INVESTMENT ADVISORY COUNCIL
Wednesday, October 12, 2011

MEETING NO. 389

Members present:	Thomas Barnes Michael Freeman Laurence N. Hale Denise L. Nappier, Treasurer Sharon Palmer Joseph (Joe) D. Roxe, Chairman Carol Thomas Peter Thor*
Absent:	Thomas Fiore, representing Benjamin Barnes David (Duke) Himmelreich Stanley (Bud) Morten William Murray
Others present:	Jonathan Harris, Deputy Treasurer Christine Shaw, Chief of Staff Lee Ann Palladino, Interim Chief Investment Officer Gary L. Carter, Interim Deputy Chief Investment Officer Joanne Dombrosky, Principal Investment Officer Donald Kirshbaum, Investment Officer-Policy Catherine LaMarr, General Counsel Shelagh McClure, Director of Compliance David Rivera, Director of Communications Reginald Tucker, Investment Officer Linda Tudan, Executive Assistant Winifred (Winnie) Scalora, Administrative Assistant
Guests:	Jeanna Cullins, Hewitt EnnisKnupp, Inc. Mary Dunleavy, State Street Bank & Trust Sean Gill, NEPC Will Greene, Loop Capital Markets Sara Guice, FIS Group, Inc. Harvey Kelly, Leumas Advisors Louis Laccavole, SOC Teachers' Retirement Board Kevin Norton, BNY Mellon Michael Scotto, Hewitt EnnisKnupp, Inc. Christopher Smith, Service Employees International Union Cynthia Steer, Russell Investments Kevin Vandolder, Hewitt EnnisKnupp, Inc.

With a quorum present, Chairman Joseph D. Roxe called the Investment Advisory Council ("IAC") meeting to order at 9:12 a.m.

* In at 9:55 a.m.

Approval of Minutes of the September 14, 2011 IAC Meeting

Chairman Roxe asked for comments on the Minutes of the September 14, 2011 IAC meeting. **There being no comments, a motion was made by Carol Thomas, seconded by Laurence Hale, that the Minutes of the September 14, 2011 IAC meeting be accepted as drafted. The motion was passed with the exception of Sharon Palmer who abstained due to her absence from the last meeting.**

Chief Investment Officer's Update on the Market and Connecticut Retirement Plans and Trust Funds' Final Performance for the Month Ended August 31, 2011

Lee Ann Palladino, Interim Chief Investment Officer ("CIO"), provided an update on the capital market environment, its impact on the performance of the Connecticut Retirement Plans and Trust Funds ("CRPTF") and the economic outlook. She stated that not much had changed in the economic landscape since last month's IAC meeting, and commented that global economic risks were high as a result of the crisis in Europe.

Ms. Palladino next reported on the performance for the CRPTF for the month ended August 31, 2011; the CRPTF was down 4.36% for the month of August bringing a fiscal-year-to-date loss of 4.87%. She then discussed economic developments in the U.S., Europe and emerging markets, and the resulting decline in the global equity markets, the performance of the fixed income portfolios and the increase in market value for private equity and real estate. Finally, Ms. Palladino projected that fiscal year-to-date through October 5, 2011, the CRPTF's market value declined approximately $2.5 billion or down 9.75%.

Chairman Roxe commented that the most recent projected 2012 estimated growth for the U.S. Gross Domestic Product ("GDP") was 1.5% and it would take 2.5% GDP to hold steady; therefore, he said that at 1.5% GDP the unemployment rate would increase and that increased the odds of a second recession, although that is still not the most likely outcome. Chairman Roxe further noted that Europe was in a similar situation. He suggested that it might be time to revisit tail risk management and hedging whereby insurance type policies could be purchased for a small premium to protect the portfolio against excessive declines. Ms. Palladino added that the CRPTF was a long-term investor and the upcoming asset and liability study would be beneficial with respect to the positioning of the portfolio. She further noted that today's agenda included a presentation by Hewitt EnnisKnupp, Inc. ("Hewitt") regarding the capital market assumptions.

Comments by the Treasurer

Treasurer Denise L. Nappier began her remarks by introducing the Office of the Treasurer's ("OTT") new Director of Communications, David Rivera. Treasurer Nappier noted that Mr. Rivera had nearly twenty years of award-winning journalism experience, in both print media and public sector roles. She commented about the Treasury's communications strategy particularly as the financial world becomes more complicated and intricate. Treasurer Nappier added that Mr. Rivera would also respond to the numerous press inquiries that the OTT received, a great number of which involved matters that come before the IAC. Mr. Rivera said a few words and thanked Treasurer Nappier for the opportunity to be a part of the OTT team.

Next, Treasurer Nappier reported on the accomplishments of the CRPTF during Fiscal Year ("FY") 2011. She reported that the FY 2011 year-end investment return for the CRPTF was 20.75%, the best performance in nearly 23 years for the portfolio. Treasurer Nappier next commented on the initial funding of the Alternative Investment Fund ("AIF") that took place during FY 2011, with commitments of $100 million to each of four absolute return hedge fund-of-fund managers. She said that the second track of the AIF, real assets, was also launched with a $65 million commitment to an energy-related infrastructure real asset fund. Next, Treasurer Nappier highlighted the search process which led to the hiring of Hewitt, the CRPTF's general consultant.

With respect to the Real Estate and Private Investment Funds ("REF" and "PIF"), Treasurer Nappier stated that prudent investment pacing plans had been followed during FY 2011. She said that the CRPTF committed $175 million to two REF managers and that two additional managers were named as preferred vendors for the Core Real Estate Separate Account mandate. Finally, Treasurer Nappier reported that $125 million was awarded to two PIF managers.

Regarding public equities, Treasurer Nappier stated that three managers were named as preferred vendors for a passive money manager panel late in FY 2011. Also in the public equity market, she noted that one manager was hired for the Small-mid Cap Growth mandate within the Mutual Equity Fund.

Next, Treasurer Nappier reported that the Connecticut Horizon Fund ("CHF"), now a $797 million fund-of-funds public market program, had grown substantially since inception and that a $155 million private equity allocation was created to give access to a wider number of firms including more women-owned, minority-owned, Connecticut-based and emerging firms. Additionally, she stated that there were 11 private equity sub-managers. Treasurer Nappier said the next phase will be the expansion of the CHF program into the AIF and REF. Finally, she said that the CRPTF continued to expand the diversity of its hired firms. She noted that as of March 31, 2011, minority-owned, women-owned, Connecticut-based and emerging firms, 37 in all, comprised 30% of the firms with which the CRPTF did business and that the firms earned fees of over $35 million, which represent 36% of all fees paid.

Further, Treasurer Nappier commented on the expanded number of discussions and educational overviews presented to the IAC over the course of the 2011 fiscal year; and she said that additional educational overviews would be provided going forward, as they are always insightful and set a platform for beneficial discussions.

Commenting on the agenda, Treasurer Nappier said that she was formally presenting her recommended revisions to the appendices of the Investment Policy Statement ("IPS") for the IAC's consideration and ultimate approval. She said that revisions to Appendix A, Section II, were non-statutory parameters for asset class structure, benchmarks and investment objectives for the Combined Investment Funds ("CIF"). Treasurer Nappier said that the revisions were intended to resolve audit concerns, incorporate best practices and update language for the purpose of consistency throughout the IPS. She discussed Appendix B, Section I, revisions to the Domestic Proxy Voting Policies to address shareholder concerns in light of the rapidly changing global financial markets. Treasurer Nappier then highlighted the process for approving modifications to the IPS appendices. She said that she would consider all feedback from the IAC, but is not required to modify the appendices to the IPS unless she deemed the recommended input to be appropriate. Thereafter, Treasurer Nappier said that she would adopt the appendices to the IPS with all appropriate changes; and present them to the IAC for their approval.

Consideration of the Investment Policy Statement Appendix Modifications

Gary Carter, Interim Deputy CIO, and Donald Kirshbaum, Investment Officer-Policy, presented the Treasurer's recommended revisions to the IPS Appendix for review by the IAC. Mr. Carter said that the Appendix was designed to provide guidance for the implementation and ongoing management of the CIF. He then outlined the prospective changes to Appendix A, Section II of the IPS, and also commented briefly on each modification. With respect to foreign currencies and the CRPTF's investments in international equity markets, Chairman Roxe posed questions regarding the currency overlay program and the strategic hedge ratio. Chairman Roxe then requested that language in the currency strategy section be modified to reflect not only the currency overlay, but also that currency exposure in other combined investment funds may be hedged or unhedged depending on the strategy.

Lengthy discussions among IAC members ensued regarding salient points of the proposed revisions, including comments concerning modifications to the geography and property-type allocation ranges for the REF. Treasurer Nappier stated that during the upcoming Asset and Liability Study, it may be determined that there is a better real estate benchmark than the National Council of Real Estate Investment Fiduciaries ("NCREIF") for the REF, and that a discussion on these ranges and exposure was warranted. In summary, IAC members stated that there were two issues within the proposed Appendix changes which were presented to the Treasurer for her consideration: l) To more clearly outline currency strategies; and 2) To remove or modify the REF geography and property-type allocation ranges.

Next, Mr. Kirshbaum provided an explanation of the changes to Appendix B, Section I of the IPS, entitled "Domestic Proxy Voting Policies." He stated that many of the changes clarified language, and he highlighted the updates regarding best practices, majority vote, limits on the number of board seats, poor compensation practices, nominating directors on a company's access to the proxy, cumulative voting, approval of auditors and audit committee members, shareholder rights, say-on-pay for executive compensation, advisory vote on golden parachutes, new shareholder resolutions on executive pay, climate change and water and corporate political expenditures. Members of the IAC did not offer any feedback to the Treasurer on the proposed changes to the Domestic Proxy Voting Policies.

Capital Market Assumptions Presentation

Michael Scotto and Kevin Vandolder, Principals of Hewitt, provided a presentation entitled, "Capital Market Assumptions." Mr. Vandolder noted that this was an educational presentation. Mr. Scotto began his comments by setting the background for the capital market assumptions. He said that Hewitt's eleven-member team prepare two sets of capital market assumptions for 10-year and 30-year projection periods that are forward looking, use medium expectations over a range that includes best and worst-case scenarios, and that these global assumptions are produced quarterly by the global asset allocation team. Next, Mr. Scotto spoke about the primary areas used in terms of modeling the assumptions that include equities, bonds, alternatives and macro indications. He noted that inflation was a very important assumption of asset liability studies because there were many linkages on both the asset and liability side.

In response to Ms. Thomas' question regarding treasury inflation-protected securities, Mr. Scotto stated that the expected nominal return was 3% for the non-U.S. developed market bonds. In response to Ms. Thomas, Mr. Vandolder commented on the expected returns for the REF and PIF and noted that Townsend's expected rate of return for the REF was 7.1% compared to Hewitt's 30-year assumption of 7.5%, and Franklin Park Associates' expected rate of return for the PIF was 300 to 500 basis points ("bps") over the publicly-traded U.S. equity compared to Hewitt's assumption of 300 bps. Chairman Roxe noted that it was going to be difficult to meet the actuarially-required rate of return of 8.25% for the State Employees' Retirement Fund ("SERF") and 8.50% for the Teachers' Retirement Fund. Mr. Vandolder said that inflation, income, GDP growth and evaluation adjustments are calculated in capital market assumptions and he noted that the equity-based premium on these assumptions is active over the next ten years.

Next, Mr. Scotto commented on Hewitt's methodologies for government bonds, corporate bonds, the alternative asset classes, and volatility and correlation. He said that all of the methodologies have a level of conservatism built in. In response to Chairman Roxe, Mr. Vandolder stated that it is very difficult to make a prediction beyond three years for assumptions and that economic smoothing and historical volatility needed to be considered in longer-term predictions. He added that throughout the Asset Liability Study, Hewitt would share the liability streams and provide information on how the assets will perform in both poor and good economic cycles to gain a sense of the risk tolerance for the CRPTF. Treasurer Nappier stated that because the SERF is approximately 44% funded, risk needed to be moderated to avoid further deterioration of the funded ratio, and that it was important to have lower-risk investments in order to achieve a higher probability of performance results. In response to Mr. Hale, Mr. Scotto stated that assumptions were calculated in real terms first and then inflation is added in.

Corporate Governance and MacBride Compliance

Mr. Kirshbaum provided a report on corporate governance and MacBride compliance for the quarter ended June 30, 2011. He stated that the second quarter of the calendar year is the most active in terms of annual meetings and proxy voting. Mr. Kirshbaum commented that the OTT's votes were consistent with prior quarters in terms of the number of its votes against management and he provided a written report. Regarding access to the proxy during the 2012 season, he said that the OTT was working closely with other institutional investors on current issues.

Next, Mr. Kirshbaum commented about the Council of Institutional Investors' Conference that he recently attended with Peter Thor. He said that coalitions for engagements were developed, and the issues for discussion during the 2012 calendar year included executive compensation, board diversity, corporate governance and climate change. With respect to MacBride compliance, Mr. Kirshbaum stated that the CRPTF was in compliance. In response to Ms. Thomas, Mr. Kirshbaum stated that well over 98% of the say-on-pay votes did get a majority but added that most of the focus was on specific executive issues. Chairman Roxe added that "Occupy Wall Street" reflected some of the underlying anger that exists in the U.S. today for a variety of reasons and should be taken very seriously. He complimented Mr. Kirshbaum and felt that the positions that the CRPTF was taking on proxy voting were very good.

Other Business

Chairman Roxe presented the IAC Meeting Schedule for the 2012 Calendar Year. He invited IAC members to submit agenda items for the November 9, 2011 IAC meeting.

Comments by the Chairman

Chairman Roxe commented on the meeting.

There being no further business, the meeting was adjourned at 11:25 a.m.

This meeting was recorded on audio tape.

Respectfully submitted,

DENISE L. NAPPIER
SECRETARY

Reviewed by

JOSEPH D. ROXE
CHAIRMAN