

INVESTMENT ADVISORY COUNCIL  
Wednesday, February 11, 2015

**MEETING NO. 421**

**Members present:**

Janice (Jan) Carpenter  
Laurence Hale  
Joshua Hall  
David (Duke) Himmelreich  
Steven Muench  
William Murray  
Denise L. Nappier, Treasurer  
Carol Thomas, Interim Chair  
Peter Thor

**Absent:**

Thomas Fiore, representing Benjamin Barnes

**Others present:**

Christine Shaw, Deputy Treasurer  
Lee Ann Palladino, Chief Investment Officer  
Deborah Spalding, Deputy Chief Investment Officer  
David Barrett, Director of Communications  
Gary L. Carter, Principal Investment Officer  
Joanne Dombrosky, Principal Investment Officer  
Katrina Farquhar, Administrative Secretary  
Laura Jordan, Interim Assistant Treasurer  
Catherine LaMarr, General Counsel  
Terrence Purcell, Principal Investment Officer  
Cherie Santos-Wuest, Principal Investment Officer  
Linda Tudan, Executive Assistant

**Guests:**

Francisco L. Borges, Landmark Partners  
Michael Casey, Blackstone Real Estate  
Michelle Creed, Landmark Partners  
Will Greene, Loop Capital Markets  
Tyler Henritze, Blackstone Real Estate  
Jim Kane, Unite Here  
Robin Kaplan-Cho, Connecticut Education Association  
Rob Kochis, The Townsend Group  
Gregory F. Lombardi, Landmark Partners  
Kathleen McCarthy, Blackstone Real Estate  
Kevin Meehan, Goldman Sachs  
R. Paul Mehlman, Landmark Partners  
Diane Smola, Hewitt EnnisKnupp, Inc.  
Michael Stark, The Townsend Group

With a quorum present, Interim Chair Carol Thomas called the Investment Advisory Council ("IAC") meeting to order at 9:03 a.m.

**Approval of Minutes of the December 10, 2014 IAC Meeting**

Chair Thomas called for a motion to approve the minutes of the December 10, 2014 IAC meeting. **Peter Thor moved to approve the minutes as drafted. The motion was seconded by Duke Himmelreich. There being no discussion, the Chair called for the vote. The motion passed unanimously.**

**Comments by the Treasurer**

Treasurer Denise L. Nappier began her opening remarks by commenting on the investment performance of the State Employees' Retirement Fund ("SERF") and the Teachers' Retirement Fund ("TERF"); having reported the fiscal year to date returns of -.43% and -.50%, respectively. She noted that the Connecticut Retirement Plans and Trust Funds ("CRPTF") had experienced several years of strong equity market performance, but had now entered a period of greater market uncertainty and somewhat significant volatility, driven in part by the recent sharp decline in oil prices. Treasurer Nappier said the volatility had impacted the short-term performance, but added that the CRPTF is a long term investor. She stated that the far better news continued to be reflected in the three and five year returns of 10.85% and 8.61%, respectively, for SERF, and in the three and five year returns of 10.79% and 8.54%, respectively, posted for TERF. For both the three and five year horizons, Treasurer Nappier indicated that the SERF and TERF each surpassed its actuarial assumed rates of return.

Next, Treasurer Nappier commented on the opinion piece she authored that had recently appeared in *The Hartford Courant*, which described a proposal that she had asked the General Assembly to introduce in this legislative session to allow the use of bond premiums to fund capital projects already authorized for bonding. Treasurer Nappier stated that bond premiums were currently used to replace funds already budgeted for debt service, which created savings in the general fund debt service account that could be used for expenses unrelated to bond repayments. She added that the proposed legislation would have the practical effect of lowering overall debt levels and future debt service costs, and that it was a worthwhile effort to address our long-term liabilities – including the possibility that debt service savings may be directed to paying down our unfunded pension liabilities.

Next, Treasurer Nappier announced her decision to terminate an Emerging Markets Debt Fund ("EMDF") manager, UBS Global Asset Management ("UBS"), based in part on the recommendation from our general investment consultant and pension fund management professionals. She stated that UBS was no longer a good strategic fit for the EMDF portfolio; the \$176 million of assets under management by UBS were being transitioned to Pyramis Global Advisors Trust Company, which is another manager within the EMDF.

Next, Treasurer Nappier commented on the agenda, and stated that two competitive money manager search processes were being presented for consideration by the IAC for the EMDF and the High Yield Debt Fund. She indicated that existing managers, as well as potential candidates, were welcome to respond to the search.

Finally, Treasurer Nappier stated that two real estate investment opportunities would be presented for the IAC's consideration -- Blackstone Real Estate Partners ("BREP") VIII and Landmark Real Estate Partners VII, L.P. ("Landmark VII"). Treasurer Nappier said she was considering an investment of up to \$100 million in BREP VIII, an opportunistic fund being raised by The Blackstone Group, which targeted large real estate deals globally with a focus in the U.S. gateway markets and distressed markets in Europe. She further commented that Blackstone Real Estate Private Equity platform had \$284 billion of assets under management and was an existing manager for the Real Estate Fund ("REF") with a solid track record.

Treasurer Nappier then discussed the second investment opportunity on the agenda -- Connecticut-based Landmark VII, an opportunistic real estate secondary fund being raised by Landmark Realty Advisors LLC -- a diversified real estate portfolio. She indicated that she was considering an investment of up to \$40 million. Treasurer Nappier noted that the CRPTF had invested in Landmark's private equity secondary funds in the past, and those investments have produced a solid performance track record within the private equity portfolio.

#### **Update on the Market, the CRPTF's Final Performance for the Months Ended November 30, 2014 and December 31, 2014**

Lee Ann Palladino, Chief Investment Officer, provided an update on the capital market environment, its impact on the performance of the CRPTF, the economic outlook, and discussed the influence the strong dollar and falling oil prices had on performance. Ms. Palladino reported that as of December 31<sup>st</sup>, the TERF and SERF, the two largest pension plans, returned -0.50% and -0.43%, respectively, for fiscal year to date 2015. Focusing specifically on TERF, she said that the performance was driven by total global equity returns of -1.35%, representing 53% of the portfolio; total fixed income returns of -2.73%, representing 20% of the portfolio; and a 4.39% return for alternative investments, representing 21% of the TERF. Ms. Palladino said the performance remained solid over the longer term horizon with the TERF and SERF returning 8.54% and 8.61%, respectively, over the five year horizon. Ms. Palladino presented the quarterly performance of the remaining trust plans.

#### **Consideration of the Search Process for an Emerging Markets Debt Manager**

Joanne Dombrosky, Principal Investment Officer ("PIO"), provided a project plan timeline and evaluation/selection criteria for an EMDF Manager. Ms. Dombrosky noted that by primarily investing in emerging fixed income securities denominated in the U.S. dollar and foreign currencies, the EMDF provided diversification to other asset classes within the CRPTF, given

varying global economic environments. Finally, Ms. Dombrosky commented on the screening and selection criteria.

Chair Thomas called for a motion to endorse the search process for an EMDF Manager. William Murray made a motion, seconded by Jan Carpenter. The motion passed unanimously.

#### **Consideration of the Search Process for a High Yield Debt Manager**

Ms. Dombrosky provided a project plan timeline and evaluation/selection criteria for a High Yield Debt Fund (“HYDF”) Manager. She stated that investing in below investment-grade fixed income securities broadened the investment universe and provided further diversification for the CRPTF within the fixed income portfolio domiciled with the U.S. Next, Ms. Dombrosky commented on the screening and selection criteria.

Chair Thomas called for a motion to endorse the search process for an HYD Manager. Laurence Hale made a motion, seconded by Mr. Murray. The motion passed unanimously.

#### **Presentation by and Consideration of Blackstone Real Estate Partners VIII, L.P**

Cherie Santos-Wuest, PIO, provided opening remarks and introduced BREP VIII, an REF investment opportunity. Ms. Santos-Wuest stated that Treasurer Nappier was considering an investment of up to \$100 million in BREP VIII, a \$13 billion opportunistic real estate secondary fund, which is a follow-on fund to the CRPTF investment in BREP VI. Ms. Santos-Wuest also described the strong performance of the CRPTF investments in BREP Europe III and Blackstone Special Situation Funds, both of which rank in the top-quartile for their respective peer groups. The General Partner of the Fund is The Blackstone Group (“Blackstone”). Next, Ms. Santos-Wuest gave an overview of the investment merits of the BREP VIII. IAC members inquired about the allocation of Blackstone within the REF, how Blackstone employs leverage and its fee schedule, to which Ms. Santos-Wuest and Mr. Kochis replied satisfactorily.

#### **Presentation by Blackstone Real Estate Partners VIII, L.P**

BREP VIII, represented by Kathleen McCarthy, Blackstone Global Chief Operating Officer and Senior Managing Director, Tyler Henritze, Senior Managing Director and Co-Head of U.S. Acquisitions, and Michael Casey, Senior Managing Director and Head of Investor Relations and Business Development. Mr. Casey introduced the team and provided a brief executive summary of the Blackstone platform and the performance. Ms. McCarthy and Mr. Henritze then gave an overview on the global organization and BREP VIII strategy, which is focused on the global real estate and real estate securities arenas. Ms. McCarthy stated that BREP VIII would consistently apply its successful investment approach of predecessor funds, BREP VI and VII, which focused on opportunistic global real estate investments.

Mr. Thor asked about Blackstone's relationships with unions. Mr. Henritze discussed Blackstone's approach and valued importance of strong union relationships, and Ms. McCarthy affirmed its support of public education and diversity of staff.

#### **Roll Call of Reactions to Blackstone Real Estate Partners VIII, L.P**

Mr. Hale, Joshua Hall, Messers. Thor, Himmelreich, Murray, Ms. Carpenter, Steven Muench, and Chair Thomas provided feedback to Treasurer Nappier on BREP VIII. All the IAC members supported an investment in BREP VIII.

Chair Thomas called for a motion to waive the 45-day comment period. **A motion was made by Ms. Carpenter, seconded by Mr. Himmelreich, to waive the 45-day comment period for Blackstone Real Estate Partners VIII, L.P. There being no discussion, the Chair put the question to a vote and the motion passed.**

#### **Presentation by and Consideration of Landmark Real Estate Partners VII, L.P**

Ms. Santos-Wuest provided opening remarks and introduced Landmark VII, an REF investment opportunity. Ms. Santos-Wuest stated that Treasurer Nappier was considering an investment of up to \$40 million in Landmark VII, a \$1.6 billion opportunistic real estate secondary fund. The General Partner of the Fund is Landmark Realty Advisors LLC ("Landmark"), a Connecticut-based firm. Next, Ms. Santos-Wuest gave an overview of the investment merits of Landmark VII. Ms. Carpenter asked about the overlap of vintage year concentration that occurred with secondary funds. Mr. Kochis responded that concentration is mitigated through investment size and lack of overlap with existing REF managers. Chair Thomas asked about the subpar performance of Fund V. Ms. Santos-Wuest responded it was due to the vintage year and that Landmark had enhanced its due diligence process for future investments.

#### **Presentation by Landmark Real Estate Partners VII, L.P**

Landmark VII, represented by Francisco L. Borges, Chief Executive Officer and Managing Partner, R. Paul Mehlman, Partner, Gregory F. Lombardi, Vice President and Michelle Creed, Senior Associate, made a presentation to the IAC. Mr. Borges introduced the team and provided a brief executive summary of Landmark, its history and specialized investment strategy that concentrated on secondary real estate markets. Ms. Creed reviewed performance of the predecessor fund, Landmark VI, and said Landmark VII would follow a similar strategy. Mr. Melman then gave an overview on the organization and stated that Landmark was a private investment firm headquartered in Simsbury, Connecticut and reviewed the investment merits of Landmark VII. Finally, Mr. Lombardi discussed the current fundraising progress, the oversubscribed status and the terms of Landmark VII. Mr. Himmelreich asked about the market opportunity for secondary funds specifically at this stage of the real estate expansion. Mr. Melman said that Landmark was considered a leader in this space, had exceptional sourcing capabilities and a sound due diligence process to identify value. He discussed the outlook for the real estate market and opportunity set for secondary real estate.

**Roll Call of Reactions to Landmark Real Estate Partners VII, L.P**

Mr. Muench, Ms. Carpenter, Messers. Murray, Himmelreich, Thor, Hall, Hale, and Chair Thomas provided feedback to Treasurer Nappier on Landmark VII. Mr. Himmelreich questioned the outlook for secondary real estate. Mr. Thor commented on the double fees associated with secondary funds. Mr. Hale suggested that Treasurer Nappier consider a smaller investment commitment. All IAC members supported an investment in Landmark VII.

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

**Other Business**

Chair Thomas called for a motion to approve the IAC budget. **Mr. Thor moved to approve the IAC budget as drafted. The motion was seconded by Mr. Hale. There being no discussion, the Chair called for the vote. The motion passed unanimously.**

Chair Thomas invited the IAC members to submit agenda items for the March 11, 2015 IAC meeting.

Chair Thomas commented on the Dodd-Frank law and the active attempts to weaken the tenets of the legislation, specifically the section which enforces Security Exchange Commission ("SEC") registration. Ms. Thomas said efforts are underway to repeal portions of SEC oversight; specifically, portions which have demonstrated success in uncovering adverse practices that were detrimental for investors. Chair Thomas emphasized that these issues were important and that they demanded the attention of the IAC going forward.

**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. Murray. There being no discussion, the meeting was adjourned at 11:24 a.m.**

**This meeting was electronically recorded.**

Respectfully submitted,



**DENISE L. NAPPIER  
SECRETARY**

INVESTMENT ADVISORY COUNCIL  
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7

Reviewed by

A handwritten signature in cursive script, appearing to read "Carol Thomas".

**CAROL THOMAS**  
**INTERIM CHAIR**