INVESTMENT ADVISORY COUNCIL
Wednesday, January 13, 2010

MEETING NO. 373

Members present:	Thomas Barnes Thomas Fiore, representing Robert Genuario* Michael Freeman David (Duke) Himmelreich Stanley (Bud) Morten William Murray Denise L. Nappier, Treasurer** Sharon Palmer David Roth Joseph (Joe) D. Roxe, Chairman Carol Thomas Peter Thor
Others present:	Howard G. Rifkin, Deputy Treasurer Linda Hershman, Assistant Deputy Treasurer/Chief of Staff M. Timothy (Tim) Corbett, Chief Investment Officer Lee Ann Palladino, Deputy Chief Investment Officer Wayne Hypolite, Executive Assistant Catherine LaMarr, General Counsel Meredith Miller, Assistant Treasurer-Policy Christine Shaw, Director of Government Relations Linda Tudan, Executive Assistant Winifred (Winnie) Scalora, Administrative Assistant
Guests:	Bradley Atkins, Franklin Park Associates, LLC Joseph Barcic, Mercer Investment Consulting Laure Brasch, Franklin Park Associates, LLC Scott Conners, Landmark Partners Jaeson Dubrovay, NEPC, LLC Peter Gummeson, Audax Group, L.P. Karl Hartmann, Franklin Park Associates, LLC Robin Kaplan-Cho, Connecticut Education Association Harvey Kelly, Leumas Advisors Adrian Kingshott, AdSon LLC Louis Laccavole, SOC Teachers' Retirement Board Jacqueline Lyons, State Street Bank & Trust Kevin Magid, Audax Group, L.P. Robert Shanfield, Landmark Partners Johnson Shum, State Street Bank & Trust Tina St. Pierre, Landmark Partners Edgar (Garz) Soule, Audax Group, L.P. Cynthia Steer, Rogerscasey

***Arrived at 9:05 a.m.**
****Arrived at 11:21 a.m.**

Alex Thomson, Woodcreek Capital Management
Frederick Volp, AllianceBernstein
Dominic Williams, Service Employees International Union

With a quorum present, Chairman Joseph Roxe called the Investment Advisory Council ("IAC") meeting to order at 9:01 a.m.

Chief Investment Officer's Update on the Market, CRPTF Final Performance for the Month Ended November 30, 2009

M. Timothy Corbett, Chief Investment Officer ("CIO"), began by commenting on the Institutional Investment Forum, a joint venture between *Pension & Investments* and the *Alternative Investments Forum*, which he and Treasurer Denise Nappier attended on January 12, 2010. He commented on the four roundtable discussions including: 1) asset allocation and portfolio construction, which was limited to investors; 2) private equity; 3) hedge funds; and 4) real estate.

Mr. Corbett commented on the investment opportunities within private equity. He then spoke about the power shift and changing relationship between general partners ("GP") and limited partners ("LP"). Regarding hedge funds, Mr. Corbett said that there was lengthy discussion about transparency and the merits of investing through separate accounts instead of commingled vehicles. Regarding real estate, he compared and contrasted the current market's substantial decline versus the last significant real estate decline in the 1990s. Mr. Corbett added that private real estate was the only asset class that was still declining in value versus the other assets within the CRPTF, but consensus was that real estate was getting close to its trough market value.

David Himmelreich commented about the impending decline of commercial real estate market values. He then asked whether this was discussed during the conference and wanted to know what the larger pension funds were doing in preparation for the real estate fallout. Mr. Corbett responded that long-term real estate investors were generally overweight and were experiencing difficulties. More recent investors were typically underweight the asset class. However, both groups have been looking for the appropriate timing and opportunities to put additional capital to work. In response to David Roth's question, Mr. Corbett stated that the Office of the Treasurer ("OTT") has been working closely with the GPs regarding investments in commitments made in 2007 and early 2008, that the CRPTF has a significant amount of unfunded capital available for investment over the next several years and that the focus at present has been on the preservation of invested capital. He added that the OTT holds advisory board seats and had the medium to provide input on key issues that affected some of these properties. Chairman Roxe added that while it was good to be patient during this difficult period, it was also important to take advantage of the opportunity to make some strategic investments. Discussion continued about the length of this opportunity and the need to avoid surprises with respect to bad properties.

Mr. Corbett then reported on the positive performance for the Connecticut Retirement Plans and Trust Funds ("CRPTF") for the month ended November 30, 2009, noting that it was up nearly 2.5% for the month and almost 18% calendar year-to-date through November. He added that the seven-year performance was up nearly 6.5 % as of November 30, 2009. Mr. Corbett stated that during November 2009, the Mutual Equity Fund was the best performer, followed closely by the Emerging Markets International Stock Fund. He stated that for the trailing three months five out of the eight funds outperformed their respective benchmarks. Regarding long-term performance, Mr. Corbett reported that 50% of the fund outperformed and 50% underperformed. He noted that the Private Investment Fund ("PIF") was up 5.4% and the Real Estate Funds ("REF") was down 7.6% from market value adjustments posted in November. Chairman Roxe then requested that future REF reporting segregate the older funds that have been doing poorly from the more recent investments that were performing considerably better on a relative basis. He added that the focus should be on the newer investments because they were made using the current investment standards and this would present a more relevant benchmark. Discussion continued about performance of the older funds' versus that of the newer investments.

Regarding the Teachers' Retirement Fund ("TERF"), Mr. Corbett stated that relative to policy weight, the TERF benefited by being above policy weight in the MEF and the Developed Markets International Stock Fund. He added that the Emerging Markets International Stock Fund had also performed well and that its weight would be at policy by month end. Mr. Corbett then commented on the allocations relative to policy weights of the remaining funds. Chairman Roxe noted that both the REF and PIF were below their policy weights. Mr. Corbett added that the CRPTF was in a position to take advantage of investment opportunities and the gap would be closing in the next year or two. Discussion ensued about setting and following asset class policy ranges, tilting portfolios, setting targets, and prospective real estate opportunities.

Securities Lending Review as of November 30, 2009

Johnson Shum, Vice President of State Street Bank, provided a review of Securities Lending activity for the quarter ended September 30 and the months ended October 30 and November 30, 2009. Mr. Shum began by providing a brief historical perspective about the performance during the last six years. In terms of loan balances, Mr. Shum reported that the dollar value of lendable assets peaked in 2007, dropped substantially in 2008 and maintained that rate through 2009. He added that the loan balances were beginning to rise and would continue to do so through the European dividend season.

In response to Chairman Roxe's question, Mr. Shum described the supply and demand dynamics of lendable assets and noted the volume of equity loans would continue to improve. Mr. Shum then provided the earnings and performance summary through November 2009.

Mr. Shum then responded to questions posed by Mr. Himmelreich regarding the collateral value of lent securities, monitoring of counter parties and the cash collateral account.

Presentation of the Due Diligence Process for the Private Investment Fund

Lee Ann Palladino, Deputy CIO, led a discussion about the due diligence process for selecting Private Investment Fund ("PIF") managers, which included a presentation by Bradley Atkins, Chief Executive Officer; Laure Brasch, Managing Director; and Karl Hartman, Chief Operating

Officer; of Franklin Park Associates, LLC ("Franklin Park"). Ms. Palladino stated that today's presentation by Franklin Park was timed in concert with two PIF manager presentations: Audax Mezzanine Fund III ("Audax III"), a mezzanine debt fund; and Landmark Equity Partners XIV, L.P. ("Landmark XIV"), a secondary fund.

Mr. Atkins began by providing introductory comments about Franklin Park's due diligence and noted that Audax III would be used as the template for the discussion. He stated that due diligence was a component of the comprehensive investment process which also included portfolio planning, portfolio oversight and manager research. Mr. Atkins commented about the importance of being proactive in manager research efforts in private equity. He said that while the discussion was about the due diligence process, Franklin Park also looked for three key criteria when evaluating prospective funds for the CRPTF including: compelling investment strategies; a sustainable competitive advantage; and a talented investment team.

Franklin Park's team then provided a detailed explanation, with examples, of Franklin Park's due diligence process including the following six steps: a preliminary review; initial meetings; pre-site visit, site visits; final memo; and legal review and negotiations. Mr. Atkins stated that the private placement memorandum was reviewed first, and he then spoke about the criteria Franklin Park followed during its initial meetings with the managers. He said that a summary memo was then prepared containing an extensive detailed analysis. He added that throughout the process, several meetings and discussions among staff members were ongoing.

Ms. Brasch provided further explanation of what occurs during the site visit. She stated that understanding the firm's experience in private equity accounting, the roles and responsibilities of the team members on a day-to-day basis and their internal processes were focal points. Ms. Brasch stated that the focus was on reporting, information and technology, auditor information and background information. Mr. Atkins then spoke about the final due diligence memo, which included a full and detailed recommendation report.

Mr. Hartman explained Franklin Park's legal review and negotiation process. He first commented on GP and LP alignment of interests noting that the Institutional Limited Partners Association released a set of principles further endorsing better alignment between GPs and LPs. Mr. Hartman then stated that Franklin Park's legal review included identification and negotiation of key economic and governance terms and noted that transparency would remain very important throughout the process. He then provided details about the articles that were included in the agreements and key terms.

In closing, Mr. Atkins commented on the number and type of recommendations Franklin Park typically made in a year and provided information on its track record. Ms. Brasch and Mr. Hartman responded to several questions posed by Mr. Himmelreich regarding how Franklin Park has made determinations about auditors and its dealings with the managers' auditors. There was continued discussion about how Franklin Park found prospective managers, how it has investigated and valued any underlying illicit activity, its financial liability and diversity.

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<u>Presentation by and Consideration of Audax Mezzanine Fund III, L.P.</u>

Ms. Palladino began her opening remarks by discussing the strategic fit of mezzanine debt within the PIF, the mezzanine debt market opportunity and why Audax Group was best suited to assist the CRPTF with its mezzanine debt allocation. While the mezzanine debt strategy is more conservative than private equity, Ms. Palladino stated that it provided an attractive risk-adjusted return profile in the current market environment. She said that investing in mezzanine debt would also provide a current coupon income cash flow, which could offset some of the cash flow requirements for the PIF.

With respect to Audax, Ms. Palladino stated that they had demonstrated a solid track record and had a competitive edge in the current market. She then provided specifics on Audax's track record and noted that it was well diversified with Fund I and II being first and second quartile performers versus all private equity funds. Mr. Atkins responded to questions posed by IAC members regarding how Audax handled its conflicts, and he stated that the mezzanine team operated independently from the private equity team. In response to Stanley Morten's question, Mr. Atkins stated Franklin Park did extensive assessment to determine the extent of impairments and that Audax had zero realized losses since 2000.

Presentation by Audax Group, L.P.

Audax, represented by Kevin Magid, Peter Gummeson, and Edgar Soule, Managing Directors, provided a presentation of Audax Mezzanine Fund III, L.P. ("Audax III"). Mr. Magid provided an overview of Audax and stated that it focused solely on middle market investments with approximately $10 million to $40 million of cash flow. Mr. Gummeson provided details about Audax's mezzanine debt investment strategy and stated that Audax has been a leader in the mezzanine debt market with established relationships, a proven and cohesive team, a disciplined lending approach and superior investment performance on realized transactions.

Mr. Magid then presented a summary of Audax Fund I. Mr. Gummeson presented a summary of Audax Fund II highlighting its performance, and stated that 20 of its 24 recession era investments had all reduced leverage improving the quality of the fund with returns similar to those of Fund I. In closing, Mr. Magid stated that the risk/return dynamics were excellent within the current mezzanine debt environment.

The Audax team responded satisfactorily to questions posed by the IAC members about deal sourcing and the potential impact should interest rates rise.

Roll Call of Reactions for Audax Mezzanine Fund III, L.P.

In response to Chairman Roxe's question, Mr. Atkins stated that he recommended Audax III; he noted that Audax has one of the strongest middle-market mezzanine debt platforms in the country, and he expected Audax III to remain as a top quartile mezzanine debt performer. Chairman Roxe requested the IAC members to provide feedback on the $75 million investment in Audax Mezzanine Fund III, L.P. Messrs. Morten and Roth, Thomas Fiore, Mr. Himmelreich, William Murray, Michael Freeman, Thomas Barnes, Peter Thor, Sharon Palmer, Carol Thomas and Chairman Roxe were all in favor of the investment. Mr. Roth added that this was a good space in the capital structure and the due diligence was extremely positive. Mr. Fiore added that the presentation was excellent.

Chairman Roxe asked for a motion to waive the 45-day comment period for Audax III. **A motion was made by Ms. Thomas, seconded by Mr. Barnes, to waive the 45-day comment period for Audax III. The motion was passed unanimously.**

Presentation by and Consideration of Landmark Equity Partners XIV, L.P.

Ms. Palladino provided opening remarks and introduced Landmark Equity Partners XIV, L.P. ("Landmark XIV"), a secondary private investment opportunity. She commented on the fit of secondary investing within the private equity strategy. Ms. Palladino stated that the market opportunity stemmed from the fact that seller motivation was high and transaction pricing was currently at more attractive levels. Finally, Ms. Palladino said that Landmark XIV would benefit the CRPTF with its solid track record since 2000, competitive edge and strong management team. Mr. Atkins then responded to questions posed by Mr. Himmelreich regarding the current investments in the fund and that the CRPTF would invest at cost, but the portfolio is currently valued at slightly above cost.

Mr. Atkins then commented on the historical returns of secondary funds and discussed Landmark Partners' ("Landmark") track record and investment concentrations for its prior 13 funds. Finally, Mr. Atkins commented on Landmark's loss ratio and recovery rate on prior investments. Discussion ensued about Landmark's leadership changes, analysis of other firms within the small secondary universe and residual concerns about past penalties. Mr. Atkins stated that there was no remaining legacy liability due to Landmark's former chairman during the prior Treasurer's administration. Chairman Roxe commented that timing appeared to be critical for secondary investments to which Mr. Atkins stated that across the board for private equity, the timing was good for investing. Mr. Roth recused himself due to a personal contact at Landmark.

Presentation by Landmark Partners

Landmark, represented by Scott Conners, Tina St. Pierre and Robert Shanfield, Partners, provided a presentation of Landmark XIV. Mr. Shanfield provided an overview of Landmark's history as an innovator and its tradition, and he noted that it was the first institutional secondary private equity firm. He then spoke about Landmark's 20-year track record and noted its gross IRR was 26% and its net IRR was 19% for secondary private equity investment. Ms. St. Pierre discussed the varied makeup of Landmark's investors and said that large portions were from public pension funds and Taft Hartley plans. She then commented that Landmark has always taken its fiduciary responsibilities seriously.

Mr. Shanfield stated that Landmark had a tradition of providing a lower risk to the exposure private equity asset class with great diversification, investing in mature funds on the secondary market that were largely funded and returning cash quickly.

Mr. Conners commented on several secondary market supply drivers noting that because the primary market had grown about 20% over the last several years, the secondary market supply was increasing and now was a good time to buy low. Regarding Landmark's investment strategy, Mr. Conners stated that it focused on unique, negotiated middle market transactions that leveraged Landmark's competitive strengths. Finally, he commented on what differentiated Landmark from its peers, and stated that Landmark's acquisitions reflected its strategy. In response to Chairman Roxe's request, Mr. Conners spoke about several factors that have driven the secondary market.

In closing, Ms. St. Pierre highlighted the terms of Landmark XIV and noted that the targeted fund size was $2 billion for a four-year investment period from final closing. She commented on the distribution waterfall, investment advisory fees and Landmark's commitment. The Landmark team responded to questions posed by IAC members regarding impaired transactions, loss ratios and value declines for Landmark XIII. There was continued discussion about Landmark VIII, IX and X, the importance of timing and Landmark's revised approach, which was now a bottom-up granular approach in selecting its investments. In response to Chairman Roxe's questions, Ms. St. Pierre stated that $1.5 billion had closed to date for Landmark XIV and that the CRPTF would invest in the Fund as though it had participated from the beginning.

Roll Call of Reactions for Landmark Equity Partners XIV, L.P.

Chairman Roxe requested the IAC members to provide input on the $50 to $100 million investment in Landmark XIV, L.P. Mr. Roth abstained. Mr. Thor, Madams Palmer and Thomas, Messrs. Barnes, Freeman, Morten, Murray, Himmelreich, Fiore and Chairman Roxe were all in favor of the investment. Mr. Thor stated that his prior concerns about the investment were satisfactorily resolved. Mr. Barnes commented on the limited number of players in the secondary space. Mr. Morten agreed with Mr. Barnes and added that he did have some reservations in that more value added should have been demonstrated, but he said that this was a good time to buy secondaries. Mr. Murray agreed with the members' concerns, and added that it was positive that Landmark was headquartered in Connecticut.

In response to Mr. Morten, Mr. Atkins stated that this was a qualified recommendation because Franklin Park had concerns about the secondary market's return compression. Treasurer Nappier commented on her recommendation to invest in a secondary market strategy noting that the timing was favorable, this investment would provide near-term cash flow, and could potentially compensate for the vintage-year performance gap. She then commented on the Sylvester scandal and noted that there were GPs that still do business with the Treasury that had not agreed to reduce the State's level of commitment. Treasurer Nappier stated that, by contrast, Landmark fully cooperated with the OTT and reduced the State's level of commitment when she came into office in January, 1999.

Chairman Roxe asked for a motion to waive the 45-day comment period for Landmark XIV. **A motion was made by Mr. Himmelreich, seconded by Mr. Murray, to waive the 45-day comment period for Landmark XIV. The motion was passed unanimously with the exception of Mr. Roth, who abstained.**

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Corporate Governance and MacBride Compliance Report as of September 30, 2009

Meredith Miller, Assistant Treasurer, provided a report on Corporate Governance and MacBride Compliance for the quarter ended September 30, 2009. Ms. Miller began by stating that there were 405 domestic proxy votes during the quarter with 34.6% voted against management, which was consistent with prior years during the typically heavy proxy season time. Regarding international proxies, she stated that 18.8% were voted against management. Ms. Miller reported that since the kickoff of the 2010 proxy season, there was much activity at the federal level, within the regulatory agencies and within the CRPTF. She then provided an overview of current corporate governance activities and stated that there was a bill under consideration in the Senate Banking Committee on financial regulatory reform with an expected markup in March 2010 under Senator Dodd's leadership. Within the proposed financial regulatory reforms both in the U.S. House and Senate, Ms. Miller stated that there were key corporate governance provisions that the OTT had been active on. She added that regulatory reform letters and comments had been posted to the Treasurer's website. In summary, Ms. Miller stated that there were some proposals to give the U.S. Securities and Exchange Commission ("SEC") the authority to promulgate rules on access to the proxy.

Ms. Miller commented about Treasurer Nappier's continued work with other investors on Say on Pay, in order to provide shareholders an advisory vote on the pay package of the company. She said that the OTT was also monitoring the issue of majority vote, which would require that a majority of shareholders elect or re-elect a board director. Ms. Miller then discussed the current hearings being held on the financial crisis that are focused on mortgages and the housing industry. She commented about Treasurer Nappier's leadership role through the National Association of State Treasurers in her position as Chair of the Pension Committee. In terms of how issues had filtered down into the 2010 proxy season, Ms. Miller stated that the OTT had been very active on compensation issues, board governance and sustainability. She said that the CRPTF had filed 14 resolutions and along with other large public pension funds, it was able to encourage Goldman Sachs to agree on Say on Pay.

Chairman Roxe stated that it was good to know that the CRPTF has been active on good causes. Discussion ensued about how public pension funds would be affected by the tax proposals on GPs and banks, whether initiatives of public pension funds would be affected by Senator Dodd's retirement and whether or not the IAC had a role in proxy voting. Chairman Roxe stated that the IAC was only being advised about the corporate governance issues, and did not want to be in the position of approving or disapproving actions taken by the Treasurer's staff in these matters.

Approval of Minutes of the December 9, 2009 IAC Meeting

Chairman Roxe asked for comments on the Minutes of the December 9, 2009 IAC meeting. **There being no comments, a motion was made by Ms. Thomas, seconded by Mr. Thor, that the Minutes of the December 9, 2009 IAC meeting be accepted as drafted. The motion was passed unanimously with the exception of Messrs. Barnes and Freeman who abstained due to their absence from the meeting.**

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Other Business

Chairman Roxe invited IAC members to submit agenda items for the February 10, 2010 IAC meeting. He also requested that each IAC member provide two ideas for 2010:

1. An issue that he or she would like discussed or addressed by the IAC; and
2. A suggestion for some improvement in the way the IAC conducts its business.

Mr. Roth stated that he and Mr. Corbett would provide a presentation on the CRPTF's underlying philosophy, and he noted that the IAC did have an obligation to articulate what the current strategy is and whether it is still valid.

Comments by the Chairman

Chairman Roxe commented on the positive accomplishments in today's meeting, and thanked all the members for their active participation.

There being no further business, the meeting was adjourned at 1:13 p.m.

An audio tape of this meeting was recorded.

Respectfully submitted,

DENISE L. NAPPIER
SECRETARY

Reviewed by

JOSEPH D. ROXE
CHAIRMAN