

INVESTMENT ADVISORY COUNCIL
Wednesday, May 14, 2014

MEETING NO. 416

Members present:

Janice (Jan) Carpenter
Thomas Fiore, representing Benjamin Barnes
Laurence N. Hale*
Joshua Hall
David (Duke) Himmelreich**
Steven Muench
Carol Thomas, Interim Chair
Peter Thor

Absent:

William Murray
Denise L. Nappier, Treasurer

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
Cherie Santos-Wuest, Principal Investment Officer
David Barrett, Director of Communications
Linda Tudan, Executive Assistant
Christina McGinnis, Executive Secretary

Guests:

David Confer, Clarion Partners
Max Darnell, First Quadrant, L.P.
Vincent Fontana, Pareto Investment Management Limited
Steve Furnary, Clarion Partners
Will Greene, Loop Capital Markets
Jonathan Hogstad, Service Employees International Union
Robin Kaplan-Cho, Connecticut Education Association
John Killian, Clarion Partners
Rob Kochis, The Townsend Group
Marisa Kurk, Mesirow Financial Currency Management
Jeppe Ladekarl, First Quadrant, L.P.
Auta Lopes, Bretwood Capital Partners
Michael Miranda, Mesirow Financial Currency Management
Carl Mastroianni, Pareto Investment Management Limited
Laurie O'Donoghue, Pareto Investment Management Limited
Diane Smola, Hewitt EnnisKnupp, Inc.
Claire Shaugnessy, Hewitt EnnisKnupp, Inc.

*left at 11:00a

** arrived at 9:23a

Calvin Stamps, Bretwood Capital Partners
Mark Sullivan, BNY Mellon
Scott Tilley, First Quadrant, L.P.
Joanne Vitale, Clarion Partners

With a quorum present, Interim Chair Carol Thomas called the Investment Advisory Council (“IAC”) meeting to order at 9:00 a.m.

Approval of Minutes of the April 9, 2014 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the April 9, 2014 IAC meeting. **Peter Thor moved to approve the minutes of the April 9, 2014 IAC meeting as drafted. The motion was seconded by Lawrence Hale. There being no discussion, the Chair called for the vote. The motion passed unanimously.**

Comments by the Treasurer

Christine Shaw, Deputy Treasurer, provided the opening remarks in Treasurer Denise L. Nappier’s absence. She announced that after considering the feedback from the IAC, the due diligence process conducted by investment professionals and Real Estate Fund (“REF”) consultant, The Townsend Group, Treasurer Nappier had decided to make a commitment of up to \$50 million to Cypress Acquisition Partners Retail Fund (“Cypress”). She added that it would increase the exposure to the REF to both value-add strategies and the retail sector. Deputy Treasurer Shaw stated that Cypress is pursuing a strategy of re-tenanting, repositioning and redeveloping retail properties across the country and that Treasurer Nappier’s decision was contingent upon successful negotiation of the fund documents.

Next, Deputy Treasurer Shaw commented on the agenda and stated that the three semi-finalists for the Developed Market International Stock Fund (“DMISF”) Currency Overlay mandate would present: First Quadrant, Mesirow Financial Currency Management and Pareto Investment Management Limited, which is presently the Currency Overlay manager for the fund. She said that these firms represent the culmination of the competitive search process that was substantiated by a Request for Proposal (“RFP”) and the process was endorsed by the IAC at the July 12, 2013 meeting. She mentioned the purpose of the search was to select one of more firms to supervise and direct the investments of active and passive foreign currency exposure in separately managed accounts in the DMISF.

Next, Deputy Treasurer Shaw stated that an investment opportunity would be presented for consideration, Clarion Lion Industrial Trust, a \$4.6 billion open-ended fund seeking investments that are expected to outperform the NCREIF Industrial Property Sub-index. She said that the Treasurer was considering an investment with Clarion Lion Industrial Trust of up to \$100 million and that the investment fund would focus primarily on pursuing a strategy of acquiring,

renovating, repositioning and redeveloping industrial properties across the country and noted that the General Partner is Clarion Partners, a New York-based firm.

Update on the Market, the Connecticut Retirement Plans and Trust Funds (“CRPTF”) Final Performance for Month Ended March 31, 2014

Lee Ann Palladino, Chief Investment Officer (“CIO”), provided an update on the capital market environment, the economic outlook and its impact on the performance of the Combined Investment Funds and the Plans and Trusts. Next, she reported on the investment performance for the month ended March 31, 2014.

Ms. Palladino said that through March 31, 2014, the Teachers’ Employee Retirement Fund (“TERF”) and State Employee Retirement Fund (“SERF”), the two largest pension plans, returned 11.35% and 11.23%, respectively, fiscal year to date. She said that the TERF’s fiscal year to date performance was driven by equity returns of 16.5% and represented 56% of the portfolio; fixed income returns of 3.42%, which represented 20% of the portfolio; and the 8.11% return for alternative investments, representing 19% of the TERF. Performance remained solid over the longer term horizon with the TERF and SERF returning 13.28% and 13.40%, respectively, over the five year horizon. Ms. Palladino then commented on the various equities, fixed income and alternative asset classes, discussed the returns and performance versus the benchmark for plans and the trusts.

Mr. Hale, Thomas Fiore, Mr. Thor and David Himmelreich posed questions regarding the performance, to which Ms. Palladino answered satisfactorily.

Presentation by and Consideration of the Currency Overlay Semi-finalists

Deborah Spalding, Deputy CIO, provided opening remarks and introduced the three semi-finalists for the DMISF Currency Overlay mandate: First Quadrant, Mesirow Financial Currency Management and Pareto Investment Management Limited. Claire Shaughnessy, Partner, of Hewitt EnnisKnupp, Inc. (“HEK”) was also present. Ms. Spalding said that the firms represent the culmination of the competitive search process, conducted through an RFP.

Next, Ms. Spalding said that the three currency managers were a mix of passive and active managers. She then described the managers’ key strengths and said they possess the skill set to reduce portfolio volatility related to the movement of currencies against the U.S. dollar. Ms. Spalding remarked that the mandate would be for the oversight and administration of a separately managed account that would hedge the foreign currency exposure of the developed market non-U.S. dollar-denominated equity securities.

Several IAC members posed several questions regarding the passive versus active mandate, the benefits to having one firm manage both mandates, as compared to having one active manager and one passive manager, and the risk to the portfolio, to which Ms. Spalding, Ms. Shaughnessy

and Ms. Palladino answered satisfactorily.

Presentation by First Quadrant, L.P.

First Quadrant, L.P. -- represented by Max Darnell, Chief Investment Officer and Managing Partner; Jeppe Ladekarl, Partner and Scott Tilley, Director, made a presentation to the IAC. Mr. Darnell began by introducing the team and gave a brief firm overview, their investment approach, philosophy and objectives. He said First Quadrant, a California-based firm, was formed in 1988 and the firm was acquired in 1996 by Affiliated Managers Group ("AMG"), which passively owns 79% of the firm.

Next, Mr. Ladekarl discussed the firm's features and described them as theory-based, risk-managed and diversified. He added that their process evaluated each currency on its own merit against major world currencies. Mr. Ladekarl continued and gave an overview of First Quadrant's currency overlay management program.

Mr. Hale, Mr. Thor and Mr. Fiore posed questions regarding the world currencies, theory identifiers, and their value-add surrounding risk management, to which Mr. Ladekarl answered to their satisfaction.

Presentation by Mesirow Financial Currency Management

Mesirow Financial Currency Management ("Mesirow") -- represented by Michael Miranda, CIO and Senior Managing Director; Marisa Kurk, Chief Operating Officer and Senior Managing Director; and Michael Zehfuss, Senior Managing Director, made a presentation to the IAC. Mr. Zehfuss introduced the team and gave a firm overview. He added that Mesirow is a 100% employee owned, diversified Chicago-based firm that has over \$80 billion in assets managed for a global and institutional client base.

Next, Mr. Miranda gave an overview on the passive and active management currency overlay, investment philosophy and process, and discussed in detail the active currency overlay strategy. He said the firm's currency investment philosophy supported an investment process that is adaptive and does not rely on past market regimes to sustain performance. Mr. Miranda then reviewed the numerous drivers that affect the currency market movements.

Several IAC members posed questions regarding growth, counterparty risk, quantitative methodology and model shift to which Mr. Miranda and Ms. Kurk answered.

Presentation by Pareto Investment Management Limited

Pareto Investment Management Limited ("Pareto") -- represented by Laurie O'Donoghue, Chairman; Carl Mastroianni, Senior Vice President; and Vincent Fontana, Assistant Vice President made a presentation to the IAC. Ms. O'Donoghue began by introducing the team and

gave an overview of Pareto. She added that they are owned by BNY Mellon and the integration of the firms occurred in January, 2013.

Mr. Fontana provided an overview on the currency overlay strategy, Pareto's capabilities and risk management. He added that the passive strategy was designed to protect from currency movements while limiting trading costs and to minimize tracking error from the benchmark.

Mr. Mastroianni then spoke about Pareto's investment philosophy, investment process, passive hedging trade settlement and oversight process.

Roll Call of Reactions to Currency Overlay Semi-finalists

Joshua Hall, Messrs. Thor, Fiore, Himmelreich, Jan Carpenter, Steven Muench, and Chair Thomas provided feedback on the Currency Overlay semi-finalists. Chair Thomas provided Mr. Hale's feedback in his absence. Messrs. Hale, Hall, Thor, Fiore, Himmelreich, Ms. Carpenter and Chair Thomas most favored First Quandrant. Mr. Muench favored Mesirow. All of the IAC members least favored Pareto; Ms. Carpenter would not consider them for the mandate.

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

Presentation by and Consideration of Clarion Lion Industrial Trust

Cherie Santos-Wuest, Principal Investment Officer, provided opening remarks and introduced Clarion Lion Industrial Trust ("LIT"), an REF opportunity. Rob Kochis, Principal, of The Townsend Group ("Townsend"), REF consultant to the CRPTF, were also present. Ms. Santos-Wuest stated that Treasurer Nappier was considering an investment of up to \$100 million in LIT, a \$4.6 billion real estate fund being raised by Clarion. Next, Ms. Santos-Wuest gave an overview of the fund's advantages and the REF's value-add program. She said the commitment to LIT would be an opportunity to meet the CRPTF target goals and enhance the REF portfolio returns.

Presentation by Clarion Lion Industrial Trust

Clarion Lion Industrial Trust -- represented by Stephen Furnary, Chairman and Chief Executive Officer, David Confer, Portfolio Manager, John Killian, Chief Financial Officer and Joanne Vitale, Managing Director, made a presentation to the IAC. Ms. Vitale introduced the team. Mr. Furnary gave an overview of the firm and stated that Clarion was a New York City-based institutional investment manager privately owned for 32 years. Next, Mr. Confer discussed LIT and stated it was a \$4.8 billion open-ended fund with 79 institutional investors. Finally, Mr. Killian spoke about the fund's investment performance.

Chair Thomas, Mr. Himmelreich, Mr. Muench, and Mr. Thor posed questions about weather-risk to property, development risk, and market stabilization to which Mr. Confer and Mr. Killian answered to their satisfaction.

Roll Call of Reactions to Clarion Lion Industrial Trust

Mr. Muench, Ms. Carpenter, Mr. Himmelreich, Mr. Fiore, Mr. Thor, Mr. Hall and Chair Thomas provided feedback on Clarion Lion Industrial Trust.

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

Real Estate Fund Review as of December 31, 2013

Ms. Santos-Wuest reported on the performance of the REF for the quarter ended December 31, 2013. She welcomed Mr. Kochis, who assisted in presenting the quarterly report.

Ms. Santos-Wuest reported on the REF's overall performance, the quarterly as well as the one-three- and five-year results, and the portfolio diversification versus investment guidelines and its NCREIF Property Index ("NPI") benchmark. Ms. Santos-Wuest then spoke about the unfunded commitments, new commitments and new acquisitions for the Core Separate Account and fund vehicles within the REF. She reported that the REF returned 3.2% as of December 31, 2013, and 15.1%, 12.1% and -1.9% on a net basis over the past one- three- and 5-year horizons, respectively. She also noted that the REF had outperformed its NPI benchmark by 4.1% over the one-year horizon. Finally, Ms. Santos-Wuest discussed the improved REF performance, which she attributed to vintage year allocation and general partner selection.

Mr. Kochis provided the IAC with an overview of the real estate market and commented on capitalization rates, vacancy trends, U.S. labor force growth, and their impact on various sectors of the commercial real estate market.

Other Business

Chair Thomas invited the IAC members to submit agenda items for the June 11, 2014 IAC meeting.

Comments by the Chair

There being no further business, Chair Thomas called for a motion to adjourn the meeting. Mr. Thor moved to adjourn the meeting and the motion was seconded by Ms. Carpenter. There being no discussion, the meeting was adjourned at 12:45 p.m.

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This meeting was electronically recorded.

Respectfully submitted,

A handwritten signature in black ink, appearing to be 'Christine Shaw', written over a horizontal line.

**CHRISTINE SHAW
DEPUTY TREASURER**

for

**DENISE L. NAPPIER
SECRETARY**

Reviewed by

**CAROL THOMAS
INTERIM CHAIR**

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Respectfully submitted,

**CHRISTINE SHAW
DEPUTY TREASURER
for
DENISE L. NAPPIER
SECRETARY**

Reviewed by

A handwritten signature in cursive script that reads "Carol Thomas". The signature is written in black ink and is positioned below the "Reviewed by" text.

**CAROL THOMAS
INTERIM CHAIR**