

# **JOINT RETIREMENT INVESTMENT BOARD SPECIAL MEETING**

**Tuesday, March 27, 2012**

**7:00 pm**

**Second Floor Conference Room  
Independence Hall-725 Old Post Road  
Fairfield, CT 06824**

## **FINAL MINUTES**

Members Present: Karl von Hardenberg, Rose Sandick, Michael Mears, Don Bowers, Michael Tetreau, Paul Hiller, Fred Schaefer, Geoff Mullen, Scott Bartlett, Jean Sturges, Barry Rosen

Members Absent: Robert Malarkey, Erik Kalapir, Joseph Rigoglioso, Brian Vahey (\*\*Mr. Vahey chose not to attend in order to avoid a potential conflict of interest as a separate part of his firm, Mesirow Financial, was presenting as a potential manager for the pension board at this meeting. He made it clear it would not be appropriate for him to opine or have part in the possible selection of his firm or any of the other candidates).

Others Present: Bud Pellecchia, Thomas Shingler, Gary Robertson (by phone)

### **I. Call to Order**

Vice-Chair Paul Hiller called the meeting to order at 7:02 pm.

### **II. Private Equity Presentations**

Gary Robertson introduced the candidates. He said Abbott Capital Management was eliminated as others had stronger secondary qualities leaving: Adams Street Partners, Mesirow Financial, and Portfolio Advisors. Adams Street has about 60% US and 40% non-US, 20B in assets. Mesirow has about 75-80% US and 20-25% non-US, 2-3B in assets and has a better team now and has acquired some staff from Adams Street. Portfolio Advisors has about 70-75% US and 25-30% non-US, 11B in assets (35B with other assets added) and is the low cost provider.

Fred Schaefer asked Mr. Robertson why asset growth of Mesirow has not been as good. Mr. Robertson said that to ask them about funds and deployment during the interview. Mr. Schaefer asked if 36% of assets are with high net worth, is there an impact on the investments from that. Mr. Robertson said no. Geoff Mullen asked if Callan has an opinion on returns. Mr. Robertson said they're competitive with buyouts; diversification is good for a steadier return, and managers will say Venture Capital is getting "better".

### **Adams Street Partners**

Bob French and Gary Fencik gave a presentation on Adams Street Partners. Mr. French said Adams is 100% owned by employees; employees have buy-in with no options/grants; over 100M is invested by the employees giving them a lot of "skin in the game" with the clients; and they are the first and oldest fund-of-funds. Adams' investment philosophy has never changed since inception; there is no leverage or derivatives or swaps. Adams is 100% focused on private equity. Secondary purchases have done well. Adams' manages risk with equal weighting. Mike Mears asked how Adams' manages risk. Mr. French said Adams invests based on trust and respect of the managers that have time and experience. Gary Fencik recommended 60% US,

40% non-US. Mr. French said there are advantages with Adams being involved in many regions, and having global presence; they have staff from around the world representing 17 countries. Mr. Fencik said it's not a matter of how much they can raise; it's how much they want to deploy. They can mix and match the US and non-US allocations to match the percentages we set. There are no fund-of-fund fee's on the "directs".

Mr. French said the VC opportunities are good going forward. Mr. French said with private equity investments, the GDP of the region doesn't matter as it's about the business not the "region". Adams is "bottom up" driven. Mr. French said in all time periods, they have outperformed all the various benchmarks. Primaries and secondaries have done well, providing high multiples and cash. Mr. Mears asked how there is no currency risk. Adams said all the funds are US dollar-based; they're not trying to hedge the currencies. It's not that there's "no risk" but that it's approached with all USD. Mr Mullen asked how the secondaries are categorized. Adams said mainly through "Growth Equity" and "Buyouts".

### Mesirow Private Equity Advisors

Robert Debolt, Adria Hall, and Marc Sacks gave an overview on Mesirow. Mr. Hall said they are presenting for Fund 6 (MPFVI). They have 60B in total assets and have been in business for 25 years. They are well diversified and profitable. Mr. Sacks said discussed competitive advantages which include 3.4B in private equity (PE); they limit the amount of capital to maximize performance; they have consistent and strong performance; they have "skin in the game" with 300 of 1200 employees as shareholders/investors; for every amount Fairfield puts in, they put in 1% of that of their own money; 98% of their investors are "institutions", of which 60% are from public pension funds including some from the East Coast.

Mr. Robertson asked if one third of the capital is from high net worth people. Mr. Sacks said no, only 2% is. Tom Shingler asked how much of Mr. Sack's time is dedicated to PE. Mr. Sacks said all, but about two hours a month. Two-thirds is spent on the investments and one third is spent with clients and such. Mr. Schaefer asked Mr. Sacks to discuss his previously working at Adams Street. Mr. Sacks said Mesirow's CEO called and invited him to lead Mesirow Financial Division and since he didn't have a leadership opportunity at Adams and there is a very different culture between the two, lots of people leave Adams. Mesirow is a pleasant environment and people tend to stay. Robert Debolt, who also worked at Adams, said it's the people at Mesirow that make the difference.

Mr. Sacks said performance is over the benchmarks. Fund 6 is moderate in size and has 600-700M in capital. They maximize performance by diversifying and have about 40 fund managers. Mr. Mullen asked if Mesirow gives equal weight to the fund investments. Mr. Sacks said yes, but with slight over/under weighting based on confidence. Mr. Mears asked how risk is measured. Mr. Sacks said they put smaller amounts in VC and look at the funds deal by deal for loss rate; revalue the unrealized investments to get their own valuation, looking for managers that have grown the business cash flows and exit with low loss rates, seeing the high "quality" returns.

Mr. Sacks discussed using an opportunistic approach to the secondaries as well as competitive advantages and he gave examples of selection of managers/funds. Mr. Sacks also gave a

summary of principal terms. Mr. Robertson asked when the first close in Fund 6 will be. Mesirow said in May or June and the fund will be 600-750M

### Portfolio Advisors

Gregory Garrett, Donna Smolens, and Eric Thunem gave a presentation on Portfolio Advisors. Mr. Thunem gave an overview and said the company is 18 years old and based in Darien, CT. It only focuses on private equity (PE) and private real estate and provides advisory services as well as portfolio administration and monitoring services. There are 16 managing directors; 18% of assets are from public pension plans and there is \$7B in assets. Mr. Thunem said among 610, 120 are repeat investors. Ms. Smolens said Portfolio layers the secondaries into the fund-of-funds with no additional fees; tracks 65B in commitments; and 85% of the time they have information already accumulated so they can make appropriate offerings and find sponsors. Portfolio spends time speaking with investment clients to ensure they know what is going on and they get better terms and are invited onto advisory boards. They're in the top quartile of performance.

Mr. Schaefer asked if the valuations for secondaries are good or bad. Mr. Thunem currently, 80% of NAV or higher, pricier now than a few years ago, large opportunities are coming up. Mr. Garrett said the target is to raise 900M, ~525M raised already.

Mr. Robertson asked if there are commitments on what has been raised so far. Mr. Garrett said yes, and details are to come. Mr. Shingler asked what the non-US weight is. Mr. Thunem said 65-75% US; 15-30% Western Europe; and 5-15% Asia. Mr. Garrett said manager selection is central and 74% of managers are from the first quartile. Mr. Garrett said when looking for managers, Portfolio looks at their competitive advantage such as experience, depth, stability of team, how they create value, loss rate, whether the method to create value is repeatable, and past performance. Mr. Richardson asked what the recommended percentage for the co-investment sector is. Mr. Thunem said it's not in the recommended model portfolio.

### III. Selection of Private Equity Investment

Mr. Richardson said all three candidates are high quality. He suggested members rank each candidate. Mr. Pellecchia asked Mr. Richardson if there were any contradictions or surprises that he noted. Mr. Richardson said none. Mr. Mullen asked if Callan has any concerns about the stability of the personnel at Adams Street. Mr. Robertson said no, there is turnover but the replacements are good. Adams is changing from a generalist model to a specialist model so there's some mutual agreement with staff leaving because of the changes.

Don Bowers asked if it's a concern that Adams has a more emerging market exposure. Mr. Robertson said Adams is conservative. They're picking the best partnerships available and are a bit ahead of the other two and if you don't want more emerging market exposure then you may not want Adams Street. Mr. Bowers asked if Callan had any reaction to the fee differences and if we should lean towards lower cost with Portfolio Associates. Mr. Robertson said no, it's more about the style difference than the fees. First Selectman Mike Tetreau asked if there are any key negatives to note about the three candidates. Mr. Robertson told members to refer to the "key issues" section of the summary provided. He added that Mesirow is more concentrated and domestic and Adams has more emerging markets. Mr. Pellecchia asked other than the fees what

are the differentiators. Mr. Robertson said Portfolio Associates is nearby and Adams and Mesirow typically have same day response to inquiries.

Members seemed to be inclined towards Mesirow Financials when going around the table seeking preferences. The general consensus seemed to be that with Adams, the members liked the professionalism of their business but there were some concern about the staff turnover. With Mesirow, they had good answers to questions and liked the focus and smaller portfolio size/amounts. With Portfolio, members liked that they were local but didn't feel impressed. Mr. Hiller, Mr. Schaefer and Mr. Tetreau were not concerned with Adam's staff turnover. The consensus was to eliminate Portfolio.

Mr. Schaefer said Adams seemed in the best position for this with staff level and expertise and global presence, but Mesirow was good too. Mr. Robertson said Adams is the most expensive but there's value there for organization. Mesirow has the best overall returns.

Mr. Tetreau made a motion to select Mesirow as the private equity investment. Mr. Bowers seconded the motion. Mr. Mears asked how the asset allocation works. Callan said with Mesirow, there's no "choice" with the allocation. Everyone seemed to feel that was okay as that's what we pay them to do. The motion carried unanimously.

#### IV. February Performance Flash Report

Mr. Pellecchia said indexes are up. Managers are showing better performance. Mr. Hiller said money was moved out of S&P and into Vanguard International Index which freed up MSCI. We will be shedding Dwight and Seix. Mr. Pellecchia said we're short in hedge funds. Mr. Hiller said that in the next 90 days look, we'll at Dwight and Seix management though performance is good. We have 11M in OPEB trust funds. Mr. Tetreau said another 8M needs to be committed and added that meetings are needed to discuss OPEB. Mr. Shingler suggested that it's only necessary to review OPEB every 3 months.

V. New Business-None

VI. Old Business-None

VII. Public Comment-None

#### VIII. Adjourn

Mr. Mears made a motion to adjourn the meeting at 10:24 pm. Mr. Schaefer seconded the motion which carried unanimously.

Respectfully submitted,

Karl von Hardenberg  
Recording Secretary