

INVESTMENT ADVISORY COUNCIL
WEDNESDAY, July 11, 2007

MEETING NO. 346

Members present:

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

Absent:

Thomas Barnes
Michael Freeman
Sharon Palmer
David Roth

Others present:

Howard G. Rifkin, Deputy Treasurer
Linda Hershman, Assistant Deputy Treasurer/Chief of Staff
Lee Ann Palladino, Acting Chief Investment Officer
Patricia DeMaras, Associate Counsel
Diane Weaver Dunne, Director of Communication
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
Larry Wilson, Assistant Treasurer-Cash Management
Judy Balich, Executive Secretary
Michael Noble, Intern
Anthony Weldon, Intern

Guests:

Laura Backman, State Street Bank
Raudline Etienne, CRA RogersCasey
Julie Naunchek, CSEA-Retiree Council #400
Clarence (Dick) L. Roberts, Jr., Former IAC Chairman
Daniel Schmitz, CRA RogersCasey
Cynthia Steer, CRA RogersCasey
Marc Weiss, PCA Real Estate Advisors

Former Chairman Dick Roberts announced that he designated James Larkin as the Vice Chairman of the Investment Advisory Council ("IAC") and that Mr. Larkin would be acting as Chairman until Governor M. Jodi Rell appoints a Chairman.

Chairman Larkin called the IAC Meeting to order at 9:10 A.M.

Approval of Minutes

Chairman Larkin asked for comments on the Minutes of the June 13, 2007 IAC Meeting. There being no comments, a **motion was made by Carol Thomas, seconded by Peter Thor, that the Minutes of the June 13, 2007 IAC meeting be accepted as drafted. The motion was passed unanimously.**

Opening Comments by the Treasurer

Treasurer Denise Nappier began her opening comments by thanking Mr. Roberts for his service to the IAC. She gave a brief review of his service to the IAC and said that she appreciated his invaluable input throughout his term, his leadership as chairman and that she would miss his expertise. Treasurer Nappier announced that Thomas Barnes was appointed to the IAC to fill Mr. Roberts's vacancy. She indicated that Mr. Barnes was not able to attend today's meeting due to prior vacation plans, but would attend the next IAC meeting.

Treasurer Nappier provided an update on pending business matters, beginning with the announcement that the Governor had signed into law the \$2 billion Pension Obligation Bond, which was overwhelmingly approved by the Legislature last month. She said that this would benefit Connecticut teachers as well as the taxpayers, moving in the right direction toward ensuring the future financial stability of the Teachers' Retirement Fund, while saving several billion dollars of taxpayers' money. Treasurer Nappier said that the next step would be for the bonds to be allocated by the Bond Commission, chaired by the Governor who sets the agenda. She thanked all the members of the IAC and other interested parties who worked with the Office of the Treasurer ("OTT") to move this initiative through the legislative process.

Treasurer Nappier announced decisions she had made on two investment opportunities presented at the June IAC meeting. She said that after considering the feedback from the IAC, she authorized a \$50 million capital investment to Colony Realty Partners II, a value-added, real estate investment, and a \$75 million commitment to Pegasus Partners IV, L.P., a Connecticut-based private equity fund.

Treasurer Nappier also provided an update on her decision relative to the Traditional Investment Consulting Services stating that after much consideration she decided to designate Mercer Investment Consulting ("Mercer") as the preferred Traditional Investment Consultant. She said that not only did the overwhelmingly positive feedback received from the IAC on Mercer figure prominently in her decision, but the firm's proven track record, deep bench of investment professionals and dedicated global team were also factors in the selection. Treasurer Nappier said that while she feels that Mercer is well poised to provide the Treasury with quality service, she also felt that the expertise and careful due diligence of Rogerscasey, Inc. ("Rogerscasey")

had served the best interest of the Connecticut Retirement Plans and Trust Funds (“CRPTF”). As such, she has offered to continue Rogerscasey’s relationship with the CRPTF on a project retainer basis. She distributed a press release regarding the appointment of Mercer. Treasurer Nappier said that she is still deliberating on the semi-finalist for Alternative Investment Consulting Services and that she expected to make her decision soon and have presentations at a future IAC meeting.

With respect to new business, Treasurer Nappier said that the IAC would receive a presentation for an investment opportunity in RLJ Real Estate Fund III (“RLJ III” or “Fund III”). She said that this would be the CRPTF’s third venture with RLJ Development, LLC (“RLJ”), noting that the two outstanding investment commitments with this manager, \$25 million to RLJ Urban Lodging Fund and \$50 million to RLJ Lodging Fund II, both have exceeded their respective performance expectations. Treasurer Nappier said that the primary focus of RLJ III would be urban, focused-service hotel assets, similar to the strategies of the other two funds. She advised that RLJ III would have its first close within the next two days and she would be asking the IAC to consider a waiver of the 45-day comment period.

Treasurer Nappier indicated that the CRPTF is well into the expedited search process for Emerging Market Debt (“EMD”) managers and that today the IAC would hear from six (6) semi-finalists. She said that the EMD candidate managers were reviewed based on their respective experience within the EMD space, experience with public funds, an analysis of their style and strategic approach to these markets, and their respective commitment to corporate citizenship and diversity. Treasurer Nappier said that each of the semi-finalists presenting today has a unique style within the EMD market, and the CRPTF’s goal is to ultimately increase its exposure to this sector by over \$700 million, including Bridgewater Associate’s (“Bridgewater”) \$100 million EMD mandate, which will terminate in September.

Treasurer Nappier noted that the CRPTF has two (2) funds with Bridgewater, one of which is a currency overlay mandate. As a reminder, she noted that the CRPTF had entered into two (2) active management currency overlay agreements, one with Bridgewater and the other with Bank of New York (“BoNY”). She also indicated that similar to the EMD mandate, effective September 2007, Bridgewater would no longer provide currency overlay management services for the CRPTF. Treasurer Nappier then announced her decision to replace the Bridgewater active management currency overlay with a passive overlay and noted that this will allow the CRPTF to maintain a 50% hedged position, but with an overall lower volatility threshold. Given these changes, she said that she has asked Rogerscasey to provide the CRPTF with an update on the overlay strategy and future market outlook. Treasurer Nappier indicated that BoNY, another of the CRPTF’s currency overlay managers, is available to take over that assignment based on the terms and conditions of the firm’s current contract with the CRPTF.

Treasurer Nappier commented on the Alternative Investment Asset Class, the creation of which was one of the recommendations stemming from the Asset Liability Study (“ALS”). She said that, in theory, by utilizing this asset class more excess return would be generated with less risk for the portfolios as a whole. She reminded the IAC that last month they received a copy of the proposed guidelines in preparation for today’s initial discussion and that ultimately, the proposed

guidelines would be included in the Investment Policy Statement (“IPS”) and discussed again as part of the preliminary draft recommended IPS changes.

Treasurer Nappier concluded her opening remarks with a discussion regarding the IPS. She noted that there were many proposed changes as a result of the ALS, which were accepted and approved by the IAC in September 2006 and that since that time the OTT has been working to codify those changes. The OTT would be prepared to bring that preliminary draft IPS recommended changes to the IAC in August. She recommended that the IAC hold an August meeting, at which time most of the agenda would be devoted to a discussion of the preliminary draft IPS and then, in September, the official approval process for the IPS would begin. Treasurer Nappier and Deputy Treasurer Howard Rifkin summarized the proposed changes in the preliminary draft IPS, which included: a change in focus for the investment process from the perspective of each plan and trust; the use of an appendix to outline the specific asset allocation plan for each plan and trust and the various benchmarks for each of the Combined Investment Funds; an abbreviated approval process for items in the appendix; the additions of the Alternative Investment Fund and the Liquidity Fund that would eliminate the Cash Reserve Account; the division of the International Stock Fund into developed markets and emerging markets; and a more delineated approach to fixed income investments with the intent to remove some of the very detailed information in the body of the IPS and the use of appendices. This concluded the Treasurer’s opening comments.

On behalf of the IAC, Chairman Larkin thanked Rogerscasey for their work over the years.

Mr. Roberts then thanked the members of the IAC for their support during his tenure as chairman of the IAC for the past four (4) years as well as his first three (3) years as a member. He also thanked General Counsel Catherine LaMarr, Mr. Rifkin and Judy Balich. Mr. Roberts thanked Treasurer Nappier, said that the State of Connecticut is fortunate to have her as its Treasurer and commended the work she has done for the State.

CRPTF Final Performance for May 2007

Acting Chief Investment Officer Lee Ann Palladino explained how she assessed the performance of the portfolio. She reported on the performance of the CRPTF for the month ending May 31, 2007 in terms of strategy and tactical allocation. Ms. Palladino said that the overall portfolio earned 10.36% over the five-year period and although it underperformed the benchmark return of 10.53%, it was higher than the actuarial target of 8.50%. She also reported on the overweight and underweight of target asset allocations in 2002 compared to current asset allocations and how those weights impacted the performance of the portfolio.

Ms. Palladino then focused on the performance of the three liquid funds for the month ending May 31, 2007, noting the underperformance of the Mutual Equity, International Stock and Mutual Fixed Income Funds (“MFIF”) by 4, 55 and 79 basis points, respectively. She also reported on the performance of the various mandates within each Fund. Ms. Palladino noted that although the Funds underperformed its benchmark and objective, it was properly positioned from a strategic point of view. She said the growth in the allocation to international exposure and

reduction to domestic funds positioned the CRPTF to be invested in the best performing asset classes.

Ms. Palladino thanked summer Interns Anthony Weldon and Michael Noble for their work on the graphs.

A discussion ensued on the impact of fund performance and the actuarial unfunded liability of the CRPTF. IAC members noted that they found the graphs presented by Ms. Palladino very helpful.

Presentation by RLJ Real Estate Fund III

David Johnson, Principal Investment Officer, provided introductory remarks on RLJ III, noting that, should an investment of \$50 million be committed to RLJ III, the CRPTF will have invested a total of \$125 million with RLJ, making them one of CRPTF's largest real estate managers. He also noted that RLJ's investment strategy in the recovering hotel market has generated projected IRRs of 30.4% and 20% for the firm's first two funds. Mr. Johnson shared some statistics from the hotel market in the United States, indicating that RLJ III would be a valuable investment opportunity. He also talked about the CRPTF's exposure versus its allocation to the hotel sector and opportunistic funds of the Real Estate Fund.

Mr. Johnson and Marc Weiss of PCA Real Estate Advisors then responded to questions from IAC members regarding third party managers; the possibility of negotiating geographic limits of non-U.S. investments; and the percentage of capital being invested by the general partners.

Presentation by RLJ Development, LLC

RLJ made a presentation to the IAC on RLJ III. RLJ was represented by Thomas Baltimore, President, and Ross Bierkan, Executive Vice President. Mr. Baltimore talked about the overall performance and provided current updates of RLJ Urban Lodging Fund, L.P ("Fund I") and RLJ Lodging Fund II, L.P ("Fund II"), Fund III targets, strategy and sponsor, the firm's workforce diversity and the firm's corporate citizenship. Mr. Bierkan provided a summary of investments for Fund I and Fund II and compared RLJ's portfolio growth to other hotel portfolios and public hotel companies. Mr. Baltimore provided a summary of terms for Fund III.

Messrs. Baltimore and Bierkan answered questions from IAC members regarding the extraordinary IRR for Lincoln Suites; the firm's plans for the 20% non-lodging investments; the hotel investment cycle and RLJ's plans to expand the firm's area of expertise; the amount at which RLJ III would be capped; and investments in North America.

Roll Call of Reactions for RLJ Real Estate Fund III

Mr. Thor, Ms. Thomas, Duke Himmelreich, William Murray, George Mason, Thomas Fiore and Chairman Larkin all supported the investment.

Chairman Larkin asked for a motion to waive the 45-day comment period for RLJ Real Estate Fund III. **A motion was made by Mr. Thor, seconded by Mr. Himmelreich, to waive the 45-day comment period for RLJ Real Estate Fund III. The motion was passed unanimously.**

Securities Lending Review

Thomas Poppey of State Street Bank provided a review of Securities Lending activity for the quarter ended March 31, 2007. Mr. Poppey's program summary included a trading update, earnings and performance results, economic overview and portfolio summary, portfolio characteristics and net yield performance history. Ms. Thomas asked that the term "WAM" (Weighted Average Maturity) be added to the report's glossary.

Consideration of Semi-Finalists for Mutual Fixed Income Fund Emerging Market Debt

Cynthia Steer of Rogerscasey provided opening remarks regarding the expedited search process for the MFIF EMD Managers. She commented on the reasons for selecting each of the six (6) firms: ING Investment Management ("ING"); Pacific Investment Management Company LLC ("PIMCO"); Pyramis Global Advisors ("Pyramis"); Schroders Investment Management ("Schroders"); Stone Harbor Investment Partners ("Stone Harbor"); and UBS Global Asset Management ("UBS") that would be making presentations to the IAC today. Ms. Steer noted that each manager has a different style within the EMD space and all would compliment Ashmore Investment Management Limited and be an acceptable replacement for Bridgewater.

IAC Members asked questions regarding how many of the six (6) managers might receive commitments from the CRPTF and the three (3) managers that were indicated as being under investigation by the Securities and Exchange Commission. The questions were answered by Treasurer Nappier, Ms. Steer and Raudline Etienne.

Presentation by ING Investment Management

ING made a presentation to the IAC regarding the firm's EMD product. ING was represented by Arnold West, Senior Vice President, Institutional Sales and Relationship Management; Gorky Urquieta, Global Head, Emerging Markets Debt; and Jeff Becker, Executive Vice President, Chief Financial Officer and Head of Legal and Compliance. Mr. West provided an overview of ING's global business. Mr. Becker commented on the firm's corporate citizenship, corporate diversity and social responsibility. Mr. Urquieta provided information on the firm's organization and resources, EMD team, assets under management, investment philosophy and approach, investment process and strategy, risk management and performance attributes.

Subsequent to the presentation, Mr. Urquieta responded to questions regarding assets under management and whether ING has any major concerns with regard to the EMD space.

Presentation by Pacific Investment Management Company LLC

PIMCO made a presentation to the IAC regarding the firm's EMD product. PIMCO was represented by Melody Rollins, Senior Vice President and Client Servicing Account Manager;

Michael Gomez, Executive Vice President, Portfolio Manager and Co-Head of the Emerging Markets Portfolio Management Team; and Lori Whiting, Senior Vice President and Product Manager for Emerging Market/Diversified Income. Ms. Rollins reported on the firm's outperformance record in EMD, investment philosophy and the team approach used in managing portfolios. Mr. Gomez provided information on the depth of the firm's EMD team as well as the firm's investment philosophy, strategy, risk management and performance.

Mr. Gomez and Ms. Whiting answered questions regarding PIMCO's exposure in Russia; the loss of several senior members of PIMCO's staff; depth of experience of the EMD team as a team, and individually; the amount of assets under management from Allianz Capital Management; and long duration opportunities in the local fixed income market.

Presentation by Pyramis Global Advisors

Pyramis made a presentation to the IAC regarding its EMD product. Pyramis was represented by Art Greenwood, Senior Vice President and Relationship Manager, and Jonathan Kelly, Emerging Market Debt Portfolio Manager. Mr. Greenwood provided an overview of the firm's history, its corporate citizenship and its commitment to diversity. Mr. Kelly talked about the experience of the firm's staff, the depth of its investment process, the strategic relationships of the firm and its consistent long-term performance.

Mr. Kelly answered a question regarding the competition with Fidelity faced by Pyramis for both research resources and investments.

Presentation by Schroders Investment Management

Schroders made a presentation to the IAC regarding its EMD product. Schroders was represented by Anthony Williams, Institutional Public Funds Director, and Abdallah Guezour, Emerging Market Debt Portfolio Manager. Mr. Williams gave a global overview of Schroder. Mr. Guezour provided information on Schroders' EMD philosophy, investment strategy, investment process and the investment team. He distributed a copy of the firm's quarterly meeting notes and an example of an EMD country review and analysis, both of which he spoke about in some detail.

Following the presentation, Mr. Guezour answered questions regarding the use of the term "Sentiment Analysis" in the industry and the cause of the underperformance in 2005. Mr. Guezour explained, when asked, the graph on historical duration of EMD at Schroders and the firm's risk controls.

Presentation by Stone Harbor Investment Partners

Stone Harbor made a presentation to the IAC regarding its EMD product. Stone Harbor was represented by Jonathan Fischer, Senior Relationship Manager; Peter Wilby, Chief Investment Officer; and James Craige, Senior Portfolio Manager. Mr. Fischer gave an organizational overview including information on the firm's assets under management, sample client list and organizational structure. Mr. Wilby reported on the depth of the firm's EMD team, its corporate

bond analyst team, its investment philosophy and its investment process and performance. Mr. Craige discussed the firm's process for selecting a country, the currency, the sector allocation and the security to be used. He also talked about the firm's approach to risk management.

Mr. Wilby answered questions following the presentation about low performance years; exposure to the Mexican peso; Stone Harbor's connection with Citigroup; lack of exposure to political and business advisors; and the evolution of the EMD during the next five (5) years.

Presentation by UBS Global Asset Management

UBS made a presentation to the IAC regarding its EMD product. UBS was represented by Uwe Schillhorn, Head of Emerging Market Debt, and Mary Tritely, Head of Institutional Distribution. Mr. Schillhorn discussed the firm's investment philosophy, EMD strategy team and team resources as well as the firm's investment strategy including how it assesses a country and currency. He also talked about the firm's portfolio and risk management. Ms. Tritely talked about the firm's corporate citizenship and diversity initiative.

Mr. Schillhorn answered subsequent questions regarding the key role that he has in the firm; other bench strength within the firm; and the impact on UBS of a change in its parent company.

Roll Call of Reactions for Six (6) Semi-Finalists for Mutual Fixed Income Fund Emerging Market Debt

Mr. Thor said that he was impressed with all six (6) of the firms and thought that the dramatically different approaches of each firm would be valuable as an investment strategy.

Ms. Thomas said that she would not rule out any of the firms, but does have concerns. She explained that her concern about PIMCO was how long and how well its EMD team worked together; that Schrodgers' presentation was more impressive than its numbers; and that she thinks Mr. Schillhorn is very much the "center" of UBS.

Mr. Himmelreich said that he thought all the firms were good, but pointed out that when fees are deducted from the gross returns, Pyramis is just indexing; that Schrodgers seemed like a good hedge against the other firms; and UBS was a good corporate citizen in Connecticut and he liked the fact that the firm has staff on the ground in every country.

Mr. Murray said that he thought all six firms were good and that he would be hesitant to use only one or two of the firms for the mandate. He said that he liked ING because they were located in Hartford and the performance was good; PIMCO was okay; Stone Harbor overall had done well, but he would want to see a counterbalance to that firm; he felt as though UBS was a one-man operation; and another reason that he liked ING and UBS was because they were Connecticut companies.

Mr. Mason said that he used a rating system of one through three and would recuse himself from giving an opinion on Stone Harbor. He said that he thought PIMCO and Schrodgers were the top

two firms; Pyramis was second; and ING was third. When asked by Chairman Larkin, Mr. Mason said that he did not have negative feelings about any of the firms.

Mr. Fiore said that he was not disenchanted with any of the firms, but that he thought the two (2) standouts were PIMCO and Schroders.

Chairman Larkin said that he too had used a rating system. He said that he rated Schroders as first and ING second. He said that he had reservations about PIMCO because he felt that the team did not work real well together and he felt that his question about the recent departure of several senior managers was not answered. Chairman Larkin said that each firm had something different to offer, was a good balance in the EMD space and he was comfortable with all six (6) firms.

Chairman Larkin asked for a motion to waive the 45-day comment period for the six Emerging Market Debt Managers. **A motion was made by Mr. Himmelreich seconded by Mr. Murray, to waive the 45-day comment period for the six Emerging Market Debt Managers. The motion was passed unanimously.**

Presentation of CRPTF's Currency Overlay Program

Ms. Steer presented the CRPTF's Currency Overlay Program to the IAC. Ms. Steer talked about the importance of a currency policy and currency contributions to returns, provided a review of the currency market and discussed the merits of the active management of currency. She reviewed the current currency structure including a return comparison with and without overlay and a risk comparison. Finally, Ms. Steer talked about the options for the CRPTF and the currency spectrum of a passive versus active currency overlay program. Subsequent to Ms. Steer's presentation, IAC members discussed the current position of the CRPTF's currency overlay program and options for a future program.

Recommended Alternative Investment Asset Class Description and Guidelines

Ms. Etienne presented the recommended Alternative Investment Asset Class description and guidelines to the IAC. Ms. Etienne's presentation included the purpose of the Alternative Investment Funds ("AIF"), a description of the fund, performance objectives, guidelines for investment advisors, securities that would qualify for investment, constraints of the investments and a list of broad investment categories. She also talked about the ways in which AIF could diversify the CRPTF's investments, the types of vehicles that could be included, liquidity parameters and risk management. A discussion ensued regarding various aspects of the guidelines. Treasurer Nappier highlighted the next steps including the search for a non-traditional consultant that would provide consultant services for the AIF.

Report on Corporate Governance and MacBride Compliance

Ms. Miller reported on the Treasury's activities related to corporate governance and MacBride compliance for the period ending March 31, 2007. She indicated that for the period of January 1 through March 31, 2007, there were 297 domestic and 386 international proxies cast with 31.5% and 8.1%, respectively, against management. Ms. Miller noted that for the 2007 proxy-voting

season, Treasurer Nappier had chosen to focus on corporate governance issues of executive compensation, board of directors' independence, classified boards and diversity, climate risk and sustainability. She also provided an overview of corporate governance events that have occurred recently.

Ms. Miller reported that there were no violations by managers of Connecticut statutes regarding the MacBride Principles.

Update on the CRPTF Watch List

Ms. Palladino updated the IAC on the status of the managers who were on the CRPTF Watch List. She noted that BlackRock, which was formerly Merrill Lynch Investment Managers ("MLIM"), was placed on the Watch List in May 2006 because of the integration. She also noted that following the smooth transition on September 29, 2006, all the MLIM investment professionals have joined BlackRock, the equity team has begun to attract substantial new business, Rogerscasey has maintained the "Buy" rating on this product and the one- and three-year performance was 25.30% and 22.93%, respectively. Based on all of the positive information, Ms. Palladino recommended that BlackRock be removed from the Watch List. Ms. Palladino gave an update on Clay Finlay, which has been on the Watch List since October 2006. She provided an overview of the turmoil within the firm with the departure of Virginie Maisonneuve in November 2004, the departure of her replacement, Gregory Jones, at the end of the summer of 2006, the hiring of Henrik Strabo as co-CIO with Bob Schletter and the trailing of its benchmark by 223 basis points for the last three (3) years. However, Ms. Palladino noted that for the three months ending May 31, 2007, the portfolio rose 9.07%, 11 points over the benchmark. She recommended maintaining Clay Finlay on the Watch List while the lead investment staff transitions and that PFM continue to monitor performance. Ms. Palladino said that Rogerscasey lowered this firm to a "not qualified" rating.

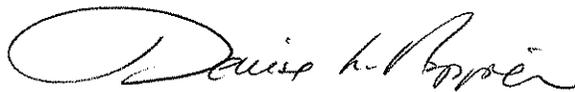
Other Business

Treasurer Nappier said that she would advise the IAC to hold a meeting in August, if only to discuss the preliminary draft of the recommended changes to the IPS. It was noted that Mr. Himmelreich and Ms. Thomas would not be available for the proposed August 8, 2007 IAC Meeting and that Ms. Balich would contact those members not present at today's meeting to check their respective availability.

There being no further business, the meeting was adjourned at 4:00 PM.

An audio tape of this meeting was recorded.

Respectfully submitted,



DENISE L. NAPIER
SECRETARY