

**INVESTMENT ADVISORY COUNCIL**  
**WEDNESDAY, March 8, 2006**

**MEETING NO. 334**

**Members present:**

Thomas Fiore, representing  
Robert L. Genuario  
Michael Freeman  
David (Duke) Himmelreich  
James Larkin  
William Murray  
Denise L. Nappier, Treasurer  
Sharon Palmer  
Clarence (Dick) L. Roberts, Jr., Chairman  
Carol Thomas  
Peter Thor

**Absent:**

David Roth

**Others present:**

Howard G. Rifkin, Deputy Treasurer  
Susan B. Sweeney, Chief Investment Officer  
Patricia DeMaras, Associate Counsel  
Greg Franklin, Assistant Treasurer-Investments  
Shelagh McClure, Director of Compliance  
Lee Ann Palladino, Principal Investment Officer  
Jason Price, Investment Officer  
David Scopelliti, Principal Investment Officer  
Linda Tudan, Executive Assistant to the Treasurer  
Judy Balich, Executive Secretary  
Sarah Carter, Administrative Assistant

**Guests:**

Bradley Atkins, Franklin Park, LLC  
Laura Backman, State Street Bank  
Raudline Etienne, CRA RogersCasey  
Harvey Kelly, Leumas Advisors  
Julie Naunchek, CSEA-Retiree Council #400  
Juan Prieto, CRA RogersCasey  
Daniel Schmitz, CRA RogersCasey  
Cynthia Steer, CRA RogersCasey  
Marc Weiss, Pension Consulting Alliance

Chairman Dick Roberts called the meeting to order at 9:00 A.M.

### Approval of Minutes

Chairman Roberts asked for comments on the Minutes of the February 8, 2006 Investment Advisory Council ("IAC") Meeting. There being no comments, **a motion was made by William Murray, seconded by Michael Freeman, that the Minutes of the February 8, 2006 IAC meeting be accepted as drafted. The motion was passed unanimously with one abstention by Thomas Fiore who had not been present at the February meeting.**

### Opening Comments by the Treasurer

Treasurer Denise Nappier highlighted several items on the agenda including a presentation on the emerging markets by CRA RogersCasey ("CRARC"), the Connecticut Retirement Plans and Trust Funds' ("CRPTF") consultant, and Antoine van Agtmael, President of Emerging Market Investors ("EMI"). Treasurer Nappier noted that EMI manages a \$530 million emerging market mandate on behalf of CRPTF and said that Chief Investment Officer Susan Sweeney would provide Mr. van Agtmael's broad and impressive credentials later. Treasurer Nappier also noted that JoAnn Price, President of Farmington, Connecticut based Fairview Capital Partners, Inc. ("Fairview") would give an update on Fairview Constitution II, L.P., and the \$200 million venture capital fund-of-funds that Fairview manages for CRPTF. She noted that Nina Saberi, the founder and general partner of Castile Ventures III, one of the investments of Constitution Fund II, would also be present to provide information about this particular fund. Treasurer Nappier said that it is her intent to periodically bring before the IAC sub-managers like Castile so as to give them an opportunity to review first hand some of the underlying investment in CRPTF's various fund-of-funds mandates.

In regard to the agenda item concerning CRPTF Diversity Principles ("Diversity Principles") Treasurer Nappier noted that, in addition to her input, the document is a culmination of efforts by a number of Treasury staff members. She added that these principles convey the spirit and the scope of efforts by the Office of the Treasurer ("OTT") to build diversity into CRPTF's portfolio and to hold its money managers accountable for applying these principles in their workforce and procurement activities.

On the legal front, Treasurer Nappier informed the IAC that OTT achieved an additional small settlement of \$10,000 with one of the defendants in the Safety Kleen matter. She reported that the case against NewsCorp is now progressing to the discovery stage with all of the company's appeals having been denied and now the matter either will go to trial or be settled.

Treasurer Nappier reported that, with regard to Corporate Governance, she was joined by a coalition of legislative leadership, representatives from civic and religious advocacy groups, and students from Danbury High School and Yale University at a press conference to announce a legislative proposal that would authorize the divestment of state funds from businesses with financial ties to Sudan. She also thanked IAC members James Larkin, Mr. Freeman and Mr. Murray for attending the press conference with her. She noted that Mr. Larkin spoke at the press

conference with regard to his experience in Sudan and that his remarks about the humanitarian crisis in Darfur were quite compelling and well received. Treasurer Nappier explained that the OTT's proposal is not for a mandatory divestment, but leaves the ultimate decision on divestment in the hands of the fiduciaries, while offering an opportunity to pursue discussions with businesses that have ties to Sudan. She noted that divestment is a last resort after engagement has failed to yield sufficient results. Treasurer Nappier reported that she attended a National Association of State Treasurers' Legislative Conference where Ambassador Mark Ranneberger, an official at the United States Department of State, briefed the treasurers on the current conditions in Sudan and the federal government's efforts in the area.

### **CRPTF Final Performance for January 2006**

Ms. Sweeney reported that the total fund returned 3.00% for the month of January, which was 11 basis points above its benchmark. She said that the fiscal year-to-date performance was 63 basis points ahead the benchmark with a return of 10.53%, compared to the benchmark return of 9.90% and that for the trailing year, performance was 158 basis points ahead of the benchmark with a return of 14.54%. Ms. Sweeney noted that January's performance was primarily attributable to the fund's overweight to publicly traded equities and underweight to private equity. She said that, as of January 31, 2006, CRPTF's total market value stood at \$23.1 billion, which is the highest market value the Fund has ever achieved, with the previous high point being \$22.5 billion, which occurred in August 2000. Ms. Sweeney noted that CRPTF's equity exposure is 62.8% and continues to be monitored. She said that the domestic equity portfolio outperformed the Russell 3000 by 65 basis points and the S&P 500 by 134 basis points, returning 3.99% in January. Ms. Sweeney reported that international equities and fixed income underperformed their benchmarks by 32 basis points and 2 basis points, respectively, and that private equity and real estate had little activity, with both returning 0.01%.

In response to an inquiry from Carol Thomas, Ms. Sweeney explained that CRPTF has rebalanced the international equities portfolio twice in the past year by removing funds from emerging markets to bring that sub sector back within its target range. Ms. Thomas said that she understood that the process of rebalancing increases CRPTF's results and asked how much difference the rebalancing process makes for the portfolio. Ms. Sweeney said that kind of an analysis has not been conducted. Treasurer Nappier pointed out that there are times when rebalancing is driven by legislative constraints on exposure and that rebalancing is not always positive.

### **Presentation on Emerging Markets**

#### **Review of Emerging Markets Exposure**

Raudline Etienne of CRARC made a presentation to the IAC regarding the exposure of the total emerging markets fund. The presentation provided information concerning the definition of emerging markets, emerging markets policy benchmarks and CRPTF's exposure to emerging markets.

### **Emerging Markets as an Investment Opportunity**

Mr. van Agtmael provided a presentation to the IAC on *Pioneering Emerging Markets*. Mr. van Agtmael's presentation included an overview of emerging markets over the past 25 years, the current picture of emerging markets, strategies and lessons for current investors, and the threats, risks and opportunities in emerging markets.

Discussion ensued regarding short-term versus long-term investment in emerging markets, investment opportunity in emerging markets, factors, such as a major interruption in the world economy that might change the strategy as presented for investing in emerging markets, the expansion of investments and/or reinvestment in emerging markets, real estate and private equity emerging markets, and passive investment strategy in emerging markets.

### **CRPTF Diversity Principles**

Treasurer Nappier said that the CRPTF's Diversity Principles define diversity as Connecticut-based firms, women-owned firms, minority-owned firms and emerging firms. She noted that CRPTF expects firms with whom it does business to practice good corporate citizenship, particularly with respect to diversity in their workforce and in their procurement activities. Treasurer Nappier reminded the IAC of the launch of the first phase of Connecticut Horizon Funds ("CHF") last year, which focused on diversity as it relates to liquid asset classes, and informed the IAC that plans to launch CHF's second phase, focusing on diversity within CRPTF's private equity asset class, would be presented at the April IAC meeting.

Treasurer Nappier said that since Shelagh McClure, Director of Compliance, joined the OTT, there has been progress with regard to monitoring workforce diversity among the vendors. She noted that whenever a prospective vendor is being considered by the OTT, that vendor is required to use the same workforce diversity profile criteria that the State of Connecticut requires for all of its procurement activities. Treasurer Nappier also noted that prior to a vendor being invited to make a presentation to the IAC, the issue of diversity has been thoroughly discussed with that vendor and that the OTT is satisfied that the vendor is the best possible to provide the service being sought. She said that during the IAC presentation process, the IAC's affirmation of the value of diversity is important, but that further questioning of a vendor concerning diversity may not be necessary.

Deputy Treasurer Howard Rifkin concurred with Treasurer Nappier and said that it is important that the IAC be aware that considerable work is accomplished prior to a vendor being presented to the IAC. Chairman Roberts asked if the Diversity Principles are part of the Investment Policy Statement ("IPS"). Mr. Rifkin said that these specific Diversity Principles are not included in the IPS, but that the statement of principles flows from language in the IPS. To illustrate that point, Treasurer Nappier pointed to the footnote on page one of the Diversity Principles. Chairman Roberts asked if the OTT would provide a copy of the Diversity Principles to prospective vendors. Treasurer Nappier responded in the affirmative and Ms. Sweeney added that the document would be placed on the OTT website. Ms. Thomas requested that the document be included in the IAC Handbook.

Ms. Sweeney said that Connecticut is being recognized for the efforts being put forth by Treasurer Nappier for the past seven years. She said that she would be speaking at a diversity conference being held jointly by CalPERS and CalSTRS in April and that several managers with which CRPTF has recently contracted will be represented.

Treasurer Nappier said that the Diversity Principles were before the IAC for its consideration and that she recommended its adoption.

Sharon Palmer requested that sexual orientation be included in the document. Treasurer Nappier said that the State of Connecticut EEO statement includes sexual orientation and that the Diversity Principles could include language from that form. Ms. McClure said that when a vendor submits its affirmative action or EEO policy to the OTT, any policy relative to sexual orientation would be reflected in that document and therefore the CRPTF would be able to monitor the issue.

Chairman Roberts said that the formal adoption of Diversity Principles would be postponed until the April IAC meeting to allow time for inclusion of language regarding sexual orientation.

#### **Update on Constitution Fund II; Presentation by Castile Ventures III**

Principal Investment Officer David Scopelliti provided opening remarks noting that Fairview Capital manages Constitution Liquidating Fund and Constitution Fund II, a \$200 million venture capital fund of funds.

#### **Presentation by Fairview Capital Partners**

Ms. Price, Managing Partner of Fairview Capital Partners, provided an overview and performance of the Constitution Liquidating Fund and an overview including a summary of commitments made as well as performance expectations going forward of Constitution Fund II. Additionally, Ms. Price introduced Ms. Saberi, Founder and Partner of Castile Ventures III, one of the venture funds in the Fairview Constitution Fund II.

#### **Presentation by Castile Ventures III**

Ms. Saberi provided an overview of Castile Ventures. She also provided portfolio reviews of Castile I, Castile II and Castile III, to emphasize the firm's philosophy and market approach.

#### **Combined Investment Funds Review as of December 31, 2005**

Daniel Schmitz of CRARC reported on the Combined Investment Funds as of December 31, 2005. His report included a market overview with comments on the U.S. equity, international equity, fixed income, real estate and private equity markets. Mr. Schmitz also reported on CRPTF fund performance, including the Mutual Equity Fund, the International Stock Fund and the Mutual Fixed Income Fund. He noted that this is the first quarterly report that includes

performance on the Connecticut Horizon Fund managers and reported on the performance of those four managers.

**Private Investment Fund Review as of September 30, 2005**

Bradley Atkins of Franklin Park reported on the Private Investment Fund for the quarter ending September 30, 2005. His report consisted of an executive summary providing a portfolio overview, and discussion of benchmark performance, diversification by industry and cash flow activity. Mr. Atkins also provided information regarding fund commitments made during 2005 and a comparison between current allocation and the IPS. He reported on performance highlights in the U.S. Buyout, Venture, and International Buyout funds.

Ms. Sweeney announced that Principal Investment Officer Gary Draghi has accepted the position of assistant director of investments with the City of Hartford and that his last day with the OTT would be March 10, 2006.

**Real Estate Fund Review as of September 30, 2005**

Marc Weiss of Pension Consulting Alliance reported on the Real Estate Fund as of September 30, 2005. His report included a review of the fund's overall performance, the third quarter and one-year performance, investment guidelines, the portfolio diversification and unfunded commitments, as well as comments on the real estate market. In response to a question from Ms. Thomas regarding core investments, Mr. Weiss commented that core investments are overpriced at this time.

Ms. Sweeney noted that the Commercial Mortgage Fund is \$19 million with three properties in the fund.

**Short-Term Investment Fund Review as of December 31, 2005**

Lee Ann Palladino, Principal Investment Officer, reported on the performance of the Short Term Investment Fund ("STIF") for the quarter ending December 31, 2005. She provided an update of the overall economy and an overview of the management of the STIF. Ms. Palladino noted that for the quarter and fiscal year to date, STIF outperformed its benchmark by 42 basis points and 38 basis points, respectively. She reported that the STIF is at an all-time high of \$5.4 billion.

**Other Business**

**Review of the IAC Budget for the quarter ending December 31, 2005**

Ms. Sweeney reported that the IAC is under budget for the year to date with the one exception of subscriptions.

**Pension Funds Management Division's Operating Results as of December 31, 2005**

Ms. Sweeney reported that standard fund financials for the six months ending December 31, 2005 are included in the package of materials. She commented that on page two of the report,

which is broken down by fund, the value of the Teachers' Retirement Fund is listed as \$11.9 billion and was actually \$12.3 billion in January.

Ms. Sweeney reminded the IAC members that the International Stock Fund core manager candidate interviews would take place, Tuesday, March 14, 2006 and that any member who would like to attend was invited to do so.

**Status Report on Requests by IAC Members**

Chairman Roberts said that the **Diversity Principles** could be removed from the status report. Ms. Sweeney said that the **Emerging Markets Presentation** could be removed from the status report. She indicated that the **Staffing Support** update would be provided at the IAC meeting next month and that she would ask General Counsel Catherine LaMarr if she could provide a copy of the **Guidelines for the World Bank** for the IAC members.

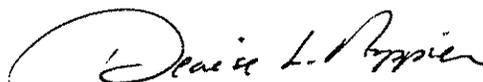
**Discussion of Preliminary Agenda for April 13, 2005 IAC Meeting**

Ms. Sweeney said that there would be the Corporate Governance quarterly report, Cash Flow quarterly report, Securities Lending update and Watch List update at the April meeting. She said that there might be a private equity investment opportunity presentation. Treasurer Nappier said that something should also be on the agenda regarding the Asset Allocation Liability Study.

The next Asset Allocation Liability meeting is scheduled for Thursday, March 30, 2006.

There being no further business, the meeting was adjourned at 12:25 P.M.  
An audio tape of this meeting was recorded.

Respectfully submitted,



**DENISE L. NAPPIER**  
**SECRETARY**