

**INVESTMENT ADVISORY COUNCIL**  
**WEDNESDAY, February 21, 2007**

**MEETING NO. 341**

**Members present:**

Michael Freeman<sup>1</sup>  
David (Duke) Himmelreich  
James Larkin  
William Murray  
Denise L. Nappier, Treasurer  
Sharon Palmer<sup>2</sup>  
Clarence (Dick) L. Roberts, Jr., Chairman  
David Roth  
Carol Thomas  
Peter Thor

**Absent:**

Representative for Robert L. Genuario  
George Mason

**Others present:**

Howard G. Rifkin, Deputy Treasurer  
Susan B. Sweeney, Chief Investment Officer  
Pamela Bartol, Assistant Investment Officer  
Greg Franklin, Assistant Treasurer-Investments  
David Holmgren, Principal Investment Officer  
David Johnson, Principal Investment Officer  
Donald Kirshbaum, Investment Officer  
Catherine E. LaMarr, General Counsel  
Meredith Miller, Assistant Treasurer-Policy  
Jason Price, Investment Officer  
Linda Tudan, Executive Assistant to the Treasurer  
Judy Balich, Executive Secretary

**Guests:**

Bradley Atkins, Franklin Park, LLC  
Laura Backman, State Street Bank  
Mary Phil Guinan, Guinan Associates  
Harvey Kelly, Leumas Advisors  
Julie Naunchek, CSEA-Retiree Council #400  
Thomas Poppey, State Street Corporation  
Daniel Schmitz, CRA RogersCasey  
Michael Sweeney, Wachovia/City of Norwalk Pension

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<sup>1</sup> Weather conditions on 2-14-07 necessitated a change in the date of the IAC meeting to 2-21-07. Due to a previous engagement, Michael Freeman left the meeting at 12:40 p.m.

<sup>2</sup> Weather conditions on 2-14-07 necessitated a change in the date of the IAC meeting to 2-21-07. Due to a previous engagement, Sharon Palmer left the meeting at 1:30 p.m.

Chairman Dick Roberts called the meeting to order at 9:20 A.M.

Chairman Roberts asked James Larkin to report on the Audit Committee meeting that took place just prior to today's meeting. Mr. Larkin provided a follow-up report on the December Audit Committee meeting noting that the final audit letters for fiscal years 2005 and 2006 for the Combined Investment Funds have not yet been published. He explained that details of the Auditor's letter would be discussed following publication. Mr. Larkin said that the Audit Committee would meet again on April 11, 2007, following the expected March publication date, and he would provide a more detailed report to the IAC at that time.

### **Approval of Minutes**

Chairman Roberts asked for comments on the Minutes of the December 13, 2006 Investment Advisory Council ("IAC") Meeting. There being no comments, **a motion was made by Mr. Larkin, seconded by Carol Thomas, that the Minutes of the December 13, 2006 IAC meeting be accepted as drafted. The motion was passed unanimously.**

### **Opening Comments by the Treasurer**

Treasurer Denise Nappier began her remarks with an update from the December meeting regarding the proposal from Credit Suisse CleanTech Opportunities Fund, L. P., noting that this would provide a vehicle for the Connecticut Retirement Plans and Trust Funds ("CRPTF") to enter into the "clean tech" space within private equity. She said that after reviewing the IAC's feedback, she elected to commit \$25 million to this partnership subject to satisfactory contract negotiations.

Treasurer Nappier said that there are a number of fund opportunities today, some with existing managers and some new to Connecticut. She said that the first opportunity today would be presented by principals from Covenant Apartment Fund V, L. P. ("Covenant V") a real estate partnership based in Nashville, Tennessee. She said that she is recommending a commitment of up to \$25 million to this Fund that uses a solid value added strategy of purchasing and renovating older apartment projects, and then reselling them when their economics have improved.

Treasurer Nappier noted that there would be three private equity partnerships making presentations today. She said that the first presentation would be from principals of Boston Ventures Limited Partnership VII ("Boston Ventures VII"), a Boston-based group that is focused on middle market media and communications buyout deals. She noted that this would be Connecticut's first investment with this firm that has been in business since 1984 and that she was recommending a commitment of up to \$75 million in Boston Ventures VII.

Treasurer Nappier said that the second private equity presentation would be from principals of Thomas H. Lee Equity Fund VI, L. P. ("THL VI") also a Boston based firm and an existing investment partner for the CRPTF. She noted that in 1998 the CRPTF committed \$75 million to their fourth fund which is, unfortunately, their least successful fund. Treasurer Nappier said that THL VI will be a very large fund with a target size of \$8 billion and a hard cap of \$9 billion of commitments that would diversify across a range of industries and would concentrate on the

large buyout sector of the market. She said that she was recommending an investment of up to \$100 million to THL VI.

The third private equity firm that Treasurer Nappier indicated would be presented today is a Connecticut based firm, RFE Investment Partners VII, L. P. ("RFE VII"). She noted that the CRPTF invested \$30 million in a 1998 vintage year fund that was offered by RFE Investment Partners ("RFE") and that this is RFE's first time back to the market since that fund. Treasurer Nappier explained that, whereas THL VI would focus on the largest companies and Boston Ventures VII would target the middle market, RFE VII was filling out the spectrum with its strategy of investing in smaller companies with enterprise values of between \$20 million and \$100 million. She also indicated that in the materials that were mailed to the IAC, the consultant, Franklin Park, recommended this fund for the private equity segment of the Connecticut Horizon Fund. She explained that if this were a new manager to Connecticut that would be appropriate but since it is an existing manager, a direct commitment would be more appropriate. She also noted that RFE has been fundraising for some time now and many other potential partners are awaiting Connecticut's decision before they finalize their decisions. Treasurer Nappier said that the CRPTF would condition its commitment of between \$20 million to \$40 million on RFE's ability to raise a minimum of \$80 million in commitments from other limited partners, which puts the onus on the General Partner to raise substantial outside capital.

Treasurer Nappier provided an update on the alleged fraud discovered in the LeNatures investment. She said that Chief Investment Officer Susan Sweeney and General Counsel Catherine LaMarr have been in close communication with S.W. Pelham, the limited partnership that made the investment in LeNatures, and the law firm that has been engaged to assist both S.W. Pelham and other investors in this matter. Treasurer Nappier noted that: the General Partner of S.W. Pelham is taking every appropriate measure to address the improper actions of LeNatures management; there is nothing to indicate that S.W. Pelham was complicit or in any way contributed to the improper actions of LeNatures' company management; the respective interests of the General Partner and Limited Partners are in full alignment; and there are several ongoing federal investigations by the Securities Exchange Commission ("SEC"), Justice Department, United States Postal Service, Internal Revenue Service and Pennsylvania state law enforcement officials. Treasurer Nappier also noted that at the last IAC meeting there had been discussion regarding the need to restate the value of LeNatures in CRPTF's June 2006 Annual Report.

With regard to Corporate Governance, Treasurer Nappier reported that the shareholder resolution CRPTF co-filed at Hewlett Packard regarding access to the proxy was being watched closely. She said that this will be the first resolution of its kind coming to a vote for shareholders and that the SEC has not taken any action on this issue. Treasurer Nappier said that the CRPTF and AFSCME<sup>3</sup> have taken the lead in pursuing the issue of a shareholder voice on the board and that the vote is on March 14, 2007.

Treasurer Nappier reported on her longstanding policy stance with respect to the funding of the Teachers' Retirement Fund ("TRF"), noting that for the past several months she and Speaker of the House Jim Amann have been exploring ways in which the State could most effectively and

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<sup>3</sup> American Federation of State, County and Municipal Employees

realistically honor its commitment to fund the TRF. She said that they recently stood together to formally propose a transaction that could put the TRF on the road to fiscal health and save the State and its taxpayers more than \$2.8 billion over the next 25 years. Treasurer Nappier broadly outlined the elements of the transaction, noting that the State would issue \$2 billion of pension obligation bonds with a maturity of 25 years and that over the life of these bonds, the State would be committed, through covenants with the bondholders, to meet the actuarially recommended contributions to the TRF. She said that this proposed transaction involves substituting lower interest debt of about 5.6% (based on current markets) for the current expense of 8.5% charged to the TRF's unfunded liability in the actuarial computation. Treasurer Nappier then went on to say that without pension obligation bonds, the State's actuarially recommended contribution will only continue to grow at an alarming rate. Treasurer Nappier said that the early legislative process indicates that the General Assembly seems receptive to the concept. She said that this is her top priority for this legislative session and that she would keep the IAC posted of developments as they occur. A discussion of the bond issuance process and the funding of the TRF followed Treasurer Nappier's remarks.

#### **CRPTF Final Performance for November and December 2006**

Ms. Sweeney provided an update on fiscal year 2006 performance, noting that the books were restated due to the LeNatures' write-down and an adjustment in the Westport Senior Living Fund. She said that with those changes included, the total Fund return for the fiscal year 2006 dropped by 34 basis points, from 10.89% to 10.55% and that the assets of the Fund went from \$22,886 million to \$22,816 million. She reported that the write-down on LeNatures in the Private Investment Fund ("PIF") was \$53 million and Westport Senior Living in the Real Estate Fund ("REF") was \$15.9 million. Ms. Sweeney said that the returns for PIF dropped from 16.09% to 11.74% and the REF dropped from 11.35% to 7.09%.

Ms. Sweeney reported on December 2006 performance of the CRPTF indicating that total Fund assets stood at \$24.7 billion, the highest level ever, with TRF approximately \$13.2 billion and State Employees approximately \$9.5 billion. Ms. Sweeney said that for the calendar year to date the Fund returned 13.08%, 129 basis points behind its benchmark return and that for both the six and twelve-month periods that ended on December 31, the underperformance to the total fund benchmark was ameliorated by the overweight to equities. She indicated that longer-term performance remains solid, with the Fund's seven-year return of 5.84% exceeding the benchmark return by 141 basis points and with manager objective added in by 4 basis points. Ms. Sweeney said that the CRPTF's TUCs ranking against public funds greater than \$1 billion for the year ended December 31 was the 65<sup>th</sup> percentile but that there was a huge dispersion of results for that period, noting that the CRPTF performed 338 basis points below the 95<sup>th</sup> percentile, and 833 basis points better than the 5<sup>th</sup> percentile. She reported that CRPTF ranked 23<sup>rd</sup>, 35<sup>th</sup> and 32<sup>nd</sup> percentile for the two, seven and ten years, respectively. Ms. Sweeney said that the Mutual Equity Fund ("MEF") gained 1.13% in December, trailing its Russell 3000 benchmark by 7 basis points and that for calendar year 2006, the MEF portfolio gained 14.99%. She said that the International Stock Fund ("ISF") advanced 3.42% in December but underperformed its customized benchmark by 39 basis points. Ms. Sweeney noted that three new International Core managers came on-line at the end of November with full population by mid December. She added that the December termination of the underperforming Morgan Stanley International Small Cap portfolio was fully liquidated by mid January. Ms. Sweeney

reported that the Mutual Fixed Income Fund returned -0.34% in December, which was 19 basis points behind its custom benchmark and 24 basis points ahead of the Lehman Brothers Aggregate. She said that the High Yield managers returned 0.73% for the month of December, 46 basis points behind the benchmark, but that of particular note was Loomis Sayles, a \$401 million high yield mandate, with a return of 15.48% for the trailing year, besting the Citigroup HY Cash Pay index return of 11.71% by 377 basis points. She said that the termination of W.R. Huff in November would remove that performance drag on the high yield segment going forward.

Subsequent to Ms. Sweeney's report on CRPTF's performance, several IAC members expressed concern regarding the deterioration in performance. A discussion ensued regarding returns versus risk volatility with Treasurer Nappier, Deputy Treasurer Howard Rifkin and Ms. Sweeney responding to all questions and concerns.

### **Securities Lending Review**

Thomas Poppey of State Street Corporation ("SSC") reported on the CRPTF's securities lending program. His report included CRPTF's earnings and performance results, utilization rates versus State Street Program, performance versus peer group, economic overview and portfolio summary and collateral account profile. Mr. Poppey also noted that at the request of the IAC, a glossary of terms had been added to the report.

Mr. Rifkin asked if SSC reviewed the article in the Wall Street Journal regarding securities lending and hedge funds. He said that the article indicated that hedge funds often troll the market for borrowing securities from large institutional investors to influence a vote during proxy voting season. Mr. Poppey responded that the article, from the perspective of SSC, was sensational in its approach and that the securities lending industry, in general, has responded. He said that the Risk Management Association, International Securities Lending Association and Pan Asia Securities Association Lending responded jointly to that article. Mr. Poppey said that he would provide a copy of the response letter.

Following Mr. Poppey's report, Mr. Larkin commented that he thought that the report should not say that oil prices dropped precipitously but that oil prices have moderated. He also commented that the Fed is not highlighting inflation risk as much as they were six months ago and seem more comfortable with the inflation rate. Mr. Poppey said that the points were well taken and that since the report was printed, the ease on market pricing was stepped up to 16% with a prediction of 100% of an ease by December 31, 2007.

### **Consideration for the Search Process for an Investment Consultant**

Ms. Sweeney informed the IAC that RogersCasey's contract would expire October 1, 2007 and was not eligible for an extension. She said that a Request for Proposal ("RFP") for investment consultant services was issued in January and that the responses were due February 16, 2007. Ms. Sweeney explained the scope of services in the RFP and noted that more than one consultant would likely be hired to provide the required services. She also informed the IAC that they would be invited to attend the interviews.

**A motion was made by Mr. Larkin, seconded by Ms. Thomas, to endorse the Project Plan for the investment consultant(s) search. The motion was passed unanimously.**

**Presentation by Covenant Apartment Fund V, L.P.**

David Johnson, Principal Investment Officer, provided introductory remarks on Covenant V, noting that a commitment to this opportunity would help the REF toward its goal of 25% of investments in apartments. He gave a detailed explanation of Covenant V's approach to purchasing, renovating and selling apartments, noting that the General Partner is projecting returns of 16% to 18%. Mr. Johnson also explained Covenant V's strategy of partnering with local managers.

The IAC posed questions regarding Covenant V's ability to staff a \$250 million project; key man concerns; and the percentage of commitment to the fund by the principals. Treasurer Nappier and Mr. Johnson responded to all the concerns and questions to the IAC's satisfaction.

**Presentation by Covenant Capital Group**

Covenant Capital Group made a presentation to the IAC on Covenant V. Covenant V was represented by Managing Partners Govan White and Frederic Scarola. (Tom Foster, the placement agent was also present.) Mr. White provided a profile of the firm and the firm's investment strategy, which included the reason the firm selects second and third tier markets and its value-added strategy. Mr. Scarola talked about rent growth and cost of renovating projects. Mr. White gave summary remarks and explained why this is a good time to invest in this strategy.

Subsequent to the presentation by Covenant V, IAC members posed questions regarding: the renovation of occupied apartments; the effect of the renovation projects on neighborhoods; the economic model used by the firm and what would happen if the debt market changes; the firm's bench strength; workforce diversity; and the percentage of capital committed by the principals. A question regarding fee structure prompted a discussion relative to the meaning of the terms "promote" and "double promote". Each question was answered in detail by Messrs. White and Scarola.

**Roll Call of Reactions for Covenant Apartment Fund V, L.P.**

Mr. Larkin said that he was impressed with the firm's strategy and as long as they would be willing to invest 1% of the capital, he would approve of the investment. Michael Freeman said that he thought they have a sound strategy and was comfortable with a commitment of up to \$25 million. William Murray said that he was impressed with the firm's research and knowledge of the market and supported the investment. Duke Himmelreich said that he liked the strategy and supported the investment. Peter Thor said that he thought it was a sound investment and socially important and supported the investment. Sharon Palmer said that her concern had been answered and thought they would be fine. David Roth said that he thought it was a legitimate strategy and that they did address some of his concerns. He said that he was still concerned about the firm's fee structure, but would make the investment. Ms. Thomas said that she was very comfortable

with the investment. Chairman Roberts voiced his support, adding that it was a very rational investment to make and he was fine with it.

Chairman Roberts asked for a motion to waive the 45-day comment period for Covenant Apartment Fund V, L.P. **A motion was made by Mr. Larkin, seconded by Mr. Himmelreich, to waive the 45-day comment period for Covenant Apartment Fund V, L.P. The motion was passed unanimously.**

#### **Presentation by Boston Ventures Limited Partnership Fund VII**

Jason Price, Investment Officer, made introductory remarks regarding Boston Ventures VII. Mr. Price discussed the investment strategy used by Boston Ventures Management, LLC ("Boston Ventures"), whereby the firm makes controlled investments in middle market companies, often family-owned, in the media and communications sectors. He also talked about the past performance of Boston Ventures, disclosing some poor returns in one of the previous six funds, as well as the lessons learned from those investments.

IAC members asked questions regarding the drift in investment strategy that led to the poor returns of Fund VI; track record disclosure; venture and buyout fund investments in general terms with regard to timing; and the lack of activity by Boston Ventures since 2000. All concerns and questions were answered by Treasurer Nappier, Ms. Sweeney, Mr. Price and Bradley Atkins of Franklin Park.

#### **Presentation by Boston Ventures Management, LLC**

Boston Ventures made a presentation to the IAC on Boston Ventures VII. Boston Ventures was represented by Managing Directors Roy Coppedge, Vikrant Raina and Elizabeth Granville-Smith. Mr. Coppedge provided a brief overview of the firm. Mr. Raina provided information on the firm's investment team and the firm's historical performance, which included information on overall returns, performance by core sectors and the firm's investments that have underperformed. Mr. Raina also talked about the firm's investment strategy and recent successes in its Fund VI. Ms. Granville-Smith presented an example of a target investment and reviewed a case study from Boston Ventures VI's existing portfolio. Mr. Raina also provided information on another Boston Ventures investment. Mr. Raina talked about the firm's commitment to workforce diversity and corporate citizenship and made concluding remarks on the presentation.

Throughout the presentation by Boston Ventures, IAC members posed questions regarding the firm's investment committee; how the firm veered off track and made some disappointing investments; how the firm deals with existing management in buyout investments; how the firm recruits executive talent for a buyout investment; and a lower cap for the fund. The questions were answered to the satisfaction of the IAC by Messrs. Raina and Coppedge.

#### **Roll Call of Reactions for Boston Ventures Limited Partnership VII**

Ms. Thomas said that she was comfortable with the firm's track record and presentation and supported the investment. Mr. Roth said that he thought there is a lot of opportunity in the firm's

target sector, they had satisfactorily answered his concern and the investment appeared promising. Ms. Palmer said that she concurred. Mr. Thor said that he thought the firm had resolved its tumult and supported the investment. Mr. Himmelreich said that he would reluctantly support the investment because Mr. Coppedge was with the firm when it had its meltdown and he said he hoped that Franklin Park and PFM would monitor the investment closely. Mr. Murray said that he supported the investment. Mr. Freeman said that he thought the firm learned its lesson and supported the investment. Mr. Larkin said that he had the same reservation as Mr. Himmelreich, would recommend that the CRPTF insist on a cap of \$500 million and would support the investment. Chairman Roberts said that he supported the investment and thought the firm is a solid company.

Chairman Roberts asked for a motion to waive the 45-day comment period for Boston Ventures Limited Partnership VII. **A motion was made by Mr. Freeman, seconded by Mr. Thor, to waive the 45-day comment period for Boston Ventures Limited Partnership VII. The motion was passed unanimously.**

**Presentation by Thomas H. Lee Equity Fund VI, L.P.**

Mr. Price provided opening comments on THL VI, a large cap buyout fund. He addressed the concern of overlapping investments for the CRPTF in the private equity mega-buyout sector and that it has been determined that there is only one investment where Thomas H. Lee Partners, L.P. ("THL") overlaps with a KKR investment in the THL Fund IV in which the CRPTF invested \$75 million in 1998. Mr. Price also addressed the issue of THL Fund IV's overall performance. He talked about the criteria used by CRPTF when analyzing a large cap buyout fund manager. Treasurer Nappier said that the performance of THL, with the exception of its Fund IV, is very impressive and that there are few firms with the same kind of returns.

IAC members asked several questions about a myriad of topics including the percentage of investments with losses; Franklin Park's impression of the investment acumen of the current managing partners of the firm; whether or not the investment opportunity was being considered because of timing or because there is a preference for THL over the other firms competing in the mega-buyout space; and Fund IV remaining investments. Treasurer Nappier and Mr. Atkins responded to all of the questions and concerns.

Mr. Roth disclosed that he and Greg White are friends. In response, Ms. LaMarr asked Mr. Roth to clarify, for the record, whether he had any financial interest with Mr. White. Mr. Roth responded that he did not have a financial interest with Mr. White.

**Presentation by Thomas H. Lee Equity Partners, L.P.**

THL made a presentation to the IAC on THL VI. THL VI was represented by Scott Schoen, Co-President and Greg White, Managing Director. Mr. Schoen gave an overview of the firm; the firm's business model focus; the firm's organization; and the firm's staff experience and advantage in the market. He talked about how the firm adds value to an investment, its strategy for building a diverse and experienced team; the disciplined approach to portfolio construction; and risk management. Mr. Schoen provided a summary of realized investments, valuation

increases and commitments made in 2006; deal flow; Fund V results; the investment pacing of Fund V; and Fund VI commitments and underlying portfolio companies.

Subsequent to THL's presentation, the IAC asked for an explanation about the disappointing returns of the firm's Fund IV; how the firm counsels and compensates CEOs; the role played by Mr. Schoen in Fund IV; and the losses incurred in 26% of their investments. Mr. Schoen and Mr. White responded satisfactorily to all questions and concerns.

**Roll Call of Reactions for Thomas H. Lee Equity Fund VI, L.P.**

Mr. Larkin said that his questions had been answered, he was happy with the way they compensate managers and was happy to go ahead with the investment. Mr. Murray said that he supported the investment. Mr. Himmelreich said that he supported the investment. Mr. Thor said that he agreed and supported the investment. Ms. Palmer said that she was fine with the investment. Mr. Roth said that he would abstain due to his relationship with Mr. White. Ms. Thomas said that she supported the investment. Chairman Roberts said that he supported the investment.

Chairman Roberts asked for a motion to waive the 45-day comment period for Thomas H. Lee Fund VI, L.P. **A motion was made by Mr. Himmelreich, seconded by Mr. Larkin to waive the 45-day comment period for Thomas H. Lee Fund VI, L.P. The motion was passed unanimously.**

**Presentation by RFE Investment Partners VII, L.P.**

Mr. Price provided opening comments on RFE VII, a Connecticut-based small middle-market buyout fund. He noted that CRPTF has a \$30 million commitment to RFE Fund VI, which has done very well with a 15.6% net IRR as of December 31, 2006. Mr. Price talked about the strategy of the firm and the growth of its management team. He noted that Treasurer Nappier recommended a commitment of up to 20% with the proviso that the firm received an additional \$80 million of capital from other limited partners. Mr. Price explained that Franklin Park made a recommendation to make a commitment to RFE VII through the private equity Connecticut Horizon Fund, but that this fund has not yet been established and, therefore, Treasurer Nappier recommended a direct commitment.

The IAC members expressed a number of concerns regarding this commitment and had several questions. They wanted to ensure that the commitment recommendation was not predicated solely on the fact that this is a Connecticut firm; asked why the firm had been out of the market since 1998; why RFE VII was having a difficult time raising capital; asked for an explanation on the pending litigation; inquired about the firm's ability to carry out its strategy; asked about the number of unrealized companies in Fund VI; asked for an explanation of Franklin Park's track record information; and inquired about the depth of the firm's bench strength. Mr. Larkin was adamant that he had a problem with this commitment, stating several reasons for his concern and concluding that his thought, at that time, was that he would not touch this investment. Treasurer Nappier, Ms. Sweeney and Mr. Price addressed all questions and concerns.

### **Presentation by RFE Investment Partners**

RFE made a presentation to the IAC on RFE VII. RFE VII was represented by Managing Directors Michael Foster and James Parsons. Mr. Parsons provided an overview of the firm; an overview of RFE VII; and investment performance of RFE VI for both the short and the longer term. He also talked about the RFE VII investment team, the market opportunity for small buyouts, the firm's approach to building value, and the results of that approach. Mr. Parsons addressed the firm's commitment to workforce diversity and corporate citizenship.

Subsequent to RFE's presentation, the IAC asked for the number of investors in RFE VI; how many investors in RFE VI had made commitments to RFE VII; if RFE had adequate depth of staff; and asked what the impact of a single investment failure may be on a fund, given the small number of investments in each fund. Mr. Parsons and Mr. Foster responded satisfactorily to all questions and concerns.

### **Roll Call of Reactions for RFE Investment Partners VII, L.P.**

Chairman Roberts said that before RFE's presentation, he was very uncomfortable, but having heard the presentation and knowing that others had committed to the fund made him much more comfortable and felt an investment, although maybe not \$40 million, was warranted. Ms. Thomas said she was okay with, but not wildly enthusiastic about, the investment and since it was not a huge amount of money and the firm had some track record, she supported the investment. Mr. Roth said that he agreed with Chairman Roberts and was more comfortable knowing that there were other very reputable investors and thought that RFE deserved the CRPTF's support, although maybe not \$40 million. Mr. Thor said that the statement regarding affording Connecticut-based investment manager opportunities made more sense to him subsequent to hearing the presentation and he supported the investment. Mr. Himmelreich said that he also agreed with Chairman Roberts that he was much more comfortable since hearing RFE's presentation. Mr. Murray said that he agreed and supported the recommendation of Franklin Park and the Chief Investment Officer. Mr. Larkin said that he was still very uncomfortable and had reservations about the investment, wanted to make it clear that he did not believe that there was a positive recommendation from Franklin Park, but that RFE was much more impressive than the documents and he would be very comfortable with the investment as long as the investment was limited to \$20 million.

Chairman Roberts asked for a motion to waive the 45-day comment period for RFE Investment Partners VII, L.P. **A motion was made by Mr. Himmelreich, seconded by Ms. Thomas to waive the 45-day comment period for RFE Investment Partners VII, L.P. The motion was passed unanimously.**

### **Consideration of Treasurer's Proposed Revisions to the Investment Policy Statement Regarding Proxy Voting Guidelines**

Treasurer Nappier thanked Chairman Roberts, Mr. Larkin and Mr. Roth for their time and valuable input in the preliminary draft of the Investment Policy Statement ("IPS") Proxy Voting Guidelines that was put before the IAC in September. Treasurer Nappier reviewed the

procedures for making amendments to the IPS and indicated that as part of the formal process, the document is now before the IAC for comments, not for adoption as indicated in her letter. Mr. Larkin asked for a change in wording in Section X, sub-section F, second paragraph, first bullet, from "...compensation in equity and prohibit the Director from selling the equity while serving on the board;" to "...compensation in equity and encourage Directors not to sell any shares before their retirement;". Meredith Miller, Assistant Treasurer-Policy, thanked everyone for their input on this document.

**A motion was made by Mr. Thor, seconded by Mr. Larkin, to recommend the Investment Policy Statement Proxy Voting Guidelines as drafted with the change requested by Mr. Larkin in Section X. The motion was passed unanimously.**

**Other Business**

**Status Report on Requests by IAC Members**

Ms. Sweeney said that there is nothing to report on the **Staffing Support** update.

**Pension Funds Management Division's Operating Results as of September 30, 2006**

Ms. Sweeney reported that standard fund financials for the fiscal year ending September 30, 2006 are included in the package of materials. She noted that the September results are late due to the reopening of the books and that the December 31, 2006 financials would be reported at the March IAC meeting.

**Discussion of preliminary agenda for March 14, 2007 IAC meeting**

Ms. Sweeney indicated that the March IAC meeting would be a quarterly meeting and that agenda items could possibly include reports on cash flow and the watch list.

Mr. Murray said that on behalf of the State Teachers' Retirement Board, he wished to thank Treasurer Nappier for all of the work she had done on the bond proposal for the legislature. Mr. Murray also asked if the IAC members could be notified when Treasurer Nappier is going to be at a press conference that has to do with the IAC. Treasurer Nappier said that the IAC would be notified going forward.

There being no further business, the meeting was adjourned at 3:20 PM.

An audio tape of this meeting was recorded.

Respectfully submitted,



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