and major risks and mitigants.

Several IAC members posed questions regarding the terms, track record, investment funds, performance, and management team, to which Mr. Evans answered to their satisfaction.

Constitution Fund V, represented by JoAnn Price, Co-founder and Managing Partner, Kola Olofinboba, Managing Partner, and Alan Mattamana, Partner, made a presentation to the IAC. Ms. Price began and introduced the team and gave a firm overview and stated that Fairview,

found in 1994, was a leading private equity investment management firm specializing in demanding segments of the market and provided innovative, intelligent, investment solutions and services to institutional investors. She spoke about the investment and business development teams and commented that the firm features an experienced in-house finance, accounting and compliance team. Ms. Price then talked about the firm's investment solutions and their venture capital program. Mr. Olofinboba gave an overview of the Constitution program and reviewed some of the earlier funds with the CRPTF and the corresponding performance. He stated that it was one of the strongest venture capital programs in the country in terms of longevity and performance. Mr. Mattamana then reviewed Constitution V, Series A and B and the portfolio highlights. He then talked about the proposed Fund V-Series C and stated that it would target high quality venture capital partnership investments and Fund V-Series D would target Connecticut-headquartered direct venture investments.

Several IAC members posed questions regarding the trends in venture capital investing, performance, fees and management turnover, to which Ms. Price and Mr. Mattamana answered to their satisfaction.

Roll Call of Reactions for Constitution Fund V, L.L.C, L.P.

Thomas Fiore, Messrs. Murray, Muench, Hall, Patrick Sampson, and Chair Thomas provided feedback on the Constitution Fund V, PIF opportunity.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Mr. Hall, seconded by Mr. Sampson, to waive the 45-day comment period for the Constitution Fund V, LLC, L.P. There being no discussion, the Chair put the question to a vote and the motion was passed unanimously.**

Presentation by and Consideration of Gerding Edlen Green Cities IV, L.P.

Danita Johnson, PIO, provided opening remarks and introduced Gerding IV, a REF opportunity. She introduced the team and said the firm's founders, Mark Edlen and Robert Gerding, formed Gerding Edlen in 1996 as a development and property management company, headquartered in Portland, Oregon. Ms. Johnson said the firm focuses in seven target markets and has become a leader in the development of green and sustainable buildings as certified by the Leadership in Energy and Environmental Design ("LEED") standard; has built or retrofitted over 75 LEED properties and the firm has remained committed to best in class ethics and environmental/social/governance ("ESG") practices, including the use of 100% union-labor. She spoke about Gerding IV's investment strategy and market opportunities for both apartment and office projects. Ms. Johnson then reviewed the firm's key strengths and track record.

Several IAC members posed questions regarding the trends in investments, track record, value add, and fund level leverage, to which Ms. Johnson answered to their satisfaction.

Gerding IV, represented by Molly Bordonaro, Co-Managing Partner, and Kelly Saito, Co-Managing Partner, made a presentation to the IAC. Ms. Bordonaro began and gave a firm overview and stated that Gerding Edlen was a Securities and Exchange Commission registered investment manager with \$2 billion of assets under management since the investment group's founding in 2009. She described the firm's unique approach to source, develop, renovate, manage and operate buildings internally, their experience and knowledge in urban office and apartment assets, and the focus on select markets to own, operate, renovate and develop assets

that positively enhance local communities. Ms. Bordonaro talked about the firm's investment management and operational team and expertise. Mr. Saito spoke about market opportunities and the firms' focus on high growth markets. He reviewed their investment strategy with retrofitting apartments and office properties and the renovation and repositioning of urban/suburban locations, which were expected to increase in demand. Ms. Bordonaro then reviewed the firms' ESG program and stated that Gerding Edlen operated under a series of principles focused on people, the planet, and prosperity. She then spoke about their competitive advantage, in-house development expertise and track record. Lastly, Ms. Bordonaro talked about Fund IV's offering and terms.

Several IAC members posed questions regarding the expanding growth market, affordable housing, Fund IV and fund level leverage, to which Ms. Bordonaro and Mr. Saito answered to their satisfaction.

Roll Call of Reactions for Gerding Edlen Green Cities IV, L.P.

Messrs. Hall, Sampson, Fiore, Murray, Muench, and Chair Thomas provided feedback on the Gerding IV 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. Murray, to waive the 45-day comment period for the Gerding Edlen Green Cities IV, L.P. There being no discussion, the Chair put the question to a vote and the motion was passed unanimously.**

Private Investment Fund Review as of June 30, 2018

Michael Elio, Principal, and Aditya Raina, Senior Associate, of StepStone, presented the report for the quarter ended June 30, 2018. Mr. Elio gave an executive summary and stated that from the program's inception through June 30, 2018, the PIF program had made \$7.8 billion of contributions, \$9.3 billion of distributions, and had a market value of \$2.6 billion, which represented approximately 7.5% of total CRPTF. He added that the PIF's total portfolio had generated a net internal rate of return ("IRR") of 9.2% and a net total value to paid-in ratio of 1.5x invested capital. Mr. Elio stated that since the prior fiscal year end, the CRPTF committed an additional \$500 million in capital, and contributed another \$300 million of new investments. He then reviewed the quarterly highlights of new and subsequent investment commitments, cash flow and contributions and distributions. Mr. Elio discussed the performance versus benchmarks for the total PIF program and said the PIF underperformed relative to the S&P 500 total return by 44 bps. He then reviewed performance by strategy, portfolio diversification, annual commitments and portfolio allocations versus targets. Mr. Elio stated that for quarter ending June 30, 2018, the net cash inflow was 89.8% higher than first quarter 2018 net cash inflow. Mr. Raina gave an overview of the Connecticut Horizon Fund ("CHF") and stated that since inception, the PIF had committed \$190 million to CHF designated private equity mandates across four vehicles; since inception to June 30, 2018, the PIF's CHF designated investments generated a net IRR of 7.0% and during the same time period, the S&P 500 total return generated an IRR of 8.4%. He then talked about the in-state program and stated that as of June 30, 2018, the in-state program's three funds had invested in six companies, which employed 601 Connecticut-based employees; an 11.1% increase from the fund's initial investment.

Real Estate Fund Review as of June 30, 2018

Christy Gahr, Principal of Meketa, reported on the performance of the REF for the quarter ending June 30, 2018. Ms. Gahr began and gave an overview of the investment program and stated that the REF's investment policy had a 7% target real estate allocation that included target portfolio weights of 50% to core, 25% to value-added, and 25% to opportunistic strategies. She said as of June 30, 2018, the REF had committed \$3.8 million to 48 partnerships and received \$2.6 million in distributions and the aggregate reported value of the REF's portfolio was \$2.2 million at the end of June 2018. Ms. Gahr added that over the last year, the REF had generated a total net time-weighted return of 8.5%, exceeding the program's benchmark, the NCREIF property index, by 130 basis points. She stated for the fiscal one year, after taking into consideration calls and distributions, the net valuation change for the total program was a positive \$169 million. Ms. Gahr said for the second quarter, the valuation change was \$35 million. She then reviewed the investment roadmap, overall performance and the aggregate program performance summary.

Other Business

Chair Thomas reminded the committee members that the next meeting would be Wednesday, October 24, 2018 and invited them to submit agenda items. Mr. Wilson referred back to an earlier question by the IAC members and stated that the Treasurer had the absolute intent to maintain complete and full transparency and full involvement of the IAC for the next three months, and that has been and would continue to be her commitment.

Comments by the Chair

There being no further business, Chair Thomas called for a motion to adjourn the meeting. **Mr. Fiore moved to adjourn the meeting and the motion was seconded by Mr. Murray. There being no discussion, the meeting was adjourned at 11:44 a.m.**

This meeting was electronically recorded.

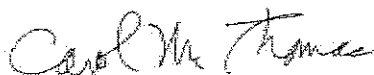
Respectfully submitted,



**LAWRENCE WILSON
DEPUTY TREASURER**

**for
DENISE L. NAPPIER
SECRETARY**

Reviewed by,



**CAROL THOMAS
INTERIM CHAIR**