

INVESTMENT ADVISORY COUNCIL  
Wednesday, April 9, 2014

**MEETING NO. 415**

**Members present:**

Janice (Jan) Carpenter  
Thomas Fiore, representing Benjamin Barnes\*\*  
Laurence N. Hale  
Joshua Hall  
Steven Muench  
William Murray  
Denise L. Nappier, Treasurer\*  
Carol Thomas, Interim Chair  
Peter Thor

**Absent:**

David (Duke) Himmelreich

**Others present:**

Christine Shaw, Deputy Treasurer  
Lee Ann Palladino, Chief Investment Officer  
Deborah Spalding, Deputy Chief Investment Officer  
Catherine E. LaMarr, General Counsel  
Shelagh McClure, Director of Compliance  
Gary L. Carter, Principal Investment Officer  
Joanne Dombrosky, Principal Investment Officer  
Terrence Purcell, Principal Investment Officer  
Cherie Santos-Wuest, Principal Investment Officer  
Linda Tudan, Executive Assistant  
Christina McGinnis, Executive Secretary

**Guests:**

Gustave Christakos, Deutsche Bank  
Frank Gambino, Deutsche Bank  
Will Greene, Loop Capital Markets  
Mark Johnson, Cliffwater LLC  
Robin Kaplan-Cho, Connecticut Education Association  
Rob Kochis, The Townsend Group  
Chris Maguire, Cypress Acquisition Partners Retail Fund  
Todd Minnis, Cypress Acquisition Partners Retail Fund  
Diane Smola, Hewitt EnnisKnupp, Inc.  
Michael Stark, The Townsend Group  
Kevin Vandolder, Hewitt EnnisKnupp, Inc.

\*Arrived 9:16 a.m.

\*\*Left at 9:30 a.m.

Recognizing the presence of a quorum, Chair Carol Thomas called the Investment Advisory Council ("IAC") meeting to order at 9:00 a.m.

### **Approval of Minutes of the March 12, 2014 IAC Meeting**

Chair Thomas called for a motion to approve the minutes of the March 12, 2014 IAC meeting. **Bill Murray moved to approve the minutes of the March 12, 2014 IAC meeting as drafted. The motion was seconded by Jan Carpenter. There being no discussion, the Chair called for the vote. The motion passed with one abstention from Laurence Hale.**

### **Comments by the Treasurer**

Treasurer Denise L. Nappier began her opening remarks by commenting on the investment performance of the Teachers' Retirement Fund ("TERF"), the State Employees' Retirement Fund ("SERF"), and the Municipal Employees' Retirement Fund ("MERF"). She discussed the investment performance of the Other Post-Employment Benefits ("OPEB") Trust Fund and stated that it had reached its highest value since inception. Treasurer Nappier added that it generated a strong risk-adjusted return, net of expenses, of 6.45% for the calendar year ended December 31, 2013, thereby surpassing the Fund's actuarially assumed rate of return of 5.7%. Treasurer Nappier next commended Chair Thomas for setting the record straight in her recent letter to the Editor of *The Hartford Courant* concerning the viability of the State's pension fund, and the performance in particular. The Treasurer noted that the Chair's letter was in response to an Op-Ed on the future hazard or threat of Connecticut's unfunded liabilities.

Next, Treasurer Nappier commented on the agenda and stated that a Real Estate Fund ("REF") opportunity would be presented for consideration -- Cypress Acquisition Partners Retail Fund ("Cypress"), a value-add retail fund being raised by the General Partner, Cypress Real Estate Investment Management ("CREIM"). Treasurer Nappier stated that she was considering an investment of up to \$50 million in Cypress, which focused on a strategy of retreating, repositioning, and/or redeveloping retail properties across the country. She added that Cypress was seeking investments that would achieve a net compounded annual interest rate of return of more than 13.5%.

### **Update on the Market, the Connecticut Retirement Plans and Trust Funds ("CRPTF") Final Performance for Month Ended February 28, 2014**

Lee Ann Palladino, Chief Investment Officer ("CIO"), provided an update on the capital market environment, its impact on the performance of the CRPTF and the economic outlook. Next, she reported on the MERF performance. Ms. Palladino gave an overview of fiscal year 2013, and discussed the strategic implementation of MERF. She reviewed the long-term strategic course, how the Private Investment Fund ("PIF") was meeting its policy objectives and the aggregate performance by vintage year of the PIF from 2000, and noted that the PIF had outperformed the public markets over the long-term horizon. She added that funds committed to since 2002 had

generally achieved first or second quartile performance returns. Finally, Ms. Palladino discussed the MERF rolling five year returns from 2005-2009. She said that as of January 31, 2014, on average over the five year horizon, the MERF earned 10.7%.

### **Presentation by and Consideration of Cypress Acquisition Partners Retail Fund**

Cherie Santos-Wuest, Principal Investment Officer, provided opening remarks and introduced Cypress, an REF opportunity. Rob Kochis, Principal, and Michael Stark, Associate, of The Townsend Group ("Townsend"), the CRPTF's REF consultant, were also present. Ms. Santos-Wuest stated that Treasurer Nappier was considering an investment of up to \$50 million in Cypress, a \$400 million real estate fund being raised by CREIM.

Next, Ms. Santos-Wuest gave an overview of the fund's advantages and the REF's value-add program. She said the commitment to Cypress would be an opportunity to meet the CRPTF target goals and enhance the REF portfolio returns.

Peter Thor posed a question regarding any concerns Pension Funds Management may have on staffing levels at Cypress, to which Ms. Santos-Wuest answered she was satisfied, as Cypress had the advantage of access to a full-fledged development and asset management platform from its parent company.

### **Presentation by Cypress Acquisition Partners Retail Fund**

Cypress -- represented by Chris Maguire, Senior Managing Director and CIO; and Todd Minnis, Senior Managing Director -- made a presentation to the IAC. Mr. Maguire introduced the team, and provided a brief overview of CREIM and its experience. Mr. Minnis then gave an overview of the fund status and indicated that CREIM has received \$324 million of capital commitments. Mr. Maguire then discussed the management team and its broad investment experience. Mr. Minnis discussed Cypress' competitive advantages which include a strategic relationship with SRS Real Estate Partners, a national firm that backs retail space; its access to Cypress' broad vehicle platform; and unique approach to the retail sector.

Ms. Carpenter and Chair Thomas posed questions regarding the investment process with the Rockhill retail mall and San Francisco land development, to which Mr. Maguire and Mr. Minnis answered satisfactorily.

### **Roll Call of Reactions to Cypress Acquisition Partners Retail Fund**

Mr. Thor, Joshua Hall, Mr. Hale, Mr. Murray, Steven Muench, Ms. Carpenter and Chair Thomas provided feedback to Treasurer Nappier regarding Cypress. All of the IAC members supported an investment in Cypress.

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

**Securities Lending Review as of December 31, 2013**

Frank Gambino, Managing Partner of Deutsche Bank ("DB"), reported on securities lending activity for the quarter ended December 31, 2013. He began by introducing his colleague Gustave Christakos, Assistant Vice President. Mr. Gambino gave an executive summary of the DB approach to securities lending and said the quarterly return on the \$17.1 billion lendable portfolio was 6.79 basis points, or \$2.6 million, net of fees. He then provided a market outlook and stated that increased earnings from international equities were expected to continue from March through June 2014, with an anticipated 25% of overall program earnings netted during this period. Mr. Gambino then discussed the earnings and performance review.

**Other Business**

Chair Thomas invited IAC members to submit agenda items for the May IAC meeting. Ms. Palladino provided a review of the IAC budget for the calendar year ended December 31, 2013, and stated that the allocated funds for IAC member education were underutilized. Chair Thomas then asked for the IAC members' preference for canceling either the July or August meeting -- all members present agreed to cancel the August IAC meeting. She commented on the upcoming meeting of the Council of Institutional Investors, its 2014 spring conference, and that Mr. Thor had recommended IAC members attend. Chair Thomas reminded IAC members to file their Statements of Financial Interest on or before the first of May.

**Comments by the Chair**

**There being no further business, Chair Thomas called for a motion to adjourn the meeting. Ms. Carpenter moved to adjourn the meeting and the motion was seconded by Mr. Hall. There being no discussion, the meeting was adjourned at 10:17 a.m.**

**This meeting was electronically recorded.**

Respectfully submitted,



**DENISE L. NAPPIER  
SECRETARY**

INVESTMENT ADVISORY COUNCIL  
Wednesday, April 9, 2014

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**Reviewed by**

A handwritten signature in black ink that reads "Carol Thomas". The signature is written in a cursive style with a large, prominent initial "C".

**CAROL THOMAS  
INTERIM CHAIR**