INVESTMENT ADVISORY COUNCIL
Wednesday, August 11, 2010

MEETING NO. 378

Members present:	Thomas Barnes Thomas Fiore, representing Robert Genuario Michael Freeman David (Duke) Himmelreich William Murray Denise L. Nappier, Treasurer* David Roth** Joseph (Joe) D. Roxe, Chairman
Absent:	Stanley (Bud) Morten Sharon Palmer Carol Thomas Peter Thor
Others present:	Linda Hershman, Assistant Deputy Treasurer/Chief of Staff M. Timothy (Tim) Corbett, Chief Investment Officer Lee Ann Palladino, Deputy Chief Investment Officer Pamela Bartol, Assistant Investment Officer Joanne Dombrosky, Principal Investment Officer Wayne Hypolite, Executive Assistant Adrian Kingshott, Principal Investment Officer Donald Kirshbaum, Investment Officer Catherine LaMarr, General Counsel Shelagh McClure, Director of Compliance Meredith Miller, Assistant Treasurer-Policy Christine Shaw, Director of Government Relations Linda Tudan, Executive Assistant Winifred (Winnie) Scalora, Administrative Assistant
Interns:	Caroline Banfield, Office of the Treasurer Jonathan Jenson, Office of the Treasurer
Guests:	Bradley Atkins, Franklin Park Associates, LLC Joseph Barcic, Mercer Investment Consulting Andrew Bennett, Frontier Capital Management Company, LLC Robert Calabrese, State Street Corporation Michael Cavarretta, Frontier Capital Management Company, LLC Michael Corelli, Allianz Global Investors Capital LLC William Dawson, Jr., Wellspring Capital Management LLC Greg Feldman, Wellspring Capital Management LLC Sean Gill, NEPC Rashid Hassan, Mercer Investment Consulting

*** Left at 10:10 a.m.**
**** Left at 10:20 a.m.**

Neil Hickey, Old Mutual Asset Management
Harvey Kelly, Leumas Advisors
Eric Knutzen, NEPC
Louis Laccavole, SOC Teachers' Retirement Board
Kevin Norton, BNY Mellon
Carl O'Connell, The Boston Company Asset Management, LLC
Christopher Premock, Frontier Capital Management Company, LLC
Cynthia Steer, Rogerscasey
Adam Tosh, Rogerscasey
B. Randall Watts, Jr., The Boston Company Asset Management, LLC
Clifton Wedington, Allianz Global Investors Capital LLC

With a quorum present, Chairman Joseph Roxe called the Investment Advisory Council ("IAC") meeting to order at 9:04 a.m. Chairman Roxe stated that the order of today's agenda would change due to IAC Members' other commitments.

Approval of Minutes of the June 9, 2010 IAC Meeting

Chairman Roxe asked for comments on the Minutes of the June 9, 2010 IAC meeting. **There being no comments, a motion was made by William Murray, seconded by Michael Freeman, that the Minutes of the June 9, 2010 IAC meeting be accepted as drafted. The motion was passed with the exceptions of David Roth and Thomas Barnes who abstained due to their absence from the last meeting.**

Comments by the Treasurer

Treasurer Denise Nappier began her remarks by introducing Adrian Kingshott, Principal Investment Officer for Alternative Investments, which includes both the Private Investment Fund ("PIF") and the Alternative Investment Fund ("AIF"). She then asked the members of the IAC to join her in welcoming Mr. Kingshott.

Treasurer Nappier reported on the close of fiscal year ("FY") 2010's performance for the Connecticut Retirement Plans and Trust Funds ("CRPTF") stating it had rebounded strongly with an average net return of 12.88% or an increase of $2.6 billion, which exceeded the actuarial return assumption range of 8.25% to 8.5%. She said that the CRPTF's assets grew by $1.5 billion net of fees and non-market activity, which included the $1.1 billion net benefit payment outflow, and ended FY 2010 at $21.9 billion. Treasurer Nappier commented that FY 2010's one-year investment return was a welcome recovery from the difficult market environment of the last several years, taking the sting out of the historically dismal returns of FY 2009 and demonstrating the resiliency of the CRPTF's investment program. She stated that the overall success of FY 2010 was reflected in the Teachers' Retirement Fund ("TERF"), the State Employees' Retirement Fund ("SERF") and the Municipal Employees' Retirement Fund ("MERF"), which outperformed their customized benchmarks by 58 basis points ("bps"), 33 bps and 75 bps, respectively. Treasurer Nappier further noted that these funds also performed well over the longer-term horizons. Finally, she cautioned that the economic recovery could moderate during FY 2011 especially in the present environment where job growth remained anemic; therefore, she stressed that it was necessary to manage the CRPTF to shield the portfolio from continued market volatility while prudently taking advantage of market opportunities to boost the probability of returns commensurate with each plan's long-term actuarial assumption.

Treasurer Nappier stated that how investment performance will impact the FY 2012 and 2013 State budget contributions to the pension funds would not be known until the actuarial valuation covering the past two fiscal years is completed this Fall. However, she said it was a foregone conclusion that FY 2009's investment performance, combined with the 2009 retirement incentive program and the suspension of a portion of the state's contribution to the SERF, would have a sobering affect on the CRPTF's valuation of its liabilities. She added that FY 2010's positive return would also be included in this valuation and that it would help to dampen the fiscal impact, albeit a small consolation given the enormous budgetary challenges facing Connecticut in FY 2011. Treasurer Nappier then acknowledged the State's work ahead to get a better handle on its unfunded pension liabilities and the challenge of doing so in a manner that would ease the burden on taxpayers while following its obligation to plan participants and retirees.

Next, Treasurer Nappier commented on legislation that was enacted in 2010 by the Connecticut General Assembly involving the CRPTF's securities lending activity. Effective July 1, 2010, she reported that the statutory language for non-cash collateral was broadened to include specific high quality sovereign debt. She said State Street Bank estimated an increase in revenues for the CRPTF of $250,000 - $400,000 based on historical data and factors impacting revenue.

Treasurer Nappier acknowledged a very notable piece of legislative history that occurred last month on the national level when President Barack Obama signed the "Dodd-Frank Wall Street Reform and Consumer Protection Act." She said that the Act was the most far reaching financial reform legislation since the 1930s and although directed primarily at the financial services industry, the Act would also have a major impact on nearly all U.S. public companies by adding new requirements to the securities laws on matters such as corporate governance and executive compensation. In general, Treasurer Nappier commented that this legislation established a systemic risk oversight body to identify financial companies and certain financial activities that could pose a threat to U.S. financial stability and the Act has varying degrees of impact on hedge funds, fund managers, liquid securities, banking relationships and credit rating agencies. Finally, she said that many of the major reforms would occur within the next year, others would have longer horizons, and while full impact was still unknown, the Office of the Treasurer ("OTT") would continue to assess the impact on the CRPTF portfolio and other areas of the Treasury such as Debt Management and Cash Management.

Turning to today's agenda Treasurer Nappier said that her recommendation for the Small-Mid Cap ("SMID) Growth Manager mandate would be presented, and she noted that the search for core, growth and value managers was conducted to complete the alignment of the Mutual Equity Fund ("MEF") structure. She reminded IAC members of her decisions to terminate existing SMID manager, TCW Asset Management, and to reduce assets under management for AXA

Rosenberg. Treasurer Nappier said the allocation to SMID should be approximately 20% of the MEF, or roughly $1 billion.

Treasurer Nappier noted that the asset and liability study was scheduled to begin during the first half of calendar year 2011, and said throughout the balance of the current fiscal year work would continue on completion of the SMID search bringing on board a full complement of new managers as well as continuing the AIF search. In closing, Treasurer Nappier commented about the performance and benchmarks of peer public plans that have recently announced performance results. She noted that the CRPTF performed well in comparison to other public plans. Chairman Roxe stated that the results were excellent and that the OTT's investment team was first class.

Consideration of Legal Counsel Pool for the Alternative Investment Fund

Catherine LaMarr, General Counsel, provided an overview of the Legal Counsel Candidates for the AIF. Ms. LaMarr began her comments by stating that 16 law firms responded to the Request for Proposal; an internal search committee interviewed 10 of the respondent firms, and the following six were recommended for approval to provide legal services for the AIF: Baker Botts LLP, Day Pitney LLP, Edwards Angell Palmer & Dodge LLP, Lowe & Savage LLC, Reinhard Boerner Van Deuren SC, and Teigland-Hunt LLP. She noted that given the breadth and depth of the potential investments for the AIF, these six law firms would provide the optimal mix of services and expertise. Ms. LaMarr then highlighted the expertise of the various firms and commented on pricing. In response to Chairman Roxe's question regarding compensation, she stated that no retainer fees would be utilized and the firms would only be paid for actual services provided at an hourly rate. Treasurer Nappier added that the OTT maintains a desirable pool of law firms, with a range of diverse expertise, and these firms are assigned work and paid on an as-needed-basis; but there is no guarantee that each firm will receive an assignment in any given contract period. Chairman Roxe asked how many attorneys were under contract with the OTT to which Ms. LaMarr stated that 23 law firms were under contract for reasons including specified areas of expertise and to avoid conflicts of interest.

Endorsement of the Legal Counsel Pool for the Alternative Investment Fund

Chairman Roxe asked for a motion to endorse the Legal Counsel Pool for the Alternative Investment Fund. **A motion was made by David Himmelreich, seconded by Mr. Murray, to endorse the Legal Counsel Pool for the Alternative Investment Fund. The motion was passed unanimously.**

Chairman Roxe asked for a motion to waive the 45-day comment period for the Legal Counsel Pool for the Alternative Investment Fund. **A motion was made by Mr. Freeman, seconded by Mr. Himmelreich, to waive the 45-day comment period for the Legal Counsel Pool for the Alternative Investment Fund. The motion was passed unanimously.**

Presentation by and Consideration of Wellspring Capital Partners V, L.P.

Mr. Kingshott provided opening remarks and introduced Wellspring Capital Partners V, L.P. ("Wellspring V" or the "Fund"), a private investment opportunity. He began his comments by stating that an investment in Wellspring V, a middle market leveraged buyout ("LBO") fund, would fit in the corporate finance strategy of the PIF, which was currently at the low end of its allocation. Mr. Kingshott added that the Fund would increase the CRPTF's exposure to the middle market segment of this asset class. He added that Wellspring Capital Management LLC ("Wellspring") focused on companies that have enterprise values of between $150 million to $400 million, a generally less competitive sector of the market. Mr. Kingshott stated that Wellspring typically did not participate in auctions, leveraged its investments moderately, and focused on the relatively less efficient mergers and acquisitions market for companies of this size. He commented that Wellspring's niche was investing in undermanaged or underperforming businesses purchased at reasonable prices. Mr. Kingshott commented that historically, 68% of Wellspring's value creation came from investment growth or earnings before interest, taxes, depreciation and amortization ("EBITDA"), and the balance from expanding multiples.

Finally, Mr. Kingshott stated Wellspring was an existing CRPTF general partner with total investments of $125 million in Wellspring II and III, both strong performing top-quartile funds; and that the CRPTF's investments in Wellspring II and III have provided annual returns of 21% and 23%, respectively. He added that Wellspring IV, in which CRPTF is not invested, has posted a 5.4% top-quartile annual return.

In response to Mr. Murray, Bradley Atkins, Chief Executive Officer of Franklin Park Associates, stated that Wellspring III was fully invested and the CRPTF's remaining value was $34 million. Mr. Roth posed questions regarding the target size of Fund V's investments. Mr. Kingshott stated that based on his analysis, he was convinced of Wellspring's commitment to their long-term, historically successful strategy. Mr. Atkins added that Wellspring was one of the better firms that targets undermanaged companies, in response to Chairman Roxe.

Presentation by Wellspring Capital Management LLC

Wellspring, represented by William Dawson, Jr., Managing Partner, and Greg Feldman, Managing Partner and Co-founder, provided a presentation of Wellspring V. Mr. Feldman provided an overview of Wellspring and commented on its consistent investment strategy and track record for the past 15 years, investing in value-oriented, middle-market companies. Regarding Wellspring's investment performance, he stated that its 23 current investments show a return of 1.8 times cost and a 32.5% gross internal rate of return ("IRR"), which he expected to improve over time and that its 12 realized investments had returned 2.8 times cost for a 41% gross IRR.

Mr. Dawson explained Wellspring's investment process, how it sourced deals, due diligence process, business model implementation and hands-on execution. He spoke about the types of assets that Wellspring targets, what it avoids and stated that it had no voluntary staff departures.

Mr. Feldman gave examples of companies Wellspring has sold over the past year and noted that it has generated over $650 million in proceeds to investors since the beginning of CY 2009.

In response to Mr. Fiore's question about common themes, Mr. Dawson stated that Wellspring typically has bought undermanaged companies, made add-on acquisitions and focused on improving the procurement process. Mr. Himmelreich inquired about Wellspring's prospects if the economy didn't turn around. Mr. Feldman stated that Wellspring utilized moderate leverage, did not have any balance sheet, covenant or maturity issues, and therefore could withstand later exits or a slow economic environment.

Roll Call of Reactions for Wellspring Capital Partners V, L.P.

Chairman Roxe requested the IAC members to provide input on Wellspring Capital Partners V, L.P. Messrs. Roth, Barnes, Freeman, Murray, and Himmelreich, Thomas Fiore and Chairman Roxe all approved of the investment. Mr. Roth added that he had no hesitation and that Wellspring runs its business well with a focus on downside risk management. The other IAC members agreed with Mr. Roth. Mr. Himmelreich added that he expected there could be more headwinds for the economy and this investment had merit for withstanding that type of environment.

Chairman Roxe asked for a motion to waive the 45-day comment period for Wellspring Capital Partners V, L.P. **A motion was made by Mr. Freeman, seconded by Mr. Himmelreich, to waive the 45-day comment period for Wellspring Capital Partners V, L.P. The motion was passed unanimously.**

<u>Presentations by and Consideration of Managers for the Small-Mid Cap Growth Managers</u>

Joanne Dombrosky, Principal Investment Officer, provided opening remarks on the SMID Growth Money Manager Search. Ms. Dombrosky highlighted the expedited SMID search process, noted that approximately $900 million was targeted toward the total SMID allocation, of which the growth mandate was about $200 million. Ms. Dombrosky stated that the SMID criteria included experienced, incentivized investment teams with appropriate resources to adhere to the long-term investment strategy. She commented on the value of a firm's commitment to research and top quartile performance over the three to five-year horizon.

Prior to Ms. Dombrosky's introduction of the finalists for SMID Growth Money Managers, which included Allianz Global Investors Capital LLC ("AGI Capital"), The Boston Company Asset Management, LLC ("BCAM") and Frontier Capital Management Company, LLC ("Frontier"), she stated that they all performed fundamental research, but differed somewhat in terms of style, market cap, portfolio diversification and methodology. She then compared and contrasted each firm and reported on their performance statistics. Finally, Ms. Dombrosky said that each firm met the CRPTF's selection requirements and was well suited to meet Connecticut's mandate requirements.

Joseph Barcic, Principal, and Rashid Hassan, Associate, Mercer Investment Consulting, Inc., ("Mercer") responded to questions posed by IAC members regarding Mercer's role in the search, adding that ultimately the search team interviewed about seven SMID candidate growth managers. In response to Mr. Himmelreich's question about comparative performance data among the three presenting firms, Mr. Corbett noted the different benchmarks used by each firm.

Presentation by Allianz Global Investors Capital LLC

AGI Capital made a presentation to the IAC on the firm's SMID growth investment opportunity. AGI Capital was represented by Michael Corelli, Managing Director/Portfolio Manager, and Clifton Wedington, Senior Vice President-Public Funds. Mr. Wedington began by providing an overview of AGI Capital and noted that it was a diversified investment management firm that had an entrepreneurial culture with dedicated investment teams. Mr. Corelli emphasized the stability of AGI Capital's investment team. He then described AGI Capital's disciplined portfolio construction and risk management processes, noting its track record for consistent style and market cap discipline. In discussing performance, Mr. Corelli highlighted AGI Capital's small-cap growth composite compared to its peers. He noted that its upside capture dramatically outweighed the downside performance. In closing, Mr. Corelli and Mr. Wedington spoke about AGI Capital's client service.

Mr. Himmelreich posed a question about what the last three years taught AGI Capital about downside risk. Mr. Corelli responded that the market was highly levered and the degree of deleveraging and liquidation was underestimated. He reiterated the importance of maintaining a measured approach.

Presentation by The Boston Company Asset Management

BCAM made a presentation to the IAC on the firm's SMID growth investment opportunity. BCAM was represented by Carl O'Connell, Director, and B. Randall Watts, Jr., Senior Managing Director. Mr. O'Connell began by providing an overview of BCAM and commented about its team, diverse recruiting efforts, use of Connecticut brokers, the dollar amount of assets under management and a list of representative clients. Mr. O'Connell then detailed BCAM's annualized composite returns through June 30, 2010 and noted that the only period that it underperformed since inception was during 2009. He said BCAM's themes of consistency and preservation of capital maintained its performance through different markets. Finally, Mr. Watts described BCAM's investment philosophy, and investment process, noting that its process is very risk controlled. In closing, he commented that BCAM specialized by industry vertical.

In response to Mr. Fiore, Mr. Watts reviewed the investment decision process noting the decision was made by a majority of the investment committee. He also stated BCAM underperformed in 2009, but in hindsight recognized that BCAM could have taken more risk when the market turned. In response to Chairman Roxe, Mr. Watts stated that BCAM invests within days of receiving capital, and added that because the portfolio is broadly diversified and has a hard-stop loss rule to protect on the downside, there was less risk to the investor.

Presentation by Frontier Capital Management Company, LLC

Frontier, made a presentation to the IAC on the firm's SMID growth investment opportunity. Frontier was represented by Michael Cavarretta, Chairman, and Andrew Bennett and Christopher Premock, both Vice Presidents. Mr. Cavarretta provided an overview of the firm and the SMID team. He then spoke about Frontier's portfolios and noted that it had maintained a first quartile ranking since inception. Mr. Bennett highlighted three key drivers considered prior to investing in a company: a solid business model, unrecognized earnings power and attractive valuation to provide long-term consistent performance. Next, he described their screening processes for both buying and selling stocks. In closing, Mr. Bennett commented about Frontier's sell discipline and noted that capital preservation was critical to superior long-term performance.

In response to Chairman Roxe, Mr. Cavaretta commented that Frontier's capital appreciation strategy selects stocks without regard to the sector weights of the benchmark. Mr. Murray asked about key man risk. Mr. Cavaretta stated that Mr. Bennett is a strong portfolio co-manager and that the Frontier team was deep. In response to Chairman Roxe's question regarding the slowing U.S. economic growth's effect on Frontier's investment process, Mr. Cavaretta said that it focused on finding quality companies with secular growth characteristics and companies that benefit from growth outside of the U.S. In response to Mr. Fiore, Frontier's team commented on the different scenarios utilized to find unrecognized earnings power.

Roll Call of Reactions for Allianz Global Investors Capital LLC, The Boston Company Asset Management, LLC, and Frontier Capital Management Company, LLC

When asked by Chairman Roxe, Mr. Barcic said the Mercer team was neutral about the three SMID growth candidates and that all three were capable to manage the mandate. Mr. Hassan provided his views about the strengths and weaknesses of each of the three firms.

Chairman Roxe requested the IAC members to provide input on the SMID growth money managers. Messrs. Roth, Freeman, Murray, Himmelreich, Fiore, Barnes and Chairman Roxe all agreed that all three firms were acceptable.

Mr. Roth commented that he preferred the managers that focused on downside protection. He then said that he was impressed by Frontier. Mr. Freeman added that he had no reservations about any of the firms since all were top quartile performers, but he did have a preference for Frontier. Mr. Himmelreich added that he was comfortable with all three firms but that he too felt Frontier was a strong manager. He also said that five years was an inadequate amount of time to judge performance and he agreed with Mr. Roth's concern about the downside capture ratio of AGI Capital. Mr. Barnes stated that he preferred firms that don't manage to the benchmark. Chairman Roxe added that while he liked all three managers, Frontier was the best in his opinion, and that he also was concerned about downside capture ratio of AGI Capital.

Chairman Roxe asked for a motion to waive the 45-day comment period for the Small-Mid Cap Growth Money Managers: Allianz Global Investors Capital, The Boston Company Asset

Management, LLC, Frontier Capital Management Company, LLC. **A motion was made by Mr. Himmelreich, seconded by Mr. Murray, to waive the 45-day comment period for the Small-Mid Cap Growth Money Managers. The motion was passed unanimously.**

Chairman Roxe requested that Mercer's presentation regarding its due diligence process be tabled until the next round of SMID managers present at the IAC meeting.

<u>Corporate Governance and MacBride Compliance</u>

Meredith Miller, Assistant Treasurer - Policy, provided a report on Corporate Governance and MacBride Compliance for the quarter ended March 31, 2010. Ms. Miller reported that there were 782 domestic proxy votes cast on behalf of the CRPTF of which 30.4% were voted against management, and that the domestic proxies for the quarter were posted on the Website. She also reported that there were 5,229 international proxy votes cast and that 27.6% were voted against management. Ms. Miller said that there were several corporate governance issues Treasurer Nappier had identified for the 2010 proxy season including executive compensation. Finally, she stated that the CRPTF co-filed a resolution with Calvert at Netflix calling for diversity of its board, and on June 16, 2010 the company announced the addition of Anne Mathers to the Board.

Ms. Miller then commented about the OTT's continued work on the issues of safety and risk management decision making with the board of Massey. Regarding MacBride Compliance, Ms. Miller stated there were no violations in accordance with MacBride principles. Chairman Roxe complemented the efforts of the OTT.

<u>Chief Investment Officer's Update on the Market and the CRPTF Final Performance for the Months ended May 31, 2010 and June 30, 2010</u>

Mr. Corbett provided an update on the capital market environment and stated that the U.S. economy may be losing momentum, the markets were currently focused on deflation and the Federal Reserve would provide more quantitative easing. He commented that job creation, consumer spending and business confidence did not measurably respond to the stimulus, the Gross Domestic Product ("GDP") had gone from 5% at the end the last quarter of CY 2009 to 3.7% and 2.4% in the first and second quarters of CY 2010, respectively and that the first half of CY 2010 only saw 600,000 new private sector jobs created; but he added that nearly 8.5 million jobs were lost in 2008 and 2009. In spite of this news, Mr. Corbett said that the market has had impressive returns with U.S. equities up over 8%, international equity markets up with double-digit returns, high yield up over 3% and corporate bonds up over 2% since the end of June 2010. He said that until investors had a better understanding of the speed and direction of the economic recovery, market volatility would continue.

Mr. Corbett then reported on the performance for the CRPTF. For the quarter ended June 30, 2010 he reported that the Combined Investment Funds declined 1.63%, but increased 12.9% for FY 2010, increasing the CRPTF's assets by $1.5 billion to $21.9 billion after paying out $1.1 billion in net benefits. For the quarter ended June 30, 2010, Mr. Corbett reported that five of the eight public market funds underperformed their benchmarks, but for FY 2010, five of the eight outperformed. Finally, with respect to the TERF and SERF, he commented on the targeted policy weights of the funds and noted that the CRPTF reduced its exposure to high yield bonds during the last six months of FY 2010. Mr. Corbett reported that the Inflation Linked Bond Fund was increased during the quarter ended June 30, 2010 to bring it within the lower end of its range and that it performed well. He stated that $50 million was moved into a core open-end real estate fund during the last quarter of FY 2010, noting that timing was due to the expectation that the real estate market was bottoming.

Mr. Barnes posed a question about deflation. Mr. Corbett discussed deflationary environments and added that the Liquidity Fund should perform well and preserve value during this scenario. He also stated that creation of a real asset portfolio would provide some downside protection in a deflationary environment.

Other Business

Chairman Roxe invited IAC members to submit agenda items for the September 8, 2010 IAC meeting.

Comments by the Chairman

There being no further business, the meeting was adjourned at 12:10 p.m.

An audio tape of this meeting was recorded.

Respectfully submitted,

DENISE L. NAPPIER
SECRETARY

Reviewed by

JOSEPH D. ROXE
CHAIRMAN