

**INVESTMENT ADVISORY COUNCIL  
WEDNESDAY, October 14, 2009**

**MEETING NO. 370**

**Members present:**

Thomas Barnes  
Michael Freeman  
David (Duke) Himmelreich\*\*  
Stanley (Bud) Morten  
Denise L. Nappier, Treasurer  
David Roth  
Joseph (Joe) D. Roxe, Chairman  
Carol Thomas  
Peter Thor\*

**Absent:**

Thomas Fiore, representing Robert Genuario  
William Murray  
Sharon Palmer

**Others present:**

Howard G. Rifkin, Deputy Treasurer  
Linda Hershman, Assistant Deputy Treasurer/Chief of Staff  
M. Timothy (Tim) Corbett, Chief Investment Officer  
Lee Ann Palladino, Deputy Chief Investment Officer  
Wayne Hypolite, Executive Assistant  
Catherine LaMarr, General Counsel  
Shelagh McClure, Director of Compliance  
Meredith Miller, Assistant Treasurer-Policy  
Winifred (Winnie) Scalora, Administrative Assistant

**Guests:**

Joseph Barcic, Mercer Investment Consulting  
Jaeson Dubrovay, New England Pension Consultants  
Robin Kaplan-Cho, Connecticut Education Association  
Harvey Kelly, Leumas Advisors  
Louis Laccavole, SOC Teachers' Retirement Board  
Jacqueline Lyons, State Street Bank & Trust  
Johnson Shum, State Street Bank & Trust  
Cynthia Steer, Rogerscasey  
Dominic Williams, Service Employees International Union

With a quorum present, Chairman Joseph D. Roxe called the Investment Advisory Council ("IAC") meeting to order at 9:05 a.m.

**Approval of Minutes of the September 9, 2009 IAC Meeting**

Chairman Roxe stated that the Minutes of the September 9, 2009 IAC meeting would be considered for approval at the November 10, 2009 IAC Meeting.

\* Arrived at 9:10 a.m.

\*\* Arrived at 9:23 a.m.

**Comments by the Treasurer**

Treasurer Denise Nappier began her comments by reporting on decisions she had made since the September 9, 2009 IAC meeting regarding the Public-Private Investment Program (“PPIP”), which is a Real Estate Fund (“REF”) offering focused on distressed residential and commercial mortgage-backed securities and loans. She reported that, after completing full due diligence and considering feedback from the IAC, she had decided to designate WLR IV PPIP Co-Invest, L.P. (“WLR IV PPIP”), AllianceBernstein Legacy Securities, L.P. (“AllianceBernstein LS”) and Marathon Legacy Securities Public-Private Investment Fund, L.P. (“Marathon PPIF”) as preferred managers. Treasurer Nappier stated that contracts had been awarded as follows: \$100 million to WLR IV PPIP; \$50 million to AllianceBernstein LS; and upon satisfactory completion of contract negotiations, \$50 million to Marathon PPIF.

**Capital Market Environment Update and its Impact on the Performance of the CRPTF**

M. Timothy Corbett, Chief Investment Officer, 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. He began by commenting on economic trends that had occurred over the past 25 years: globalization, deregulation and lower market volatility. Mr. Corbett said that these unsustainable trends led to an era of high economic growth and market returns with lower volatility; which, in turn, led to progressively greater risk-taking, collapse of risk premiums and use of progressively more leverage to drive returns. He commented on the New Normal, an outlook that the future will see a reversal of the trends over the past 25 years. Mr. Corbett then spoke about resulting investment themes and commented on the associated risks.

Mr. Corbett reported on the CRPTF’s performance for the month ended August 31, 2009. He stated that the CRPTF had benefited from the rally in the global equity and credit markets since the lows in March 2009. As of August 31, 2009, Mr. Corbett stated that the CRPTF gained 8% for the three-month return. He noted that at the end of the first two months of calendar year 2009, the CRPTF was down 9% and stood at \$18 billion, conversely calendar year-to-date, the CRPTF was up 12% to \$21.8 billion after the net-benefit cash outflow. Mr. Corbett stated that the performance was strongest in the higher risk sectors of the portfolio where the CRPTF has been overweight, but noted there was still underperformance of some money managers relative to their benchmarks over the last year.

Regarding the Private Investment Fund (“PIF”) and REF, Mr. Corbett reported that the REF posted \$60 million in market value write downs and the PIF posted \$32 million in market value increases for the month of August 2009. Discussion ensued about appropriate REF benchmarks. In closing, Mr. Corbett stated that the Office of the Treasurer (“OTT”) was currently working on the Alternative Investment Fund structure, which would be presented at a future IAC meeting.

**Discussion of Future Investment Advisory Council Meeting Agenda Items**

Chairman Roxe led a discussion about strategic issues that may be discussed at IAC meetings over the next several months. The discussion included input from each IAC member about the asset classes, assumptions and strategic issues that would affect the performance of the portfolio over the

long term. After a detailed discussion, Chairman Roxe polled IAC members about their thoughts on this topic.

David Roth stated that he recommends broad thinking of what the Treasurer needs to meet return objectives. He added that he believed the CRPTF should challenge the basic operating assumptions are and whether or not the current method utilized by the CRPTF was still appropriate. Stanley Morten discussed the validity of historical data. He also questioned the use of forward-looking assumptions from a risk and return perspective. David Himmelreich stated that he believed this discussion would lead to a review of the Investment Policy Statement (“IPS”). Carol Thomas suggested that changing the asset allocation methods without merit could lead to an unintended consequence; therefore, sound research behind the methodology was required with the need to be cautious. Thomas Barnes questioned the Plan liabilities and how they impacted the CRPTF’s risk profile. He would like a better understanding of the 8 1/2% actuarial rate. Michael Freeman stated that he would like to focus on the Treasurer’s needs and determine what the IAC could do to assist Treasurer Nappier and her staff.

Treasurer Nappier pointed out that a full asset and liability study was scheduled for 2011, and that depending on the guidance of the IAC, it would be possible to move the timing of this study forward. Deputy Treasurer Howard Rifkin recapped the work of the IAC members and Treasury staff on the last Asset Liability Study and added that a subcommittee of the IAC was involved in redrafting the October 2007 IPS. He reminded the IAC members of the discussions throughout the last year and the decision to stay the course.

Chairman Roxe recognized that the world has changed and thought it was timely to consider a new approach. In conclusion, he requested Mr. Roth to reflect upon the feedback of the IAC and provide a brief report at a future meeting detailing an approach to this topic.

### **Domestic Equity Brokerage Program Report as of June 30, 2009**

Mr. Corbett provided a report on the Domestic Equity Brokerage Program (“DEB”) for the quarter ended June 30, 2009. He reported that the program’s share of total commissions dropped to 36% this quarter from the 43% it had averaged over the prior year. Since inception, Mr. Corbett stated that the program’s commissions averaged about 50%, which was below the targeted 60%. Mr. Corbett commented on several steps the OTT was taking to raise the DEB participation rate. Discussion ensued about commission rates and how trading costs are calculated. It was noted that best execution is always a priority for the program and a requirement for the CRPTF’s managers, and that DEB’s trading costs compare very favorably in State Street’s analysis.

### **Securities Lending Review as of August 31, 2009**

Johnson Shum, Vice President of State Street Bank, provided a review of Securities Lending activity for the fiscal year ended June 30 and the months ended July 31 and August 31, 2009. He began his report by commenting on the continued improvement within the credit markets since June 2009. Regarding the performance results for the CRPTF’s Securities Lending Program, he stated that total earnings for the 2009 fiscal year were at \$35.7 million, outperforming the prior fiscal year by 26%. He commented on global cash management with respect to the CRPTF’s Collateral

Investment Fund, discussed the current market challenges and opportunities, and provided a brief economic outlook.

**Corporate Governance and MacBride Compliance Report as of June 30, 2009**

Meredith Miller, Assistant Treasurer, provided a report on Corporate Governance and MacBride Compliance for the quarters ended March 31 and June 30, 2009. With respect to the quarter ended March 31, 2009, Ms. Miller reported that 500 domestic proxies were cast with 41% of votes against management. For the quarter ended June 30, 2009, Ms. Miller reported that 4,098 domestic proxies were cast with 39.21% of votes against management. For the international proxies, she stated that 4,574 and 28,764 votes were cast with 12.89% and 12.69% against management for the quarters ended March 31 and June 30, 2009, respectively, with no violations resulting in full compliance with the proxy voting guidelines. Ms. Miller then discussed the 2010 proxy season and the proposed regulatory reforms. Ms. Miller noted that the Treasurer's petition on compensation was sent to the U.S. Securities and Exchange Commission's ("SEC") proposed rule making body; it should be finalized by the SEC in November 2009, bringing many changes to corporate governance.

Discussion ensued about the CRPTF's votes against managers and ratifying auditors with respect to their non-audit work.

**Other Business**

Chairman Roxe provided a review of the IAC budget for the fiscal year ended June 30, 2009 and the IAC Meeting Schedule for the 2010 Calendar Year.

**Comments by the Chairman**

Chairman Roxe had no additional comments for today's meeting.

There being no further business, the meeting was adjourned at 11:00 a.m.

**An audio tape of this meeting was recorded.**

**Respectfully submitted,**



**DENISE L. NAPPIER  
SECRETARY**

**Reviewed by**



**JOSEPH D. ROXE  
CHAIRMAN**