JOINT RETIREMENT INVESTMENT BOARD MEETING
Tuesday, January 17, 2012
7:00 pm
First Floor Conference Room
Independence Hall-725 Old Post Road
Fairfield, CT 06824

<u>FINAL MINUTES</u>

Members Present: Paul Hiller, Scott Bartlett, Don Bowers, Erik Kalapir, Rose Sandick, Fred Schaefer, Jean Sturges, Karl von Hardenberg
Members Absent: Bob Malarkey, Geoff Mullen, Joe Rigoglioso, Barry Rosen, Mike Tetreau, Brian Vahey
Others Present: Tom Shingler and Bud Pellecchia from Callan; Paul Canning and Maria Bascetta of UBS Realty Investors; Todd White and Doug Baran of Principal Global Investors; and Nancy Brown, Michael Duignan, and Marcus Friedman of J.P. Morgan Asset Management

I. Call to Order
Vice-Chair Paul Hiller called the meeting to order at 7:01 pm.

II. Approval of Minutes
Fred Schaefer made a motion to approve the minutes. Don Bowers seconded the motion which carried unanimously.

III. New Business
Prior to hearing item IV, the Board briefly discussed new business. Tom Shingler gave the Board a handout, Investment Measurement Service Monthly Review for the Town, dated December 31, 2011. Bud Pellecchia said the Total Fund return for December was flat. The total return for the quarter was slightly below the total fund benchmark. A new target column was added to reflect the target allocation for each asset class. The 'Other' category is the amount earmarked for commodities, which will be funded shortly. Columbus and Iridian underperformed their respective benchmarks over the trailing year and three years. Mr. Pellecchia recommended the Board allocate $9 million to a real estate manager and take 60% of the funds from the S&P 500 ETF on the equity side and 40% from Seix on the domestic fixed income side, given the overweights to domestic equity and domestic fixed income, and to Seix relative to Dwight, the other fixed income manager.

IV. Hear, Consider and Act Upon Real Estate Presentations by UBS, JP Morgan, and Principal Global Investors for Real Estate

<u>UBS-TPG:</u>
Paul Canning, Portfolio Manager, and Maria Bascetta, Director, of UBS Trumbull Property Growth and Income Fund (UBS-TPG) gave a presentation to the Board. Using a handout given to the Board, Ms. Bascetta said UBS-TPG has been investing since 1978 and has $17.1 billion of assets. They have had some of the same customers for over 20 years. They are risk managers and good at pricing risk. Ms. Bascetta gave an overview on the types of properties and strategies they focus on. UBS-TPG uses a team approach. All disciplines are represented on the

investment committee. Mr. Canning said in response to a question related to issues with its parent, UBS, that it is a self-contained business that is isolated from its parent.
Mr. Canning discussed strategy and development of the fund, how it's positioned, and how capital is deployed in real time. The fund currently has a gross asset value of $258 million and has 7 property investments, targeting a total fund size of $500 mn-$1 bn. $155 million of capital was raised in 2011.

In terms of investment strategy, the firm intends this to be a tactical approach investing in all major markets in the US with latitude in its guidelines as to the types of properties represented in the portfolio. There is a bottom-up process for the underwriting process. UBS-TPG is at the conservative end of value-added strategies. A distinguishing factor for UBS-TPG is identifying and assessing risk. The leverage ratio is 48.3% which is right where the firm wants it to be (target leverage is 50%). Regarding portfolio turnover, the firm looks to hold properties for two to seven years. Mr. Canning discussed lease and rollover exposure and said debt maturities are well-spaced out. The firm's financial objectives are to exceed the NFI-ODCE Index by at least 200 bps per annum and achieve at least a 7% real rate of return. Mr. Canning discussed the four segments in the broad real estate market that the firm is focused on: Apartments; Hotels; Office/Industrial; and Apartment development. Apartments are viewed as the lowest risk property. Mr. Canning concluded by saying the firm uses a variety of value-added strategies to achieve its return objectives, a good quality portfolio, a strong track record, an open-ended fund structure and a fee discount for early investors.

<u>Principal Global Investors:</u>
Todd White, Portfolio Manager, and Doug Baran, Director, Institutional Marketing gave the Board a handout on Principal Global Investors. Mr. Baran said Principal has $231 billion of assets under management in fixed income, equity and real estate. Real estate assets under management total $37.5 billion. Mr. Baran said that Principal has $17 billion in private equity real estate investments in core, value-added, and opportunistic strategies. Mr. White said there is a dedicated team of three portfolio managers for the Principal Enhanced Property Fund that Fairfield would invest in. The fund began in 2004. The original team is still in place. The fund is open-ended with no redemption fee. The total return target is 11-13% and currently pays a 5% annual dividend yield. Mr. White discussed the investment strategy and how the firm allocates assets along the risk spectrum. The range for leverage is 45-50%. Mr. White gave an overview on investment guidelines and key statistics. 81% of the fund is in core, stabilized assets, and 19% is in value-add and development activity. Mr. White said when deciding when to acquire a new property among Principal's various funds, there is an allocation queue with a strict rotation so there is no favoritism. This fund has 40 investors; 10 are foreign, giving it diversity. Mr. White discussed the major markets the firm invests in. They are well diversified by region and property type and overweight to the office sector and underweight to the retail sector. In terms of debt summary, 2011 re-financing activity reduced the annual interest expense by $6 million. Mr. Baran discussed some of the institutional clients the firm has. Mr. Shingler asked about joint ventures. The firm said there can't be more than 50% of the fund invested in joint ventures. The fund uses joint ventures to leverage local expertise for value-added and development investments.

J.P. Morgan Asset Management:
Nancy Brown, Managing Director, Lead Portfolio Manager, Michael Duignan, Executive Director, Client Portfolio Manager, and Marcus Friedman, Vice-President, Client Advisor gave an overview on J.P. Morgan Asset Management. The J.P. Morgan U.S. Real Estate Income and Growth Fund that Fairfield would invest in uses a Core Plus real estate investment strategy. J.P. Morgan has $57.5 bn in real estate assets under management and over 40 years of real estate investment management experience, which is longer than most competitors. Their team differentiates them from others. Some competitors don't have professionals who focus on development and engineering. Any investment goes through a rigorous vetting process and requires a unanimous vote from the Chief Investment Officer, Portfolio Manager, Asset Management (Region or Property Sector Head) and Real Estate Research Senior Member. Ms. Brown, who has been the project manager since 2006, said the fund invests in core properties (no development), using a moderate amount of leverage (current leverage is 54%); the primary objective is income. Properties are diversified by type and geography. Target net annualized IRR of 8-10%; 5-7% from income and 2-3% from capital appreciation. Ms. Brown discussed the fund structure and the gross and net asset value.

Ms. Brown reviewed the fund profile and discussed what differentiates this fund. Current gross asset value is $2.3 bn, peak was $4 bn; she said J.P. would be comfortable managing up to $4bn. Ms. Brown also discussed the fund's strong income returns. There is a queue to enter the fund, so it takes about six months to be fully invested. J.P.'s platform is a very disciplined in the use of debt; all debt is structured at the asset level. Ms. Brown said J.P. uses an income oriented strategy, maintains a strong balance sheet, and has no style drift. She believes it is a good entry point for this real estate fund given how far off peak current valuations are. Ms. Brown discussed the management fee (a flat fee of 1.75%).

After the firms left, the Board discussed their preferences for a real estate fund manager. Mr. Pellecchia said that once money is in the fund, the Board will have quarterly liquidity subject to redemption queues, except with J.P. which has a 6% withdrawal fee for withdrawals within three years. Erik Kalapir said the Board is looking for something to balance out TA Realty. Mr. Schaefer likes both J.P. and Principal; Mr. Hiller agreed with Mr. Schaefer. Mr. Kalapir said UBS does not complement TA Realty well and he's leaning toward J.P. Rose Sandick said she's leaning toward Principal. Mr. Hiller said he will distribute a memo to the members who were absent and let them know the members present have a strong preference between J.P. and Principal and a decision should be made at the Board's February meeting.

V. Hear, Consider and Act Upon Exchange Traded Funds
Mr. Shingler gave the Board several handouts relating to this item, but there was no discussion. The item will be discussed at the next meeting.

VI. Old Business
Mr. Hiller said that Callan's contract expires on March 31, 2012. Callan will be submitting a proposed extension of their contract for the Board's review and discussion.

VII. Public Comment-None

VIII. Adjourn

Mr. Schaefer made a motion to adjourn the meeting at 9:39 pm. Ms. Sturges seconded the motion which carried unanimously.

Respectfully submitted,

Jennifer S. Carpenter
Recording Secretary