

**INVESTMENT ADVISORY COUNCIL  
WEDNESDAY, October 8, 2008**

**MEETING NO. 359**

**Members present:**

Thomas Barnes  
Thomas Fiore, representing Robert Genuario\*\*\*  
Michael Freeman  
David (Duke) Himmelreich\*\*  
James Larkin, Chairman  
Stanley (Bud) Morten  
William Murray  
Denise L. Nappier, Treasurer\*\*\*\*  
Sharon Palmer  
David Roth  
Carol Thomas  
Peter Thor\*

**Others present:**

Howard G. Rifkin, Deputy Treasurer  
Linda Hershman, Assistant-Deputy Treasurer/Chief of Staff  
Lee Ann Palladino, Acting Chief Investment Officer  
Joanne Dombrosky, Principal Investment Officer  
Gregory Franklin, Assistant Treasurer-Investments  
Donald Kirshbaum, Investment Officer  
David Holmgren, Principal Investment Officer  
Wayne Hypolite, Executive Assistant  
David Johnson, Principal Investment Officer  
Catherine LaMarr, General Counsel  
Shelagh McClure, Director of Compliance  
Meredith Miller, Assistant Treasurer-Policy  
Jason Price, Principal Investment Officer  
Linda Tudan, Chief Executive Assistant  
Lawrence Wilson, Assistant Treasurer-Cash Management  
Christina McGinnis, Executive Secretary  
Winifred (Winnie) Scalora, Administrative Assistant

**Guests:**

Alaina Anderson, William Blair & Company, LLC  
Bradley Atkins, Franklin Park  
Joseph Barcic, Mercer Investment Consulting  
Scott Booth, The Townsend Group  
Makaiya Brown, Mercer Investment Consulting  
Colin Buffin, Candover Partners Ltd.  
Piers Dennison, Candover Partners Ltd.  
Jaeson Dubrovay, New England Pension Consultants  
Edward Finn, William Blair & Company, LLC  
Sean Gill, New England Pension Consultants

\*Arrived at 9:10 a.m.

\*\*Arrived at 9:15 a.m.

\*\*\*Left at 2:15 p.m.

\*\*\*\*Arrived at 10:00 a.m., left at 10:30 a.m.  
returned at 1:10 p.m., left at 2:30 p.m.

Jeffrey Dishner, Starwood Capital Group Global  
Harvey Kelly, Leumas Advisors  
Oberon Knapp, State Street Bank & Trust  
Jacqueline Lyons, State Street Bank & Trust  
Julie Naunchek, CSEA-Retiree Council #400  
Edward O'Donnell, New England Pension Consultants  
Darlene Perez, SOC Teachers' Retirement Board  
Michael Porter, Dimensional Fund Advisors, LLC  
Frederic Scarola, Covenant Capital Group  
Bryan Schneider, New England Pension Consultants  
Johnson Shum, State Street Bank & Trust  
Cynthia Steer, Rogerscasey  
Barry Sternlicht, Starwood Capital Group Global  
Karen E. Umland, Dimensional Fund Advisors, LLC  
Jeffrey Urbina, William Blair & Company, LLC  
Mara Weisman, Starwood Capital Group Global  
Govan White, Covenant Capital Group

With a quorum present, Chairman James Larkin called the Investment Advisory Council ("IAC") Meeting to order at 9:04 A.M.

Chairman Larkin requested a motion to switch Agenda Item #9 with Agenda Item #10. **There being no comments, a motion was made by William Murray, seconded by David Roth, that the agenda items be moved per Chairman Larkin's request. The motion was passed unanimously.**

#### **Approval of Minutes**

Chairman Larkin asked for comments on the Minutes of the September 10, 2008 IAC meeting. **There being no comments, a motion was made by Michael Freeman, seconded by Carol Thomas, that the Minutes of the September 10, 2008 IAC meeting be accepted as drafted. The motion was passed unanimously.**

#### **CRPTF Final Performance for the Month Ended August 31, 2008**

Lee Ann Palladino, Acting Chief Investment Officer ("CIO"), began her comments by discussing the upheaval in the capital markets. She said the credit markets continued to remain under financial stress, over the past month several financial institutions in the U.S. and abroad failed; and others continued to operate under extreme financial pressure, with their ability or willingness to lend had been impaired. Ms. Palladino stated that the lack of liquidity played a large role in the current financial instability. She commented that the U.S. and other governments have been taking steps to provide liquidity and improve market confidence.

Ms. Palladino commented on the August 2008 performance results and the preliminary September 2008 results for the Connecticut Retirement Plans and Trust Funds (“CRPTF”), State Employees’ Retirement Fund (“SERF”), Teacher’s Retirement Fund (“TERF”) and Municipal Employees’ Retirement Fund (“MERF”). She reported on each fund and discussed how the current market conditions have affected performance and its impact on the CRPTF.

Ms. Palladino then reported on investment decisions made by Treasurer Denise Nappier, after considering feedback from the IAC, consultants and the due diligence process. Treasurer Nappier made a decision to hire T. Rowe Price Global Investment Services, Ltd., (“T Rowe”) with a \$750 million commitment. She noted that T Rowe would be an enhanced index manager in the Mutual Equity Fund. Ms. Palladino also reported that Treasurer Nappier made a decision to hire three active extension managers, AXA Rosenberg Group, LLC, Numeric Investors, LLC and Pyramis Global Advisors Trust Company, with a commitment of \$200 million each. Ms. Palladino added that all of these decisions would be contingent upon successful contract negotiations.

Regarding the Real Estate Fund (“REF”), Ms. Palladino reported that Treasurer Nappier, after careful consideration of the feedback from the IAC, consultant and the due diligence process, has decided to commit \$50 million to Blackstone Real Estate Partners Europe III, pending successful contract negotiations.

Ms. Palladino concluded her remarks by stating that it is important to stay focused on the long-term horizon and the asset allocation plans that were put in place after a well thought out asset and liability process. She further stated that the CRPTF was well diversified and past experience indicated that with its conservative posture, the CRPTF had performed better in down markets. Nevertheless, Ms. Palladino commented that because these are unprecedented times in the capital markets, monitoring and assessment efforts have been increased. When the market does settle, she added that the risk and return profile of the CRPTF’s asset allocation would be reassessed to ensure that the long-term objectives would be met.

Mr. Fiore requested that the performance of the total Combined Investment Fund (“CIF”) be reported. Deputy Treasurer Howard Rifkin pointed out that the IAC had collectively agreed, last year, to dispense with the reporting of the total CIF, and added that this general number is not significant or material when making strategic or tactical decisions relative to the CRPTF. Chairman Larkin confirmed that the IAC all agreed that individual plan and trust reporting was most appropriate but stated that it seemed to be the consensus now that the members would be interested in knowing the overall performance of the CIF as a point of reference. Ms. Palladino stated that she would provide this information as a footnote.

**Report on Preliminary Working Draft Changes to the Investment Policy Statement**

Jaeson Dubrovay, Sr. Consultant, Sean Gill, Head of Alternatives, and Edward O'Donnell, Consultant - Real Assets, of New England Pension Consultants (“NEPC”), provided a presentation on alternative investing and led a discussion on the preliminary working draft of the Investment Policy Statement (“draft IPS”). Mr. Gill provided a brief overview of the work plan to date, discussed how peers use alternative investments and provided comments on the draft IPS. Mr.

Dubrovey discussed absolute return strategies, return data, and responded to several IAC members' questions. Mr. Gill then provided a market snapshot for trends over the long-term and for the current period. A discussion on alternative strategies took place. Chairman Larkin stated that given the feedback of the IAC, he would utilize a subcommittee to review the draft IPS.

Deputy Treasurer Rifkin covered the procedures to be followed for adopting changes to the IPS and its appendices. Chairman Larkin advised the IAC members that if they had questions about the draft IPS, they should email them to Ms. Palladino.

### **Securities Lending Quarterly Review as of June 30, 2008**

Oberon Knapp and Johnson Shum, Vice Presidents, State Street Bank & Trust ("State Street"), provided a report on the Securities Lending activity for the month ended August 31, 2008. Mr. Knapp indicated that the CRPTF had no exposure or risk to Lehman unsecured paper, or to the broker or insurance industries. He also commented that the CRPTF's portfolio did not include any nonperforming or impaired assets. He discussed the significant distress in the credit market, and its impact on the CRPTF securities lending program noting that the performance was averaging at close to 17 basis points ("bps") of excess return. Messrs. Knapp and Shum responded to questions from the IAC and discussed the securities lending program's liquidity position, economic outlook, risk management and short selling activities.

### **Comments by the Treasurer**

Treasurer Nappier began her opening comments by reporting on the accomplishments of the CRPTF during Fiscal Year 2008. She noted that as outlined in the business plan, an in-house document prepared by the investment professionals in the Pension Fund Management Division ("PFM") headed by Acting CIO Lee Ann Palladino, the majority of the planned initiatives were implemented. Treasurer Nappier added that the business plan had been the basis for the agenda of internal strategy meetings to review progress, and consider any events that would require adjustments of the goals, objectives and overall strategic direction of the CRPTF.

Treasurer Nappier then reported on the many achievements for the 2008 fiscal year including: The establishment and implementation of a deployment plan for the proceeds of the \$2 billion Pension Obligation Bond ("POB"); the formulation of major investment policy statement revisions and subsequent adoption; completion of required competitive searches and the awarding of contracts; the drafting of new investment guidelines; and money manager searches connected with the new policy initiatives and continuing the pace of new pension fund business.

Treasurer Nappier stated that achievements also included: New accounting-related and reporting requirements that were set up to accommodate the new asset classes and investment funds; disaggregation of the International Stock and Mutual Fixed Income Funds to focus on distinct asset classes; creation of the structure for the new Liquidity Fund ("LF"); launch and completion of the search for LF managers with her recommended top candidates scheduled for review at the November 2008 IAC meeting and completion of the first redraft of the Alternative Investment Guidelines.

On the consultant front, Treasurer Nappier noted that required competitive searches were completed and contracts were awarded to four firms: Mercer Investment Consulting, Inc. as general investment consultant; CRA Rogerscasey as special projects consultant; NEPC, LLC as alternative investment consultant; and The Townsend Group as real estate investment consultant. She added that the private equity consulting search was launched.

Treasurer Nappier commented on the money manager searches completed last fiscal year, four emerging market debt managers were hired, increasing assets for this mandate by \$750 million; and two high-yield debt managers were hired, increasing assets for this mandate by \$300 million. She reported that four REF commitments totaling \$250 million were made, which brought the CRPTF within striking distance of its 5% real estate target, and one of those commitments resulted in a first-ever investment in India; and six Private Investment Fund ("PIF") commitments were made totaling \$450 million consistent with the pacing plan and a timely commitment was made to WLR Recovery Fund IV, a distressed asset fund. She continued that the second phase of the Connecticut Horizon Fund was launched with commitments made to two preferred fund of funds strategic partners totaling \$95 million.

In summary, Treasurer Nappier concluded by stating that contracts were awarded and partnership agreements were executed for 18 firms totaling \$1.7 billion. Treasurer Nappier said that when these figures are added to the amount of funds that were reallocated among existing managers, in line with the CRPTF's new asset allocation plans plus the investment of the POB proceeds, there was a total of approximately \$5.5 billion worth of transactions and accounting-related work during the fiscal year that ended June 30, 2008. She further commented that this was no small feat for the pension fund accounting unit with the assistance of the CRPTF's custodial bank, State Street.

Treasurer Nappier noted that today's agenda included presentations of two REF offerings, a PIF offering and the recommended top candidates for the international small cap equity mandate. She pointed out that the bulk of the due diligence work leading up to these presentations was also completed during the 2008 fiscal year.

Treasurer Nappier then discussed noteworthy personnel decisions during fiscal year 2008, which included the addition of Joanne Dombrosky as Principal Investment Officer ("PIO") to oversee the fixed income funds and the appointment of Jason Price as PIO. She added that James Larkin was appointed by Governor Rell to serve as Chairman of the IAC and Thomas Barnes was appointed as a member of the IAC.

Treasurer Nappier stated that during the 2008 fiscal year three educational sessions were held for IAC members including the third party disclosure process, use of active extension strategies as part of the traditional asset class and an overview of the currency overlay strategy. She also noted that the 2006 adopted Watch List procedures were revised in consultation with the IAC and a status report was presented in compliance with Connecticut's Sudan Divestment Law. Finally, Treasurer Nappier said that a recommendation was made to reactivate the IAC Service Provider Subcommittee to meet with existing managers that had follow-on proposals for consideration following the IAC's review of those recommendations, but that action was tabled. She said that the fiscal year 2008 Annual Report is near completion and upon distribution to the IAC members

would provide a more robust view of the accomplishments during the fiscal year ended June 30, 2008 including record setting work in the areas of corporate governance and compliance with the MacBride Principles.

Treasurer Nappier ended her report of accomplishments by stating that as principal fiduciary of the state pension fund, she assured all that the work of PFM should be viewed as an ambitious agenda and not as a highly unusual backlog of initiatives.

Treasurer Nappier concluded by thanking PFM professional staff for their tireless efforts, noting that the output had been above average. She then thanked Ms. Palladino for her leadership and cited that PFM's work was productive and executed in a timely manor. Treasurer Nappier also expressed her gratitude to all the OTT's executive staff including Deputy Treasurer Rifkin, the Legal Unit, the Policy Unit, all the consultants and the members of the IAC for their invaluable support on behalf of the 165,000 active plan participants and retirees.

Chairman Larkin agreed that there were many accomplishments during the 2008 fiscal year.

#### **Presentation of Starwood Opportunity Fund VIII**

David Johnson, Principal Investment Officer, provided opening remarks and introduced Starwood Opportunity Fund VIII ("Starwood VIII"), a real estate investment opportunity. Mr. Johnson noted that Starwood Capital Group ("Starwood") was created in 1991, in the middle of the last commercial real estate collapse, and its first fund came out in 1992, which generated a 92% return. He further commented that Starwood was uniquely qualified to take advantage of distressed markets. Mr. Johnson commented on the performance of other Starwood funds.

Ms. Thomas asked questions about tax-exempt investors' shielding and fund overhead calculations. Scott Booth, The Townsend Group, answered her questions satisfactorily. Mr. Thor asked questions about key personnel and turnover and Mr. Johnson discussed the adequacy and growth of the Starwood staff. Chairman Larkin noted the different target fund sizes. Mr. Booth responded that the fund size could change but it would remain within a set range, which was a bit wider now due to the economic climate.

#### **Presentation by Starwood Capital Group Global**

Starwood made a presentation to the IAC on Starwood VIII, a commingled global closed-end fund. Starwood Capital was represented by Barry Sternlicht, Founder / Chairman & CEO; Jeffrey G. Dishner, Senior Managing Director; and Mara Weisman, Consultant. Mr. Sternlicht provided an overview of Starwood. He discussed Starwood's investors and noted that since 1991, it acquired \$21.1 billion of real estate assets and invested \$5.7 billion of equity as of June 30, 2008. Mr. Sternlicht explained the benefit of real estate investment in the current market environment. Mr. Dishner discussed Starwood's commitment to corporate sustainability and its track record. Mr. Sternlicht discussed the housing market both in the U.S. and internationally and commented on his expectations for recovery over the long term.

Mr. Roth posed a question about whether building lots would be developed or resold. Mr. Dishner responded that the lots would be resold within three to five years. He also stated that Starwood expected to generate mid-teen returns from debt investments and by purchasing residential lots at deep discounts would generate fairly outsized returns over time. Bud Morten asked why Starwood wouldn't focus all of its attention on U.S. investing. Mr. Sternlicht responded that more than 50% of this fund would probably be in the U.S. market due to the current global market conditions and currency risks. Mr. Sternlicht responded to Ms. Thomas' question about fees and stated that the fees are used solely for overhead. IAC members asked questions about providers of debt capital to which Mr. Sternlicht responded to their satisfaction.

### **Roll Call of Reactions for Starwood Opportunity Fund VIII**

Chairman Larkin asked the members of the IAC for their input on this \$50 million investment in Starwood VIII.

Ms. Thomas, Mr. Roth, Sharon Palmer, Mr. Thor, Thomas Barnes, Messrs. Morten, Freeman, and Murray, Duke Himmelreich, Mr. Fiore and Chairman Larkin all supported the commitment.

Chairman Larkin asked for a motion to waive the 45-day comment period for Starwood VIII. **A motion was made by Mr. Himmelreich, seconded by Mr. Morten to waive the 45-day comment period for Starwood VIII. The motion was passed unanimously.**

### **Presentations of Finalists for International Small Cap Equity Manager Search**

Before the presentation began, Mr. Roth recused himself from comments and voting due to a business relationship with one of the managers.

David Holmgren, Principal Investment Officer, provided introductory remarks on the two International Small Cap Equity Managers: Dimensional Fund Advisors, LLC ("DFA") and William Blair & Company, LLC, ("William Blair"). Mr. Holmgren began by stating that both of these firms were solid, well known, industry leaders and that either firm would be compatible to our existing money manager. Mr. Holmgren discussed each of the firms' diversity and corporate citizenship profiles.

In relation to the CRPTF's Developed Market International Stock Fund ("DMISF"), Mr. Holmgren stated that the DMISF structure targeted about 12% for the international small cap exposure and was currently at 6%. He commented on the current international small cap manager, Schroder Investment Management North America, Inc. and explained the similarities and differences between DFA, William Blair and Schroder.

IAC members posed questions about segregated versus commingled funds, whether DFA has become similar to Schroder with respect to performance correlation and the requirements of our managers to handle security restrictions.

**Presentation by Dimensional Fund Advisors**

DFA made a presentation to the IAC regarding its firm's International Small Cap Equity program. DFA was represented by Michael Porter, Regional Director, and Karen E. Umland, Vice President. Mr. Porter provided an overview of DFA, discussed its investment philosophy and goals and explained its team approach. Ms. Umland then explained DFA's investment strategy, how it focuses on value stocks and its target universe exclusions. She commented that DFA paid close attention to its trading costs.

Responding to an IAC member's question, Ms. Umland provided an update on DFA's performance for the quarter ended September 30, 2008. IAC members asked questions regarding DFA's view on the outlook for small class stocks, whether the portfolio performed better on the downside versus upside, whether the weight in financials would remain consistent going forward, whether DFA back tested to determine if its strategies worked in other financial crises, and how long would it take for international small cap to recover. The DFA team responded to these questions to the satisfaction of the IAC members.

**Presentation by William Blair & Company LLC**

William Blair made a presentation to the IAC regarding its firm's International Small Cap Equity program. William Blair was represented by Edward Finn and Jeffrey Urbina, Principals, and Alaina Anderson, International Analyst. Mr. Finn provided an overview of William Blair and commented on the company's financial stability and that it is a fundamental, bottom-up investment management company. Mr. Urbina discussed William Blair's investment philosophy, its decision process, stock selection process, its international small cap growth portfolio construction and its sell disciplines.

IAC members posed questions about currency influence, William Blair's performance for the quarter ended September 30, 2008 relative to its benchmark, its excess returns and its outlook for the next twelve to 48 months. William Blair's team answered these questions to the satisfaction of the IAC members.

**Roll Call of Reactions to the Finalists for the International Small Cap Equity Search**

Chairman Larkin requested the IAC members to provide feedback on DFA and William Blair.

Ms. Thomas, Messrs. Morten and Fiore, and Chairman Larkin preferred DFA. Ms. Palmer, Messrs. Thor, Barnes, Freeman, Murray and Himmelreich preferred William Blair. Messrs. Himmelreich and Fiore also noted that they would be comfortable with either. Chairman Larkin added that even though he was strongly in favor of DFA, he would be comfortable if both were hired.

Chairman Larkin asked for a motion to waive the 45-day comment period for DFA and William Blair. Discussion also continued about whether the CRPTF should continue to invest more into this asset class at the present time. **A motion was made by Ms. Thomas, seconded by Mr.**

**Himmelreich to waive the 45-day comment period for DFA and William Blair. The motion was passed unanimously with the exception of Mr. Roth who recused himself before the presentations.**

**Executive Session**

**A motion was made by Mr. Freeman, seconded by Mr. Murray, that the Investment Advisory Council adjourn the Regular Session at 1:10 p.m. and enter into Executive Session. The motion was passed unanimously.**

**A motion was made by Ms. Palmer, seconded by Ms. Thomas, that the Investment Advisory Council adjourn the Executive Session at 2:18 p.m. and enter into Regular Session. The motion was passed unanimously with the exception of Mr. Fiore who was not present. Chairman Larkin noted that no votes were taken during the Executive Session.**

**Ms. Palmer asked for a motion to draft a policy for administrative support procedures for the IAC. Chairman Larkin said he had no objection to this motion and it was seconded by Ms. Thomas. All present were in favor.**

Chairman Larkin commented that it was his plan to reactivate an ad hoc Governance Committee which had not been utilized for six or seven years to review all of the procedures of the IAC including administrative support. Ms. Palmer said that the administrative support policy procedure needed to be addressed more quickly. Mr. Larkin requested that a committee be set up to address administrative support for the IAC and requested IAC members to volunteer. Ms. Palmer, Messrs. Thor, Freeman, Fiore and Chairman Larkin agreed to sit on this committee. Mr. Freeman added that he would be willing to be on this committee if his schedule permitted. Chairman Larkin stated that he would also chair the committee.

**Real Estate Fund Review as of June 30, 2008**

Scott Booth, Principal, and Benjamin Adams, Consultant, of the Townsend Group reported on the REF for the quarter ended June 30, 2008. Mr. Booth began by reporting on the market conditions for real estate investments. He spoke about the current commitments, unfunded commitments and new commitments.

Mr. Adams provided a more in-depth explanation of the CRPTF's performance in the real estate market for the quarter ended June 30, 2008 and stated that the REF return was down 40 bps on a gross basis and down 70 bps on a net basis. He also stated that 96.5% of the portfolio was invested in the U.S. with the balance in international markets. Mr. Adams then provided an in-depth report on the core/stable investments for the REF. He also reported that the office sector of the market had the highest quarterly write-down of any sector. Mr. Adams ended by reporting on the performance of the various funds within the REF.

**Presentation of Covenant Apartment Fund VI, L.P.**

David Johnson, Principal Investment Officer, provided introductory remarks regarding Covenant Apartment Fund VI, L.P. ("Covenant VI"), a real estate investment opportunity. He provided an overview of Covenant Capital Group's ("Covenant") size, history and strategy. Mr. Johnson noted that Covenant, an emerging manager with a unique strategy, has generated above market returns. He added that both Fannie Mae and Freddie Mac, a key part of Covenant's funding strategy, have agreed to continue financing Covenant's multi-family home business, and Covenant also has access to local banks or small insurance companies. Mr. Johnson recapped the positive progress of Covenant V, which the CRPTF closed April, 2008.

**Presentation by Covenant Capital Group**

Covenant made a presentation to the IAC on Covenant VI, a commingled United States only closed-end fund. Covenant was represented by Managing Partners Govan White and Frederic Scarola. Mr. White provided a profile of the firm and its investment strategy of value-add acquisitions and redevelopment of apartment communities for workforce housing. Mr. Scarola talked about rent growth, cost of renovating projects, diversification, Covenant's rate of return and the prospective target market. Mr. White gave summary remarks and explained the benefits of this strategy in this market environment. He noted that the sub prime crisis and the collapse of the condominium market have caused many individuals to reenter the apartment market. Mr. Scarola explained the difference between the apartment market versus the commercial real estate market and noted the similarity between today and the late 1980's and early 1990's. He stated that many of Covenant's competitors were no longer in business and that Fannie Mae and Freddie Mac would continue to provide debt financing to the multi-family sector of the real estate market.

Deputy Treasurer Rifkin commented that Covenant still did not have any properties in Connecticut, which is one of Covenant's target markets. Mr. Scarola responded that they were presently looking at properties in Connecticut and expected to start investing here because economic conditions supported investment.

Subsequent to the presentation on Covenant VI, IAC members posed questions regarding: terms; management fees; contingency plans for liquidity; and property management. Each question was answered in detail by Messrs. White and Scarola.

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

Chairman Larkin asked the members of the IAC to provide input on this \$25 million investment in Covenant VI.

Ms. Thomas, Mr. Roth, Ms. Palmer, Messrs. Thor, Himmelreich, Murray, Freeman, Morten, Barnes and Chairman Larkin all were in favor of Covenant VI.

Chairman Larkin asked for a motion to waive the 45-day comment period for Covenant VI. **A motion was made by Mr. Himmelreich, seconded by Mr. Thor to waive the 45-day comment**

**period for Covenant VI. The motion was passed unanimously by all members present.**

**Presentation by and Consideration of The Candover 2008 Fund**

Jason Price, Principal Investment Officer, provided introductory remarks regarding The Candover 2008 Fund ("Candover 2008"), a private equity investment opportunity. Mr. Price stated that Candover Partners, Ltd. ("Candover") was an international buyout fund focused on control investments in Western European companies. He also talked about Candover's attractive track record, demonstrating a 1.7 times return on investment and an internal rate of return of 28.7%. Mr. Price added that a commitment to this fund would provide needed exposure to Western Europe since the PIF's current exposure is about 7%. He also provided a brief history of Candover, including the improvements the company has made over the past few years.

Bradley Atkins, of Franklin Park, responded to several questions and concerns about the current market conditions, Candover's underwriting, whether any deals were closed over the past year, and its expected performance. Mr. Morten added that he does not believe we should invest in Europe today or purchase Euros ("€"). Mr. Atkins commented that he understood Mr. Morten's viewpoint, but he added that Europe was one of the most competitive private equity markets in the world, and that some exposure to Pan-European was important for a diversified portfolio and PIF's current European exposure was very low at this time.

**Presentation by Candover Partners, Ltd.**

Candover provided a presentation on Candover 2008. Candover was represented by Colin Buffin, Managing Partner, and Piers Dennison, Chief Operating Officer. Mr. Buffin provided a brief overview of the firm and commented on the current market situation in Europe. He stated that Candover's strategy is buyouts in the middle market space, which included deals between €0.5 billion and €1.5 billion with a focus on investing in companies that demonstrate consistent leadership and a strategy to invest in cash generative businesses. Mr. Buffin stated that opportunities to invest in Europe would come up within the next twelve to eighteen months and Candover would focus on deal origination, effective debt management and portfolio management. He then commented on Candover's fully realized funds, its consistent track record particularly during difficult markets, and its achieved goal of returning at least two to three times its invested capital.

IAC members posed questions regarding the aging population in Europe, the ranking of old Europe versus global regions in terms of attractiveness to invest over the next ten years, where Candover ranked the Euro currency in terms of currencies that were overvalued and what types of business it would be focusing on going forward. Mr. Buffin answered these questions satisfactorily and added that many European companies were also global businesses and manufacturing was also a source of demand in Europe. Mr. Dennison added that parts of Europe did have the advantage of fundamental growth coming out of Eastern Europe with fundamentally strong economies in some western European countries. The conclusion was that growth should continue compared to the U.S., depending on how long it would take to work through the current turmoil taking place in the global economy. Ms. Palmer commented that Candover's top

executives were all white male, and it was in its best interest to diversify its staff. Mr. Buffin responded that Candover recently added a female executive and would continue to improve in this area.

### **Roll Call of Reactions for The Candover 2008 Fund**

Chairman Larkin asked the members of the IAC to provide input on the \$75 million investment in Candover 2008.

Messrs. Himmelreich, Murray, Freeman, Barnes and Thor, Mss. Palmer and Thomas were in favor. Messrs. Morten and Roth and Chairman Larkin were not favor of Candover 2008. Mr. Freeman added that because Candover won't be moving on this for at least six months, timing was good. Mr. Morten added that Candover was a great firm but the timing was bad for investing in Europe. Mr. Roth and Chairman Larkin agreed with Mr. Morten's comments.

Chairman Larkin noted that there was reservation by three members and asked for a motion to waive the 45-day comment period for Candover 2008. **A motion was made by Mr. Himmelreich, seconded by Mr. Roth to waive the 45-day comment period for Candover 2008. The motion was passed unanimously by all present.**

### **Corporate Governance and MacBride Compliance**

Meredith Miller, Assistant Treasurer, Policy, provided a report on Corporate Governance and MacBride Compliance for the quarter ended June 30, 2008. With respect to domestic proxies, Ms. Miller reported that 39% of the proxy issues were voted against management and 11% were voted against management for the international proxies. She added that for the record, international investment managers voted consistent with U.S. global proxy policies. Ms. Miller commented on the accomplishments for the 2008 proxy season, which can be found in the press release on the OTT's website. Going forward, Ms. Miller stated that the proxy season would be unusually busy especially in terms of access to the proxy on say-on-pay, potential policy developments, executive compensation issues, a say on option packages, issues about internal pay equity, severance packages and energy issues.

Regarding the MacBride Compliance, Ms. Miller reported that Virgin Media has signed onto the MacBride Principals. Mr. Roth questioned the OTT's position on executive compensation and asked whether a clawback request has ever been presented. Ms. Miller responded that the Evergreen Contracts do include some of these issues. Catherine LaMarr, General Counsel, noted that Connecticut and Ohio were lead plaintiffs in a class action suit and managed to claw back \$900 million from a group of executives.

### **Other Business**

#### **PFM's Operating Results for the quarter and fiscal year ended June 30, 2008**

Ms. Palladino reported that as of June 30, 2008, the CRPTF was standing at \$25.9 billion with interest and dividend payments of \$1 billion, the unrealized loss was \$3 billion and the realized

gain was \$654 million. She also pointed out that the cash-flow included the \$2 billion POB and the reporting this year was different because of the disaggregation of the funds.

**IAC Budget for the 2009 Fiscal Year**

Chairman Larkin reported on the 2008 fiscal year budget and provided the proposed budget for the 2009 and 2010 fiscal years. **A motion was made by Mr. Thor, seconded by Mr. Himmelreich to accept the motion to approve the budget for 2009 and 2010 fiscal years. The motion was passed unanimously by all present.**

**IAC Meeting Schedule for 2009 Calendar Year**

Chairman Larkin presented the 2009 Calendar Year Meeting Schedule for the IAC.

**Discussion of preliminary agenda for the November 2008 IAC meeting**

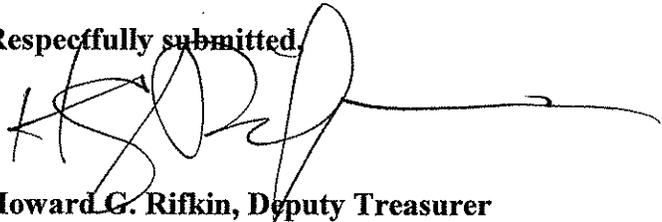
Chairman Larkin indicated that the November IAC meeting would meet for two consecutive days, November 12th and 13th. He invited IAC members to submit agenda items for the November 2008 meeting. Mr. Himmelreich then commented that he would like to know if Treasurer Nappier plans to take a position on the Securities and Exchange Commission uptick rule and short sales. He also mentioned that the Audit Committee would meet with the auditors in November and afterwards would present the audit report to the IAC.

**Comments by the Chairman**

There being no further business, the meeting was adjourned at 3:55 p.m.

**An audio tape of this meeting was recorded.**

Respectfully submitted,



**Howard G. Rifkin, Deputy Treasurer  
for  
Denise L. Nappier, Secretary**

Reviewed by



**JAMES T. LARKIN  
CHAIRMAN**