INVESTMENT ADVISORY COUNCIL
Wednesday, March 9, 2005

MEETING NO. 325

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
Absent:	Michael Freeman Reginald Martin Sharon Palmer Peter Thor
Others present:	Howard G. Rifkin, Deputy Treasurer Susan B. Sweeney, Chief Investment Officer Robyn Belek, Deputy Director of Communication Patricia DeMaras, Associate Counsel Gary Draghi, Principal Investment Officer Greg Franklin, Assistant Treasurer-Investments Bernard Kavaler, Director of Communication Catherine E. LaMarr, General Counsel Lee Ann Palladino, Principal Investment Officer David Scopelliti, Principal Investment Officer Lawrence Wilson, Assistant Treasurer-Cash Management Judy Balich, Executive Secretary Sarah Carter, Administrative Assistant
Guests:	Sean Quigley, State Street Corp. Cynthia Steer, CRA RogersCasey Raudline Etienne, CRA RogersCasey Bradley Atkins, Franklin Park, LLC Marc Weiss, Pension Consulting Alliance Vonda Brunsting, Service Employees International Union Harvey Kelly, Leumas Advisors Julie Naunchek, CSEA-Retiree Council #4

Chairman Dick Roberts called the meeting to order at 9:40 A.M., noting that there was not yet a quorum due to weather conditions. He said that the meeting would begin with items not requiring a quorum and that when a quorum was achieved, he would formally call the meeting to order.

Treasurer Denise Nappier said she was pleased so many Investment Advisory Council ("IAC") members were able to participate in the special IAC meeting held March 7, 2005 and that she hoped all found the meeting informative and useful.

Treasurer Nappier reported that based on the presentation by GarMark Partners, the favorable feedback from the IAC and the IAC's waiver of the 45-day comment period, she has made a decided to commit a $75 million to GarMark Partners II, L.P.

Treasurer Nappier informed the IAC that at today's meeting there would be a presentation by several members of the Canyon-Johnson Realty Advisors. She said that this fund will target urban retail and redevelopment projects, focusing on ethnically diverse and underserved urban communities and that she is considering an investment of up to $50 million in the Canyon-Johnson Urban Fund II.

Treasurer Nappier said that another presentation on the California Select Industrial Fund, L.P. would be made today by Penwood Real Estate Investment Management, noting that Penwood Real Estate Investment Management is a Hartford-based, emerging firm. She said that this is an unusual presentation before the IAC because she has not made a decision whether to recommend the fund. Treasurer Nappier said that the fund represents emerging firms with attributes of the kinds that are addressed in the Investment Policy Statement for the Real Estate Fund and that she values the input of the IAC and looks forward to their counsel on how to proceed.

Treasurer Nappier said that at last month's meeting the discussion of the use of derivatives in the Mutual Fixed Income Fund was deferred due to time constraints and that this morning Susan Sweeney, Chief Investment Officer, would make a brief presentation on the use of derivatives. She said that everyone had been given a copy of the recommended guidelines for incorporation in the contracts for Emerging Markets Debt and Inflation Linked Bonds preferred vendors and that the IAC members had been asked to call with any feedback. Ms. Sweeney indicated that she had conversations with Chairman Roberts and James Larkin, but had not had any comments or concerns from anyone else.

Treasurer Nappier reported on efforts to recover some assets from Keystone that were lost due to corporate malfeasance. She said that the Limited Partners will be receiving approximately $7.4 million and that the Office of the Treasurer ("OTT") lost $27.5 million, but that she is optimistic that the ongoing investigation led by the Securities Exchange Commission and the U.S. Attorney's Office may recapture additional funds.

<u>CRPTF Final Performance for January 2005</u>

Ms. Sweeney said that for the month of January 2005, the Connecticut Retirement Plans and Trust Funds ("CRPTF") outperformed the benchmark by 24 basis points, which was primarily due to the domestic equity and private equity portfolios. She said that in accordance with the

TUCS ranking for the quarter ended December 31, 2004, CRPTF was ranked 75th percentile in the universe of public funds greater than $1 billion. Ms. Sweeney noted that equities performed very well in the quarter ended December 31 and that because CRPTF has a 60% constraint by statute it did not do as well as those funds with an equity allocation of more than 60%. She said that funds with larger equity exposures rose 11.8% and CRPTF's performance of 11.04% for the year is not bad considering the cap. Ms. Sweeney also noted that there is a 211 basis point spread between the top quartile and the 75th, but that from the 75th down there are 592 basis points. She said the one-year performance was at the 63rd percentile, which was about 43 basis points off the median percentile.

David Roth asked if CRPTF is more constrained than other public funds. Cynthia Steer of CRA RogersCasey ("CRARC") said that CRPTF is at least 5% more constrained on the equity side than most other public funds. Treasurer Nappier noted that other public funds' constraints are not due to legislation and that CRPTF's constraints are legislated. Ms. Sweeney explained that a few years ago, during a bear market, CRPTF was in the top percentile. Treasurer Nappier said that her understanding of the TUCS universe on asset allocations and how public funds distribute their assets across asset classes is that the average exposure to equities is between 65% and 70%.

Private Investment Fund Review as of September 30, 2004

Bradley Atkins of Franklin Park reported on the Private Investment Fund for the quarter ending September 30, 2004. His report consisted of an executive summary providing a portfolio overview, benchmark performance, portfolio diversification and portfolio investment activity.

Mr. Roth asked if the allocation to international is calculated based on investments in situations that are non-U.S. or is it in funds that are non-U.S. Mr. Atkins said that there are four international funds in the portfolio, Carlyle Europe, Carlyle Asia, AIG Global Emerging and Compass European, which are international funds as opposed to businesses that are being funded outside of the U.S.

Mr. Atkins also provided performance analysis highlights in the U.S. Buyout, Venture, International and European Buyout Funds.

Commercial Mortgage Fund Review as of December 31, 2004

Gary Draghi, Principal Investment Officer, reported on the Commercial Mortgage Fund indicating that the value of the Fund for the quarter ending December 31, 2004 decreased another $1.4 million generally due to redemptions and distributions of income. He said that the fund underperformed the Lehman Brothers Aggregate benchmark by 121 basis points due to a decline in value in a Trust loan due to a property level issue. Mr. Draghi also said that 200 State Street in Boston, Massachusetts is being sold and that the loan balance on that property is roughly $6.3 million with a pre-payment penalty of roughly $1 million. He said that transaction is expected to occur before April.

Real Estate Fund Review as of September 30, 2004

Marc Weiss of Pension Consulting Alliance ("PCA") reported on the Real Estate Fund as of September 30, 2004. PCA's report included overall performance, an investment guideline review, the portfolio characteristics, commitments and comments on the market.

Chairman Roberts asked why timber is doing so poorly and wanted to know the location of the timberland in CRPTF's portfolio. Mr. Weiss said that this particular account is generally marked to market based on estimates in the growth of timber as well as in the market prices of the specific type of wood and that the prices have been fairly volatile, largely due to their concentration in the southeast, which he said he believes are in Virginia and North Carolina.

Carol Thomas asked what the total allocation to real estate is. Marc said that once the commitments are fully funded the portfolio would be at approximately 3.5%. Mr. Roth questioned Mr. Weiss what PCA is doing to try to find products for the Core allocation because so far all of the real estate commitments have been made to opportunistic funds. A discussion followed regarding the OTT's plans for reentering the real estate market, commitments made to this point (funded and unfunded) and upcoming potential investments.

Tom Fiore asked the reason for the 32% mark down on Goodwin Square. Mr. Weiss said there was a reevaluation of the property because of the plan to sell the property and a transition of management from Tishman to AEW. As a result of that reevaluation, it was determined that the value of Goodwin Square was significantly less than the value being carried by Tishman. A discussion followed regarding Tishman's over valuation of the property.

Presentation by and Consideration of Canyon-Johnson Urban Fund II, L.P.

Mr. Weiss reported on the due diligence it conducted on Canyon-Johnson Urban Fund II, L.P. ("CJUF II" or the "Fund"). He said that the Fund is an opportunistic closed-end commingled fund that is targeting to reposition, develop and redevelop real estate in U.S. inner cities around the country. He said that their objective is to produce a minimum 20% net internal rate of return ("IRR"), using leverage of up to 75% of the total portfolio value. Mr. Weiss noted that CJUF II is their second fund pursuing this strategy and their first fund is projected to deliver a net-targeted return of 20% IRR. He explained PCA's reasons for recommending this commitment.

Ms. Thomas noted that in PCA's due diligence report they said that they had broadened the key man provisions and asked Mr. Weiss to expand on that. Mr. Weiss said that the original key man provision was related to Robert Turner and that had been expanded to include Earvin Johnson.

Mr. Roth asked if 20% is a minimum expected return or something greater than the minimum. Mr. Weiss said that it is the minimum expectation but that even if the targeted return were as low as 17%, PCA would still recommend the commitment.

At 10:30 A.M. a quorum being present, Chairman Dick Roberts formally called the meeting to order.

Presentation by Canyon-Johnson Realty Advisors

Canyon-Johnson Realty Advisors ("CJRA") made a presentation to the IAC regarding Canyon-Johnson Urban Fund II, L.P. CJRA was represented by K. Robert "Bobby" Turner, managing partner; Earvin "Magic" Johnson, managing partner; Molly Hall, Investor Relations; and Neville Rhone, Acquisitions. Mr. Turner talked about their experiences raising the first fund and how that has paved the way to raise the second fund. He reviewed the urban investment opportunity and provided an overview of the General Partner. Mr. Johnson also reviewed the opportunities and strategies used in urban development and how to be successful in that market. Mr. Turner reviewed the aspects of CJUF II including their structure, the location of investments, the targeted and maximum equity, property types and risk control factors.

Duke Himmelreich expressed concern with regard to the retail space for small businesses and how well they do. Mr. Turner said they are doing very well in terms of sales. He explained how CJRA selects the tenants for the retail space.

Mr. Roth noted the reference in CJRA's report that they often work with local partners and asked how they vet their local partners. Mr. Turner described the criteria used for selecting local partners. Mr. Roth also asked if CJRA targets an area and seeks a local partner or if someone from an area approaches CJRA indicating that their entity would like CJRA to partner with them for a project. Mr. Turner said that both situations occur.

Mr. Roth asked, in their $470 million in commitments, what their largest single commitment was and how many investors that represented. Mr. Turner said that the largest single investment is $150 million by California State Teachers' Retirement Fund, second largest is $100 million by New York City Retirement Funds and third largest is Duke University with $50 million. Mr. Johnson noted that CalSTRS wanted to invest the entire $600 million, but CJRA did not want to limit the Fund to a single investor.

Chairman Roberts asked if any of their local partners are minorities, to which the response was that they do have some qualified minority local partners.

Roll Call of Reactions for Canyon-Johnson Urban Fund II, L.P.

Ms. Thomas said that she was very impressed with the presentation and would support the investment. Mr. Roth said that he is comfortable with the investment. Mr. Fiore, Mr. Himmelreich and Bill Murray all said that they support the investment. Mr. Larkin expressed concern about their management fee and asked if it is negotiable. Some discussion followed relative to the fee. Mr. Larkin said that he would be in favor of the investment, especially if the fee is negotiable. Chairman Roberts said that this is a unique opportunity with a good team and he supports the investment. Treasurer Nappier said that she has every intention to seek a reduction in the proposed fee arrangement.

Chairman Roberts asked for a motion to waive the 45-day comment period. **A motion was made by Ms. Thomas, seconded by Mr. Himmelreich, to waive the IAC 45-day comment period. The motion was passed unanimously.**

Presentation by and Consideration of California Select Industrial Fund, L.P.

Treasurer Nappier said that this group does not come recommended by the consultant. She said that she has invited the principals of Penwood Real Estate Investment Management to this meeting because she would like feedback on the fund from the IAC. She noted that it is an emerging, Hartford-based firm and often when dealing with an emerging firm, it is often difficult to make a decision merely based upon a more traditional due diligence process and that other factors needed to be considered. Treasurer Nappier said that, depending on the outcome of the meeting, she is willing to entertain the merits of making a lead commitment subject to the principals raising the monies for their first fund. She noted that the partners have seasoned experience in the real estate industry.

Mr. Weiss noted that PCA did not recommend the investment opportunity and the reason was not the management team or the fund. He said that the structure of their relationships with their joint venture partners, and PCA's understanding of the market, led PCA to believe that given the strategy and the structure of the principals' relationships with their local partner they would not be able to generate the targeted returns for the fund.

Mr. Roth wanted to know if the responses in the presentation prepared for this meeting changed PCA's opinion, and to Mr. Weiss responded that it had not.

Mr. Fiore asked if it is typical for the firm to receive a copy of the consultant's report. Treasurer Nappier said that it is typical for her to discuss with a perspective fund manager concerns raised by CRPTF's consultants. She said that she had a meeting with the fund manager following a review of PCA's report because she wanted their response to some serious reported weaknesses with the fund, and that after hearing the principals' response, she decided to seek feedback from the IAC.

Mr. Fiore asked about the 70% leverage in the report. Mr. Weiss explained the value of leverage.

Mr. Roth asked if Mr. Weiss could explain why PCA does not think that their underwriting is accurate. Mr. Weiss explained in general, rather than in specific terms, why PCA does not agree with the principals' figures.

Presentation by Penwood Real Estate Investment Management, LLC

Penwood Real Estate Investment Management, LLC (Penwood) made a presentation to the IAC regarding California Select Industrial Fund, L.P. ("CSIF"). Penwood was represented by the three principals Richard Chase, John Hurley and Karen Nista. Their presentation consisted of specific rebuttals to critiques by PCA. Ms. Nista and Mr. Hurley addressed return expectations. Ms. Nista addressed risk management. Mr. Chase addressed execution, providing examples of representative deal flows. Mr. Hurley and Ms. Nista addressed alignment of interest. Mr. Chase

provided information on the experience of the three principals and summarized their presentation.

Mr. Fiore asked what makes warehouse space in Southern California a good investment and why has no one else identified this as a great investment. Mr. Chase said that there are other industrial funds that are developed and Mr. Hurley said that Southern California is the largest distribution center because of the Pacific Rim trade.

Chairman Roberts asked how they function "without boots on the ground" in Los Angeles. Mr. Hurley said they spend a lot of time in California and explained why California is the strong market in this area.

Mr. Roth noted that real estate in Southern California is very costly to develop and build and asked how many deals CSIF would expect to do out of this fund and whether it gave Penwood any concern that they were allocating excess capital to a limited number of deals. Mr. Hurley said that since they launched the fund there have been 11 deals of $340 million.

Mr. Larkin commented that their expertise exercised under the umbrella of CIGNA is different than applying that expertise in a new emerging firm. He also said that this is the first presentation he has seen in this area that is totally targeted on one geographic area and that there seems to be a preoccupation with exit strategies and said that suggests to him a lack of confidence. He said that those are his impression to what he has heard and asked how they respond to that. Both Mr. Chase and Mr. Hurley explained why they are very confident in all aspects of the fund.

Roll Call of Reactions for California Select Industrial Fund, L.P.

Mr. Larkin said that he has reservations because he does not think they have the full confidence they need to be successful with this investment and he is concerned with the concentration in one market.

Mr. Murray said that he likes the concept, but does not understand how they are connected to real estate investment market in Southern California.

Mr. Himmelreich expressed a concern that even though they are working with a developer in Southern California, his feeling is that the developer will keep the prime deals for their firm and offer the Connecticut firm "bottom of the barrel." He said that he is concerned that CRPTF will get burned.

Mr. Fiore said that they did not alleviate his concerns about the content of PCA's report and they seemed defensive. He said that he may have felt a little more comfortable if Penwood had made a presentation noting their knowledge rather than just responding to the PCA report.

Mr. Roth said that he thinks Southern California is a good market, but that property is very expensive and therefore the number of deals would be limited, increasing the risk. He noted that there are some serious problems on the execution level pointed out in the due diligence report, in that Penwood does not seem to have exclusivity, or even right of first refusal, with any of the

potential developers. Mr. Roth said that CRPTF hired a consultant to conduct due diligence and the consultant has talked to the potential partner, looked at the underwriting and explored other factors, in depth. He further stated that if the consultant is not comfortable with the investment, then he is not comfortable with it. Mr. Roth said that he would not want to overrule the consultant's advice, for which they are paid.

Ms. Thomas said that she feels they are very capable and may do well, but that she does not view CRPTF as needing a highly leveraged opportunistic fund of this sort. She said that the prudent thing to do is to listen to the consultant and that she is not comfortable going against their advice.

Chairman Roberts said that one possibility would be to make a commitment on the condition that they raise other money. He also expressed dissatisfaction with the fact that Penwood did not make a presentation, but rather presented a defense to the due diligence report. Chairman Roberts also said that he is aware of one real estate investment firm in Southern California that is selling this type of investment, cashing out and closing the fund.

Approval of Minutes

Chairman Roberts asked for comments on the Minutes of the February 9, 2005 Investment Advisory Council ("IAC") Meeting. There being no comments, **a motion was made by Mr. Larkin, seconded by Mr. Murray, that the Minutes of the February 9, 2005 IAC meeting be accepted as drafted. The motion was passed with Chairman Roberts abstaining due to his absence at the February 9, 2005 meeting.**

Combined Investment Funds Review as of December 31, 2004

Matthew McCormick of CRARC reported on the Combined Investment Funds as of December 31, 2004. His report included a market overview with comments on the international equity, U.S. equity, emerging, fixed income, real estate and private equity markets. Mr. McCormick also reported on the CRPTF Fund performance including the Mutual Equity Fund, the International Stock Fund and the Mutual Fixed Income Fund. Mr. McCormick also noted total earnings of approximately $1.5 million in the fourth quarter for Securities Lending.

Mr. Himmelreich asked if the under allocation in the Private Equity Fund has been mitigated by the $200 million commitment to Constitution Fund II. Treasurer Nappier said that it has not. There was a subsequent discussion on the asset allocation to the Private Equity Fund.

Mr. Roth asked if there were any individual managers whose performance placed them in the lowest quartile for a year or longer or has performance with which CRARC is not happy. Raudline Etienne of CRARC noted some managers currently on the watch list for poor performance and Ms. Sweeney noted a manager being watched due to a large turnover in staff.

Mr. Larkin asked if CRPTF is involved with Morgan Stanley Capital International Emerging Markets. Ms. Etienne noted that Morgan Stanley manages International Magnum, a developed market mandate for CRPTF. Ms. Sweeney said they also manage a small cap fund for CRPTF. Ms. Etienne said the managers for international emerging markets are GMO and EMIC.

Short-Term Investment Fund Review as of December 31, 2004

Lee Ann Palladino, Principal Investment Officer, reported on the performance of the Short Term Investment Fund ("STIF") for the quarter ending December 31, 2004. She provided an update of the overall economy and an overview of the management of the STIF. Ms. Palladino noted that for the months of October, November and December, STIF earned an average yield of 2.09%, versus 1.62% for the average benchmark.

Mr. Larkin asked about mortgage rates. Ms. Palladino said that she believes mortgage rates are commodity driven and the 10-year treasury rate, which is the rate used to set the mortgage rates, has been coming down. Mr. Roth asked if Ms. Palladino believes that if there is an increase of another 125 basis points at the short end, will there continue to be a flattening of the yield curve, or will it start to widen. Ms. Palladino said she believed the rates would go up and there will be an upward affect on the longer-term end of the curve and that it will negatively impact the housing market.

Chairman Roberts asked if business capital spending is increasing. Ms. Palladino said that she believes that there has been an increase in that area.

Treasurer Nappier then initiated a discussion of STIF's AAA rating and statutory authority for a more aggressive, longer-term Cash Management Fund.

Other Business

Pension Funds Management Division's Operating Results as of December 31, 2004
Ms. Sweeney reported that unaudited results for the 6 months ended December 31, 2004 of net assets in the combined investment funds was $21.2 billion.

Review of the IAC Budget for the quarter ending December 31, 2004
Ms. Sweeney reported that the incurred year to date for the IAC is well under budget.

Discussion on Derivatives
Ms. Sweeney said that the derivatives were distributed to IAC members and that it includes an overview of the use of derivatives by the Mutual Fixed Income managers, which was covered by CRARC at the January meeting and discussed in some detail. She explained how the managers were categorized and use of derivatives for each manager was determined.

Mr. Roth asked if CRPTF audits compliance of the managers with regard to use of derivatives. Ms. Sweeney said that there would be use of derivatives language included in each contract and that the language is currently under development and it is on a manager-by-manager basis. Treasurer Nappier added that the OTT will review managers' risk management practices and will hold them contractually responsible to maintain adequate risk management systems.

Chairman Roberts noted that one of the reasons this was brought before the IAC is because Treasurer Nappier wanted a level of comfort by seeking IAC input concerning the recommended use of derivatives and incorporation in the contract. Treasurer Nappier added that she did want the IAC's input because, in terms of compliance, it may be a gray area, because when use of

derivatives was reviewed by the IAC for inclusion in the Investment Policy Statement it was for the International Stock Fund not the Mutual Fixed Income Fund. She noted that following a presentation and philosophical discussion on the use of derivatives at the January IAC meeting, Chairman Roberts suggested that the IAC be given a paragraph of the language for each one of the mangers that would be allowed to use the derivatives because the use of derivatives would vary depending on each manager's mandate. Treasurer Nappier said that document was given to the members of the IAC in February, but the presentation was tabled until this meeting due to time constraints.

Chairman Roberts noted that Treasurer Nappier has concurrence from the IAC.

Status Report on Requests by IAC Members
Ms. Sweeney said that there are two open items, which she is still working on regarding the **Diversity Principles** and **Conference Speakers Who Pay to Speak**. Mr. Larkin expressed that he feels the Diversity Principles should be called the Parker Diversity Principles in honor of Henry Parker's dedication to those principles. There was some discussion on the matter with no conclusion.

Discussion of Preliminary Agenda for April 13, 2005 IAC Meeting
Ms. Sweeney said that there will be a Watch List update with some final decisions, a Corporate Governance quarterly report, a report on the pacing study for the Private Investment Fund that CRPTF has been working on with Alignment Capital and hopefully an update on the Domestic Equity Brokerage Program.

There being no further business, the meeting was adjourned at 2:10 P.M.

An audio tape of this meeting was recorded.

Respectfully submitted,

DENISE L. NAPPIER
SECRETARY