INVESTMENT ADVISORY COUNCIL
WEDNESDAY, June 11, 2008

MEETING NO. 356

Members present:

Thomas Fiore* representing Robert Genuario
David (Duke) Himmelreich*
James Larkin, Chairman
William Murray*
Denise L. Nappier, Treasurer**
David Roth*
Carol Thomas*
Peter Thor*

Absent:

Thomas Barnes
Michael Freeman
Sharon Palmer

Others present:

Lee Ann Palladino, Acting Chief Investment Officer
Joanne Dombrosky, Principal Investment Officer
Gregory Franklin, Assistant Treasurer-Investments
David Holmgren, Principal Investment Officer
Wayne Hypolite, Executive Assistant
David Johnson, Principal Investment Officer
Catherine LaMarr, General Counsel
Shelagh McClure, Director of Compliance
Jason Price, Principal Investment Officer
Linda Tudan, Executive Assistant
Lawrence Wilson, Assistant Treasurer-Short Term Investment Fund
Christina McGinnis, Executive Secretary
Winifred (Winnie) Scalora, Administrative Assistant

Guests:

Ben Adams, The Townsend Group
Bradley Atkins, Franklin Park
Joseph Barcic, Mercer Investment Consulting
Scott Booth, The Townsend Group
Makaiya Brown, Mercer Investment Consulting
Maykala Hariharan, Rogerscasey
Harvey Kelly, Leumas Advisors
Jacqueline Lyons, State Street Bank
Julie Naunchek, CSEA-Retiree Council #400
Andrew Pels, State Office of Policy Management
Paul Queally, Welsh, Carson, Anderson and Stowe
Jon Rather, Welsh, Carson, Anderson and Stowe

* Arrived at 11:00 A.M.
** Left at 11:08 A.M.

Claire Shaughnessy, Rogerscasey
Cynthia Steer, Rogerscasey

Chairman James Larkin convened the Investment Advisory Council ("IAC") meeting at 9:06 A.M. He asked Treasurer Denise Nappier if there was a quorum. Treasurer Nappier replied that there was not a quorum. Chairman Larkin said that because there was not a quorum, there would be a recess until 11:00 A.M.

Upon returning from recess, Chairman Larkin called the IAC meeting to order at 11:05 A.M. He said that Treasurer Nappier and Deputy Treasurer Howard Rifkin would not be there for the remainder of the meeting due to the funeral of Mr. Rifkin's wife.

Approval of Minutes

Chairman Larkin asked for comments on the Minutes of the May 14, 2008 IAC meeting. **There being no comments, a motion was made by Carol Thomas, seconded by William Murray, that the Minutes of the May 14, 2008 IAC meeting be accepted as drafted. The motion was passed unanimously.**

CRPTF Final Performance for April 2008

Lee Ann Palladino, Acting Chief Investment Officer, reported on the performance of the Combined Investment Funds ("CIF") and stated that the CIF fell 1.29% for the fiscal year-to-date.

Ms. Palladino reported that the Agricultural College Fund, the Andrew C. Clark Fund, the Hopemead State Park Fund, the IDA Eaton Cotton Fund and the School Fund all have the same allocation of 70% in fixed income, 25% in equity and 5% in cash. She added that for the fiscal year-to-date there was a positive return of 2.08 %; however, this was still below the current benchmark by approximately 200 basis points ("bps"). Ms. Palladino noted that these funds have been invested in the Mutual Equity Fund ("MEF") and the Fixed Income Funds ("FIF"); attributing the positive return to the heavy weight in fixed income. She further noted that both of these funds have been underperforming their benchmark over the past several months due to the current market environment.

Ms. Palladino reported that the Soldiers', Sailors' & Marines' Fund has an allocation of 8% in the MEF, 90% in the FIF and 2% in the Liquidity Fund ("LF") and because of its 90% weight in fixed income, the fund's return is higher than the previously mentioned five funds. She said that the return to date is 4.65%, underperforming its benchmark by about 200 bps. Ms. Palladino stated that the Arts Endowment Fund ("ARTS") has a 100% allocation to fixed income and, the ARTS return was 6.23%, underperforming its benchmark by 177 bps. She then reported that the Policemen and Firemen Survivors' Fund and the State's Attorneys' Retirement Fund had a more diverse allocation versus the other trusts and performed close to the CIF return.

Report on CRPTF Sudan Initiative

Shelagh McClure, Director of Compliance, discussed the Connecticut Sudan Statute. She then provided an annual report to the IAC on the CRPTF Sudan Initiative. Ms. McClure stated that in May of 2006, the Connecticut General Assembly passed legislation affirming the Treasurer's authority to divest and/or prohibit investments in companies doing business in Sudan. Ms. McClure further commented that rather than mandating divestment or prohibition on investments, Connecticut's legislation supports the Office of the Treasurer's ("OTT") efforts to engage companies in a dialogue regarding their activities in Sudan and encourages these companies to act responsibly by not supporting government policies that threaten human rights. She reported that after attempts to engage six companies in discussion, in May 2007, Treasurer Nappier decided to divest and/or prohibit future investment in these companies: China Petroleum and Chemical Corp.; Bharat Heavy Electrical, LTD, Nam Fatt Co. Bhd; Oil and Natural Gas Corp. Ltd; PECD Group; and Sudan Telecom Co. Ltd. In particular with this update, Ms. McClure stated that Treasurer Nappier has decided to send a letter to Petroliam Nasional Bhd (Petronas) informing them of the intention to potentially divest from any holdings of the parent or its subsidiaries within 90 days as required by law. Ms. McClure commented that this 90-day period was to provide ample time for companies to respond and make their case that divestment was not appropriate.

Presentation by Welsh, Carson, Anderson and Stowe Management Company

Ms. Palladino provided opening remarks regarding Welsh, Carson, Anderson and Stowe Management Company ("WCAS") stating that the OTT has had a long relationship with WCAS and has invested in two of their previous buyout strategy funds. She stated that Welsh, Carson, Anderson and Stowe XI, L.P. ("WCAS XI"), the fund under consideration, employed a strategy of purchasing controlled interests in health care and information business entities. Ms. Palladino also noted the CRPTF currently has a $150 million commitment in existing WCAS buyout funds, along with a $100 million commitment to a WCAS mezzanine fund. She stated that the Treasurer is considering an investment of up to $100 million in WCAS XI. Jason Price, Principal Investment Officer, discussed WCAS XI's fit within the Private Investment Fund ("PIF") and further reviewed its compliance with IPS guidelines. He commented on the Fund's low historical loss ratio, deep and established team, as well as its strong track record, particularly in down markets, generating an ROI of 1.9 times and an IRR of roughly 26.9%, as of December 31, 2007. IAC members questioned the diversity within the WCAS organization and the potential for conflicts of interest. Ms. Palladino responded by stating that the Treasurer has communicated to WCAS her desire for improvement in its diversity profile. She further commented that WCAS has made progress improving its diversity efforts since our last fund investment. Ms. Palladino continued that the conflict issue arises when WCAS invests in both debt and equity positions of the same company within different fund strategies. She added that WCAS would discuss further how they identify these conflicts internally.

Presentation by Welsh, Carson, Anderson and Stowe Management Company

Paul Queally and Jon Rather, General Partners of WCAS, presented their private equity fund,

WCAS XI, to the IAC. Mr. Queally provided an overview of the firm stating that WCAS is the premier private equity investor of two industries, the information and business service industry and the healthcare industry, and that is the sole focus of the firm. He stated that because of this focus, WCAS has a very strong proprietary deal flow with 40% of its portfolio companies being managed by executives who have had previous experience with WCAS. Mr. Queally said that because of its consistent and disciplined investment approach, WCAS has outperformed competitors by 2000 bps per year over the history of the firm. He added that WCAS's returns have not been based on leverage but have been based on operational growth and multiple expansions. Mr. Rather reported on the recent investment performance for WCAS, indicating that in 2007 it generated gains of $2.4 billion and over the last five years generated gains of $8.7 billion. He then explained WCAS's performance attribution analysis, stating that the strategy of operational growth has and would continue to generate high returns.

Messrs. Queally and Rather then responded to several questions posed by the IAC members about diversity, union compliance, and international raising of capital. Mr. Queally discussed the strategies used for attracting qualified women and minorities to the firm, the approach of working with unions during a buyout, and WCAS's strategies for raising funds internationally.

Roll Call of Reactions for Consideration of Welsh, Carson, Anderson and Stowe XI, L.P.

Thomas Fiore said that because of WCAS's track record and the fact that a significant amount of their own capital is invested, he supported the investment. Duke Himmelreich said he would be in favor of this investment and the timing was good. Mr. Murray agreed with the comments made and supported the investment. Ms. Thomas said it was a good investment. David Roth was in favor. Peter Thor said WCAS's strategy made sense to him; and, he commented that while WCAS XIII concerned him a bit, the fact that they invest heavily in their own company alleviates his concern so he would support the investment. Chairman Larkin said he was in favor of the investment. **Chairman Larkin then asked for a motion to waive the 45-day comment period. A motion was made by Mr. Thor, seconded by Ms. Thomas to waive the 45-day comment period for the Welsh, Carson, Anderson and Stowe XI, L.P. The motion was passed unanimously.**

Approval of Treasurer's Adopted Revisions to the Investment Policy Statement Appendix

Moving to the next agenda item, Chairman Larkin stated that the adopted revisions to the IPS Appendix, as presented at the May 14, 2008 IAC meeting, needed to be considered for approval by the IAC. Chairman Larkin asked if any of the IAC members had questions or issues with the final changes to the IPS Appendix that Treasurer Nappier adopted. Ms. Thomas questioned whether the amounts in the LF would be monitored. Ms. Palladino responded that the cash flow would be strategically managed and it would take some time to determine if any shifting of funds would be necessary. She estimated it would take a year to assess the cash flow projections. Chairman Larkin commented that this change is about better management of liquidity.

Chairman Larkin then asked for a motion to approve the Treasurer's adopted revisions to the IPS Appendix, as amended. Mr. Himmelreich entered a motion to approve these amendments. Mr. Thor seconded the motion. The motion was passed unanimously to approve the amendments to the Appendix of the IPS as adopted by Treasurer Nappier.

Connecticut Horizon Fund Review as of March 31, 2008

Claire Shaughnessy, of Rogerscasey, provided a quarterly report on the Connecticut Horizon Fund ("CHF") as of March 31, 2008. Ms. Shaughnessy reported that the CHF had a total of $699.5 million as of March 31, 2008 with investments in the MEF and the Domestic International Stock Funds ("DMISF"). She stated that for the quarter, the CHF returned negative 7.7%, underperforming the hybrid benchmark of 7.3% by 40 bps. Ms. Shaugnessy said the out-performers were FIS, which added 52 bps over its benchmark, and Progress, which added 26 bps. Ms. Shaugnessy stated that for the fiscal year-to-date, the CHF returned a negative 7.29% but did outperform the benchmark of negative 8.42% by 113 bps. She further commented that the markets have been very difficult and this is primarily an equity-oriented program, which is reflected in the negative absolute returns. Ms. Shaugnessy stated that since inception, the CHF has returned 6.52 or 61 bps ahead of its benchmark. She reported on the classification by diversity and the total fund performance attribution for the year as of March 31, 2008. She stated that no new managers were added for the quarter. An IAC member asked if these numbers were net of all fees and it was confirmed that they were.

Private Investment Fund Review as of December 31, 2007

Bradley Atkins, of Franklin Park, reported on the PIF for the quarter ending of December 31, 2007. He reviewed the portfolio holdings, benchmark performance, portfolio investment activity and fund level performance. Mr. Atkins reported on the private equity portfolio by age, which includes a total of 67 funds; he reviewed three distinct time periods, 1987 to 1993, 1996 to 1999 and 2002 to 2008. For each period, Mr. Atkins discussed the number of funds, amount of commitment, performance and remaining term. He further cited that the overall portfolio has shown a 9.2% net return or 1.4 times its capital outperforming its benchmark, the S&P 500, by 600 bps.

Combined Investment Funds Review as of March 31, 2008

Joseph Barcic and Makaiya Brown, of Mercer Investment Consulting, provided an executive summary of the Combined Investment Funds for the quarter ending March 31, 2008. Ms. Brown reported that the combined liquid assets as of March 31, 2008 totaled $24.3 billion and showed a loss of 6.1% on a gross of fee basis; however, she commented that it did outperform the S&P 500, which showed a loss of 9.44%. She stated that manager selection and asset allocation contributed to the negative performance of the combined liquid assets during the quarter. Ms. Brown reported that the MEF lost 9.2 % but outperformed the Russell 3000 by 30 bps. She stated that both the DMISF and the Emerging Markets International Stock Fund ("EMISF") underperformed the indexes during the quarter. Ms. Brown said that the Core Fixed Income Fund had a positive return of 1.1%, but it did not outperform the Lehman Brothers Aggregate Bond Index. She reported that the High Yield Investment Fund returned a negative 1.72%; however, it did outperform the index by 130 bps. Ms. Brown stated that the Emerging Markets Debt Fund outperformed the benchmark by 40 bps. Finally, she said that the Inflation Linked Bond Fund matched the benchmark returns.

An IAC member inquired about why both the DMISF and the EMISF have been doing poorly and whether or not this was a trend. Ms. Brown replied that they have been performing poorly as a group due to poor investment choices. Mr. Barcic stated that this is not a trend and this performance is mainly due to the fact that the markets have been extremely volatile within the U.S. and internationally. He commented that April and May results have been more favorable compared to the first quarter of calendar year 2008, which was difficult. Mr. Barcic then provided a brief explanation on relative ranking and its significance.

Short-Term Investment Fund Review as of March 31, 2008

Lawrence Wilson, Assistant Treasurer, provided an overview of the Short-Term Investment Fund ("STIF") for the quarter ending March 31, 2008. He reviewed the credit markets and his assessment of STIF in light of the recent credit market disruptions. Mr. Wilson reported that the average annual yield during the quarter was 3.57% or 10 bps below the average return of the index due to a more cautious investment strategy, which centers around a higher level of liquidity. He also noted that there has been a reduction in the estimated market value of the securities.

Chairman Larkin asked whether the municipalities were continuing to invest funds in STIF. Mr. Wilson responded that municipal balances and state balances were running at historical levels for the average of the last three years. Mr. Wilson added that going forward with the economic slowdown, cash balances at the state and municipal level have been affected and that would impact investment balances. He further stated that relative performance has been historically lower because of STIF's more cautious investment strategy. An IAC member asked if STIF would continue to manage at a more conservative level, because it is unusual for STIF to perform below its benchmark. Mr. Wilson remarked that this has been unusual, but for the foreseeable future, STIF would remain in a cautious stance since credit markets continue to show turbulence, but as market conditions change, the strategy would be adjusted accordingly.

Other Business

Chairman Larkin stated that due to certain volatilities within the markets, with regard to insurgent inflation and possible recession, it would be of interest to have a more in-depth conversation on the international markets. He requested PFM to invite an accomplished economist with international experience to present to the IAC.

Ms. Palladino noted that representatives from The Townsend Group ("Townsend"), CRPTF's new real estate consultant, were present at this meeting. She then introduced Scott Booth, the CRPTF's Principal Consultant at Townsend, and Ben Adams, who will assist with the CRPTF account.

Comments by Chairman Larkin

Chairman Larkin stated that he and the IAC members would like to express their sympathy to Mr. Rifkin and his family on the passing of his wife, Ruth Pulda, a very accomplished person.

Discussion of preliminary agenda for July 9, 2008 IAC meeting

Chairman Larkin invited IAC members to submit agenda items for the July 9, 2008 meeting. There being no further business, the meeting was adjourned at 12:40 p.m. with a motion by Mr. Murray and seconded by Ms. Thomas.

An audio tape of this meeting was recorded.

Respectfully submitted,

Denise L Nappier

DENISE L NAPPIER
SECRETARY

Reviewed by

J.T. Larkin

JAMES T. LARKIN
CHAIRMAN