INVESTMENT ADVISORY COUNCIL
Wednesday, April 14, 2010

MEETING NO. 375

Members present:	Thomas Barnes Thomas Fiore, representing Robert Genuario Michael Freeman Stanley (Bud) Morten William Murray* Denise L. Nappier, Treasurer** David Roth Joseph (Joe) D. Roxe, Chairman Carol Thomas Peter Thor
Absent:	David (Duke) Himmelreich Sharon Palmer
Others present:	Howard G. Rifkin, Deputy Treasurer Linda Hershman, Assistant Deputy Treasurer/Chief of Staff M. Timothy (Tim) Corbett, Chief Investment Officer Lee Ann Palladino, Deputy Chief Investment Officer Wayne Hypolite, Executive Assistant Catherine LaMarr, General Counsel Shelagh McClure, Director of Compliance Meredith Miller, Assistant Treasurer-Policy Linda Tudan, Executive Assistant Winifred (Winnie) Scalora, Administrative Assistant
Guests:	Bradley Atkins, Franklin Park Associates, LLC Joseph Barcic, Mercer Investment Consulting Scott Booth, The Townsend Group Sean Gill, NEPC Robin Kaplan-Cho, Connecticut Education Association Harvey Kelly, Leumas Advisors Louis Laccavole, SOC Teachers' Retirement Board Joyce McCabe, BNY ConvergEx Group Kevin Norton, BNY Mellon Althea Schwartz, Milliman, Inc. Cynthia Steer, Rogerscasey Alex Thomson, Woodcreek Capital Management

With a quorum present, Chairman Joseph Roxe called the Investment Advisory Council ("IAC") meeting to order at 9:04 a.m.

* Arrived at 9:09 a.m.
** Arrived at 10:10 a.m.

INVESTMENT ADVISORY COUNCIL
Wednesday, April 14, 2010

Approval of Minutes of the March 10, 2010 IAC Meeting

Chairman Roxe asked for comments on the Minutes of the March 10, 2010 IAC meeting. **There being no comments, a motion was made by Carol Thomas, seconded by Michael Freeman, that the Minutes of the March 10, 2010 IAC meeting be accepted as drafted. The motion was passed unanimously with the exception of David Roth who abstained because he was absent from the last meeting.**

Chief Investment Officer's Update on the Market and the CRPTF Final Performance for the Month Ended February 28, 2010,

M. Timothy Corbett, Chief Investment Officer ("CIO"), presented his view of the investment philosophy of the Connecticut Retirement Plans and Trust Funds' ("CRPTF"), which was founded on these core beliefs: 1) asset allocation is based on Modern Portfolio Theory ("MPT"), which is a tool with limitations; 2) preservation of capital is paramount, but the long-term nature of the pension liabilities allows for prudent investment risk-taking; 3) CRPTF has fiduciary and financial obligations to two key constituencies, plan beneficiaries and generations of taxpayers.

Mr. Corbett commented on the recent paper in the Financial Analyst Journal regarding the impact of asset allocation, active management, and general market movements on fund performance. Mr. Corbett then spoke about other academic papers regarding the ability of emerging managers to add alpha. He also provided some details about active versus passive management with respect to the Mutual Equity Fund ("MEF") and the Developed Markets International Stock Fund ("DMISF").

In conclusion, Mr. Corbett stated that the construction and investment process for the CRPTF were largely consistent with these core beliefs. However, he said that important near-term objectives for portfolio positioning included improving the ability to be more nimble and dynamic, which would occur with the full implementation of the Alternative Investment Fund ("AIF"), the passive mandate and enhancements in risk management. Mr. Roth requested a written report that included Mr. Corbett's thoughts regarding the core beliefs he provide to the IAC members so that discussion could continue at the next IAC meeting. Stanley Morten commented about the reliability of historical data, the importance of exercising good judgment with respect to rates of return and the risks associated with them, the limitations of MPT in terms of measuring risk, preservation of capital and the importance of understanding and continually challenging the key assumptions. Discussion continued about whether the assumptions were realistic, whether the CRPTF's rates of return were comparable with its peers and whether or not the past was a reliable predictor of the future. Chairman Roxe agreed that while it was important to understand the history, it was also important to impose judgment. Deputy Treasurer Howard Rifkin added that the need to be nimble may come up against process that is required by rules, regulations and prudence about investment choices, and that it was also important to understand how to effectively manage within these constraints.

Mr. Corbett provided an update on the capital market environment and stated that there were 13 continuous months of strong performance in the stock market with the Standard & Poor's up 7.5 % year-to-date through April 13, 2010. He said that credit markets continued to rally with levels of corporate bond and high yield spreads that haven't been seen since 2007; and that currently the Treasury bond market was vulnerable.

Mr. Corbett reported on the performance for the CRPTF for the month ended February 28, 2010. He stated that the Combined Investment Fund had an increased absolute return of 1.12% in February, bringing the total assets up to $22.6 billion. Mr. Corbett said that performance was up 14.27% fiscal year-to-date; and the seven-year annualized total return was 6.99%, up from 4.17% at the end of Fiscal Year ("FY") 2009, and up from 1.59% one year earlier. In terms of fund performance for February 2010, he reported that total returns were mixed with the MEF having the largest total return of 3.75%. Mr. Corbett then commented on the performance of the individual funds. In response to Mr. Roth's question about the gross and net exposures for the 130/30 managers, he said that they maintain a consistent 130%-long and 30%-short exposure.

<u>Actuarial Presentation by Milliman, Inc.</u>

Lee Ann Palladino, Deputy Chief Investment Officer, provided opening remarks and introduced Althea Schwartz, Consulting Actuary of the firm of Milliman, Inc. ("Milliman"). Ms. Palladino began by stating that this presentation was requested by Chairman Roxe to allow the IAC members an opportunity to better understand the liability structure for the CRPTF, and that Milliman conducted the 2008 Actuarial Study on the State Employees' Retirement Fund ("SERF"), which was provided to all the IAC members. She said that Ms. Schwartz would discuss the SERF assumptions and the study results. Ms. Palladino said that in addition to a general education session to aid in understanding how liabilities have been determined for SERF, Ms. Schwartz would also discuss timely and substantial topics including the affect that an organized early retirement program has had on the liability structure. Finally, she said that Ms. Schwartz would comment about Milliman's view on its assumptions in support of the 8.25% actuarial assumed rate of return and opine on issues facing public pension plans, especially given the market decline and subsequent rebound in asset values and its impact on funding gaps.

By way of background, Ms. Palladino stated that the CRPTF has six plans, five of which are administered by the Connecticut State Employees Retirement Commission: SERF, Municipal Employees Retirement Fund ("MERF"), Probate Judges Employees' Retirement Fund, State Judges Retirement Fund and the State's Attorneys' Retirement Fund; and that the Teachers' Retirement Fund is administered separately by the Teachers' Retirement Board. Finally, she said that PFM uses the actuarial information to determine cash flow needs of each retirement plan and for conducting asset and liability studies, which are used to determine an asset allocation for each plan.

Chairman Roxe stated that he requested this presentation because he believed the current assumptions for the earnings on the CRPTF going forward were probably overly optimistic. He added that reaching the established targets was difficult so the members would like to have a better understanding of the mechanics by which the targets are established.

Ms. Schwartz then began her presentation by providing a brief overview of the two-year actuarial process in which data is collected and analyzed for all active and retired members in order to predict expectations for the projected benefit payment stream. She said that the amortization of the unfunded accrued actuarial liability has been the largest part of the annual contribution to SERF. She then discussed the differences between Tier I, Tier II and Tier IIA pension benefit plans within the SERF.

Ms. Schwartz commented about the committee that reviewed the actuarial report. She said that the investment return assumption was only one key assumption included in the process. Ms. Schwartz stated that the 2008 valuation for SERF lowered the investment return assumption from 8.5% to 8.25%. However, she said that 8.25% was reasonable and that the Plan would be fully funded by 2031, which would be the end of the amortization period for the unfunded liability.

Ms. Schwartz commented about the impact that early retirement incentive programs ("ERIP") have had on SERF. She said that because the ERIPs were not considered or reflected in the actuarial valuation reports, it is currently unknown as to what the impact has been on the SERF.

Per Chairman Roxe's request, Ms. Schwartz detailed how the investment return assumption of 8.25% was determined. Discussion ensued about whether the expected rates of return for the different asset classes that were included in the 2008 study were actually lower as of this meeting. Finally, Chairman Roxe requested the same report using 2010 capital market assumptions. Discussion ensued about whether inflation was considered in determining the expected real return and the affect of inflation on these rates. Ms. Schwartz stated that the predicted future inflation rate was determined based on past statistics and outside forecasting studies. Treasurer Denise Nappier commented that the pension benefits more than doubled in 2004, which was right after the 2003 ERIP; and they continued to increase an average of 7% to 8% each year thereafter. She added that this 100% plus increase in benefit payroll was never captured when the Asset Allocation Study was done in 2002; and had this been known, the 2002 asset allocation may have been different. Chairman Roxe inquired as to whether all the information and assumptions are provided to the actuarial firm who in turn does the arithmetic calculations; Ms. Schwartz said yes, but added that actuarial standards of practice were used to qualify these assumptions to ensure that this information was reasonable. In response to Peter Thor, Ms. Schwartz stated that the actuarial process was to move toward 100% funded over a specified time horizon and that the focus was not on the targeted yearly rate. Deputy Treasurer Rifkin stated that the amortization period was determined by the State Employees Bargaining Agent Coalition based on Government Accounting Standards Board ("GASB") standards. Discussion ensued about the State's unfunded liability and the fact that the State would defer a $100 million contribution for SERF in FY 2010 as negotiated in the SEBAC Agreement, to date $50 million was deferred in FY 2009 and $64 million in FY 2010. In response to William Murray's questions discussion ensued about the stability of the SERF, appropriate asset allocations and reasonable rates of returns for different populations, and the aging workforce. Ms. Schwartz commented that the State would have to make up for the shortfalls in the SERF caused by the deferment of contributions and ERIPS.

Private Investment Fund Review as of September 30, 2009

Ms. Palladino and Bradley Atkins, Chief Executive Officer of Franklin Park, reported on the Private Investment Fund ("PIF") for the quarter ended September 30, 2009. Mr. Atkins began by providing comments on the overall private investment market. He stated that the past 18 months were very difficult for private equity with returns down about 20% for the quarters ended December 31, 2008 and March 31, 2009, but added that there was a positive rebound since that point. Mr. Atkins stated that the outlook for the remainder of 2010 and 2011 was cautiously positive and noted that the best returns for private equity were earned in vintage years post economic and financial crises historically. He stated that buyout pricing levels fell throughout 2008 and 2009 leading to new investment opportunities but, due to the lack of credit, buyout firms could not properly leverage prospective deals. Currently, Mr. Atkins stated that the availability of credit was improving for both senior and subordinated debt, but credit availability was still tight. On the positive side, he stated that fundraising had dropped for venture funds since 2008, which could bring less competition for venture deals in 2010 and 2011. Finally, he commented on the exit environment for buyout and venture deals and stated that there was a positive trend for initial public offerings of venture-backed listings.

Ms. Palladino then reported on the performance of the PIF and reiterated that the trough in market value declines was reached in March 2009 and there were signs of improvement for the Fund's performance. She stated that the PIF included 75 funds with $6.3 billion in total committed capital, $4.7 billion of which was called and an unfunded commitment of $1.5 billion. Ms. Palladino stated that the remaining value of the portfolio was $1.7 billion and with unfunded commitments placed the total exposure potential to private equity at $3.2 billion. She stated that the net investment rate of return ("IRR") since inception was 7.6%, outperforming the public market equivalent which had an IRR of 2.2%. Ms. Palladino then compared the performance to the March 2009 horizon and noted the improvement in performance over the past six months. In general, she said there was positive performance across all horizons. She then stated that pre-1999 vintage year funds have underperformed their benchmark, whereas post-1999 funds were all on target with or exceeding their benchmarks. From June 30 to September 30, 2009, Ms. Palladino reported that the portfolio's market value increased by 4.7% and she expected the trend to continue. She then commented on cash flows, the capital calls and distributions which were down for 2009 and 2010 calendar years, and stated that they were expected to increase going forward. Mr. Atkins responded satisfactorily to the questions posed by the IAC members regarding outliers, management fees, timely deployment of capital, whether private equity firms should invest in the public market and current exposure to buyout funds.

Real Estate Fund Review as of September 30, 2009

Mr. Corbett provided a report on the Real Estate Fund ("REF") for the quarter ended September 30, 2009. Scott Booth, Principal of The Townsend Group, provided additional comments on the REF. Mr. Corbett began his remarks by commenting on articles in the Wall Street Journal. He stated there was a 30% to 40% peak-to-trough decline in commercial real estate values that had been magnified by leverage, but added that there were some early signs of improvement in the first quarter of 2010. Mr. Corbett then commented on portfolio activity and noted that capital calls were minimal and no capital was returned for the quarter ended September 30, 2009. He stated that recent activity had picked up; and that during the first quarter of 2010, $80 million in capital was called and $12 million was distributed. Mr. Corbett added that the Public-Private Investment

Program ("PPIP") accounted for the majority of the capital calls, and noted that early indications for performance were positive. He said that the macro-economic fundamentals were better than expected for the PPIP.

Mr. Booth provided additional market insight and noted that this selloff and correction was global and that past real estate corrections were typically geographically focused. He then discussed public market versus the private market for real estate assets and noted that the public market had been a leading indicator for real estate in both equity and debt and that the Real Estate Investment Trusts ("REIT") have been recovering. In response to Mr. Roth's questions, Mr. Booth said that rebound in the REITs was highly correlated to the stock market.

With respect to the CRPTF, Mr. Booth stated that as of the quarter ended September, 30, 2009, the REF was currently underweight with a market value of 2.8% versus the target of 5%. He said that there was a significant amount of unfunded capital in place. Mr. Booth reported that the REF generated before and after fee returns of negative 7% and negative 7.5%, respectively. In closing, Mr. Booth stated the projected returns for the portfolio were positive, and he highlighted the REF's individual fund projections.

Mr. Booth and Mr. Corbett responded satisfactorily to Mr. Roth's questions regarding projections, the value of internal rate of return, term extensions and dealing with conflict of interest issues. Discussion ensued about the earnings for private real estate versus REITs, and Mr. Morten requested a report comparing them.

Corporate Governance and MacBride Compliance

Meredith Miller, Assistant Treasurer - Policy, provided a report on Corporate Governance and MacBride Compliance for the quarter ended December 31, 2009. Ms. Miller reported that there were 458 domestic proxy votes cast on behalf of the CRPTF of which 37.77% were voted against management, and that the domestic proxies for the quarter were posted on the Website. She also reported that there were 2,840 international proxy votes cast and that 13.33% were voted against management. Ms. Miller said that there were several corporate governance issues on which Treasurer Nappier had chosen to be active as a shareholder for the 2010 proxy season including her focus on executive pay and that the CRPTF filed shareholder proposals at twelve major corporations to strengthen executive pay practices. She stated that Goldman Sachs provided a written agreement to adopt a say-on-pay proposal for the current proxy season, and that CitiGroup, ConocoPhillips and United Technologies Corporation also settled on this proposal. Ms. Miller said that Bank of America settled on the resolution linking chief executive officer pay to succession planning. Finally, she stated that CVS agreed to Say on Pay for 2011; EOG Resources, Inc. and Netflix agreed on board diversity; and Exxon Mobil agreed to release a sustainability report to shareholders. With respect to the shareholder resolution that was filed in 2009 with Home Depot for a report on energy and climate issues, Ms. Miller stated that the company announced its plans to achieve a 20% reduction in their energy use by 2015 along with setting specific goals to reduce greenhouse gas emissions.

Ms. Miller then commented about the Office of the Treasurer's ("OTT") continued work on regulatory reform. She stated that the Securities and Exchange Commission ("SEC") voted to provide public companies with interpretive guidance on existing SEC disclosure requirements as they applied to business or legal developments relating to the issue of climate change. Chairman Roxe stated that these were all excellent accomplishments.

Comments by the Treasurer

Treasurer Nappier announced that she had made hiring decisions regarding the Absolute Return Fund of Hedge Funds Manager Search for investments in a core allocation to absolute return strategies in the AIF. She reminded everyone that the decision to invest in alternatives was not made lightly or in reaction to current market conditions, but it represented a long-term strategic plan to better position the CRPTF to withstand market volatility while enhancing or preserving its return expectations.

Treasurer Nappier reported that after considering the feedback from the IAC, the PFM investment staff and the co-consultants, along with the due diligence process, she decided to designate five of the six semifinalist AIF Absolute Return Fund of Hedge Funds managers as preferred vendors, pending successful contract negotiations. She stated that for the initial rollout, she had decided to hire Blackstone Alternative Asset Management L.P.; K2 Advisors, L.L.C.; Permal Group, LTD; Prisma Capital Partners LP; and The Rock Creek Group, LP. Treasurer Nappier added that the OTT would continue to track the performance of UBS Global Asset Management for a potential subsequent investment. Treasurer Nappier said that the initial allocation at the fund level would be between $400 and $600 million of the $1 billion earmarked for this mandate and the allocation for each of the five preferred vendors would be determined as part of the pacing plan based on compatibility, the strengths and risk profile of each of the five managers.

Treasurer Nappier then commented about an article entitled, *"Going For Broke: Reforming California's Public Employee Pension Systems"* published by the Stanford Institute for Economic Policy Research. She said that the shortfalls of defined benefit pension plans were generally driven by three factors: plans sponsors' annual contribution levels, investment performance, and benefit features. Treasurer Nappier commented on the pitfalls associated with actual versus recommended rates of contribution and how actuarial valuations measure long-term liabilities and assets including the use of investment return assumptions that may lead to underestimated liabilities when compared to actual experience. She said that risk-free performance was historically much lower than CRPTF's assumed rate of return (8.5%), but only slightly lower than actual returns. Treasurer Nappier stated that the CRPTF would take these issues into consideration during the next planned asset allocation study. She warned of CRPTF's limitation in addressing unfunded pension fund liabilities because actuarial assumptions, contribution levels and plan benefit design are not under the purview of the Treasurer's Office and IAC. In closing, Treasurer Nappier said that in her opinion there is not an asset allocation plan that CRPTF can adopt to earn a way out of the unfunded liability, which indicates the real prospects of a looming structural pension fund crisis absent policy intervention.

INVESTMENT ADVISORY COUNCIL
Wednesday, April 14, 2010

Other Business

Chairman Roxe invited IAC members to submit agenda items for the May 12, 2010 IAC meeting.

Comments by the Chairman

Chairman Roxe commented on today's meeting.

There being no further business, the meeting was adjourned at 12:30 p.m.

An audio tape of this meeting was recorded.

Respectfully submitted,

DENISE L. NAPPIER
SECRETARY

Reviewed by

JOSEPH D. ROXE
CHAIRMAN