INVESTMENT ADVISORY COUNCIL
THURSDAY, OCTOBER 23, 2003

MEETING NO. 309

Members present:	Clare Barnett Thomas Fiore, representing Marc S. Ryan Denise L. Nappier, Treasurer Sharon Palmer Henry E. Parker Clarence (Dick) L. Roberts, Jr., Chairman David Roth Carol Thomas
Members absent:	Reginald Martin Rosalyn Schoonmaker
Others present:	Howard G. Rifkin, Deputy Treasurer Susan B. Sweeney, Chief Investment Officer Patricia DeMaras, Associate Counsel Gary Draghi, Principal Investment Officer Guy Garcia, Principal Investment Officer Bernard Kavaler, Director of Communication Catherine E. LaMarr, General Counsel David Scopelliti, Principal Investment Officer Lawrence Wilson, Assistant Treasurer-Cash Management Zhou Zunkao, Intern
Guests:	John Adler, Service Employees International Union Katherine Cattanach, INVESCO Private Capital Robyn Kaplan-Cho, Connecticut Education Association Harvey Kelly, Leumas Advisors Matthew McCormick, CRA RogersCasey Jeff McKenzie, Andreder Hirschhorn & Co. Julie Naunchek, CSEA-Retiree Council #4 Barbara Randolph, A.G. Edwards & Sons, Inc. Margaret Riley, INVESCO Private Capital Cynthia Steer, CRA RogersCasey Peter Thor, Nominee for Appointment to the IAC

Chairman Dick Roberts called the meeting to order at 9:15 A.M.

Approval of Minutes

Chairman Roberts advised the IAC that there were additional changes in the minutes from the version sent to them and asked that the members take a few minutes to review the changes so that they can be approved as presented. **Clare Barnett moved to approve the minutes and Carol Thomas seconded the motion. The minutes were unanimously approved.**

Opening Comments by the Treasurer

Treasurer Denise Nappier announced that Chairman Roberts was featured in the Litchfield County Times and shared a copy of the paper with the IAC members.

Treasurer Nappier said that there is a lot of ongoing activity in Pension Funds Management ("PFM") including a search for a consultant to assist in the search for a new Master Custodian of the Pension Fund. She explained that the master custodian contract between the Treasury and State Street Bank will expire on January 2, 2004 and that the Treasury must now seek competitive bids for this assignment. Treasurer Nappier informed the IAC that there were eight responses to the Request for Proposal ("RFP") for a consultant to assist the Treasury in its search for a master custodian. She said that after reviewing the RFP responses, the pool of prospective vendors was narrowed to four semi-finalists with one electing to drop out due to scheduling conflicts. She said the remaining three were interviewed October 15 and 16, 2003 with Chairman Roberts attending all of the interviews. Treasurer Nappier advised that two of the semi-finalists, Mercer Investment Counseling and Callan Associates, would be making presentations to the IAC today.

Treasurer Nappier reminded the IAC of its adoption of the new Mutual Fixed Income Fund restructuring program, and then reviewed the progress being made to implement this new structure. She said interviews of prospective vendors have been conducted for two new mandates, inflation linked bonds ("ILB") and emerging markets debt ("EMD"). She noted that the semi-finalists will make presentations to the IAC at the December meeting. She said the new structure calls for the allocation of approximately $150 million to one or two managers for ILB and approximately $520 million will be allocated between three and five managers for EMD.

Treasurer Nappier then informed the IAC that the RFP for a Fund of Funds Manager program had been issued and said that the program is designed to give emerging managers an opportunity to earn some Treasury business for the more traditional liquid assets of CRPTF's portfolio, including public equity and fixed income. She explained that the definition of emerging managers is Connecticut-owned, minority-owned, women-owned managers and the smaller "boutique" firms. She said that the action plan for proceeding will be presented later today at the meeting and that there had been fourteen responses to the RFP.

Treasurer Nappier said that having approved the Real Estate Investment Guidelines at the September meeting, the goal is to present a plan to the IAC at the December meeting for reentering the real estate market as active investors.

Treasurer Nappier advised that there are two other outstanding RFPs, one for a manager for the Crossroads Constitution Fund, with responses due October 24, 2003, and the other for the services of a private equity consultant, with responses due by October 31, 2003. She said that the contract with the manager for Crossroads expires May 15, 2004, that the current private equity consultant contract will expire on June 30, 2004, and that by requirement CRPTF must seek competitive bids for both contracts.

Treasurer Nappier provided an update advising that, based on recent news reports and conversations the Treasury has had with the general partner of Pioneer Ventures Associates, various federal and state law enforcement agencies have been asked to look into allegations of possible criminal ties. She said that the Treasury takes this issue very seriously and is working closely with the Securities and Exchange Commission in this investigation. She further stated that the Treasury is in the process of reviewing the partnership's books and records and intends to engage appropriate accounting consultants to analyze the books in order to address the concerns and cooperate with the investigation. Treasurer Nappier advised that the IAC would have an executive session later today to discuss the matter in greater detail.

Treasurer Nappier provided an update on corporate governance, advising the IAC that since the September IAC meeting she has had two meetings with members of the New York Stock Exchange ("NYSE") to discuss how the Exchange is proceeding in its efforts to reform its governance. She said that the first meeting was with Carl McCall, the former comptroller of the State of New York, and at the time of the meeting he was the chairman of the executive compensation committee of the NYSE, as well as the chairman of the NYSE special committee on corporate governance. She reported that other attendees of the meeting included state treasurers and comptrollers from various states. Treasurer Nappier said that the committee was asked to consider using an independent panel to review the governance of the NYSE, recommend necessary reform and the merits of separating the regulatory functions from the operational and marketing functions of the NYSE. She said that she went even further and suggested the creation of a national board of inquiry that would look at governance as it related to all Exchanges and that the listing standards recently approved by the NYSE be reexamined because the investing public was not present when the listing standards were considered. Treasurer Nappier said that the same group had a second meeting with Carl McCall and John Reed, Acting Chair of the NYSE, and reiterated the concerns that were brought before the special committee on corporate governance. She said that she and other Treasurers will meet next week with SEC Chairman Donaldson to discuss their concerns about reforms of the NYSE and some other shareholder related issues including access to the proxy vote for director nominations.

Treasurer Nappier reported on the Institutional Investor Summit on Climate Change to be held at the United Nations on November 21, 2003, which she is co-convening with Tim Wirth, President of the United Nations Foundation. Lastly, she noted her presentation before the Connecticut Chapter of the National Association of Corporate Directors on the issue of corporate board diversity, explained the work being done at the Treasury on this issue beyond the proxy voting and shareholder process and, as an example, Treasurer Nappier informed the IAC that she recently sent letters to the top 100 Connecticut firms describing the Treasury's interest in board diversity and asking for examples of their work and best practices in this area. She said that her

letter included language on diversity developed by the CALVERT Fund that can be used by a board's nominating committee in the consideration of guidelines for creating a pool of potential board candidates from whom to choose. She further stated that a paper on the case for board diversity would be mailed to the top 100 Connecticut companies. Treasurer Nappier discussed establishing an advisory committee comprised of CEOs and chairmen that can provide some guidance as the Treasury moves forward in the effort of impressing on companies the importance of board diversity, and she noted the window of opportunity here because of the new listing standards that require a majority of the board members to be independent.

CRPTF Performance

Susan Sweeney, Chief Investment Officer, reported that there is a notable difference between the preliminary and the final results for August. She said that it appeared in the preliminary August figure that the total fund return was 2.06% and the final numbers for August indicate a return of 1.94%. She said that the swing within the Mutual Equity Fund was far more dramatic with a preliminary return for the Mutual Equity Fund being reported at 3.14% and a final return of a little over 2.5%. Ms. Sweeney said that upon investigation it was determined that there were some pricing anomalies, which is a result of the way the preliminary numbers are compiled and there was a major pricing discrepancy of $59 million in that particular account. She said that PFM is trying to understand how the custodian is compiling the preliminary statistics because the numbers should not be misleading and discrepancies between preliminary and final figures should not be that large. Ms. Sweeney said there was another large discrepancy in private equity between preliminary and final, but that was anticipated due to the June 30 evaluation resets coming in and there were a number of valuation changes in that asset class. She noted a discrepancy in the five year number, with the preliminary number showing a 5.48% return for the total fund, actually going up by a basis point to the final even though the monthly results went down. She said that it is mathematically impossible, and upon investigation found that on the preliminary numbers the securities lending income was not incorporated into the preliminary number and that will be adjusted.

Treasurer Nappier commented that care should be taken about making any representation about these preliminary reports and said that at last month's meeting, it was pointed out that there was a 293 basis point gap between the preliminary report and the final report on the performance of private equity. She said that private equity actually produced more gain than mutual equity and that private equity did not explain why the benchmark was underperformed and why Connecticut was so far behind their peers. The Treasurer said that there was an agreement to provide preliminary reports to the IAC because reports were always one month behind, but she feels that the experience with the preliminary report from last month suggests that no representation should be made on how the figures in the report relate to performance until the final figures are available. Treasurer Nappier indicated that there are variances throughout the entire report.

Ms. Sweeney reported that the final September report that the custodian delivered to CRPTF this morning shows an improvement in the three-year number by 100 basis points and reiterated that PFM needs to determine how the numbers are being compiled. She said that these are the final figures for the month of September, and indicated that the fund outperformed its benchmark by 48 basis points. The Mutual Equity Fund outperformed its benchmark by 10 basis points;

International Stock Fund beat its benchmark by 139 basis points; and fixed income essentially met its benchmark. She said that the report will be scrutinized and the custodian is aware that there are issues with the way the numbers are compiled and she hopes to have more information to share with the IAC at the next meeting.

Tom Fiore asked what the peak value was of the pension fund. Ms. Sweeney said that it was approximately $22 billion. Mr. Fiore then asked what was the low point, to which Ms. Sweeney replied that she thought it was $16.7 billion but that she will check that figure.

Private Investment Fund

David Scopelliti, Principal Investment Officer, shared information regarding the Institutional Limited Partners Association ("ILPA") meeting that he attended. Mr. Scopelliti explained that the ILPA is an association formed primarily by public institutional limited partners of private equity to enhance the reporting standards, terms and conditions, and transparency in the private equity industry. He said that the purpose of the meeting was to discuss reporting standards and how to utilize various benchmarks when analyzing a private equity fund's performance. Mr. Scopelliti said that the private equity industry reports results based on three methodologies: GAAP, tax and book. He said that the other major issue at the meeting was to discuss terms and conditions in the private equity marketplace and what to focus on as limited partners. He commented that, in his opinion, another significant accomplishment of this meeting was that it opened the lines of communication with other public fund limited partners. He also said that the ILPA continues to be a growing force in terms of making the asset class more transparent and enhancing terms and conditions so institutional limited partners investing in the funds can be more confident in the investment. Ms. Thomas asked if the members were all large public pension funds. Mr. Scopelliti said that the criteria required that a member must be a limited partner who acts only as a limited partner in private equity funds. ILPA members include public pension funds, endowments, trusts and family offices. He said the ILPA was intentionally structured to exclude those limited partners who also raise capital as general partners in order to avoid conflicts and marketing from the general partner community. David Roth asked if there was a concern in the group that top performing funds are willing to walk away from certain groups of investors if there is too much pressure to delve into how they run their funds. Mr. Scopelliti said since the freedom of information laws vary from state to state, ILPA members who are public funds are concerned that public pension funds will be excluded from certain top tier venture funds. Henry Parker asked what the driving force was that brought the group together. Mr. Scopelliti responded that it was the fact that limited partners had had no forum to discus the issues facing the private equity industry and without an organization such as the ILPA, the industry would continue to be too inefficient. Mr. Parker then asked if there is a comfort level that the ILPA is moving in the direction to make corrections and continue to have an impact on private equity. Mr. Scopelliti indicated that the organization is now requiring membership dues and has hired a full time director and a small support staff to move forward in a meaningful manner.

Katherine Cattanach of INVESCO Private Capital said that INVESCO had been involved with the Association of Investment Management and Research ("AIMR") over a decade ago in trying to establish a standard of performance measurement in private equity, that she is delighted to see

what the ILPA is doing and feels that it is a sustainable group that will help move the industry forward in a positive way.

Ms. Cattanach then reported on the performance of the Private Investment Fund. She reported that at this point the industry believes that there is a bottoming out and a turn upward. The improvements in the public markets have helped the Private Investment Fund's performance in the last few months as a portion of the Private Investment Fund's portfolio is composed of public securities. Ms. Cattanach explained that partnerships avail themselves of initial public offerings ("IPO") or mergers and acquisitions to exit investments. She said that when it is an IPO those companies have to stay within the portfolio for a period of time until they are fully or freely tradable and therefore reflect market changes in public market. Mr. Roth asked if most of the funds have written down their portfolios to the level that more write downs are not expected and have stopped supporting companies they feel will not be successful. Ms. Cattanach said that generally that is true. She said that the environment is improving in terms of IPOs and for mergers and acquisitions causing valuations to stabilize or increase. She further stated that the lenders are coming back into the marketplace, making more capital available for acquisitions and for companies who need to borrow.

Ms. Cattanach said that the Treasurer has selected the Camelot Group to help divest CRPTF's interest in Triumph Capital and that negotiations are ongoing for a letter of agreement.

Chairman Roberts asked if Ms. Cattanach would like to report on the performance. Ms. Cattanach reported that as of March 31, 2003 the private equity returned 5.78% and as of June 30, 2003 the return was 6.32% for a positive change of 54 basis points.

A motion was made by Chairman Roberts, seconded by Ms. Barnett, that the Investment Advisory Council adjourn the Regular session at 9:55 A.M. and enter into Executive Session for the purpose of discussing pending litigation. The motion was passed unanimously.

A motion was made by Chairman Roberts, seconded by Ms. Thomas, that the Investment Advisory Council adjourn the Executive Session at 10:45 A.M. and enter into Regular Session. The motion was passed unanimously. Chairman Roberts noted that there were neither motions made nor votes taken during the Executive Session.

<u>Finalists for Master Custodian Consultant</u>

Presentation by Callan Associates Inc.

Callan Associates Inc. made a presentation to the IAC regarding their qualifications to assist CRPTF in the search for a Master Custodian. Callan Associates was represented by Cliff Axelson, CFA, Senior Vice President and Bo Abesamis, Senior Vice President. Callan's presentation included an overview of the firm with a focus on their knowledge and expertise in the area of choosing a master custodian. Callan also reviewed their client base, corporate citizenship and workplace diversity.

Barbara Randolph, a guest representing A.G. Edwards & Son, Inc., asked if guests are able to ask questions. Chairman Roberts said that only the committee should ask questions. Mr. Parker asked about the diversity of Callan. Mr. Axelson said that 31% of the employees are women and minorities and that Callan does promote the hiring of women and minorities. He further stated that Callan has a diverse group of shareholders and works with cities that are very diverse so they try to focus on that in their hiring practices. Mr. Axelson also pointed out that they support several charities, which include the Twin Towers Fund, the AIDS Walks, American Heart Association, Mid-Peninsula Pathways, Ronald McDonald House, Juvenile Diabetes Foundation and their main primary charity being The United Way. Mr. Parker asked if in Callan's view there is a difference between women and minorities. In response a Callan representative said that of course they recognize that difference and that Mr. Parker's point is well taken.

Presentation by Mercer Investment Consulting

Mercer Investment Consulting made a presentation to the IAC regarding their qualifications to assist CRPTF in the search for a Master Custodian. Mercer Investment Consulting was represented by Jeff Kearny, Director, Global Custody & Asset Administration Group; Jerry Daly, Principal; and David Pitts, Principal. Mercer's presentation included an overview of the firm with a focus on their view of the custody market and the search process. Mercer also reviewed their client base, corporate citizenship, employment practices and workplace diversity. Mr. Parker noted that the diversity report is for Marsh & McLennan Companies and asked what the specific diversity breakdown is of Mercer Investment Consulting. Mr. Kearny said he would check to see if the breakdown is available, and if so, will forward the information. Ms. Thomas asked if they had a general idea of the diversity at Mercer Investment Consulting. Mr. Kearny provided a lengthy explanation of the efforts that Mercer makes in the interest of diversity in the workforce.

Chairman Roberts polled the council for their relative rankings of the two firms. Sharon Palmer said she thought they were both equally good but that Mercer did seem to have a better diversity profile than Callan. Mr. Fiore said that both firms were very good, but would give Callan an edge because they have a longer track record. He also said that he was more impressed with Callan because they use their experience in dealing with the custodians versus Mercer who went over their matrix on how they score the various custodians. Mr. Parker selected Callan first and Mercer second because he felt Callan was more comprehensive and knowledgeable. Mr. Parker further stated that he had been dissatisfied with a past experience he had with another Mercer group who had been retained to consult with the IAC on governance matters. Mr. Roth said he gave Callan the edge because they are more focused on this business with a longer history and more experience. He said he felt Callan took the approach that they were focused on the need of this office and our State rather than having a matrix and trying to fit the client into the matrix. Ms. Thomas thought both were excellent, but was more inclined toward Mercer because of their approach in getting the basic information from firms before issuing the RFP and then, using that information to prepare the RFP, which would help to focus on more specific issues. Ms. Barnett preferred Callan and liked Bo's approach to a customized approach to what Connecticut needs rather than how Connecticut can fit into Callan. She felt that the diversity answers from Mercer were weak. Ms. Barnett also felt that Callan's client list really looks like "us," a large co-mingled state pension funds and did not see one client on Mercer's list that was like the State of

Connecticut. Chairman Roberts said that he had the advantage of sitting through the first interviews and he felt that both could do the job and would prefer Callan. He said that one issue that Callan discussed during the first round of interviews was the operational audit that their company conducts and that this audit really examines how the client will fit with the trustee.

Treasurer Nappier said that when prospective consultants are interviewed, one gets more of a sense of the individual giving the presentation than of the firm itself. She said that with both Mercer and Callan there needs to be a better understanding of the depth of their bench of high caliber consultants in the event that any of the individuals here today representing the companies, for whatever reason, is removed from the State of Connecticut assignment. She emphasized that in the case of Callan, the principal and his seasoned experience and what he does as a member of the firm came across more than what the firm does and it is important in the final analysis that there is a better understanding of the bench for both Callan and Mercer. Treasurer Nappier expressed her concern about another issue having to do with the client manager relationship. She felt that the Callan client manager was stronger than the Mercer client manager and that unfortunately Mercer's assigned client manager was not present at the IAC meeting today.

Real Estate Strategy – Draft Implementation Plan

Ms. Sweeney advised that the Treasurer, Gary Draghi, Principal Investment Officer, and she had a lengthy meeting with the consultant, PCA, in which there were several new perspectives discussed necessitating the need for refinement of the presentation, and a decision was made to move this agenda item to the December meeting. Treasurer Nappier said that the intent is to put before the IAC a plan for reentering the real estate market as an active investor. She said the other issue will be the due diligence process and how opportunities to invest in real estate are screened. She explained that on some occasions the RFP process would be used and other occasions a consultant would conduct the initial screening.

Consideration for the Search Process for a Fund of Funds Manager

Guy Garcia, Principal Investment Officer, reiterated what the Treasurer said earlier in the meeting that the goal in the search for a Fund of Funds Manager is to reach out to Connecticut owned firms, minority-owned firms, women-owned firms and emerging firms. He said the approach taken is to look at a general manager to construct a portfolio for CRPTF. Mr. Garcia explained that the approach used in the past was to go directly to the managers of the targeted firms. He said that Brown Capital Management was one of the emerging manager participants in the original fund of funds program. Treasurer Nappier added that Brown Capital Management is a fine example of an emerging firm that received support from Connecticut 10 or 15 years ago and today is a major firm in the market. She further stated that the intent is to support the next generation of entrepreneurs and it is very difficult for a company to build a client base if they do not have the support of their home state. Treasurer Nappier said this affords many small Connecticut firms the opportunity to do business with the Treasury and ultimately be able to market their business outside the state. Mr. Garcia said that a Request for Qualification ("RFQ") for the Fund of Funds Manager has already been issued and that 14 firms have responded to the RFQ with the review process now underway. Treasurer Nappier said that in the RFQ it is very clear that the fund of funds program may be launched in 2 different ways, one is to retain a fund

of funds program manager who will work with CRPTF to customize the program and the other is to retain a fund of funds manager who will already have an established fund in which CRPTF can invest. She said she would be more inclined to customize because the chances of a manager who already retained managers will probably not have Connecticut based firms in the portfolio. Chairman Roberts asked if firms such as UTC, General Electric or Pfizer that are based in Connecticut would join the Treasury in this program. Treasurer Nappier responded that that had not been considered but that the schedule calls for designing the program before it goes back out to bid and asked Chairman Roberts if he is asking about another large institutional investor partnering with CRPTF to sponsor a fund of funds program. Chairman Roberts said that is what he meant and that it would also make the visibility to the managers in the fund much greater if they could market that kind of support. Ms. Sweeney said that the General Counsel cautioned her that commingling the Treasury strategy with outside firms might make a representation that the Treasury is offering investment products. Treasurer Nappier responded that she believes there are ways to structure the program so that the fund of funds manager and not the institutional investors are making such representation and otherwise avoid such an appearance by CRPTF. **A motion was made by Mr. Parker, seconded by Ms. Barnett, that the Investment Advisory Council endorses the Search Process for a Fund of Funds Manager. The motion was passed unanimously.**

Update on CRPTF Cash Flow

Ms. Sweeney said that Greg Franklin, Assistant Treasurer of Investment, had prepared this presentation but was out sick today. She said that Mr. Franklin did work with Larry Wilson, Assistant Treasurer of Cash Management, and Gail Hallett, Assistant Investment Officer, on the presentation and Mr. Wilson is joining the meeting because he has knowledge of liquidity movement of funds in and out of the Treasury. Ms. Sweeney reminded the IAC that during the July 24, 2003 IAC meeting, Treasurer Nappier discussed some concerns regarding the budget impasse and the state not making contributions to the Teachers' Employees' Retirement Fund ("TERF") and the State Employees' Retirement Fund ("SERF") and she suggested that a presentation be made at a future IAC meeting regarding the state contributions and the liquidity needs of the pension fund. Ms. Sweeney said the good news is that CRPTF has never missed a benefit payment and is well positioned to continue to pay benefits during a variety of economic scenarios. Ms. Sweeney presented a spreadsheet showing the cash activity for fiscal years 2002 and 2003, and an estimate of the cash activity for fiscal year 2004, and she then explained the figures on the spreadsheet in detail. Ms. Thomas asked if the benefit payments for sick and vacation time come out of the fund. Mr. Fiore answered that both sick and vacation time are paid out of the general fund, not the retirement fund. Treasurer Nappier made several observations about the spreadsheet and expressed concern that the early retirement incentive program fiscal impact was not really felt at the end of fiscal year 2003 because most of the participants did not retire until June. Treasurer Nappier also said that she expects that the dependence on sweeping interest and dividends will increase in part because of the expense of the recent early retirement incentive program and the reduced percentage of state contributions. Mr. Roth asked if the drop in sweeps in the next fiscal year is reflective of the fixed income portfolio. Ms. Sweeney confirmed that it is and said that the other impact in fiscal year 2004 is that the International Stock Fund portfolio was increased by approximately $1 billion and a large part of that came from fixed income and that is reflected under investment purchases and sales

for quarter ending September 30th. Mr. Roth asked what percent of the total fund CRPTF has to pay out annually to meet pension needs. Ms. Steer observed that the $554 million estimate of sweeps for fiscal 2004 is interest income and dividends from the portfolio. She said that when one looks at the net flows projected for fiscal 2004 it is a negative $837.5 million, which implies that sweeps alone are not sufficient to cover net benefit payments. Ms. Sweeney said that this could have an impact on asset allocation policy going forward. Ms. Steer asked if the contribution was the actual budget. Howard Rifkin, Deputy Treasurer, said that it is only about 68% of the actuarially recommended amount for the Teachers. Mr. Roth asked if just the difference is funded between what is coming in and what is needed. Ms. Steer said that the $554 million of interest and dividends is only 30% of the $1,841 million of benefits being paid out. Ms. Sweeney said the actual annual cash payout is 4 –5% of the total fund and that it is trending up. Ms. Palmer asked about timeliness of payments from the state. Mr. Wilson said the State Employees' Retirement Fund contribution is back on track and payments are timely. Ms. Sweeney acknowledged that timely payments are crucial and that cash flow is monitored on a daily basis. Mr. Wilson said state contributions to the Teachers' Retirement Fund are made by statute on July 15 and on the first of the month for subsequent quarters. Treasurer Nappier said that timely payments were an issue prior to the state's budget being adopted. Ms. Thomas then asked if CRPTF is affected by contributions that come in from local boards of education and local municipalities. Mr. Wilson said that municipalities have different time frames for transferring MERF and TERF contributions to the state. Treasurer Nappier added that there is an interest penalty for late payments. Mr. Fiore asked if Ms. Sweeney would provide the IAC with how the changes in assets are impacting the pension fund. Ms. Sweeney said that information would be provided. Ms. Sweeney said that when sweeping is necessary, it does deprive the managers of the opportunity to reinvest the dividends and interest and continue to maximize the value. Treasurer Nappier brought up the merits of a dedicated portfolio for the purpose of covering payments. Ms. Sweeney said that the Treasurer has requested a quarterly presentation on this topic.

Consideration of Treasurer's Proposed Changes to the Investment Policy Statement Regarding Currency Hedging

Ms. Sweeney noted that there are some minor changes in language in Part 1, Article 6 of the Investment Policy Statement ("IPS") on the use of derivatives. She said that the sentence to be deleted "There shall be no foreign currency speculation or any related investment activity" if left in the IPS would prohibit an active currency overlay program. Ms. Sweeney said the currency hedging managers will have guidelines and CRPTF will be able to control what the managers do. She pointed out that the other section is Part 3, Article 3, which is the description of the International Stock Fund and the proposed language adds information about an active currency hedging program. Mr. Roth asked if this request was from foreign managers so that they would be able to hedge their portfolios, and if not, what is the purpose for which CRPTF is seeking to give them the ability to hedge. Ms. Sweeney explained that the individual managers are not being given the ability to hedge, but CRPTF is proceeding with contracts with two active currency overlay managers and the underlying managers will have unhedged positions and two managers will each have responsibility for about half of the international equity assets. Mr. Roth then asked if the currency overlay managers would then be looking at the portfolios of the underlying international investment groups and then hedging against those portfolios, to which

Ms. Sweeney replied affirmatively. Mr. Roth then asked if the objective is to limit downside risk or to enhance the return. Ms. Sweeney indicated it was a combination of both with an element of currency neutrality. Chairman Roberts said that over time unmanaged currency hedging generally produces no return, but that active currency overlays did produce positive results. Ms. Sweeney stated that these proposed changes have gone through all the requisite notices and publications as required by the Treasury Reform Act and the next step is for the IAC to adopt the changes as proposed. Treasurer Nappier indicated that she is concerned about deleting the statement that "there shall be no foreign currency speculation or any related investment activity" because that restriction still applies to all the non currency hedge managers and since this is part of the overall policy document she does not want to delete the statement from the IPS. Mr. Roth suggested leaving it as is and adding "except at the express authority of the Treasury Department." After much discussion on wording to exclude currency hedge managers, a version of Mr. Roth's suggestion was chosen. Ms. Sweeney read the proposed sentence, which is "There shall be no foreign currency speculation or any related investment activity, with the exception of currency hedging managers who will be guided by specific risk parameters in their contracts." **A motion was made by Ms. Thomas, seconded by Ms. Palmer, that the Investment Advisory Council accepts the amendment proposed for Part 1, Article 6, of the IPS. The motion was passed unanimously.**

Other Business

Subcommittee Roles

Chairman Roberts said that with new members being appointed to the IAC, a program should be developed within the council to provide training when it is requested. He said that Ms. Barnett is the only person on the Education Subcommittee and he invited council members to let Ms. Barnett know on what topics they would like to have more knowledge. Chairman Roberts said that once it is known what kind of information council members are seeking, it may be possible to retain a consultant or schedule a series of outside seminars using our consultants to come up with a program where two or three people could efficiently be gathered and brought up to speed on a particular topic. He also said that any council member who has a desire to become involved with a particular subcommittee should let him know.

Status Reports on Requests by IAC Members

Ms. Sweeney said that for **"Best Practices" Contract Terms**, Trish DeMaras, Associate Counsel will work in conjunction with David Scopelliti, which will focus on private equity but will extend to other contracts as well. Catherine LaMarr, General Counsel, observed that this request initially came on the agenda to address what is being done with respect to contracts to avoid problems that had occurred with some other investments. She said that report can be given any time, but the Best Practices is a more expansive project on which both Ms. DeMaras and Mr. Scopelliti have been working. Treasurer Nappier asked if there is an ongoing project to look at all contracts for liquid assets. Ms. LaMarr confirmed that there is. Treasurer Nappier said that she believed the Treasury's action here was based on an audit issue having to do with performance based fees being subject to varied interpretation with Morgan Stanley that led to a $6 million dispute and that as a result of the audit it was highly recommended that the Treasury

look at all contracts. Ms. LaMarr said that all contracts with performance-based fees were reviewed following that audit, but not all other contracts have been reviewed. Ms. Sweeney said that the specific problem with Morgan Stanley was resolved and it will not happen again because there are no longer performance-based fees in the International Stock Fund. Treasurer Nappier reiterated her understanding that the audit recommendation, while stemming from the Morgan Stanley issue, went beyond the Treasury's need to clarify the performance based fee contractual issue.

Ms. Steer said that **Manager Rankings** are forthcoming and she will check on how long it will be before they have that information.

Ms. Sweeney said that the CRPTF Cash Flow update was presented, but that per Mr. Fiore's request there will be another report provided that specifically addresses his question.

Chairman Roberts said the next IAC meeting will be December 10, 2003 and it will be a lengthy meeting because, not only is it a quarterly meeting, but also because prospective inflation linked bond and emerging market debt managers will be giving presentations at the meeting.

There being no further business, the meeting was adjourned at 1:15 P.M.

Respectfully submitted,

DENISE L. NAPPIER
SECRETARY