

INVESTMENT ADVISORY COUNCIL
WEDNESDAY, April 11, 2007

MEETING NO. 343

Members present:

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

Others present:

Howard G. Rifkin, Deputy Treasurer
Susan B. Sweeney, Chief Investment Officer
Patricia DeMaras, Associate Counsel
Greg Franklin, Assistant Treasurer-Investments
David Holmgren, Principal Investment Officer
David Johnson, Principal Investment Officer
Shelagh McClure, Director of Compliance
Meredith Miller, Assistant Treasurer-Policy
Jason Price, Investment Officer
Judy Balich, Executive Secretary

Guests:

Bradley Atkins, Franklin Park, LLC
Laura Backman, State Street Bank
Vonda Brunsting, Service Employees International Union
Harvey Kelly, Leumas Advisors
Jacquelyn Lyons, State Street Corporation
Julie Nauncheck, CSEA-Retiree Council #400
Daniel Schmitz, CRA RogersCasey
Collins Spencer, Spencer Partners
Cynthia Steer, CRA RogersCasey
Marc Weiss, Pension Consulting Alliance
Thomas Woodruff, Office of the Comptroller

Chairman Dick Roberts called the meeting to order at 9:05 A.M.

Chairman Roberts asked James Larkin to report on the Audit Committee meeting that took place just prior to today's meeting. Mr. Larkin noted that the final audit letters for fiscal years 2005 and 2006 for the Combined Investment Funds have not yet been published, nor has the 2006 audit been completed. Mr. Larkin also gave an update on Westport Senior Living and LeNatures.

Approval of Minutes

Chairman Roberts asked for comments on the Minutes of the March 14, 2007 Investment Advisory Council ("IAC") Meeting. There being no comments, **a motion was made by Peter Thor, seconded by Michael Freeman, that the Minutes of the March 14, 2007 IAC meeting be accepted as drafted. The motion was passed unanimously.**

Opening Comments by the Treasurer

Treasurer Denise Nappier made opening comments regarding the agenda for the day, noting that today the IAC would vote on the recommended changes to the proxy voting guidelines section of the Investment Policy Statement ("IPS"). She noted that she furnished clean and redlined copies of this adopted amendment to the IAC members in the package mailed last week, and that these documents show all the recommended changes including suggestions by the IAC. Treasurer Nappier reviewed the requirements for approving the adopted amendment, including the fact that only appointed IAC members could vote, and she explained what the process would entail should the IAC fail to approve the adopted amendment. Treasurer Nappier expressed her appreciation to IAC members, Deputy Treasurer Howard Rifkin and members of her staff, especially the policy unit led by Meredith Miller, Assistant Treasurer-Policy, for their fine work and active participation in the amendment process. She said that she believed that these proxy voting guidelines would serve the Connecticut Retirement Plans and Trust Funds ("CRPTF") and its beneficiaries well.

Treasurer Nappier moved on to the private equity opportunities being presented at today's meeting. Treasurer Nappier said that she is pleased to be presenting the top finalists for the private equity portion of the Connecticut Horizon Fund, noting that this is the private equity fund-of-funds mandate for investments in emerging, minority and women owned managers and Connecticut-based private equity limited partnerships. She said that the three firms that will be presenting are Aldus Equity, LLC ("Aldus"); Muller & Monroe Asset Management, LLC ("Muller & Monroe"); and JPMorgan Private Equity Group ("JPMorgan"). Treasurer Nappier stated that another private equity opportunity that would be presented was KPS Special Situations Fund III, L.P. ("KPS III"). She reminded the IAC that in 2004 the CRPTF committed \$35 million to the general partner's last fund, KPS Special Situations II, L. P., which is performing very well, and that performance may be the reason that this current Fund is oversubscribed by 4 times. Treasurer Nappier indicated that the general partner would like to have a single closing during the second quarter and she recommended a waiver of the 45-day comment period.

Switching gears, Treasurer Nappier then turned to real estate investment opportunities being presented at today's meeting. She said that the IAC would hear from principals of JER Europe Fund III ("JER III"), an investment fund in the European Union. She remarked that this would represent the CRPTF's first foray into international real estate, noting that the IPS allows up to 20% of the Real Estate Fund ("REF") to be invested outside the U. S. Treasurer Nappier said that, like KPS, this is another fund that would have an expedited final closing and that she would recommend a waiver of the 45-day comment period. Treasurer Nappier then described the final fund presentation of the meeting, from principals at Morgan Stanley Prime Property Fund, LLC ("Morgan Stanley"), an open-end commingled core real estate fund. She remarked that the IPS calls for a substantial allocation to core real estate, and to date the CRPTF has made a \$250 million commitment to a separate account managed by AEW and a \$30 million commitment to Capri Select Income Fund II, a closed-end commingled fund. Treasurer Nappier clarified that the CRPTF has been seeking to add an investment in a core commingled fund for quite some time but that the best funds had had long investor "queues" that delayed appropriate opportunities. She said that she was recommending a commitment of up to \$150 million to the Morgan Stanley Fund.

Treasurer Nappier provided a legislative update noting that on April 10, 2007, the Appropriations Committee approved a proposal to issue \$2 billion in pension obligation bonds to help reduce the unfunded liability of the Teachers Retirement Fund ("TRF"). She said that this would not only help reduce the unfunded liability, but it would set the TRF on a path of financial solvency. She explained that within 25 years, the bond as proposed would allow the TRF to reach almost 100% funding status because it includes a covenant that commits the state to make annual contributions of 100% of the actuarial recommendation. Treasurer Nappier said that the proposal would now be voted on by the finance committee.

Chairman Roberts said that there was a need to change the order of presentations by Morgan Stanley Prime Property Fund and KPS Special Situations Fund III, L.P. and also for the Investment Advisory Council ("IAC") to enter into Executive Session at the conclusion of the IAC meeting. Chairman Roberts asked for a motion to change the order of presentations by Morgan Stanley Prime Property Fund and KPS Special Situations Fund III, L.P. and also for the Investment Advisory Council ("IAC") to enter into Executive Session at the conclusion of the IAC meeting. **A motion was made by Mr. Larkin, seconded by William Murray, to change the order of presentations by and Morgan Stanley Prime Property Fund KPS Special Situations Fund III, L.P. and also for the Investment Advisory Council ("IAC") to enter into Executive Session at the conclusion of the IAC meeting.**

CRPTF Final Performance for February 2007

Susan Sweeney, Chief Investment Officer, reported that for the month of February the total fund outperformed the CMMI benchmark by 30 basis points, primarily due to the performance of the private equity and real estate portfolios. She said that those two illiquid asset classes outperformed their liquid benchmarks by 584 and 378 basis points respectively in February. Ms. Sweeney noted that for the three and five year periods, the fund trailed its benchmark by 21 and 16 basis points, respectively, and for the seven year period the fund is 115 basis points ahead of the benchmark. She also reported that the Mutual Equity Fund ("MEF") fell 1.81% in February,

slightly trailing the CRPTF's Russell 3000 benchmark which fell 1.64%; for the past one year, the MEF portfolio gained 10.90% versus 12.03% for its benchmark; and for the seven year period, the MEF gained an annualized 3.79% versus 2.60% for the Russell 3000. Ms. Sweeney advised that the International Stock Fund ("ISF") posted a small advance of 7 basis points in February, modestly trailing its customized benchmark by 18 basis points. She observed that for the one year, the ISF portfolio gained 15.73% versus 18.45% for its customized benchmark, a lag of 272 basis points and for the seven year period, the ISF has annualized 7.19% versus 6.23% for the benchmark, a 96 basis point relative outperformance. She also commented that the currency overlay program continues to drag the ISF lower. Ms. Sweeney remarked that the REF and Private Investment Fund ("PIF") had some valuation adjustments which contributed slight gains.

Approval of Treasurer's Adopted Investment Policy Statement Regarding Proxy Voting Guidelines

Chairman Roberts asked if any of the IAC members had questions or issues with the final changes to the Proxy Voting Policies Amendment to the Investment Policy Statement that Treasurer Nappier adopted.

Chairman Roberts ask for a roll call of votes by the appointed IAC members to approve the adopted IPS, as amended. **All ten of the appointed Investment Advisory Council members voted to approve the changes to the Proxy Voting Policies as an amendment to the Investment Policy Statement as adopted by Treasurer Denise Nappier. The motion was passed unanimously.**

Presentations by and Consideration of Three Connecticut Horizon Fund Private Equity Managers

Jason Price, Investment Officer, made opening remarks regarding the private equity Connecticut Horizon Fund vehicle and the three fund-of-funds managers being considered to manage that mandate of approximately \$100 million, which targets underlying funds that are emerging, women-owned, Connecticut-based and minority-owned. Mr. Price recounted the search process begun by Alignment Capital and brought to conclusion by Franklin Park, which led to the three finalists presenting at today's IAC meeting. Mr. Price provided introductory remarks on Muller & Monroe, Aldus and JPMorgan.

Subsequent to Mr. Price's opening remarks, there was discussion relative to the contract's time period; the level of confidence in the group of managers selected by Alignment Capital; the level of the success of the search; the hiring of an emerging manager to hire sub-managers who are also emerging managers; how the competency of the three firms was evaluated; the minimal assets that are managed by two of the three firms; the minimal track record of two of the three firms; the ability of the CRPTF to cancel contracts if dissatisfied with the management and performance of the fund; the risk connected to investing in less experienced fund managers; and the fiduciary responsibility of the IAC. For the record, Deputy Treasurer Rifkin emphasized that Treasurer Nappier is the fiduciary of the CRPTF and the members of the IAC serve in an advisory role.

Presentation by Muller & Monroe Asset Management, LLC

Represented by André Rice, President and Founder; Irwin Loud, Chief Investment Officer; Aaron Rudberg, Principal; and Shannon Warland, Controller/Principal, Muller & Monroe made a presentation to the IAC regarding its fund-of-funds management. Mr. Rice provided an overview of the firm. Ms. Warland provided information on the firm's client services and back office operations. Mr. Rudberg supplied information on the firm's investment process. Mr. Loud discussed investing in emerging managers and the mandate of the private equity CHF and how Muller & Monroe would fulfill that mandate

Subsequent to the presentation by Muller & Monroe, IAC members posed questions regarding: the inclusion of other than minority- and women-owned emerging managers in the mandate; the execution plan of investing in 12 to 17 funds; the availability of funds that meet the mandate criteria; the firm's ability to handle a commitment that would double its assets under management; Muller & Monroe's experience in choosing emerging firms prior to its commitment from the State of Illinois for such a mandate; Muller & Monroe's relationship with Aldus; and bench strength for Mr. Loud. All questions were answered by Treasurer Nappier, Mr. Rice and Mr. Loud to the satisfaction of the IAC members.

Presentation by Aldus Equity, LLC

Aldus made a presentation to the IAC regarding its fund-of-funds management, represented by Marcellus Taylor and Thomas Henley, Partners, and Holland Gary, Principal. Mr. Gary gave an overview of the firm and talked about the firm's clients. Mr. Taylor discussed the firm's minority private equity market capabilities and the firm's ability to manage the CHF mandate for the CRPTF. Mr. Henley provided information on how the firm would position the CHF and gave a hypothetical commitment plan.

Following the presentation, Messrs. Taylor and Henley answered questions and concerns from the IAC regarding Wal-Mart's \$25 million commitment to Aldus; Deutsche Bank's investment position in Aldus; and differences between the firm's advisory and asset management businesses.

Presentation by JPMorgan Private Equity Group

JPMorgan made a presentation to the IAC regarding its fund-of-funds management, represented by Lawrence Unrein, Head of the Private Equity Group and Charles Willis and Laureen Costa, Portfolio Managers. Mr. Unrein provided an overview of the JPMorgan Private Equity Group, reviewed the firm's representative client list and talked about the performance of the firm's emerging manager investments. Ms. Costa reviewed the firm's history of identifying/investing with emerging private equity groups, the deal flow of emerging manager opportunities, the firm's recent emerging manager investments and the prospective partnership between the Office of the Treasurer and JPMorgan. Mr. Willis talked about the firm's outreach to emerging managers through conference activity and networking as well as the firm's focus and dedication to the emerging manager marketplace.

The members of the IAC had questions with regard to the criteria used to determine that an emerging manager is no longer an emerging manager; the underperformance of JPMorgan's venture capital investments; the mistakes made and lessons learned from those investments; and management changes in JPMorgan's parent company and how they are affecting JPMorgan. The questions were answered by Mr. Unrein.

Roll Call of Reactions for Muller & Monroe Asset Management, LLC, Aldus Equity, LLC, and JPMorgan Private Equity Group

Prior to the roll call, the IAC members had additional questions regarding: how many manager commitments might be made; how the managers should be rated; the target net return for the CHF; JPMorgan's quartile rankings; and the use of emerging fund-of-funds managers. The questions were answered by Treasurer Nappier, Ms. Sweeney and Mr. Atkins.

Mr. Thor said that he was troubled by the fact that Aldus said that they were not aware of Wal-Mart's general corporate behavior and would not recommend Aldus. He said he would support Muller & Monroe and JPMorgan. Sharon Palmer said that all three would be fine with her. David Roth said that he would support JPMorgan and Aldus, but would not recommend Muller & Monroe. Carol Thomas said that she would support Muller & Monroe, but was not impressed with Aldus and JPMorgan. Chairman Roberts said that he would support Muller & Monroe, Aldus needs more depth and he would place JPMorgan third. Mr. Larkin said that he was very impressed with Muller & Monroe, he had a problem with Aldus and that JPMorgan is not an emerging fund-of-funds group. Mr. Freeman said that he supported Muller & Monroe, he had concerns with Aldus and he was not impressed with JPMorgan. Mr. Murray said that he would support Muller & Monroe and would place both Aldus and JPMorgan second. Duke Himmelreich supported Muller & Monroe, was okay with Aldus and did not feel that JPMorgan would be a good fit. Thomas Fiore ranked JPMorgan first, Muller & Monroe second and Aldus third. George Mason said that he would rank Muller & Monroe and Aldus the same, but was not impressed with JPMorgan.

Presentation by JER Europe Fund III, L.P.

David Johnson, Principal Investment Officer, provided introductory remarks on JER III, noting that a commitment to this opportunity would be the CRPTF's first international real estate fund. He said that the CRPTF does have some international exposure through Starwood Global Opportunity Fund VII, LP and Apollo Real Estate Investment Fund III, LP, amounting to approximately 3% of the REF, but insufficient to the IPS which allows 0% to 20% of the fund. He observed that the CRPTF has been laying the groundwork for an international fund for the past year. He noted that Pension Consulting Alliance ("PCA") did a study and showed that the returns for International real estate have been higher than U.S. real estate for almost every period with similar volatility and concluded that international real estate will add value to the overall portfolio. Mr. Johnson said that PCA recommended up to a \$50 million commitment for international real estate, but that he would recommend \$100 million, 8% of the target portfolio, divided between Europe, Asia and India. Marc Weiss of PCA gave an overview of its due diligence on JER III and Mr. Johnson talked about some of the pre-specified assets in the Fund.

Mr. Weiss answered questions from the IAC members regarding the staff cuts at JER and types of buildings that JER is buying.

Presentation by JER Partners

JER made a presentation to the IAC on JER III, represented by Malcolm Le May, President, Europe; Cia Buckley, President, US Fund Business; and Bill Hancock, Director. Mr. Le May provided an overview of the firm, the plan for JER III, the investor list for JER III, available investment opportunities, current targeted European territories and the JER III seeded assets and pipeline. Mr. Hancock elaborated on JER Europe's current pipeline.

The IAC members expressed concerns regarding JER's reduced workforce as well as the lack of diversity within its workforce. Some members expressed concern regarding Joseph Robert's donations and support of independent schools and non-public education options for urban youth. The IAC members also had questions with regard to: the potential of restitution claims in the European real estate market; the way in which JER manages real estate without a local presence in the same area as the real estate; the reason for JER's investments in Northern Ireland while Southern Ireland and Denmark were listed only as potential markets; JER's commitment of less than 1% to the JER III; and the hedging vehicle used by JER. Mr. Le May, Ms. Buckley and Mr. Hancock responded to concerns and questions.

Roll Call of Reactions for JER Europe Fund III, L.P.

Mr. Larkin supported the investment. Mr. Freeman said that he would absolutely not support the investment because he could not justify to the members of the Union that he represents an investment in a firm that has a policy initiative that could hurt public education. Mr. Murray said that although he thought that European real estate is an important sector in which the CRPTF should invest, he felt his questions were not answered and he could not support the investment. Mr. Mason said that he thought it was great for the diversification of the real estate portfolio and he had no problem supporting the investment. Mr. Thor said that the CRPTF needed real estate investments in Europe and he supported the investment. Ms. Palmer said that she agreed that the CRPTF needed an investment in the European market but that she would not support this investment. Mr. Roth said that he believed that the CRPTF should be invested in the European real estate market, that JER had a good reputation, would be a good partner and supported the investment. Ms. Thomas said that she had mixed feeling about JER, but that there does not seem to be a lot of choice in this sector and that she would support the investment because JER did seem like a good, competent choice. Chairman Roberts said that JER had a good business model, the European real estate market is fairly stable and he supported the investment.

Chairman Roberts asked for a motion to waive the 45-day comment period for JER Europe Fund III, L.P. **A motion was made by Mr. Thor, seconded by Mr. Roth, to waive the 45-day comment period for JER Europe Fund III, L.P. The motion was passed by a majority.**

Presentation by KPS Special Situations Fund III, L.P.

Mr. Price made introductory remarks about KPS III, noting that Treasurer Nappier is considering an investment of up to \$75 million. He noted that in 2003, the CRPTF made a commitment of \$35 million to KPS Special Situations Fund II ("KPS II") and they have been an outstanding performer generating an IRR of 84.7% as of February 2007. Mr. Price also talked about the strategy used by KPS Capital Partners LLC ("KPS") of partnering with unions, buying distressed companies and saving jobs.

Presentation by KPS Capital Partners LLC

KPS made a presentation to the IAC for KPS III. KPS III was represented by Partners Raquel Palmer and Jay Bernstein. Ms. Palmer provided background information on the firm and talked about the firm's investment strategy and investment activity. Mr. Bernstein provided more detail on the firm's investment strategy and the liquidity events of KPS II.

Following the presentation, Ms. Palmer answered questions from the IAC regarding the firm's 25% carried interest charge; the location of Jernberg (a portfolio company) and the status of the litigation involving that company; whether KPS has sufficient staff to handle KPS III; how KPS finds replacements for CEOs of firms that they buy; and concern about workforce diversity. Ms. Palmer and Mr. Bernstein addressed each of the questions.

Roll Call of Reactions for KPS Special Situations Fund III, L.P.

All of the IAC members unanimously supported an investment in KPS III.

Chairman Roberts asked for a motion to waive the 45-day comment period for KPS Special Situations Fund III, L.P. **A motion was made by Ms. Thomas, seconded by Mr. Murray, to waive the 45-day comment period for KSP Special Situations Fund III, L.P. The motion was passed unanimously.**

Chairman Roberts asked for a motion to change the order of the agenda for the IAC to enter into Executive Session following the KPS Special Situations Fund III, L.P. presentation. **A motion was made by Mr. Larkin, seconded by Mr. Roth, to change the order of the agenda for the IAC to enter into Executive Session following the KPS Special Situations Fund III, L.P. presentation. The motion was passed unanimously.**

Chairman Roberts asked for a motion to adjourn the Regular Session and enter into Executive Session. **A motion was made by Mr. Roth, seconded by Ms. Thomas, that the Investment Advisory Council adjourn the Regular Session at 3:00 p.m. and enter into Executive Session. The motion was passed unanimously.**

Those present for the Executive Session were Chairman Roberts, Treasurer Nappier, Ms. Thomas, Ms. Palmer, Mr. Roth, Mr. Thor, Mr. Mason, Mr. Fiore, Mr. Murray, Mr. Larkin and Deputy Treasurer Rifkin.

Chairman Roberts asked for a motion to adjourn the Executive Session and enter into Regular Session. **A motion was made by Mr. Larkin, seconded by Ms. Thomas, that the Investment**

Advisory Council adjourn the Executive Session at 3:55 p.m. and enter into Regular Session. The motion was passed unanimously.

Chairman Roberts noted that the Executive Session was regarding personnel matters and no votes were taken.

Presentation by Morgan Stanley Prime Property Fund

Mr. Johnson made opening comments regarding Morgan Stanley and explained the projected returns versus historical returns reported for Morgan Stanley Prime Property Fund. He also talked about the allocation to Core real estate in the IPS, the relevance of Core to the REF and the value of adding Morgan Stanley to the REF portfolio. Ms. Sweeney noted that asset allocation is currently under review. Mr. Weiss provided additional information on Morgan Stanley's strategy.

Mr. Johnson, Mr. Weiss and Associate Counsel Patricia DeMaras answered questions from the IAC members regarding the limitations of investing in Core real estate in today's market; how values are determined; the lack of capital contributions from the operating managers; and potential representation on the Advisory Board.

Presentation by Morgan Stanley Real Estate Advisor, Inc.

Morgan Stanley made a presentation to the IAC for its Prime Property Fund (the "Fund"). Morgan Stanley was represented by Mark Albertson, managing director of Morgan Stanley and head of Prime Property Fund and Jay Raghavan, deputy head of Asset Management for Morgan Stanley Real Estate ("MSRE"). Mr. Albertson provided a brief overview of MSRE, as well as an overview of the Fund, which included the Fund, profile, performance, portfolio property type and geographic diversification and reasons to invest in the Fund. Ms. Raghavan provided information on the business plan, the value added by asset managers and exit strategies.

Mr. Albertson and Ms. Raghavan answered questions from the IAC regarding the cap rate on the portfolio properties in San Francisco and how development of property fits into the firm's overall strategy.

Roll Call of Reactions for Morgan Stanley Prime Property Fund

Chairman Roberts said that he supported the investment. Ms. Thomas said that she had no problem with the investment. Mr. Roth said that he thought that the Core real estate was an appropriate asset class and that Morgan Stanley was probably fine to manage that asset but thought that the projected returns justified only a very reduced investment at this time because of the timing and that was the only approval he would make. Mr. Thor said that he thought it was a very sensible investment. Mr. Mason said that he would not support the investment because he felt that this was not a good time to be investing in commercial real estate. Mr. Fiore said that he was comfortable going forward with the investment. Mr. Murray said that he supported the investment. Mr. Larkin said that he supported the investment.

During the Roll Call, there was a discussion regarding allocation to the Core segment of the REF and the management fee structure for Morgan Stanley.

Chairman Roberts asked for a motion to waive the 45-day comment period for Morgan Stanley Prime Property Fund. **A motion was made by Ms. Thomas, seconded by Mr. Larkin, to waive the 45-day comment period for Morgan Stanley Prime Property Fund. The motion was passed by a majority.**

Report on Corporate Governance and MacBride Compliance Activities

Ms. Miller reported on the Treasury's activities related to corporate governance and MacBride compliance for the period ending December 31, 2006. She indicated that this period of time is quiet relative to proxy voting but that during the quarter, there were 218 domestic and 310 international proxies cast with 38.9% and 7.9%, respectively, against management. Ms. Miller also reported that there were no violations of Connecticut statutes regarding the MacBride Principles and that Marsh & McLennan was removed from the Watch List following a settlement on April 10, 2007. Ms. Miller distributed an article in the New York Times on Sunday, April 8, 2007, regarding Treasurer Nappier's speech on executive compensation and said that the project on executive compensation is ongoing.

Other Business

Status Report on Requests by IAC Members

Ms. Sweeney said that there is nothing to report on the **Staffing Support** update.

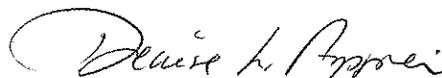
Discussion of preliminary agenda for May 9, 2007 IAC meeting

Ms. Sweeney said that potential agenda items for the May 9 meeting include a Watch List update, a Securities Lending presentation and a presentation for a private equity opportunity.

There being no further business, the meeting was adjourned at 4:50 PM.

An audio tape of this meeting was recorded.

Respectfully submitted,



**DENISE L. NAPPIER
SECRETARY**