

INVESTMENT ADVISORY COUNCIL
Wednesday, July 13, 2016

MEETING NO. 433

Members present:

Thomas Fiore, representing Benjamin Barnes*
Joshua Hall
David (Duke) Himmelreich
Michael LeClair**
Steven Muench
Denise L. Nappier, Treasurer
Carol Thomas, Interim Chair

Absentees:

William Murray

Others present:

Lawrence Wilson, Interim Deputy Treasurer
Deborah Spalding, Chief Investment Officer
David Barrett, Director of Communications
Karen Grenon, Assistant General Counsel
Mary Phil Guinan, Assistant Treasurer-Policy
Linda Hershman, Chief of Staff
Wayne Hypolite, Executive Assistant
Catherine E. LaMarr, General Counsel
Christina McGinnis, Executive Secretary
Christine Shaw, Chief Compliance Officer
Linda Tudan, Executive Assistant

*Arrival 9:06a.m.

**Arrival 9:07a.m.

Guests:

Waseema Bhura, Intern
Ron Homer, RBC Global Asset Management Inc.
Jim Kane, Unite Here
Christopher Keaton, Intern
Robin Kaplan-Cho, Connecticut Education Association
Nicholas Lagasse, Intern
Tim Maul, RBC Global Asset Management Inc.
Daria Marvista, Intern
Molly Miller, Intern
Daniel Quirk, Intern
Claire Shaugnessy, AonHewitt Investment Consulting
Diane Smola, AonHewitt Investment Consulting
Ian Takahashi, Intern
Kanzania Thorington, Intern

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 June 8, 2016 IAC Meeting

Chair Thomas called for a motion to approve the minutes of the June 8, 2016 IAC meeting. **Duke Himmelreich moved to approve the minutes of the June 8, 2016 IAC meeting as amended. The motion was seconded by Steven Muench. There being no further discussion, the Chair called for the vote. The motion passed unanimously.**

Comments by the Treasurer

Treasurer Denise L. Nappier began her opening remarks by asking for a moment of silence to honor Peter Thor, a friend, colleague and an IAC member. She then described Peter's decade-long distinguished service as a member of the IAC, which began in November, 2004, and credited him with having shared sound advice, cogent remarks and an unwavering commitment to the work of the IAC and in support of the Treasury. Treasurer Nappier added that Peter's thoughtful deliberation and enduring advocacy for state employee union members and all plan participants and retirees of the Connecticut Retirement Plans and Trust Funds ("CRPTF") would have a lasting, positive impact on the state's pension fund investment portfolio and would accrue to the benefit of the fund beneficiaries and taxpayers alike.

Treasurer Nappier then acknowledged the recent appointment of Lawrence Wilson as Interim Deputy Treasurer and stated that Mr. Wilson would continue in his role as Assistant Treasurer of the Cash Management division. She described him as a senior executive veteran of public funds. She added that Mr. Wilson had been with the Connecticut Treasury for over 25 years and was the longest serving professional among his peers. Mr. Wilson then greeted the IAC and thanked the Treasurer for her confidence and said that he looked forward to helping his colleagues as part of his new role.

Treasurer Nappier then provided an update on the final disposition of House Bill 5420, An Act Concerning Principal Investment Officers ("PIO"). She stated that following the adjournment of the regular session of the Connecticut General Assembly, Governor Malloy vetoed the bill which had passed overwhelmingly with both houses of the legislature. She announced that during the subsequent legislative special session held on June 20th, the General Assembly voted to override the Governor's veto. Treasurer Nappier explained that the legislation would help to better position the CRPTF for long-term success and bolster efforts to recruit and retain senior investment staff with the appropriate skill sets, expertise and knowledge required to effectively manage the Funds' investments.

Next, Treasurer Nappier commented on the United Kingdom vote to exit the European Union ("Brexit") and the initial impact on the CRPTF. She stated that in the first three trading days following the Brexit vote, the CRPTF was down approximately \$955 million, from \$29.51 billion to \$28.57 billion. However, the Treasurer added that a week after the vote, the value of the CRPTF grew to \$29.11 billion, regaining approximately \$825 million. In total, the portfolios lost only about \$130 million or less than 1% in the wake of the Brexit vote.

Treasurer Nappier discussed the investment performance for the two largest pension plans in the CRPTF; the State Employees' Retirement Fund ("SERF") and the Teachers' Retirement Fund ("TERF"), for the month ended May 31, 2016. The SERF and TERF monthly returns were .59% and .57%, respectively; outperforming their benchmarks by 33 and 32 basis points ("bps"), respectively. Treasurer Nappier added that 2016 fiscal year-end returns would fall short of actuarial return assumption due to markets characterized by low yields and lack luster returns, and that this would result in increased required contributions.

Update on the Market, the Connecticut Retirement Plans and Trust Funds Final Performance for Month Ended May 31, 2016

Deborah Spalding, Chief Investment Officer ("CIO"), provided an update on the capital market environment, its impact on the CRPTF performance and the economic outlook. For the month ended May 31, 2016, the CRPTF's pension plans modestly outperformed, and fiscal year to date ended May 31, 2016, the CRPTF remained in positive territory versus a benchmark that is down 40 bps. She added that positive performance on an absolute basis was driven by the U.S. equity market. She added that non-public investments, real estate, private investment and hedge fund programs also did well in terms of absolute positive performance for the month ended May 31, 2016. Ms. Spalding then gave an overview on the different CRPTF funds and their performance, and highlighted the Developed International Markets, Emerging Markets and Core Fixed Income funds.

Ms. Spalding said during the month of June, the timing of Brexit caused the markets to be volatile just days prior to the June 30 end of fiscal year. She then discussed the Brexit vote in terms of its impact on global volatility.

Consideration of Recommended Various Legal Counsel and Services

Catherine LaMarr, General Counsel, provided an overview of the recommended finalists for Legal Counsel that would furnish advice and assist the Office of the Treasurer. She outlined the competitive search process and the committee's recommendation for the eleven different assignments of service required to satisfy the legal needs of the Office of the Treasurer and the CRPTF's Combined Investment Funds. Ms. LaMarr stated that the office received proposals from forty-four law firms in response to the Request for Proposal ("RFP"). Interviews were then conducted by the selection committee. She described the need for two new assignments that were included in the RFP: Special Coordinating Counsel and Cyber Security Counsel, explaining that the Legal Unit at times required individual assignments with a particular legal expertise.

Ms. LaMarr said all the law firms interviewed were highly qualified, and that the selection committee recommended multiple law firms for various assignments, including Investment Counsel, which is the largest assignment. IAC members posed questions regarding the locations of the law firms and retainers, to which Ms. LaMarr answered to their satisfaction.

Chair Thomas called for a motion to endorse the recommendation for the legal counsel services search and to waive the 45-day comment period. **A motion was made by Mr. Himmelreich, seconded by Mr. Muench, to accept the recommendation for the legal counsel search and to waive the 45-day comment period. There being no discussion, Chair Thomas put the question to a vote, and the motion passed unanimously.**

Update on Pending Litigation

Ms. LaMarr provided an update on pending litigation. She began by giving an overview of the class action recovery efforts undertaken since 1999 and stated that as of fiscal year end 2015, \$46.19 million had been recovered. She then noted that since 2014, the Legal Unit had recovered more than what was spent on both outside and in-house counsel including all expenditures related to legal expenses. Ms. LaMarr then gave an overview and described the factual allegations regarding several remaining cases. Lastly, she stated that a settlement was reached in the amount of \$1.204 billion for Fortis NV/SA, pending approval by the Amsterdam Court of Appeal.

Other Business

Chair Thomas invited the IAC members to submit agenda items for the September 14, 2016 IAC meeting. She then reviewed the process for members submitting travel requests and reimbursements. Ms. LaMarr added that if travel involved free tuition or some other benefit such as paid travel or lodging expenses, a Necessary Expense form would have to be filled out with the Office of State Ethics.

Executive Session

A motion was made by Joshua Hall, seconded by Mr. Muench that the Investment Advisory Council adjourn the Regular Session at 9:52 a.m. and enter into Executive Session to consider a personnel matter. The motion was passed unanimously. Mr. Wilson, Interim Deputy Treasurer and Ms. Spalding participated in the Executive Session.

Regular Session

Chair Thomas reconvened the regular session at 10:24 a.m. She noted that no votes were taken during the Executive Session.

Consideration of the Appointment of the Interim Principal Investment Officer

Treasurer Nappier presented her recommendation and asked the IAC's consideration to appoint Cynthia Steer as Interim Principal Investment Officer ("PIO") of Public Equities for the CRPTF, with a salary range that shall not exceed the range set forth by the Department of Administrative Services and Office of Policy and Management.

Chair Thomas asked for a motion to accept the recommendation of the appointment of Cynthia Steer as Interim PIO for the CRPTF.

A motion was made by Mr. Hall, seconded by Mr. Muench, to accept the appointment of Cynthia Steer as PIO for the CRPTF. The motion was passed unanimously.

Chair Thomas further remarked that the IAC Personnel Subcommittee had reported vetting candidates for the open Deputy CIO position. During the Executive Session, the Treasurer and the CIO had recommended three candidates with the experience required for the position. She added that the Personnel Subcommittee would endorse the final candidate chosen. In the event a vote was needed before the September meeting to confirm the final candidate, a consent resolution would be executed.

Comments by the Chair

There being no further business, Chair Thomas called for a motion to adjourn the meeting. **Mr. Himmelreich moved to adjourn the meeting and the motion was seconded by Mr. Hall. There being no discussion, the meeting was adjourned at 10:35 a.m.**

This meeting was electronically recorded.

Respectfully submitted,



**DENISE L. NAPPIER
SECRETARY**

Reviewed by,



**CAROL THOMAS
INTERIM CHAIR**