Connecticut Inclusive Investment Initiative (Ci3)

November 4, 2025

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Introduction

The Connecticut Inclusive Investment Initiative ("Ci3") is an institutional investment program designed to generate strong risk adjusted performance utilizing emerging and diverse investment management firms that, for multiple reasons[1], would not otherwise have access to the broader Connecticut Retirement Plans and Trust Funds ("CRPTF") portfolio.

The objective of Ci3 is to access investment opportunities managed by emerging and diverse investment teams that will add value over the long term and allow the CRPTF to develop relationships with the next generation of investment talent.

Definition of Emerging and Diverse Manager

The Ci3 program will afford opportunities to both emerging and diverse managers to compete for investment mandates so long as such managers are fully capable of discretionary investment management consistent with the goals of the CRPTF and fiduciary standards. To qualify for consideration as a Ci3 designated manager, the manager must either be (1) an Emerging Manager that also meets the Diverse Manager criteria, both defined below, or (2) an Emerging Manager. Each Ci3 investment portfolio will include specific investment guidelines approved by the Treasurer to achieve the Ci3 goals outlined on page 3.

Relative to the asset class category, the Ci3 program defines an Emerging Manager as an asset management firm that is newly formed or relatively small that has the maximum amount of assets under management ("AUM") and/or length of track record as discussed in the "Summary of Program Asset Class Criteria" below. With respect to the Alternative Asset Classes (as noted on page 4), Emerging Manager also includes commitments to a fund that is beyond the "third generation" of a fund series so long as the fund being raised still fits the Ci3 fund size criteria.

The Ci3 program defines a Diverse Manager as an asset management firm that is: (1) more than one-third of the ownership and economics (including carried interest for privates) are held by Diverse Individuals ("Diverse Individuals" is defined as either minority individuals, women, veterans, persons who identify as LGBTQ+ or persons with a disability)[2] or (2) the manager's strategy focuses on investing in Diverse Individuals -led enterprises. Diverse Individuals shall be (a) active in the daily affairs of the firm and (b) have the power to direct its management and policies.[3] Excluded from the ownership percentage referenced above in (1), are passive interests held by third parties (not employed or affiliated with the Diverse Manager or Emerging Manager).

[1] Multiple reasons include limited track record, lack of scale, tenure and other objective factors.
[2] "Disability" as defined by state law in Connecticut General Statutes Section 4a-60(a)(1).
[3] The Ci3 program criteria requiring the diverse owners to be active in the daily affairs of the firm and to have the power to direct its management and policies are similar to the state law qualification requirements for "minority business enterprise" in Connecticut General Statutes Section 4a-60(e).

Connecticut Inclusive Investment Initiative Goal

The goal of the Ci3 program is to develop emerging and diverse managers through an investment program that could potentially transition to a direct allocation or commitment from the overall CRPTF portfolio. The target market value of the Ci3 program in aggregate, for the public market and alternative asset classes, is between 5 and 10 percent of the CRPTF assets with the majority of the allocation invested with diverse investment managers.

Public Market Asset Classes

Global Equity, Global Fixed Income

In the public market asset classes, the Ci3 program will utilize investment platforms as a way to source Emerging and Diverse Managers. Given the internal investment due diligence process and capital restrictions, this approach has proven to be an efficient way to allocate capital. The primary role of the investment platforms is to identify new investment talent and to provide support to develop these managers into becoming direct relationships for the CRPTF.

Alternative Asset Classes

Hedge Funds, Private Equity, Real Assets, Real Estate, Private Credit

In the alternative asset classes, the Ci3 program will seek to target Emerging and Diverse managers in a variety of structures (e.g., fund commitments, co-investments, joint-ventures, seeding arrangements, secondary investments, etc.). The Ci3 program will look to utilize both investment platforms as well as direct commitments as a way to source Emerging and Diverse Managers in these asset classes. The primary goal is to identify new investment talent that fits the Ci3 fund size and firm criteria, this can include funds beyond the "third generation" if the other criteria are met.

Summary of Program Asset Class Criteria

Emerging Managers must meet the criteria detailed below, by asset class:

	Public Market Asset Classes		**Alternative Asset Classes**		
	Global Equity	**Global Fixed Income**	**Hedge Funds**	**Private Equity / Private Credit**	**Real Assets / Private Real Estate**
Total Firm Assets	< $10B	< $10B	< 3B	< $5B	< $5B
Fund Size	N/A	N/A	N/A	< $2B	< $2B
Firm Tenure	< 10 years	< 10 years	< 7 years	Minimum one year	Minimum one year

Emerging Managers with criteria outside these requirements will be considered on a case-by-case basis. Connecticut Inclusive Investment Initiative Lifecycle

The Ci3 program will seek to facilitate the development of Emerging and Diverse Managers through a structured tiered framework designed to create, support, and transition best in class institutional quality investment managers.

Tier 1: Entry Stage

The Connecticut Inclusive Investment Initiative will utilize both investment and seeding platforms as well as direct commitments to Emerging and Diverse Managers. Investment platforms utilized by the CRPTF will have the experience, relationships, and resources to adequately evaluate emerging and diverse managers, conduct due diligence, and assist these managers to transition to institutional portfolios.

Seeding platforms can also identify potential Emerging and Diverse investment teams that possess unique and niche investment strategies. These seeding platforms can develop emerging and diverse managers to prove their investment thesis and to help them become established in the industry.

The investment or seeding platform would be responsible for monitoring these managers and would partner with the Office of the Treasurer relative to oversight and reporting on fund strategies and performance. Within established guidelines, the investment platforms have discretion for the portfolio of Emerging and Diverse managers and are responsible for the performance of their overall asset class mandate.

In the public market asset classes, sub-managers could be in the Tier 1 stage for a duration of up to five years. The investment platform managers will work with the sub-managers enabling them to gain operational and business support, by guiding and mentoring investment managers while they build their track record. In the case of the alternative asset classes, the Emerging and Diverse Manager may have a longer duration in Tier 1 relative to the horizon of the specific fund.

Tier 2: Expansion Stage

Emerging and Diverse Managers who move to the Tier 2 stage qualify for additional funding within the investment platform structure. These emerging and diverse managers will have achieved the following milestones:

- Generated superior returns relative to peers as well as the applicable benchmark;
- Grown their capacity to accept a more significant capital allocation but not yet able to receive a full capital allocation available to direct managers in the CRPTF;
- For alternative investments - raised a follow-on fund with prior funds demonstrating realizations and strong investment performance relative to funds in the same strategy and vintage year.

Tier 2 investment managers would have the time to demonstrate a longer track record of performance, build their business and infrastructure, and position their firm for an increased allocation and would be working to develop the following:

- Stability in ownership, leadership, critical investment team members, and business continuity measures;
- Healthy growth of assets under management;
- Adequate operations support (e.g., compliance, reporting, trading, etc.);
- Experience with managing additional capital;
- Ability to comply with the legal and disclosure requirements for the State of Connecticut;
- Live performance record greater than three years, and, on average, demonstrated investment experience of three years or more for a proposed strategy.

Tier 3: Transition Stage

The transition stage marks the time where Emerging and Diverse Managers are able to receive a direct allocation from the broader CRPTF portfolio. These managers would have developed a strong relationship with the Office of the Treasurer and demonstrated a track record of strong performance. Transition of sub-managers to the larger portfolio will free up capital to allocate to other Emerging and Diverse Managers in the pipeline.

Transition Requirements:
The following criteria will be considered when deciding whether and when a potential Emerging or Diverse Manager should move into the broader CRPTF portfolio:

- Strategy is consistent with the asset allocation of the broader portfolio;
- The investment manager has the ability to manage additional capital;
- For public market asset classes and hedge funds - performance over the three-year and five-year periods must exceed the individually prescribed index benchmark or peer group, net of fees;
- For alternative asset classes - performance of the prior fund must be in the first or second quartile versus peers of the same strategy and vintage year with regard to the internal rate of return and return multiples.

Should an Emerging or Diverse Manager be recommended for transition, the firm will subsequently undergo the standard full due diligence process as established by the CRPTF.

Engagement and Advocacy

The strength of the Ci3 program will depend on its ability to engage the broader community of emerging and diverse investment managers through partnerships with industry groups and other public pension plan emerging manager programs, commitment from the leadership of the CRPTF, and the annual Connecticut Inclusive Investment Initiative conference.

Disclosure of Program Metrics

Working with investment platform managers, the Office of the Treasurer will monitor and disclose the use of Emerging and Diverse Managers within the CRPTF on a quarterly basis. Ci3 program metrics will include the following:

- Comparative analysis of the Emerging and Diverse managers relative to all asset managers during the relevant period on a total plan and asset class level;
- Utilization of Emerging and Diverse Manager firms, their ownership, and operations by diverse group membership;
- Progress and success of the Ci3 program goals during the relevant period on a total plan and asset class level