INVESTMENT ADVISORY COUNCIL
WEDNESDAY, May 11, 2005

MEETING NO. 326

Members present:	Thomas Fiore, representing Robert L. Genuario David (Duke) Himmelreich James Larkin William Murray Denise L. Nappier, Treasurer Clarence (Dick) L. Roberts, Jr., Chairman David Roth Carol Thomas Peter Thor
Absent:	Michael Freeman Reginald Martin Sharon Palmer
Others present:	Howard G. Rifkin, Deputy Treasurer Susan B. Sweeney, Chief Investment Officer Robyn Belek, Deputy Director of Communication Gary Draghi, Principal Investment Officer Greg Franklin, Assistant Treasurer-Investments Catherine E. LaMarr, General Counsel Meredith Miller, Assistant Treasurer-Policy David Scopelliti, Principal Investment Officer Judy Balich, Executive Secretary Sarah Carter, Administrative Assistant
Guests:	Sean Quigley, State Street Corp. Cynthia Steer, CRA RogersCasey Dan Schmitz, CRA RogersCasey Bradley Atkins, Franklin Park, LLC Austin Long, Alignment Capital Craig Nickels, Alignment Capital Harvey Kelly, Leumas Advisors Julie Naunchek, CSEA-Retiree Council #400 Robyn Kaplan-Cho, Connecticut Education Association

Chairman Dick Roberts called the meeting to order at 10:40 A.M.

Approval of Minutes

Chairman Roberts asked for comments on the Minutes of the March 7, 2005 Special Investment Advisory Council ("IAC") Meeting. There being no comments, **a motion was made by James Larkin seconded by William Murray that the Minutes of the March 7, 2005 IAC meeting be accepted as drafted. The motion was passed unanimously.**

Chairman Roberts asked for comments on the Minutes of the March 9, 2005 IAC Meeting, noting that a replacement page for page 6 had been distributed for insertion. There being no further comments, **a motion was made by Carol Thomas, seconded by Mr. Larkin that the Minutes of the March 9, 2005 IAC meeting be accepted as drafted with the new page 6 inserted. The motion was passed unanimously.**

Chairman Roberts made remarks on the Institutional Investors Summit on Climate Risk at the United Nations ("UN Summit") that he attended on May 10, 2005. He noted that Treasurer Denise Nappier co-chaired this meeting with Timothy Wirth, former senator from Colorado. Chairman Roberts also noted that A New Call for Action was signed by several State Treasurers, State and City Comptrollers, Public Pension Funds, Labor Pension Funds, Foundations, Religious Institutional Investors and European Investor Supporters. He said that we owe a great debt to Treasurer Nappier for being one of the leading members of this operation.

Opening Comments by the Treasurer

Treasurer Nappier provided a brief recap of the initial UN Summit that took place in November of 2003. She noted that at that time not one company that could directly be affected by climate change had agreed to conduct an assessment of their potential liabilities associated with climate change and begin to put together plans to mitigate that risk. She said there had been no companies that acknowledged that climate change could in fact have a significant impact on the long-term health of the company and therefore the value of CRPTF's investment in that company. Treasurer Nappier reported that since November of 2003 some of the leading companies in the industries that could be most affected by climate change have acknowledged that this is a serious financial issue to the company and its shareholders. She said that two of the three largest companies, American Electric Power and Cinergy conducted assessments of liabilities and released their reports to shareholders, and Ford Motor Company is now in the process of conducting their risk assessment. Treasurer Nappier said that the May 2005 UN Summit occurred at an opportune time with this week's announcement by General Electric that they would deploy approximately $1.5 billion in their initiative to address clean technology and other issues directly associated with climate risk. She said that there was more participation by institutional investors and a significant presence in international investors. Treasurer Nappier pointed out that the focus of the conference was not on the environment and the future well being of our planet, but was focused on the economic impact and how institutional investors can begin to get a handle on the liabilities in order to evaluate the long term health of the companies in which investment are made. Treasurer Nappier spoke in some detail with regard to the possibility of federal environmental regulations being enacted and the impact they might have on CRPTF's investments.

Deputy Treasurer Howard Rifkin said that the United Nations was very involved in the event and the fact that the summit took place at the UN added gravitas to the event. He said that Ted Turner is the benefactor of the UN Foundation and part of Mr. Turner's mandate is to look at issues regarding environmental impact on world populations. Treasurer Nappier said that the scientific data at this summit was even more compelling than it had been in November of 2003. Meredith Miller, Assistant Treasurer of Policy, noted that the Pentagon hired consultants who reported that climate risk could create a worldwide crisis.

David Roth commented that the IAC and the Treasurer should always operate from the vantage point of fiduciary responsibility rather than promoting social policy. He said that he agrees with the Treasurer's concern of the financial risk to a company in which CRPTF is invested. Deputy Treasurer Rifkin said that Treasurer Nappier has insisted from the inception of the Office of the Treasurer's ("OTT") corporate governance efforts and development of proxy voting guidelines, approved by the IAC as part of the Investment Policy Statement, that the context in which the OTT is engaging in shareholder issues whether on climate risk, issues of transparency, independence of board members, executive compensation or any other issue, is always done in the context of fiduciary relationship to the OTT. Treasurer Nappier said that the OTT's position is that before regulations on emissions are initiated, the companies in which the State of Connecticut Retirement Plans and Trust Funds ("CRPTF") is invested need to be prepared because they could be financially harmed by regulations if they are not well prepared. The objective of the OTT is to preserve and enhance CRPTF's assets.

Treasurer Nappier reported that based on the presentation by Canyon-Johnson Realty Advisors ("CJRA") on the Canyon-Johnson Urban Fund II, L.P. ("CJUF II"), the favorable feedback from the IAC and the IAC's waiver of the 45-day comment period, she has made a decision to make a $50 million commitment to CJUF II. Treasurer Nappier said there was some concern regarding their fees and she was able to negotiate a fee reduction with CJRA. She said that she signed the contract this morning.

Treasurer Nappier said that one of the managers on the Watch List, Putnam Investments, has been terminated, and Susan Sweeney, Chief Investment Officer, will provide a status report later in the meeting.

Treasurer Nappier said that there would be a presentation today by Alignment Capital, one of the Private Investment Fund ("PIF") consultants, retained to conduct annual pacing studies for CRPTF. She said that the pacing study led to several recommendations, one of which is to increase CRPTF's exposure to the small/mid cap buyout fund strategy. The asset allocation and liability study is not yet complete and that could have an impact on CRPTF's existing 11% target allocation to private equity.

Catherine LaMarr, General Counsel, reported that the CRPTF received a check in excess of $500,000, which is the first of several checks expected from Keystone as the partnership is dissolved.

CRPTF Final Performance for February and March 2005

Ms. Sweeney said that February and March performance was distributed but that she would focus on performance for the month of March and the quarter ending March 31, 2005. She said that for March, CRPTF outperformed its benchmark by 21 basis points and for the quarter by 100 basis points. Ms. Sweeney said the domestic equity portfolio outperformed by 57 basis points for the quarter and the international stock portfolio underperformed by 131 and basis points. She said fixed income outperformed the benchmark by 29 basis points for the quarter. Ms. Sweeney reported on the results of the first quarter TUCs report noting that the CRPTF ranked in the 13th percentile for the quarter. She also said that CRPTF's percentile rankings were 55th for the one-year, 70th for the three-years and 37th for the five-years ended March 31.

Ms. Sweeney reported that CRPTF is currently negotiating 13 Mutual Fixed Income Fund contracts. She said that the two inflation linked bond managers, Hartford Investment Management Company and Brown Brothers Harriman, contracts have been completed and are with the Office of the Attorney General for final approval and, when approved, will then be funded. Ms. Sweeney said that Ashmore Investment Management, one of the emerging markets debt managers, has been completed and is funded. There are two other emerging markets debt managers, PIMCO and Bridgewater that CRPTF is very close to completing.

Mr. Roth asked how long it takes, once a decision is made, to contract with and fund a manager. He commented that it seemed to be rather drawn out. Ms. Sweeney responded that there were a number of changes initiated during a period of time last year, statewide, to the standard contract form. She said that Ms. LaMarr might be able to comment because she had to continuously incorporate changes into the contract requirements. She said that a contract was ready to be sent out to the managers in November and since that time, contacts have been under negotiation and Greg Franklin, Assistant Treasurer-Investments, and Patricia DeMaras, Associate Counsel, have been negotiating with the managers. Ms. LaMarr concurred that the bar did keep changing and noted that the volume of contracts currently under negotiation also had an impact on OTT's ability to move the contracts quickly.

Mr. Larkin asked if all contracts have to be vetted by the Attorney General's Office. Ms. LaMarr said that with the exception of private equity and real estate all contracts must be approved by the Attorney General's Office.

Duke Himmelreich asked where the contract changes had initiated. Ms. LaMarr said that some were internal policy decisions, some were policy decisions stemming from IAC meeting comments, others were from the Office of Policy and Management, some were imposed by the Office of the Attorney General and others were legislated.

Treasurer Nappier said that issues described by Ms. LaMarr and Ms. Sweeney exacerbated some internal issues and that the OTT recognizes the need to tighten up on the contract negotiation phase.

Ms. Sweeney noted that as of March 31, 2005, the equity cap was at the 60% limit and as of May 1, 2005, CRPTF took steps to reduce equity exposure to below the 60% cap. She said a total of

$300 million was moved out of the international stock fund, $200 million from emerging markets and $100 million from the developed market segment.

Quarterly Update on CRPTF Watch List

Ms. Sweeney provided an update of the CRPTF Watch List noting that since the report in January 2005, Putnam was terminated and those assets have been redeployed within the international equity portfolio. She added that CRPTF was able to negotiate a reduction in fees charged by the two managers that received the terminated Putnam assets, which will save CRPTF $77,000 annually.

Ms. Sweeney updated the status of TIMCO, a manager placed on the Watch List in December 2004 as a result of several manager departures. Ms. Sweeney said that the OTT met with them in September 2004 and again on April 1, 2005. She said that following the April meeting, a decision was made to keep them on the Watch List and continue to monitor them closely, probably conduct a site visit by the end of the summer and possibly bring the manager before the IAC at the September meeting. Treasurer Nappier informed the IAC that the consultant has recommended termination, but that prior to terminating a manager, she usually meets with them. She said that she was quite impressed with TIMCO's presentation at the April meeting and preferred to take the action outlined by Ms. Sweeney.

There was a discussion regarding the percentage of funds on the Watch List. There was also a discussion regarding small and mid-cap equity managers and the amount of indexed funds and the number of managers managing the equity funds.

Ms. Sweeney provided an update on Brown Capital, noting that they have under performed their benchmark for 9 out of the last 13 quarters. She said that as of March 31, 2005, Brown Capital lagged their benchmark by 1045, 1187 and 1317 basis points for the 1, 2 and 3 year periods. Ms. Sweeney said that on April 1, 2005, Treasurer Nappier, Mr. Franklin and she met with Ed Brown and Keith Lee. She said that following the meeting, a decision was made to reduce Brown Capital's mandate by 50%, monitor them for another two quarters and bring them before the IAC at the September meeting. A discussion ensued with some of the IAC members expressing that they thought Brown Capital should have already been terminated and that the consultant had given OTT poor advice. Later at the meeting, it was reported that for the month of April, Brown Capital outperformed their benchmark by 74 basis points.

Private Investment Fund Pacing Study

David Scopelliti, Principal Investment Officer for Private Equity, provided background on the roles of the Private Investment Fund's ("PIF") two private equity consultants. He introduced Austin Long and Craig Nickels from Alignment Capital ("ACG"), the consultants who conducted the PIF Pacing Study.

Mr. Long provided the IAC with a report on the PIF historical performance and ACG's recommended commitment pace going forward. Mr. Long gave a performance review of the PIF portfolio including Net IRR and ROI by Vintage Year. He reviewed the existing portfolio asset allocation, explained the recommended allocation and provided details on how ACG came to make those recommendations.

ACG recommended CRPTF commit approximately $563 million annually to the PIF to reach its target allocation of 11%. Mr. Long commented that due to the distributions generated by the existing portfolio, CRPTF's private equity allocation will continue to decrease. However, Mr. Long indicated that CRPTF would begin to climb back to its target allocation once the commitment pacing of $563 million was implemented, but it would take time to reach this target.

ACG also recommended that the PIF increase its exposure to the Small/Mid-Market Buyouts ("SMMBF") sector, noting that the current exposure to this market is only 6.8%. ACG noted that small funds outperform large funds and have better risk/return characteristics. Therefore, ACG recommended that annual commitments to SMMBF sector should be between $210 million to $225 million of the aggregate $563 million commitment pace. ACG further recommended that CRPTF execute this strategy through a Separately Managed Account Fund-of-Funds ("SMA/FOF"). ACG recommended establishing a $675 million SMA/FOF to cover three years of commitment to this sector with up to $180 million allocated to Connecticut based funds. Mr. Long said that ACG's research reveals that due to its proximity to New York City, Connecticut has one of the largest and varied U.S. private equity fund markets. ACG counts at least 80 Connecticut-based private equity funds and that the median Connecticut-based fund size is $150 million which is within the definition of small- and mid-market funds.

Treasurer Nappier indicated that she would consider the ACG recommendations and announce her decision at an upcoming IAC meeting. There was much discussion throughout the presentation and Chairman Roberts noted that the presentation had been very interesting and informative.

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

Ms. Miller reported on the Treasury's activities related to corporate governance and MacBride compliance for the period ending December 31, 2004. She provided a summary of statistics for both domestic proxy voting and global proxy voting and reported that there have been no violations of the MacBride Principles.

Ms. Miller said that a notable recent event during the current quarter is that on March 16, 2005, Treasurer Nappier was honored by Legislative leaders for the CRPTF's compliance with the MacBride Principles. She said that also during the current quarter, Don Kirshbaum, Investment Officer, working in a coalition that had negotiated with Ford Motor to release a report regarding economic impact on climate risk. Ms. Miller reported that in March, Treasurer Nappier and she went to New York City to meet, along with other institutional investors, with General Electric regarding a variety of compensation issues. Some other recent successes of the OTT that Ms. Miller shared are that: CRPTF reached an agreement with Amgen regarding disclosure of staff diversity data and withdrew the resolution co-filed with Walden Asset Management; at Stanley Works, for the third year running, CRPTF's shareholder resolution calling for annual elections of all directors received a majority vote; Duke Energy representatives met with investors and discussed issuing a climate risk report; and the CEO and a board member of Southern Company met with investors to discuss their draft climate risk report. She also shared with the IAC that Treasurer Nappier had been profiled in *Ms. Magazine* for her corporate governance work.

Treasurer Nappier noted that following OTT's successful efforts with American Electric Power ("AEP"), several other companies have agreed to produce a climate risk report. She said that OTT was the first public fund to file a shareholder resolution on climate risk and it was filed with AEP three years ago and AEP became a leader in their industry disclosing long-term potential risk associated with climate change and many companies have done the same in the last year. Mr. Larkin said that he feels it is an issue on which the State should have a position and does not view it as a "social issue" as much as a critical issue relative to investments. Mr. Larkin asked if the climate risk issue would cause a backlash from corporate America. Treasurer Nappier explained how this issue was different from the "Safeway" issue which was one of the focal points for the backlash because it involved labor unions and the company. She clarified that labor and environmentalists have not partnered much on the climate risk question, that they are just beginning to partner and that she did not expect a backlash on this issue especially since companies were recently cooperating with shareholders to report the economic impact of climate risk on their financials as well as the opportunities climate risk posed to increase the company's fiscal health. Ms. Thomas shared information from a recent conference that she attended at Harvard relative to how stock value is impacted by corporate governance issues. There was a discussion about executive compensation relative to corporate governance and financial impact.

<u>Other Business</u>

Status Report on Requests by IAC Members
Chairman Roberts said that the two items on the status report are still open.

Discussion of Preliminary Agenda for June 8, 2005 IAC Meeting
Ms. Sweeney said that the meeting would be a quarterly meeting and will include the quarterly cash flow report. She said she hoped to have a report on the Domestic Equity Brokerage Program and that there may be two real estate opportunity presentations and a private equity opportunity presentation.

There being no further business, the meeting was adjourned at 2:45 P.M.

An audio tape of this meeting was recorded.

Respectfully submitted,

DENISE L. NAPPIER
SECRETARY