

INVESTMENT ADVISORY COUNCIL  
Wednesday, June 13, 2018

**MEETING NO. 453**

**Members present:**

\*Arrival 9:03a.m.  
\*\*Arrival 9:06a.m.  
\*\*\*Arrival 9:11a.m.

Thomas Fiore, representing Benjamin Barnes\*\*\*  
Joshua Hall  
David (Duke) Himmelreich  
Michael LeClair\*  
Steven Muench  
William Murray  
Denise L. Nappier, Treasurer\*\*  
Carol Thomas, Interim Chair

**Others present:**

Lawrence Wilson, Interim Deputy Treasurer  
Laurie Martin, 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 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:**

Samar Abbas, StepStone Group  
Seth W. Alvord, Balance Point Capital Partners  
Avery Blaszkowski, Intern  
Drienne Brenner, Appomattox  
Phil Deeney, State Street Global Advisors  
Dyice Ellis-Beckham, Invesco  
Mike Foster, RFE Investment Partners  
Christy Gahr, Meketa Investment Group  
Will Greene, Loop Capital  
John Haggerty, Meketa Investment Group  
Ron Honer, RBC GAM  
Justin Kaplan, Balance Point Capital Partners  
Robin Kaplan-Cho, Connecticut Education Association  
Pete Keliuotis, Cliffwater  
Ned Kwasniewski, Iqeros  
Aishwarya Mammayil, Intern  
Tim Maul, RBC GAM  
Katherine McComic, Intern  
James Murray, Intern  
Mary Mustard, Meketa Investment Group

Jim Parsons, RFE Investment Partners  
Mary Pugh, Pugh Capital Management  
Aditya Raina, StepStone Group  
William Rejeski, Goldman Sachs  
Mike Rubel, RFE Investment Partners  
Elizabeth Smith, Alliance Bernstein  
Ned Truslow, RFE Investment Partners  
Alejandro Veldez, Intern  
Ryan Wagner, T. Rowe Price  
Arnold West, GIA Partners  
Brandon Whitburn, Intern  
Peter Woolley, Meketa Investment Group  
Andrew Zemantic, Intern

With a quorum present, Interim Chair Carol Thomas called the Investment Advisory Council (“IAC”) meeting to order at 9:03 a.m.

Chair Thomas stated that the Interim Report on the Connecticut Retirement Plans and Trust Funds (“CRPTF”) Activities under Various Statutory Investment Restrictions was being added to the agenda. She called for a motion for a vote to add the Statutory Investment Restrictions report to the agenda. **William Murray moved to approve the addition of the Statutory Investment Restrictions report to the agenda. The motion was seconded by Steven Muench. There being no further discussion, the Chair called for the vote. The motion passed unanimously.** She then called for a motion to table the report. **Mr. Murray moved to table the report. The motion was seconded by Duke Himmelreich. There being no further discussion, the Chair called for the vote. The motion passed unanimously.**

#### **Approval of Minutes of the May 9, 2018 IAC Meeting**

Chair Thomas called for a motion to approve the minutes of the May 9, 2018 IAC meeting. **Mr. Murray moved to approve the minutes of the May 9, 2018 IAC meeting. The motion was seconded by Mr. Muench. There being no further discussion, the Chair called for the vote. The motion passed.**

#### **Comments by the Treasurer**

Treasurer Denise L. Nappier began her opening remarks by introducing the Office of the State Treasurer’s 2018 summer interns and asked each of them to introduce themselves. She said that after giving consideration to the feedback from the IAC and to the extensive due diligence process conducted by investment professionals and Private Investment Fund (“PIF”) consultant, Stepstone Group (“Stepstone”), she had decided to make an additional allocation commitment of up to \$25 million to Leeds Equity Partners VI, L.P., headquartered in New York. Treasurer Nappier added that an increased commitment to Leeds VI would provide an opportunity for the CRPTF to generate strong returns through an existing PIF manager that executes a proven, sector focused strategy, and noted that as of September 30, 2017, Leeds V had generated a very strong net internal rate of return (“IRR”) of 17%. Treasurer Nappier said that the commitment was contingent upon successful negotiation of the partnership documents.

She then stated that after giving consideration to the feedback from the IAC and to the extensive due diligence process conducted by investment professionals and Alternative Investment Fund (“AIF”) consultant, Cliffwater, she had made a tentative decision to consolidate the investment portfolios of Appomattox Advisors (“Appomattox”), and Morgan Stanley Alternative Investment Partners (“MSAIP”), by terminating and transitioning the assets currently held by MSAIP to Appomattox. Treasurer Nappier said the additional commitment to Appomattox was contingent upon the Treasurer’s final consideration of the graduation policy and also said that the commitment was contingent upon successful negotiation of the partnership documents.

Next, Treasurer Nappier mentioned there were two news articles in the IAC packet; the first discusses pension stress testing and references the analytical tool created by the Pew Foundation to give plan sponsors insight into how state pension funds could fare under a worst case scenario. Treasurer Nappier added that in October 2017, the legislature adopted a bill mandating pension stress testing for the State and Teacher pension plans, to be completed by the Office of Policy and Management in 2018. She said the second article discusses investor interest in private equity emerging managers regarding the recruitment and retention of talented women for senior members of their investment teams.

Treasurer Nappier briefly commented on the two largest pension plans in the CRPTF; the Teachers’ Retirement Fund (“TERF”), State Employees’ Retirement Fund (“SERF”), and also noted the investment performance of the Municipal Employees’ Retirement Fund (“MERF”), as of April 30, 2018. She highlighted the one year returns and stated that the TERF and SERF had strong returns with 9.49% and 9.67%, respectively and the MERF posted a one year return of 8.29%. Treasurer Nappier added that the strongest contributors to the performance were generated by public and private equity and the Mutual Equity Fund (“MEF”), Developed Markets International Stock Fund (“DMISF”), the Emerging Markets International Stock Fund (“EMISF”) and the PIF returned one year performances of 13.21%, 13.06%, 16.13%, and 12.40%, respectively.

She also discussed the agenda and mentioned a presentation from one Connecticut Horizon Fund (“CHF”) graduate, Longfellow Investment Management, was given at the April IAC meeting and a second CHF graduate, Pugh Capital Management (“Pugh”), would be presenting to the IAC. Treasurer Nappier said the firm was founded in 1991 by Mary Pugh and Scott Greiwe in Seattle, Washington, to create a diverse and independent fixed income firm. She stated that Pugh was initially funded with a \$25 million allocation in 2005 under the CHF program component of our Core Fixed Income Fund and at that time, the firm had \$894 million in assets under management (“AUM”), and as of December 31, 2017, it had \$5.8 billion in AUM.

Additionally, Treasurer Nappier stated that there were two investment opportunities being presented for consideration by the IAC, for the PIF: Balance Point Capital Partners III, L.P. (“Balance Point”) and RFE Investment Partners IX, L.P. (“RFE IX”). She said that Balance Point was an investment opportunity of up to \$50 million, headquartered in Westport, Connecticut. The fund’s general partner is Balance Point Capital Managers III, LLC, an affiliate of Balance Point Capital Advisors, LLC, and would focus on private debt and equity co-investments in lower middle market North American companies. Treasurer Nappier stated that the CRPTF had acquired its institutional knowledge of Balance Point through its commitment to Connecticut Growth Capital in late 2015, which was a \$75 million separate account managed by Balance Point under our in-state investment program initiative. The second fund she discussed

was RFE IX, an investment opportunity for the PIF of up to \$40 million, headquartered in New Canaan, Connecticut. The general partner is RFE Associates IX, LLC; an affiliate of RFE Investment Partners. She said that RFE IX proposed to make control buyout investments in lower middle market companies primarily based in the U.S. and that the CRPTF had made commitments to the firm's last three funds: RFE Investment Partners VI, L.P. ("RFE VI"), a 1998 vintage year fund; RFE Investment Partners VII, L.P. ("RFE VII"), a 2007 vintage year fund; and, RFE Investment Partners VIII, L.P. ("RFE VIII"), a 2012 vintage year fund. Treasurer Nappier added that the CRPTF's commitment of \$30 million to the fully realized Fund VI generated a net IRR of 15.1% and had also committed \$40 million each to funds RFE VII and RFE VIII, which generated net IRRs of 8.6% and 9.0%, respectively, as of December 31, 2017. Separately, Lawrence Wilson, Deputy Treasurer, remarked that Laurie Martin's appointment as Chief Investment Officer was made after the unanimous consent of the IAC members via resolution during the interim period between the May 9, 2018 and June 13, 2018 IAC meetings.

### **Update on the Market and the CRPTF Performance as of April 30, 2018**

Ms. Martin provided an update on the CRPTF performance and commented on the capital market environment and the economic outlook. She reported that for the month ending April 30, 2018, the TERF and the SERF, the two largest pension plans, both posted positive returns of 0.25% for the month and MERS posted a positive return of 0.09%; all three funds slightly outperformed their respective benchmarks during the month by 21 to 26 basis points ("bps"), primarily due to the relative underperformance of the three Emerging Markets Equity managers that collectively underperformed by 198 bps. She stated that the DMISF managers together outperformed by 27 bps as the Schroders Developed International Small Cap strategy outperformed the most by 94 bps for the month. Ms. Martin commented that the Developed International Equity performed very well returning 2.4% and within US Equity, energy stocks were up along with the corresponding increase in oil prices by over 7%. She said Emerging Market Debt and equity finished the month down -2.4% and -1.9% and Core Fixed Income down -0.7%. For the fiscal year to date, Ms. Martin stated that the SERF was up over 7.4%, followed by TERF up 7.3%, and MERF was up 6.3%; for the one-year performance ending April 30, 2018, both the TERF and the SERF were up over 9.5% and the MERF was up 8.3%.

Finally, she reported on the CRPTF's Watch List and stated that two managers were being added. Frontier Capital Management, a small mid cap manager in the MEF, had underperformed its benchmark for multiple time periods and had not ranked well versus peers in this strategy therefore it was being added to the Watch List for performance monitoring. Progress (Non-US Equity Strategy) was one of two components that Progress manages in the CHF within the DMISF and explained that the strategy had underperformed for multiple time periods which triggered it to be added to the Watch List. In addition, she added that the firm had undergone significant organizational changes including a change to the portfolio management team on the account.

### **Combined Investment Funds Review as of March 31, 2018**

Peter Woolley, Managing Principal and Co-Chief Executive Officer, and Mary Mustard, Principal, of Meketa Investment Group ("Meketa"), reported on the Combined Investment Funds and the CHF for the quarter ending March 31, 2018. Mr. Woolley began and reported on the world markets for first quarter 2018 and stated that three major asset classes had positive returns; Emerging Market bonds was up 4.4%, Emerging Market equities up 1.4%, and Hedge Funds was

up 0.9%. He then highlighted current inflation, capital market outlook and valuations. Mr. Woolley then spoke about the global macroeconomic outlook, particularly the risk matrix and said risks are balanced over the short-term, but medium-term risks weigh to the downside, including antitrade sentiment, geopolitical tensions, and tightening financial conditions. Next, Ms. Mustard gave an overview on performance for the plans and trusts funds and stated that they were valued at approximately \$34.4 billion and the largest three retirement plans, TERF, SERF and MERF's performance was flat, down about 10 bps for the first quarter and all outperformed their respective benchmarks. She added that the positive relative performance was driven by the private equity fund. Ms. Mustard then reviewed the CHF and stated that the public markets was down 0.1% for the quarter ending March 31, 2018 and outperformed its benchmark by 0.5% over the period. She then spoke about the asset allocation and fund diversity.

### **Consideration of the Emerging Markets International Stock Fund Manager Search**

Ms. Martin provided a project plan timeline and screening/selection criteria for the EMISF manager search. She stated that earlier this year, after inclusion on the Watch List for performance and organizational changes, we transitioned assets away from the Grantham Mayo Van Otterloo & Co and Aberdeen Emerging Market Equity strategies. Ms. Martin remarked that although investing in emerging markets equities through an index fund was available in the market today, and index funds were a good tool to transition a portfolio, it was not the most efficient asset class and had benefited from active management over time. She continued and said a competitive search was needed to rebuild the portfolio and position the asset class manager lineup to achieve the expected long term investment returns.

Chair Thomas called for a motion to endorse the EMISF manager search. **A motion was made by Mr. Murray seconded by Mr. Himmelreich, to endorse the search. There being no discussion, the Chair put the question to a vote and the motion was passed unanimously.**

### **Presentation by and Consideration of Pugh Capital Management, a Connecticut Horizon Fund Graduate**

Ms. Martin provided opening remarks and introduced Pugh, a CHF graduate, who had met all the requirements for graduation. She stated that Pugh, located in Seattle, Washington was founded in 1991 and was a 100% employee owned. Ms. Martin remarked that the Core Fixed Income strategy that we had invested in was initially funded in the CHF in August of 2005, and the year we began the program, and had provided consistent outperformance since inception. She added that when we funded in 2005, Pugh had \$894 million in assets and now they had over \$5.8 billion in assets under management.

Mary Pugh, Chief Executive Officer, made a presentation to the IAC. Ms. Pugh began and gave a firm overview and stated that Pugh was founded in 1991 by herself and Scott Greiwe, and it started with \$5 million in assets under management with one client. She spoke of the firm's partnership with the State of Connecticut and the important contributions it made to Pugh's success. Ms. Pugh added that the firm had managed funds in the CHF since August 15, 2005 with an initial allocation of \$28 million in Core Fixed Income. She then remarked on the firm's team and their commitment to diversity, one of its core values. Ms. Pugh added that seventy five percent of the employee owners of the firm are either women or minority, with fifty percent being women, and several are senior leaders. She then spoke of the firm's investment process, strategy and performance.

### **Roll Call of Reactions for Pugh Capital Management**

Thomas Fiore, Messrs. Himmelreich, Murray, Muench, Michael LeClair, Joshua Hall, and Chair Thomas provided feedback on Pugh and all were in favor of Pugh providing fixed income investment management services.

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

### **Presentation by and Consideration of Balance Point Capital Partners III, L.P.**

Mark Evans, Principal Investment Officer, provided opening remarks and introduced Balance Point III, a PIF opportunity. Mr. Evans gave an overview of the firm and said it was a \$300 million fund being raised by Balance Point Capital, headquartered in Westport, Connecticut. He stated that the strategy was focused on a core debt private debt strategy with a structured equity co-investment component to it. Mr. Evans remarked that the firm would focus on lower middle market companies primarily based in the U.S. He then spoke of the firm's investment strategy and market opportunities, management team and track record.

Balance Point, represented by Seth W. Alvord, Managing Partner, and Justin Kaplan, Partner, made a presentation to the IAC. Mr. Alvord began and introduced the team and gave a firm overview and stated that Balance Point had been investing and deploying its investment strategy since 2007 and had accumulated \$800 million of AUM. He spoke about Balance Point III and stated that significant growth occurred over the last eleven years. Mr. Alvord talked about team, investment strategy, market dynamics and return profile. Mr. Kaplan then spoke about the firm's sourcing approach and stated it had cultivated a robust origination platform within the lower middle market and the partnering had established significant networks across a variety of channels. Lastly, he spoke about the firm's systematic and disciplined credit review and explained their preferred investment criteria and core investment screens.

### **Roll Call of Reactions for Balance Point Capital Partners III, L.P.**

Messrs. Muench, LeClair, Murray, Himmelreich, Fiore, Hall and Chair Thomas provided feedback on Balance Point Capital Partners III, L.P. and all were in favor of the Balance Point III, PIF opportunity.

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 Balance Point III. There being no discussion, the Chair put the question to a vote and the motion was passed unanimously.**

### **Presentation by and Consideration of RFE Investment Partners IX, L.P.**

Mr. Evans provided opening remarks and introduced RFE IX, a PIF opportunity. He said the fund would make control buyout investments in lower middle market companies based primarily in the U.S. Mr. Evans spoke of the firm's investment strategy and stated that RFE had seek to identify investment opportunities with well-run, growing small businesses that they can support

and help transform into stronger, better managed, middle market companies. He then spoke about the firm, management team and track record.

RFE IX, represented by Jim Parsons, Managing Director, Mike Foster, Managing Director & Chief Compliance Officer, Mike Rubel, Managing Director, and Ned Truslow, Managing Director, made a presentation to the IAC. Mr. Parsons began and introduced the team and gave a firm overview and added that they have been Connecticut based in since 1979. He said RFE was forming RFE IX to make primarily control management buyout private investments in the U.S. small buyout and had over three decades of successful experience transforming and growing small market companies with a value-oriented buy and build approach. Mr. Foster spoke about the CRPTF investments in RFE funds. Mr. Rubel spoke about the Connecticut-based portfolio companies, and case studies. Mr. Truslow then spoke about the plan and structure of RFE IX. Mr. Parson gave an investment performance summary of older funds as of December 31, 2017. Mr. Truslow spoke about RFE's professional team and the importance of diversity and stated that 36% of managers and senior managers in RFE's portfolio companies are women or minority. Finally, Mr. Foster summarized RFE's accomplishments.

#### **Roll Call of Reactions for RFE Investment Partners IX, L.P.**

Messrs. Fiore, Himmelreich, Murray, LeClair, Muench, Hall and Chair Thomas provided feedback on RFE Investment Partners IX, L.P. and all were in favor of the RFE IX, PIF opportunity.

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

#### **Alternative Investment Fund Review as of March 31, 2018**

Pete Keliuotis, Senior Managing Director of Cliffwater, presented the report for the quarter ending March 31, 2018 and began with an executive summary of the target AIF allocations versus current AIF allocations and stated that it had increased by \$244.8 million during the quarter. He reviewed the asset class exposures of absolute return, real assets and opportunistic and return drivers and stated that the AIF absolute return portfolio provided strong downside protection for the CRPTF, with equity and high yield credit markets posting negative quarterly returns. Mr. Keliuotis reported on the real asset portfolio and said the CRPTF's real assets holdings performed strongly during the quarter due to improved energy commodity valuations and production activity. He reviewed the opportunistic portfolio and stated there was a modest returns during the quarter due to gains on the sale of two distressed investments. Lastly, Mr. Keliuotis reported on the CHF.

#### **Private Investment Fund Review as of December 31, 2017**

Aditya Raina and Samar Abbas, Senior Associates of StepStone, presented the report for the quarter ending December 31, 2017. Ms. Abbas gave an executive summary and summarized the performance versus benchmarks. She stated that from the program's inception in 1987 through December 31, 2017, the total PIF program had committed \$8.7 billion and has contributed \$7.7 billion, received \$8.9 billion of distributions, and had a market value of \$2.6 billion. Ms. Abbas

added that the PIF's total portfolio had generated a net IRR of 9.2% and a net TVPI of 1.5x invested capital. She reviewed the performance versus benchmark numbers and stated that the PIF underperformed relative to the S&P 500 total return by 49 bps but outperformed the public market equivalent and generated an IRR of 7.3%; and for the 10 years ending December 31, 2017, the total PIF program generated a net IRR of 9.2% and outperformed relative to the S&P 500 total return by 89 bps. Mr. Raina gave an overview of the quarterly highlights and reviewed new and subsequent investment commitments, net cash inflow, contributions and valuation. He then reviewed the significant new investments and significant exits. Mr. Raina talked about the portfolio diversification and said that as of December 31, 2017, the portfolio was primarily concentrated in funds employing buyout strategies, which represented 46.5% of total exposure as of quarter-end and it was a mature private equity portfolio with approximately 67.5% of total commitments to funds the portfolio committed to more than 10 years ago. He then gave a portfolio summary and reviewed annual commitments, portfolio allocations versus targets, quarterly cash flow, and capital account changes. Mr. Raina reviewed the holdings by region and industry, top public holding exposure and said it has stayed consistent quarter over quarter. Lastly, he discussed the CHF and stated that since inception to December 31, 2017, the CHF generated a net IRR of 7.0% and the S&P 500 total return generated an IRR of 8.4%. CHF's performance underperformed the S&P 500 total return by 144 bps.

#### **Real Estate Fund Review as of December 31, 2017**

John Haggerty, Managing Principal and Christy Gahr, Principal of Meketa reported on the performance of the Real Estate Fund ("REF") for the quarter ending December 31, 2017. Mr. Haggerty began and gave an overview of market and industry analysis, specifically vacancy by property type, net operating income growth ("NOI"), transaction volume and capital markets. He said in the fourth quarter of 2017, vacancy rates across office and industrial properties continued to decrease, while vacancy in multifamily increased slightly and vacancy in retail properties remained relatively flat. Mr. Haggerty stated that the trailing twelve month rate of NOI growth continued at a strong pace, remaining above 5% through the fourth quarter of 2017 and private real estate transaction volume for properties valued over \$2.5 million decreased 5% in the fourth quarter 2017 when compared to quarter end 2016. He said public and private real estate indices had continued to post positive returns, driven by strong property-level fundamentals and a low interest rate environment. Ms. Gahr gave an executive summary and stated that as of December 31, 2017, the REF had committed \$3,725.0 million to 47 partnerships; had received \$2,507.7 million in distributions and the aggregate reported value of the REF portfolio was \$2,130.3 million at the end of the fourth quarter 2017, which represents a total value of \$4,628.0 million. She stated that the REF had 37 active real estate partnerships and the fund's real estate exposure represents 6.2% of total plan assets and was strong fourth quarter. Ms. Gahr gave a portfolio overview and said during the fourth quarter of 2017, the REF did not make any new commitments; approximately \$29.5 million was called by the underlying managers from the REF; and distributions received totaled approximately \$96.6 million. She then summarized the investment roadmap, open-end real estate trailing and aggregate program performance.

#### **Short-Term Investment Fund Review as of March 31, 2018**

Michael Terry, PIO, reported on the performance of the Short-Term Investment Fund ("STIF") for the quarter ended March 31, 2018. Mr. Terry said that for the one-year ending March 31, 2018, the fund ended the quarter with \$6.9 billion in AUM, and managing assets of \$7.7 billion.



For the quarter ending December 31, 2017, he said the STIF achieved an annualized return of 1.43%, which exceeded its primary benchmark by 9 bps, which resulted in an additional \$1.8 million for the investors. Mr. Terry reported that for the one-year ended March 31, 2018, the STIF earned 1.15%, outperforming its benchmark by 10 bps and lead to approximately \$6.5 million in additional income for investors. He said daily liquidity stood at 40% or \$2.7 billion of the fund. At the end of the third quarter of fiscal year 2018, the weighted-average maturity of the portfolio was 38 days and in overnight investments and investments available on a same-day basis, the total was \$2.8 billion, or 41% 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 July 11, 2018 meeting. She stated that there will be no IAC meeting in August. She then reviewed the IAC budget for the quarter ended March 31, 2018.

**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. Hall. There being no discussion, the meeting was adjourned at 12:28 p.m.**

**This meeting was electronically recorded.**

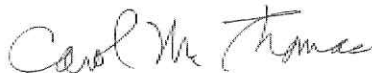
Respectfully submitted,



**LAWRENCE WILSON  
DEPUTY TREASURER**

for  
**DENISE L. NAPPIER  
SECRETARY**

Reviewed by,



**CAROL THOMAS  
INTERIM CHAIR**