

**INVESTMENT ADVISORY COUNCIL**  
**WEDNESDAY, June 21, 2006**

**MEETING NO. 337**

**Members present:**

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

**Absent:**

David Roth

**Others present:**

Howard G. Rifkin, Deputy Treasurer  
Susan B. Sweeney, Chief Investment Officer  
Pamela Bartol, Assistant Investment Officer  
Robyn Belek, Deputy Director of Communication  
Garrett Borges, Intern  
Patricia DeMaras, Associate Counsel  
Greg Franklin, Assistant Treasurer-Investments  
David Holmgren, Principal Investment Officer  
David Johnson, Principal Investment Officer  
Bernard Kavalier, Director of Communication  
Jennie Kersaint, Intern  
Donald Kirshbaum, Investment Officer  
Catherine E. LaMarr, General Counsel  
Meredith Miller, Assistant Treasurer-Policy  
Lee Ann Palladino, Principal Investment Officer  
Jason Price, Investment Officer  
Linda Tudan, Executive Assistant to the Treasurer  
John Verteseuille, Intern  
Judy Balich, Executive Secretary  
Sarah Carter, Administrative Assistant

**Guests:**

Bradley Atkins, Franklin Park, LLC  
Laura Backman, State Street Bank  
Raudline Etienne, CRA RogersCasey  
Seth Hannant, CRA RogersCasey  
Harvey Kelly, Leumas Advisors  
Julie Naunchek, CSEA-Retiree Council #400  
Daniel Schmitz, CRA RogersCasey  
Cynthia Steer, CRA RogersCasey  
Marc Weiss, Pension Consulting Alliance

Chairman Dick Roberts called the meeting to order at 9:05 a.m.

### Approval of Minutes

Chairman Roberts asked for comments on the Minutes of the May 10, 2006 Investment Advisory Council ("IAC") Meeting. There being no comments, **a motion was made by James Larkin, seconded by William Murray, that the Minutes of the May 10, 2006 IAC meeting be accepted as drafted. The motion was passed unanimously.**

### Opening Comments by the Treasurer

Treasurer Denise Nappier noted that the overall portfolio is well positioned to end the current fiscal year with returns that should meet, if not exceed, its total fund benchmark. She also noted that as part of today's quarterly meeting, the first quarterly report on the Connecticut Horizon Fund will be given. She said that she believed the IAC would be pleased with the results that have been achieved in that portfolio.

Treasurer Nappier indicated that later in the meeting Victor MacFarlane, a founder and managing principal of MacFarlane Partners, would be making a presentation to the IAC on his firm and its current offering, MacFarlane Urban Real Estate Fund II, L. P., which will target large urban real estate development and redevelopment projects in major cities across the U. S. She said that the MacFarlane Fund II is targeting an IRR of 16% - 18% and is seeking to raise between \$750 million and \$1 billion in capital commitments. Treasurer Nappier reported that MacFarlane's historical track record is very strong, having generated an IRR of 36% in the 10 years it has managed real estate investments for CalPERS, and that she recommends a commitment of between \$50 million and \$100 million to this fund.

On the legal front, Treasurer Nappier reported that the most significant activity since the last IAC meeting was the Office of the Treasurer's ("OTT") filing of a derivative action and a direct shareholder action against UnitedHealth Group, Inc. and members of its board of directors and compensation committee. She explained that the reason for the action was due to the company's practice of backdating stock option grants and the Chairman and CEO's ability to select his own grant dates. Treasurer Nappier said that the OTT is seeking the invalidation of the stock options and recovery of any ill-gotten gains. The OTT has asked to have its case consolidated with the cases filed by other institutional investors including the state pension funds of Ohio and Mississippi and municipal funds from Colorado, Louisiana, Mississippi and Minnesota. She said that the motions for appointment of lead plaintiff were argued in the federal district court in Minnesota and the OTT is awaiting the court's decision.

Treasurer Nappier noted that the action to file the above reference lawsuit is consistent with the OTT's policy as it relates to CRPTF's shareholder activity during this current proxy voting season concerning executive compensation and the need for full disclosure of compensation packages and the linking of compensation with company performance. She added that the OTT's Policy Unit has been involved in this issue and that the OTT is a leader in this issue.

**CRPTF Final Performance for April 2006**

Chief Investment Officer Susan Sweeney informed the IAC that David Scopelliti, the private equity principal investment officer, had decided to return to the private sector and is no longer with the OTT's Pension Funds Management Division ("PFM").

Ms. Sweeney said that the April data was a little stale because of more recent changes in the market since the end of April. She then provided a brief overview of what has happened to the markets in the prior seven weeks. She said that from April 30 through June 20, the S&P 500 fell by over 5% and the Russell 2500 plunged by more than 9%. Ms. Sweeney also noted that with \$7.2 billion of the Mutual Equity Funds ("MEF") closely benchmarked to the S&P 500 and another \$1.7 billion to the Russell 2500, this equates to over \$500 million in market value losses on the benchmark alone. She said that she could not comment on CRPTF's performance because the books have not closed yet, although, she added, the Fund has been doing better than the benchmark and overall market losses follow a huge run-up experienced earlier in the year. However, she noted that it appears that with nine days left in the fiscal year and the Russell 3000 showing a 6% gain in the fiscal year to date, it should still be a positive market for the year for CRPTF. Ms. Sweeney said that the international stock markets have also suffered recently and have been off by about 8.5% through May and June, and that the emerging markets have given up about 16%. She said that, with the developed markets' benchmarks up about 19% since last June and the emerging markets benchmark up about 30%, it is still likely that there will be overall strong returns for the fund.

Ms. Sweeney reported that the domestic equity portfolio outperformed the Russell 3000 by 33 basis points and the S&P 500 by 7 basis points, returning 1.41% in April. She noted that for the fiscal year to date ending April 30, 2006, the Mutual Equity Fund returned 14.09%, 111 basis points ahead of the Russell 3000. Ms. Sweeney said that, for the last seven years the MEF has annualized 4.04%, thereby outperforming its benchmark, the S&P500, by 150 basis points. She said that the outstanding performers for the month were BGI, with a \$4-billion mandate that posted a return of 2.01%, 67 basis points ahead of its benchmark, and AXA Rosenberg, which also outperformed its benchmark. Ms. Sweeney reported that for the month of April, the International Stock Fund ("ISF") was up 3.55%, behind its customized benchmark by about 5 basis points. She said that for the one-year period as of April 30, 2006, the ISF was up 34.00%, 205 basis points behind its customized benchmark, which gained 36.05%, but that for the seven-year period it is running 218 basis points ahead of its benchmark. She also reported that in April the fixed income portfolio was flat, but that for the seven-year period its performance is 5.92%, which actually exceeded the domestic equity portfolio by 188 basis points. She also reported that during April, the Private Investment and Real Estate Funds were flat for the month and that the Cash Reserve Account exceeded its benchmark by 3 basis points.

**Combined Investment Funds Review as of March 31, 2006**

Raudline Etienne and Daniel Schmitz of CRARC reported on the Combined Investment Funds as of March 31, 2006. Ms. Etienne provided an overview of the overall capital markets performance with comments on the U.S. equity, international equity, fixed income, real estate

and private equity markets. Mr. Schmitz reported on CRPTF fund performance, including the Mutual Equity Fund, the International Stock Fund and the Mutual Fixed Income Fund.

Ms. Sweeney introduced Jennie Kersaint, the intern assigned to PFM for the summer, noting that she had been working with David Holmgren, Principal Investment Officer for equities. Treasurer Nappier introduced Garrett Borges and John Verteseuille, summer interns assigned to the Cash Management Division and Policy Unit, respectively.

### **Connecticut Horizon Fund Review as of March 31, 2006**

Mr. Holmgren reported on the performance of the Connecticut Horizon Fund (“CHF”) for the quarter ending March 31, 2006. He reported that CHF posted a 7.34% gain for the quarter and 10.65% since its launch in September 2005, which are 65 and 80 basis points, respectively, above the CHF’s custom benchmark. Mr. Holmgren noted that the current value of CHF is \$478.8 million, diversified across four fund-of-funds managers, with a total of 26 sub-managers and 30 mandates covering 10 asset classes. He said that Capital Prospects and Bivium Capital contributed the strongest relative performance for the periods. Mr. Holmgren also provided the current distribution of funding versus the planned funding for CHF. His report included a manager analysis and commentary for each of the four fund-of-funds managers.

### **Connecticut Horizon Fund Manager Reporting**

Marilyn Freeman and Elizabeth Knope, the principals of Capital Prospects LLC (“Capital Prospects”), one of the Connecticut Horizon Fund’s fund-of-funds managers, provided an update on the mandate they manage for the Connecticut Horizon Fund. Ms. Freeman provided an update on the progress of their firm, thanking the OTT and IAC for the confidence placed in them by investing with their company and allowing them the opportunity to become a fund-of-funds manager in the Connecticut Horizon Fund. Ms. Knope provided an overview of fund construction and performance, the ways that portfolios are built and investments chosen, and the performance of the sub-managers as of May 31, 2006.

Ms. Freeman and Ms. Knope responded to questions from the IAC with regard to other funds who are clients of Capital Prospects and which market environments are better for Capital Prospects’ performance, among other things.

Quinn Stills, Chairman and Chief Investment Officer of Palisades Investment Partners, LLC (“Palisades”), a Capital Prospect sub-manager, gave a presentation on its fund. His presentation included a discussion of the fund’s performance, portfolio holdings and investment framework.

In response to questions from the IAC, Mr. Stills provided an in-depth description of the way in which Palisades chooses investments.

**Private Investment Fund Review as of December 31, 2005**

Bradley Atkins of Franklin Park reported on the Private Investment Fund (“PIF”) for the quarter ending December 31, 2005. His report consisted of an executive summary that included a portfolio overview, benchmark performance, diversification and cash flow activity. Mr. Atkins also provided information about the size and amount of the commitments made to funds during 2005. Mr. Atkins also compared the current allocation to the IPS target. He also reported on the overall PIF market performance.

**Real Estate Fund Review as of December 31, 2005**

Marc Weiss of Pension Consulting Alliance reported on the Real Estate Fund (“REF”) as of December 31, 2005. His report included a review of the fund’s overall performance, the fourth quarter, one-year and long-term performance, investment guidelines, the portfolio diversification and unfunded commitments, as well as comments on the real estate market.

Ms. Sweeney commented that the CRPTF’s \$75 million commitment to Cornerstone Property Fund is expected to be completed in July and that will increase the CRPTF’s allocation to Core real estate investments.

Based on a question posed by Carol Thomas, Mr. Weiss talked about the percentage of leveraged investments in the REF. Mr. Weiss also provided information on the CRPTF’s REF performance versus the NCREIF performance.

**Presentation by MacFarlane Urban Real Estate Fund II, L.P.**

David Johnson, Principal Investment Officer, provided introductory remarks on MacFarlane Urban Real Estate Fund II, L.P. (“MacFarlane II” or “Fund II”), the second fund being raised by MacFarlane Partners, LLC (“MacFarlane”). He said that a commitment to MacFarlane II would increase the CRPTF’s urban exposure as well as increasing exposure to apartments, office and retail space in which the CRPTF is underexposed, and that MacFarlane’s property investments are very high value properties. He also made note of MacFarlane’s other investors, past performance and diversity of expertise among its staff.

In response to a concern expressed by Peter Thor, Mr. Johnson said that MacFarlane has agreed to a limit of 20% in a single investment rather than 25% and to limit international exposure to 10% rather than 20%. Mr. Weiss added that MacFarlane has also indicated that they would agree to the CRPTF’s form of side letter.

**Presentation by MacFarlane Partners, LLC**

MacFarlane made a presentation to the IAC on MacFarlane II. MacFarlane was represented by Victor MacFarlane, Founder and Managing Principal, and Sylvia Melikian, Principal, Portfolio Management. Mr. MacFarlane provided a profile of the firm, the principals’ investment experience, and the firm’s reasons for choosing urban real estate. Ms. Melikian provided

information on the firm's investment strategy, exit strategy, execution of Fund II investment strategy, summary of principal terms, investment committee and organizational chart.

Throughout the presentation by MacFarlane, IAC members posed questions regarding the firm's policy of inclusion, 75% leverage, typical leverage, strategic partnerships and use of union labor, each of which questions were answered by Mr. MacFarlane and Ms. Melikian.

### **Roll Call of Reactions for MacFarlane Urban Real Estate Fund II, L.P.**

Mr. Thor said that he was impressed with MacFarlane, that their overall strategy seemed very sound and he recommended the investment. Sharon Palmer said that she agreed with Mr. Thor. Ms. Thomas said that she was impressed with MacFarlane's track record and the investment would be fine with her. Chairman Roberts said that he agreed, thought they had a focused approach with good experience, and supported the investment. Mr. Larkin said that he liked MacFarlane, that they had an in-depth bench, and he supported the investment. Michael Freeman said that he concurred with everything that had been stated by the other IAC members thus far. Mr. Murray said that he supported the recommendation. Duke Himmelreich said that MacFarlane sounded great and he agreed, "People are moving back to the cities." Thomas Fiore said that he would be comfortable with the proposed investment because he agreed that the demographics are pointing back to the cities and that it would fit well in the CRPTF portfolio.

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

### **Short-Term Investment Fund Review as of March 31, 2006**

Lee Ann Palladino, Principal Investment Officer, reported on the performance of the Short Term Investment Fund ("STIF") for the quarter ending March 31, 2006. She provided an update of the overall economy and an overview of the management of the STIF. Ms. Palladino noted that, for the quarter and fiscal year to date, STIF outperformed its benchmark by 35 basis points and 36 basis points, respectively. She reported that on May 1, 2006 STIF reached a record high of \$6.29 billion.

### **Corporate Governance and MacBride Compliance Review as of March 31, 2006**

Meredith Miller, Assistant Treasurer-Policy, reported on the OTT's activities related to corporate governance and MacBride compliance for the period ending March 31, 2006. She noted that the past quarter had been a very active proxy voting time with 38.2% domestic proxy issues and 8.1% international proxy issues voted against management. Ms. Miller noted that all the international investment managers voted in compliance with the international proxy voting guidelines and that both domestic and international proxy votes are on the OTT web site. Ms. Miller said that interviews of vendors for proxy voting services will take place June 26 and 27, 2006 and that IAC members had been notified of and invited to attend those interviews.

Ms. Miller reviewed the OTT and Treasurer Nappier's initiative with regard to executive compensation and provided an update of recent events. Ms. Thomas requested that, when the CRPTF is considering a manager, the IAC receive information on how the manager votes with regard to proxy issues. A discussion regarding the issue followed and Ms. Sweeney indicated that the CRPTF could add it to the criteria when considering a manager. General Counsel Catherine LaMarr said that the CRPTF could request the information about a manager's voting record but that we should be careful to take into consideration the fact that funds managed for corporate or public fund clients may be constrained by the client's proxy policies and by confidentiality considerations. Ms. Sweeney explained that there is a difference between the manager voting other clients' proxies and voting mutual funds. Ms. LaMarr sought and received clarification that the IAC would like the CRPTF to request information about a manager's voting record for its mutual funds and not for separate accounts. Ms. Miller also gave an update on the recent activity with regard to climate risk.

Ms. Miller reported that all domestic and fixed income managers are in compliance with the MacBride Principles for the third quarter. She noted that Office Depot responded to Treasurer Nappier's letter regarding the MacBride Principles and the company is now in compliance.

Mr. Himmelreich commented on the unresponsiveness of Home Depot to its shareholders as has been reported in the media. A conversation regarding Home Depot followed Mr. Himmelreich's remarks and Pam Bartol, Assistant Investment Officer, said that the Policy Unit had some discussion relative to the possibility of withholding votes from other boards on which Home Depot board members sit.

### **Other Business**

#### **Review of the IAC Budget for the fiscal year ending March 31, 2006**

Ms. Sweeney reported that the IAC is slightly over budget for commuter costs, meeting costs and subscriptions for the year to date and that education/travel is well under budget.

#### **Pension Funds Management Division's Operating Results as of March 31, 2006**

Ms. Sweeney reported that standard fund financials for the six months ending March 31, 2006 are included in the package of materials. She commented that the fund has received \$1 billion each in realized and unrealized gains. She said that there has been \$579 million in investment income offset by \$589 million in distributions. Ms. Sweeney said the largest fund within the CRPTF is the Teachers' Retirement Fund at \$12.4 billion.

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

Ms. Sweeney indicated that the **World Bank Guidelines** had been sent to the IAC by Associate Counsel Patricia DeMaras a few weeks ago. Ms. Sweeney said that she is working with Treasurer Nappier on the **Staffing Support** update.

**Discussion of preliminary agenda for July 12, 2006 IAC meeting**

Chairman Roberts said that Treasurer Nappier would not be able to attend the July 12 meeting but that it would take place in her absence. He said that if there is no objection, the August IAC meeting will be canceled. There were no objections.

Mr. Roberts said that a new committee assignment sheet would be distributed at the next meeting. He also said that because the July meeting would be brief, lunch would not be provided.

There being no further business, the meeting was adjourned at 12:15 PM.

An audio tape of this meeting was recorded.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Denise L. Nappier", written in a cursive style.

**DENISE L. NAPPIER  
SECRETARY**