

**INVESTMENT ADVISORY COUNCIL
WEDNESDAY, SEPTEMBER 14, 2005**

MEETING NO. 329

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
Carol Thomas
Peter Thor

Absent:

James Larkin
Reginald Martin
David Roth

Others present:

Howard G. Rifkin, Deputy Treasurer
Susan B. Sweeney, Chief Investment Officer
Patricia DeMaras, Associate Counsel
Gary Draghi, Principal Investment Officer
Greg Franklin, Assistant Treasurer-Investments
Catherine E. LaMarr, General Counsel
Lee Ann Palladino, Principal Investment Officer
David Scopelliti, Principal Investment Officer
Judy Balich, Executive Secretary
Sarah Carter, Administrative Assistant

Guests:

Bradley Atkins, Franklin Park, LLC
Raudline Etienne, CRA RogersCasey
Michael Iodice, CRA RogersCasey
Harvey Kelly, Leumas Advisors
Nori Gerardo Leitz, Pension Consulting Alliance
Julie Naunchek, CSEA-Retiree Council #400
Juan Prieto, CRA RogersCasey
Daniel Schmitz, CRA RogersCasey
Cynthia Steer, CRA RogersCasey
Donna Trapp, State Street Corp.
Thomas Woodruff, Office of the Comptroller

Chairman Dick Roberts called the meeting to order at 9:15 A.M.

Approval of Minutes

Chairman Roberts asked for comments on the Minutes of the July 13, 2005 Investment Advisory Council ("IAC") Meeting. There being no comments, **a motion was made by Thomas Fiore, seconded by Carol Thomas, that the Minutes of the July 13, 2005 IAC meeting be accepted as drafted. The motion was passed unanimously.**

Opening Comments by the Treasurer

Treasurer Denise Nappier began her comments noting how government decisions can affect our lives, from the positive outcome of the BRAC¹ decision to the devastation of Hurricane Katrina. She said that the Office of the Treasurer ("OTT") has issued a press release to disaster relief organizations and other charitable groups to encourage them to check the Unclaimed Property ("UCP") website for any unclaimed assets that might belong to them. Treasurer Nappier said that UCP did an initial screening for some of the national organizations and found about \$27,000 belonging to the American Red Cross, Salvation Army and United Way. She encouraged anyone at the meeting who might be affiliated with any charitable organizations to check the UCP website or to inform the charity that they should do so. Treasurer Nappier said that within just a few days, OTT employees contributed \$4,000 to the American Red Cross.

Treasurer Nappier said that fiscal year 2005 has closed and she will be providing a full briefing on fiscal year 2005 after completion of the Annual Report, which must be filed in mid October. She went on to share a few highlights of the fiscal year, saying that the OTT achieved some milestones and turned the corner on some assignments that had been carried over from the previous year. Treasurer Nappier made note that FY 2005 was another year of double-digit returns at 10.42%, exceeding the actuarial investment assumption of between 8.5% and 9.0% and placing the Connecticut Retirement Plans and Trust Fund ("CRPTF") in the 30th percentile of the TUCS universe. She said, however, that CRPTF underperformed the total benchmark by slightly more than 100 basis points and this was primarily due to asset allocation, which underweighted emerging market debt and real estate. The Treasurer said that she was happy to report that just prior to the end of FY 2005, CRPTF funded an Emerging Market Debt Manager, two Inflation Linked Bonds managers, committed \$75 million to two new real estate partnerships, which included CRPTF's first allocation to an urban investment strategy since the beginning of her administration and \$250 million to a new separate account. She said that the most active funding commitment occurred in the private equity where five new partnerships were executed. Treasurer Nappier remarked that during FY 2005, the composition of the IAC changed with the departure of the Treasury's distinguished colleague, Hank Parker, and the appointments of Duke Himmelreich, William Murray and Michael Freeman.

Treasurer Nappier updated the IAC on items from the July IAC meeting, advising that following the IAC members' comments and waiver of its 45-day comment period as well as her further evaluation of the offering, she decided to commit \$50 million to Starwood Global Opportunity

¹ Base Realignment and Closure

Fund VII, L.P. She also advised that after receiving the IAC members' comments and their waiver of the 45-day comment period as well as receiving some additional due diligence, she decided to commit \$40 million to ICV Partners II, L. P.

Treasurer Nappier reported that in August, the four Connecticut Horizon Fund-of-funds managers were funded with a total of \$435 million of which \$295 million represents domestic equities, \$56 million international equities, and \$84 million fixed income. She said that the four fund-of-funds managers hired 30 sub-managers to invest the funds and that she has been told that of these 30 sub-managers, 47% are minority-owned firms, 23% are woman-owned firms, 37% are emerging firms, and 20% are Connecticut-based firms. Treasurer Nappier advised that there is a reporting form being developed to provide the IAC with quarterly reports on the progress of that program.

Treasurer Nappier informed the IAC that the Goodwin Square property has been sold. She said that CRPTF carried it for \$38 million and sold it for approximately \$41 million, which was more than had been expected. Treasurer Nappier commended Deputy Treasurer Howard Rifkin for taking the lead on the Goodwin, noting that it was a sensitive transaction and the OTT wanted to ensure that the buyer would promote a worker friendly environment. She said the buyer did agree to continue with the union contract that expires in 2007 and to continue the current use of the hotel portion of the property.

Treasurer Nappier noted that for today's meeting, in addition to the June quarterly meeting, she would present several new investment opportunities for consideration by the IAC. She said that the Principals from Welsh, Carson, Anderson and Stowe would present their latest fund offering, WCAS X. She said that this fund would make buyout and growth capital investments in companies representing healthcare and information and business services, and that the investments would be leveraged acquisitions of mature upper middle market and large cap financing in small and midsized companies. Treasurer Nappier informed the IAC that she is considering an investment of between \$75 million and \$100 million in this fund. She said that workforce diversity is not one of the strengths of this firm and that she has expressed her concerns to the general partner. Furthermore, she said that she informed the principals that should the CRPTF progress to contract negotiations, there would be an expectation that Welsh, Carson, Anderson & Stowe would improve their workforce diversity. She told the IAC that the OTT has contract language relative to this issue and expects any firm looking to do business with the OTT have, at a minimum, an Equal Employment Opportunity policy statement.

Treasurer Nappier said that another existing manager, Rockwood Capital based in Fairfield County, would make a presentation at the meeting today. She said that IAC members might recall that CRPTF made an investment a year and a half ago with Rockwood Capital following its presentation of Fund V, which is now nearly fully invested. She noted that initial returns for Fund V are good. She said that Rockwood Capital Fund VI's investment strategy would be similar to that of Fund V, which is a closed Commingled fund that will employ value creation strategies and investment in a variety of properties types utilizing local operating partners with experience in the fund's target investment market. Treasurer Nappier said that she is considering an investment of \$20 million in this fund.

Treasurer Nappier provided several updates on the legal front beginning by reporting that the Pennsylvania court recently approved CRPTF's settlement with Keystone. She said that in the next few days the OTT would receive a final distribution of approximately \$1 million, which will bring the total value of recovered assets to \$2 million. Treasurer Nappier said that when considering the size of CRPTF's investment, \$27.5 million, \$2 million is not a lot, but it is better than nothing.

Treasurer Nappier said that one of the IAC members has been subpoenaed to testify in the JDS Uniphase matter. She said that she and several OTT staff have also been subpoenaed and that IAC member Michael Freeman has already spent a few hours testifying. Treasurer Nappier invited Mr. Freeman to comment. Mr. Freeman said that JDS' counsel questioned him on the role and responsibilities of IAC members.

Carol Thomas asked if Brown Capital would be addressing the IAC today. Treasurer Nappier said that the presentation by Brown Capital has been delayed until the October meeting due to the ambitious agenda for today's meeting. She added that based on CRPTF's monitoring of Brown Capital, it would not be detrimental to the CRPTF to delay the presentation by one month.

CRPTF Final Performance for July 2005

Susan Sweeney, Chief Investment Officer said that since this is a quarterly report and a lot of time will be spent on performance for the Fiscal Year ending June 30, 2005, she would focus her comments on the TUCS rankings and performance for the month of July.

Ms. Sweeney reported that in the TUCS universe for the quarter ended June 30, 2005, the CRPTF returned 2.66% which placed in the 19th percentile for all the public funds greater than \$1 billion. She said that the total fund returned 10.42% net of all expenses ranking CRPTF in the 30th percentile for FY 2005. Ms. Sweeney reported that for the 5, 7 and 10-year performance CRPTF ranked in the 50th, 31st and 35th percentiles, respectively.

Ms. Sweeney reported that for the month of July, the total fund returned 2.23%, which was 51 basis points below its benchmark. She said that the domestic equity portfolio returned 3.96% in July which trailed the Russell 3000 by 14 basis points but exceeded the S&P 500 by 24 basis points. Ms. Sweeney noted that 78% of the domestic equity portfolio is comprised of large cap managers with S&P 500 passively indexed or enhanced indexed mandates. Ms. Sweeney said that the small/mid cap segment of the market had a strong month in July returning 5.99%, slightly over the Russell 2500, which returned 5.91%. She noted that two managers in that group, Brown Capital and TIMCO/Citigroup, are on the watch list and are scheduled to make presentations at the October IAC meeting.

Ms. Sweeney said that the International Stock Fund was 35 basis points below its benchmark for July, noting that Morgan Stanley Magnum, which is on the watch list in this asset class, did perform within 3 basis points of its benchmark for the month. She said that late in the day on September 13, there was a press release from Morgan Stanley that Mitch Marin the president and Chief Operating Officer of Morgan Stanley Investment Management is retiring from the firm.

Ms. Sweeney indicated that this is the first top-level change that has occurred on the Investment Management side of the firm and that most of the disruption has been at the very senior levels and on the retail division of the firm. She said that this is a concern for the two CRPTF mandates managed by Morgan Stanley, the \$327 million Magnum portfolio and the \$238 million small cap international portfolio. Chairman Roberts asked if Ms. Sweeney knew who would replace Mitch Marin. Ms. Sweeney said that Owen Thomas who is head of their real estate division on the investment management side would be the interim head until Morgan Stanley finds a permanent replacement.

Ms. Sweeney reported that the fixed income portfolio returned negative 45 basis points, one basis point below its benchmark.

Thomas Fiore asked if there is an estimate of how much of the International Stock Fund return is related to currency vs. actual performance. Ms. Sweeney said that the international stock portfolio returned 19.35% for fiscal year 2005 with the currency overlay, and without the currency overlay it would have been 115 basis points less.

Presentation by and Consideration of Welsh, Carson, Anderson & Stowe X, L.P.

David Scopelliti, Principal Investment Officer, said that Welsh, Carson, Anderson & Stowe ("WCAS") would be presenting on Welsh, Carson, Anderson & Stowe X, L.P. ("Fund X"). He said that CRPTF has investments from two prior WCAS funds from 1997 and 1998. He remarked that as mentioned by Treasurer Nappier, the fund would continue to pursue two core sectors, health care and business services and information technology. Mr. Scopelliti said that Fund X would focus on mature companies, the upper middle market and growth financing. Mr. Scopelliti pointed out that WCAS has been in business for 25 years, has stability in the management team and most of the funds have done well. He said that for Fund X, WCAS is targeting \$3.5 billion in capital commitments and already have many public institutional investors committed. Mr. Scopelliti said that following a meeting in August with Treasurer Nappier, WCAS has begun taking corrective action to address their workforce diversity. Chairman Roberts asked when their next close would be. Mr. Scopelliti said that WCAS has rolling closes and that the next major close would probably be in October or November.

Mr. Fiore asked about page 10 of the Franklin Park report, specifically Fund VIII that shows a gross return of -18% and a net return of 2.1%. He said that the other funds show lower returns for net versus gross. Bradley Atkins of Franklin Park explained that Gross Realized IRR represents realized investments and Net Portfolio IRR is inclusive of realized and unrealized investments net of fees and expenses.

Presentation by Welsh, Carson, Anderson & Stowe

Welsh, Carson, Anderson & Stowe made a presentation to the IAC regarding Welsh, Carson, Anderson & Stowe X, L.P. WCAS was represented by three partners Rob Minicucci, Paul Queally and Jon Rather. Mr. Minicucci provided an overview of the firm as well as the firm's investment strategy, investment team and information and the business services sector focus. Mr. Queally provided information on the firm's industry investment focus, competitive

advantage, use of repeat management teams, operational focus on growth and focus on the current healthcare industry.

Mr. Rather addressed the issue of diversity and corporate citizenship, noting that at the recent meeting with Treasurer Nappier there was a discussion of ways that WCAS could improve diversity, both within the firm, portfolio companies and the overall private equity industry. He said that following that discussion, WCAS has assigned an investment professional to work with the Robert Toigo Foundation and the goal is to place Toigo Fellows within their portfolio companies, their own firm and also within the private equity industry. Mr. Rather also provided information on the firm's equity partnerships, WCAS X major partnership terms and the main investors for Fund X.

Mr. Fiore commented that he was sure when WCAS was raising investments for Fund VIII and investing in the communication industry that they expected a strong return on the investment and asked what happened with WCAS Fund VIII. Mr. Minicucci responded that although the communication companies in which Fund VIII invested had poor returns, they did grow; however, their growth required large capital expenditures and WCAS was reliant on the capital markets to fund that expansion. He said that the lesson learned is not to rely on others to carry the capital expenditure load. Mr. Queally added that any investments made by WCAS are now fully funded and do not rely on the capital markets.

Mr. Freeman asked what kind of investments WCAS makes in healthcare and if WCAS sees the same type of investment opportunities over the next three to four years. Mr. Queally responded that WCAS backs companies that provide services and care within the industry. He said that WCAS believes that the opportunities in healthcare are expanding. Mr. Queally said that healthcare is headed toward a consumer driven system. Sharon Palmer asked if Select Medical and Ardent are buying "for profit" acute care hospitals. Mr. Queally said that Ardent is a "for profit" hospital company and Ardent's main strategy is to purchase financially ailing hospitals with very good clinical reputations but poor financial results. Select Medical is a firm that develops long-term acute care hospitals, which saves the healthcare system significant dollars. Ms. Palmer talked about a legislative policy decision to support non-profit hospitals in Connecticut and noted that Sharon Hospital is the only "for profit" hospital in Connecticut. Ms. Palmer said that her concern would be that it might be a conflict to make an investment policy promoting "for profit" hospitals. She also asked about WCAS's charitable donations, specifically donations to organizations in Fairfield County and to private and parochial schools. She asked if WCAS made contributions to urban areas or support work for public schools. Mr. Rather said that WCAS does support urban areas, specifically the Domas Foundation in Stamford, Connecticut of which he is the treasurer. He said the goal of the Domas Foundation is to help the public schools and to assist needy students with programs to assist them in the education process.

Roll Call of Reactions for Welsh, Carson, Anderson & Stowe X, L.P.

Ms. Thomas said that she appreciated the package of information provided to the IAC and would support the investment. Ms. Palmer said that she would reluctantly support the investment because she thinks that WCAS may be getting stale. Peter Thor said that he supports the

investment with reservations, and he is troubled by their lack of diversity. Mr. Fiore said that his only hesitation was with regard to the performance of their Fund VIII, but overall does support the investment. Mr. Himmelreich said that he would support the investment. Mr. Murray said that he was glad that WCAS acknowledged the need for diversity, was impressed that the general partners have \$175 million invested in the fund, seemed to be able to answer all questions satisfactorily and would support the investment. Mr. Freeman said that he recognizes that they have made mistakes, recovered and learned lessons, but is impressed by the high percentage of their own money invested, their long stable history and their strong investment performance over time and he has no reservation about the investment. He added that he is confident that Treasurer Nappier will ensure WCAS's follow-through with corporate diversity. Chairman Roberts said that he finds it very interesting that WCAS would use Toigo Foundation not only for their own operation but their companies, they have a good track record, likes the fact the general partners have 5% invested and thinks that WCAS will do very well.

Chairman Roberts asked for a motion to waive the 45-day comment period. **A motion was made by Mr. Freeman, seconded by Mr. Murray, to waive the IAC 45-day comment period. The motion was passed unanimously.**

Presentation by and Consideration of Rockwood Capital Real Estate Partners VI, L.P.

Gary Draghi, Principal Investment Officer, said that Rockwood Capital Corporation ("Rockwood") representatives would make a presentation regarding Rockwood Capital Real Estate Partners, VI, L.P. ("Fund VI"). He said that, as Treasurer Nappier mentioned, Rockwood is a Connecticut based firm with offices in Greenwich, Connecticut and an office in San Francisco, California, which support their bi-coastal real estate investment focus. Mr. Draghi said that Rockwood VI would be a Value-Added closed end real estate fund, very similar to Rockwood's Fund V which received a commitment from CRPTF in April 2004. He said that Fund V is doing very well with a projected net IRR of 19% and its investment plan has proceeded ahead of schedule. Mr. Draghi said that CRPTF is considering a \$20 million investment in Fund VI. Mr. Draghi explained that the concept of a Value-Added fund is buying properties, making significant improvements to the property and then selling the property to investors seeking core properties. He noted that since the previous investment made with Rockwood by CRPTF, Rockwood's business and number of employees had grown and with that growth, the firm had improved its workforce diversity.

Ms. Thomas asked how, as stated in Ms. Sweeney's memo, CRPTF would correct itself in terms of exceeding the 50% debt limit guideline. A discussion followed regarding investments versus commitments and Treasurer Nappier summed up the discussion noting that the over exposure only takes into consideration CRPTF's current investments and not its commitments.

Mr. Himmelreich expressed concern about the wisdom of timing of investments in today's real estate market. Treasurer Nappier said that CRPTF makes a commitment but does not fund that commitment at that time. She said that the fund manager would be responsible for making investments at the appropriate time and CRPTF is positioning itself to take advantage of the market as it becomes more favorable and its manager will make that decision. Ms. Sweeney

added that as a seller in the market, CRPTF benefits from the current market, using the sale of the Goodwin as an example.

Presentation by Rockwood Capital Real Estate Partners VI, L.P.

Rockwood Capital Corporation made a presentation to the IAC regarding Rockwood Capital Real Estate Partners Fund VI, L.P. Rockwood was represented by Ed Kavounas, Executive Managing Director; Walter Schmidt, Managing Director; and Peter Falco, Managing Director. Mr. Kavounas provided the background of Rockwood including the firm's organization chart, an overview of the firm's investments and track record and the residential portfolio of Rockwood's Fund V. Mr. Falco provided information on Rockwood's Fund V including the portfolio composition and strategy, the retail portfolio and the overall forecast. Mr. Schmidt talked about the hotel and office investment portfolio of Rockwood's Fund V.

Mr. Kavounas explained that the reason they had provided so much information on Rockwood's Fund V is because Rockwood will follow the same strategy for Fund VI. He went on to provide information on U.S. employment growth recovery, population growth and regions impacted by globalization and population growth because those elements are the underlying fundamentals that will influence Fund VI's selection.

Mr. Thor asked if Rockwood is involved in affordable housing. Mr. Kavounas explained Rockwood's involvement in affordable housing projects.

Ms. Palmer commented that Rockwood's upper management staff could be more diversified.

Roll Call of Reactions for Rockwood Capital Real Estate Partners VI, L.P.

Mr. Himmelreich said that he likes their strategy and supports the investment. Mr. Fiore, Mr. Thor, Ms. Palmer, Ms. Thomas, Chairman Roberts, Mr. Freeman and Mr. Murray all said that they support the investment.

Chairman Roberts asked for a motion to waive the 45-day comment period. **A motion was made by Ms. Himmelreich, seconded by Ms. Thomas, to waive the IAC 45-day comment period. The motion was passed unanimously.**

Real Estate Fund Review as of March 31, 2005

Nori Gerardo Lietz of Pension Consulting Alliance ("PCA") reported on the Real Estate Fund as of March 31, 2005. She said that PCA had spoken with managers and determined that the devastation caused by Hurricane Katrina is not having any impact on the CRPTF portfolio. Ms. Lietz said that the sale of the Goodwin Square property is not reflected in the numbers being reported. Ms. Lietz provided an explanation of the NCREIF index, the benchmark of the Real Estate Fund noting that the NCREIF one-year return was 15.5%. She said that the CRPTF one-year return is 25.1%, three-year is 9.9% and five-year is 9.0%. Ms. Lietz talked about the positive impact of some changes instituted in the portfolio during the past 18 to 24 months, calling attention to AEW Partners and Westport. She noted that the one large negative return for

the year is the Timberland Separate Account. Treasurer Nappier asked if the recommendation to liquidate is being pursued, to which Ms. Lietz responded that it is. Mr. Draghi reported that there is a non-refundable deposit on that investment and hopes to achieve a sale in October or November.

Mr. Fiore asked Ms. Lietz to provide information on the Valuation Reconciliation Report on page 14 of the PCA report. Ms. Lietz and Mr. Draghi reviewed and explained the report for the IAC.

Chairman Roberts noted that there are a number of properties being sold out of the portfolio and asked if CRPTF is decreasing the real estate portfolio. Ms. Lietz said the net value of the portfolio is down slightly because there has been sales activity, but PCA is working with PFM and is continually reviewing new investment opportunities as well as looking for new core investments to balance the portfolio.

Ms. Sweeney noted that even though it is not an agenda item, the Commercial Mortgage Fund quarterly report was included in the IAC package for informational purposes and she would be glad to answer any questions.

Private Investment Fund Review as of March 31, 2005

Mr. Atkins reported on the Private Investment Fund for the quarter ending March 31, 2005. He provided a portfolio overview noting that since inception, the CRPTF has committed \$4 billion to 49 funds and has earned 1.3 times return on invested capital. Mr. Atkins said that CRPTF's IRR since inception is 7.6% compared to the benchmark of 2.6%. He reported on recent commitments, current allocation relative to the guidelines and fund level performance by strategy. Mr. Atkins said that today's Wall Street Journal mentioned that KKR lost two senior partners and CRPTF is invested in KKR 1996 and KKR Millennium Funds. He said that a key person event was not triggered and although the departures were significant, the firm would not be negatively impacted.

Mr. Fiore asked about the Constitution Liquidating Fund. Mr. Atkins explained that the Constitution Liquidating Fund is being liquidated and there are a few active underlying funds in the portfolio. He also noted that CRPTF recommitted capital to a new vehicle managed by Fairview that has the same strategy. Mr. Fiore asked if the \$210 million uncommitted capital would be used for the commitment to Fairview. Treasurer Nappier said that the \$210 million commitment was made by the previous general partner of the Constitution Fund. Mr. Scopelliti said that the unfunded commitment to Constitution Liquidating Fund was made in late 1999 and early 2000 and went into some detail about this fund.

Mr. Himmelreich asked if the total recovery in the Forstmann Little case included the money from the legal settlement. Mr. Atkins said that it does include money from the legal settlement.

Combined Investment Funds Review as of June 30, 2005

Raudline Etienne of CRA RogersCasey (“CRARC”) reported on the Combined Investment Funds as of June 30, 2005. Her report included an overview of capital markets including comments that the fiscal year ended presenting positive returns in every asset class available to CRPTF with particular strength shown by emerging market equity with a 34.9% return. Ms. Etienne reviewed the asset allocation of the fund noting that as of June 30, 2005, the assets were \$21.3 billion, an increase of \$320 million for the quarter. She also reported on the CRPTF Fund performance for liquid assets including the Mutual Equity Fund, the International Stock Fund and the Mutual Fixed Income Fund. Ms. Etienne noted that for Securities Lending, there were total earnings of approximately \$8.18 million for the fiscal year ending June 30. She said that this would probably be the last time that CRARC will be reporting on Securities Lending. Ms. Sweeney said that the Securities Lending figures are generated by the Custodian and now that the contracting phase with State Street Bank (“SSB”) is complete, the securities lending division of SSB would remark on that.

Ms. Etienne noted that CRARC included a BRIEF in the quarterly package for informational purposes. She said that this BRIEF is an updated report on Tim Barron’s presentation to the IAC on performance persistence

Ms. Etienne told the IAC that all of the members are invited to the CRARC client conference if they are interested.

Short-Term Investment Fund Review as of June 30, 2005

Lee Ann Palladino, Principal Investment Officer, reported on the performance of the Short Term Investment Fund (“STIF”) for the quarter ending June 30, 2005. She provided an update of the overall economy pre and post Hurricane Katrina. Ms. Palladino provided an overview of the management of STIF, noting that for the months of April, May and June, STIF earned an average annualized yield of 3.06%, out performing the benchmark by 39 basis points. June 30, 2005 marked the fiscal year-end and STIF returned 2.32% for the year outperforming its benchmark by 41 basis points. Additionally, on a yearly basis STIF also compares its performance to the three-month US T-bill and certificate of deposit (CD) benchmark. The yearly US T-bill benchmark was 2.25% and the yearly certificate of deposit benchmark was 2.48%. STIF outperformed the US T-bill benchmark by 7 basis points and underperformed the CD benchmark by 16 basis points. The underperformance stemmed from an averaging of the CD and US T-bill rates versus a total return calculation for STIF. These results were not untypical given the market environment.

Presentation Regarding Bridgewater Associates Derivative Guidelines

Ms. Sweeney noted that there was a document handed out this morning regarding Bridgewater’s Emerging Market Debt (“EMD”) Guidelines. She said that this is an extension of changes that were made to the Investment Policy Statement (“IPS”), with regard to derivatives, when the currency overlay program was being implemented. Ms. Sweeney said that CRPTF is now in the final stages of funding the EMD portfolio, with Ashmore funded at a little more than \$150

million and about \$450 million remaining to be funded. She said that Bridgewater is one of the remaining three managers to fund and that Bridgewater engages more in currency management and currency hedging because that is an area at which they excel. Ms. Sweeney said that what is before the IAC this morning is a redline version of the guidelines for Bridgewater that the IAC reviewed and approved in March 2005. She said that the requested revisions would allow Bridgewater cross hedging between different currencies, which is presently not a practice that is authorized under the IPS. Ms. Sweeney said that the IAC members have also been given a copy of Part I, Article VI – Use of Derivatives from the IPS that states clearly, *“There shall be no foreign currency speculation or any related investment activity, with the exception of currency hedging managers who will be guided by specific risk parameters in their contracts.”* She noted that this would appear to prohibit the proposed language for the Bridgewater EMD mandate because cross hedging not tied back to the US dollar could be interpreted as currency speculation. Ms. Sweeney also noted however, that in the same Article of the IPS, it goes on to state: *“All other uses of derivatives are prohibited **unless** specifically approved by the Treasurer and reviewed by the IAC.”* She said that Treasurer Nappier has approved this change following several conversations with staff and CRARC, the consultant. Treasurer Nappier said this change would allow Bridgewater to proceed with their plan as presented to the IAC during their initial presentation and that the change is consistent with their strategy. Treasurer Nappier said that she would prefer to launch Bridgewater’s fund consistent with their strategy rather than to box Bridgewater into a strategy that could possibly impact returns to CRPTF. She also noted that EMD is underweighted and CRPTF needs to move expeditiously to fund Bridgewater. Treasurer Nappier also pointed out that there is risk management program in place to monitor their activities.

Ms. Thomas asked if the IPS would need to be revised. Treasurer Nappier said that it would not require revising the IPS and indicated the language already adopted by the IAC in Part I, Article VI, last paragraph, which is highlighted in the document distributed to the IAC.

Mr. Thor asked about the relatively small change to 85% from 90% on the correlations between price movements of the derivative and underlying cash market. Cynthia Steer of CRARC said that in foreign exchange, sometimes a proxy currency will be used and sometimes those movements are very close and sometimes they are not so there is a little more variability.

Chairman Roberts asked for a motion to approve the revised Bridgewater Associates Emerging Market Debt Derivative Guidelines. **A motion was made by Mr. Thor, seconded by Ms. Palmer, to approve the revised Bridgewater Associates Emerging Market Debt Derivative Guidelines. The motion was passed unanimously.**

Other Business

Review of the IAC budget for the quarter ending June 30, 2005

Ms. Sweeney said that the only category that was slightly over budget was meeting costs and that was due to the fact that there were two extra meetings during the fiscal year. She said that overall, the IAC was under budget by almost \$18,000, with the largest under budget item being education and travel and she has been forwarding conference and training information to IAC

members and will continue to do so. Ms. Sweeney said that the next budget report would be for the FY 06 budget adopted at the December 2004 meeting with a total budget increase of \$1,000.

Pension Funds Management Division's operating results as of June 30, 2005

Ms. Sweeney said that she would be happy to answer any questions and made comments on a couple of figures in the report. She pointed out that receivables and liabilities are huge within the International Stock Fund and that relates to the currency hedging positions which are carried at the full nominal amount. Ms. Sweeney said that the net investment income was approximately \$730 million and realized and unrealized gains were approximately \$1.3 billion.

Status Report on Requests by IAC Members

Ms. Sweeney reported that a draft of the **Parker Diversity Principles** went to Treasurer Nappier and several OTT staff met earlier this week to discuss the Principles and they are in the process of working on a second draft. She said that she expects a presentation to be made at the October or November IAC meeting.

Discussion of preliminary agenda for October 12, 2005 IAC meeting

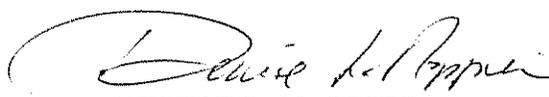
Ms. Sweeney said that at the October meeting, there will be quarterly reports on Cash Flow and Corporate Governance, a Watch List update, presentations by Brown Capital, Citigroup/TIMCO and possibly Morgan Stanley and there may be a presentation by State Street Bank on Securities Lending.

Chairman Roberts noted that there is an Asset Allocation meeting scheduled for October 26, 2005. Ms. Sweeney said that CRARC has a conflict with that date and PFM would be getting back to the IAC about that date.

There being no further business, the meeting was adjourned at 12:20 P.M.

An audio tape of this meeting was recorded.

Respectfully submitted,


DENISE L. NAPPIER
SECRETARY