**INVESTMENT ADVISORY COUNCIL**
**Wednesday, June 8, 2011**

**MEETING NO. 386**

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| **Members present:** | Thomas Fiore, representing Benjamin Barnes*<br>Michael Freeman<br>David (Duke) Himmelreich<br>Stanley (Bud) Morten<br>William Murray<br>Denise L. Nappier, Treasurer<br>Joseph (Joe) D. Roxe, Chairman<br>Carol Thomas<br>Peter Thor* |
| **Absent:** | Thomas Barnes<br>Sharon Palmer<br>David Roth |
| **Others present:** | Jonathan Harris, Deputy Treasurer<br>Christine Shaw, Chief of Staff<br>Lee Ann Palladino, Interim Chief Investment Officer<br>Joanne Dombrosky, Principal Investment Officer<br>Gregory Franklin, Assistant Treasurer<br>Adrian Kingshott, Principal Investment Officer<br>Catherine LaMarr, General Counsel<br>Shelagh McClure, Director of Compliance<br>Reginald Tucker, Investment Officer<br>Linda Tudan, Executive Assistant<br>Lawrence Wilson, Assistant Treasurer<br>Winifred (Winnie) Scalora, Administrative Assistant |
| **Interns:** | Tucker Bellinger<br>Alexander Gavelek<br>Christian Jepsen<br>Nina Kraus<br>Michael Rancourt<br>Drew Thompson<br>Zara Wysockey |
| **Guests:** | Bradley Atkins, Franklin Park Associates<br>Joseph Barcic, Mercer Investment Consulting<br>Chris Barr, BlackRock Financial Management, Inc.<br>Lynn Blake, State Street Global Advisors<br>Scott Booth, The Townsend Group<br>Craig DeGiacomo, State Street Global Advisors<br>Denise D'Entremont, RhumbLine Advisers |

*** Arrived at 9:06 a.m.**

Mary Dunleavy, State Street Bank & Trust
Corin Frost, BlackRock Financial Management, Inc.
Vicki Fuller, AllianceBernstein
Sean Gill, NEPC
Will Greene, Loop Capital Markets
Robin Kaplan-Cho, Connecticut Education Association
Harvey Kelly, Leumas Advisors
John Kirby, State Street Global Advisors
Louis Laccavole, SOC Teachers' Retirement Board
Corinne Larson, State Street Global Advisors
John Lehman, J.F. Lehman & Company, Inc.
Kim Roger McCant, RhumbLine Advisers
Norman Meltz, RhumbLine Advisers
Louis Mintz, J.F. Lehman & Company, Inc.
Kevin Norton, BNY Mellon
Wayne Owen, RhumbLine Advisers
Scott Schwind, RogersCasey
Christopher Smith, Service Employees International Union
M. Craig teDuits, State Street Bank & Trust
Elizabeth Westvold, BlackRock Financial Management, Inc.
Scott Williamson, BlackRock Financial Management, Inc.

With a quorum present, Chairman Joseph D. Roxe called the Investment Advisory Council ("IAC") meeting to order at 9:02 a.m. Chairman Roxe then welcomed the summer interns, and he asked Lee Ann Palladino, Interim Chief Investment Officer ("CIO"), to introduce the Office of the Treasurer's ("OTT") summer interns. Next, Chairman Roxe thanked Carol Thomas for chairing the May 11, 2011 IAC meeting. He also thanked Winnie Scalora for organizing all the materials for each meeting and he remarked about the quality of her work.

**Comments by the Treasurer**

Treasurer Denise Nappier began by welcoming the summer interns and remarking that the OTT had once again attracted high-quality interns capable of producing exceptional work. She then commented on the market, and noted that despite the recent capital market downturn, the investment returns for the Connecticut Retirement Plans and Trust Funds ("CRPTF") remained in double-digit positive territory.

With respect to investment decisions, Treasurer Nappier announced that she selected Hewitt EnnisKnupp as the preferred vendor for general investment consulting services for the CRPTF, and Russell Investments as the preferred vendor for risk management and compliance consulting services for the CRPTF. In rendering these decisions, she considered the feedback from the IAC, as well as the due diligence conducted by investment staff and consultants under the direction of CIO Timothy Corbett prior to his departure. Treasurer Nappier added that both of these assignments were contingent upon successful contract negotiations. She then thanked Mercer

Investment Consulting for its assistance to the CRPTF for nearly four years, and she recognized lead consultant Joseph Barcic, Principal, for his time and commitment to the CRPTF.

Treasurer Nappier next reported that she had made a final investment decision to commit, contingent upon successful contract negotiations, up to $150 million to Fairview Constitution IV, L.P. ("Fairview"), the successor fund to the CRPTF series of venture capital opportunities in the Private Investment Fund ("PIF"), after considering the feedback from the IAC and the due diligence conducted by investment staff and consultants under the direction of Mr. Corbett. She added that the investment would be staggered over three years at $50 million per year, subject to reconsideration each year.

Commenting on the agenda, Treasurer Nappier said that semi-finalist candidates for the passive manager panel mandate would be presented contingent upon further consideration of corporate citizenship, noting that the IAC endorsed the competitive search plan for a passive money manager panel in June 2009. The goal of expanding the passive mandate to include fixed income, equity, and exchange traded funds ("ETFs") is to enhance the CRPTF's ability to access a broader array of market exposures and opportunities. Treasurer Nappier stated that the firms presenting, BlackRock Financial Management, Inc. ("BlackRock"), RhumbLine Advisers ("RhumbLine") and State Street Global Advisors ("State Street") were each qualified to assist the CRPTF with its passive requirements. She also noted that the firms would be further evaluated with respect to corporate citizenship considerations before she renders a final decision. Thereafter, Treasurer Nappier stated that JFL Equity Investors III, L.P., a private investment opportunity focused on controlled investments in small to low middle market defense, aerospace and maritime companies in the U.S. and the U.K., would be presented for consideration.

In response to Ms. Thomas, Treasurer Nappier agreed that the follow-up presentation by Mr. Corbett on Fairview at the May 11, 2011 IAC meeting was for information only, and that a 45-day waiver was not requested.

**Approval of Minutes of the May 11, 2011 IAC Meeting**

Chairman Roxe asked for comments on the Minutes of the May 11, 2011 IAC meeting. **There being no comments, a motion was made by William Murray, seconded by Ms. Thomas, that the Minutes of the May 11, 2011 IAC meeting be accepted as drafted. The motion was passed with the exception of Michael Freeman and Chairman Roxe who abstained due to their absence from the last meeting.**

**Chief Investment Officer's Update on the Market, Connecticut Retirement Plans and Trust Funds Final Performance for the Month Ended April 30, 2011, Combined Investment Funds Review as of March 31, 2011, CRPTF Watch List and Connecticut Horizon Fund Review for the Quarter Ended March 31, 2011**

Chairman Roxe first welcomed Lee Ann Palladino in her new role as Interim CIO. Ms. Palladino began by providing an update on the CRPTF Watch List as of March 31, 2011 and stated that no firms were currently on watch. Next, she provided an update on the capital market environment, its impact on the performance of the CRPTF, and the economic outlook. For the month ended April 30, 2011, Ms. Palladino stated that the fiscal year-to-date return for the CRPTF was 22.24% - this return was driven primarily by the CRPTF's overall allocation to global equities within the U.S., Developed and Emerging Markets International Stock Funds ("DMISF" and "EMISF"), which totaled about 60% of the CRPTF's assets. She added that these funds all returned above 30% for said period. Ms. Palladino added that this strong equity performance had been driven by solid corporate profits, low interest rate levels and world-wide economic growth. Unfortunately, she added that during May 2011, U.S. economic news surprised to the downside and concerns surrounding the European Union and potential debt defaults caused market volatility. Ms. Palladino said the MSCI World Market declined about 5% during May 2011; and while she projected that would negatively affect the CRPTF's FY 2011's returns by about 3%, a banner fiscal year was still expected. She commented on potential cyclical risks that could derail worldwide economic growth and create volatile markets over the next year.

With respect to FY 2012, Ms. Palladino shared her view there would be uneven and slow economic growth with risk that would provide volatility in the short run. She added that the CRPTF is a long-term investor, and she cited that the markets were at the worst point in February 2009 with the CRPTF down 28% for the 2009 fiscal year and down more than 7% over the trailing three-year period. In contrast, Ms. Palladino reported that the CRPTF's current trailing three-year period showed a gain of 3.25% as of April 30, 2011. She noted that this three-year look-back period was important because it encompassed both the downdraft of the recession and the capital market declines along with the updraft and the current positive returns. Over the long-term, Ms. Palladino reported that the CRPTF's low point of $18.1 billion rebounded to $25.8 billion - representing a $7.7 billion turnaround that included making over $1 billion in benefit payments per year. She also reported positive returns fiscal year-to-date of 22.3% for the Teachers' Retirement Fund and 22.7% for the State Employees Retirement Fund.

Next, Ms. Palladino presented the overall investment results for the Combined Investment Funds ("CIF") for the quarter ended March 31, 2011. She began by commenting on the positive assistance that Mr. Barcic and the staff at Mercer provided since September 30, 2007, including restructuring the equity portfolios, the MEF, the DMISF and the EMISF. Ms. Palladino said that Mercer also assisted in increasing the flexibility of the CRPTF with the Transition Management panel and the Passive Money Manager panel, both of which were presenting at today's meeting.

Mr. Barcic then provided additional comments on the CIF. He noted that when Mercer was hired by the CRPTF, its value was $26.2 billion with the S&P at 1526, exactly nine days later the market peaked at 1565, followed by 18 months of a downturn with the market bottoming in March 2009 at 677, down 57% from its peak and rising back up by about 89% as of today. Chairman Roxe then thanked Mr. Barcic for his good work and wished him well. Mr. Barcic extended thanks to the Treasurer, IAC members and the staff within the OTT.

Finally, Ms. Palladino provided an update on the Connecticut Horizon Fund ("CHF") for the quarter ended March 31, 2011. She reported that the CHF was valued at $800 million, and that it outperformed its benchmark by 62 basis points ("bps"), 161 bps and 61 bps for the quarter, fiscal year-to-date and since inception, respectively. Regarding the private equity portfolio within the CHF, she reported on the Treasurer's commitments of $155 million to two managers: JP Morgan Investment Management, Inc., with solely a Connecticut-based mandate; and Muller & Monroe Asset Management. Discussion ensued regarding committed capital, investments and amount of fees. In response to questions posed by Chairman Roxe and Stanley Morten, Ms. Palladino said that a follow-up presentation with respect to private equity fees would be part of the next quarterly report.

**Presentations by and Consideration of Semi-Finalists for the Passive Money Manager Panel**

Joanne Dombrosky delivered opening remarks and introduced the following firms that provided presentations as semi-finalists for the Passive Money Manager Panel mandate: BlackRock, RhumbLine and State Street. Ms. Dombrosky described the difference between passive and active investment management followed by a review of the search process that led to Treasurer Nappier's consideration of the firms. Next, she highlighted the advantages and drawbacks of the different fund vehicles including levels of exposure, fees and availability of liquidity for the separate accounts, commingled trust funds ("CTFs") and ETFs. Finally, she commented on each firm's organization, passive investment experience, products, management processes and capabilities, differences, competitive advantages and limitations.

In response to Chairman Roxe, discussion ensued about the differences in costs for commingled funds versus separate accounts. Ms. Dombrosky stated that the costs depend on several factors including: timing, size of transactions, types of assets and noted that less liquid markets such as emerging markets have higher costs. Chairman Roxe requested Ms. Dombrosky to provide a comparative cost analysis of the different passive investment vehicles. Discussion continued with respect to the number of passive money managers that would be hired.

**Presentation by BlackRock Financial Management, Inc.**

BlackRock, represented by Chris Barr, Corin Frost, Elizabeth Westvold and Scott Williamson, Managing Directors, made a presentation to the IAC on its firm's expertise and resources for managing passive mandates across multiple asset classes. Ms. Westvold highlighted BlackRock's institutional philosophy and capabilities as a provider of global passive strategies. She noted that BlackRock's sole focus was on investment management with no conflicts of interest in serving as a fiduciary to its clients. Ms. Westvold then commented that BlackRock Global Equity had the largest passive equity index platform with over 30 years of indexing experience, along with the largest global fixed income platform with over 25 years of experience. She informed the IAC that BlackRock could deliver customized solutions and offered commingled and separate account index products as well as ETFs. She next commented on BlackRock's teams for these platforms.

Mr. Frost spoke about BlackRock's key features including: its sole focus on asset management, unique dedication of research and technology resources, scale and scope and longevity of its indexing business. He next commented on BlackRock's philosophy with an objective process to managing return, risk and cost.

Next, Mr. Barr commented on BlackRock's advantages and benefits with respect to fixed income indexing. He stated that BlackRock's quantitative process balanced tracking error and levered transaction costs.

Mr. Williamson provided an overview on BlackRock's complete set of investment tools including iShares, currently the largest ETF provider, representing five of the ten most actively traded U.S. equities by dollar volume in 2010. He then commented on the institutional usage of ETFs. With respect to passive exposure, Mr. Williamson provided a cost comparison of CTFs versus ETFs in the U.S. small cap and credit markets.

In summary, Ms. Westvold commented that in acting as a fiduciary, BlackRock's full range of capabilities and expertise allowed it to provide integrated solutions for global passive needs including the CTFs, separate accounts and ETFs with superior risk-controlled returns, lower costs and customized solutions. In response to Mr. Morten, Ms. Westvold said that BlackRock's twenty plus years of experience with its risk management tools helped it perform well during the difficult market conditions of 2008 and 2009. Discussion continued regarding the advantages of BlackRock's size especially with respect to the liquidity it was able to provide for its clients during difficult markets.

In response to Ms. Thomas, Ms. Westvold stated that BlackRock focused on consideration of the needs of individual clients and funds when casting its proxy votes. Peter Thor commented on remarks made by principals at BlackRock regarding defined benefit pension plans, to which Ms. Westvold stated that BlackRock realized the importance of and supported defined benefit pension plans. She added that defined benefit pension plans were also a large part of its business. Ms. Westvold then commented on BlackRock's corporate citizenship record and goals.

**Presentation by RhumbLine Advisers**

RhumbLine, represented by Denise D'Entremont, Director of Marketing and Client Services, Kim Roger McCant, Chief Financial Officer/Chief Compliance Officer, Norman Meltz, Director of Investment Management, and Wayne Owen, Chief Executive Officer and General Partner/Co-founder, made a presentation to the IAC on its firm, which exclusively focuses on passive money management services. Ms. D'Entremont first provided a brief history of RhumbLine. Next she commented on RhumbLine's investment team, its current size of $24.8 billion in assets under management and its strong, steady growth. Ms. D'Entremont then provided a snapshot of RhumbLine's products and a breakdown of its indices.

Mr. Meltz described RhumbLine's investment process including full replication, stratified sampling and optimization. He spoke about RhumbLine's index trading philosophy, and he noted that the firm's smaller size was advantageous, enabling it to move quickly in the market in order to complete transactions.

Mr. McCant spoke about RhumbLine's corporate citizenship record, and he cited initiatives on the national and local level. In closing, Mr. Owen acknowledged that RhumbLine was a small firm, but he stressed its advantages. He said that RhumbLine had no securities lending exposure or counterparty risk and that it would maintain its stance as solely an index manager.

With respect to Ms. Thomas' question about transaction costs, Mr. Owen stated that RhumbLine was competitive on the trading side. Mr. Thor asked which software RhumbLine used, to which Mr. Owen replied that its index-management software was licensed from companies that sell those products, and he added that RhumbLine owned replication and optimization software.

**Presentation by State Street Global Advisors**

State Street, represented by Lynn Blake, Senior Managing Director, Craig DeGiacomo, Vice President, John Kirby, Managing Director, and Corinne Larson, Vice President, made a presentation to the IAC on its passive money management capabilities. Mr. DeGiacomo described the organization, its history working with the State of Connecticut, and the current mandate it manages for the CRPTF. He said that State Street was a leading provider of financial services to institutional investors, and noted that its main core of business consisted of over 25% of the industry with both fixed income and equity passive strategies. Finally, Mr. DeGiacomo commented on State Street's size, its diverse client base within fixed income and equity strategies and its ability to provide low-cost beta solution to its clients.

Ms. Blake commented that the CRPTF was State Street's oldest and most valued client and that it had successfully managed the CRPTF's passive business in an efficient, cost-effective way for over 15 years. She next highlighted State Street's resources including its experienced staff, size and scale in product line, and internal liquidity. Ms. Blake noted that State Street provided passive exposure in both commingled funds and separate accounts. Finally, she commented that its internal crossing transactions allowed it to save money through lower transaction costs.

With respect to State Street's global fixed income passive solutions, Mr. Kirby said that its strong, stable team was dedicated to indexed investment management, risk, tools and performance analysis. In closing, he commented on State Street's risk management philosophy and noted that continuous monitoring of risk was the key to success. In response to Mr. Morten, Mr. Kirby stated that the fixed income market seized up during the recent economic crisis, but added that State Street was well diversified and well positioned upon entering the crises. In response to Treasurer Nappier, Mr. DeGiacomo stated that State Street's risk management led to protecting the economic value of the portfolio, properly positioning the portfolio and maintaining liquidity.

**Roll Call of Reactions for the Passive Money Manager Panel**

Chairman Roxe first asked for a description of the strategy. Treasurer Nappier stated that the goal was to be nimble. Ms. Palladino added that the upcoming Asset Allocation Study would result in new asset allocations and a passive panel would allow the OTT to implement asset allocation changes on a timely basis. Discussion continued on how the Passive Money Manager pool would be utilized.

Chairman Roxe then requested the IAC members to provide input on the Passive Money Manager semi-finalists: BlackRock, RhumbLine and State Street. Thomas Fiore preferred BlackRock and State Street. David Himmelreich, Messrs. Murray, Morten, Freeman, Ms. Thomas, Mr. Thor and Chairman Roxe agreed that all three managers were acceptable. Mr. Himmelreich added that there were times when a small player should be in place, and he thought all three should be on the panel. Mr. Murray added that he was most impressed with BlackRock and agreed with Mr. Himmelreich on RhumbLine. Mr. Freeman agreed with comments about RhumbLine's size, and he said that it did have some positive features. Ms. Thomas added that RhumbLine had a straight-forward presentation, its size was of concern, but all three should be included on the panel. Mr. Thor agreed with Treasurer Nappier's comments about the need to be nimble. He then added that he would not want to invest with a fund manager that made statements that were adverse to pension funds, and stated with that caveat that all three firms should be included on the panel. Chairman Roxe added that he preferred BlackRock, followed by State Street and then RhumbLine. He stated that the consensus of the IAC was to include all three managers.

Chairman Roxe asked for a motion to waive the 45-day comment period for the Passive Money Manager candidates: BlackRock, RhumbLine and State Street. **A motion was made by Mr. Morten, seconded by Ms. Thomas, to waive the 45-day comment period for the Passive Money Manager Panel. The motion was passed unanimously.**

**Presentation by and Consideration of JFL Equity Investors III, L.P.**

Adrian Kingshott, Principal Investment Officer, provided opening remarks and introduced JFL Equity Investors III, L.P. ("JFL III"), a private investment opportunity. Bradley Atkins, Chief Executive Officer of Franklin Park Associates, provided additional comments on JFL III. Mr. Kingshott began by stating that JFL was a highly specialized private equity investor that focused exclusively on defense, aerospace and maritime companies in the U.S. and the United Kingdom. He said that the investment would increase the Private Investment Fund's ("PIF") exposure to the relatively attractive small and mid-cap sector of the private equity market and increase the CRPTF's low exposure to the aerospace and defense sector. Mr. Kingshott then commented on JFL III's target market, and he highlighted its key strengths and strong track record. With respect to technology risk, he said that JFL only invested in proven technologies that performed critical functions, and it minimized government procurement risk. Regarding key strengths, Mr. Kingshott commented on JFL's deep domain knowledge and expertise, the high barriers to successful investing in this sector, its strong track record and experienced team. He said that there were risks inherent in small companies along with industry concentration risks, but he added that by targeting companies with specific unique characteristics, JFL mitigated these risks. With respect to possible federal budget cuts, Mr. Kingshott noted that JFL was focusing on areas of the defense budgets that would not likely be susceptible to budget cuts. In response to Ms. Thomas' question regarding a key person provision, Mr. Kingshott stated that Mr. Lehman was very engaged in JFL and no succession planning had been addressed at this point. Mr. Morten then expressed concern that net returns were not in JFL's presentation report, to which Mr. Atkins reported the net returns for JFL's existing funds, JFL I and II, were in the Franklin Park report. Discussion continued regarding the internal rate of return ("IRR") for JFL I and II.

**Presentation by J. F. Lehman & Company, Inc.**

JFL, represented by John Lehman and Louis Mintz, Partners, made a presentation to the IAC. Mr. Lehman began by commenting on his background and experience, which led to the establishment of JFL in 1992. He next commented on JFL's specialized focus on U.S. and U.K. defense and its unique investment strategy that targeted suppliers in the lower middle market. Mr. Lehman stated that JFL focused on companies with high barriers to entry, intellectual property and proven applied engineering technology that only a few companies can produce.

With respect to JFL's track record, Mr. Mintz highlighted its 14 completed investments and its long-standing relationships with a growing roster of institutional investors. He then provided a performance summary for JFL II with a realized 100% return of drawn capital including fees and expenses plus additional profits to limited partners. Next, Mr. Mintz provided a brief history on JFL and its experienced cohesive team that had all the capabilities necessary to tackle this complex market. He then commented on JFL's integral operating executive board and its contributions of extensive operating experience, industry relationships and value. Finally, Mr. Mintz commented on the companies that would be included in JFL III.

In closing, Mr. Lehman commented that due to economic pressures the defense industry had been refocusing on core businesses, maintaining current systems and upgrading them due to governmental cuts. Mr. Lehman stated that JFL concentrated on the companies that provided this maintenance. In response to Ms. Thomas, Mr. Lehman said that he did not have plans to leave JFL and added that the firm would continue to prosper due to the very experienced team, board and partners. The JFL team responded satisfactorily to Mr. Himmelreich's question regarding JFL's due diligence in Hawaii. In response to Mr. Morten, Mr. Mintz reported on the net returns for JFL II. Mr. Morten stressed the need to provide net returns for investors, to which Mr. Mintz agreed to take that into consideration going forward. With respect to Mr. Thor's questions about JFL's narrow niche, Mr. Lehman said JFL's focus was on smaller controlled transactions with a team that knows value and how to minimize risk with less competition.

**Roll Call of Reactions for JFL Equity Investors III, L.P.**

Chairman Roxe requested the IAC members to provide input on JFL Equity Investors III, L.P. He then stated that he knew Mr. Lehman, the firm and its staff very well, and he added that his knowledge of the firm was quite positive based on his 12-year association.

Mr. Thor and Ms. Thomas said the firm was acceptable, but raised key man concerns. Mr. Freemen said the firm was acceptable. Mr. Morten was not in favor of the investment. Messrs. Murray and Himmelreich were in favor of the investment. Mr. Fiore was neither in favor nor against the investment. Chairman Roxe abstained from the vote because of his association with the firm, but strongly favored the investment.

Mr. Kingshott addressed questions regarding net IRR and cash-on-cash reporting. He added that he observed through his due diligence that JFL had received high marks for its relationships with limited partners. With respect to cash-on-cash reporting, Treasurer Nappier stated that this measurement was consistent with the Investment Policy Statement ("IPS") parameters, and she requested the consultants to provide more detailed information.

Chairman Roxe asked for a motion to waive the 45-day comment period for JFL Equity Investors III, L.P. **A motion was made by Mr. Thor, seconded by Mr. Himmelreich, to waive the 45-day comment period for JFL Equity Investors III, L.P. The motion was passed with the exception of Mr. Morten.**

**<u>Real Estate Fund Review as of December 31, 2010</u>**

Scott Booth, Principal of The Townsend Group, provided a report on the Real Estate Fund ("REF") for the quarter ended December 31, 2010. Mr. Booth first provided an executive summary of the REF. He reported that the net time-weighted return was 5.2% and 15.9% net total return for the quarter and the 2010 calendar year, respectively. Mr. Booth stated that this represented a 16.5% gross return versus a 13.1% gross return for the benchmark for the 2010 calendar year. He noted that these results were on an absolute basis, the REF outperformed the benchmark on a relative basis and most importantly, this was done without undue risk on a risk-adjusted basis. Mr. Booth added that the program was reflective of the recovering market. He commented that he did expect this positive trajectory to continue. Mr. Booth noted that cash-on-cash reporting was becoming an industry standard and that the yield for calendar year 2010 was 11.1% for the REF.

With respect to the overall real estate market, Mr. Booth reported that fundamentals were slowly improving among property types, with the exception of occupancy and rents in no-growth areas, but he added that they were improving in most markets. With respect to the market conditions, Mr. Booth said that the large capital flows have not yet had a substantial impact on pricing in secondary markets and locations, or pricing of assets with significant property-lifecycle risk. In closing, he said that there were creative opportunities for the $300 million in the REF's unfunded commitments with above average prospects for new money coming into real estate, and he expected that above normal returns would continue during the 2011 calendar year. In response to Chairman Roxe, Mr. Booth said that the REF had an overwhelming focus on commercial real estate, which was in a different fundamental position than the lagging residential real estate.

**Private Investment Fund Review as of December 31, 2010**

Mr. Kingshott reported on the PIF for the quarter ended December 31, 2010. Mr. Atkins provided additional comments on the PIF. Mr. Kingshott began by reporting that the PIF's performance was up 7.8% for the quarter ended December 31, 2010, a positive year-end for the portfolio. He also reported that the PIF returned a net IRR of 18.6%, 3.6% and 9.3% exceeding the S&P 500 by 5.7%, 6.8% and 8.0% for the one, three and five-year horizons, respectively. Mr. Kingshott stated that the general disposition among the General Partners was bullish, in spite of the slow growth rates in the economy. He added that a slow growth environment, with exceptionally low interest rates, was viewed as a satisfactory backdrop to improving the businesses of the portfolio companies, and that a double-dip recession was not expected. With respect to the private equity market conditions, Mr. Kingshott stated that the levels of activity continued to improve. He discussed the credit markets, leveraged buyout exits and fundraising, commenting on the recent trends and their impact on private investments.

Mr. Atkins provided a brief analysis on private equity valuations. He stated that Franklin Park's findings showed that reported market values were often conservative and he provided several examples.

**Alternative Investment Fund Review as of March 31, 2011**

Mr. Kingshott reported on the performance of the AIF hedge fund-of-funds mandate for the quarter ended March 31, 2011. Sean Gill, Partner of NEPC, provided additional comments on the AIF. Mr. Kingshott began by providing a brief history on the AIF, which currently included investments in Permal Group, LTD, Prisma Capital Management LLC, The Rock Creek Group, LP, and K2 Advisors, L.L.C. ("K2"), hedge fund-of-fund funds. He added that K2 was not included in this report because it closed after the reporting period. He noted that within the four different hedge fund-of-fund investments, 102 different primary hedge funds were within the portfolio and only nine funds overlapped, which provided diversification for the hedge fund-of-funds portfolio. Mr. Gill first noted that the quarterly report was not a complete quarter as two managers posted two months and another manager posted one month of performance. He then reported that as of March 31, 2011 the AIF investments were at $300 million or 2% of plan assets, with a target of up to 8% or $2 billion. Mr. Gill added that $50 million was committed in April 2011 to Energy Fund XV, L.P., a real assets investment opportunity, which further diversified the AIF with 60% allocated to absolute return strategies, 20% towards real assets, 10% towards opportunistic and 10% towards new ideas. He noted that about 25% of the AIF strategies had been funded. Mr. Gill then reported on the hedge fund landscape. Mr. Gill stated that the AIF's portfolio included a large percentage of event-driven managers, which were expected to perform well throughout the 2011 calendar year. Next, Mr. Gill reviewed the AIF compliance with the IPS' parameters. In closing, he commented on the quantitative data that NEPC compiled on an ongoing basis for the AIF, and he noted that the portfolio was too young to have any measurable information.

**<u>Short-Term Investment Fund Review as of March 31, 2011</u>**

Lawrence Wilson, Assistant Treasurer, reported on the performance of the Short-Term Investment Fund ("STIF") for the quarter ended March 31, 2011. Mr. Wilson reported that the STIF had an average annualized yield of 23 bps, 16 bps above its benchmark, which is the industry standard of similar first-tier institutional rated money market mutual funds, thereby earning an additional $2.1 million for state and local governments investing in the STIF. For the 12-month period ending March 31, 2011, he reported that the STIF had an annual return of 24 bps, 16 bps over its benchmark, thereby earning an additional $8 million for the STIF. Mr. Wilson stated that the STIF had maintained its conservative investment posture. He concluded his presentation by noting that the STIF's reserves totaled $43 million or nearly 1% of assets. In response to Chairman Roxe regarding repurchase agreements and counterparty risk, Mr. Wilson stated that the STIF's repurchase agreements were 100% collateralized.

**<u>Other Business</u>**

Ms. Palladino provided a review of the IAC budget for the quarter ended March 31, 2011.

Chairman Roxe invited IAC members to submit agenda items for the August 10, 2011 IAC meeting.

**<u>Comments by the Chairman</u>**

Chairman Roxe commented on the meeting. There being no further business, the meeting was adjourned at 1:40 p.m.

**This meeting was recorded on audio tape.**

**Respectfully submitted,**

**DENISE L. NAPPIER**
**SECRETARY**

**Reviewed by**

**JOSEPH D. ROXE**
**CHAIRMAN**