

MEMORANDUM

To: NAIC Members

From: Robert L. Greene, President & CEO

Date: December 9, 2019

Subject: NAIC Hartford Roadshow to Connecticut Retirement Plans and Trust Funds

On December 5th, NAIC made the fifth and final roadshow stop of the year to meet with the Connecticut State Treasurer, the Connecticut Retirement Plans and Trust Funds (CT Retirement) senior staff members, and members of their consulting staff from the StepStone Group. The roadshow participants and relevant contacts, with email addresses where available, are included below:

Connecticut Retirement Plan and Trust Funds Staff

Treasurer Shawn T. Wooden

Laurie Martin, CIO – Laurie.martin@ct.gov

Kevin Cullinan, Chief Risk Officer, Hedge Funds – Kevin.cullinan@ct.gov

Mark Evans, Principal Investment Officer, Private Capital – Mark.evans@ct.gov

Danita Johnson, Principal Investment Officer, Real Assets – Danita.johnson@ct.gov

Joanne Dombrosky, Principal Investment Officer, Fixed Income – Joanne.dombrosky@ct.gov

Michael Terry, Principal Investment Officer, Short-Term Fixed Income – Michael.terry@ct.gov

Casi Kroth, Investment Officer, Private Capital, Real Assets – Casi.kroth@ct.gov

Olivia Wall, Investment Officer, Private Capital, Real Assets – olivia.wall@ct.gov

Lyndsey Farris, Investment Officer – Lyndsey.farris@ct.gov

Peter Gajowiak, Investment Officer, Public Equity – peter.gajowiak@ct.gov

Paul Coudert, Investment Officer, Short-Term Fixed Income – paul.coudert@ct.gov

StepStone Group

Michael Elio, Partner, melio@stepstoneglobal.com

Alice Song, Analyst, asong@stepstoneglobal.com

Jonathan True, Senior Associate, jtrue@stepstoneglobal.com

Nineteen (19) NAIC members participated in the roadshow and were joined by NAIC's President & CEO, Robert L. Greene, and Programs and Initiatives Manager, David Smith. The NAIC members included Vish Apte, **Auldbrass Partners**; Robert Azeke, **Farol Asset Management**; Michelle Chow-Tai, **Fairview Capital Partners**; Chris Chrevier, **Neuberger Berman**; Marta Cotton; **Matarin Capital Management**; Kathlika Fontes, **Grain Management**; Katie Fullalove, **Palladium Equity Partners**; Jessica Hou, **Montreux Growth Partners**; Von Hughes, **PAAMCO Prisma**; Michael Matly; **Montreux Growth Partners**, Senofer Mendoza; **Mendoza Ventures**; Lloyd Metz, **ICV Partners**; Kola Olofinboba, **Fairview Capital Partners**;

A.J. Patton, **548 Capital**; Dale Pescatore, **Palladium Equity Partners**; Fran Peters; **HarbourVest Partners**; James Tieng, **Lumos Capital**, Nia White; **Astra Capital Management**, and Amy Yong, **Ariel Investments**.

The roadshow began with around-the-room introductions. Treasurer Shawn T. Wooden welcomed everyone and thanked Bob Greene for bringing NAIC to Hartford. Treasurer Wooden said that diversity is important to him and his office and that Connecticut Retirement has had a long tradition of being at the forefront of the issue nationally. He shared his goal to execute better than his predecessors, who laid a strong foundation. Wooden remarked that Muller & Monroe and Fairview Capital have helped Connecticut Retirement to do more in the emerging and diverse manager space. Treasurer Wooden then turned the meeting over to the investment staff, which he remarked was a good team and the ones making the important decisions.

Bob Greene stated the objective for the meeting to provide a true sense of the emerging and diverse manager universe. He then asked Laurie Martin, Chief Investment Officer, to provide an overview of the plan. She said the investment team was new and most of the staff has been there for less than three years. Martin stated that CT Retirement manages approximately \$36 billion and is comprised of six pension plans and nine trusts. The largest components are those for the state and municipal employees and teachers. Martin shared some of CT Retirement's recent developments. The plan revised its return assumption to 6.9% from 8% at the beginning of the year. The results have been increasing fixed income allocations, expanding infrastructure within real assets, increasing credit allocations and strategies, and finding ways to expand each asset class to provide greater access to alpha.

For example, Martin explained that allocations in Private Markets have been "choppy" over recent years. Martin mentioned Danita Johnson, head of Real Estate and Real Assets. She said that the real estate portfolio is \$2.2 billion across the return spectrum but is overallocated to core real estate. On the real assets side, the infrastructure program was launched in 2010, and the target allocation was increased to 4% from 2% to diversify and include natural resources. Within alternatives, the staffing has changed for the new asset allocation strategies. Mark Evans now heads the Private Credit and Private Equity portfolios. Within the hedge fund asset class, the goal for the staff is to expand it within alternatives to hedge the entire portfolio. Additionally, CT Retirement recently hired a chief risk officer and is considering a strategy to deemphasize the absolute return goals and emphasize the risk mitigants across the broader portfolio to establish "a shock absorber during the downturns."

Mark Evans spoke about the inconsistent nature of private equity allocations since the Global Crisis through 2017, which did not support the plan's 11% allocation to the asset class. Since then, the staff has been working with StepStone to allocate to up to 50 new relationships to reach a 10% target allocation to private equity over the next six to seven years. Evans said they want to achieve a more diversified private equity portfolio by geography and strategies.

Evans continued that in 2020, they want to make \$750 million of core private equity allocations. They are also looking to make an additional \$200 million of allocations to a Transition portfolio to include shorter duration strategies. The staff has been working with HarbourVest Partners and recently presented two Secondary opportunities, which should be a part of that strategy, once approved.

Martin described how CT Retirement has had the Connecticut Horizon Program since 2006. The plan recently hired three new staff members, a Deputy CIO and two others, to help modernize the program. Emerging managers are five percent of the total program. Martin said that she and her team are thinking about new strategies. She spoke of Treasurer Wooden's comments about how other emerging

manager programs have surpassed that of the CT Retirement plan. Martin said they are looking at new life cycles, perhaps partnering with managers earlier and making direct commitments to emerging managers. She said she would like to hear from NAIC and its members regarding emerging manager program best practices, especially our views about what other plans are doing well.

Von Hughes from PAAMCO Prisma offered that establishing graduation programs for managers within the funds-of-funds as one best practice. Martin commented that it has been difficult for them to graduate managers on public side, where it is more difficult. She said they just recently graduated the first public managers from 2002.

Bob Greene asked about co-investments and was told that there is no co-investment program yet. He then asked Rob Azeke from Farol Asset Management to share a few words on his team's investment strategy and co-investment offering, which Kathlika Fontes from Grain Management also commented on. Another suggestion was made to publicly define the definition of Emerging Managers before Bob Greene moved forward with the agenda to provide an overview of NAIC.

Greene began with the history of NAIC, adding that the organization is approaching its 50th anniversary. He then described the growing number of members and initiatives, noting that Ocean Park is the newest member. As Greene started to touch on consultants as gatekeepers, he made a disclaimer that StepStone would not receive the brunt of the feedback. He did assert that consultants should all begin to publish their numbers to track, measure, and disclose their engagement with diverse managers.

Greene then discussed the high level of oversubscribed funds diverse managers have raised over recent years, noting the pace of capital raising is increasing. Danita Johnson asked where the money is coming from and whether it is predominately allocated from emerging and diverse manager programs. He then discussed the roadshows since 2014 before opening the floor for questions. Kevin Cullinan asked whether NAIC has a definition for emerging managers. Greene described the key emerging manager attributes NAIC considers. Greene also mentioned several of the NAIC fund-of-funds members with programs focused on diversity and inclusion, highlighting the fifteen-year relationship CT Retirement has had with Fairview Capital.

Nia White from Astra Capital Management asked Mark Evans about the focus of his private equity strategy and where their team has identified gaps to fill. He said that 90% of the private equity exposure is in the U.S., and that they are looking for more international exposure. Evans also stated he is looking for shorter duration, low risk opportunities for the Transitional component, such as the two secondary opportunities the staff is working to have approved.

Evans continued that the private equity portfolio is heavy in venture, which they want to bring down. He said all of the venture capital is in an SMA with Fairview Capital, and they would like to make some direct venture capital allocations. Evans said he would also like to have a co-investment program. He mentioned the SMA with Muller & Monroe and another SMA with JP Morgan focused on in-state and diverse managers. Evans shared that the private equity portfolio is overweight low- to mid-market. He concluded that their staff is changing the process to increase private credit and potentially make it a separate asset class. Private credit is full now, because it resided within the alternatives bucket.

Greene asked how their process works from sourcing to commitment. Martin spoke about the public side first. She said there is a competitive RFP process, which takes two years to complete. She said that a

lot of time had passed since they issued an RFP, owing to the high level of staff turnover. Martin announced that their staff had recently launched 15 RFPs, which contain diversity, ESG, and legal questions. After the proposals are reviewed by various departments, a memo is produced. The staff meets with 9-10 managers, and then the finalists meet with the Treasurer. Given that Connecticut is a sole fiduciary state, the Investment Advisory Council provides advice, but the Treasurer ultimately makes the decisions. On the Private side, Martin said that the plan had recently refreshed all pacing plans, which are updated annually in accordance with its five-year strategic plan. She said the staff finds the opportunities and prepares a memo. The Treasurer meets with the firms and decides whether to invite them to meet the Investment Advisory Council before making the decision to invest.

The staff is trying to reduce the time it takes to make commitments and said that two commitments were recently approved in two quarters. The staff now sends side letter requirements once they know they are moving forward to help expedite the legal process. Given the time their process takes, she encouraged members to develop relationships with the principal investment process early in the fundraising cycle.