

**INVESTMENT ADVISORY COUNCIL**  
**WEDNESDAY, May 10, 2006**

**MEETING NO. 336**

**Members present:**

Thomas Fiore, representing  
Robert L. Genuario  
Michael Freeman  
David (Duke) Himmelreich  
William Murray  
Denise L. Nappier, Treasurer  
Sharon Palmer  
Clarence (Dick) L. Roberts, Jr., Chairman  
David Roth  
Peter Thor

**Absent:**

James Larkin  
Carol Thomas

**Others present:**

Howard G. Rifkin, Deputy Treasurer  
Susan B. Sweeney, Chief 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  
Catherine E. LaMarr, General Counsel  
Shelagh McClure, Director of Compliance  
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:**

Laura Backman, State Street Bank  
Raudline Etienne, CRA RogersCasey  
Noel Farrell, Melvin Securities  
Adam Farstrup, CRA RogersCasey  
Harvey Kelly, Leumas Advisors  
Austin Long, Alignment Capital Group  
Julie Nauncheck, CSEA-Retiree Council #400  
Craig J. Nickels, Alignment Capital Group  
Larry Olewisnki, Melvin Securities  
Juan Prieto, CRA RogersCasey  
Daniel Schmitz, CRA RogersCasey  
Arnold West, ING Investment Management  
Kurt Westby, Service Employees International Union  
Thomas Woodruff, Office of the Comptroller

Chairman Dick Roberts called the meeting to order at 9:10 A.M.

### Approval of Minutes

Chairman Roberts asked for comments on the Minutes of the April 12, 2006 Investment Advisory Council ("IAC") Meeting. There being no comments, **a motion was made by David Roth, seconded by Michael Freeman, that the Minutes of the April 12, 2006 IAC meeting be accepted as drafted. The motion was passed unanimously.**

### Opening Comments by the Treasurer

Treasurer Denise Nappier sadly announced that the reason James Larkin was not in attendance at today's meeting was due to the death of his brother, John Larkin. She said that a letter of condolences had been sent to Mr. Larkin and his family on behalf of both the Treasurer's office and the IAC.

Before addressing the day's agenda, Treasurer Nappier provided the IAC with information on some decisions she made subsequent to the April IAC meeting. She gave a brief recap of the three investment opportunities that had been presented at the April IAC meeting, noting that she carefully considered the Council's feedback on each opportunity and had decided to make commitments of \$50 million and \$40 million to RLJ Urban Lodging II, L.P. and Nogales Investors Fund II, respectively. Treasurer Nappier said that, with regard to Parish Capital II, LP, even though the discussion focused on an investment of up to \$250 million, after her careful consideration of the Council's feedback and subsequent discussions with the CIO and PFM staff, she decided to commit \$175 million to this separately managed account fund-of-funds partnership.

Treasurer Nappier was pleased to announce that the Connecticut General Assembly passed her proposed legislation authorizing divestment from companies doing business in Sudan and that the bill is now awaiting the Governor's signature. She noted that, unlike the legislation passed in four other states, Connecticut's law does not mandate divestment. She indicated that she would use divestment only as a last resort, but would use it without hesitation for companies that she found to be economically perpetuating the abuses by the Sudanese government. Treasurer Nappier also noted that the legislation includes a repeal provision in the event the President of the United States repeals or otherwise rescinds Executive Order 13067, the original Order declaring the emergency in the Sudan. She pointed out that she believes such repeal would be a signal that the situation has improved sufficiently so that specific focus could be removed from Sudan.

Turning to the meeting's agenda, Treasurer Nappier said that the first topic under Agenda Item 4, *Small- and Mid-Market Buyout Fund-of-Funds*, would not be presented today because she believed that it would be premature to discuss this program as it may entail a shift in the sub-asset allocation for the Private Investment Fund as it currently stands in the Investment Policy Statement ("IPS"). She said that if changes to the IPS were required, she would obtain the IAC's approval prior to launching a search to fill the small/mid-market buyout sector. She further

stated that Principal Investment Officer David Scopelliti would make a presentation on the implementation of the Connecticut Horizon Fund (“CHF”) for private equity.

Treasurer Nappier directed attention to Agenda Item 5, noting that there would be presentations by four semi-finalists for the International Stock Fund mandate. She emphasized that these managers were semi-finalists because she was not going to make a formal recommendation on any of the managers today nor would she recommend a 45-day waiver. She reminded the IAC members that they had agreed to proceed with an expedited search process to address an underexposure to core international equity caused by several manager terminations in the past year. Treasurer Nappier noted that the method for filling these vacancies under an expedited search was the selection of four managers from the “Buy List” of CRPTF’s consultant, CRA RogersCasey (“CRARC”), and that all four managers were interviewed by her and the staff at the Office of the Treasurer (“OTT”). She said that she looked forward to receiving feedback from the IAC members on each one of the semi-finalists.

Treasurer Nappier reminded the IAC that at a previous IAC meeting she had mentioned that one of the major proxy voting issues this year has been executive compensation. In her update on this issue, she said that the CRPTF was in the forefront when it filed a shareholder resolution with Pfizer Inc. for full disclosure of its total executive compensation package. She said that upon Pfizer’s agreement for full disclosure of the total executive compensation package, the CRPTF withdrew its shareholder resolution. Treasurer Nappier reported that the Securities and Exchange Commission (“SEC”) subsequently proposed a ruling requiring not only a comprehensive disclosure of total compensation, but also that such disclosure be stated clearly and included in one location in the proxy statement. She said that the OTT responded favorably to the SEC’s proposed ruling during the comment period. Chairman Roberts noted that the letter responding to the SEC’s proposed ruling is not part of the IAC package. Treasurer Nappier said that a copy would be given to the IAC members.

Treasurer Nappier reported that The Corporate Library (a corporate governance information resource organization) identified nine companies with a wide disconnect between pay and performance and that the CRPTF withheld its vote for each of their respective board’s compensation committee members. She added that in addition to withholding votes, she would convey the CRPTF’s concerns as an investor in a letter to the compensation committee members.

#### **CRPTF Final Performance for March 2006**

Chief Investment Officer Susan Sweeney said that for the month of March 2006, the CRPTF returned 1.25%, 5 basis points ahead of the benchmark without the manager objective factored in and 6 basis points below when the manager objective is added. She said that for the fiscal and calendar year to date the CRPTF outperformed its benchmarks by 72 basis points and 79 basis points, respectively. As of March 31, 2006 CRPTF’s total market value stood at \$23.3 billion, and equity exposure of the Fund was 63.5%.

Ms. Sweeney reported that the TUCS performance for the quarter placed CRPTF close to the median with a ranking at the 55<sup>th</sup> percentile versus its peer group of public funds greater than \$1 billion. She pointed out that the fund rankings were clustered at the upper end of the range and

that CRPTF was only 92 basis points below the 5<sup>th</sup> percentile ranking, yet 509 basis points above the 95<sup>th</sup> percentile. She also reported on the fiscal-year-to-date and one-year rankings, noting that they are strong, being at the 21<sup>st</sup> and 25<sup>th</sup> percentiles, respectively. Ms. Sweeney said that the real story is the CRPTF's long-term 7- and 10-year relative performance and that the CRPTF has impressive 15<sup>th</sup> and 23<sup>rd</sup> percentile rankings, respectively. She also said that when compared to the risk rankings at the 75<sup>th</sup> and 65<sup>th</sup> percentiles for the 7- and 10-year periods, the CRPTF was able to achieve returns better than 85% of its peers while taking on less risk than 75% of its peers for the last 7 years.

Ms. Sweeney reported that the domestic equity portfolio outperformed the Russell 3000 by 24 basis points and the S&P 500 by 73 basis points, returning 1.97% in March. She noted that for the fiscal year to date ending March 31, 2006, the Mutual Equity Fund returned 14.77%, 49 basis points ahead of the Russell 3000 and 304 basis points over the S&P 500. Ms. Sweeney said that detailed quarterly performance reports would be distributed at the next IAC meeting and therefore she would not go into a lot of individual manager detail, but did want to note that BGI continues to post very strong performance and that AXA Rosenberg with a large mandate of almost \$1 billion, gained 4.84% during March. She said that the CHF domestic equity managers were, in aggregate, positive for March and the month's standout was small cap manager, Bivium, with a 5.61% return, 76 basis points over its benchmark. Ms. Sweeney reported that international equities had a positive return of 2.74% trailing its custom benchmark by 47 basis points during March. She advised that for the one-year period as of March 31, 2006, the International Stock Fund was up 33.08%, 145 basis points behind its customized benchmark, which gained 34.53%. She also noted that the gains in this custom benchmark have been led by a return of 47.99% in emerging markets. Ms. Sweeney reported that in March the fixed income portfolio returned a negative 73 basis points, 7 points ahead of its custom benchmark and 25 basis points ahead of the Lehman Brothers Aggregate. She also reported that during March, the Private Investment and Real Estate Funds returned 0.01 % and 2.27%, respectively, and that the Cash Reserve Account exceeded its benchmark by 4 basis points.

#### **Private Equity Fund-of-Funds Strategies for Connecticut Horizon Fund**

Mr. Scopelliti made a presentation on the Connecticut Horizon Fund Program for the Private Investment Fund ("PIF"), indicating that the program would be best executed through a separately managed account fund-of-fund manager. Mr. Scopelliti noted that the presentation was not a "draft" as indicated on the cover page that was distributed to the IAC members at the meeting. His presentation included an overview of how the Connecticut Horizon Fund Program would benefit the PIF, the target range for the Connecticut Horizon Fund Program and types of prospective fund-of-fund managers that would be involved. Mr. Scopelliti reviewed the selection process, including a proposed action plan and various selection criteria. Ms. Sweeney noted that, as is common practice, the IAC could refer any prospective managers for consideration.

During the presentation, questions were asked regarding the estimated number of underlying funds and the fee structure, both of which Mr. Scopelliti answered in some detail.

Chairman Roberts asked for a motion to endorse the recommended selection process for the Private Investment Fund Connecticut Horizon Fund Program Fund-of-Funds manager search. **A motion was made by Peter Thor, seconded by Sharon Palmer, to endorse the recommended selection process for the Private Investment Fund Connecticut Horizon Fund Program Fund-of-Funds manager search. The motion was passed unanimously.**

#### **Presentations by and Consideration of Four International Stock Fund Core Managers**

Raudline Etienne of CRARC noted that the four international equities managers who would be presenting today comprised an eclectic group and all would tailor a portfolio to meet the CRPTF's guidelines. She introduced Adam Farstrup of CRARC who provided the qualifications, strategy descriptions and performance comparison for the four managers.

Ms. Etienne and Mr. Farstrup answered questions regarding the definition of "Core mandate" as it applies to this group of managers and whether the performance of Julius Baer Investment Management, LLC, one of the managers, would have been different if the investments did not include emerging markets.

#### **Presentation by Acadian Asset Management, Inc.**

Acadian Asset Management, Inc. ("Acadian") made a presentation to the IAC regarding a core strategy for managing international equities. Acadian was represented by Jack Gastler, Senior Vice President; John Chisholm, Executive Vice President and Co-CIO; and Churchill Franklin, Executive Vice President. Mr. Franklin provided an overview of the firm, its organization and its client list. Mr. Chisholm gave an overview of the firm's investment process including the investment philosophy, a flow chart and the factors used when valuing and forecasting stock. He also talked about the portfolio strategy, which included portfolio characteristics and performance. Mr. Gastler summarized the presentation and gave closing remarks.

Messrs. Gastler, Chisholm and Franklin answered questions posed by the IAC members relative to factors that drive investment decisions, the manner in which specific countries are selected for investments, the size of the firm's Singapore office, the sell discipline of positions, Acadian's focus on the its use of technology, oversight of the data base at Acadian, today's stressed geo-political environment and the lack of workforce diversity at Acadian.

#### **Presentation by AQR Capital Management, LLC**

AQR Capital Management, LLC ("AQR") made a presentation to the IAC regarding its capabilities in managing core international equities. AQR was represented by Cliff Asness, Managing and Founding Principal and Gregor Andrade, Vice President. Mr. Andrade provided an overview of the firm and its client services. Mr. Asness talked about the firm's investment philosophy including the risk when investing internationally, adding value, performance and customization of a portfolio.

Mr. Asness responded to a question from Mr. Thor regarding AQR's investment philosophy.

**Presentation by Julius Baer Investment Management, LLC**

Julius Baer Investment Management, LLC (“Julius Baer”) made a presentation to the IAC regarding its approach to managing core international equities. Julius Baer was represented by Richard Pell, Chief Investment Officer and Barney Walker, Director of Institutional Investments. Mr. Walker gave an overview of the firm, highlighted clients on their client list, discussed the firm’s workforce and social responsibilities, the firm’s commitments within the State of Connecticut and its global resources. Both Mr. Pell and Mr. Walker discussed the firm’s international equity investment team. Mr. Walker provided the firm’s performance, risk characteristics and peer group companies. Mr. Pell talked about Julius Baer’s investment philosophy and investment process.

In response to a question from Mr. Thor, Mr. Pell noted that Julius Baer’s Switzerland headquarters do not have any influence on the firm’s investment decisions and that the international equity investment team is free to craft its own strategy.

**Presentation by UBS Global Asset Management**

UBS Global Asset Management (“UBS”) made a presentation to the IAC regarding its international equities capabilities. UBS was represented by Kai Sotorp, Head of the Americas, Member of UBS Group Managing Board; Shawn Lytle, Managing Director, Global Equity Portfolio Manager; Ilario Di Bon, Executive Director, Global Equity Portfolio Manager; and Gwendolyn Butler, Executive Director, Client Advisor. Mr. Lytle provided information on the firm’s distinguishing characteristics, the global equity team, the firm’s investment philosophy and process, the proprietary risk system and performance. Mr. Di Bon talked about the research to decision process used by the firm, the firm’s buy/sell discipline and gave a summary of the firm’s strategy. Mr. Sotorp provided an overview of the firm, the firm’s community support efforts and the firm’s commitment to improving its workforce diversity and steps that it has taken to do so. Ms. Butler gave closing remarks.

Messrs. Sotorp and Di Bon responded to questions from the IAC members about the number of staff who have been leaving UBS and, with the time approach used by UBS, how and by whom final decisions are made.

Chairman Roberts asked each IAC member to give remarks and to rank the managers one to four, with one being the most favored and four the least.

Mr. Thor said that he had the sense that Acadian placed too much emphasis on technology; he thought that Julius Baer and AQR were close and would place them at the top; he was least impressed with UBS because of the currency and management structure that seemed inefficient to him. He also said that he felt that UBS provided the IAC with a lot of meaningless information.

Ms. Palmer asked the number of firms that would be selected from the four presenters. Chairman Roberts said that there would be one or two chosen, but that decision would be made by Treasurer Nappier. Ms. Palmer said that she would place Julius Baer first; she felt that UBS

and AQR were about the same, with AQR being a little better; and she would place Acadian last. Ms. Palmer said that her remarks would be similar to Mr. Thor's and that she thought Julius Baer was more value minded.

Mr. Roth said that putting aside the fact that limitations imposed on a manager by the CRPTF would impact who was hired, his top two choices would be AQR and Julius Baer. He said that he liked AQR's approach to the area, adding that he was a fan of Goldman Sachs and liked the fact that the AQR principals were from Goldman Sachs. He said that he thought Julius Baer was very good. Mr. Roth said that he would place Acadian slightly below his first two choices and that UBS was least impressive for a number of reasons.

Chairman Roberts said based on a review of UBS' performance, which is below the other managers, and the fact that they were so spread out that they communicate via morning conference calls instead of face-to-face discussions, he would rank them last and, in fact, he would not consider them at all. He said that he would rank AQR first for several reasons, including the fact that the principals were from Goldman Sachs and possessed good, relevant experience. Chairman Roberts said that the styles of Julius Baer and Acadian were different and that he would rank them the same, even though the management structure for each firm was quite different.

Mr. Freeman ranked AQR first; Acadian and Julius Baer close for second; and said that he would not even consider UBS just based on the comparison from CRARC on UBS' returns. He said that UBS was well below the other three managers and that the other three managers' returns were quite comparable.

William Murray said that he found Acadian's investment process interesting because they seem so organized. He said that he liked AQR and that they struck him as being very smart. Mr. Murray agreed that Julius Baer seemed to have the international connection and that he was not overly impressed with UBS. He would rate AQR first, Julius Baer and Acadian second and UBS third or fourth.

Duke Himmelreich remarked that if the plan is to hire one or two managers, there are two different styles to consider. He said that AQR and Acadian are quantitative managers and that AQR would consider other factors also. Mr. Himmelreich said that he found AQR very passionate and that because Mr. Asness is building a firm, felt he would work very hard for Connecticut as well as the other clients. He said that on the other side, the system was less quantitative with Julius Baer and UBS, noting that UBS has a huge operation in Fairfield County. He said that he would like Julius Baer to be given some leeway to invest in emerging markets because it seemed as though "they have their ear to the ground." He said he does not know what restrictions the CRPTF would place on them, but felt that if they had that opportunity they could add real value to the portfolio. Mr. Himmelreich said that based on the two different styles, he preferred AQR to Acadian and Julius Baer over UBS.

Treasurer Nappier said that derivative language would be brought before the IAC and that it would be consistent with the IPS. She said that she would bring formal recommendations to the IAC at a later date because it would be very difficult to do so before the managers' investment

parameters had been established. She said that due to the size of this mandate, there would be more than one manager hired, possibly even four.

Thomas Fiore noted his inherent bias for quantitative strategies, and that it would influence his selection. He then ranked the managers in the order in which they were presented, with Acadian being the strongest, AQR second, Julius Baer third and UBS, last. He said that it might be wise to try two different philosophies and choose one from quantitative and one from a more subjective approach.

### Quarterly Update on the CRPTF Watch List

Ms. Sweeney reported that two firms have been added to the Watch List, which at the last update had one remaining manager, Brown Capital Management, Inc. ("Brown"). She reported that for the most recent quarter ended March 31, 2006, Brown did gain 11.08% but trailed its benchmark. She said that for the fiscal year to date Brown is ahead of its benchmark but they would remain on the Watch List.

Ms. Sweeney said that the first addition to the Watch List is Morgan Stanley Asset Management ("Morgan Stanley"), noting that it is an international equity active small cap mandate with a value of \$284 million as of March 31, 2006. She stated that Morgan Stanley's performance has been suffering and trailing its benchmark since inception by 1,027, 493 and 615 basis points, respectively. Ms. Sweeney talked about various meetings that have been held by the CRPTF with Morgan Stanley and some of the issues that may have contributed to the underperformance. She noted that CRARC continues to rate Morgan Stanley as a "buy" and still feels strongly about the product.

Treasurer Nappier noted that she is not expressing a "vote of no confidence" by placing the manager on the Watch List and that it is a matter of more tightly monitoring the manager's performance. There was a subsequent discussion relative to Morgan Stanley's underperformance.

Ms. Sweeney said that the second manager added to the Watch List is Merrill Lynch Investment Managers ("MLIM"), an international equity enhanced-risk controlled fund with a value of \$571 million as of March 31, 2006. She said that MLIM has been acquired by BlackRock, and that acquisition triggered placement on the Watch List pending the outcome of organizational changes.

### Other Business

#### **Status Report on Requests by IAC Members**

Ms. Sweeney said that she spoke with Treasurer Nappier regarding the **Staffing Support** update and they would like to provide a more comprehensive report for the IAC at a future meeting. General Counsel Catherine LaMarr said that she has been trying to obtain a copy of the appropriate **World Bank Guidelines** in connection with the Ethos Fund V, L.P. and she would provide them to the IAC as soon as she obtained them.

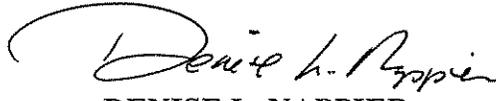
Chairman Roberts announced that Treasurer Nappier has a scheduling conflict on June 14, 2006, the next scheduled IAC Meeting, and he requested that the date of the IAC meeting for June be changed. He asked the members present if they could be available for June 21, 2006 instead. Mr. Roth was the only member who indicated that he would not be available. Chairman Roberts said that the next IAC meeting would be June 21, 2006. He also noted that there would be an Asset Allocation Committee Meeting on June 8, 2006.

Ms. Sweeney distributed an updated CRPTF Final Performance for March 2006 that included 7-year performance. She also noted that the IAC Handbooks were updated and had been distributed at the beginning of the meeting.

There being no further business, the meeting was adjourned at 2:45 PM.

An audio tape of this meeting was recorded.

Respectfully submitted,

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