

INVESTMENT ADVISORY COUNCIL
Wednesday, December 19, 2018

MEETING NO. 459

Members present:

Thomas Fiore, representing Benjamin Barnes*
Joshua Hall
Michael LeClair**
Steven Muench
Denise L. Nappier, Treasurer
Richard Ross
Patrick Sampson
Carol Thomas, Interim Chair

*Arrival 9:03a.m

**Arrival 9:08a.m

Absent:

David (Duke) Himmelreich
William Murray

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
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:

Drienne Benner, Appomattox
LaRoy Brantley, Meketa Investment Group
Phil Deeney, State Street Global Advisor
Marilyn Freeman, Capital Prospects
Oscar Gil, Appomattox
Steve Jensen, Guest
Mark Johnson, Cliffwater
Robin Kaplan-Cho, Connecticut Education Association
Karen Mair, Capital Prospects
Tim Maul, RBC Global Asset Management
Cynthia Steer, Brook Mountain Consulting
Daniel Stern, Cliffwater
Ryan Wagner, T. Rowe Price
Susan Webb, Appomattox
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.

She stated there was a correction to the October 24, 2018 IAC minutes on page 2 that currently read “Treasurer Nappier said the Series C capital would be utilized to create an investment portfolio of underlying venture capital and growth stage funds, and the Series D capital would focus on executing co-investments in late and growth stage companies located in Connecticut and stated that the \$25 million, previously committed to Balance Point and JP Morgan, was part of the In-State investment program and not an additional allocation.” The inclusion of JP Morgan was incorrect; the minutes should have only noted Balance Point in this reference.

Chair Thomas called for a motion to correct the error on the October 24, 2018 minutes. **Steven Muench moved to correct the error on the October 24, 2018 minutes. The motion was seconded by Joshua Hall. There being no further discussion, the motion was carried.**

Chair Thomas introduced the newest member of the IAC, Richard Ross, to the committee, and asked him to give a brief background on himself.

Approval of Minutes of the November 14, 2018 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the November 14, 2018 IAC meeting. **Mr. Muench moved to approve the minutes of the November 14, 2018 IAC meeting. The motion was seconded by Thomas Fiore. There was one abstention, Mr. Ross. 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 addressing the IAC committee for the last time as State Treasurer and gave thanks for their support and appreciation of the resolute capacity for assistance and friendship that they’ve shown through the years, along with their many predecessors. She stated it was her privilege to have served the citizens of Connecticut, and to lead an Office that had consistently demonstrated the highest standards of professionalism and integrity, while contributing to the well-being of Connecticut’s residents and businesses. Treasurer Nappier then reiterated numerous highlights of the Treasury accomplishments during her tenure. She reviewed the two largest pension plans in the Connecticut Retirement Plans and Trust Funds (“CRPTF”), the Teachers’ Retirement Fund (“TERF”) and the State Employees’ Retirement Fund (“SERF”), both returned -4.30% for the month of October 2018; however, returns exceeded the corresponding benchmarks by 37 and 39 basis points (bps), respectively. Treasurer Nappier reported that the ten year performance for TERF and SERF was 8.27% and 8.32%, respectively. She discussed the agenda and stated that she would share a summary of her report that was presented to the Connecticut Pension Sustainability Commission, outlining her plan for sustainable funding of the TERF. Additionally, Treasurer Nappier said Cynthia Steer, Consultant, would provide a program review of the Connecticut Horizon Fund (“CHF”) and there would be two presentations from the Principal Investment Officers for the Real Estate and Private Investment Funds, respectively, regarding investment activity. She announced there would be presentations from underlying managers in the Private Investment Fund (“PIF”) In-State program and the Alternative Investment Fund (“AIF”) sleeve of the CHF. Lastly, she said a quarterly review of the AIF from Cliffwater and a review of the Short Term Investment Fund (“STIF”) as of September 30, 2018 would be presented.

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

Laurie Martin, Chief Investment Officer, provided an update on the CRPTF performance and commented on the capital market environment and the economic outlook. She stated that the primary driver of relative outperformance was the PIF, returning a positive 1.3% versus the S&P 500 public market index that returned -6.8% for the month. Ms. Martin said also positive for the month, on a relative basis, was the Core Fixed Income Fund, which outperformed by 28 bps as active management in this asset class provided risk adjusted positive returns during the month. She stated that offsetting this positive relative performance was the Developed Markets International Stock Fund (“DMISF”), which underperformed its benchmark by 79 bps, followed by the Inflation Linked Bond Fund underperformance of 56 bps. In absolute terms, she said the two positive asset classes for October were the PIF, up 1.3%, followed by the Liquidity Fund, up 0.2%; risk assets declined with the Emerging Market International Stock Fund, down -8.9%, the DMISF down -8.2%, and the Mutual Equity (US) Fund at -7.6%. For fiscal year-to-date and one-year performance through October 31, 2018, Ms. Martin said that sharp declines during October 2018 resulted in the three largest pension plans being down between -1.7% and -2.2% with relatively flat returns for the one-year. She stated that the most notable decline was in emerging market equities and developed international equities, posting returns of -9.7% and -7.1% for the fiscal year to date, respectively. Positive returns were posted for fiscal year and calendar year, respectively, for the PIF, up 3.7% and 14.1%, followed by the Real Estate Fund (“REF”) up 1.9% and 7.4%; and the AIF up 1.2% and 4.2%, serving their role as diversifiers in the overall portfolio, especially in times of heightened volatility. Lastly, Ms. Martin reviewed the current market environment for November and December.

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

Treasurer’s Report to the Connecticut Pension Sustainability Commission

Treasurer Nappier and Ms. Martin provided an overview of the report given to the Connecticut Pension Sustainability Commission in November. Treasurer Nappier began with a brief overview of the report and described some of its details. Ms. Martin then summarized the Plan for Sustainable Funding of the Teachers’ Retirement Fund. She reviewed the Treasurer’s proposed plan stating that step one would be to reduce the discount rate from 8.0% to 7.5% in fiscal year 2020 while transferring approximately \$1.5B of lottery revenue bond proceeds and \$1.5B of other state assets. She stated that step two would be to pay off the pension obligation bonds in fiscal year 2026, with the actuarially determined employer contribution for that year and a portion of debt service, and to further reduce the discount rate from 7.5% to 7.0%. Finally, step three would be to re-amortize the unfunded actuarial accrued liability using a 25-year layered approach and to create ongoing funding discipline. Ms. Martin then discussed the pros and cons of the pension sustainability plan for the TERF and the State General Fund. Lastly, she concluded that Treasurer Nappier’s plan was a prudent, concrete and tangible plan that would strengthen the funding status and long-term sustainability of the TERF while providing relief to the State.

Several IAC members posed questions regarding the actuarial assumptions including the discount rate, to which Ms. Martin answered.

Combined Investment Funds Review as of September 30, 2018

Peter Woolley, Managing Principal and Co-Chief Executive Officer, and LaRoy Brantley, Principal, of Meketa Investment Group, General Investment Consultant, reported on the investment results for the Combined Investment Funds and reviewed the CHF for the quarter ending September 30, 2018. Mr. Woolley spoke of global market returns for the third quarter and said there were strong returns in U.S. equities. He reviewed the non-U.S. equities, which had underperformed, the main driver being reduced investor sentiment for foreign equity. Mr. Woolley reviewed the capital markets outlook and overview of price earnings for U.S. equities, developed international and emerging market equities and ten-year treasury yields. He then gave an overview on the global macroeconomic outlook and stated the risk continues to increase and the International Monetary Fund's forecast for 2018 and 2019 global growth declined by 0.2% to 3.7%. Mr. Brantley reviewed the performance for three largest retirement plans of the CRPTF and as of September 30, 2018, TERF returned 2.3%; SERF returned 2.2%, and the Municipal Employees' Retirement Fund returned 2.0%; all three funds underperformed their benchmarks by 50, 60, 50 bps, respectively, and reviewed the performance for the remaining trust funds. Mr. Brantley added that the CHF, valued at \$1.5 billion, returned 5.3% for the first fiscal quarter, outperforming its custom index return of 4.8% by 50 bps. He also commented on the combined investment funds.

Connecticut Horizon Fund Program Review

Cynthia Steer, Consultant, provided a report on the CHF Program. She began by introducing herself and her history with the CRPTF. She stated that the CHF program had been in place for fifteen years and gave an overview and key trends of the emerging manager program. Ms. Steer added that diverse firms had an impact, were very important, and are now mainstream. She talked about key policy issues surrounding branding and outreach, advocacy, contractual relationships and implementation. Lastly, Ms. Steer reviewed the study approach, and described the recommendation of eight areas of focus for the CHF.

Presentation by Great Point Partners, L.P.

Mr. Evans, Principal Investment Officer ("PIO"), provided opening remarks and introduced Great Point Partners, L.P. ("Great Point"), a PIF, In-State Program underlying manager. He stated that the investment strategies for Nutmeg Opportunities Fund I ("Nutmeg I") and Nutmeg Opportunities Fund II ("Nutmeg II") included sub-allocations to commit capital to small and mid-market buyout firms based in Connecticut. Mr. Evans said that Nutmeg I made a commitment to Great Point Partners II ("GPP II"), a 2013 vintage year fund and Nutmeg II recently made a commitment to Great Point Partners III ("GPP III") in 2018.

Great Point, represented by Adam B. Dolder, Managing Director, made a presentation to the IAC. Mr. Dolder began and introduced himself and spoke of his background and said the leadership team, led by Dr. Jeffrey Jay, had been investing together for over 12 years and was located in Greenwich, Connecticut. He added that the partnership was stable and there was no turnover in the mid-level or senior position in the past five years. Mr. Dolder gave an overview of the firm and stated it focused in lower middle market investment opportunities across two complementary health care-focused strategies, recaps, buyouts and long/short small cap public biotechnology equities. He talked about the performance and status of GPP II and GPP III. Mr. Dolder reviewed the private equity performance and discussed investments that have been made in the funds. He spoke about pricing discipline in its investments, case studies in the firm's clinical supplies management and their physical therapy platform, ProPT.

Some IAC members posed questions regarding public market and private investment strategies and fees, and returns, to which Mr. Dolder answered.

Connecticut Investment Activity of the Real Estate Fund

Danita Johnson, PIO, provided a review of the Connecticut investment activity within the REF. Ms. Johnson stated that the CRPTF had sought to create successful and long-term relationships with best in class firms focusing on talent, diversity and solid performance in Connecticut and to partner and encourage the firms to support their local communities. She then reviewed the CRPTF's investment performance in the REF portfolio and the growth of those commitments throughout the Treasurer Nappier administration. Ms. Johnson added that as of November 30, 2018, the REF had committed \$3.8 billion to 51 partnerships and included separate accounts and funds; across the spectrum of core and value-add and opportunistic strategies, 52% of those commitments were close to \$1.96 billion which had been committed to Connecticut-based firms, as well as minority and women owned firms. She stated the REF commitments had grown over the years to include in-state firms and minority- and women-owned firms, employing 610 professionals in over six cities in Connecticut. Ms. Johnson spoke of the Connecticut-based firms' commitment to the community and their support to charities, educational and civic organizations through monetary donations, scholarships and employee volunteerism where their employees live and work. Lastly, she discussed Connecticut-based real estate properties and that eight of the funds within the REF had invested in properties and firms located across the State of Connecticut, totaling \$1.1 billion, including 68 properties located in Connecticut cities.

Some IAC members posed questions regarding returns on investments and returns for the minority- and women-owned firms, to which Ms. Johnson answered.

Connecticut Investment Activity of the Private Investment Fund

Mark Evans, PIO, provided a review of the Connecticut investment activity within the PIF. Mr. Evans summarized the direct commitments of more than \$1.5 billion to 15 investment partnerships, managed by Connecticut-based firms that were made between 2002 and 2017, during the Treasurer Nappier administration. He added that the 15 investments included early state venture, mezzanine, buyouts, special situations and secondaries and on a combined basis the commitments returned a \$1.54 for every dollar that Connecticut had invested on a net basis with a net IRR of 10.5%. Mr. Evans then talked about committed capital to several fund-of-funds managers with different mandates that committed a total of \$209 million to 23 funds managed by Connecticut managers. Lastly, he spoke about a survey process conducted by Pension Fund Management to request information of active managers in the PIF portfolio for the managers' direct investments made in Connecticut portfolio companies. Mr. Evans stated that the PIF managers reported a total investment of \$4.7 billion in 21 companies.

Presentation by Altum Capital Management

Michael MacDonald, PIO, provided opening remarks and introduced Altum Capital Management ("Altum"), an AIF, CHF underlying manager. Mr. MacDonald stated that Altum was 100% women-owned, founded by Marjorie Hogan in 2009 with offices in both New York and London that they invest globally with an emphasis on Europe and the United States. He said the firm was an opportunistic credit manager with a focus on distressed and structured credit and had approximately \$1.1 billion in assets under management.

Altum Capital Management, represented by Marjorie Hogan, Chief Investment Officer & Managing Member, and Bella Brenner, Risk Manager & Product Specialist, made a presentation to the IAC. Ms. Hogan began and spoke of her background and gave a firm overview and relationship history with the CRPTF since 2014 through Appomattox and stated that the State of Connecticut was one of Altum's first institutional investors. Ms. Brenner mentioned the current allocation of the fund was \$965 million as of January 1, 2018 and that the investment to date return was 49.38%. She said that at the time of funding, Altum's firm-wide assets were \$415 million, and the number of employees were 12; today, the firms' assets are \$1.1 billion with 17 employees. Ms. Hogan continued and gave an overview of the firms' strategy and the investment process and stated that Altum aimed to find securities which offer superior risk adjusted returns by focusing on complex, distressed and niche areas of the credit markets where details matter. Ms. Brenner then gave a performance overview and said that year-to-date as of October 31, 2018, the CRPTF's investment was up 7.5%. Lastly, she talked about outperformance and low correlation relative to major indices and historical performance.

Alternative Investment Fund Review as of September 30, 2018

Mark Johnson, Senior Managing Director and Daniel Stern, Portfolio Manager from Cliffwater reported on the performance of the AIF for the quarter ended September 30, 2018. Mr. Stern began and stated that he would be handling the CRPTF's account, replacing Pete Keliuotis, who had left Cliffwater to pursue other opportunities. He talked about his background and that he has been with the firm since 2004. Mr. Stern then gave an overview on performance for third quarter ending September 30, 2018 and said the AIF value increased by \$493 million, or 25%, during the quarter due to appreciation and new fund commitments. He reviewed the AIF asset class exposures and the sub strategies and added that the absolute return strategy returned +0.98% and outperformed the HFRI Fund of funds composite index return of +0.20%. Mr. Johnson then talked about the AIF real asset and opportunistic/new ideas portfolio. He said the CRPTF's real assets holdings performed strongly and successfully during the quarter ending June 30, 2018 due to a number of successful exits and partial realizations in the ArcLight portfolios and the direct lending portfolio had an active second quarter of investment activity. Lastly, Mr. Stern reviewed the CHF and reported that the total performance for third quarter was up 74 bps, outperforming its benchmark by 54 bps and added that Appomattox outperformed due to strong performance from long/short equity managers with heavy geographic exposure to the U.S.

Some IAC members posed questions regarding fees, returns, and strategy, to which Mr. Stern answered.

Short-Term Investment Fund Review as of September 30, 2018

Michael Terry, PIO, reported on the performance of the STIF for the quarter ended September 30, 2018 and stated that the STIF achieved an annualized return of 2%, which exceeded its primary benchmark by 14 bps and resulted in an additional \$2.3 million for the investors. Mr. Terry said for the twelve months ending September 30, 2018, the STIF achieved an annualized return of 1.63%, which exceeded its primary benchmark by 13 bps and resulted in an additional \$8.3 million for the investors. He added that the STIF continued to outperform its benchmark while maintaining its conservative investment mandates of high liquidity, short portfolio maturity, and significant credit restrictions. Mr. Terry stated that currently, the STIF held \$2.4 billion, or 34 % of fund assets in overnight investments and the weighted average maturity of the portfolio was 43 days. He added that 43% of the STIF assets were invested in securities issued, insured or guaranteed by

the U.S. government or federal agencies, in money market funds composed of such securities, or repurchase agreements backed by such securities. Mr. Terry said that the STIF reserves total approximately \$63.1 million, or 0.87% of total assets.

Other Business

Chair Thomas invited the IAC members to submit agenda items for the January 16, 2019 meeting. She then read a resolution for Denise L. Nappier, State Treasurer, summarizing significant contributions made while serving five terms as State Treasurer from 1998 to 2018. Chair Thomas called for a motion to approve the resolution. **Mr. Muench moved to approve the resolution. The motion was seconded by Mr. Hall. There being no further discussion, the Chair called for the vote. The motion passed.**

Comments by the Chair

There being no further business, Chair Thomas called for a motion to adjourn the meeting. **Mr. Muench moved to adjourn the meeting and the motion was seconded by Mr. Hall. There being no discussion, the meeting was adjourned at 1:03 p.m.**

This meeting was electronically recorded.

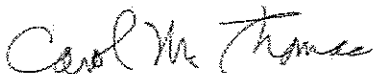
Respectfully submitted,



**LAWRENCE WILSON
DEPUTY TREASURER**

**for
DENISE L. NAPPIER
SECRETARY**

Reviewed by,



**CAROL THOMAS
INTERIM CHAIR**