INVESTMENT ADVISORY COUNCIL
WEDNESDAY, November 10, 2004

MEETING NO. 320

Members present:	Michael Freeman James Larkin Reginald Martin Denise L. Nappier, Treasurer Henry E. Parker Clarence (Dick) L. Roberts, Jr., Chairman David Roth Carol Thomas Peter Thor
Absent:	Representative for Marc Ryan Sharon Palmer
Others present:	Howard G. Rifkin, Deputy Treasurer Susan B. Sweeney, Chief Investment Officer Patricia DeMaras, Associate Counsel Gary Draghi, Principal Investment Officer Greg Franklin, Assistant Treasurer-Investments Catherine E. LaMarr, General Counsel David Scopelliti, Principal Investment Officer Judy Balich, Executive Secretary Julius Bythewood, Executive Assistant Sarah Carter, Administrative Assistant
Guests:	Vincent DeBaggis, State Street Corp. Raudline Etienne, CRA RogersCasey Bradley Atkins, Franklin Park Neil Mowery, Franklin Park Nori Gerardo Leitz, Pension Consulting Alliance Marc Weiss, Pension Consulting Alliance Vonda Brunsting, Service Employees International Union 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 9:10 A.M.

Chairman Roberts welcomed Peter Thor and Michael Freeman as new members of the Investment Advisory Council.

Approval of Minutes

Chairman Roberts asked for comments on the Minutes of the October 13, 2004 Investment Advisory Council ("IAC"). There being no comments, **a motion was made by James Larkin, seconded by David Roth, that the Minutes of the October 13, 2004 IAC meeting be accepted as drafted. The motion was passed unanimously.**

Opening Comments by the Treasurer

Treasurer Denise Nappier said that there would be two fund offerings presented to the IAC for consideration at today's meeting. She said the first presentation would be RLJ Urban Lodging Fund, an opportunistic commingled real estate fund that targets urban upscale and limited service hotel investments. Treasurer Nappier said that the second presentation would be given by Parish Capital, which is an emerging fund of funds group that will be investing in emerging and smaller-sized venture capital and buyout funds. She said that both funds offer a unique opportunity for the Connecticut Retirement Plan and Trust Fund ("CRPTF") to achieve superior returns and further some of the policy related initiatives, such as investing in urban areas and supporting the next generation of top quartile entrepreneurs within the industry. Treasurer Nappier noted that this is reflected in the Investment Policy Statement ("IPS") under Part I, Article 9 and Part III, Articles 6 and 7. She also noted that CRPTF staff and consultants would provide a more detailed description of each fund offering, as well as the due diligence results preceding each presentation.

Treasurer Nappier reviewed the highlights of fiscal year 2004. She began by noting that the return for CRPTF was 15.23%, the highest return achieved by the fund during the past four years. In addition, Treasurer Nappier said that CRPTF takes on less risk than the average public fund of similar size to achieve such a return. On behalf of the 160,000 plan participants and beneficiaries, Treasurer Nappier commended the staff, consultants and the IAC for their fine work. She pointed out that fiscal 2004 was a busy year with continued work on the development and implementation of new investment structures, guidelines and strategic plans for CRPTF's various asset classes. She said 27 new money managers were hired or reached preferred vendor status and that 12 of those managers were finalists for International Stock Fund and currency overlay mandate and hired during 2004, following the successful completion of the contract negotiations. Treasurer Nappier noted that one milestone was that CRPTF officially re-entered the real estate market as an active investor following the completion and adoption of the plan for the newly structured Real Estate Fund. She said another milestone was the launching of the Connecticut Horizon Fund.

Treasurer Nappier noted the changes during 2004 in the IAC. She said that following the departure of Steve Hart, Dick Roberts was appointed chair of the IAC by the governor. She noted that David Roth and Jim Larkin joined the council and that George Mason, Clare Barnett and Rosalyn Schoonmaker have departed.

Treasurer Nappier said that with respect to asset recovery and class action litigation, the pension funds recovered $2.8 million in claims filed in class action lawsuits in fiscal year 2004 and nearly $6 million since this program was instituted almost 4 years ago. In addition, the pension fund received restitution of $850,000 from the federally convicted chairman of Triumph Capital.

Treasurer Nappier said that during fiscal year 2004 progress was made on furthering responsible corporate citizenship and governance reform. She said the most notable were changes at American Electric Power regarding disclosure related to climate change and investor risk; the cosponsoring of the first investor summit on climate risk at the United Nations, which was attended by 300 participants; and progress on key corporate governance issues such as annual elections, executive compensation, board diversity and global labor standards.

Treasurer Nappier said that the Short Term Investment Fund ("STIF") performed relatively well in this sustained environment of low interest rates with a 1.16% annual return for fiscal year ending June 30, 2004. She said this return outperformed its benchmark by 41 basis points, resulting in $16 million of additional interest income for its investors, including state agencies, municipalities and the CRPTF.

Treasurer Nappier announced that the Government Finance Officers Association of the United States and Canada (GFOA) awarded a **Certificate of Achievement for Excellence in Financial Reporting** to the Office of the State Treasurer ("OTT") for both the Combined and Short-Term Investment Funds.

Mr. Larkin, Mr. Roth and Henry Parker expressed a desire to ensure that the information Treasurer Nappier just shared with the IAC is made public via a press release or newspaper articles and that the legislature should be informed as well. Treasurer Nappier said that the information would be on the OTT web site.

CRPTF Final Performance for September 2004

Susan Sweeney, Chief Investment Officer, made comments regarding the investment returns of the combined investment funds for the period ending September 30, 2004. She reported that for the month of September the Fund outperformed the benchmark by a modest 12 basis points. Ms. Sweeney said that for the quarter the Fund outperformed the benchmark by 6 basis points, but that there was underperformance in various asset classes driven primarily by manager performance. She noted that there are a number of issues that Pension Funds Management is tracking with some international and domestic equity managers through the consultant who has scheduled some reviews over departure of some key personnel and other issues which have been tracked for some time. She said there would be updates on those at future meetings. Ms. Sweeney noted that the underperformance in fixed income was due primarily to under exposure to emerging markets.

Ms. Sweeney said that for the September 30, 2004, CRPTF ranked in the middle in the TUCS rankings. She pointed out that over the 5 and 7-year rankings, CRPTF is in the 39th and 41st percentiles, respectively.

Mr. Larkin asked Ms. Sweeney to comment on real estate. Treasurer Nappier said that the real estate portfolio is not diversified nor are there any core investments in the portfolio. She said that CRPTF is just beginning to re-enter the real estate market and that thus far one investment has been made. Treasurer Nappier noted that there is still work to do to implement the newly structured real estate asset class and until that time, performance will continue to be less than optimal.

Presentation by and Consideration of RLJ Urban Lodging Fund, L.P.

Nori Gerardo Leitz and Marc Weiss of Pension Consulting Alliance ("PCA") gave an overview of the due diligence performed by PCA and the merits of an investment in RLJ Urban Lodging Fund, L.P. ("RLJ I").

Mr. Parker asked what the downside is of REIT investments. Ms. Leitz explained the implications of the private REIT structure for a fund like RLJ.

Carol Thomas asked if the hotels in which investments have been made have good employee relations. Ms. Leitz said that their employee relations are good and that the chains that RLJ employs as property managers have contracts with various union service employees. Treasurer Nappier said that this issue was addressed during the interview process and that RLJ is thoroughly familiar with the OTT's responsible contractor policy and has no problems with it. Deputy Treasurer Howard Rifkin added that they have had investments in which there were labor contracts in place and they have honored those contracts.

Mr. Larkin asked about the co-investment of Robert Johnson, noting that PCA's report indicated that the principals of RLJ will co-invest up to $10 million and that the capital investment by Mr. Johnson is insignificant relative to his net worth. Mr. Weiss indicated that given Mr. Johnson's personal net worth, the significance of his contribution will be more his name and reputation.

Mr. Roth asked for clarification on PCA's report that indicates in some areas that RLJ does not manage its hotels and other areas indicates that RLJ will act as both manager and operator. Mr. Roth also commented on the history of the Marriott having problems with managers, suppliers and profits. Mr. Roth asked who would be managing the hotels on a day-to-day basis and if it is RLJ, wanted to know if the management fees going back into the investment are to be shared with the partners. Mr. Weiss said that RLJ would tend to favor hotels that have a Marriott or Hilton franchise but that they are using third party independent management companies for day-to-day operations of the hotels. Mr. Roth also asked about the current hotel exposure in the fund. Mr. Weiss said that the existing hotel exposure primarily consists of high end, full service investments made through other opportunistic funds such as Apollo. He said these funds are in their harvesting stage.

Presentation by RLJ Development LLC

RLJ Development LLC ("RLJ") made a presentation to the IAC regarding an opportunity to invest in RLJ I. RLJ was represented by the Robert Johnson, Chairman and CEO; Thomas Baltimore, Jr., President; and Ross Bierkan, Executive Vice President. Their presentation included an overview of the establishment of RLJ, the firm's investment strategy, an update on the fund, a summary of the RLJ team, the firm's track record, their commitment to diversity and their corporate citizenship.

Mr. Roth asked what the net operating margin is on a full service hotel. Mr. Baltimore said there is about a 12% point difference between an urban limited service hotel and a full service hotel.

Mr. Larkin asked why Hilton and Marriott are participating in a fund that is going to be investing in their names. Mr. Baltimore said that Hilton and Marriott believe that RLJ will identify opportunities to which they would not otherwise be exposed. Mr. Larkin inquired about the possibility of the Hilton and the Marriott having a conflict of interest, given the way the fund is structured. Mr. Baltimore said that it is very unlikely that there would be a circumstance that would involve a conflict of interest. Mr. Larkin then brought up the question of RLJ not managing the hotels, but that key investors will be managing the hotels. Mr. Baltimore said that RLJ's strategy is to focus on the ownership of real estate and to use the best local operator to manage the day-to-day operations. Mr. Larkin then asked what percentage was invested by Hilton and Marriott. Mr. Baltimore said that they each invested $20 million.

Mr. Roth asked for a description of RLJ's target assets. Mr. Baltimore said RLJ is comfortable either renovating or repositioning properties and is a very aggressive asset manager that underwrites, identifies and capitalizes transactions that are consistent with its investment strategy.

Mr. Roth asked how many assets would probably be owned in the fund and what their intention with regard to geographic diversity is. Mr. Baltimore replied that approximately 25 hotels, with an acquisition size of $20 to $50 million in an urban setting among the top 30 metropolitan areas in the United States, would be in the portfolio.

Mr. Larkin asked Mr. Johnson about his investment in RLJ I. Mr. Baltimore said that of the $10 million that the GP will invest, $8 million is being invested by Mr. Johnson with the balance is coming from the rest of the management team.

Roll Call of Reactions for RLJ Urban Lodging Fund

Mr. Larkin said that initially he was skeptical, but is now convinced that the management team will do well. He said that he likes their investment strategy and thinks it is a good deal.

Mr. Freeman said he is very comfortable with the investment.

Mr. Thor said that he is absolutely convinced that it is a good investment.

Reginald Martin said he is excited about the investment.

Mr. Parker said that this is as good as it gets, bringing talented people together who will do a good job and said this is a great idea.

Mr. Roth said he also started out skeptical, but has determined that he likes their theory and place within the hotel industry. He said he has confidence in their ability and is in favor of the investment.

Ms. Thomas said the investment is fine with her.

Chairman Roberts said he thinks it is a terrific opportunity for CRPTF.

A motion was made by Ms. Thomas, seconded by Mr. Thor, to waive the IAC 45-day comment period. The motion was passed unanimously.

Mr. Parker made a request regarding the diversity principles currently being developed at the suggestion made by Mr. Martin. He said that instead of calling them the Parker Diversity Principles, they be called something that is more appropriate to reflect the process that has been ongoing by the Treasurer and the IAC as a whole. Chairman Roberts asked for comments from the IAC. There being no comments, Chairman Roberts said that Mr. Parker's request would be honored.

Presentation by and Consideration of Parish Capital I, L.P.

Bradley Atkins of Franklin Park gave an overview of the due diligence performed by Franklin Park and the merits of a recommended investment in Parish Capital I, L.P. ("Parish I"), a private equity fund of funds investing in emerging private equity funds. Mr. Atkins explained that the definition of emerging managers relative to Parish I, is smaller private equity funds, typically below $300 million.

Mr. Roth asked if Parish is proposing to look for funds in all stages of development, in both venture and buyout situations and how they propose to conduct due diligence on that range of potential investments. Mr. Atkins said their stated strategy allows for them to invest across the private equity universe. He also said that their primary emphasis would be on early stage venture capital funds and buyout funds.

Mr. Larkin commented on the modest results noted in the report and asked why Parish remained in the venture capital market between 1999 and 2002. Mr. Atkins said private equity is a long-term asset class and Parish did not attempt to time the market. Mr. Atkins talked about Parish's track record and said that Franklin Park analyzed that track record very closely and the results indicated performance in excess of the relative benchmarks.

Mr. Roth asked Mr. Atkins if he could provide a quartile analysis of the track record. Mr. Atkins said that in some vintage years Parish was in the top 25% and in others, exceeded the average.

Ms. Thomas asked about investment in buyout, noting that CRPTF's allocation for buyout is near or at the asset allocation goal and it appears more venture capital in needed. Mr. Atkins said CRPTF is within the range for both buyout exposure and venture capital exposure and ongoing distributions will continue to shift the asset allocation.

Mr. Roth asked about the fee structure. Mr. Atkins explained Parish's fee structure, noting that it gives CRPTF a better position than the average fund of funds.

Presentation by Parish Capital

Parish Capital ("Parish") made a presentation to the IAC regarding a private equity investment opportunity in Parish Capital I, L.P. Parish was represented by the three partners, James Mason, Wendell McCain and Charles Merritt. Their presentation included an overview of the firm, a fund update, existing commitments, performance, market review, market opportunity, investment strategy, business model, core principles, investment process and corporate citizenship.

Roll Call of Reactions for Parish Capital

Ms. Thomas said she is comfortable with the investment.

Mr. Roth said that if the consultant and staff feel this fits, he is fine with the investment. He added that they seem capable of executing a strategy that works.

Mr. Martin said he is satisfied with the investment.

Mr. Thor said that he was initially concerned with their returns, but is okay with the investment.

Mr. Freeman said he is satisfied with the investment.

Mr. Larkin said that he thinks they know what they are doing and is satisfied with the investment.

Chairman Roberts said that they have a good niche that will serve CRPTF well.

A motion was made by Mr. Larkin, seconded by Mr. Freeman, to waive the IAC 45-day comment period. The motion was passed unanimously.

<u>Private Investment Fund Review as of June 30, 2004</u>

Mr. Atkins of Franklin Park reported on the Private Investment Fund for the quarter ending June 30, 2004. Mr. Atkins noted that there has been a complete transfer of database and documents to Franklin Park, which has gone smoothly. He also said that the accounting and investment processes are up and running and reported on special projects currently underway by Franklin

Park. The report consisted of an executive summary providing a portfolio overview, benchmark performance, portfolio diversification and portfolio investment activity. Mr. Atkins also provided a market update, performance analysis and fund level performance.
Chairman Roberts asked if Franklin Park had added staff. Mr. Atkins said that Franklin Park hired one professional and is in the process of interviewing and hopes to add one more staff member this year. He said they also plan to add a couple of staff in 2005.

Mr. Martin asked about the difference between the dollar weighted IRR versus the time weighted return benchmarks. Mr. Atkins said the dollar weighted IRR is the benchmark upon which private equity is usually focused and that time weighted returns are less meaningful. A discussion ensued regarding the investments within the Private Equity Fund and the difference between the two benchmarks and the relative meaning to CRPTF's private equity portfolio.

Other Business

Chairman Roberts asked Mr. Martin to report on the Audit Committee meeting held preceding the IAC meeting. Mr. Martin said that he was pleased to report that the Audit Report on the activities of the IAC was excellent and that the Auditors had no exceptions to report.

Status Report on Requests by IAC Members
Ms. Sweeney said that she has a draft of the **Diversity Principles** and should have the document for the December meeting.

Ms. Sweeney said that Catherine LaMarr attended a conference on the issue of **Conference Speakers Who Pay to Speak** and information on this topic would be given by OTT staff at a future meeting.

Discussion of preliminary agenda for December 8, 2004 IAC meeting
Ms. Sweeney said that the December meeting is a quarterly meeting and that there may be a private equity investment opportunity presentation. She also said that there would be a combination Retirement and Holiday luncheon immediately following the IAC meeting in December.

Mr. Larkin requested that the IAC be provided, if possible, a cash flow projection for fiscal year 2006. Treasurer Nappier said that is an excellent idea, but added that CRPTF will never be in the position of having negative cash because staff will sweep cash when it is necessary. Treasurer Nappier said there has been some discussion in the past of having a dedicated cash fund, which may be more efficient than sweeping. She said she thought a 2-year projection would be helpful in determining whether there should be a dedicated cash fund. Chairman Roberts said he thinks it is important to see what the pension payments will be over the two years. Ms. Sweeney said that the new actuarial studies are underway and there should be more information on the liabilities when those studies have been completed. Treasurer Nappier said that what she would like Greg Franklin to do is to compare projected figures against actual figures. A discussion about available cash ensued.

Mr. Rifkin distributed notices regarding the IAC holiday/retirement luncheon, indicating that it would be in honor of Henry Parker and Rosalyn Schoonmaker. He said the luncheon would be at Carmen Anthony Fish House on the Berlin Turnpike in Newington.

There being no further business, the meeting was adjourned at 12:45 P.M.

An audio tape of this meeting was recorded.

Respectfully submitted,

DENISE L. NAPPIER
SECRETARY