INVESTMENT ADVISORY COUNCIL
Wednesday, March 14, 2018

MEETING NO. 450

Members present:	Thomas Fiore, representing Benjamin Barnes Joshua Hall David (Duke) Himmelreich* Steven Muench William Murray Denise L. Nappier, Treasurer** Carol Thomas, Interim Chair
*Arrival 9:10a.m./Departed 10:41a.m. **Arrival 9:54a.m.	
Absent:	Michael LeClair
Others present:	Lawrence Wilson, Interim Deputy Treasurer Laurie Martin, Interim Chief Investment Officer David Barrett, Executive Assistant Joanne Dombrosky, Principal Investment Officer Mark Evans, Principal Investment Officer Karen Grenon, Legal Counsel Wayne Hypolite, Executive Assistant Danita Johnson, Principal Investment Officer Catherine E. LaMarr, General Counsel Michael MacDonald, Principal Investment Officer Christina McGinnis, Executive Secretary Linda Tudan, Executive Assistant
Guests:	Drianne Benner, Appomattox LaRoy Brantley, Meketa Investment Group Braynard Brown, Rockefeller Capital Management Michael Elio, StepStone Group Pete Keliuotis, Cliffwater Chris Morgan, Franklin Templeton Mary Mustard, Meketa Investment Group Aditya Raina, StepStone Group Tim Strahosch, Alliance Bernstein Lary Tang, StepStone Group Peter Woolley, Meketa Investment Group

With a quorum present, Interim Chair Carol Thomas called the Investment Advisory Council ("IAC") meeting to order at 9:05 a.m.

Approval of Minutes of the February 14, 2018 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the February 14, 2018 IAC meeting. **William Murray moved to approve the minutes of the February 14, 2018 IAC meeting. The motion was seconded by Joshua Hall. There being no further discussion, the Chair called for the vote. The motion passed unanimously.**

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

Laurie Martin, Interim Chief Investment Officer, provided an update on the capital market environment, its impact on the Connecticut Retirement Plans and Trust Funds ("CRPTF") performance and the economic outlook. Ms. Martin reported that for the month ending January 31, 2018, the Teachers' Retirement Fund ("TERF") and the State Employees' Retirement Fund ("SERF"), the two largest pension plans, both returned 2.9%, respectively, and the Municipal Employees' Retirement Fund ("MERF"), returned about 2.2%; all three funds underperformed their benchmarks by 23 to 41 basis points ("bps") for the month. She stated that global equities drove performance for the month, led by the Emerging Markets International Stock Fund (EMISF"), up 7.6%; the Mutual Equity Fund up 5.4%; and the Developed Markets International Stock Fund ("DMISF"), up 3.2%. Ms. Martin stated that for January 2018 fiscal year to date, the CRPTF performance was still benefiting from strong global equity market returns, reflected in the TERF and SERF results, posted at over 10.0%, and MERF results of 8.6%. Additionally, for the one-year performance ending January 31, 2018, she reported that both the TERF and the SERF were up over 17.5%, respectively, and the MERF was up 15.1%. Ms. Martin said volatility was creeping back into the markets and valuations were still high across almost all asset classes.

Finally, Ms. Martin reported on the CRPTF's Watch List and stated that two Alternative Investment Fund ("AIF") managers, Prisma Capital Management ("Prisma") and Morgan Stanley Alternative Investment Partners ("Morgan Stanley"), would be added for underperformance. Prisma has underperformed the other funds in the Prudence Crandall allocation and the HFRI Composite Index over an extended period of time, while Morgan Stanley, which is in the Connecticut Horizon Fund ("Horizon Fund") Thomas Welles portfolio, has underperformed versus peer strategies and the HFRI Composite Index over time. She said that DMISF manager William Blair would be removed from the Watch List due to its sustained improved performance while having remained consistent with its strategy. Finally, she stated that due to continued underperformance and continued client outflows, Aberdeen Asset Management, a manager within the EMISF, would be terminated.

Combined Investment Funds and Connecticut Horizon Fund Reviews as of December 31, 2017

Next, Peter Woolley, Managing Principal and Co-Chief Executive Officer, Mary Mustard, Principal, and LaRoy Brantley, Principal, of Meketa Investment Group ("Meketa"), reported on the Combined Investment Funds and the Horizon Fund for the quarter ending December 31, 2017. Ms. Mustard began and introduced the team. Mr. Woolley then spoke of global market returns for fourth quarter December 31, 2017, and noted especially strong equity results, led by emerging market equities. He reviewed the index returns for the one-three-five- and ten year periods and reviewed the fixed income credit spreads versus U.S. Treasury Bonds and overviews of the global macroeconomic outlook and the capital markets outlook. Mr. Brantley then gave an executive summary and cited very strong absolute returns, both for the quarter and the calendar year. He then commented and gave highlights on the CRPTF's plans and trusts and the combined investment funds. Lastly, Ms. Mustard gave a performance summary for the Horizon Fund. She stated that for the year-ending December 31, 2017, there was $1.3 billion invested in the fund; for the quarter ending performance was up 4.9% and year-to-date it was up 17.8%, outperforming the custom benchmark by 20 bps.

Alternative Investment Fund Review as of December 31, 2017

Pete Keliuotis, Senior Managing Director of Cliffwater, LLC, presented the report for the quarter ending December 31, 2017 and began with an executive summary and overviews of the portfolio, hedge fund performance, and strategy performance. Mr. Keliuotis reported that the assets in the hedge fund allocation totaled $1.63 billion, or 7.5% of plan assets, close to target, and the real assets/opportunistic totaled $143 million, or 0.4% of plan assets. He stated that the HFRI Fund Weighted Composite Index returned 2.65% and added that the event driven managers benefited from equity beta with gains somewhat offset by merger-arbitrage exposure. Mr. Keliuotis then detailed the performance for all the HFRI strategy indices and discussed the key drivers. He reviewed performance in portfolio A & B, which continue to be driven by gains in equity-sensitive strategies such as Equity Long/Short and Event Driven funds, and reported underperformance of benchmarks due to poor results of Global Macro and Commodity Trading Advisor strategies. Mr. Keliuotis reviewed the CRPTF's hedge fund and the AIF hedge fund performance and exposures as of December 31, 2017. He then gave an update on the AIF portfolio compliance and stated it was over target for absolute return strategies.

Lastly, Mr. Keliuotis reported on the real assets and opportunistic performance. He mentioned that the total commitment to these sectors was $260 million; the fair value was $143 million for the quarter ending December 31, 2017.

Comments by the Treasurer

Treasurer Denise L. Nappier began her opening remarks by introducing Danita Johnson, Principal Investment Officer ("PIO") for the Real Estate Fund ("REF") in the Pension Fund Management Division, invited her to say a few words and concluded by welcoming her on behalf of the IAC.

Next, she commented on the agenda and said there would be an Executive Session immediately following the regular meeting. Treasurer Nappier then stated that she had an investment–related announcement and that after giving consideration to the feedback from the IAC and to the extensive due diligence process conducted by investment professionals and the AIF consultant, Cliffwater, she had decided to make a commitment of up to $75 million to Anchorage Illiquid Opportunities Fund VI, L.P., which would primarily focus on investments in a concentrated portfolio of less liquid niche credit opportunities across the U.S., Europe, New Zealand and Australia. Treasurer Nappier added that this investment would implement core investment strategies in certain distressed debt and secondary and primary markets. She said the commitment was contingent upon successful negotiation of the partnership documents.

She then briefly commented on the one-year investment performance for the two largest pension plans in the CRPTF; the TERF and SERF, and also noted the investment performance of the MERF, as of January 31, 2018.

Treasurer Nappier then mentioned the competitive search for the REF consultant would be underway. She said that The Townsend Group's contract to provide real estate investment consulting services expired on February 28, and the CRPTF had temporarily expanded Meketa's consulting services to include the oversight of the REF until the consultant search was completed.

Lastly, Treasurer Nappier commented on recent press releases regarding her process for engaging weapons manufacturers concerning gun safety and proposals for adopting the Sandy Hook Principles. She spoke about the CRPTF assets that are invested in five companies that manufacture guns, with a total investment valued at roughly $16.5 million, or .05% of the total portfolio. Treasurer Nappier stated that should the increase of gun violence further compromise the safety of our young people, our communities and our long-term shareholder value, she would engage in increased shareholder activism, while continuing to advocate for the adoption of the Sandy Hook Principles and, subsequently, proceed to divest or cease from further investments in gun companies as the most prudent course of action. She then commented on a press release regarding the bond covenant for the State Teacher's Pension Obligation Bond which would restrict the types of changes which could be made to adjust the State's actuarial contribution each year. Treasurer Nappier expressed that the State should not support any funding reform proposal as it would violate the bond covenant, and then discussed the Governor's proposal.

Private Investment Fund Review as of September 30, 2017

Michael Elio, Principal, and Aditya Raina, Senior Associate, of StepStone Group, presented the report for the quarter ended September 30, 2017. Mr. Elio gave an executive summary and summarized the performance versus benchmarks. Since inception through September 30, 2017, he stated that the PIF's total portfolio has generated a net IRR of 9.2% and a net TVPI of 1.5x invested capital and private markets continues with strong performance. He said that the performance versus benchmark numbers were the same across the board from what was previously reported month ending June 30, 2017, due to fewer valuation changes during the third quarter. Mr. Elio then reviewed the quarterly highlights and said that during the third quarter of 2017, the PIF made no new investment commitments, however, there were a number of commitments made subsequent to the quarter ending September 30, 2017. He stated for the net cash inflow, the portfolio made $106.1 million of contributions and received $200 million of distributions, for a net cash inflow of $93.9 million. Mr. Raina then gave an overview of the portfolio summary and said not much changed from the prior quarter in terms of performance figures. He then talked about the annual commitment pace, portfolio allocations versus targets, recent commitments, and the quarterly and annual cash flows. Mr. Elio reviewed the capital account changes and the holdings by region and industry. Lastly, he gave an executive summary for the Horizon Fund for the quarter ending September 30, 2017 and stated that since inception, the CHF generated a net internal rate of return ("IRR") of 6.8%, and during the same time period, the S&P 500 total return generated an IRR of 7.8%.

Real Estate Fund Review as of September 30, 2017

Ms. Johnson presented the report for the quarter ending September 30, 2017. She began with an overview of the market, portfolio and performance. She stated that the real estate funds have averaged 13% net returns over the last 7 years, since the global financial crisis. She reviewed the real estate sector versus stocks, bonds and inflation, pricing and capital flows. Ms. Johnson spoke about the funding and stated that the REF has grown to $2.17 billion, which represents 6.4% of total plan assets and a growth of $904 million over the past five years, with the fund growing and returning strong performance. Next, she reviewed the investment guidelines and compliance and then gave a performance review and stated that the REF continued to outperform its benchmark over the one-three and five-year time periods on a gross and net basis. For the quarter ending September 30, 2017, she said returns were 2.5% gross, 2.1% net and that returns exceeded the benchmark return of 1.7%, for the same period.

Other Business

Chair Thomas reminded the IAC members that the April 11, 2018 IAC meeting was rescheduled to April 18, 2018. She then invited the IAC members to submit agenda items for the April 18th meeting and mentioned the IAC budget was included in their meeting materials for their review.

Executive Session

A motion was made by Mr. Hall, seconded by Mr. Murray, that the IAC adjourn the Regular Session at 11:45 p.m. and enter into Executive Session to consider personnel matters. The motion was passed unanimously. Lawrence Wilson, Deputy Treasurer participated in the Executive Session.

Regular Session

Chair Thomas reconvened the regular session at 12:00 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. Murray moved to adjourn the meeting and the motion was seconded by Thomas Fiore. There being no discussion, the meeting was adjourned at 12:01 p.m.**

This meeting was electronically recorded.

Respectfully submitted,

Denise L. Nappier

DENISE L. NAPPIER
SECRETARY

Reviewed by,

Carol M. Thomas

CAROL THOMAS
INTERIM CHAIR