INVESTMENT ADVISORY COUNCIL
Wednesday, March 14, 2012

MEETING NO. 393

Members present:	Janice (Jan) Carpenter Thomas Fiore, representing Benjamin Barnes* Michael Freeman Laurence N. Hale David (Duke) Himmelreich** Denise L. Nappier, Treasurer Joseph (Joe) D. Roxe, Chairman Carol Thomas Peter Thor**
Absent:	Thomas Barnes William Murray
Others present:	Jonathan Harris, Deputy Treasurer Christine Shaw, Chief of Staff Lee Ann Palladino, Chief Investment Officer Gary Carter, Interim Deputy Chief Investment Officer Joanne Dombrosky, Principal Investment Officer Gregory Franklin, Assistant Treasurer Donald Kirshbaum, Investment Officer-Policy Catherine LaMarr, General Counsel Shelagh McClure, Director of Compliance Terrence Purcell, Interim Principal Investment Officer David Rivera, Director of Communications Reginald Tucker, Investment Officer Linda Tudan, Executive Assistant Lawrence Wilson, Assistant Treasurer Christina McGinnis, Executive Secretary
Guests:	Bradley Atkins, Franklin Park Associates Scott Booth, The Townsend Group Mary Dunleavy, State Street Bank & Trust Meredith Genova, Stux Capital Management Sean Gill, NEPC Will Greene, Loop Capital Markets James Hickey, Vista Equity Partners Robin Kaplan-Cho, Connecticut Education Association Louis Laccavole, SOC Teachers' Retirement Board Dennis McNerney, BNY Mellon Kevin Norton, BNY Mellon Michael Scotto, Hewitt EnnisKnupp, Inc. Claire Shaughnessy, Hewitt EnnisKnupp, Inc.

*** Arrived at 9:12 a.m.**
****Arrived at 9:15 a.m.**

Johnson Shum, State Street Bank & Trust
Robert Smith, Vista Equity Partners
Nick Stanogev, BNY Mellon

Chairman Joseph D. Roxe called the Investment Advisory Council ("IAC") meeting to order at 9:08 a.m. Chairman Roxe introduced Janice (Jan) Carpenter, a new member of the IAC. Ms. Carpenter thanked the Chairman and provided a brief personal history. On behalf of the IAC, Chairman Roxe welcomed Ms. Carpenter.

Approval of Minutes of the February 8, 2012 IAC Meeting

With a quorum present, Chairman Roxe asked for comments on the Minutes of the February 8, 2012 IAC meeting. **There being no comments, a motion was made by Carol Thomas seconded by Michael Freeman, that the Minutes of the February 8, 2012 IAC meeting be accepted as drafted. The motion was passed with the exception of Thomas Fiore, Laurence Hale, David Himmelreich and Chairman Roxe who abstained due to their absence from the last meeting.**

Comments by the Treasurer

Treasurer Denise L. Nappier welcomed Ms. Carpenter to the IAC. She then announced her two Pension Fund Management ("PFM") appointments – Terrence Purcell, Interim Principal Investment Officer ("PIO") for the Private Investment and Alternative Investment Funds ("PIF" and "AIF") and Cherie Santos-Wuest, PIO for the Real Estate Fund ("REF"). She also highlighted their background and experience. Mr. Purcell thanked Treasurer Nappier and Lee Ann Palladino, Chief Investment Officer ("CIO") for the opportunity to serve the State of Connecticut.

Next, Treasurer Nappier commented on the investment performance of the Connecticut Retirement Plans and Trust Funds ("CRPTF"). She reported that as of January 31, 2012, the monthly return of the Combined Investment Funds ("CIF") had increased by 3.88% and the three-month return reached positive territory at 2.13%; which pared the losses of the fiscal year-to-date returns down to negative 2.58%. Focusing on the longer-term market cycle returns, Treasurer Nappier reported that the three-year return for the CRPTF as of January 31, 2012 was 12.78%, which reflected the strong upward movement in the markets since the end of the Great Recession, and performance over and above the 8.25% to 8.50% actuarial rates of return.

Treasurer Nappier then announced her decision to commit $50 million to Pegasus Partners V, L.P., an investment firm that focuses on early and late-stage growth equity and buyouts of U.S. middle market companies. She also announced her decision to commit up to $40 million to RFE Investment Partners VIII, L.P., which focuses on small market companies primarily located in the U.S. Finally, Treasurer Nappier stated that both investments were contingent upon successful contract negotiations.

Treasurer Nappier provided a brief update on the 2012 legislative session of the General Assembly, which adjourns on May 9, 2012. She said that this short session focused primarily on budgetary and fiscal matters and that the Office of the Treasurer ("OTT") had worked diligently on advancing several proposals. Among them is a bill that would revise the MacBride statutes, which presently mandates divestment of prohibited investments. Treasurer Nappier said that the proposed MacBride bill would allow for proactive engagement with targeted companies that fail to adopt the MacBride Principles, and noted that this proposed bill is similar to the Sudan statutes. Treasurer Nappier also commented on a new legislative proposal that the OTT had put forth that would require an actuarial cost estimate before approval by the General Assembly of any change in the design of plan benefits. She also updated the IAC members on the elimination of the State Employees' Bargaining Agent Coalition Agreement provisions IV and V, which would increase cash flow to the State Employees' Retirement Fund by about $125 million annually starting in Fiscal Year 2013.

With respect to the agenda, Treasurer Nappier commented on the presentation of Vista Equity Partners Fund IV, L.P. ("Vista IV"), a private equity investment opportunity under consideration. She stated that she was recommending a commitment of up to $75 million to Vista IV, a $2.5 billion private equity buyout fund that would focus on controlled investments in U.S. and Canadian based middle market software and technology-related service companies. She then noted the strong performance of Vista III, one of the CRPTF's 2007 vintage year funds with a gross internal rate of return ("IRR") of 38.4%, a multiple of 2.44 times invested capital and a 28.7% net IRR since inception.

CIO's Update on the Market, CRPTF Final Performance for the Month Ended January 31, 2012, Combined Investment Fund Review and Connecticut Horizon Fund Review for the Quarter Ended December 31, 2011

Ms. Palladino provided an update on the capital market environment, its impact on the performance of the CRPTF and the economic outlook.

Ms. Palladino highlighted the Emerging Market Debt Fund ("EMDF"). She stated that less than 5% of the CRPTF was invested in this asset class, which had outpaced its benchmark over the three- to five-year horizons and generated returns above 8.5%. She added that this positive performance was attributed to falling interest rates within the U.S. and contracting spreads.

Chairman Roxe commented on the lower deficits in the emerging markets and noted that Japan was the weakest of all the developed markets. Discussion ensued about the difficulties of various bond markets throughout the world.

Ms. Palladino concluded her report by discussing the performance of the CRPTF for the month ended January 31, 2012.

Ms. Palladino introduced Michael Scotto, Principal, and Claire Shaughnessy, Associate Partner of Hewitt EnnisKnupp, Inc. ("Hewitt"), who provided comments on the overall investment results for the Combined Investment Funds ("CIF") for the quarter ended December 31, 2011. Ms.

Shaughnessy began by providing market highlights and noted that equities had a strong rebound for the quarter with a 12.1% return for the Russell 3000, which brought the returns for the 2011 calendar year into positive territory.

Focusing on the quarter ended December 31, 2011, Mr. Scotto reported that the Funds came in close to their benchmarks in most asset classes. In response to Chairman Roxe, Mr. Scotto commented on the rankings of the individual funds' performances in comparison to peers over several time periods, and he noted that all three of the CRPTF's equity funds had outperformed its peers and ranked at least within the top 40% of peer funds.

Mr. Himmelreich posed questions about the cause of the underperformance during the three and seven-year horizons. Ms. Shaughnessy responded that the CIF had been restructured for a variety of reasons, including risk and return profile and manager fit, and that the near-term returns showed improvement. Chairman Roxe requested that the Hewitt team provide a presentation that discussed the attribution analysis of the three to five-year performance horizon.

Next, Ms. Shaughnessy reported on the Connecticut Horizon Fund ("CHF"), which ended the 2011 calendar year with $728.5 million and represented slightly more than 3% of the total CRPTF. For the quarter ended December 31, 2011, she reported that the CHF in aggregate returned 8.7% and that over the longer term, the CHF had returns of 2.1%, which is 110 basis points ("bps") above its composite benchmark for the five-year horizon.

In response to Chairman Roxe's question regarding the possibility of reporting the results for the CIF and CHF results a month earlier to the IAC, Mr. Scotto stated that the data is available a month after the quarter closes, but the compilation of peer data did involve a more time-consuming process. Chairman Roxe requested that the performance data be reported a month earlier followed by the peer data report at the regular quarterly meeting.

<u>Presentation by and Consideration of Vista Equity Partners Fund IV, L.P.</u>

Gary Carter, Interim Deputy CIO, provided opening remarks and introduced Vista Equity Partners Fund IV, L.P. ("Vista IV"), a private investment opportunity. Mr. Carter began by commenting on the strong prior performance of the general partner, Vista Equity Partners ("Vista"). He noted that the CRPTF was currently an investor in Vista III, a top quartile fund that had delivered a gross IRR of 38.4% since inception with a multiple of 2.44 on invested capital. Consistent with the prior fund, Mr. Carter said that Vista targeted middle market, enterprise software companies with recurring revenues, high margins and a reliable customer base.

Bradley Atkins, Chief Executive Officer of Franklin Park Associates, LLC, provided additional comments on Vista and said that the increase in the the fund size was an issue for Vista IV, but added that concerns were mitigated as Vista had tripled its team size since the prior fund and the market opportunity in this niche was compelling. Discussion ensued regarding Chairman Roxe's question about Vista's key person provisions and conflicts of interest, to which Mr. Atkins responded. In response to Ms. Thomas, Mr. Atkins stated that Vista's personal investments were $100 million or 3% of total investments.

Presentation by Vista Equity Partners, L.P.

Vista Equity Partners ("Vista"), represented by James Hickey, Principal, and Robert Smith, Chairman and CEO, made a presentation to the IAC. Mr. Smith began by providing a firm overview. He said that Vista, a 12-year old firm, focused on mission and business critical enterprise software and that Vista had installed a series of best practices into the software businesses. Mr. Smith added that over the past 12 years, Vista completed over 64 transactions at about $14 billion in value. He said that Vista had just under $6 billion in capital under management and that its 64 transactions returned just under 4 times cash-on-cash and just under 40% IRR or 50% gross IRR.

Mr. Smith next provided a portfolio summary for the last 12 years and noted that Vista effectively doubled earnings before interest, taxes, depreciation, and amortization ("EBITDA") after owning companies for 24 months, and tripled EBITDA within 36 months of ownership. He said that Vista underwrote to a vigorous standard of expectations, and with such a large pool of candidates it was able to acquire excellent companies for its portfolio.

In closing, Mr. Hickey stated that the software market was enormous and one of the fastest growing markets. The Vista team provided examples of how Vista participated in a variety of industries via software use, and how this diversification allowed it to grow even in recessionary times because mission critical software needs were immune to the business cycle.

In response to Ms. Thomas, Mr. Smith said that Vista was a net insourcer of jobs into the U.S. He added that as Vista purchased companies, all current employees were tested and retrained and new employees were added with jobs often coming back that were previously outsourced. Mr. Hickey responded to Ms. Carpenter's question about Vista's standard operating procedures by demonstrating how Vista hired, tested and trained its people. In response to Chairman Roxe, Mr. Smith said that Vista's exit strategy did not typically include initial public offerings, but its businesses were often sold to strategic buyers. Chairman Roxe noted that Vista IV was much larger that its prior two funds, to which Mr. Smith stated that Vista's target market supports the larger size, appropriate staff had been acquired, and Vista's track record demonstrated that it earned a higher return on larger transactions. Mr. Smith then clarified a conflict of interest question by noting that transactions of $50 million or less automatically went to the Vista Foundation Fund; the operation team was separate and, as a result, there was no conflict of interest.

Roll Call of Reactions to Vista Equity Partners Fund IV, L.P.

Chairman Roxe requested the IAC members to provide input on Vista IV. Mr. Fiore, Mr. Himmelreich, Ms. Carpenter, Mr. Freeman, Peter Thor, Mr. Hale, Ms. Thomas and Chairman Roxe were all in favor of the investment. Mr. Thor added that the Vista team answered all the IAC's questions satisfactorily.

Chairman Roxe asked for a motion to waive the 45-day comment period for Vista IV. **A motion was made by Mr. Thor, seconded by Ms. Thomas, to waive the 45-day comment period for Vista Equity Partners Fund IV, L.P.**

Private Investment Fund Review as of September 30, 2011

Mr. Carter reported on the PIF for the quarter ended September 30, 2011. He began by reporting that since inception, the PIF had outperformed the public market index by 590 bps, and since 2002, the vintage year performance was at or above the top quartile benchmark. In reviewing the PIF exposure by strategy, Mr. Carter commented that the portfolio risk was dampened by its high exposure to mature, mid-sized companies and a reasonable exposure to small companies. In conclusion, he stated that the PIF portfolio was well positioned to generate attractive risk-adjusted returns.

Mr. Atkins provided a general market update and a brief discussion of the outlook for the PIF. He began by providing a summary of the underlying funds within the portfolio as of September 30, 2011 by vintage year. He commented that the 2009, 2010 and 2011 vintage year portfolios were too young to measure, and added that the overall outlook was positive for the PIF portfolio.

Chairman Roxe posed questions about the PIF's unfunded commitments, to which Mr. Atkins said they would ultimately be drawn down and that for the older vintage year funds, the capital would be used for fees, expenses and follow-on investments to existing portfolio companies.

Mr. Carter then gave an update on the PIF CHF program, first noting that it was a relatively young fund and performance would not be meaningful at this point. In closing, Mr. Carter noted that consistent with the objectives of this fund, the portfolio was well diversified by Connecticut-based, emerging, women-owned and minority managers.

Alternative Investment Fund Review as of December 31, 2011

Mr. Carter reported on the performance of the AIF for the quarter ended December 31, 2011. He noted that because the AIF was not yet a year old, returns would not be meaningful. Mr. Carter commented on the Investment Policy Statement ("IPS") guidelines that were being monitored including leverage and liquidity.

Sean Gill, Partner of NEPC, provided an outlook for the portfolio and a market update. Mr. Gill began by commenting that the hedge fund industry had somewhat disappointing overall performance, but added that the CRPTF's fund of hedge funds did outperform their peers over the last 12-month period. He then reported that the AIF was balanced across the major hedge fund categories – including equities and event driven strategies – representing a significant part of the total portfolio, which posted disappointing returns. Among the underlying managers, Mr. Gill reported that for the quarter ended December 31, 2011, returns ranged from minus 0.4% to positive 0.4%. On a positive note, he said that the AIF portfolio was well-balanced and diversified.

Real Estate Fund Review as of September 30, 2011

Scott Booth, Principal of The Townsend Group, reported on the Real Estate Fund ("REF") for the quarter ended September 30, 2011. Mr. Booth first commented that the slow, uneven recovery in real estate continued. Next, he reported that the quarterly return for the portfolio was 0.4% gross and 0.2% net, equating to a cash-on-cash yield of slightly above 1.0% for the quarter or $11 million distributed back to the CRPTF and 9.6% for the year to date. Mr. Booth said that since inception, the REF's net performance as of September 30, 2011 earned a time-weighted return of 4.5% for the quarter, which tipped the REF back into positive territory. He said that he expected the positive trend to continue, and that core real estate outperformed for the quarter and was expected to return about 6% to 7% over the one- to two-year period. Mr. Booth then commented on the CRPTF's managers with unfunded commitments and capital calls. He responded to Chairman Roxe's question about RLJ Lodging Trust by explaining how two private equity funds were rolled into one real estate investment trust ("REIT") to salvage the funds, and that the REIT's return had increased since the report was prepared.

Securities Lending Review as of December 31, 2011

Johnson Shum, Vice President of State Street Bank, provided a review of securities lending activity for the quarter ended December 31, 2011, and commented on the earnings and performance for the 2011 calendar year. Mr. Shum reported that the historical earnings for the 2011 calendar year were $17.7 million, outpacing the 2010 calendar year by nearly 29%; and commented on the top ten borrowers for the State of Connecticut. Mr. Hale posed a question regarding the Russell 2000 exchange traded funds, to which Ms. Palladino stated that they were added to the portfolio while the search continued for the small-to-mid cap mandate. Mr. Shum agreed with Chairman Roxe's comment that the earnings on the portfolio were substantially greater in 2011 than 2010, and he noted that the pace was expect to continue for 2012 and averaged about $1.5 million in earnings on a monthly basis.

Short-Term Investment Fund Review as of December 31, 2011

Lawrence Wilson, Assistant Treasurer for Cash Management, reported on the performance of the Short-Term Investment Fund ("STIF") for the quarter ended December 31, 2011. Mr. Wilson stated that the STIF had an average annualized yield of 22 bps – 17 bps above similar money market mutual funds, thereby earning an additional $1.9 million for state and local governments investing in the STIF. For the calendar year ended that same period, he reported that the STIF had an annual return of 21 bps – 16 bps above the benchmark, thereby earning an additional $7.7 million in interest for the STIF's investors. Mr. Wilson said the STIF had maintained its conservative investment posture with one-day liquidity of approximately 59% of assets, and that the weighted-average maturity was 32 days. He reported that 66% of the portfolio was invested in securities which were issued, guaranteed or insured by the U.S. government or federal agencies, or in repurchase agreements backed by such securities. He concluded his presentation by noting that the STIF's reserves totaled $46 million, nearly 1% of fund assets. Chairman Roxe commented that the returns continued to outpace the benchmark and complimented Mr. Wilson on the fine results he continues to produce.

Other Business

Chairman Roxe asked Ms. Thomas to give a brief overview of the Asset/Liability ("A/L") working group process and timeline. Ms. Thomas commented on the review process and stated that the working group was fine-tuning the asset allocations. She said that benchmarks were also being reviewed and commented on the outstanding items. In closing, Ms. Thomas said that at the April 11th IAC meeting an executive summary of the proposed IPS changes would be provided. Chairman Roxe noted that five of the IAC members have witnessed the discussions and revisions and were in agreement with the progression of the A/L working group's recommendations. Treasurer Nappier said that the executive summary of the IPS revisions would be provided in April in order to discuss the content of the formal recommendation, which she planned to present at the May 9th IAC meeting, and adopt by the June 13th IAC meeting. She noted that approval of a majority of the IAC would be needed to change the IPS.

Chairman Roxe noted that the IAC budget for the quarter ended December 31, 2011 was in the packet. He invited IAC members to submit agenda items for the April 11, 2012 IAC meeting.

Comments by the Chairman

Chairman Roxe commented on the meeting. He thanked Mr. Freeman for serving as Chair at the February IAC meeting.

There being no further business, the meeting was adjourned at 12:15 p.m.

This meeting was recorded on audio tape.

Respectfully submitted,

DENISE L. NAPPIER
SECRETARY

Reviewed by

JOSEPH D. ROXE
CHAIRMAN