

**INVESTMENT ADVISORY COUNCIL  
WEDNESDAY, December 12, 2007**

**MEETING NO. 351**

**Members present:**

Thomas Barnes  
Thomas Fiore, representing  
Robert L. Genuario  
Michael Freeman  
David (Duke) Himmelreich<sup>1</sup>  
James Larkin, Chairman  
William Murray  
Denise L. Nappier, Treasurer  
Sharon Palmer  
David Roth  
Carol Thomas  
Peter Thor

**Absent:**

**Others present:**

Howard G. Rifkin, Deputy Treasurer  
Lee Ann Palladino, Acting Chief Investment Officer  
Judy Balich, Executive Secretary  
Greg Franklin, Assistant Treasurer-Investments  
David Holmgren, Principal Investment Officer  
Wayne Hypolite, Executive Assistant  
David Johnson, Principal Investment Officer  
Catherine LaMarr, General Counsel  
Shelagh McClure, Director of Compliance  
Meredith Miller, Assistant Treasurer-Policy  
Jason Price, Principal Investment Officer  
Christine Palm, Deputy Director of Commutations  
Christine Shaw, Director of Government Relations  
Else Taylor, Executive Secretary  
Linda Tudan, Executive Assistant  
Larry Wilson, Assistant Treasurer-Cash Management

**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  
Vicki Fuller, Alliance Bernstein  
Harvey Kelly, Leumas Advisors  
Robyn Kaplan, Connecticut Education Association  
Michael McDonald, Bloomberg News  
Richard Nuzum, Mercer Investment Consulting  
Cynthia Steer, Rogerscasy, Inc.

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<sup>1</sup> Arrived at 9:15 am

Chairman James Larkin called the Investment Advisory Council ("IAC") Meeting to order at 9:05A.M.

### Approval of Minutes

Chairman Larkin asked for comments on the Minutes of the November 14, 2007 IAC Meeting. **There being no comments, a motion was made by David Roth, seconded by William Murray, that the Minutes of the November 14, 2007 IAC meeting be accepted as drafted. The motion was passed unanimously.**

### CRPTF Final Performance for October 2007

Lee Ann Palladino, Acting Chief Investment Officer, reported on the Connecticut Retirement Plans and Trust Fund ("CRPTF") performance and gave an update for the month of October 2007. Ms. Palladino reported that the month of October posted solid results, as the CRPTF returned 2.14% versus 2.10% for its benchmark but underperformed its benchmark plus objective of 2.19% by nine basis points. Ms. Palladino further noted that the fiscal year-to-date portfolio returned 4.06%, slightly less than its benchmark of 4.16%. She said these results were mainly driven by the CRPTF's allocation to the equity portfolio, both domestic and international, which are 61% of the total assets.

Ms. Palladino gave an update on current versus prior asset allocation targets, and reviewed the performance for the five-year horizon. She concluded that the rolling five-year performance should improve as the CRPTF performed well in recent years, and the new asset allocation structure will continue to diversify the CRPTF internationally and into alternative investment classes.

### Comments by the Treasurer

Treasurer Denise Nappier began her remarks by extending her greetings to all present for a happy holiday season. She informed the IAC of her decision to make a \$50 million commitment to Vista Equity Partners Fund III ("Vista III") following the firm's presentation at the November IAC meeting, noting that Vista III is a new General Partner for the CRPTF and will focus on making controlled investments in enterprise software business and technology-enabled solutions companies.

Treasurer Nappier reported on her decision to select New England Pension Consultants as the CRPTF's alternative investment consultant and The Townsend Group as the real estate investment consultant. She said these decisions, based on due diligence and feedback from IAC, are subject to successful contract negotiations. The addition of these consultants, said Treasurer Nappier, will essentially give CRPTF the value and expertise of a full bench of consultants, which also includes the new traditional investment consultant, Mercer Investment Consultants ("Mercer"), and special projects consultant Rogerscasey, Inc.

Turning to the agenda for today's meeting, Treasurer Nappier highlighted the preparations underway to begin implementing the revised Investment Policy Statement and that before the IAC is a project plan to launch a search for a pool of transition managers. She described what a transition manager does and the merits of having industry experts facilitate the transfer of assets more efficiently and cost effectively than could otherwise be achieved in-house for the pending transaction connected with the implementation of the new asset allocation plan. She said her plan is to have such managers available on a retainer basis to handle any other significant portfolio restructuring as well.

Treasurer Nappier then offered some brief comments about the current market environment and the management of CRPTF and the Short-Term Investment Fund ("STIF"). She said there is a strong and sustained correction taking place in the credit markets, which is having a ripple effect on all areas of the market and, like many other market participants, CRPTF/STIF has not escaped unscathed. Treasurer Nappier informed IAC that Mercer has conducted a review of CRPTF's fixed-income exposure to the current market dislocation and will report its findings at today's meeting.

In conjunction with the STIF quarterly presentation, Treasurer Nappier said Cynthia Steer of Rogerscasey will discuss her review of the short-term cash markets relative to STIF, and Larry Wilson, Assistant Treasurer of Cash Management will give an update on STIF's exposure to securities backed by subprime mortgage and the steps her office has taken to ensure that the management of STIF remains sound. She reported that her office has had extensive communications with investors, the general public and the media about the status of STIF. She drew a distinction between STIF and the highly troubled local government investment pool of the State of Florida, including STIF's \$52 million in reserves, AAAM credit rating by Standard and Poor's, and high liquidity position that could, if necessary, accommodate complete withdrawals for all participating municipal balances. She also said that the State of Connecticut, as the largest investor in STIF, about 40% of total STIF assets under management, speaks to the confidence of STIF and the stability state deposits bring to its municipal investors.

On the legal front, Treasurer Nappier reported on recent Northern California court decisions involving CRPTF as lead plaintiff. She said JDS Uniphase jury rendered a unanimous verdict in favor of the defendants, and Judge Jeremy Fogel entered an order granting the defendants' motion to dismiss the Redback Network matter. Treasurer Nappier then reminded IAC of CRPTF's co-lead plaintiff status in the derivative and class action matters against United Health Group. She said both OTT's Legal and Policy Units have been involved in the negotiations and that a substantial financial settlement may soon be approved by the court, making it the largest financial resolution for any stock-dating matter. In addition, Treasurer Nappier noted the excellent prospects for pursuing additional corporate governance improvements at this company.

#### **Update on CRPTF Watch List**

Ms. Palladino updated the IAC on the status of the managers on the CRPTF watch list. Ms. Palladino stated that the data was prepared as of quarter ending September 30, 2007 and in adherence with watch list procedures. She said that Clay Finlay remained on the watch list for management departure and performance issues, and added were: State Street Global Advisors for high level management restructuring and philosophical changes; INVESCO Global Asset

Management for underperformance in the most recent quarter, year and since inception; Trust Company of the West ("TCW") and Barclays Global Investors for performance concerns. In response to questions from IAC members, Ms. Palladino reported that TCW had not previously been placed on the watch list. Further she discussed the recent and historic performance of TCW on a rolling five year basis. Ms. Palladino responded to questions on INVESCO and discussed the loss of client accounts and corresponding loss of assets under management.

### **Consideration of the Transition Manager Search Process**

Ms. Palladino gave an overview of the project plan for the Transition Manager Search Process and discussed how the CRPTF would utilize these services. She further noted that this will be an expedited search based largely on Mercer's database and that selection criteria will be based on organizational assessment, execution capabilities and firm experience, particularly with public pension plans and will also take into consideration diversity and corporate citizenship of the firms. Ms. Palladino indicated that establishing a transition panel is typically a two to three month process and that the due diligence process will begin in January 2008 with semi-finalists expected to make presentations to the IAC at a future meeting. She expects contract negotiations to begin in spring of 2008.

Ms. Palladino responded to questions from the IAC regarding the function of the transition manager, what role it would play and the transition managers' experience with different asset classes.

At the request of Chairman Larkin, the IAC unanimously endorsed the Transition Manager Search Process.

### **Combined Investment Funds Review as of September 30, 2007**

Joseph Barcic, Rich Nuzum and Makaiya Brown, Mercer representatives, reported on the Combined Investment Funds as of September 30, 2007. Mercer gave a market overview, remarking on asset allocation and performance. Mercer responded to questions from the IAC regarding the difference in world currency markets and the currency overlay process. Members of the IAC asked Chairman Larkin for a presentation at the next IAC meeting to give the IAC members a better understanding of the currency overlay program. Treasurer Nappier noted that a currency overlay presentation was recently given to the IAC and a review of that presentation might be a good starting point in putting together next month's presentation.

### **Private Investment Fund Review as of June 30, 2007**

Brad Atkins of Franklin Park reported on the Private Investment Fund ("PIF") for the quarter ending June 30, 2007. He reviewed the portfolio holdings, benchmark performance and commitments made during calendar year 2007. Mr. Atkins stated that for calendar year 2007, the CRPTF closed on commitments of \$675 million to five private equity funds: KKR; Boston Ventures VII; Fairview Constitution III; Thomas H. Lee VI and Pegasus IV. He indicated that since 1987, the CRPTF has committed \$5.4 billion to the PIF, of which 71% has been drawn and 99% of drawn capital has been returned back to the CRPTF.

Mr. Atkins responded to questions from the IAC regarding the vintage year fund cash flow activity, long-term track record, expected future returns and performance issues.

**Real Estate Fund Review as of June 30, 2007**

David Johnson, Principal Investment Officer, reported on the Real Estate Fund (“REF”) as prepared by PCA Real Estate Advisors for the quarter ended June 30, 2007. Mr. Johnson also reported on unfunded commitments, recent commitments and noted that new investment opportunities will be reviewed by the new real estate consultant, The Townsend Group, pending successful completion of contract negotiations.

**Short-Term Investment Fund Review as of September 30, 2007**

Ms. Steer provided an overview of the credit markets and her assessment of the STIF in light of the recent credit market disruptions. She indicated that STIF is very well managed with a high level of fiduciary care; it uses well-defined and well-documented investment processes and guidelines and has a clearly defined credit analysis process. Ms. Steer stated that the portfolio is well diversified in terms of instruments, maturities and names, and that liquidity is more than adequate to meet both historical seasonal needs and other demands. She described a series of adjustments taken during the past few months that were prudent and forward thinking, and indicated that STIF is very well positioned to handle the current volatility in this credit market.

Mr. Wilson reviewed STIF’s performance for the quarter ending September 30, 2007, and reported that Standard & Poor’s reaffirmed STIF’s AAAM rating in July. He noted that within the STIF portfolio there were securities that had been in the news, including a \$100 million position in Cheyne Finance medium-term notes that are currently under the control of receivers and for which payments to investors were suspended in October, and \$300 million in Citigroup sponsored structured investment vehicles (“SIV’s”). Mr. Wilson indicated that the Treasurer had been corresponding with investors about issues in the portfolio, that STIF currently has a \$52 million reserve to absorb any potential losses and protect investors, and that STIF currently holds \$2.2 billion in overnight investments or investments that are available on a same day basis.

Mr. Wilson responded to questions from the IAC regarding the Cheyne Finance and the Citigroup sponsored SIV investments and their underlying securities, and noted that the Citigroup SIV investments do not have direct exposure to U.S. sub prime mortgages.

**Comments by Chairman Larkin**

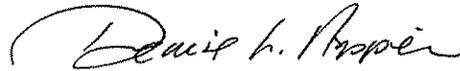
Chairman Larkin thanked the IAC, the Treasurer and administrative staff for all their hard work, and wished everyone happy holidays.

**Other Business**

Chairman Larkin indicated that at the next IAC meeting a presentation on currency overlay would be made to the IAC members. Ms. Palladino reviewed the IAC Budget.

There being no further business, the meeting was adjourned at 11:30 a.m.  
**An audio tape of this meeting was recorded.**

**Respectfully submitted,**



**DENISE L NAPIER  
SECRETARY**

**Reviewed by**



**JAMES T. LARKIN  
CHAIRMAN**