

**INVESTMENT ADVISORY COUNCIL
WEDNESDAY, APRIL 12, 2006**

MEETING NO. 335

Members present:

Thomas Fiore¹, representing
Robert L. Genuario
Michael Freeman
James Larkin
William Murray
Denise L. Nappier, Treasurer
Sharon Palmer
Clarence (Dick) L. Roberts, Jr., Chairman
David Roth
Carol Thomas
Peter Thor

Absent:

David (Duke) Himmelreich

Others present:

Howard G. Rifkin, Deputy Treasurer
Susan B. Sweeney, Chief Investment Officer
Pamela Bartol, Assistant Investment Officer
Robyn Belek, Deputy Director of Communication
Patricia DeMaras, Associate Counsel
Greg Franklin, Assistant Treasurer-Investments
David Holmgren, Principal Investment Officer
David Johnson, Principal Investment Officer
Donald Kirshbaum, Investment Officer
Catherine E. LaMarr, General Counsel
Shelagh McClure, Director of Compliance
Meredith Miller, Assistant Treasurer-Policy
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
Vonda Brunsting, Service Employees International Union
Harvey Kelly, Leumas Advisors
Julie Naunchek, CSEA-Retiree Council #400
Daniel Schmitz, CRA RogersCasey
Marc Weiss, Pension Consulting Alliance

¹ Attended part of the meeting but was not present for the investment opportunity presentations

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WEDNESDAY, APRIL 12, 2006**

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 March 8, 2006 Investment Advisory Council ("IAC") Meeting. There being no comments, **a motion was made by Peter Thor, seconded by James Larkin, that the Minutes of the March 8, 2006 IAC meeting be accepted as drafted. The motion was passed unanimously.**

Opening Comments by the Treasurer

Treasurer Denise Nappier announced the addition of two new members of the Pension Fund Management staff, David Johnson and David Holmgren. She noted that combined, these two professionals bring over 50 years of investment experience to the Pension Fund and have already added value by applying their unique perspectives, expertise and instincts. She said that Chief Investment Officer Susan Sweeney would introduce them more formally in her remarks.

Treasurer Nappier reported on old business reminding the IAC of the presentation made by the partners from Ethos Private Equity Fund V at the February meeting. She said that since then, Franklin Park completed its due diligence with a site visit to South Africa and issued its final recommendation report and, that after viewing this final report and considering the IAC's feedback, she has decided to commit up to \$75 million to this unique opportunity, pending successful contract negotiations.

Treasurer Nappier said that at today's meeting there would be three presentations of investment opportunities for the Connecticut Retirement Plans and Trust Funds ("CRPTF") to the IAC for consideration. She noted that two of the groups presenting today, RLJ Development, LLC ("RLJ") and Parish Capital Advisors, LLC ("Parish"), both made presentations to the IAC in November of 2004 for their first funds and in which CRPTF subsequently invested. Treasurer Nappier reported that RLJ Urban Lodging Fund I ("RLJ I") has performed well and that today she is pleased to have Bob Johnson and Tom Baltimore returning, along with Kate Henriksen, to present RLJ Urban Lodging Fund II ("RLJ II"). She explained that RLJ II will follow essentially the same strategy as RLJ I, but that RLJ II already has an initial investment lined up, the purchase of a portfolio of 100 hotels from White Lodging Services ("White"). She also noted that she would be asking the IAC to waive its 45-day comment period on this investment.

Treasurer Nappier then remarked that in November of 2004 the IAC heard from another promising new firm, Parish Capital Fund I ("Parish I"), who subsequently received a \$55 million commitment from CRPTF. She said that the principals were back to discuss Parish Capital Fund II ("Parish II"), a small market buyout fund-of-funds. Treasurer Nappier reminded the IAC that at the May 2005 meeting, Alignment Capital noted that CRPTF was underexposed in the small-market buyout sector and recommended that CRPTF become more active by establishing a separately managed fund-of-funds program with managers who specialize in this sector. She noted that the Franklin Park report in the IAC materials recommended a commitment of between \$40 million and \$75 million, but that Franklin Park's recommendation was made in the context of a "re-up" opportunity in a new fund of an existing manager rather than a consideration of a separate account fund-of-funds. Treasurer Nappier explained that a separate account fund-of-funds with Parish II would be similar to the \$200 million fund-of-funds commitment CRPTF has to Fairview Capital in the venture capital sector and that this would be discussed in more detail

later during the introduction of Parish II. She said that, considering all things including CRPTF's underexposure to this sector and the quality of Parish Capital, she was recommending a commitment of up to \$250 million in a separately managed account fund-of-funds partnership.

Treasurer Nappier said that the third presentation today would be from Nogales Investors Fund II (Nogales II"), a minority-owned private equity firm from Los Angeles that targets investments in small-cap companies that are owned by minorities, employ large numbers of low- to moderate-income people, or have facilities in underserved areas. She noted that this is Nogales' second fund and it already has \$90 million of commitments for this \$200 million fund. Treasurer Nappier noted that she was recommending an investment of up to \$40 million in this fund.

Treasurer Nappier then provided the IAC with information regarding the United Nations Environmental Program Finance Initiative – Principles for Responsible Investment ("PRI"). She spent some time explaining the initiative and the steps that led to producing the document, noting that as one of the follow up activities to the May 2005 investor summit on Climate Risk held at the United Nations, she was invited by the United Nations ("UN") to participate with other international investors in developing the PRI. She said that Deputy Treasurer Howard Rifkin represented her at a two-day meeting at the UN to begin this process. Mr. Rifkin noted that there were investors from France, Germany, the Netherlands, Sweden, Norway, the United Kingdom, Australia, Switzerland, Canada, Thailand and Brazil, as well as other U.S. investors at the meeting. Treasurer Nappier reported that the PRI were finalized at a January meeting in Boston where her office worked with CalPERS to add language to the PRI to make clear that investment activity under the PRI must be consistent with the investors' fiduciary responsibility. She informed the IAC that in addition to CRPTF, CalPERS and the New York City pension funds, a number of international investors and investment managers have signed on to the PRI. Treasurer Nappier said that the PRI follows the Connecticut statutory requirement to consider the social, economic and environmental implications of pension fund investments. She concluded saying that she will join UN Secretary General Kofi Annan and other investors in ringing the opening bell of the New York Stock Exchange on April 27, 2006, at which time the PRI will be launched.

Introduction of Principal Investment Officers

Ms. Sweeney introduced Mr. Johnson who has joined PFM as the Principal Investment Officer of Real Estate to oversee CRPTF's real estate portfolio and assist in building this portfolio to its target asset allocation. She said that Mr. Johnson has extensive real estate experience, including 18 years with CIGNA, most recently as the Head of Equity Real Estate, and that he has managed large institutional real estate investment portfolios with responsibilities for acquisitions, sales, portfolio management, asset management and strategy development. Ms. Sweeney noted that he holds a B.A. in Economics from Amherst College and a M.B.A from UCONN, where he majored in investments.

Ms. Sweeney also introduced Mr. Holmgren, PFM's new Principal Investment Officer for Equities who is responsible for overseeing the \$9 billion domestic equities and \$5.4 billion international stock portfolios. She said that Mr. Holmgren has a depth of specific global equity portfolio management experience spanning more than 20 years, including more than 13 years as a global portfolio manager with DSI International. Ms. Sweeney said that not only has he directly managed equity portfolios, researched new investment techniques and designed and

implemented risk-monitoring strategies, but also has experience in designing, implementing and risk monitoring of alternative investment strategies. She noted that Mr. Holmgren holds an undergraduate degree in Economics from Denison University and a M.B.A. from Columbia University.

CRPTF Final Performance for February 2006

Ms. Sweeney reported that the total fund returned 0.34% for the month of February, which was 2 basis points ahead of its benchmark return. She said that the fiscal year-to-date performance of 10.90% was 65 basis points ahead the benchmark return of 10.25% and that for the trailing year performance return of 12.12% was 95 basis points ahead of the benchmark return of 11.17%. Ms. Sweeney said that, as of February 28, 2006, CRPTF's total market value stood at \$23.1 billion, and that the equity exposure of the Fund was 62.7%. She said that the domestic equity portfolio underperformed the Russell 3000 by 37 basis points and the S&P 500 by 46 basis points, returning -0.19% in February. Ms. Sweeney reported that international equities had a positive return of 0.18% compared to the customized index's return of 0.25%. She reported that fixed income outperformed its benchmarks by 3 basis points and the Lehman Brothers Aggregate by 28 basis points. Ms. Sweeney noted that the returns for real estate and private equity were 2.48% and 2.57%, respectively.

Presentation by RLJ Urban Lodging II, L.P.

Mr. Johnson provided introductory remarks indicating that RLJ II is the second fund being raised by RLJ Development, LLC ("RLJ"). He said that in November of 2004 RLJ made a presentation to the IAC for RLJ I to which CRPTF made a commitment of \$25 million and since that time, the fund has purchased 19 properties for \$620 million, 78% of the total fund. Mr. Johnson reported that one of those properties has been sold for an IRR of 780%, they had an 11.1% return on invested capital in the first year of this fund and are on target to generate a 20% IRR overall. Mr. Johnson went on to explain the extenuating circumstances and unique opportunity, as mentioned by Treasurer Nappier in her opening remarks, which resulted in RLJ raising capital for a second fund so soon. He provided information on the deal between RLJ and White, the types of properties involved and the hotel market. Marc Weiss of Pension Consulting Alliance talked about the due diligence process for RLJ II.

IAC members asked questions about: the reason White is selling; the merits of commitments of this amount to one asset, hotels, within the real estate class; what basis RLJ is using to project their Fund I return given how new it is; leverage; the 20% non-U.S. investments clause; and the Marriott hotels and their relationship with unions. Mr. Johnson and Mr. Weiss provided responses to the questions.

Presentation by RLJ Development, LLC

RLJ made a presentation to the IAC on RLJ II. RLJ was represented by Robert Johnson, Chairman and CEO; Thomas Baltimore, President; and Kate Henriksen, Director of Investment Analysis & Feasibility. Mr. Johnson made preliminary remarks on RLJ II. Mr. Baltimore provided details on RLJ II's investment in the 100-hotel portfolio; an overview of RLJ; a review of RLJ's staff and their areas of expertise, noting that 58% of the workforce are minorities and 52% are women; an update on the performance of RLJ I; an RLJ II pipeline overview; the

characteristics of the RLJ II portfolio; and an offering summary. Ms. Henriksen provided information on specific case studies in RLJ I; workforce diversity; the diversity of firms that provide services to RLJ; the firm's charitable contributions; volunteerism of RLJ employees; an outline of value-enhanced opportunities; and a discussion of the geographic diversity of properties.

Throughout the presentation by RLJ, IAC members posed questions regarding the labor issues to which RLJ responded. Treasurer Nappier noted that RLJ has an advisory group on which the Office of the Treasurer ("OTT") has a seat and emphasized the importance of understanding that relative to the potential labor issues, the OTT has a responsible contractor policy and that, although the responsible contractor policy is not fully enforceable because CRPTF is a limited partner, the policy does place responsibility on OTT to encourage partners to comply with the spirit of the policy. She also noted that the other partners that sit on the RLJ advisory council are like-minded institutional investors, in particular, CalPERS and CalSTRS. She said that she is comfortable that the partners will be good corporate citizens. Mr. Johnson assured the IAC that RLJ approaches business opportunity, responsibility, due diligence and commitment to good corporate citizenship with good transparent integrity in the firm's dealings with all the pension funds and other investors.

Roll Call of Reactions for RLJ Urban Lodging II, L.P.

Mr. Larkin, William Murray, Sharon Palmer, David Roth, Carol Thomas and Chairman Roberts said that they supported the investment. Michael Freeman said that he was in favor but with reservation because he would like to know more about White and related labor issues. Mr. Thor said that he supports with reservation because of the labor issue.

Chairman Roberts asked for a motion to waive the 45-day comment period for RLJ Urban Lodging II, L.P. **A motion was made by Ms. Thomas, seconded by Ms. Palmer, to waive the IAC 45-day comment period for RLJ Urban Lodging II, L.P. The motion was passed unanimously.**

Presentation by Parish Capital II, L.P.

Mr. Scopelliti began by reviewing the 2005 pacing study, noting that Alignment Capital Group's recommendation was that CRPTF should increase its annual commitments to the small- and mid-market buy out sector. Mr. Scopelliti provided a summary schedule of the commitment pace recommended by Alignment and a breakdown of the commitment being recommended for Parish II and how that fits with the pacing study.

There were questions posed by the IAC relative to: the \$250 million commitment; the fund-of-funds structure; Parish II's access to top quartile funds; the experience of Parish Capital Partners, LLC ("Parish") in this sector; the size of their team; and the process by which Parish was selected. Treasurer Nappier stated that Parish II had gone through the full due diligence and review process and that she was considering a commitment to Parish II as a means of addressing the Pacing Study recommendation. She further stated that Alignment Capital's presentation on Connecticut-based, small-market buyout and mid-market buyout sectors separate account project was postponed until the May 10, 2006 IAC meeting due to the illness of one of the principals. There was thoughtful discussion relative to the amount of the commitment.

Presentation by Parish Capital Partners, LLC

Parish made a presentation to the IAC on Parish II. Parish was represented by founding partners James Mason, Wendell McCain and Charles Merritt. Mr. Mason provided an overview of the firm, the firm's investment thesis and Parish II. Mr. McCain provided information on the firm's managing directors and core principles. Mr. Merritt provided an overview of the firm's senior professionals and investment managers, the predecessor institutional track record, the performance of Parish Buyout Fund I, L.P.

Mr. Larkin inquired about other commitments to Parish II and Mr. Roth asked about how the \$250 million commitment would be invested. Mr. Mason and Mr. Merritt responded to the questions.

Roll Call of Reactions for Parish Capital II, L.P.

Ms. Thomas said that she would support it based on the due diligence and recommendations. Mr. Roth expressed his concern with the size of the commitment and said that even though the past relationship with Parish is solid, more time must pass to determine the level of Parish's success. He said that based on the due diligence and multiple recommendations, he would go along but with some reservations. Ms. Palmer said that she agreed with what was previously said. Mr. Thor said that the predictions made by Parish for Fund I were consistent with the performance of that fund and it gave him more confidence in this commitment. While risky, he indicated his support for the recommended commitment. Mr. Murray indicated his thoughts were consistent with Mr. Thor's. Mr. Freeman said that he approved of the commitment. Mr. Larkin expressed his desire to see more of a track record and said that he would be supportive of a commitment of no more than \$100 million or a staged commitment up to \$250 million over time. Chairman Roberts said that he had some of the same concerns but with the due diligence and recommendations would go along with the commitment.

Chairman Roberts asked for a motion to waive the 45-day comment period for Parish Capital II, L.P. **A motion was made by Mr. Thor, seconded by Mr. Freeman, to waive the IAC 45-day comment period for Parish Capital II, L.P. The motion was passed unanimously.**

Presentation by Nogales Investors Fund II, L.P.

Mr. Scopelliti made opening comments on Nogales Investors Management, LLC ("Nogales"), noting that it is a minority-owned private equity fund targeting small-cap companies that are owned by minorities, employ large number of low- to moderate-income employees or have facilities located in underserved areas. Mr. Atkins reviewed the due diligence performed by Franklin Park.

There was subsequent discussion regarding the key man provision and the addition of Mark Mickelson, the other partner, to that provision and Mr. Mickelson's previous experience.

Presentation by Nogales Investors Management, LLC

Nogales made a presentation to the IAC on Nogales II. The presentation was made by Luis Nogales, Managing Partner and Mark Mickelson, Partner. Mr. Nogales provided an overview of the firm, as well as information on the firm's competitive advantages, the investor team and his

track record. He also gave a portfolio investment overview, a financial summary and information on post-investment value creation. Mr. Mickelson spoke about his background, provided information on Nogales Fund I (“Nogales I”), gave a status report on capital raised for Nogales II, and provided background on some current portfolio companies.

The IAC asked about the key man provision and there was a discussion with Mr. Nogales regarding the addition of Mr. Mickelson to the key man provision and the planned hiring of another partner who would also be added to the key man provision.

Roll Call of Reactions for Nogales Investors Fund II, L.P.

Mr. Thor expressed his concern over the small size of the firm, but said that he would support the investment based on the due diligence and recommendation. Ms. Palmer said that she agrees with Mr. Thor but that since it is a small investment, would support it. Mr. Roth said that he also agrees with Mr. Thor, but will support the investment based on the due diligence and recommendation. Ms. Thomas said that she agrees with the other comments, but will support the investment. Chairman Roberts and Mr. Murray said that they support the investment. Mr. Larkin asked about Nogales I existing investors’ willingness to commit to Nogales II. Mr. Scopelliti and Mr. Atkins explained that there is only one investor from Nogales I who does not currently plan to invest in Nogales II. Mr. Larkin said that he would go along with his colleagues, but said that he thinks this commitment is “a reach.” Mr. Freeman said the he supports the investment based on due diligence and the recommendation.

Chairman Roberts asked for a motion to waive the 45-day comment period for Nogales Investors Fund II, L.P. **A motion was made by Mr. Freeman, seconded by Ms. Thomas, to waive the IAC 45-day comment period for Nogales Investors Fund II, L.P. The motion was passed unanimously.**

Securities Lending Review

Jeffrey Trencher of State Street Bank provided a review of the Securities Lending activity as of February 28, 2006. His report included a balance and utilization summary, an earnings summary, performance variance, the impact of rising rates, an economic overview, the portfolio characteristics and a portfolio strategy summary.

Report on Corporate Governance and MacBride Compliance

Meredith Miller, Assistant Treasurer-Policy, reported on the Treasury’s activities related to corporate governance and MacBride compliance for the period ending December 31, 2005. She indicated that this period of time is quiet relative to proxy voting. Ms. Miller highlighted some corporate governance issues noting that CRPTF recently settled with PMC-Sierra, Chubb Corporation and Panera Bread. She said that in each case, CRPTF reached an agreement with the company and withdrew the resolution. Ms. Miller indicated a package of information that includes a letter from Treasurer Nappier to the Securities Exchange Commission (“SEC”), which she distributed just before this presentation and that deals with the issue of executive compensation. She explained the purpose and release of the letter and its attachment. Treasurer Nappier noted that the position that the OTT has taken is reinforced by the fact that there are corporate executives with a similar view on the SEC’s proposed ruling concerning the need to

strengthen disclosure of executive compensation. There was a subsequent discussion regarding executive compensation and ways to address the issue.

Ms. Miller reported that there have been no violations of Connecticut State statutes regarding the MacBride Principles for the period ending December 31, 2005. She also reported that Office Depot has a subsidiary in Northern Ireland that is not in compliance with MacBride Principles and that a letter has been sent to the CEO of Office Depot urging compliance. She noted that under Connecticut State statutes, if the company does not comply, CRPTF would be required to divest its holdings in Office Depot. There was a discussion regarding Office Depot's lack of compliance, reasons for its non-compliance and whether or not Office Depot is on the State of Connecticut procurement vendor list.

Ms. Miller advised the IAC that the RFP for proxy voting and consulting services has been issued and is due April 28, 2006.

RFP for Sudan Research and Investment Screening Services

Shelagh McClure, Director of Compliance, said that before the IAC for consideration is a project plan and screening criteria for an RFP that the OTT is proposing for Sudan Research and Investment Screening Services. She provided some background information on Connecticut's proposed legislation for the adoption of a procedure for a review of the portfolio companies that are doing business in Sudan, noting that the legislation does not mandate divestment but sets forth a process and a number of criteria that this office would be reviewing to determine a course of action relative to investments. Ms. McClure said that this is an issue of concern at the OTT and the decision has been made to seek the help of a consultant. Treasurer Nappier emphasized that it is not a mandatory divestment legislation and that divestment will be a last resort and decided on a company-by-company basis. Mr. Larkin pointed out that Treasurer Nappier does not need legislation and that she has the ability to divest without legislation.

Chairman Roberts asked for a motion to endorse the recommended procedures for conducting a consultant search for Sudan Research and Investment Screening Services. **A motion was made by Mr. Freeman, seconded by Mr. Larkin, to endorse the recommended procedures for conducting a consultant search for Sudan Research and Investment Screening Services. The motion was passed unanimously.**

Quarterly Update on CRPTF Cash Flow for Fiscal Year to Date Ending February 28, 2006

Greg Franklin, Assistant Treasurer-Investments, provided an update on CRPTF cash flow through February 28, 2006, noting that the cash balance was \$228 million. He reported that there have been no cash flow issues and none are expected for the remaining four months. He also noted that investment purchases and sales are estimates and will probably be somewhat different than projected, which will affect the ending balances. Mr. Franklin said that a contract with an emerging market debt manager was approved by the Attorney General's office and returned to CRPTF, which would require funding from cash held in the Mutual Fixed Income Fund.

CRPTF Diversity Principles Adoption

Treasurer Nappier said that the Diversity Principles are once again before the IAC for their vote to accept or reject. She recapped the discussion at last month's IAC meeting and the request made by the IAC to include sexual orientation language in the definition of diversity. A discussion ensued regarding the language that was added to the document and subsequent to the discussion, a decision was made to maintain the language as added. Mr. Roth raised the point that the document does not indicate that consideration of diversity should be in a manner consistent with fiduciary responsibility and suggested that the words "in a manner consistent with its fiduciary responsibility" be added to the end of the last sentence of paragraph two on page one of the document.

Chairman Roberts asked for a motion to adopt the CRPTF Diversity Principles with the recommendation made by Mr. Roth. **A motion was made by Ms. Thomas, seconded by Mr. Freeman, to adopt the CRPTF Diversity Principles with the recommendation of Mr. Roth to add "in a manner consistent with its fiduciary responsibility" to the end of the last sentence of paragraph two on page one of the document. The motion was passed unanimously.**

Other Business

Status Report on Requests by IAC Members

Ms. Sweeney said the **Staffing Support** update could be provided at the next meeting. She said that the focus recently has been on hiring more staff. Ms. Sweeney said that the World Bank Guideline presented difficulty because there are many **World Bank Guidelines**. General Counsel Catherine LaMarr said that the request had been made relative to the presentation given by Ethos Private Equity Fund V ("Ethos") and that she would try to determine which guidelines Ethos is using based on some documents she recently received from Ethos.

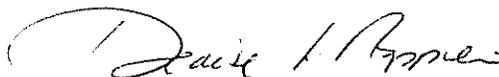
Discussion of preliminary agenda for May 10, 2006 IAC meeting

At the next meeting, Ms. Sweeney said that there would be presentations regarding: the finalists of the ISF Core managers; one of the CHF's managers on the success of the program to date as well as one of the sub-managers; a presentation by Alignment Capital on the small mid-market buyout strategy; and a Watch List update.

There being no further business, the meeting was adjourned at 2:15 PM.

An audio tape of this meeting was recorded.

Respectfully submitted,



**DENISE L. NAPPIER
SECRETARY**