

State of Connecticut Retirement Plans and Trust Funds

June 11, 2026

Part 2: Strategic Asset Allocation Review

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Introduction

Introduction

- At the last meeting, Meketa presented a range of policy options, including higher public-market and private-market exposures, a balanced portfolio, and a wild card portfolio, to illustrate differences in expected performance over time.
- Today, we model a policy that incorporates feedback from the Subcommittee and staff and compare it with a 70/30 equity and fixed income portfolio.
- We then provide various approaches to assessing risk in order to provide a “mosaic” of the risks faced by the CRPTF.
- There is a natural tension between short- and long-term risk and opportunity; market value declines in periods of heightened volatility versus the long-term risk of meeting benefit obligations. As part of this discussion, we will highlight those trade-offs.
- The objective of today is to get additional feedback and perhaps consensus from the Subcommittee on the Wild Card 2 Policy option.

Policy Options

Asset Allocation Policy Options¹

	3/31/26 Allocation ² (%)	Current Policy (%)	Wild Card 2 (%)	70/30 (%)
Global Equity	48	37	44	70
Investment Grade Fixed Income	14	13	11	30
Non-Core Fixed Income	5	2	4	
Private Equity	12	15	15	
Private Credit	6	10	9	
Real Estate	7	10	7	
Infrastructure/Natural Resources	4	7	7	
Absolute Return	4	5	2	
Liquidity Fund/Cash	2	1	1	
<i>Expected Return (20 years)</i>	8.0	8.3	8.4	7.3
<i>Standard Deviation</i>	13.2	13.1	14.1	12.3
<i>Standard Deviation (smoothed)</i>	9.2	7.7	9.1	12.3
<i>Sharpe Ratio</i>	0.37	0.40	0.37	0.34
<i>Probability of Achieving 6.9% over 20 Years</i>	64.7	68.2	67.9	55.3
<i>95th Percentile 12-Month VaR³ (%)</i>	-6.7	-4.2	-6.2	-12.2
<i>% of Portfolio Illiquid⁴</i>	33	47	40	0

- The Wild Card 2 Policy incorporates the feedback from the Asset Allocation Subcommittee.
- Portfolios with higher public equity exposure typically exhibit greater volatility, which can result in increased downside risk, as equities are generally more sensitive to market fluctuations compared to asset classes such as fixed income and private markets.

¹ Assumptions are based upon Meketa's Annual Capital Markets Expectations. Throughout this document, returns for periods longer than one year are annualized. Green/red reflect an increase/decrease versus the Current Policy.

² Numbers may not sum to 100% due to rounding.

³ Uses smoothed private markets volatility assumptions. Value at Risk represents the downside risk. Said differently, there is a 5% chance the return of the CRPTF could be worse than the figures included in the table.

⁴ Includes any asset class that has liquidity on a quarterly basis or less. Includes asset classes that may have lock up periods.

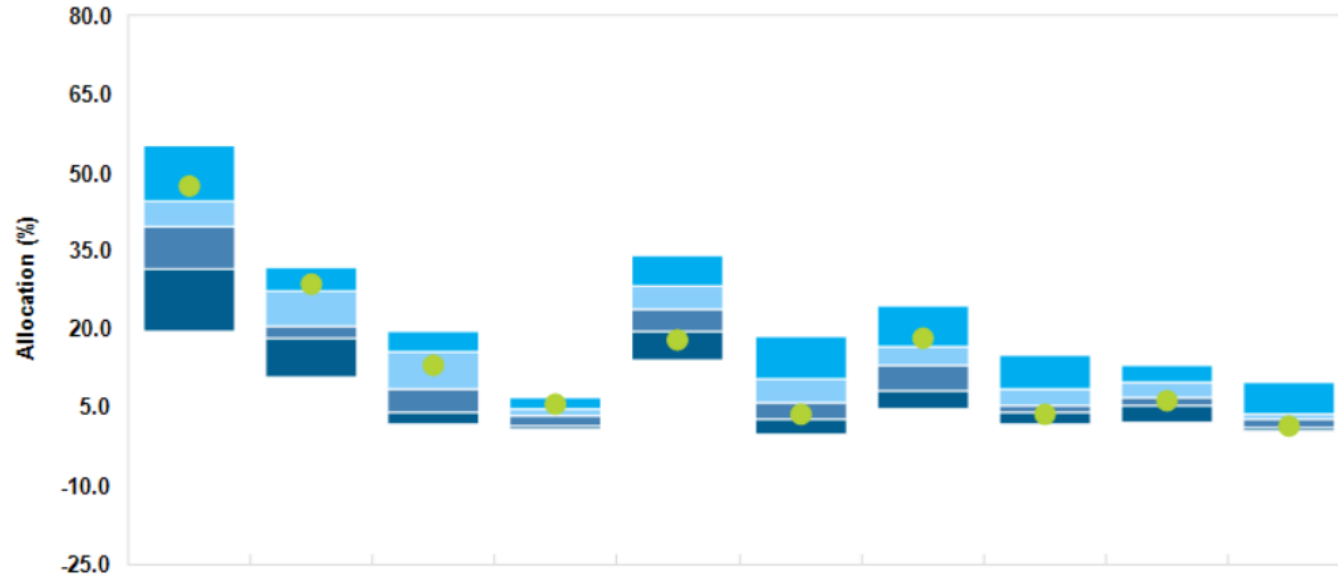
Review of Asset Allocation Policies

- The Current Policy has a long-term expected return of 8.3%. The Wild Card 2 Policy increased the long-term expected return by 10 basis points to 8.4%. With the increase in expected return, the volatility also increases to 14.1%.
- The Wild Card 2 policy combines elements of the previous options in addition to feedback from the Subcommittee.
 - All stakeholders agree that the changes to the Current Policy should be on the margins.
 - Wild Card 2 increases global equity, reduces absolute return, holds the allocation to core fixed income somewhat constant, and reduces the exposure to some private market asset classes (e.g., real estate).
 - Within absolute return, the composition of the asset class will change to be a more balanced portfolio. At a smaller allocation, the CRPTF Staff will have an opportunity to build a track record of successful execution to consider.
- One follow up from the last meeting was to review the CRPTF specific composites versus the Meketa standard composites. In doing so, there was not a meaningful difference in the expected return and risk.
- A 70/30 stock bond portfolio was included as a comparison point.
 - This portfolio has a lower expected return relative to the other options. More importantly, as it is all public markets the volatility is meaningfully higher when you account for the impact of smoothed private market pricing.
 - This is evident in the potential downside as represented by the VaR analysis.

Peer Asset Allocation

State of Connecticut Retirement Plans and Trust Funds | As of March 31, 2026

Total Plan Allocation vs. InvMetrics Public DB > \$10B Net
Ending March 31, 2026



	Total Equity	US Equity	Dev'd ex-US Equity	Emg Mkt Equity	Total Fixed Income	Hedge Funds	Private Equity	Real Assets/Com mod	Total Real Estate	Cash & Equivalents
● State of Connecticut Total Fund	47.7 (19)	28.9 (14)	13.1 (40)	5.7 (13)	18.1 (80)	3.8 (68)	18.3 (21)	3.8 (76)	6.5 (63)	1.6 (67)
5th Percentile	55.5	32.1	19.6	7.0	34.2	18.9	24.7	15.2	13.4	10.2
1st Quartile	44.7	27.5	15.7	5.0	28.4	10.7	16.9	8.7	9.9	3.8
Median	39.9	20.6	8.6	3.6	23.8	6.2	13.3	5.6	7.2	2.7
3rd Quartile	31.8	18.4	4.2	1.6	19.6	2.7	8.3	4.2	5.6	1.3
95th Percentile	19.8	10.9	1.9	0.8	14.3	0.0	4.7	2.0	2.2	0.6

Parentheses contain percentile rankings.

Real assets consists of Infrastructure and Natural Resources. Private Credit is a newer asset class with limited history. Private Equity includes Private Credit. Total Fixed Income includes Core and Non-Core.

Expected Return with Manager Alpha

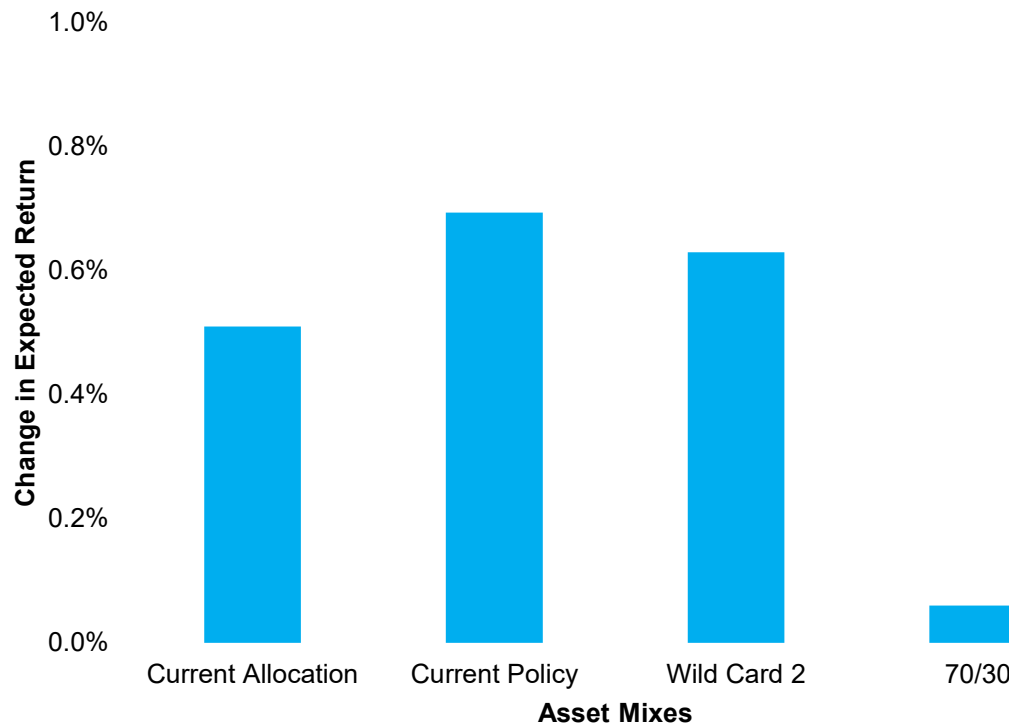
Expected Return with Manager Alpha

- We believe that active managers can add the most value in asset classes that have historically been the most inefficient.
- If an investor can consistently select managers that are slightly better than average (e.g., in the 40th percentile), the expected return for the asset classes utilizing active managers can increase substantially.
 - By allocating to asset classes where manager alpha can be substantial and by selecting superior managers, Meketa believes that investors can enhance returns.
- Value can be added (i.e., alpha) through any or all of manager selection, tactical implementation, and internal management.
- The amount of alpha that can be added from manager selection varies by asset class, by the extent to which active management is used, and how much better managers do than their respective benchmarks.
- The alpha assumptions are based on historical interquartile spread data for each asset class.
- Private market asset classes have been historically where managers can add significant value. The degree of potential alpha is related to the policy's exposure.
 - As a result, the policies with more private markets have the higher *potential* for more excess returns.

Manager Alpha Potential

→ Assuming the CRPTF can consistently choose managers in the 40th percentile (e.g., slightly above median), the CRPTF could add an additional 0.6% of return in the Wild Card 2 Policy, net of fees, over the long-term.

Expected Manager Alpha by Percentile



Diversification and Risk Analysis

Diversification

- The primary motive for diversifying a portfolio is to reduce risk.
- Diversification is the sole “free lunch” available to investors. That is, it represents the only way to reduce risk without reducing expected returns.
- Therefore, investments should be allocated across multiple classes of assets, based in part on the expected correlation of their returns.
- Within each asset type, investments should be distributed across strategies and risk factors to further reduce volatility.

Types of Risk Analyses Addressed

- MPT-based risk analytics
 - Relies on assumptions underlying Modern Portfolio Theory (“MPT”)
- Scenario analysis
 - Stress tests policy portfolios using actual historical examples
 - Stress tests policy portfolios under specific hypothetical scenarios
 - Monte Carlo analysis with 100,000 simulated scenarios

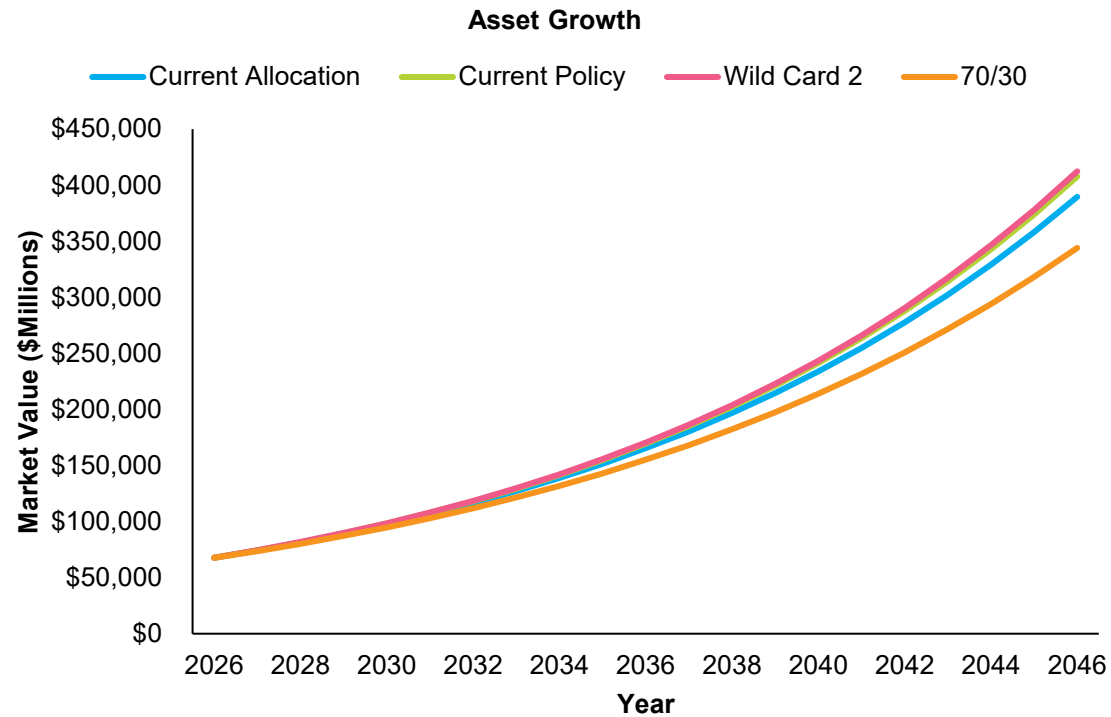
MPT-Based Risk Analysis

Scenario	Current Allocation (%)	Current Policy (%)	Wild Card 2 (%)	70/30 (%)
Worst Case Returns¹				
One Year	-18.5	-18.1	-19.6	-17.6
Three Years (annualized)	-8.2	-7.8	-8.8	-7.9
Five Years (annualized)	-4.8	-4.4	-5.2	-4.7
Ten Years (annualized)	-1.2	-0.9	-1.4	-1.3
Twenty Years (annualized)	1.4	1.7	1.3	1.1
Prob. of Negative Return				
One Year	26.2	25.4	26.7	26.8
Three Years	13.5	12.5	14.0	14.2
Five Years	7.7	6.9	8.2	8.3
Ten Years	2.2	1.8	2.4	2.5
Twenty Years	0.2	0.2	0.3	0.3
Prob. of Achieving at least a 6.9% Return				
One Year	53.4	54.2	54.1	51.2
Three Years	55.8	57.3	57.1	52.1
Five Years	57.5	59.4	59.2	52.7
Ten Years	60.5	63.1	62.9	53.8
Twenty Years	64.7	68.2	67.9	55.3

→ Over the long term, the Wild Card 2 option has approximately the same likelihood of achieving the assumed rate as the Current Policy.

¹ "Worst Case Returns" refers to the 99th percentile return.

Growth of Assets¹



- Even apparently small differences in expected returns can result in dramatic differences over long time periods.
- Assuming 50th percentile returns, the difference between the Wild Card 2 and the 70/30 policy (the highest and lowest returning options) over the long-term is \$68.2 billion.

¹ Assumes expected return is reached each year and net cash flows are roughly 1.5% of CRPTF assets.

Historical Negative Scenario Analysis¹ (Cumulative Return)

Scenario	Current Allocation (%)	Current Policy (%)	Wild Card 2 (%)	70/30 (%)
Post-COVID Rate Hikes (Jan 2022 - Oct 2023)	-5.9	-3.1	-5.2	-13.6
COVID-19 Market Shock (Feb 2020 - Mar 2020)	-18.5	-15.0	-18.3	-23.8
BREXIT (Jun 2016)	-2.3	-1.2	-1.9	-4.5
Taper Tantrum (May - Aug 2013)	0.5	1.2	0.9	-1.6
Eurozone Debt Crisis (July 2011 - Sept 2011)	-8.8	-7.1	-8.7	-11.1
Global Financial Crisis (Oct 2007 - Mar 2009)	-28.4	-25.0	-29.4	-32.0
Popping of the TMT Bubble (Apr 2000 - Sep 2002)	-20.1	-15.1	-19.9	-24.2
LTCM (Jul - Aug 1998)	-7.1	-5.6	-7.3	-9.2
Asian Financial Crisis (Aug 97 - Jan 98)	2.7	4.0	3.4	-0.8
Rate spike (1994 Calendar Year)	3.4	2.9	3.4	2.6
Early 1990s Recession (Jun - Oct 1990)	-4.9	-3.4	-4.9	-6.6
Crash of 1987 (Sep - Nov 1987)	-9.6	-7.0	-9.4	-14.4
Strong dollar (Jan 1981 - Sep 1982)	2.3	4.4	0.8	1.1
Volcker Recession (Jan - Mar 1980)	-3.3	-2.3	-3.8	-6.7
Stagflation (Jan 1973 - Sep 1974)	-21.2	-17.6	-21.2	-25.2

- Although the Wild Card 2 Policy is projected to be more volatile, its performance in market downturns would be broadly similar to the Current Allocation and modestly weaker than the Current Policy.
- In extreme market sell-offs, the policy with a higher allocation to global equity would perform the worst, as seen with the 70/30.

¹ In periods where the ideal benchmark was not yet available we used the next closest benchmark(s) as a proxy.

Historical Positive Scenario Analysis¹
(Cumulative Return)

Scenario	Current Allocation (%)	Current Policy (%)	Wild Card 2 (%)	70/30 (%)
Covid Recovery (Apr 2020 - Dec 2021)	55.3	52.7	58.8	53.5
Global Financial Crisis Recovery (Mar 2009 - Nov 2009)	33.7	26.6	32.8	44.6
Real Estate and Buyout Boom (Oct 2004 - Sept 2007)	62.4	65.1	66.1	53.3
Best of Great Moderation (Apr 2003 - Feb 2004)	28.7	24.9	28.2	33.7
Peak of the TMT Bubble (Oct 1998 - Mar 2000)	41.2	40.7	48.5	38.9
Short Rate Decrease Cycle (Jan 1995 - Dec 1995)	17.4	16.1	18.1	19.2
Recession Recovery (Nov 1990 - March 1992)	15.0	13.4	16.0	13.8
Plummeting Dollar (Jan 1986 - Aug 1987)	60.6	50.0	56.9	80.2
Long Rate Decrease Cycle (June 1984 - August 1986)	84.2	71.0	78.1	113.1
Volcker Recovery (Aug 1982 - Apr 1983)	28.0	23.7	26.5	38.0
Bretton Wood Recovery (Oct 1974 - Jun 1975)	27.0	22.8	26.0	34.0

- In most strong recovery scenarios, Wild Card 2 performs best, along with the 70/30 portfolio, which both benefit from strong public equity returns.
- The Current Policy would trail the Current Allocation because of its lower allocation to global equity.

¹ In periods where the ideal benchmark was not yet available we used the next closest benchmark(s) as a proxy.

**Stress Testing: Impact of Negative Market Movements
(Expected Return under Negative Conditions)¹**

Over a 1-Year Period:	Current Allocation (%)	Current Policy (%)	Wild Card 2 (%)	70/30 (%)
10-year Treasury Bond rates rise 100 bps	4.1	3.7	4.0	3.9
10-year Treasury Bond rates rise 200 bps	-1.5	-1.3	-1.8	-2.8
10-year Treasury Bond rates rise 300 bps	-2.4	-2.4	-2.9	-3.5
Baa Spreads widen by 50 bps, High Yield by 200 bps	0.4	0.5	0.1	0.7
Baa Spreads widen by 300 bps, High Yield by 1000 bps	-20.9	-18.4	-21.4	-23.2
Trade Weighted Dollar gains 10%	-4.5	-3.6	-4.6	-5.9
Trade Weighted Dollar gains 20%	-2.5	-1.8	-3.0	-2.5
U.S. Equities decline 10%	-5.7	-5.1	-6.1	-6.1
U.S. Equities decline 25%	-16.2	-15.0	-17.0	-16.4
U.S. Equities decline 40%	-24.9	-22.3	-25.4	-27.6
Bull Steepener	1.2	1.0	1.0	2.0

- Each policy portfolio has a different sensitivity to four major risk factors: interest rates, credit spreads, currency fluctuations, and equity values.
- The CRPTF’s primary risk factors would continue to be an equity market decline and a widening of credit spreads, no matter the policy, however the potential drawdowns vary based on the level of public equity.

¹ Assumes that assets not directly exposed to the factor are affected nonetheless.

**Stress Testing: Impact of Positive Market Movements
(Expected Return under Positive Conditions)¹**

Over a 1-Year Period:	Current Allocation (%)	Current Policy (%)	Wild Card 2 (%)	70/30 (%)
10-year Treasury Bond rates drop 100 bps	1.4	1.3	1.4	1.8
10-year Treasury Bond rates drop 200 bps	9.4	7.8	8.8	13.1
10-year Treasury Bond rates drop 300 bps	11.7	9.8	11.0	16.7
Baa Spreads narrow by 30bps, High Yield by 100 bps	6.8	6.5	7.1	6.8
Baa Spreads narrow by 100bps, High Yield by 300 bps	12.4	10.1	12.2	14.9
Trade Weighted Dollar drops 10%	7.5	6.5	7.3	8.6
Trade Weighted Dollar drops 20%	22.3	19.4	21.2	27.6
U.S. Equities rise 10%	6.2	5.8	6.4	6.2
U.S. Equities rise 30%	15.1	13.0	14.9	18.2
Bear Steepener	4.9	4.1	4.7	5.6

→ Typically, the 70/30 portfolio, which has the lowest downside risk, would also capture the least upside in positive scenarios. However, the other policies have greater exposure to illiquid assets, which can cause them to lag the 70/30 portfolio in some scenarios given that the stress tests reflect changes over a 12-month period.

- There is a lag in the write up (or write down) of private market assets. We would expect these assets to get written up over time.

¹ Assumes that assets not directly exposed to the factor are affected nonetheless.

**Inflation Stress Testing: Negative Scenarios
(Expected Return under Negative Inflationary Conditions)¹**

Scenario	Current Allocation (%)	Current Policy (%)	Wild Card 2 (%)	70/30 (%)
Inflation slightly higher than expected	-0.2	-0.1	-0.1	-0.4
Inflation meaningfully higher than expected	-4.5	-3.4	-4.0	-6.8
Low Growth and Low Inflation	-6.6	-5.0	-6.5	-9.4
Low Growth and High Inflation	-10.1	-7.4	-9.7	-14.7
Brief, moderate inflation spike	-3.1	-2.4	-3.1	-4.2
Extended, moderate inflation spike	-5.9	-4.8	-6.1	-7.6
Brief, extreme inflation spike	-7.7	-6.4	-8.0	-9.8
Extended, extreme inflation spike	-10.2	-8.5	-10.7	-12.8

- Concerns around a portfolio’s ability to withstand bouts of meaningful inflation have become a greater focus.
- In these scenarios, the Current Policy typically performs better than the alternatives.

¹ "Brief" is 4-8 months while "extended" is a year or longer.

**Inflation Stress Testing: Positive Scenarios
(Expected Return under Positive Inflationary Conditions)¹**

Scenario	Current Allocation (%)	Current Policy (%)	Wild Card 2 (%)	70/30 (%)
High Growth and Low Inflation	10.4	8.8	10.8	13.1
High Growth and Moderate Inflation	8.2	7.3	8.8	9.6
High Growth and High Inflation	5.8	5.5	6.5	6.1

→ The Wild Card 2 Policy outperforms the Current Policy in higher growth, and all inflationary environments.

¹ The return shown is best interpreted as the annualized return estimated from the model in any period where inflation and growth look like the respective scenario. This could be a quarter up to a few years.

Monte Carlo Simulation¹

→ Performing 100,000 iterations, we can use Monte Carlo analysis to project what the growth of the CRPTF would be using the different policy options.

	Current Policy	Wild Card 2	70/30
Median Ending Market Value	\$230,706.68	\$233,950.38	\$193,378.98
Mean Ending Market Value	\$263,391.74	\$272,772.12	\$218,088.55
Median Annualized Return	7.87%	7.94%	6.91%
Mean Annualized Return	7.85%	7.92%	6.91%

→ While the results will vary versus mean variance optimization, the Wild Card 2 Policy would generate the highest market value versus the alternatives over the long-term.

¹ Using 100,000 simulations, the 3/31/26 total CRPTF market value and a net cash flow assumptions of 1.5%.

Summary

Summary

- There is a natural tension between the long-term expected return and the ability to withstand short-term periods of volatility.
 - Each plan that Meketa works with has to determine not only their ability, but also their willingness to take risk.
- There are different ways for the CRPTF to increase the expected return, if that is the preference of the Subcommittee.
- The Wild Card 2 option provides the highest expected return with only incremental additional risk, while incorporating the feedback from the Subcommittee.

Benchmarking

Introduction

- What is the purpose of a benchmark?
 - The primary purpose of a benchmark is to assist in the evaluation of an investment strategy or portfolio.
 - For the evaluation to be meaningful, it is critical to:
 - Select the correct benchmark
 - Understand what decisions you are trying to measure
 - Also, they are often used to measure staff/portfolio success for incentive compensation
- Benchmarks are used at many “levels”
 - Total plan
 - Asset class
 - Manager
- It is common practice to use multiple benchmarks given that different benchmarks may be more useful depending on what stakeholders are trying to evaluate.
 - For example, has investing in private equity been a good decision? In this instance, comparing private equity to a public equity benchmark may be appropriate.
 - However, if you are evaluating whether the Fund’s private equity managers have done well, a peer comparison benchmark may be appropriate.
- The following table shows the components of the Policy Benchmark.

Benchmarking

Asset Class	Benchmark
Global Equity	MSCI ACWI IMI
Domestic Equity	MSCI USA IMI
Developed Markets Equity	MSCI EAFE + Canada
Emerging Markets Equity	MSCI Emerging Markets IMI
Core Fixed Income	50% Bloomberg US Aggregate / 50% Bloomberg Intermediate Treasury
Non-Core Fixed Income	Bloomberg US High Yield 2% Issuer Cap
Private Credit	S&P/LSTA Leveraged Loan +1.5% 1Q Lagged
Private Equity	Russell 3000 +2.5% 1Q Lagged
Real Estate	NCREIF ODCE Net
Infrastructure & Natural Resources	CPI + 4% 1Q Lagged
Absolute Return/Risk Mitigating	Dynamic weighted strategy HFRX blend

→ There will be a more in-depth benchmarking discussion at the upcoming IAC meeting. We welcome feedback from the Subcommittee.

Appendices

CMEs for Selected Asset Classes

Asset Class	Geometric Expected Return (%)	Standard Deviation (%)
Cash Equivalents	3.1	1.0
Investment Grade Bonds	4.9	4.0
Intermediate Government Bonds	4.3	3.0
High Yield Bonds	6.6	11.0
Multi-Sector Credit	6.5	10.0
Direct Lending	7.4	15.0
Special Situations	9.4	17.0
Emerging Market Bonds Aggregate	6.4	11.0
Global Equity	8.0	17.0
Private Equity/Debt	9.9	23.0
Buyouts	9.9	24.0
Growth Equity	10.6	30.0
Venture Capital	11.0	34.0
Core Private Real Estate	7.3	12.0
Value-Added Real Estate	9.5	20.0
Opportunistic Real Estate	10.8	26.0
Real Estate Debt (High Yield)	8.9	18.0
Farmland	7.4	12.0
Infrastructure (Core Private)	7.9	15.0
Infrastructure (Non-Core Private)	10.1	24.0
Hedge Funds	5.7	7.0
RMS Aggregate	4.6	7.0

Notes and Disclaimers

The returns shown in the Policy Options and Risk Analysis sections rely on estimates of expected return, standard deviation, and correlation developed by Meketa Investment Group. To the extent that actual return patterns to the asset classes differ from our expectations, the results in the table will be incorrect. However, our inputs represent our best unbiased estimates of these simple parameters.

The returns shown in the Policy Options and Risk Analysis sections use a lognormal distribution, which may or may not be an accurate representation of each asset classes' future return distribution. To the extent that it is not accurate in whole or in part, the probabilities listed in the table will be incorrect. As an example, if some asset classes' actual distributions are even more right-skewed than the lognormal distribution (i.e., more frequent low returns and less frequent high returns), then the probability of the portfolio hitting a given annual return will be lower than that stated in the table.

The standard deviation bars in the chart in the Risk Analysis section do not indicate the likelihood of a 1, 2, or 3 standard deviation event—they simply indicate the return we expect if such an event occurs. Since the likelihood of such an event is the same across allocations regardless of the underlying distribution, a relative comparison across policy choices remains valid.