

INVESTMENT ADVISORY COUNCIL
Wednesday, February 13, 2019

MEETING NO. 460

Members present:

*Arrival 9:08am

**Arrival 9:09am

***Arrival 9:12am

****Departure 10:02am

Thomas Fiore, representing Secretary Melissa McCaw****
Joshua Hall
David (Duke) Himmelreich*
Michael LeClair***
Steven Muench
William Murray
Richard Ross
Patrick Sampson**
Carol Thomas, Interim Chair
Shawn T. Wooden, Treasurer

Others present:

Lawrence Wilson, Interim Deputy Treasurer
Laurie Martin, Chief Investment Officer
Joanne Dombrosky, Principal Investment Officer
Mark Evans, Principal Investment Officer
Lyndsey Farris, Investment Officer
Katrina Farquhar, Administrative Assistant
John Flores, General Counsel
Peter Gajowiak, Investment Officer
Karen Grenon, Legal Counsel
Barbara Housen, Chief Compliance Officer & Deputy General Counsel
Steve Jensen, Director of Communications
Danita Johnson, Principal Investment Officer
Michael MacDonald, Principal Investment Officer
Christine Shaw, Assistant Treasurer for Policy

Guests:

Lee Ann Alexandrakis, Lazard Asset Management
C. LaRoy Brantley, Meketa Investment Group
Karl Dasher, Schroders Investment Partners
Kun Deng, Lazard Asset Management
Bruce Deutsch, ARGA Investment Management
Thomas Franzese, Lazard Asset Management
James Gotto, Schroders Investment Partners
Will Greene, Loop Capital
Will Hickey, Driehaus Capital Management
Rajiv Jain, GQG Partners
Robin Kaplan-Cho, Connecticut Education Association
Edward Keating, Lazard Asset Management
Adam Kleiman, GQG Partners
A. Rama Krishna, ARGA Investment Management
Ned Kwasniewski, IQeros
Karen Kwon, Schroders Investment Partners

Tim Maul, RBC Global Asset Management
Chris Morgan, Franklin Templeton/K2 Advisors
Mary Mustard, Meketa Investment Group
Howard Schwab, Driehaus Capital Management
Liz Smith, Alliance Bernstein
Arnold West, GIA Partners
Anthony Williams, Schrodgers Investment Partners

With a quorum present, Interim Chair Carol Thomas called the Investment Advisory Council (“IAC”) meeting to order at 9:01 a.m. She said that there would be an Executive Session at the end of the meeting.

Approval of Minutes of the December 19, 2018 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the December 19, 2018 IAC meeting. **Richard Ross moved to approve the minutes of the December 19, 2018 IAC meeting, after proposing an amendment. Following discussion of the amendment, the motion to approve the minutes, as amended, was seconded by Joshua Hall. There was one abstention, William Murray. There being no further discussion, the Chair called for the vote. The motion passed.**

Comments by the Treasurer

Shawn Wooden, State Treasurer, began his opening remarks by addressing the IAC for the first time as Treasurer, noting that he had worked for 20 years as an investment lawyer, having devoted most of his practice to representing public pension funds with investments in private markets. He stated that his work includes representing the Connecticut Retirement Plans and Trust Funds (“CRPTF”) with investments as well.

Next, he acknowledged the work that the IAC has completed with respect to the asset liability study. He stated that he will make it a priority to complete the study and implement the new asset allocation plan as soon as possible, adding that he is committed to ensuring that the asset allocations for the plans and trusts are prudent and realistic in light of capital market return assumptions and the associated risks expected in the future. Treasurer Wooden continued, stating that expected returns have come down since the Great Recession and our investments should be reflective of this reality, noting that taking on unnecessary risk to achieve unrealistic return assumptions is not good policy.

Treasurer Wooden recognized the significant investment progress made over the last few years and expressed the need to continue this pace to ensure success going forward. He stated that there are five firms for the Emerging Markets International Stock Fund (“EMISF”) presenting for consideration at the meeting today: Driehaus Capital Management, LLC (“Driehaus”), GQG Partners, LLC (“GQG”), ARGA Investment Management, LP (“ARGA”), Schrodgers Investment Partners Limited (“Schrodgers”), and Lazard Asset Management, LLC (“Lazard”).

Treasurer Wooden stated that ARGA would represent a graduation from the Connecticut Horizon Fund (“CHF”) program and that he has met with each of the principals that will present;

discussing their strategy and investment philosophy as well as their commitment to diversity and inclusion and their consideration of environmental, social and governance (“ESG”) factors in the portfolio management process. He stated that the investment team has put together a complementary structure that maximizes the return potential for the EMISF.

Lastly, he stated that he looks forward to collaborating with the IAC to continue all the good work that has been done and to considering new approaches to carrying out the Treasury’s mission for the CRPTF and the people of the State of Connecticut.

Update on the Market, the Connecticut Retirement Plans and Trust Funds Final Performance for Months Ended November 30, 2018 and December 31, 2018

Laurie Martin, Chief Investment Officer (“CIO”), provided an update on the CRPTF’s performance and commented on the capital market environment and the economic outlook. She stated that after sharp declines in October, the three largest plans posted positive returns for the month of November, with the Teachers and State Employee Retirement Plans both up about 90 basis points and the Municipal Employee Retirement Plan up 67 basis points.

She stated that for November, in absolute terms, almost all asset classes posted positive returns with US equity, led by the healthcare and financial sectors returning over 2.0% and emerging market equities returning over 4.0%, but further declines in oil prices led to losses in high yield fixed income and concerns over Brexit contributed to slight losses in developed international equities.

Ms. Martin stated that in December, the primary driver of relative outperformance was the Private Investment Fund (“PIF”), returning a positive 2.58% versus the S&P 500 public market index that returned -9.03% for the month, which equates to over 11.6% of outperformance for the one month as private market investments lag the public markets in the short term performance calculations. She stated that positive returns for the fiscal and one year time periods came from diversified assets in the private market investments with the PIF up 8.3% fiscal year to date and up 17.6% for the one year, followed by the Real Estate Fund up 2.6% and 7.6%; and finally, the Alternative Investment Fund up 1.5% and 3.6%.

Ms. Martin provided a brief update on January’s performance stating that during January, the S&P 500 index was up 8.0% with Small Cap US Equities up 11.2%, making it the best monthly performance since 1987. She stated that emerging market equities were also up 8.8%, followed by developed international equities up 6.6% primarily due to currency appreciation.

Some IAC members posed questions regarding fees, performance calculations, and benchmarks, which Ms. Martin answered.

Presentation by and Consideration of the Finalists for the Emerging Market International Stock Fund Manager Search

Laurie Martin, CIO, and Michael MacDonald, Principal Investment Officer (“PIO”), provided opening remarks and introduced the five finalists for the EMISF manager search.

Ms. Martin mentioned that a competitive search process was conducted following the search plan presented at the June 13, 2018 IAC meeting. Ms. Martin gave recognition to the team members who completed the work on this search; Michael MacDonald, PIO, Peter Gajowiak, Investment Officer, and Alejandro Valdes, Intern. She then introduced Mr. MacDonald, who detailed the search process and stated that after the team reviewed the forty seven responses, five finalists were selected and deemed to be the best suited to serve Connecticut in fulfillment of the EMISF mandate.

He stated that the search team, along with internal legal, compliance, and policy departments, and the CRPTF's general consultant Meketa Investment Advisors, evaluated and compared the five firms. He stated that the review included the firm's organization and management, investment capabilities, fee proposals, experience with public sector clients, diversity and inclusion profiles, and ESG considerations. Mr. MacDonald added that three of the five firms are established investment groups, and two are boutique firms, one being a Connecticut based firm headquartered in Stamford, CT. Lastly, he introduced the investment professionals that would be presenting and gave an overview on each firm.

Several IAC members posed questions regarding fees, scope of services and work plan customization, which Ms. Martin and Mr. MacDonald answered.

Presentation by Driehaus Capital Management, LLC

Driehaus Capital Management, LLC, represented by Howard Schwab, Portfolio Manager and Will Hickey, Senior Vice President of Institutional Sales, made a presentation to the IAC. Mr. Hickey began by introducing the team and giving an overview of the firm. He stated that Driehaus, founded in 1982, was based in Chicago, IL, with an office in Stamford, CT. Mr. Hickey talked about the firm's philosophy and strategy, then introduced Mr. Schwab. Mr. Schwab talked about the firm's client management team and process, which exclusively focus on emerging markets. Mr. Schwab then reviewed the firm's investment performance, portfolio structure, and growth.

IAC members posed questions regarding emerging markets, which Mr. Schwab and Mr. Hickey answered.

Presentation by GQG Partners, LLC

GQG Partners, LLC, represented by Rajiv Jain, Co-Founder, Chairman and Chief Investment Officer, and Adam Kleiman, Director, Business Development, made a presentation to the IAC. Mr. Kleiman began by pointing out that GQG is an employee owned, investment boutique, solely focused on global emerging markets. Next, he provided a summary of Mr. Jain's background and experience. Mr. Jain then gave a firm overview and spoke of their mission and initiatives. Finally, Mr. Rajiv reviewed GQG's strategy, performance, and track record.

Several IAC members posed questions regarding financial governance, which Mr. Jain and Mr. Kleiman answered.

Presentation by ARGA Investment Management, LP

ARGA Investment Management, LP, represented by A. Rama Krishna, Founder and Chief Investment Officer, and Bruce Deutsch, Director – Client Relations, made a presentation to the IAC. Mr. Deutsch began and introduced the team and gave a firm overview. He stated that the firm, based in Stamford, CT, was founded in 2010 during which the State of Connecticut became the firm's first institutional investor through the CHF's allocation to Progress Investment Management. He then introduced Mr. Krishna, who talked about the firm's investment philosophy, strategy, and investment team.

Several IAC members posed questions, which Mr. Krishna and Mr. Deutsch answered.

Presentation by Schroders Investment Partners Limited

Schroders Investment Partners Limited, represented by Karl Dasher, CEO of North America & Co-Head of Fixed Income, James Gotto, Fund Manager, Anthony Williams, Institutional Director, and Karen Kwon, Institutional Director, made a presentation to the IAC. Mr. Dasher began and introduced the team and gave an overview of the firm. He stated that the firm had been an investment manager with the State of Connecticut since 2010. Mr. Dasher then discussed the firm's strategy and track record before introducing Mr. Gotto. Mr. Gotto talked about the firm's team, process, and approach to risk. Next, he reviewed the market and growth opportunities within the emerging market space, and the firm's expertise in analyzing the opportunities to build successful portfolios.

Several IAC members posed questions, which Mr. Gotto answered.

Presentation by Lazard Asset Management, LLC

Lazard Asset Management, LLC, represented by Kun Deng, Managing Director, Portfolio Manager/Analyst, Lee Ann Alexandrakis, Senior Vice President, Portfolio Manager/Analyst, Edward Keating, Director, Client Portfolio Manager, and Thomas Franzese, Director, Institutional Marketing, made a presentation to the IAC. Mr. Franzese began and introduced the team and gave a firm overview. He stated that Lazard is a global firm that has offices in 12 countries, with over 800 employees, managing over \$216 billion in assets and \$33 billion in equities alone, with a list of institutional investors as clients. Next, Mr. Keating spoke about the firm's philosophy and objectives in emerging market equities, then introduced Ms. Alexandrakis, who talked about the firm's geographic exposure and equities in Mexico. Finally, Mr. Deng spoke about Lazard's strategy, diversification, and investment process.

Several IAC members posed questions, which Mr. Keating and Mr. Deng answered.

Roll Call of Reactions for the Finalists for the Emerging Market International Stock Fund Manager Search

Messrs. Hall, Murray, Ross, Duke Himmelreich, Steven Muench, Patrick Sampson, and Chair Thomas provided feedback on the Finalists for the Emerging Market International Stock Fund Manager Search.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Mr. Himmelreich, seconded by Mr. Murray, to waive the 45-day comment period for the five EMISF finalists. There being no discussion, the Chair put the question to a vote and the motion was passed unanimously.**

Other Business

Chair Thomas reminded the committee members that the next meeting would be Wednesday, March 13, 2019 and invited them to submit agenda items.

Treasurer Wooden introduced John Flores, General Counsel and Barbara Housen, Chief Compliance Officer and Deputy General Counsel, as new members of the Treasury staff.

Executive Session

A motion was made by Mr. Muench, seconded by Mr. Hall, that the IAC adjourn the Regular Session at 12:08 a.m. and enter into Executive Session to consider personnel matters. The motion was passed unanimously. Lawrence Wilson, Interim Deputy Treasurer participated in the Executive Session.

Regular Session


Chair Thomas reconvened the regular session at 12:26 p.m. She noted that no votes were taken during the Executive Session and personnel matters were discussed.

Comments by the Chair

There being no further business, Chair Thomas called for a motion to adjourn the meeting. **Mr. Himmelreich moved to adjourn the meeting and the motion was seconded by Mr. Ross. There being no discussion, the meeting was adjourned at 12:27 p.m.**

This meeting was electronically recorded.

Respectfully submitted,



**SHAWN T. WOODEN
SECRETARY**

Reviewed by,



**CAROL THOMAS
INTERIM CHAIR**