INVESTMENT ADVISORY COUNCIL
Wednesday, March 9, 2011

MEETING NO. 383

Members present:	Thomas Fiore, representing Benjamin Barnes * Michael Freeman David (Duke) Himmelreich* Stanley (Bud) Morten David Roth Joseph (Joe) D. Roxe, Chairman Carol Thomas Peter Thor
Absent:	Thomas Barnes William Murray Denise L. Nappier, Treasurer Sharon Palmer
Others present:	Lawrence (Larry) Wilson, Interim Deputy Treasurer M. Timothy (Tim) Corbett, Chief Investment Officer Lee Ann Palladino, Deputy Chief Investment Officer Adrian Kingshott, Principal Investment Officer Donald Kirshbaum, Investment Officer - Policy Catherine LaMarr, General Counsel Shelagh McClure, Director of Compliance Reginald Tucker, Investment Officer Linda Tudan, Executive Assistant Winifred (Winnie) Scalora, Administrative Assistant
Guests:	Bradley Atkins, Franklin Park Associates, LLC Joseph Barcic, Mercer Investment Consulting Cionne Beatty, BNY Mellon Asset Management Scott Booth, The Townsend Group Vonda Brunsting, Service Employees International Union Sean Gill, NEPC, LLC Will Greene, Loop Capital Markets Robin Kaplan-Cho, Connecticut Education Association Harvey Kelly, Leumas Advisors Louis Laccavole, SOC Teachers' Retirement Board Kevin Norton, BNY Mellon Asset Management James Parsons, RFE Investments John Ross, Rogerscasey Christopher Smith, Service Employees International Union M. Craig teDuits, State Street Bank & Trust Alex Thomson, Wood Creek Capital Management

***In at 9:06 a.m.**

With a quorum present, Chairman Joseph Roxe called the Investment Advisory Council ("IAC") meeting to order at 9:03 a.m.

Approval of Minutes of the February 9, 2011 IAC Meeting

Chairman Roxe asked for comments on the Minutes of the February 9, 2011 IAC meeting. **There being no comments, a motion was made by Peter Thor, seconded by Carol Thomas, that the Minutes of the February 9, 2011 IAC meeting be accepted as drafted. The motion was passed unanimously.** Thomas Fiore entered the meeting after the motion was passed; otherwise, he would have abstained since he was not at the February 9, 2011 meeting. Stanley Morten then stated that on Page 6 in the final line of the first paragraph of the Lone Star Presentation, the words "return on equity" should be changed to "IRR". T**he change was approved by unanimous consent.**

Mr. Morten then asked if the role of the IAC could be clarified with respect to corporate governance issues and reports, and whether there was an implied endorsement by the IAC of any or all of the items included in the corporate governance reports. Discussion continued with respect to the IAC's role of reviewing the policies associated with corporate governance for the Connecticut Retirement Plans and Trust Funds ("CRPTF"). Ms. Thomas noted that the guidelines for corporate governance were included in the Investment Policy Statement ("IPS") and were already approved by the IAC. Chairman Roxe said that this required further discussion, and he requested Catherine LaMarr, General Counsel, to review the IPS and clarify this item at the April 13, 2011 IAC Meeting.

Comments by the Interim Deputy Treasurer

Lawrence Wilson, Interim Deputy Treasurer, commented on Treasurer Denise Nappier's improving health and he noted that Treasurer Nappier thanked everyone for the good wishes extended to her.

Chief Investment Officer's Update on the Market, Connecticut Retirement Plans and Trust Funds Final Performance for the Month Ended January 31, 2011, Combined Investment Funds Review as of December 301, 2010 and Connecticut Horizon Fund Review for the Quarter Ended December 30, 2010

M. Timothy Corbett, Chief Investment Officer ("CIO"), provided an update on the capital market environment, its impact on the performance of the CRPTF and the economic outlook. He said that February's market performance was very similar to that of January, but with more volatility. Mr. Corbett stated that the market was responding to an upbeat outlook for developed markets led by the U.S. and the Eurozone, and to the Federal Reserve's aggressive liquidity strategy, which was providing a tailwind for asset prices. For the near-term outlook, Mr. Corbett commented on key risks to the economic and market outlook including: An increase in interest rates, higher commodity prices, runaway inflation within the emerging markets and the continued European sovereign debt crisis.

With respect to the performance for the CRPTF for the month ended January 31, 2011, Mr. Corbett reported an increase of 59 basis points ("bps") for the Combined Investment Funds ("CIF"), and he noted that pension fund assets grew $100 million from year end and were at $24.6 billion. He stated that for the month ended January 31, 2011 the CIF's performance for Fiscal Year ("FY") 2011 was up to 15.6%.

Mr. Corbett updated the IAC on the Liquidity Fund ("LF"), which was comprised of all cash balances, included manager cash, cash held within each CIF for investment purposes and the cash maintained within each Plan and Trust. He reminded the IAC of the LF's three-tier structure and stated that as of January 31, 2011: $1.2 billion was invested in Tier I (money markets), $376 million in Tier II (short-duration bonds), and $358 million in Tier III (short-duration global fixed income and emerging market currencies). Mr. Corbett elaborated on the strategy of each tier. He said that a future presentation to the IAC would include the CRPTF's expected cash needs in the near term relative to the allocation to the LF and an explanation of how funds are allocated among the tiers. Finally, Mr. Corbett spoke about the Alternative Investment Fund ("AIF"), and updated the IAC on the $300 million investment in three hedge fund-of-funds strategies. He added that the AIF would be on the agenda for the next quarterly review.

Joseph Barcic, Principal of Mercer Investment Consulting, Inc., provided additional comments on the overall investment results of the CIF for the quarter ended December 31, 2010. Mr. Corbett then reported that in aggregate the 14 plans and trusts nine outperformed their customized benchmarks for 2010, the Teachers' Retirement Fund ("TERF") and State Employees' Retirement Fund outperformed for the trailing three years, and TERF outperformed for the trailing five years. He said that the remaining smaller plans and trusts were generally about 50 bps behind in terms of relative performance.

Finally, Mr. Corbett provided an update on the Connecticut Horizon Fund ("CHF") for the quarter ended December 31, 2010. With respect to the public markets, he reported an outperformance in aggregate for all time horizons including the quarter; the year; the two-, three- and four-year horizons; and since inception. From a fund-of-fund managers' perspective, he reported that all four outperformed for the quarter ended December 31, 2010. Mr. Corbett then reported that one manager graduated and one new manager was added within the CHF, and he noted that manager diversity statistics had not changed from the previous report. Regarding the private equity portfolio within the CHF, he stated that the portfolio was still relatively young and there were no new fund commitments for the quarter ended December 31, 2010.

Real Estate Fund Review as of September 30, 2010

Lee Ann Palladino, Deputy CIO, provided a report on the Real Estate Fund ("REF") for the quarter ended September 30, 2010. Scott Booth, Principal of The Townsend Group, provided additional comments on the REF. Ms. Palladino first provided an executive summary of the REF. She reported that the market value of the REF was $876 million or 3.7% of total assets as of September 30, 2010, and that the fund grew $113 million since the prior quarter due to market activity. Ms. Palladino stated that the REF's unfunded commitments totaled $378 million, with the majority dedicated to opportunistic strategies. Overall for the quarter, she reported that the CRPTF returned 2.8% with mixed results compared to the benchmark. Ms Palladino then reviewed the overall real estate market landscape for the quarter ended September 30, 2010, and she discussed its impact on the CRPTF's REF portfolio. Discussion ensued about the trends associated with commercial real estate.

Ms. Palladino and Mr. Booth then responded to several questions posed by IAC Members pertaining to Advisory Board votes, how refinancing would improve real estate debt situations and how unfunded capital was being utilized. Mr. Booth explained the difference between the time-weighted return and the internal rate of return ("IRR") reporting. The IAC members discussed the CRPTF's historic allocations to real estate; its inconsistent vintage year exposure to the asset class; the presentation of results, including the relevancy of the IRR versus actual cash-on-cash returns; concerns about the health of the portfolio given the performance of commercial real estate; and the expectations for future real estate returns. Discussion continued about the CRPTF's strategic investment in the real estate market.

<u>Private Investment Fund Review as of September 30, 2010</u>

Adrian Kingshott, Principal Investment Officer, reported on the Private Investment Fund ("PIF") for the quarter ended September 30, 2010. Bradley Atkins, Chief Executive Officer of Franklin Park Associates, provided additional comments on the PIF. Mr. Kingshott began by reporting that the performance was up 16.6% for the quarter ended September 30, 2010, which followed a 2% increase in the prior quarter. He also reported that the PIF returned a net IRR of 16.3%, 2.6% and 8 % for the one, three and five-year horizons, exceeding the S&P 500 by 5.4%, 10.4% and 8.6%, respectively. Mr. Morten commented on and raised questions about the relevancy of the IRR versus actual cash-on-cash returns. Mr. Atkins replied and commented on the methods used in calculating manager fees. Mr. Kingshott stated that during the third quarter of FY 2010, $108 million of committed capital was invested and $78 million was received through distributions. During the last quarter of the 2010 calendar year, he said that inflows were $193 million and outflows were approximately $130 million and that this higher level of activity was indicative of the rally in the risk markets during the second half of 2010.

In closing, Mr. Atkins presented a benchmark analysis by vintage year for the PIF's primary funds and non-primary funds. He noted that the primary funds typically performed at or above the top quartile since 2002, and it was too early to assess the bulk of the non-primary fund-of-funds. Mr. Atkins stated that he was optimistic with respect to the 2009, 2010 and 2011 vintage years going forward. Mr. Himmelreich commented that the Securities and Exchange Commission has stated that private equity funds were beginning to charge expenses to funds for non-essentials and this needed to be monitored closely. Ms. LaMarr agreed.

Mr. Kingshott provided introductory remarks about RFE Investment Partners and introduced James Parsons, Managing Director, who provided a presentation entitled "Dynamics of the Small Buyout Market." Mr. Parsons discussed the investment opportunity for small buyout funds, current market dynamics and the outlook for general partners that invest in this space. In closing, Mr. Parsons said that companies with small buyout strategies succeeded by purchasing solidly performing market leaders, at reasonable earnings multiples, and assisted firms in their quest to grow to the next level; financing purchases with relatively modest leverage; and creating value via combination of earnings growth, multiple expansion and debt reduction. Finally, Mr. Parsons provided several examples of profitable small companies within the buy-out market. In response to Mr. Morten, Mr. Parsons stated that he expected positive and more consistent rates of return in smaller markets in the short-term.

Short-Term Investment Fund Review as of December 31, 2010

Interim Deputy Treasurer Wilson reported on the performance of the Short-Term Investment Fund ("STIF") for the quarter ended December 31, 2010. Mr. Wilson reported that the STIF had an average annualized yield of 24 bps, 16 bps over its benchmark, which is the industry standard of similar first-tier institutional rated money market mutual funds, resulting in an additional $2 million for state and local governments invested in the STIF. For the 2010 calendar year, he reported that the STIF had an average annualized yield of 25 bps, 17 bps over its benchmark, thereby earning $8.4 million over the benchmark. Mr. Wilson stated that the STIF had maintained its conservative investments posture with a weighted average maturity of 25 days with 66% of assets available overnight or on a same-day basis and 44% of assets invested in securities issued, guaranteed or insured by the U.S. government or federal agencies, in repurchase agreements backed by such securities, or in money funds comprised of such securities. Mr. Wilson concluded his presentation by commenting on the Public Finance Outlook Conference being held on March 24, 2011.

Other Business

Mr. Corbett presented the IAC budget for the quarter ended December 31, 2010.

Chairman Roxe invited IAC members to submit agenda items for the April 13, 2011 IAC meeting.

Comments by the Chairman

Chairman Roxe requested a presentation prepared by Mr. Morten be distributed to the IAC members for review. He next commented on an article in *The Wall Street Journal* about the method companies used to value their pension fund liabilities.

By unanimous consent the IAC sent Treasurer Nappier their best wishes for a full and speedy recovery. There being no further business, the meeting was adjourned at 12:09 p.m.

An audio tape of this meeting was recorded.

Respectfully submitted,

LAWRENCE WILSON*
for
DENISE L. NAPPIER, SECRETARY

Reviewed by

JOSEPH D. ROXE
CHAIRMAN

***Assistant Treasurer Wilson was serving as Interim Deputy Treasurer at the time of the meeting.**