

INVESTMENT ADVISORY COUNCIL
WEDNESDAY, December 14, 2005

MEETING NO. 331

Members present:

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

Absent:

Peter Thor

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
Bernard Kavaler, Director of Communication
Catherine E. LaMarr, General Counsel
Shelagh McClure, Director of Compliance
Lee Ann Palladino, Principal Investment Officer
David Scopelliti, Principal Investment Officer
Linda Tudan, Executive Assistant to the Treasurer
Judy Balich, Executive Secretary
Sarah Carter, Administrative Assistant

Guests:

Bradley Atkins, Franklin Park, LLC
Raudline Etienne, CRA RogersCasey
Harvey Kelly, Leumas Advisors
Maria Luce, State Street Corporation
Julie Nauncheck, CSEA-Retiree Council #400
Juan Prieto, CRA RogersCasey
Daniel Schmitz, CRA RogersCasey
Cynthia Steer, CRA RogersCasey
Marc Weiss, Pension Consulting Alliance
Arnold West, ING Investments
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 October 12, 2005 Investment Advisory Council ("IAC") Meeting. There being no comments, **a motion was made by Carol Thomas, seconded by Michael Freeman, that the Minutes of the October 12, 2005 IAC meeting be accepted as drafted. The motion was passed unanimously.**

CRPTF Final Performance for September and October 2005

Chief Investment Officer Susan Sweeney said that her remarks would be focused on the month of October and the TUCS performance for the quarter ending September 30, 2005. She said that CRA RogersCasey ("CRARC") would provide an in depth report on performance for the quarter ending September 30, 2005.

Ms. Sweeney reported that in the TUCS universe for the quarter ending September 30, 2005, the Connecticut Retirement Plans and Trust Funds ("CRPTF") returned 4.11%, which placed in the 45th percentile for all the public funds greater than \$1 billion. She said that the total fund returned 14.48% net of all expenses ranking CRPTF in the 34th percentile for the year ended September 30, 2005. Ms. Sweeney reported that for the 5, 7 and 10-year performance CRPTF ranked in the 55th, 22nd and 25th percentiles, respectively.

Ms. Sweeney reported that for the month of October, the total fund returned a negative 1.60%, which was 23 basis points above its benchmark. She noted that the CRPTF is over the 60% equity cap and that she expects to see positive equity returns in the final November report, which will increase the Fund's overall equity exposure. Ms. Sweeney said that the fund is being monitored and appropriate action would be taken to bring the portfolio under the 60% equity cap if necessary. She said that the domestic equity portfolio returned a negative 1.96% in October, trailing the Russell 3000 by 9 basis points and the S&P 500 by 29 basis points. She reported that the International Stock Fund outperformed its benchmark by 66 basis points for October, noting that Grantham, Mayo, Van Otterloo and Emerging Market Management were primarily responsible for the outperformance. Ms. Sweeney reported that the fixed income portfolio returned a negative 75 basis points, 11 basis points above its custom benchmark and 4 basis points above the Lehman Aggregate. She said that there was very little activity during October in the Real Estate and Private Equity Funds. Ms. Sweeney said that although she usually does not address performance of the Cash Reserve Account, for the month of October there was a notable return of 33 basis points, which was 4 basis points over its benchmark.

James Larkin asked if this is a good time to contemplate a major increase in the percent of CRPTF's holdings in real estate. Ms. Sweeney responded that the investment pacing plan adopted by the IAC about one and one half years ago was formulated within the context of a real estate target of 5%. She noted that CRPTF would try to stage its entry into real estate with the understanding that it is a long-term goal and a long-term asset allocation for the CRPTF.

Presentation by and Consideration of Recommendation to Invest in, Syndicated Communications Venture Partners V, L.P.

David Scopelliti, Principal Investment Officer, provided introductory remarks indicating that Syndicated Communications Venture Partners V, L.P. ("Syncom V") is a minority-owned venture capital fund that targets ethnic entrepreneurs and companies in underserved markets within the media and communications industry. Mr. Scopelliti noted that the CRPTF had been an investor in Syncom since 1990 through the Constitution Liquidating Fund, which is managed by Fairview Capital, and that the Constitution Fund II had recently made a \$15 million commitment to Syncom V.

In response to a question posed by David Roth, Bradley Atkins of Franklin Park and Mr. Scopelliti addressed the returns of Syncom's Fund III which were below expectations. A discussion followed regarding the risk of investing in the communications industry, the general partners' commitment to Syncom's Fund V and the transition of Herbert Wilkins, Sr. to a less active role in the firm.

Reginald Martin asked Treasurer Denise Nappier if an investment commitment to Syncom would be part of CRPTF's commitment to minority firms. Treasurer Nappier explained that the investment would be consistent with the Office of the Treasurer's ("OTT") interest, but that the commitment would not be part of the Connecticut Horizon Fund ("CHF").

Presentation by Syndicated Communications Venture Partners V, L.P.

Syndicated Communications Venture Partners V, L.P. made a presentation to the IAC. Syncom was represented by Terry Jones, Duane McKnight and Tony Thomas. Mr. Jones gave an introduction of the firm and the investment professionals, as well as the firm's portfolio companies and proven success in exiting investments. Mr. Thomas provided information on the firm's current and historical performance. Mr. McKnight talked about Syncom's investment strategy, deal origination, investment process and active value creation.

Ms. Thomas asked for an explanation of Syncom's "Active hands-on support of portfolio companies" and was referred to page 8 of the presentation. Messrs. Jones, McKnight and Thomas all commented on Syncom's active involvement with their portfolio companies.

Chairman Roberts asked for elaboration on the Iridium investment. Mr. Jones gave a detailed response on Iridium's product, market and refocused business strategy.

Mr. Larkin referenced page 21 of Syncom's presentation and asked for a more detailed explanation on the performance of the active portfolio. Mr. Jones explained the differences between the realized and unrealized investments and the methodology for valuation to Mr. Larkin.

Roll Call of Reactions for Syndicated Communications Venture Partners V, L.P.

Ms. Thomas said that she does support the investment. David Roth said that he thinks this is a good investment niche. Sharon Palmer said that she thinks it is a good investment. Mr. Martin said that he is impressed with the company. Thomas Fiore said that he is impressed but chose to remain neutral and expressed hesitancy. Duke Himmelreich said that he thinks timing for this investment is ideal and he is a strong supporter. William Murray said that he is impressed and supports the investment. Mr. Freeman said he has no problems at all with the investment. Mr. Larkin said that he supports the investment with reservations. Chairman Roberts said that he does support the investment.

Treasurer Nappier explained that, consistent with the Investment Policy Statement ("IPS"), she is recommending an investment of up to 10% of Syncom V's fund size, which is approximately \$350 million.

Chairman Roberts noted that the order of the agenda would be changed slightly with Treasurer Nappier giving opening comments, followed by the presentation on Cornerstone and Franklin Park's quarterly report.

Opening Comments by the Treasurer

Treasurer Nappier began her comments by covering some old business that occurred at the October IAC Meeting. She said that at the October meeting presentations were made by Morgan Stanley, Citigroup/TIMCO and Brown Capital, three managers on CRPTF's Watch List. She said that, after considering the feedback from the IAC and conducting further reviews on each manager, she decided to terminate Morgan Stanley and Citigroup/TIMCO. Treasurer Nappier said that she would continue to maintain Brown Capital on the Watch List. She said that the assets from the terminated managers have been awarded to existing managers utilizing the most timely and viable option of redeploying the assets. Treasurer Nappier noted that since the two managers were terminated, the Mutual Equity Fund only has five managers for an \$8.4 billion portfolio. She said that she has asked the consultant, CRARC, to begin an expedited search for managers for the Core mandate and that later at today's meeting the search process and criteria will be presented for consideration.

Treasurer Nappier reported that all ties have been severed with Pioneer Ventures and that there is a detailed press release concerning the final disposition of the fund in the IAC package. She commended all the Treasury staff and consultants who were instrumental in extricating the CRPTF from this long-term obligation. Treasurer Nappier noted that as part of the final settlement, CRPTF received \$18.5 million in cash and dramatically reduced CRPTF's obligation to pay management fees from \$2 million to \$250,000, severed all ties to eleven worthless portfolio companies, took full ownership of four investments with a total current value of approximately \$2 million. She said that on this initial commitment of \$75 million CRPTF recovered or achieved cost savings of \$48.2 million.

Treasurer Nappier said that in a few minutes Cornerstone Real Estate Advisors, a Connecticut based company, would make a presentation on their open-ended commingled Core real estate

fund offering. She indicated that she is recommending a commitment of approximately \$75 million to this fund, bringing CRPTF closer to its goal of \$600 million in Core real estate.

Presentation by and Consideration of Recommendation to Invest in, Cornerstone Property Fund

Gary Draghi, Principal Investment Officer, provided introductory remarks on the Cornerstone Property Fund ("CPF"). He noted that Cornerstone Real Estate Advisors ("Cornerstone") is based in Hartford, Connecticut and is a large, well-established real estate firm founded in 1994 as a separate entity, and is wholly owned by MassMutual.

Mr. Roth, asked if CPF's objective to produce a 5% return is over inflation, which would mean a 7½% to 8% return. Marc Weiss of Pension Consulting Alliance ("PCA") confirmed that objective. Mr. Roth also asked about the valuation process of the property that MassMutual contributed to CPF. There was a subsequent discussion relative to the valuation process.

Other remarks regarding the firm included Mr. Martin's expressed concern regarding Cornerstone's lack of work place diversity, and Mr. Weiss's explanation of the CPF portfolio diversification. Treasurer Nappier noted that CRPTF's lack of exposure to Core real estate for the past several years has had a significant impact on returns.

Presentation by Cornerstone Real Estate Advisors, LLC

Cornerstone Real Estate Advisors, LLC made a presentation on Cornerstone Property Fund to the IAC. Cornerstone was represented by David Reilly, President; Pamela McKoin, Vice President-Client Contact; Robert Staley, Managing Director-Business Development; and Brian Murdy, Managing Director-Portfolio Management. Mr. Reilly provided an overview of the firm noting its key strengths. Ms. McKoin reported on the firm's corporate citizenship and employment diversity. Mr. Staley discussed the reasons that Cornerstone established CPF, an open-end commingled fund, and MassMutual's commitment to support CPF. Mr. Murdy provided information on the property selection for CPF, the Fund's performance summary, the barrier market focus, core strategy and the allocation process. Ms. McKoin provided a summary of the reasons the OTT should invest in the CPF.

Subsequent to the presentation by Cornerstone, there was a discussion regarding the criteria used by Cornerstone to designate areas as barrier markets, recent property acquisitions by CPF, Cornerstone's direction on workforce diversity, the valuation process used by Cornerstone for the MassMutual assets, and the firm's donations to public and private education.

Roll Call of Reactions for Cornerstone Property Fund

Mr. Larkin said that he is in favor of the investment. Mr. Freeman said that he fully supports the investment. Mr. Murray and Mr. Fiore both said that they support the investment. Mr. Martin said the he supports the investment and asked that Treasurer Nappier "hold their feet to the fire" relative to workforce diversity. Ms. Palmer said that she thinks the investment is fine. Mr. Roth said that he does not think that this is a compelling opportunity but that it is okay and explained

his reasons. Ms. Thomas and Mr. Himmelreich both agreed with Mr. Roth. Chairman Roberts said that he thinks that the investment does make sense.

In response to Mr. Martin's request regarding workforce diversity, General Counsel Catherine LaMarr pointed out that the consultant's report explains that this is an open-end fund and that there are limited areas where contract terms are negotiable. She said that there should not be unrealistic expectations with regard to contract terms.

Chairman Roberts noted that he had forgotten to request a waiver of the 45-day comment period following the Syncom presentation would now ask for the motions on both investments.

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

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

Treasurer Nappier commented on the diversity issue indicating that she expects that there will be a presentation at the IAC meeting in January on the draft diversity principles. She said that a good part of those principles codifies the procedures currently used at the OTT. Treasurer Nappier went on to say that a firm's diversity neither qualifies nor disqualifies them as a potential manager and that the OTT takes the opportunity to encourage the improvement of diversity profiles when necessary. She also noted that diversity may not necessarily be seen in the workforce, but it may be in a firm's procurement policy or its commitment to organizations that promote women and minorities in the industry, such as the Toigo Foundation. Treasurer Nappier said that the matter of diversity is handled well before a vendor makes a presentation to the IAC and that lack of diversity is not used as a disqualifier.

Private Investment Fund Review as of June 30, 2005

Mr. Atkins reported on the Private Investment Fund ("PIF") for the quarter ending June 30, 2005. He provided a portfolio overview noting that since inception, the CRPTF has committed \$4.3 billion to 51 funds of which 80% of the capital has been invested. He said that the PIF has earned 1.3 times return on invested capital and a 7.6% IRR. Mr. Atkins said that the 7.6% return outperformed its benchmark, which returned 2.6%. He reported on capital flow since inception, commitments made in 2005, allocation of assets relative to the IPS and performance of each fund relative to vintage year benchmark.

Mr. Roth asked if there was a targeted reasonable return expectation for PIF. Ms. Sweeney noted that the target in the IPS is 500 basis points above the S&P 500. A discussion regarding performance followed.

Consideration of Recommended Search Process for International Stock Fund Managers

Ms. Sweeney said that an expedited search process for International Stock Fund (“ISF”) managers was sent to the IAC for review and comments. She said the basic difference between this expedited search process and a normal process is that CRPTF will go directly to the consultant’s “Buy” list instead of utilizing a long and extended RFP process. Chairman Roberts asked if this meets with the State contracting procedures. Treasurer Nappier said that it meets the CRPTF’s IPS and that it is not inconsistent with the State’s procurement policy. Chairman Roberts asked how many managers are on the “Buy” list. Raudline Etienne said that there are about six firms with the capacity to manage the funds. Ms. Sweeney reviewed the timeline of the action plan relative to interviews and said that IAC members would be notified of the interviews and are welcome to attend.

Chairman Roberts asked for a motion to approve the expedited search process for International Stock Fund Managers. **A motion was made by Ms. Thomas, seconded by Mr. Larkin, to approve the expedited search process for International Stock Fund Managers. The motion was passed unanimously.**

Combined Investment Funds Review as of September 30, 2005

Ms. Etienne of CRARC reported on the Combined Investment Funds as of September 30, 2005. She provided an overview of capital markets noting solid gains in the U.S. equity markets and strong performance in the developed international markets and emerging markets. Ms. Etienne said that the U.S. fixed income markets posted negative returns but emerging market debt and high yield posted positive returns. She reviewed the CRPTF investment structure noting that as of September 30, 2005, the assets were \$21.9 billion. Ms. Etienne pointed out that due to strong performance in international equity, the program is at the 60% equity cap and there may be a need to rebalance if the strength continues. Ms. Etienne reported on fund performance noting a return of 4.1% for the quarter ending September 30, 2005, 14.6% for the 1-year and 13.7% for the 3-year. She explained why the fund lagged its benchmark for the 1 and 3-year periods. Daniel Schmitz of CRARC reported that for the quarter ending September 30, 2005 the Mutual Equity Fund matched its benchmark, the ISF underperformed its benchmark by 1%, and the Mutual Fixed Income Fund matched its benchmark. Mr. Schmitz noted that CRARC changed the universe used as a comparison for peer group charts on pages 23 and 24. He also remarked that the CHF managers were funded during the quarter, and mentioned that, going forward, CRARC would not be reporting on Securities Lending. Ms. Etienne added that formal reporting of the CHF managers would begin in the next quarterly report.

Real Estate Fund Review as of June 30, 2005

Mr. Weiss of PCA reported on the Real Estate Fund (“REF”) as of June 30, 2005. He said that the total portfolio returned 3.5% net of fees for the quarter slightly underperforming the NCREIF Index. He said that the REF return net of fees for 1-year is 25.5%, 3-year is 9.3% and 5-year is 7.4%. Mr. Weiss summarized highlights for the quarter, noting that Walton Street II returned 7.4%, outperforming the benchmark. He added that although all of the remaining investments produced positive returns, they underperformed their benchmarks. He summarized results for

the 1, 3 and 5-year performance. Mr. Roth remarked on negative returns of New Boston IV in this market. Mr. Weiss explained the negative return. Mr. Weiss reviewed the under and over weighting within the real estate portfolio. Treasurer Nappier said that it is important to note that the CRPTF is slowly but steadily changing the real estate portfolio composition. Mr. Weiss reviewed the unfunded real estate commitments. Ms. Sweeney noted that the REF's remaining timber assets have been totally liquidated.

Mr. Roth asked if, as part of the asset allocation study, money would be committed to commodities as an asset class. Ms. Etienne said that at this point there is not a separate commodities asset class.

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

Lee Ann Palladino, Principal Investment Officer, reported on the performance of the Short Term Investment Fund ("STIF") for the quarter ending September 30, 2005. She reported that the Gross Domestic Product was very strong in the quarter, increasing at an annualized rate of 4.3%. Ms. Palladino talked about the outlook for interest rates and inflation risk. She reported that for quarter ending September 30, 2005, STIF returned 3.53%, outperforming its benchmark by 37 basis points. Ms. Palladino noted that the investment strategy of STIF is to maintain liquidity, achieve strong performance and maintain a short weighted average life. She pointed out that the fund reached an all time high of \$5.3 billion in September and is currently at \$3.9 billion.

Ms. Etienne said that she wanted to make a correction for the record. She said that on pages 14 and 41 of the CRARC Quarterly Performance Report for September 30, 2005, there is a statement that should be changed from "...the strategic decision of the program to be half-hedged..." to "...the strategic decision of the currency managers to be under-hedged...".

Other Business

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

Ms. Sweeney said that the only line item estimated to be over budget for the full year is subscriptions, but that item is subjective and varies with renewal dates. She noted that as is typical, the IAC is under budget in education and travel and she has been forwarding conference and training information to IAC members and will continue to do so.

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

Ms. Sweeney said that the unaudited combined investment fund results are for fiscal year to date, not fiscal year end as the report states. She pointed out that cash for Teachers' fund has been reduced to \$110 million.

Status Report on Requests by IAC Members

Ms. Sweeney reported that the draft **Diversity Principles** as cited by Treasurer Nappier in her earlier remarks was the combined efforts of several OTT staff and that the draft should be presented at the next IAC meeting.

Discussion of preliminary agenda for January 11, 2006 IAC meeting

Ms. Sweeney said that at the January meeting, there would be an update on Securities Lending, a Mutual Equity Fund structure review process, Diversity Principles and quarterly reports on Cash Flow and Corporate Governance.

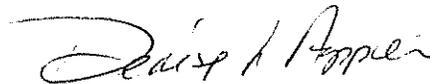
Treasurer Nappier asked Ms. LaMarr to comment on JDS Uniphase and Safety Kleen. Ms. LaMarr said that the OTT would receive another distribution from the Safety Kleen litigation the end of January. She said that relative to the JDS Uniphase case, the judge has ordered the parties to mediation and that 1 mediation session has taken place and another is scheduled for March.

Treasurer Nappier singled out for praise one of CRPTF's private equity managers, Fairview Capital, who was recently featured in the article from Black Enterprise which was included with the IAC package. She said according to the article, Fairview Capital, a Connecticut-based minority-owned firm, has achieved prominence in the industry as the number one minority-owned private equity firm.

There being no further business, the meeting was adjourned at 1:15 P.M.

An audio tape of this meeting was recorded.

Respectfully submitted,



**DENISE L. NAPPIER
SECRETARY**