INVESTMENT ADVISORY COUNCIL
Wednesday, April 18, 2018

MEETING NO. 451

Members present:	Thomas Fiore, representing Benjamin Barnes*
	David (Duke) Himmelreich
	Michael LeClair
	Steven Muench
*Arrival 9:03a.m	William Murray
**Arrival 9:33a.m.	Denise L. Nappier, Treasurer**
	Carol Thomas, Interim Chair
Absent:	Joshua Hall
	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
	Wayne Hypolite, Executive Assistant
	Danita Johnson, Principal Investment Officer
	Catherine E. LaMarr, General Counsel
	Michael MacDonald, Principal Investment Officer
	Christina McGinnis, Executive Secretary
	Christine Shaw, Chief Compliance Officer/Assistant Treasurer
	Michael Terry, Principal Investment Officer
	Linda Tudan, Executive Assistant
Guests:	Drianne Benner, Appomattox
	LaRoy Brantley, Meketa Investment Group
	Will Greene, Loop Capital
	Tammy Jones, Basis Investment Group
	Corinne Larson, Longfellow Investment Management Co.
	Barbara McKenna, Longfellow Investment Management Co.
	Chris Morgan, Franklin Templeton
	Mary Mustard, Meketa Investment Group
	Carrie Pickett, Blueprint Capital Advisor
	Leigh Roumila, Basis Investment Group
	Rita Sallis, Blueprint Capital Advisor
	Seraphin Tala, Intern-Policy
	Kunle Shoyombo, Basis Investment Group
	Peter Woolley, Meketa Investment Group

With a quorum present, Interim Chair Carol Thomas called the Investment Advisory Council ("IAC") meeting to order at 9:02 a.m.

<u>Approval of Minutes of the March 14, 2018 IAC Meeting</u>

Chair Thomas called for a motion to approve the minutes of the March 14, 2018 IAC meeting.

William Murray moved to approve the minutes of the March 14, 2018 IAC meeting. The motion was seconded by Duke Himmelreich. There being no further discussion, the Chair called for the vote. The motion passed unanimously.

Update on the Market and the Connecticut Retirement Plans and Trust Funds Final Performance for Month Ended February 28, 2018

Laurie Martin, Interim Chief Investment Officer, provided an update on the Connecticut Retirement Plans and Trust Funds ("CRPTF") performance and the economic outlook. Ms. Martin reported that for the month ending February 28, 2018, the Teachers' Retirement Fund ("TERF") and the State Employees' Retirement Fund ("SERF"), the two largest pension plans, both posted negative returns of -2.3%, respectively, and the Municipal Employees' Retirement Fund ("MERF"), posted a negative return of -1.9%; all three funds outperformed their benchmarks during the month by 18 to 25 basis points ("bps") for the month. She stated that the Emerging Markets International Stock Fund (EMISF"), underperformed by 64 bps offset by the outperformance of the Alternative Investment Fund ("AIF") by 76 bps for the month. For the first time in two years, Ms. Martin said all funds posted negative returns with the exception of the AIF that returned 85 bps and the Liquidity Fund which was flat for the month; the Developed Markets International Stock Fund ("DMISF") was down -5.2%, followed by US Equity down -3.6% and then Developed Market Equities was down -3.6%. Additionally, for the fiscal year to date, she stated that the TERF and the SERF were up over 7.7%, respectively, and the MERF was up 6.5%; and for the one-year performance ending February 28, 2018, both the TERF and the SERF were up over 12.7% and the MERF was up 10.9%. Ms. Martin commented that volatility has increased in the markets and that asset valuations were still at historically high levels.

Overview of and Presentation by a Connecticut Horizon Fund Graduate

Ms. Martin gave an overview on the Connecticut Horizon Fund Graduation Policy and the restructuring of the Connecticut Horizon Fund ("CHF") program. She stated that it was in the design stage and maintenance was being performed on the first portion of the program. Ms. Martin said that comments and input were welcomed by the IAC and that more information would be available at a later date.

Next, Peter Woolley, Managing Principal and Co-Chief Executive Officer, Mary Mustard, Principal, and LaRoy Brantley, Principal, of Meketa Investment Group ("Meketa"), discussed the CHF restructuring. Ms. Mustard began and stated that after reviewing the existing CHF program, in addition to reviewing each of the customized manager-of-manager programs that oversee the public equity and fixed income components, they provided options for consideration that would increase the long-term value add, while still supporting the mission of supporting the emerging, diverse, and Connecticut-based firms. She then talked about formalizing and enhancing the graduation policy to consider certain underlying managers for graduation into the direct roster of the CRPTF. Mr. Woolley and Mr. Brantley then gave an overview on the graduation candidates, Longfellow Investment Management Co., LLC ("Longfellow") and Pugh Capital Management, who have been identified for graduation from the public market component of the CHF.

Next, Ms. Martin commented that the CHF Program was designed to identify and invest with the most promising, best in class emerging, minority and/or women owned and Connecticut based companies and added that once identified, the plan was to harness this talent and help these managers grow into the next generation of institutional investment managers allowing for broader allocations among peers in the CRPTF.

Longfellow Investment Management Co., LLC represented by Barbara McKenna, Managing Principal and Portfolio Manager, and Corinne Larson, CTP, Principal, Director of Marketing and Client Service, made a presentation to the IAC. Ms. McKenna began and introduced the team. Ms. Larson then gave a firm overview and stated that Longfellow was founded in 1986 by two colleagues who worked at the Polaroid Corporation who managed the firm's treasury and pension funds. She mentioned that the firm is 100% employee owned and a certified Women's Business Enterprise. Ms. Larson then discussed Longfellow's customized, proactive approach to asset management, experienced team and industry recognition. Ms. McKenna then reviewed the historical timeline of the organization and highlighted specific milestones, the investment team, the firm's investment philosophy, portfolio investment process and performance factors.

Several IAC members posed questions regarding performance, economy and fixed income industry, to which Ms. McKenna answered to their satisfaction.

Comments by the Treasurer

Treasurer Denise L. Nappier began her opening remarks by commenting on the graduation of two public firms for the CHF, Longfellow Investment Management, which presented to the IAC and Pugh Capital Management, which could not attend today's meeting. She relayed that Longfellow has credited Connecticut for giving them a hands up, making it possible for the firm to accumulate assets, having noted that it was highly unusual to have a women owned/women led fixed income investment firm, despite the fact that such funds have outperformed similar funds managed by men since 2003. Treasurer Nappier continued by citing a Morningstar report which stated there are only 14 US debt funds managed by women as of September, 2017, contrasted against 47 in 2004, and referred to the situation as an unconscious bias that detracts from the selection top-tier fund managers. She stated that women continue to struggle in the financial services industry to secure decision-making roles, which validates the efficacy of the CHF. How are we doing when it comes to an inclusive roster of firms in the Pension Fund Management ("PFM") division? Treasurer Nappier continued by stating that in 1999 there were two women owned firms representing 2.6% of all PFM division business at the Treasury. As of fiscal year-end 2017, she indicated that the CRPTF did business with 7 firms, or 5.3%, which was not enough. Assets managed by these firms totaled $2.1 billion, up from $1.4 billion in 2016 and fees paid in 2017 totaled $7.9 million, or 8.3% of all fees paid. In 1999, fees paid to these firms were $1.4 million or 1.9% of all fees paid. Within the CHF, at the end of fiscal year 2017 there were 12 women owned firms, or 29.2%, and assets under management by these firms totaled $471 million. Treasurer Nappier continued with a brief overview of the mission of the CHF and spoke about the two other components of the CHF program that are yet to be launched; the real estate fund-of-funds and new innovative investment strategies. Finally, she said she was very pleased that the agenda reveals a special presentation; the first women-run real estate firm to present before the IAC for our mainstream portfolio. Lastly, Treasurer Nappier commented on the rest of the agenda and said there would be an Executive Session immediately following the regular meeting. She then announced that there was an investment opportunity being presented for consideration by the IAC, Basis Investment Group Real Estate Fund I, L.P., ("Basis I"), an investment opportunity for the Real Estate Fund ("REF") of up to $65 million.

The commercial real estate firm is headquartered in New York, managed by Basis Management Group, LLC and would originate and acquire a diversified portfolio of commercial real estate debt and preferred equity investments throughout the U.S., largely focusing on middle market investments averaging $5 - $50 million.

Presentation by and Consideration of Basis Investment Group Real Estate Fund I, L.P.

Danita Johnson, Principal Investment Officer ("PIO"), provided opening remarks and introduced "Basis I", ("Basis") an REF investment opportunity. Ms. Johnson introduced the speakers and mentioned the firm was headquartered in New York, a minority and female owned firm, established in 2009 and led by Tammy Jones. She then gave a firm overview and stated that it was Basis' first commingled fund that would originate and acquire a diversified portfolio of commercial real estate debt and preferred equity investments throughout the United States. Ms. Johnson then spoke of the investment process, market opportunities, track record and team.

Basis Investment Group represented by Ms. Jones, Founder and CEO, Kunle Shoyombo, CIO, and Leigh Roumila, Chief Operating Officer, made a presentation to the IAC. Ms. Jones began and introduced the team. She said Basis was a diversified commercial real estate investment manager and they invest across the capital stack in real estate debt and preferred equity that is collateralized by all commercial real estate assets that are located across the U.S., particularly in the middle market. Ms. Jones then spoke of the firm's distinctive approach in investing, performance and Basis I. Ms. Roumila spoke of the seasoned and diverse team, and their deep experience in investing. She added that 77% of the firm's staff is comprised of minorities and women. Mr. Shoyombo then gave an overview of Basis I and the projected investment allocation stating that the portfolio was diversified by capital stack position, property type and life cycle, and region. Ms. Jones described the firm's investment strategy, demand drivers and philosophy. She added that their focus was on strong underlying real estate and generating returns designed to hold up regardless of the market cycle. Lastly, Ms. Roumila reviewed the investment process and gave some case studies.

Roll Call of Reactions for Basis Investment Group Real Estate Fund I, L.P.

Thomas Fiore, Messrs. Himmelreich, Murray, Michael LeClair, Steven Muench, and Chair Thomas provided feedback on Basis and all were in favor of the Basis I, REF opportunity.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Mr. Murray seconded by Mr. LeClair, to waive the 45-day comment period for the Basis Investment Group Real Estate Fund I, L.P. There being no discussion, the Chair put the question to a vote and the motion was passed unanimously.**

Short-Term Investment Fund Review as of December 31, 2017

Michael Terry, PIO, reported on the performance of the Short-Term Investment Fund ("STIF") for the quarter ending December 31, 2017. Mr. Terry said that for the one-year ending December 31, 2017, the STIF earned 96 bps and outperformed its benchmark by 10 bps, which resulted in an additional $5.8 million for the investors. He stated that during the same quarter, reserves were increased by $4.9 million over the last twelve months and bringing the reserve balance to $56 million. For the quarter ending December 31, 2017, he said the STIF achieved an annualized return of 1.25%, which exceeded its primary benchmark by 20 bps, which resulted in an additional $2.6 million for the investors. Mr. Terry reported that since December 31, 2017, the weighted-average maturity of the portfolio had been increased to 37 days and in overnight investments and investments available on a same-day basis, the total was $2.5 billion, or 35% of assets. Next, he spoke on the economic outlook and gave an overview of the market and portfolio performance.

Other Business

Chair Thomas invited the IAC members to submit agenda items for the May 9, 2018 meeting.

Executive Session

A motion was made by Mr. Murray, seconded by Mr. Muench, that the IAC adjourn the Regular Session at 10:28 a.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 10:49 a.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 Mr. Himmelreich. There being no discussion, the meeting was adjourned at 10:50 a.m.**

This meeting was electronically recorded.

Respectfully submitted,

Denise L. Nappier

DENISE L. NAPPIER
SECRETARY

Reviewed by,

Carol M. Thomas

CAROL THOMAS
INTERIM CHAIR