INVESTMENT ADVISORY COUNCIL
WEDNESDAY, August 8, 2007

MEETING NO. 347

Members present:	Thomas Barnes Thomas Fiore, representing Robert L. Genuario Michael Freeman James Larkin (Vice Chairman) George Mason William Murray Denise L. Nappier, Treasurer Sharon Palmer David Roth Peter Thor
Absent:	David (Duke) Himmelreich Carol Thomas
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 Linda Tudan, Executive Assistant to the Treasurer Judy Balich, Executive Secretary Joshua Shulman, Intern Anthony Weldon, Intern Merrin White, Intern
Guests:	Renee Brereton, CtW Investment Group Vonda Brunsting, Service Employees International Union Margaret Haering, Office of the Comptroller Cynthia Steer, Rogerscasey, Inc. Thomas Woodruff, Office of the Comptroller Paul Mouchakkaa, PCA Real Estate Advisors Austin Carmichael, PCA Real Estate Advisors

Chairman James Larkin called the Investment Advisory Council ("IAC") Meeting to order at 9:05 A.M.

Approval of Minutes

Chairman Larkin asked for comments on the Minutes of the July 11, 2007 IAC Meeting. There being no comments, **a motion was made by Michael Freeman, seconded by William Murray, that the Minutes of the July 11, 2007 IAC meeting be accepted as drafted. The motion was passed unanimously.**

Opening Comments by the Treasurer

Treasurer Denise Nappier introduced and welcomed the new IAC member, Thomas Barnes, who was appointed to the IAC by House Republican leader, Representative Lawrence Cafero. She noted that Mr. Barnes is the successor to Dick Roberts. Mr. Barnes indicated that he felt today's meeting would be a learning curve for him and he planned to observe.

Treasurer Nappier announced her decision to make a commitment of $50 million dollars in RLJ Real Estate Fund III, following the presentation at the July IAC meeting and the favorable feedback from the IAC members. She noted that this would be the third investment of the Connecticut Retirement Plans and Trust Funds ("CRPTF") with this manager, bringing the CRPTF's total capital commitment, including the preceding two deals, to $125 million.

Treasurer Nappier announced her decisions on six Emerging Market Debt ("EMD") managers that presented at the July IAC meeting. She noted that after considering the IAC's feedback, she decided to engage four of the six managers: UBS Global Asset Management, Stone Harbor Investment Partners, Pyramis Global Advisors and ING Investment Management. She said that while the feedback from the IAC was generally positive on all of the competing managers, her selection was based on several factors including modeling completed on a combination of all the candidates and Ashmore Investment Management Limited as the existing manager.. Treasurer Nappier said her decision took into account the optimum risk and return parameters that the CRPTF seeks to achieve. With regard to the two managers not selected for the EMD mandate, Treasurer Nappier commented on the impressive management style of Schroders Investment Management and that they would likely be considered for another part of the CRPTF's portfolio, the Liquidity Fund, and that Pacific Investment Management Company LLC was being considered for the High Yield mandate, and would be at the September IAC meeting to present on their high yield program.

With respect to new business, Treasurer Nappier said that Dave Johnson, Principal Investment Officer, would report on the action plan and selection criteria for a real estate investment consultant search. She noted that the contract with the CRPTF's current real estate consultant, PCA Real Estate Advisors, Inc. ("PCA"), is in the process of being extended for a six-month period from September 30, 2007 to March 30, 2008, during which time the CRPTF would conduct a required competitive search for a real estate consulting firm.

Treasurer Nappier noted that at today's meeting the IAC would hear a presentation from Blackstone Real Estate Partners VI ("Blackstone VI") on a real estate investment opportunity. She said that Blackstone is a current top quartile manager and that the CRPTF's previous capital commitment to The Blackstone Group ("Blackstone") was for a private equity fund, Blackstone

Capital Partners III. Treasurer Nappier discussed the lucrative opportunity that this commitment would provide for the CRPTF Real Estate Fund ("REF"), that this Fund had already realized significant gains on certain investments, and that the CRPTF would likewise realize gains of approximately $20 million to $30 million if it commits before the final closing. She also provided information on the analysis as it pertained to the firm's Initial Public Offering ("IPO"). Treasurer Nappier said that effect on the market place as a whole is untested when it comes to private equity firms going public and as it evolves, the CRPTF will carefully watch and assess how this may affect the alignment of interests with general partners going forward. She then pointed out that the economics of this deal would be locked in through a carefully negotiated contract that would protect the interests of the CRPTF for the term of the deal. Treasurer Nappier urged the IAC members to waive the 45-day comment period, if they so favored the investment, noting that the CRPTF has less than 24 hours to close on this commitment.

Treasurer Nappier said that the main topic of today's meeting was to discuss the preliminary draft Investment Policy Statement ("IPS") and receive the IAC's informal feedback. She noted that this is the first time that major changes to the IPS are being proposed, in terms of both form and substance, since its adoption in March of 2002. She said there had been several amendments, but not of the magnitude reflected in the preliminary draft now before the IAC. Treasurer Nappier said that today's discussion would help her determine any necessary changes prior to commencing with the formal statutory review and adoption process, which should take place at the September IAC meeting and would ultimately require the IAC's consent to amend the IPS.

CRPTF Final Performance for May 2007

Ms. Palladino provided an update on the year-end performance for fiscal year 2007, more detail on the EMD transaction and comments on the markets with regard to the volatility caused by sub prime mortgages. She noted that the performance included in the IAC package was preliminary and the final performance was distributed today. Ms. Palladino reported that for the fiscal year, the Combined Investment Fund earned an impressive 17.34%. She reported that these results were mainly driven by the CRPTF's allocation to International Stock Fund ("ISF") which returned close to 30%. Ms. Palladino said that while the results were impressive, the portfolio underperformed its benchmark by 66 basis points. She reported that for the five-year period, the portfolio earned an average return of 11.07%, under performing its benchmark by 44 basis points.

Ms. Palladino reviewed in more detail the recent decision made by Treasurer Nappier relative to the CRPTF's EMD mandate. She commented about the modeling that was completed on the candidates and the existing holdings. Ms. Palladino provided an overview of the current EMD portfolio, performance over the past five years and the CRPTF's future strategic and tactical allocation goals for the EMD portfolio.

Ms. Palladino concluded her remarks with some comments on the markets. She reported on the concern of sub prime mortgages and the lending institutions that issue those mortgages. She also commented on the impact that this volatility could have on the CRPTF portfolio as a whole. The impact is widespread affecting the equity markets, debt markets and the private equity and real estate markets. In particular, Ms. Palladino reported that the PFM division surveyed its debt managers regarding the CRPTF's exposure to sub prime mortgages and the range was from 0%

to 4.5% with the investments in sub prime backed debt having very short duration and the highest quality ratings.

Consideration for the Search Process for a Real Estate Consultant

Mr. Johnson informed the IAC that the Request for Proposal ("RFP") for the Real Estate Investment Consultant would be released August 15, 2007, with a response date of September 28, 2007. He said that interviews would be conducted in October with final recommendations to the IAC at the November 14, 2007 meeting. Mr. Johnson discussed the current contract with PCA and efforts that are underway to extend that contract. He also noted that PCA might choose not to respond to the RFP because of the firm's recent purchase by a Swiss firm and its change in focus to discretionary accounts. Mr. Johnson explained the scope of services in the RFP and noted that there are approximately twenty-five firms in that universe that could potentially respond to the RFP.

Chairman Larkin asked for a motion to endorse the Action Plan and Screening/Selection Criteria for the real estate consultant search. **A motion was made by Peter Thor, seconded by Mr. Murray, to endorse the Action Plan and Screening/Selection Criteria for the real estate consultant search. The motion was passed unanimously.**

Presentation of Blackstone Real Estate Partners VI

Mr. Johnson provided introductory remarks noting that Blackstone is among the best investors in the real estate market with an impeccable track record. He said that Blackstone's gross return for 15 years is 39.5% with a net return to investors of over 30%. Mr. Johnson explained that the primary strategy of Blackstone is to convert public companies to private enterprises, a very sophisticated end of the real estate investment business, which has limited competition and the potential for high returns. He said that Blackstone has successfully implemented this strategy for Blackstone VI with the purchase of Equity Office properties in February 2006, already liquidating 70% of the Equity Office portfolio at substantial gains. He also explained that all investors who commit on or before August 8, 2007 would participate in the gains generated by the Equity Office portfolio. Mr. Johnson said that Blackstone VI also has a letter of intent to buy Hilton Hotel Corporation ("Hilton") for $26 billion and expects to close in the fall. He reported that Blackstone VI is an opportunistic investment, raising the opportunistic portfolio to 38%, which would fall within the proposed IPS guidelines of 40% and the hotel exposure from 15.3% to 17.4%. Mr. Johnson said that Blackstone is raising a $10 billion fund, with a co-investment from the general partners of $750 million and potentially $1 billion. He said that there is no leverage limitation. Mr. Johnson made comments on the recent IPO, reporting on the alignment of interest between the limited and general partners and the expected risk and return profile.

Mr. Johnson and Paul Mouchakkaa of PCA then responded to questions from IAC members regarding how the process with Blackstone began, the leveraged amount of the Hilton purchase, loan commitment for the Hilton purchase, and exit strategy for the Hilton properties.

Presentation by The Blackstone Group

Blackstone made a presentation to the IAC on Blackstone VI. Blackstone was represented by Jonathan Gray, Senior Managing Director, and Mary Frances Metrich, Managing Director. Ms. Metrich provided an overview of Blackstone and reviewed the IPO. Mr. Gray provided information on the performance of Blackstone Real Estate Partners ("BREP"), an overview of the BREP team, the firm's public-to-private transactions, the realized and partially realized investments, BREP VI investment record and the acquisitions of Equity Office Properties and Hilton Hotels Corporation.

Mr. Gray responded to questions from the IAC members regarding the hotel market, commitment of financing on the Hilton deal, the sharing of the equity between BREP V and BREP VI of Equity Office Properties and the alignment of other hotels with Hilton.

Roll Call of Reactions for Blackstone Real Estate Partners VI

George Mason, Thomas Fiore, Mr. Murray, Mr. Freeman, Mr. Barnes, David Roth, Sharon Palmer and Mr. Thor were all in favor of making the commitment.

Chairman Larkin asked for a motion to endorse a commitment to Blackstone Real Estate Partners VI. **A motion was made by Mr. Mason, seconded by Mr. Freeman, to endorse a commitment to Blackstone Real Estate Partners VI. The motion was passed unanimously.**

Chairman Larkin asked for a motion to waive the 45-day comment period for Blackstone Real Estate Partners VI. **A motion was made by Mr. Thor, seconded by Mr. Freeman, to waive the 45-day comment period for Blackstone Real Estate Partners VI. The motion was passed unanimously.**

Investment Policy Statement

Mr. Larkin began the discussion by reminding the IAC members of their role with regard to the IPS. Treasurer Nappier reminded the IAC that the IPS was a preliminary document and that the formal review and adoption process would not begin until after the document is publicly noticed. She also noted that the IPS is an action item shared by the Treasurer and the IAC according to the Connecticut Statutes and explained the steps of the process.

Ms. Palladino reviewed the major points included in the cover memo, which were: focus on the investment process, use of an appendix for the sub-asset class composition, an abbreviated approval process for appendix items, the addition of the Alternative Investment Fund, the addition of the Liquidity Fund, the elimination of the Cash Reserve Account, the division of the ISF and a more delineated approach to fixed income investments. Treasurer Nappier noted the items that are proposed to be placed in the appendix are not prescribed by state statutes and the IAC would continue to participate in the review and approval process, but the more extensive public process would not be required, allowing for certain policy changes to be made faster. Mr. Rifkin noted that the recent asset liability study was more focused and detailed on the individual plans and trusts and that is the reason for some of the preliminary proposed changes. He said that the IPS as revised reflects what the Connecticut Statutes require to be in the IPS for approval by the IAC. Mr. Rifkin said that, in fact, the sub-asset allocations and benchmarks are not required to be in the IPS and the plan is to move them to an appendix and include language within the IPS that empowers the IAC with approval of the appendices. Treasurer Nappier pointed out that reporting on the plans and trusts would not be combined going forward because the asset allocations would vary significantly. She explained some of the implications of the individual reporting of plans and trusts.

IAC Member Comments on IPS

Mr. Roth felt that the IPS body should be pared back to include only statutory requirements with a broad outline of philosophy and clear limitations. He said that he would delete any language that is explanatory and the more in the appendix the better.

Ms. Palmer said that she liked the proposed structure much better and felt that sections have been appropriately placed in the appendices. She said that the alternative investment fund and its structure made her uncomfortable. She also said that she was concerned that the asset allocation changes in some of the funds added more risk and specifically, she noted the shift of 20% in real estate from core to value added and opportunistic. Ms. Palmer said that she has faith in the current Treasurer, but wanted to ensure that any successors would have appropriate parameters within which to work.

Mr. Thor felt that placing the asset allocations in the appendix made perfect sense but that he was not convinced that the responsible contractor policy should be an appendix. He was also concerned that the phrase in Part I regarding the primary objective of the CRPTF had been deleted and wondered why it was deleted.

Mr. Murray had some concern that a five-year old policy document had so much red ink changes and wondered if the 2002 document was flawed or if there have been that many changes made.

Chairman Larkin said that although there was indeed a lot of red ink, very little had actually been eliminated, but had been moved to various other sections and appendices.

Mr. Rifkin said that the goals had been to shift some of the more detailed language into the appendices, eliminate redundancy and restructure the document so that it flowed logically. He concluded that that there was no elimination of concept, ideas, fiduciary responsibilities, general purpose of the CRPTF.

Treasurer Nappier said that Mr. Thor made a valid point regarding the deletion of the primary objective in Part I. She clarified that the CRPTF includes more than just retirement income for beneficiaries as trust funds are pooled with the pension funds as well. Using the Teachers' Retirement Fund ("TERF") as an example, Treasurer Nappier pointed out that Part II, Article I includes the exact language under investment objectives stating that, "The TERF's primary investment objective is to provide a secure source of retirement income for its beneficiaries." She noted that this reinforces Chairman Larkin's point that a lot of what was deleted was moved either to an appendix or into the appropriate plan or trust fund.

Mr. Mason said that with regard to the risk/return frontier, he felt that should be the primary objective and that he would like to see "highest return commensurate with risk." He also questioned 3-13d, but Mr. Rifkin explained that this is a statutory requirement and had been for many years.

Mr. Fiore said that he was not finished reading the document but was fine with what he had read.

Mr. Freeman said that he had read approximately 90% of the document, liked the restructuring because it provided a more user-friendly document while maintaining the integrity of the document.

Mr. Barnes viewed the document as educational but did not want to comment yet. He said that, in general, he preferred policies that were clean and offered clarification for the user.

Chairman Larkin said that he felt that it was an excellent job. He noted that he would like a reference to when historic guidelines were approved. Chairman Larkin asked that the generically used terms "money manager", "investment manager" and "investment advisor" be clarified. Treasurer Nappier said that a glossary would be provided.
Subsequent to the roll call and a discussion, a decision was made that all the IAC members would provide Ms. Palladino with their feedback no later that August 16, 2007. Further, a subcommittee was appointed to represent the body of the IAC at a meeting with Mr. Rifkin and Ms. Palladino to take place the week of August 20th.

Other Business

Catherine LaMarr, General Counsel, provided the status of the RFP for legal counsel noting that it was expected that the IAC would receive a final report on the legal counsel selection process at the September meeting. She reported that Treasurer Nappier has been named lead plaintiff in a class action suit against Amgen Inc., a pharmaceutical company, where the CRPTF incurred estimated losses in excess of $20 million. She explained that the reasons for the class action suit involve failure to disclose deaths that occurred during the trial periods of medications, violations of Federal Drug Administration rules, off label marketing of drugs and allegations of insider trading. Ms. LaMarr also provided an update on the JDS Uniphase Company case noting that trial is scheduled to begin October 1, 2007. She reported that the Treasurer's class action asset recovery program has collected $5.9 million for fiscal year 2007 and that $4 million of that total was from World Com. Ms. LaMarr reported that the average annual recovery is between $1.5 million and $2 million, and the total recovered was in excess of $16.8 million since the implementation of the program.

There being no further business, the meeting was adjourned at 11:55 A.M.

An audio tape of this meeting was recorded.

Respectfully submitted,

Denise L. Nappier

DENISE L. NAPPIER
SECRETARY