

MEETING NO. 350

Members present:

Thomas Fiore, representing
Robert L. Genuario
Michael Freeman
David (Duke) Himmelreich
James Larkin, Chairman
George Mason
William Murray
Denise L. Nappier, Treasurer
Sharon Palmer¹
David Roth
Carol Thomas
Peter Thor

Absent:

Thomas Barnes

Others present:

Howard G. Rifkin, Deputy Treasurer
Lee Ann Palladino, Acting Chief Investment Officer
Patricia DeMaras, Associate Counsel
Greg Franklin, Assistant Treasurer-Investments
David Holmgren, Principal Investment Officer
Wayne Hypolite, Executive Assistant
David Johnson, Principal Investment Officer
Shelagh McClure, Director of Compliance
Meredith Miller, Assistant Treasurer-Policy
Jason Price, Principal Investment Officer
Else Taylor, Executive Secretary
Linda Tudan, Executive Assistant

Guests:

Bradley Atkins, Franklin Park, LLC
Laura Backman, State Street Bank
Joseph Barcic, Mercer Investment Consulting
John Boryk, Alliance Bernstein
Makaiya Brown, Mercer Investment Consulting
Harvey Kelly, Leumas Advisors
Jacquelyn Lyons, State Street Bank
Julie Naunchek, CSEA-Retiree Council #400
Thomas Poppey, State Street Bank
Johnson Shum, State Street Bank
Reginald Tucker, Tucker Dewitt Trust

¹ Arrived at 9:20 am

Chairman James Larkin called the Investment Advisory Council ("IAC") Meeting to order at 9:07 A.M.

Chairman Larkin asked the IAC for a motion to move agenda item 8, Report on Corporate Governance and MacBride Compliance prior to agenda item 7. **There being no comments, a motion was made by William Murray, seconded by Michael Freeman, to move the November agenda items as stated. The motion was passed unanimously.**

Chairman Larkin asked Duke Himmelreich, Chairman of the IAC's Audit sub committee, to report on the sub committee meeting today with the State's Auditors of Public Accounts. Mr. Himmelreich said the sub committee received and reviewed the audit report on the Office of the State Treasurer-State Financial Operations for the fiscal year ended June 30, 2006. He indicated that the report had no qualification and that the financial statements and schedules were fairly presented. It was a positive report. Copies of the report will be distributed to the IAC.

Approval of Minutes

Chairman Larkin asked for comments on the Minutes of the October 10, 2007 IAC Meeting. **There being no comments, a motion was made by Mr. Himmelreich, seconded by Carol Thomas, that the Minutes of the October 10, 2007 IAC meeting be accepted as drafted. The motion was passed unanimously.**

Opening Comments by the Treasurer

Treasurer Denise Nappier began her opening comments by thanking George Mason for his time and expertise in his capacity as an IAC member. The Treasurer noted that this is Mr. Mason's last meeting and would like to wish him the best of luck.

Treasurer Nappier informed the IAC of her progress on the selection of an alternative investment consultant, stating that after much consideration she is close to making a decision on the preferred vendor, and will do so in advance of the next IAC meeting.

Discussing last month's real estate opportunities, Treasurer Nappier informed the IAC of her decision to commit \$50 million to both, IL&FS India Realty Fund II, LLC and Canyon-Johnson Urban Fund III, L.P. She also informed the IAC of her decision to commit \$100 million to WLR Recovery Fund IV, which has subsequently closed.

Treasurer Nappier provided an update on Independent Fiduciary Services ("IFS"), the consultant hired to perform an organizational review of the Pension Funds Management division ("PFM"). She noted IFS is well into their data collection and fact finding phase, and that the next steps will include interviews with PFM staff and IAC members.

Treasurer Nappier said that the target date for completion of the organizational review is the end of March 2008.

Turning to the agenda for today's meeting, Treasurer Nappier said there would be presentations by two respondents to the Real Estate Consultant Request for Proposal ("RFP") that were chosen as semi finalist, Courtland Partners and The Townsend Group. She noted that four firms responded to the RFP and interviews of the candidates were held on October 18, 2007, and attended by the RFP selection committee as well as IAC members Chairman Larkin, Ms. Thomas and Mr. Mason.

Treasurer Nappier said that the IAC would also hear a presentation from Vista Equity Partners ("Vista") on the merits of its latest fund, Vista Equity Partners Fund III ("Vista III"). She noted that Vista III is seeking commitments of approximately \$1.1 billion and their main focus is investments in the enterprise software business and technology-enabled solutions companies by gaining a controlling interest in the firm. Treasurer Nappier indicated that she is considering an investment of \$50 million for the Connecticut Retirement Plans and Trust Funds ("CRPTF") in Vista III and would be recommending a waiver of the 45-day comment period to meet the closing date.

Treasurer Nappier drew attention to today's agenda item on the Investment and Money Manager Interview Process and noted that included in today's package is a potential solution to the expanding duration of IAC meetings.

Treasurer Nappier noted that there would also be reports from State Street Bank on Securities Lending and an update from Meredith Miller on Corporate Governance and MacBride Compliance. She elaborated on the corporate governance issues discussing access to the proxy by shareholders, the continuing issue of separation of the CEO and chair of the board, and the Office of the Treasurer ("OTT") strategy on submitting shareholder resolutions on executive compensation, including "Say on Pay".

CRPTF Final Performance for September 2007

Lee Ann Palladino, Acting Chief Investment Officer, reported on the CRPTF performance for the month of September, the strategic overview of the asset allocation as adopted last month in the Investment Policy Statement ("IPS"), and an update on the recently completed high yield mandate performance.

Ms. Palladino focused on the three year, seven year, and calendar year to date performance numbers, indicating that the portfolio has outperformed the benchmark in each of these cases. She said one of the most influential factors has been the investment in the International Stock Fund ("ISF"), particularly as this portfolio has been built up during the last three years.

Ms. Palladino then discussed our short-term performance fiscal year-to-date, noting the portfolio has not performed as well under the current market conditions. She discussed

the one month return of 2.68%, and noted it brought our fiscal year to date performance into the positive territory, returning 1.88%

Ms. Palladino gave an overview of the new asset allocation changes. She stated that there are eleven funds, two of them are new funds: Alternative Investment Fund and Liquidity Fund. She also gave an overview of the new asset allocation targets and discussed the reallocation of funds that needs to occur to meet the newly adopted IPS targets.

Ms. Palladino updated the IAC on the CRPTF's high yield portfolio. She indicated that in addition to the existing managers: Loomis and Oaktree, and two new managers, Stone Harbor and Shenkman have now been added. She also updated, for the IAC, the risk and return profile of the high yield portfolio.

Securities Lending Review

Thomas Poppey and Johnson Shum of State Street Bank provided a review of Securities Lending activity for the quarter ending June 30, 2007. Mr. Poppey also provided information regarding earnings performance results, the portfolio characteristics, sector breakdown and yield performance summary for the period November 2006 to October 2007. Mr. Shum discussed the small sub prime exposure within the program.

Mr. Poppey and Mr. Shum responded to questions from the IAC regarding the sub prime market value exposure of the CRPTF.

Consideration of Two-Semi-finalists for the Real Estate Investment Consulting Search

Ms. Palladino provided opening remarks regarding the real estate investment consultant search and presentations. She noted that as part of the RFP process, the candidates were assessed for a wide range of qualities, including depth and breadth of experience; qualifications of personnel; client relations management; use of technology; quality of research and international experience.

Ms. Palladino stated that the first presenter would be Courtland Partners, a firm that specializes solely in real estate, with twenty-one employees dedicated to real estate consulting and eight clients with assets greater than \$10 billion. Courtland Partners serves several public pension plans and has experience in international investments.

Ms. Palladino said the second semi-finalist candidate is The Townsend Group, which also specializes solely in real estate consulting and has forty-six employees dedicated to real estate. The firm has over eighty clients which include forty-four public fund clients and twenty-five clients with more than \$10 billion in assets. Ms. Palladino further noted Townsend conducts twenty two percent of its business in international investing.

Presentation by Courtland Partners, LTD

Courtland Partners, LTD made a presentation to the IAC on its real estate consulting services. Courtland Partners was represented by Michael Humphrey, Managing Principal; Steven Novick, Principal/Chief Operating Officer; and Benjamin Blakney, Managing Director. The representatives of Courtland Partners provided an overview of the firm, discussed the representative client list, experience and resources. They further discussed the current state of the real estate market and how it would support the CRPTF to build its portfolio.

Courtland representatives responded to questions from the IAC regarding: the client support team that will serve the CRPTF; status of full retainer clients; company turnover and length of time personnel have remained in the business; and their approach to international investing.

Presentation by The Townsend Group

The Townsend Group made a presentation to the IAC on its real estate consulting services. The Townsend Group was represented by Terrance Ahern, Founding Principal of the firm and Scott Booth, Consultant. The representatives of The Townsend Group gave an overview of the firm and its ability to add value through experienced senior staff and technology. They said the firm provides unique access to investment opportunities, effective service and client communication as well as a superior track record of generating returns for clients. A discussion ensued regarding private market investments in the United States and the recent credit market turmoil affect on the real estate market and future opportunities.

The Townsend group representatives responded to questions from the IAC regarding the size and retainer status of the institutional funds; how its resources are utilized internationally; how the CRPTF can position itself to take advantage of market opportunities; and Townsend's sole consultant business model.

Roll Call of Reactions for the Semi-finalists for Real Estate Investment

George Mason, Thomas Fiore, Peter Thor, Messrs. Himmelreich, Murray and Freeman expressed a preference for Townsend over Courtland. Ms. Thomas, David Roth, Sharon Palmer and Chairman Larkin thought that Townsend should be ranked first by a wide margin. David Johnson, Principal Investment Officer, gave an overview of both firms, noting that his preference was Townsend.

Chairman Larkin asked for a motion to waive the 45-day comment period for the selection of the Real Estate Investment Consultant. **A motion was made by Ms. Thomas, seconded by Mr. Himmelreich, to waive the 45-day comment period for the selection of the Real Estate Investment Consultant. The motion was passed unanimously.**

Presentation by Vista Equity Partners Fund III, L.P.

Jason Price, Principal Investment Officer, provided opening remarks and introduced Vista III, a private investment opportunity to which the CRPTF is considering a commitment of up to \$50 million. Mr. Price noted that as of June 30, 2007, the previous two Vista funds have generated a gross ROI and IRR of 1.9x and 34.4%, respectively. He said, specifically, Vista III will be targeting companies with enterprise values between \$50 million and \$1 billion.

Mr. Price responded to IAC questions on Vista's competitive advantage; their expertise within the software development market; the fit of this investment within the PIF; and the firm's previous experience in the private equity market.

Presentation by Vista Equity Partners

Vista Equity Partners made a presentation to the IAC on Vista III, and was represented by Robert Smith and Brian Sheth, both principals of the firm. They provided an overview of Vista III and information on the target market summary; differentiated investment strategy; how the firm creates value; and Vista III's portfolio cash returns analysis.

IAC members asked Vista Equity Partners about its commitments to date and its expertise within the software development market.

Roll Call of Reactions for the Vista Equity Partners Fund III

Messrs. Mason, Fiore, Himmelreich, Murray, Freeman, Roth, Thor, Ms. Thomas, Ms. Palmer, and Chairman Larkin supported the commitment.

Chairman Larkin asked for a motion to waive the 45-day comment period for the Vista Equity Partners Fund III. **A motion was made by Mr. Thor, seconded by Mr. Murray, to waive the 45-day comment period for the Vista Equity Partners Fund III. The motion was passed unanimously.**

Report on the Corporate Governance and MacBride Compliance

Meredith Miller, Assistant Treasurer-Policy, provided a review on Corporate Governance and MacBride Compliance for the quarter ending June 30, 2007. Ms. Miller stated that the report covers a range of corporate governance activities including actual votes cast and shareholder resolutions initiated by this office for the 2007 proxy season. She also indicated that the report includes data on investment management compliance with §3-13h of the Connecticut General Statutes, which prohibits the Treasurer from investing state funds in companies doing business in Northern Ireland that have not implemented the MacBride Principles. Ms. Miller reported that there were no violations of the MacBride statute during the quarter and that CRPTF's external investment managers

were voting proxies on behalf of the CRPTF in compliance with the CRPTF global proxy voting policies.

Investment and Money Manager Interview Process

Chairman Larkin requested a motion to go into executive session regarding IAC organization and personnel matters prior to considering the last agenda item, Investment and Money Management Interview Process. A motion was made by Ms. Thomas and seconded by Mr. Hiemmelrich, to convene an executive session. Discussion ensued about whether this was the proper subject of an executive session, and rather than pursue the matter it was determined that the best approach was to defer the matter. The motion on the table was then removed and a new motion was made to table agenda item #8, Investment and Money Management Interview Process. The motion was made by Ms. Thomas and seconded by Mr. Murray. The motion was passed unanimously.

Other Business

Chairman Larkin asked the IAC members if they had any agenda items for the December meeting and none were noted. Ms. Palladino said that the Watch List and the Quarterly Reports would be on the agenda for the December meeting.

There being no further business, the meeting was adjourned at 1:05 p.m.

An audio tape of this meeting was recorded.

Respectfully submitted,


DENISE L NAPIER
SECRETARY

Reviewed by,



JAMES T. LARKIN
CHAIRMAN