INVESTMENT ADVISORY COUNCIL
WEDNESDAY, JANUARY 14, 2004

MEETING NO. 311

Members present:	Clare Barnett Reginald Martin Denise L. Nappier, Treasurer Sharon Palmer Henry E. Parker Clarence (Dick) L. Roberts, Jr., Chairman David Roth Rosalyn Schoonmaker Carol Thomas
Members absent:	Thomas Fiore, representing Marc S. Ryan
Others present:	Howard G. Rifkin, Deputy Treasurer Catherine E. LaMarr, General Counsel Gregory Franklin, Assistant Treasurer-Investments Gary Draghi, Principal Investment Officer Guy Garcia, Principal Investment Officer Bernard Kavaler, Director of Communication
Guests:	Maria Luce, State Street Corporation Raudline Etienne, CRA RogersCasey Cynthia Steer, CRA RogersCasey Jeff McKenzie, Andreder Hirschhorn & Co. Harvey Kelly, Leumas Advisors Julie Naunchek, CSEA-Retiree Council #400 Robyn Kaplan-Cho, Connecticut Education Association Marc Weiss, Pension Consulting Alliance Barbara Randolph, A.G. Edwards Brian McDermott, Retirement Plan Associates Jerry Oliano, Retirement Plan Associates

Chairman Dick Roberts called the meeting to order at 9:20 A.M.

Chairman Roberts noted that Item #5 on the Agenda, Real Estate Fund Review, would be for quarter ending June 30, 2003 not September 30, 2003. He also said that Item #6 would be addressed following either Item #1 or Item #2.

Approval of Minutes

The Minutes of the December 10, 2003 Investment Advisory Council meeting were discussed. Chairman Roberts asked if there were any comments on the Minutes. Rosalyn Schoonmaker noted two corrections that need to be made. She said the first is page 6, 4th paragraph, third sentence; Baker's should be changed to Baker. She said the second correction is on page 11, 4th paragraph of Presentation by KPS, 4th sentence; the word "is" should be deleted. **A motion was made by Ms. Schoonmaker, seconded by Carol Thomas, that the Minutes of the December 10, 2003 IAC meeting be accepted with the two corrections. The motion was passed unanimously.**

Approval of Real Estate Due Diligence Procedures

Chairman Roberts in noting that the due diligence document had been before the IAC for a period of time, said he hoped everyone had a chance to read it. He asked if anyone had additional comments on the due diligence process. David Roth said that it is unclear in the due diligence process whether or not the consultant would engage in on-site visits of properties of proposed managers. In response, Marc Weiss of Pension Consulting Alliance ("PCA") said that PCA does visit properties within the portfolio in most instances. He further stated that another element that PCA examines is any key investments that have been either big winners or losers that may have had an impact on the performance of a fund or portfolio, because in many cases that could distort a manager's record.

Reginald Martin noted a reference to diversity in Exhibit C, Management and Staff, but said he feels that diversity plays a much larger part than the document would indicate. Mr. Weiss said they will address the issue in the document. Raudline Etienne of CRA RogersCasey ("CRARC") said that this is a standard questionnaire and that there is defined language on corporate governance and employment practices that is always attached. Deputy Treasurer Howard Rifkin said that the overall Investment Policy Statement ("IPS") has language with respect to the Treasury's commitment to issues of diversity, corporate governance, corporate responsibility and the desire to hire Connecticut based firms, minority owned and women owned firms to manage CRPTF's various assets and is the standard operating procedure under which the pension plan is governed. Deputy Treasurer Rifkin also noted that the due diligence process follows a Request for Proposal ("RFP") and that the consultant is evaluating a number of factors and recommending whether or not the investment manager presents an opportunity in which an investment should be considered. He also said that all RFPs have specific language incorporated with respect to diversity and corporate responsibility. He further explained that the due diligence process is describing the analysis that PCA will conduct to help the Treasury arrive at the appropriate investment. Mr. Martin said that oftentimes it does not appear that managers who present to the IAC understand what Deputy Treasurer Rifkin just explained and it makes him

wonder whether or not the consultant understands. Deputy Treasurer Rifkin said that when PCA was hired there was discussion about diversity, as well as their capacity to help the Treasury develop a program that sets aside a percentage of the real estate funds to invest in underserved capital markets. He noted that PCA was a firm capable of helping to develop a responsible contractors policy, which is part of the Real Estate Investment Policy Statement. Mr. Martin said that in that case, he still feels that one of the bullet points in the due diligence document should deal with that, rather than having it buried in the document. Catherine LaMarr, General Counsel, advised that the due diligence procedures will not be approved as part of the IPS, but that Treasurer Denise Nappier does want the IAC's approval of the process. She said that these types of guidelines are generally not approved by the IAC as part of the IPS, but Treasurer Nappier does tend to go beyond her statutory requirement and wanted to ensure that the IAC reviewed and approved the guidelines. Deputy Treasurer Rifkin said that with Ms. LaMarr's clarification the due diligence procedures will not be part of the IPS and changes can still be made to the due diligence document without further approval. Mr. Weiss said PCA would add some language to the due diligence procedures, which was designed to give an idea of what PCA's typical process is with regard to due diligence on funds and managers. Sharon Palmer offered a suggestion that may help raise the awareness of potential managers of the emphasis on diversity. She said that on page 1, number 2, under organization where all the items that they must submit for review are listed, PCA should add a diversity statement to that list. Henry Parker observed that with respect to diversity, the Treasury consistently finds institutions and managers that are not where they should be and he said he thinks that is going to be a continuing problem. He thinks that the diversity policy should be written so that new managers or individuals with whom the Treasury is doing business or interacting can understand that there are expectations and that progress in meeting diversity goals will only happen if the goals are set forth in writing. Treasurer Nappier said that sometimes the Treasury has a problem institutionalizing intent and policies. She said that each time there is a search for an investment advisor, corporate social responsibility, including diversity, is one of the screens and typically occurs at the time the prospective advisor responds to the RFP. She emphasized that while there is not language in the due diligence document, a semifinalist will not be interviewed without that information. Treasurer Nappier further stated that the comments had been noted and would be reflected in the document. She said that while it is not required by the Treasury Reform Act that the IAC sign off on this particular document, it has been her practice to present these matters to the IAC and that she would appreciate it if the IAC would at least accept the document.

A motion was made to approve the Real Estate Due Diligence Procedures by Mr. Parker and seconded by Ms. Schoonmaker. The motion was passed unanimously.

Opening Comments by the Treasurer

Treasurer Nappier said that there are six searches underway. She reported that progress is being made on the Constitution Fund Manager and Private Equity Consultant searches and that before the IAC is the interview schedule for those two searches. She invited all IAC members to attend the interviews scheduled for the end of January and the first week of March. Treasurer Nappier pointed out that today's agenda includes interviews for the Emerging Market Debt ("EMD") mandate in the Mutual Fixed Income Fund and advised that there will be approximately $600 million allocated to this mandate to be managed by 2 to 3 managers.

Treasurer Nappier reported that Tishman Hotel Corporation was given a 30 day notice that they would be terminated as the investment advisor of Goodwin Square, which includes the hotel, office tower and restaurant, but that they will continue in their role as property manager of the hotel and restaurant. She explained that the main reason for the termination stemmed from a potential conflict of interest to have Tishman serving in both capacities. She also said that based on a recommendation from the real estate consultant, the contract with an existing real estate investment advisor, AEW, will be amended to include the role of investment advisor of Goodwin Square.

Treasurer Nappier provided an update on the ongoing Mutual Fund investigation noting the ongoing high level scrutiny of those firms that have been implicated, charged or indicted for improper marketing trading activity, which include Putnam, MFS and INVESCO. She said that an agreement was reached with Putnam on some contract changes beneficial to CRPTF. The contract amendment has been signed and is now before the Attorney General's office. She said that on-site visits with Putnam and MFS will take place next week.

Treasurer Nappier reported that she decided to make commitments of $35 million to KPS Special Situations Fund II, L.P. and $75 million to FS Equity Partners V, L.P., the two private equity firms that presented at last month's IAC meeting. She advised that both are pending contract negotiations.

Treasurer Nappier provided an update on the Fund of Funds program. She reviewed with the IAC that CRARC has worked with the Treasury to develop and post the Request for Qualifications ("RFQ") for a fund of funds manager. She said that she was very pleased with the diverse pool of responses from prospective managers that were received, which included major Wall Street firms, Connecticut firms and minority and women owned firms. Treasurer Nappier said that before the IAC is a document on the Connecticut Horizon Fund that includes a description of the program. She said the proposed target allocation to the Connecticut Horizon Fund is between 2% and 5%. Ms. Etienne reviewed the document with the IAC pointing out highlights of the document, explaining the schematic and reviewing the types of firms that responded. Mr. Roth asked if there will be more than one fund of funds and if so, if that is the reason for having more that one fund of funds advisor. Ms. Etienne said that there may be multiple fund of funds, but one reason for using more than one advisor is because the expertise may not cover the full spectrum for which the Treasury is looking. Mr. Roth expressed concern about how multiple advisors would work together to fulfill the needs of the Treasury. Ms. Etienne said that each advisor would have separate areas and benchmarks and, depending on the

structure, they may not work together and could potentially be competing. Mr. Roth continued to express his uncertainty about how multiple advisors would be beneficial. Treasurer Nappier clarified by explaining the fund of funds manager structure is not unique to Connecticut's Pension Fund. She said that in the private equity area, Landmark is a fund of funds and that in real estate, AEW is a fund of funds. She said they act as general contractors and they select the investment managers and therefore the fund of funds manager is an investment advisor like any other investment advisor. Mr. Parker said that he would like for the Treasury to be in touch with the National Association of Securities Professionals ("NASP"), which represent a larger number of women, African-Americans and some Hispanic groups across the nation on securities and the new national Hispanic group for their input. Ms. Etienne said that CRARC did contact NASP when the RFQ was being advertised. Treasurer Nappier said that she sees them as a resource for use by the general contractors once they have been selected.

Mr. Martin expressed that he felt there should be a Treasurer's newsletter to highlight the accomplishments of the Office of the State Treasurer. Treasurer Nappier said that his point is well taken, but is not sure that there are resources available for publishing a newsletter. She noted, however, that there is an internal newsletter geared toward Treasury employees. Bernard Kavaler, Director of Communication, explained that the Treasury has had both external and internal newsletters and recently the Governor's office directed State Agencies, because of the budget problems, to stop printing newsletters and instead promote the use of web sites. He said that even the Annual Report is on CD with very few printed copies. Mr. Parker suggested the possibility of a quarterly report of what is transpiring in the Treasury Department. Mr. Kavaler said he would be happy to do that.

Treasurer Nappier said she would like for the IAC to do two things regarding the Connecticut Horizon Fund, help decide the name and accept the report. Chairman Roberts asked each member for their choice of a name. Chairman Roberts, Clare Barnett and Ms. Schoonmaker chose "Harvesting Tomorrow's Excellence Today." Ms. Palmer, Mr. Roth, Ms. Thomas and Ms. Schoonmaker chose "Cultivating Opportunity & Harvesting Alpha." Mr. Martin and Mr. Parker did not have a preference.

A motion was made to approve the Connecticut Horizon Fund document as presented by Ms. Schoonmaker and seconded by Mr. Martin. The motion was passed unanimously.

Treasurer Nappier advised the IAC that she has selected two Inflation Linked Bond managers, Hartford Investment Management and Brown Brothers Harriman, both of which scored very high with the IAC. She said both of these assignments are pending contract negotiations.

Deputy Treasurer Rifkin informed the IAC that Treasurer Nappier will be traveling to Switzerland next week because she has been invited to participate in the World Economic Forum as a participant in one of the major plenary sessions, which will look at long term investment horizons. He said that participants at the forum include the King of Jordan, William Jefferson Clinton, a number of members of the U.S. Senate and Congress and business leaders and journalists from all over the world.

Emerging Market Debt

Cynthia Steer of CRARC gave a brief overview of the search for EMD Managers and the process by which these five finalists came to be making presentations at the IAC meeting.

Presentation by Ashmore Investment Management

Ashmore Investment Management ("Ashmore") made a presentation to the IAC regarding emerging markets debt investments. Ashmore was represented by Jerome Booth, Head of Research and Tony Kane, Director, Marketing and Client Service. Their presentation included an overview of Ashmore, the firm's investment philosophy and process, the firm's proposed emerging markets debt account for CRPTF and their ethnic and professional diversity.

Mr. Parker asked what kind of service could be expected from a firm based in London with only one member of the staff being located in the United States. Mr. Kane said that it is not a problem because he is in constant touch with the London office where there is a full complement of staff available and it is a seamless operation. Mr. Booth said that geographically there is a definite advantage to having the office located in London.

Mr. Parker then asked Ashmore to address the diversity of their firm. Mr. Booth said that there are employees from all over the world and from very diverse backgrounds. Mr. Parker asked if their company looks like England. Mr. Booth responded that they look mostly like the emerging world, very international. Mr. Parker asked if Ashmore reviewed the Treasury's plan for social responsibility in the RFP and what their reaction is to that plan. Mr. Booth responded that Ashmore welcomes that and is very open minded, but that their clear professional responsibility is to make money for their clients and added that they always try to maintain social responsibility. Mr. Parker asked how many public clients they have in the United States. Mr. Booth said they have eight, the States of Virginia, Massachusetts and Wisconsin, Cities of San Francisco and San Bernadino, County and City of San Diego, and the Cities of Houston and Austin Police retirement funds.

Presentation by Bridgewater Associates, Inc.

Bridgewater Associates, Inc. ("Bridgewater") made a presentation to the IAC regarding emerging markets debt. Bridgewater was represented by Jeff Gardner, EMD Strategist; Richard Okello, Senior Client Advisor; and Bill Mahoney, Director, Global Business Development. Their presentation included an overview of Bridgewater, the firm's emerging markets debt process, performance, employment data and corporate citizenship and business presence in Connecticut.

Ms. Thomas asked about the high rate of returns and wanted to know if this is an unusual period in this market or if it is typical of what has gone on in this market over a long period of time. Mr. Gardner said that returns for this asset class have been very good recently, probably a little better than would be expected over the long term. Chairman Roberts commented that the Euro has been a big help for the performance of this asset class.

Presentation by Citigroup Asset Management

Citigroup Asset Management ("Citigroup") made a presentation to the IAC regarding emerging markets debt. Citigroup was represented by Peter Wilby, Managing Director, Chief Investment Officer-North American Fixed Income and Jonathan Fischer, Director, Institutional Sales and Client Service. Their presentation included an overview of Citigroup, the firm's emerging markets debt process and the firm's commitment to corporate citizenship and diversity.

Mr. Parker commented that he was impressed with their remarks on social responsibility and is familiar with many of the group with which they deal and suggested that Citigroup communicate with NASP.

Presentation by PIMCO

PIMCO made a presentation to the IAC regarding their emerging markets bond composite. PIMCO was represented by Mohamed El-Erian, Managing Director and Portfolio Manager; Melody Rollins, Vice President and Account Manager; and Jeri Vick, Vice President-Product Management. Their presentation included an overview of PIMCO, an executive summary of the firm's emerging markets debt expertise and the firm's investment philosophy, risk management and performance.

Mr. Parker asked Ms. Rollins to share her experience in navigating through the Toigo program. Ms. Rollins elaborated on her past experience as well as her continued involvement with the Toigo Foundation.

Presentation by Fidelity Investments

Fidelity Investments ("Fidelity") made a presentation to the IAC regarding emerging markets debt. Fidelity was represented by Jonathan Kelly, Emerging Markets Debt Portfolio Manager; Lisa Roche, Research Analyst; and Art Greenwood, Relationship Manager. Their presentation included a profile of Fidelity, the firm's investment process and performance with a focus on the firm's corporate citizenship and commitment to diversity.

Roll Call of Reactions for Finalists for Emerging Market Debt Managers

Ms. Barnett said she had not been present for the PIMCO presentation, but would choose all four of the firms from which she did see presentations. She said she was impressed with Ashmore because of their high numbers and with Bridgewater because of their attention to risk.

Ms. Thomas said she would choose Bridgewater first, Ashmore second and the other three were too close to call, but leans toward PIMCO.

Mr. Roth said Ashmore's philosophy on risk did not disturb him and that he would choose them first. He said PIMCO and Bridgewater are a good balance to one another and chose them second and Citigroup and Fidelity third.

Mr. Parker said that any of the five would be okay with him. He said he liked Ashmore, but they have work to do on diversity. He noted that PIMCO and Citigroup were also impressive.

Mr. Martin said that he ranked them in the following order PIMCO, Ashmore, Citigroup, Bridgewater and Fidelity.

Ms. Palmer said that she chose PIMCO first, Fidelity second, Bridgewater third and did not like Ashmore at all because they are higher risk, out of the country and lack diversity.

Chairman Roberts said that he would choose Ashmore and Bridgewater as a package for his first choice, because they are a good balance to each other. He said he would choose PIMCO second and he was neutral on Fidelity and Citigroup, although both appeared competent.

Ms. Schoonmaker said she chose PIMCO first, Citigroup second, Fidelity third and Bridgewater and Ashmore fourth.

CRPTF Final Performance for November 2003

Greg Franklin, Assistant Treasurer-Investments, reported on the performance of CRPTF through November 2003. He reported that assets increased by $200 million for the month, up by 1.43%, outperforming the benchmark by 41 basis points and the benchmark performance was 1.02%. He also said that the 5-year number outperformed the benchmark by 192 basis points with a return of 4.56%. Mr. Franklin reported that the Mutual Equity Fund outperformed the benchmark by 8 basis points and the International Stock Fund ("ISF") outperformed the benchmark by 70 basis points. Chairman Roberts asked if the assets of the ISF have been deployed and invested. Mr. Franklin said the transition was done in August and it was fully funded by September, but CRPTF is still working on the currency overlay. Chairman Roberts asked if there are any results yet on the currency overlay. Mr. Franklin said CRPTF is still in contract negotiations. Mr. Franklin also reported that the Fixed Income Fund slightly underperformed the benchmark by 2 basis points, commercial mortgage outperformed the benchmark by 88 basis points and cash reserve outperformed the benchmark by 4 basis points. He said that real estate and private equity have quarterly benchmarks but their funds were up by 1.48% and 3.5% respectively.

Chairman Roberts asked if Mr. Franklin had any idea how the fund performed for December. Mr. Franklin said the books would close next week for December, but did want to announce that as of January 9 the CRPTF broke the $20 billion mark.

Real Estate Fund Review as of June 30, 2003

Mr. Weiss reviewed the quarterly performance report for the quarter ending June 30. He reported that the portfolio returned 1.5% gross, 1.2% net of fees and expenses. He also reported that Timberland, AEW Partners III and Walton Street II posted positive valuation adjustments and that Westport and New Boston Fund IV posted negative valuation adjustments. Mr. Roth asked whether Westport would be reporting the same return, had they not changed assumptions regarding discounted cash. Mr. Weiss said that is part of PCA's ongoing analysis but that he

thinks they would be in a worse position. He said that a lot of their valuation assumptions have changed due to recent transactions in the market place and it is not clear whether or not those transactions are really representative of the investments that they have made. Mr. Roth asked if they changed their cap rate. Mr. Weiss said they changed their cap, discount and growth rates. Mr. Martin asked what Mr. Weiss thought of these changes. Mr. Weiss said that in general cap rates have come down across the board in most property types and therefore it was not unreasonable for them to change their assumptions to reflect recent transactions. He then reported on long-term performance trends indicating that the fund's average annual return over the past three years was a gross return of 5.8% and a net return of 4.7%. The NCREIF property index posted 8.2% return for the same period. He said that as if June 30 there was $20.8 million remaining unfunded, primarily related to the Westport investment.

Mr. Weiss reported on the status of the repositioning of the portfolio and said that it remains over weighted toward value added and opportunistic investments, as well as investments in hotels and non-traditional real estate. He said asset management oversight of Goodwin Square is being transferred to AEW, as mentioned earlier by Treasurer Nappier. He reported that there is one remaining asset in the TimeSquare account and Cigna is in the process of selling that asset. He noted that PCA plans to closely monitor that sale. Mr. Weiss said PCA is in the process of reviewing the liquidation plan for Timberland. He said PCA is working with CRPTF looking at potential core commingled fund managers, as well as a core separate account manager and is currently looking at AEW for new mandate in that regard. He said PCA is also looking at various closed end funds, pursuing various strategies.

Chairman Roberts asked how Hilton's action of pulling their franchise in Hartford might impact the Goodwin. Mr. Weiss said that it could be positive for the Goodwin, but it is hard to tell and part of the impact will be what happens with the convention center and the success of efforts to attract other activities to downtown Hartford. Gary Draghi, Principal Investment Officer, said that in the short-term this was a positive for the Goodwin and that current reports from the Goodwin indicate it is booked solid. He further stated that over the longer term, the Goodwin's success will be reliant on presenting itself as a niche alternative to newer, larger hotels. Treasurer Nappier said she feels that it is not clear yet what impact the Hilton will have on the other hotels in Hartford and the reason she feels so is that the preferred owner of that hotel is Waterford and Waterford already has a commanding presence in this city and may corner the hotel market in this area. Mr. Roth asked Mr. Weiss if PCA, as the Treasury's consultant, has done an analysis as to whether it may be a good idea to see what that asset could be sold for and redeploy that money into a fund with a more diversified base instead of sitting with an asset that very well may lose value over the next couple of years. Mr. Weiss said PCA did review that thoroughly and their thought is that the first step to take was to have an independent party to advise on that asset. Treasurer Nappier noted that the Treasury policy is not to discuss pending transactions in a public meeting and added that the Treasury is in process of a hold/sell analysis. Mr. Parker wondered if the Treasury is being trapped into accommodating a business or security that is local and does not feel that the same accommodations would be made if this hotel were located in another state. Treasurer Nappier said there is heightened sensitivity because it is a local business, but the Treasury has also had issues with other properties outside the State; for example, CRPTF holds a 60% share of Union Station in Washington, D.C., where there is also heightened sensitivity based on political interest in that property and its air rights. Mr. Parker

made the point that this is a time to make a purely business decision and put aside politics and emotions. Mr. Roth agreed with Mr. Parker, but endorsed Treasurer Nappier's approach of conducting a strictly business hold/sell analysis. Ms. Barnett asked about the portfolio weighting in office properties and where that is anticipated to be going forward. Mr. Weiss said the portfolio will end up being much more diversified, particularly once commingled fund investments on the core side are introduced as well as a core separate account relationship.

Other Business

Status Report on Requests by IAC Members

Ms. LaMarr said that the best practices presentation will be given in 2 parts, the first part of which has been prepared for some time, addressing those specific issues that have come up in connection with contracts and relationships over the last few years. She said the second phase, which is the specific checklist of the contract terms that are desired, is being prepared by Principal Investment Officer David Scopelliti and Associate Counsel Patricia DeMaras. Ms. LaMarr reported that she will make a presentation at the February IAC meeting on the first phase.

Ms. Etienne said the report on the manager rankings is tentatively scheduled for the February agenda.

There being no further business, the meeting was adjourned at 1:10 P.M.

Respectfully submitted,

DENISE L. NAPPIER
SECRETARY