INVESTMENT ADVISORY COUNCIL
FRIDAY, MARCH 12, 2004

MEETING NO. 313

Members present:	Thomas Fiore, representing Marc S. Ryan James Larkin Denise L. Nappier, Treasurer Sharon Palmer Henry E. Parker Clarence (Dick) L. Roberts, Jr., Chairman Carol Thomas
Members absent:	Reginald Martin David Roth Rosalyn Schoonmaker
Others present:	Howard G. Rifkin, Deputy Treasurer Susan B. Sweeney, Chief Investment Officer Patricia DeMaras, Associate Counsel Gary Draghi, Principal Investment Officer Greg Franklin, Assistant Treasurer-Investments Guy Garcia, Principal Investment Officer Harold Johnson, Principal Investment Officer Bernard Kavaler, Director of Communication Donald Kirshbaum, Investment Officer-Policy Catherine E. LaMarr, General Counsel Meredith Miller, Assistant Treasurer-Policy Ronnie Rodriguez, Investment Officer David Scopelliti, Principal Investment Officer Jason Price, PFM Intern
Guests:	Cynthia Steer, CRA RogersCasey Raudline Etienne, CRA RogersCasey Juan Prieto, CRA RogersCasey Peter Storment, State Street Corp. Gerd Cross, State Street Corp. Vincent DeBaggis, State Street Corp. Maria Luce, State Street Corp. Harvey Kelly, Leumas Advisors Julie Naunchek, CSEA-Retiree Council #400 John Adler, Service Employees International Union Vonda Brunsting, Service Employees International Union Marc Weiss, Pension Consulting Alliance

Chairman Dick Roberts called the meeting to order at 9:05 A.M.

Chairman Roberts introduced and welcomed James Larkin, the newly appointed member of the IAC. He said that Mr. Larkin was a Marine officer, was with American Express International, has had an extensive career in business and finance, is treasurer of the Naval War College Foundation, and is involved in a number of other civic organizations.

Approval of Minutes

The Minutes of the February 11, 2004 Investment Advisory Council meeting were before the Council for discussion. There being no comments, **Carol Thomas moved to approve the minutes and Henry Parker seconded the motion. The minutes were unanimously approved**.

Opening Comments by the Treasurer

Treasurer Denise Nappier gave an update on actions taken since January when several Emerging Markets Debt ("EMD") managers were interviewed. She said that PIMCO, Citigroup, Ashmore and Bridgewater are the preferred vendors and pending successful contract negotiations, including fee negotiation, they will be managing the EMD program. Treasurer Nappier informed the group that AIG Healthcare Partners has been awarded a commitment of $40 million, again, subject to satisfactory negotiation and documentation. She said that for the replacement manager for Constitution Fund, better known as Crossroads, Fairview Capital has been selected as the preferred vendor and that this is subject to final due diligence, which will include a site visit and then successful negotiation of contract and fees for that mandate.

Treasurer Nappier said that State Street Performance Analytics Unit will be joining the meeting to make a presentation on the December 31, 2003 TUCS report, which gives the Treasury an indication of how CRPTF fund performance ranks relative to its peers. She said that their presentation would include how the statistics are put together to determine CRPTF's ranking.

Treasurer Nappier said that Rockwood Capital Real Estate Partners, a commingled value added real estate fund, will be making a presentation today. She said that this opportunity, if it goes well, would represent the first investment in real estate since the beginning of her administration and since the IAC's approval of the real estate fund guidelines in the Investment Policy Statement. She also said that this is a Connecticut based firm and it would be nice to reenter the real estate market with a Connecticut firm.

Treasurer Nappier reported that with regard to Corporate Governance, she spoke before the Securities and Exchange Commission ("SEC") at a hearing, by invitation only, to receive comments on their proposed rules that would provide shareholder with enhanced access to the proxy ballot for the purpose of nominating directors. She said that her hope is that the rules will be approved, that the Treasury supports those rules and that she gave comments on how to revise the rules to ensure that the shareholders have the ability to effectively participate in the nomination process.

Treasurer Nappier reported that there has already been one success in the 2004 proxy-voting season with American Electric Power ("AEP"). She said that her office filed a shareholder resolution regarding climate change and that based on subsequent conversations with AEP, the resolution was withdrawn. AEP agreed to begin to examine the actions being taken to address climate change and to mitigate the long-term risk associated with climate change and how it can

affect the company economically, which ultimately would effect the investment that CRPTF has in AEP.

Treasurer Nappier then reported on Walt Disney, indicating that the Treasury filed a resolution with Walt Disney regarding board independence. She said that subsequent to the filing a combination of actions that Walt Disney took, as well as follow-up discussions she had with George Mitchell (who is now the chair of Walt Disney) prompted her to withdraw the resolution. Treasurer Nappier went on to describe what has transpired within Walt Disney over the past couple of weeks. She also said that she spoke with the executive vice president of corporate relations and expressed that the company should now follow-up and provide shareholder with information regarding what it means to have separated the roles of Chair and CEO. She also indicated to the executive vice president that Walt Disney should review the board composition and that perhaps there is a need to establish a shareholder advisory committee that will provide input as the company moves forward with succession planning. She indicated that there is a need to stabilize the company in hopes of deterring any future attempts of a hostile takeover of Walt Disney. The Treasurer indicated that at this time, it is not clear whether or not Walt Disney will be able to improve its price performance, which is the reason for the Treasury's involvement with shareholder resolutions.

CRPTF Final Performance for January 2004

Susan Sweeney, Chief Investment Officer, reported on the performance for the CRPTF. She noted that for the month of January, CRPTF posted a return of 1.71%, which was 1 basis point behind the benchmark return of 1.72%. She said that the Mutual Equity Fund ("MEF") was ahead of its benchmark by 57 basis points with a return of 2.66% and International Stock Fund ("ISF") trailed its benchmark slightly with a return of 2.12%. Ms. Sweeney reported that Mutual Fixed Income Funds ("MFIF") returned 1.01%, which was 8 basis points ahead of its target. She said that private equity, which is in a typical pattern for January with very little activity, had a negative return of 0.03%. She said the good news is that there has been a sharp uptick in distributions from the Private Equity portfolio, with $335 million of cash received for the fiscal year to date. She expects that this pace will continue as the portfolio continues to mature, adding that CRPTF received another $80 million in cash and income distributions in February and March. She said that although real estate is a smaller portfolio, it is exhibiting a similar cash distribution pattern. Ms. Sweeney reported that the fiscal year to date performance as of January 31 is 13.45% for the total fund, with domestic equity posting a 19.7% return and the international stock portfolio returning 27.75%. She said the market value of the total fund as of January 31 is $20.2 billion, a net increase of $1.9 billion or 10.5% from the June 30, 2003 number. She said that most of the increase, $2.4 billion, was in MEF and ISF, partly because of performance, but about 60% of the increase in the ISF is attributable to the restructuring of that fund with the new managers brought on last summer. Ms. Sweeney said that MFIF dropped by over $900 million for the fiscal year to date but much of that was because of the funding of the ISF.

Ms. Sweeney reported that on an operating cash flow basis during the month of January, pension contributions of $46 million were offset by $70 million in liability payments for a net outflow of about $24 million. She said that for the fiscal year ending January 31 contributions of $150 million were offset by $635 million in liability payments for net outflow of $485 million. For one year ending January 31, Ms. Sweeney reported a net outflow of $873 million. Ms. Sweeney said that Greg Franklin, Assistant Treasurer-Investments, would cover cash flow in more detail later in the meeting.

Presentation and Discussion of TUCS Analysis as of December 31, 2003

Ms. Sweeney introduced Vincent DeBaggis, Gerd Cross, and Peter Storment from State Street Corporation. Mr. DeBaggis said that they are at the meeting to discuss performance and attribution reporting and that they will talk about TUCS, answer any questions, explain how that information is put together and help the Treasury use the information provided each quarter.

Mr. Storment gave an overview of TUCS noting that it is a cooperative effort among the major custodial organizations and that it is not just a State Street product. He said that of the fifteen custodians, the top 4 are State Street, Russell Mellon, BNY, and Northern Trust and that those 4 custodians comprise 80 to 85% of the observations. Mr. Storment also noted that the TUCS data provided to Wilshire by the fifteen custodians on a quarterly basis is from approximately 340 plans and almost 4,500 portfolios. He said that with a universe of this size, a plan sponsor's results could be compared to a broad universe, like public funds, or a more specific universe, like public funds greater than $1 billion or public funds with greater than 50% equity. Mr. Storment said that another advantage of TUCS is the consistent coding that is applied to the portfolios and plans, explaining that all fifteen custodians are responsible for the coding associated with their own clients and all of the custodians meet annually to discuss issues relating to TUCS, including methodology and standards. He said that once these standards are established all of the custodians adhere to them and that Wilshire is able to perform detailed analysis on each of the portfolios and plans to ensure consistency among the custodians.

Treasurer Nappier asked how stable the plans are within the TUCS study and whether or not they are in and out of the study. Mr. Storment responded that it is a stable group because if, for example, a plan left State Street most likely, that plan would go with one of the other custodial organizations that participate in TUCS and their history would go with the plan. Mr. Cross added that it is also very stable from the standpoint that there is enough time allowed for all the custodians to consistently submit the information each quarter.

Treasurer Nappier asked how many public pension funds of $1 billion or greater were included in the TUCS analysis. Mr. Storment said that there are 50+ plans with funds greater than $1 billion. Ms. Sweeney noted that the results are not dollar weighted. Mr. Storment confirmed that they are not dollar weighted and that a plan with $100 billion is weighted the same as a plan with $1 billion.

Mr. Storment said that the TUCS Master Trust Report has been designed to enable a plan sponsor to evaluate investment performance at the master trust and investment pool level, rather than at the individual portfolio level. He added that this report offers information on the relative success with which the plan sponsor has combined asset classes and managers to control the relationship between risk and return. He said Section I of the report focuses solely on CRPTF looking at total plan performance, the risk/return profile, attributions, asset allocations, asset class segment performance and equity and fixed income characteristics. He said that Section II focuses on performance and risk/return for the domestic and the international equity pools and Section III focuses on performance and risk/return for the domestic and international fixed income pools.

Mr. Storment said that the focus of the analysis in the TUCS report would be on segments rather than pools. He explained that the main reason for using segments rather than pools is that segment weights and returns are a more accurate representation of what is actually in the plan because it is possible to have multiple asset classes included in a single pool. He said that

another advantage of asset class segments is that there are fewer asset class pools observations for some of the asset classes.

Mr. Storment said that for the quarter ending December 31, 2003, CRPTF returned 8.40%, which trailed the median return of the TUCS Public Funds Greater than $1 Billion universe by 47 basis points, ranking 62. He said that the one-year and the two-year returns ending December 31, 2003 were lower, ranking 79 and 90 respectively. He said that the CRPTF return ranked 68 for the trailing three years, 43 for the trailing four years, 27 for the trailing five years, 35 for the trailing seven years and 58 for the trailing ten years. Mr. Storment noted that CRPTF underperformed the median for four out of the last five quarters, but only one of the last five years.

Treasurer Nappier questioned the accuracy of the performance figures, most specifically the 5-year performance figure. She said that the performance figure clearly did not add up to the performance figure by asset class. Mr. Storment said that there had been a problem with an earlier preliminary performance report, apologized for the mistake and explained how rankings are accomplished. Treasurer Nappier also questioned the weighted average return for the quarter and year to date, and noted that the private equity performance figure appears to drive this return more than it should given the fact that CRPTF has only 10 to 11% total assets in private equity. Mr. Storment said that it could be difficult to calculate a weighted average when looking at the ending weights at a given time, especially in a volatile market where asset classes are performing so differently. He said the basic assumption is that the weight was for the entire time period, when in reality, it just moved to that weight at the end of the time period. Treasurer Nappier stated that it is then a snapshot and Mr. Storment confirmed that it was indeed a snapshot.

Mr. Storment then moved on to talk about risk versus return of CRPTF and compare the volatility of CRPTF against other public funds. He said that this is an area where the diversification of CRPTF plays out a lot and makes a great story. He said that the plan had a total return of 8.97% and a risk value of 9.25% for ten years ending December 31, 2003. He said that the return rank for CRPTF was 58 and its risk ranking was 75, meaning that CRPTF was less volatile than 75% of the other plans.

Mr. Storment covered the performance of CRPTF's portfolio by asset class and compared it to the benchmark for each of the asset classes. He said that for the quarter ending December 31, 2003, CRPTF outperformed the total benchmark return by 10 basis points with a return of 8.40%. Ms. Sweeney asked Mr. Storment to comment on the pools versus the segments and why cash is different in the attribution analysis. Mr. Storment explained that the cash weight for the plan is 8.42% and the cash pool was 2.3 or 2.4% and that is the difference between the segments and the pools. The cash segment represents all the cash that is held in all the managers across the plans. Most of the cash equivalents were in the fixed income pool, where it would be expected to be held. Treasurer Nappier said that CRPTF does have a limit of how much cash a manager can hold. Mr. Franklin said that most of them are 10% on the fixed income side and that equities is 5%. Ms. Sweeney said that there had been a lot of TBA activity in the fixed income portfolio, which is that they will buy Treasury securities before they are actually issued and cash must be held for future payment. Mr. Storment said that in many ways the cash is a collateral vehicle for the TBAs. Chairman Roberts asked about the reallocation number. Mr. Storment explained that this is where some of the tricky methodology of this report comes in. He said that the 8.30% return, the benchmark total return, is not the same as the median return and the 8.30% is the return CRPTF would get if they had the median weight and the median return for all the asset classes. He explained that 8.40% is not the weighted average of CRPTF's plan return because

TUCS uses the actual plan return there. Mr. Storment said that this is a pretty good example of the question about weighted average calculation because having the actual rate of return of 8.40% and comparing that with a weighted average that is based on beginning of quarter rates. Mr. Storment went on to explain that the reallocation number is basically the difference between that simple weighted average and what the actual rate of return was for that portfolio. Mr. Cross said it goes back to weight shifting during the quarter and the rate of return is much closer when it is done by month, but even if there is reallocation intra month, it creates noise in the calculation. Peter Storment noted that even on the universe side there was some weight shift during the quarter so this analysis shows the beginning of quarter weights for the medians of the universe.

Mr. Larkin asked about the real estate portfolio allocation and its return versus the benchmark. Mr. Storment said that the portfolio allocation and return is basically the return of the real estate segment within CRPTF's plan. Mr. Larkin said he understands that but that it does not track the benchmark very well. Deputy Treasurer Howard Rifkin explained that CRPTF is in transition in the real estate portfolio and that Treasurer Nappier has just begun to put together a real estate portfolio and that what CRPTF has to this point is whatever was there at the end of the last administration so there is no real correlation between what is going on in the universe and what is going on in CRPTF's portfolio. Treasurer Nappier added that under the previous administration, there was no confidence in real estate and a lot of the holdings were liquidated and what was left was what they could not liquidate at that time. She said that her administration has not yet made any real estate investments and is just beginning to re-enter that market, with the first real estate investment presentation scheduled for later in the meeting. She said there is close to $800 million to invest in real estate to meet the target allocation.

Mr. Storment pointed out some of the highlights for the CRPTF fund, indicating that the domestic equity returns were well above median for the trailing three years, four years and five years. He said that the international equity returns were also very good for longer time periods and was even the top performing observation in TUCS for the trailing two years, three years and five years. He also pointed out that domestic fixed income returns were also strong for the quarter, ranking above median at 36, although for the trailing years, rankings were not quite as high. He said real estate returns ranked below the median for current periods and also for longer time periods. He said the private equity return was the median for the current quarter, although it was below median for the trailing year and right around the median for longer time periods.

Chairman Roberts said he felt the presentation had been very helpful and thanked them for their time.

Treasurer Nappier acknowledged that State Street made some alterations to their methodology and going forward CRPTF will be receiving presentations like the one distributed today. She asked if the IAC would accept this change by voting on it and feels that it would be helpful to do so. Chairman Roberts asked what method was being used. Mr. Franklin explained that one problem that staff had when reviewing the State Street analysis is that CRPTF has seven investment "pools," which, as Mr. Storment indicated earlier, can contain multiple asset classes. He said that, for example CRPTF contains the Mutual Equity Fund, which is a pool that does not have an exact equivalent in TUCS. Consequently, it is difficult to get a sense of how CRPTF's pools rank versus the total TUCS. Mr. Franklin said that TUCS delivers an accurate representation for the segment total returns that the plan sponsors submit and that the standard deviation being calculated for the risk return is accurate. Unfortunately, he said the difficulty arises because CRPTF does not operate in the segment world, but in the pool world. Mr.

Franklin said that TUCS does have composites for Equity, Fixed Income and International Equities, but that there is no pool for private equity. He also pointed out that the other difficulty with the pools, as Mr. Storment mentioned earlier, is that they are not subject to the segment criteria that TUCS incorporates to ensure segments are segments and it is an accurate comparison. Mr. Franklin noted that some plans could include convertibles, real estate, etc. in an equity return or a fixed return and one equity pool could be very different from another equity pool.

Treasurer Nappier said that the TUCS report is more so for presentation purposes than to be used for planning purposes. She said that CRPTF conducts an asset allocation liability study and changes may be made based on the result of that study, but not based on how CRPTF ranks in TUCS. Mr. Storment said the importance of the plan is how it is doing relative to the policy and the ranking does not mean the plan is right or wrong, it just quantifies the plans within a peer group. Ms. Sweeney said that to add to what the Treasurer said about the liability structure, that CRPTF might have a liability structure that varies greatly from many of the peers in this group. Mr. Cross said it is difficult to know which one of those plans sponsors has the same structure as CRPTF because it is a blind universe. Treasurer Nappier asked if State Street could explain the methodology used before. Mr. Storment said that before State Street was providing CRPTF with "everything" and that nothing has changed in the way the actual rankings are done, but that what has changed is the approach in providing information. He said that the approach was more quantity oriented and now the focus is on quality, consistency and simplicity. Mr. DeBaggis said that he does not want the Treasury to become concerned that the size of the package may be small and that the intent is to make the product more useful and streamlined and to present what State Street believes is salient for the Treasury to review. He said that all the additional information is available if the Treasury does want it.

Chairman Roberts made a motion that the IAC endorse the change in methodology of the TUCS report and Mr. Parker seconded the motion. The endorsement was unanimously approved.

<u>Private Equity Consultant Presentations - Background</u>

Ms. Sweeney informed the IAC that the next agenda item would be the interviews for the private equity consultant relationship and that each IAC member was presented with a brief summary of the screening process. She explained that the RFP was issued for the private equity consultant to replace INVESCO Private Capital, whose contract expires June 30, 2004. She said that there were twelve respondents to the RFP and that the screening process narrowed the list of respondents to be interviewed to six and one of those six withdrew. Ms. Sweeney said that the five respondents interviewed with the Treasurer, Chairman Roberts and staff. Ms. Sweeney went on to explain that there were five facets to the RFP and that different firms responded to different elements of the requested services. She said that Franklin Park and Pacific Corporate Group are interviewing for all the services as CRPTF's main private equity consultant. She said that Alignment Capital and KPMG have specific expertise that the Treasury may want to call upon for special projects.

Treasurer Nappier noted that INVESCO Private Capital did respond to the RFP, but did not make it as a finalist. She said that if any IAC member has an issue with this, they should let her know. Tom Fiore asked if there was a reason in particular that INVESCO was not being considered. Chairman Roberts offered an explanation including questions about the firm's commitment to the consultant business, combined with the scope and quality of its work when

compared to its competitor. Ms. Sweeney added that INVESCO is aware that they have not been invited to interview as a finalist and INVESCO has pledged full support and cooperation for the transition.

Catherine LaMarr, General Counsel, commented that there is also a special assignment that INVESCO is managing for the Treasury (the liquidation of the Triumph Capital assets) and this may extend beyond the end of their contract. Therefore, INVESCO's contract for that particular assignment may need to be extended unless CRPTF transitions that project as well. Treasurer Nappier said that her preference is to have INVESCO complete that assignment.

Resolution for Clare Barnett

Chairman Roberts announced the resignation of Clare Barnett, who served on the IAC for eighteen years. He then read the resolution signed by Denise L. Nappier, Treasurer and Clarence L. Roberts, Jr., Chairman. The resolution read as follows:

WHEREAS, the protection and growth of the assets of the Connecticut Retirement Plans and Trust Funds; is essential to the future financial security of government workers and retirees of our state, as well as to the economic strength of the State of Connecticut;

WHEREAS, the Investment Advisory Council and the Office of the State Treasurer wish to recognize the contributions of Clare H. Barnett as a member of the Investment Advisory Council from September of 1986 to January of 2004, having been nominated to serve nine successive terms in this capacity by the Connecticut Education Association;

WHEREAS, Clare Barnett's conscientiousness and commitment to serve the people of Connecticut have made her an invaluable member of said Council, leaving a legacy of selflessness and dedication;

WHEREAS, the work of the Council benefited significantly from the diligence and insight that she exhibited in meeting the obligations of Council membership;

WHEREAS, the well being of her constituents, educators, government workers and retirees, were foremost in her decision-making process as investment policies were evaluated;

WHEREAS, her sincerity, integrity, and camaraderie will be greatly missed by her colleagues;

NOW THEREFORE BE IT

RESOLVED, that the Investment Advisory Council and the Office of the Treasurer, for themselves and on behalf of the people of Connecticut, express gratitude and appreciation and acknowledge the substantial contributions of Clare Barnett during her service as a member of the Council.

Chairman Roberts made a motion to accept the resolution for Clare Barnett and Ms. Thomas seconded the motion. The motion was passed unanimously.

Treasurer Nappier announced that there would be reception planned for Ms. Barnett at which time the resolution adopted today will be presented. She said that the Treasury will be in touch

with everyone to determine a convenient time so that there will be full participation at the reception.

Presentation by KPMG LLP

KPMG made a presentation to the IAC regarding their ability to meet CRPTF's private equity program needs. KPMG was represented by David Larsen, Partner; Joe Malvasio, Partner; and Allen Waldrop, Director. Their presentation included an overview of KPMG LLP, the firm's transaction services practice, the firm's private equity experience and the firm's institutional investor services with emphasis on due diligence and special complex projects.

Mr. Larkin remarked that KPMG is a major public accounting and consulting firm. Mr. Larkin asked if KPMG does either auditing or consulting for any of their private equity clients and the possibility of conflicts of interest. Mr. Larsen explained in some detail how KPMG avoids conflict of interest situations and has a policy of full disclosure to all parties.

Mr. Parker asked KPMG to talk about diversity of its staff, social responsibility and corporate citizenship. Mr. Larsen said that they are very involved in the Ph.D. He said the Ph.D. Project is trying to engage more students from diverse backgrounds with the premise that if there is a diverse professorship, it will encourage more diversity in business. Mr. Waldrop said that in addition to the Ph.D. Project, there are KPMG professorships, and the firm is involved with the Beta Alpha Psi Awards Program, students in free enterprise, and provide minority accounting and information systems doctoral scholarships. He said that as far as community involvement KPMG is involved with charitable organizations at both local and national levels.

Mr. Parker asked for a breakdown of their staff diversity. Treasurer Nappier said that the last page of the report distributed by her has the staff diversity breakdown. Mr. Malvasio said that KPMG is an Equal Opportunity Employer and is looking to have as diverse a workforce as possible. Mr. Parker asked how many African-Americans KPMG has at the partnership level. Mr. Malvasio said he did not have that number with him but would provide the information after the meeting.

Mr. Fiore asked if KPMG would like to comment on the reports in the newspapers lately about their firm. Mr. Larsen said that the most recent articles refer to the Department of Justice investigation of some former individuals within the firm related to the design and marketing of certain individual tax strategies, that KPMG no longer offers. He said KPMG is not under investigation and is cooperating fully with the investigation.

Presentation by Franklin Park

Franklin Park made a presentation to the IAC regarding their ability to meet CRPTF's private equity consultant needs. Franklin Park was represented by Bradley Atkins, CEO; Karl Hartman, COO; James McGovern, Managing Director; and Michael Bacine, Managing Director. Their presentation included an overview of Franklin Park, the firm's team composition and experience, the firm's investment evaluation process and the firm's monitoring process.

Mr. Larkin asked about the analytical training and education background of the principals. Mr. Hartman responded that he is a lawyer, and has led the negotiations of over 85 fund investments and is a level 3 charter candidate for the CFA. Mr. Atkins said that he attended undergraduate and graduate school at American University, is a CFA Charter holder, was in corporate finance

at Fleet Bank, in private equity at Hamilton Lane with responsibilities for leading the co-investment and research efforts. Mr. McGovern said that he has a BS in finance from Boston College, is a Charter CFA, spent four years at Hamilton Lane in investment analysis due diligence, and was at Ernst and Young for five years. Mr. Bacine said that he received a dual degree in finance and international business from Penn State, spent eight years at Hamilton Lane primarily performing due diligence on private equity funds.

Treasurer Nappier asked if Franklin Park's decision to be an advisory firm only is a long-term business decision or if it is a reflection of their startup profile. Mr. Atkins responded that the decision to provide advisory services only is a long-term decision and means that they will not raise their own proprietary fund-of-funds.

Mr. Fiore asked if they formed their firm because Hamilton Lane got out of the business. Mr. Atkins said that Hamilton Lane is still in business and provide both advisory and asset management services. He further explained that Franklin Park identified a trend in the market whereby traditional advisors were evolving towards asset management rather than consulting. He stated that institutions are looking for advisors who are not also in the asset management business. Therefore, Franklin Park formed to address that need.

Treasurer Nappier asked about Franklin Park's time allocation and if they are currently involved in other searches. Mr. Atkins said that Franklin Park currently has one client and that their long-term vision is to have around eight clients, but that is very long term. He said that over the next two years they would like to have one or two other clients in addition to Connecticut and build their staff accordingly. He said that it is very important to them to have a large number of professionals to client ratio. Mr. Bacine added that Franklin Park is selective and does not respond to all RFPs in the market. Treasurer Nappier asked how much time they are currently spending on marketing. Mr. Atkins said approximately 10% of their time is being spent on marketing and if they win a mandate from Connecticut, there is one other prospective RFP to which Franklin Park expects to respond.

Mr. Rifkin asked Franklin Park to talk a little about their online data capabilities. Mr. Bacine explained that all documents and data are available to their clients online. He said that it could be a paperless world and that everything about the private equity portfolio could be viewed online Mr. Rifkin asked if there is a member of the staff dedicated to maintaining the site. Mr. Atkins said everyone is responsible for maintaining the site.

Mr. Parker commented that he likes to see young professionals in the industry and that he enjoyed their presentation.

Deputy Treasurer Rifkin asked Franklin Park why they feel that Connecticut should take a chance on their firm given the number of clients they have and CRPTF's mandate being a substantial percentage of their time allocation. Mr. Atkins said they do not view it as being a risk but they do understand the Treasury's point of view. He said that the point they tried to make during the presentation is that they have managed larger portfolios previously and they are very excited about the prospect of working with Connecticut. Mr. McGovern said that another way to look at it is that Connecticut is going to be extremely important to Franklin Park and Connecticut will receive a lot of attention, that they are hungry for the business and will work very hard to exceed Connecticut's expectations.

Presentation by Pacific Corporate Group LLC

Pacific Corporate Group LLC ("PCG") made a presentation to the IAC regarding their ability to meet CRPTF's private equity consultant needs. PCG was represented by Scott Tuck, President; Tara Blackburn, Managing Director; and Michael Russell, Managing Director. Their presentation included an overview of PCG and the firm's approach to private equity management including research and analytics, portfolio diagnostics, investment management and portfolio administration.

Chairman Roberts remarked about two clients that were listed as new clients, Canyon-Johnson and Solera Capital, noting that they are very different and asked PCG if they would comment on how they found the companies and how they invested with them. Mr. Russell responded that with some clients, they apply a private equity model to real estate related investments and Canyon-Johnson is a group that operates in many urban markets and focuses on the economic opportunity for underdeveloped urban regions. He said that fundamentally PCG's analysis was based on the economic upside as well as the risk management practices that were in place. Ms. Blackburn responded regarding Solera, noting that it is a woman owned and operated group and said that the founder, Molly Ashby, approached PCG as an emerging manager. She said that PCG liked the concept, the level of principal investment experience through Ms. Ashby's prior career, the team Ms. Ashby put together and the marketing material presented to them. Ms. Blackburn said PCG negotiated with Ms. Ashby in terms of what she was creating and tried to bring it to a level where some PCG clients would be interested.

Ms. Thomas asked why PCG gave conflicting advice to New York City Pension Systems and Ohio Public Employees' Retirement System with respect to privatization. Ms. Blackburn explained that PCG was consistent in the advice they were giving and that it was a difference in the wording and the context in which the clients were reading the advice. She said she believes that the advice was interpreted slightly different by each client. Ms. Thomas asked how it can be consistent to pursue the approach that what will not hurt one group's portfolio might hurt another group's portfolio. Ms. Blackburn said that what PCG was helping these two clients to understand is that if they took the approach of investing with managers that are not actively privatizing publicly held companies, they may miss investment opportunities. She said that while Ohio was very focused on opportunities they may miss, New York City was extremely focused on the fact that they were not going to invest in managers who would privatize publicly held companies.

Chairman Roberts asked if PCG would like to comment on their diversity. Mr. Tuck said that PCG's focus on technical skills, corporate finance, and quality and quantitative skills has shaped PCG. He said he feels reasonable progress has been made from the diversity standpoint in so far as almost 48% of the firm is female. His judgment is that more progress could be made with diversity, especially given their location in Southern California with the Latino, Asian and African-American population. Mr. Tuck said that of their last five hires, two were female Asians, one was female African-American, one was male African-American and one was a Naval Academy graduate with high technical skills. He said that his mentor in this business was Warren Shaw, who was the first African-American male to lead a large $35 billion investment firm. Mr. Tuck said every firm with which he has ever been involved, he brought to the Toigo Foundation. He said PCG recruits at the undergraduate level from the California school system and is very encouraged by the quality of minority applicants and PCG has the ability to increase their diversity and he will commit to that.

Presentation by Alignment Capital Group, LLC

Alignment Capital Group LLC ("ACG") made a presentation to the IAC regarding their ability to meet CRPTF's private equity program needs. ACG was represented by Austin Long and Craig Nickels. Their presentation included an overview of ACG and the firm's approach to portfolio management and the firm's investment management tools and techniques.

Roll Call of Reactions for Finalists for Private Equity Consultants

Chairman Roberts reiterated that these presentations were not for identical mandates. He said that Franklin Park and PCG are for the same mandate, but KPMG and ACG are very specific to certain parts of the five-point mandate. Chairman Roberts asked for comments from the IAC members.

Ms. Thomas said she found Franklin Park very impressive and would be very comfortable with them. She said she strongly suspects that PCG's advice was more political and less objective than she would be comfortable with on the one issue she questioned. She said the other two firms seemed very capable and she would be fine with them for the specific mandates.

Mr. Parker said that he was not sure which one he would select for specialized programs. He said he does give Franklin Park the nod because he thinks they are competent and, as they say, hungry. He feels that competent young people who have been in the industry and have mastered their skills need an opportunity to go forward. Mr. Parker said that Connecticut is a very prestigious account for any advisory group and he thinks Franklin Park will work very hard for Connecticut. He said that they had a well thought out plan relative to their growth and the right attitude about social responsibility.

Mr. Fiore said that he felt the four firms seemed relatively fine but was a little disappointed with KPMG. He said that he felt that when they answered his question about the recent press, they were reading a prepared statement. Mr. Fiore said he felt conflicted about Franklin Park because the private equity portfolio is a complicated portfolio that has had a lot of problems and he does not know if they can handle all those issues. He said that he would be comfortable with any of the three firms even if it is Franklin Park.

Sharon Palmer said that she really liked Franklin Park. She said they were bright and she feels that they would do a wonderful job. She said that she did not like KPMG at all and that either of the other two firms would be fine for the special projects.

Mr. Larkin said that he was not impressed with KPMG because of the great potential for conflict of interest. He said that he was incredibly impressed with Franklin Park, that they are enthusiastic and insightful and feels that Connecticut would receive a great deal of attention from them. Mr. Larkin said his second choice would be PCG.

Chairman Roberts said that he had the opportunity to spend about one and one half hours with each of these groups and that it is hard for a firm to do justice with a twenty minute presentation. He said that he was very impressed with the Franklin Park group and that they have the experience, the maturity and the education. He also said that being hungry is a great attribute. Chairman Roberts said that ACG is a specialized group and could be used for special projects and that KPMG would do very well for forensic accounting projects. He said that PCG has a huge number of clients and he does not feel Connecticut would receive adequate attention.

Presentation by and Consideration of Rockwood Capital Real Estate Partners V, L.P.

Gary Draghi, Principal Investment Officer, said that Pension Consulting Alliance ("PCA") had performed the due diligence on Rockwood Capital Real Estate Partners V, L.P. ("Rockwood V" or "Fund V") and introduced Marc Weiss from Pension Consulting Alliance to explain what PCA did and their opinion of Rockwood V and the General Partner ("Rockwood").

Mr. Weiss explained the due diligence process that PCA completed on Rockwood V and said that PCA is very confident in the General Partner's ability to execute its strategies and that PCA has recommended Rockwood's Fund III to other clients. He said that Rockwood has also offered to give Connecticut a seat on the Fund V advisory board, which he feels would be a great vantage point to further good governance. Mr. Larkin raised a question about Rockwood's investment in the fund being only $2 million and said that he would address the issue with Rockwood at the appropriate time during their presentation. Ms. LaMarr asked what the industry standard for investment is. Mr. Weiss said industry standard is 1% of committed capital. Ms. LaMarr asked why CRPTF should accept less than the standard. Mr. Weiss said that CRPTF is entering into this fund very late in the process and, in fact, Rockwood kept the fund open to allow the State of Connecticut an investment opportunity. Ms. LaMarr inquired if Connecticut would be the largest investor. Mr. Weiss said Connecticut would be one of the larger investors, in the top two or three, but that there are some investors significantly larger.

Mr. Parker asked if Connecticut would know who Rockwood's operating partners are for Fund V. Mr. Weiss said that Rockwood identified the markets in which they would like to be and then they determined who in these markets is active for the types of investment they want to make. He explained that Rockwood has identified local operators who have a presence in those markets and have aligned themselves with strategic partners in the property types and the markets that they are considering. Mr. Weiss said those operators could be local developers. Mr. Parker said that what he wants to know is if they have identified the local operating partner and if so will Rockwood reveal that to the IAC. Mr. Weiss said that they have and that Rockwood is prepared to talk about that if the IAC would like them to do so. Mr. Parker then asked the identity of the two Connecticut hotels mentioned in the report. Mr. Weiss identified those properties as the Danbury Sheraton and the Stamford Westin and mentioned that those two hotels are part of a broader portfolio that was acquired. Mr. Parker asked if it is fair to say that this is a rush to get into real estate and said that the reason he asks this is because there is not much time and the IAC will have to waive their 45-day comment period to participate in the fund. Mr. Weiss said he does not see it as a rush at all and that PCA has recommended Rockwood to their clients before and, in fact, other PCA clients would have participated in this fund if it had not been for allocation issues. Mr. Parker asked if the Treasury has used a private investment firm to invest in real estate in the past. Mr. Draghi said that the model this group uses is a similar model as used by the opportunistic funds in which CRPTF has invested, in that it is modeled after the structure used by the private equity managers. Mr. Parker asked if it was correct that CRPTF has more control over the properties which they currently hold than they would have in the private investment companies. Mr. Weiss said that is correct. Mr. Parker then asked if CRPTF might be more likely to get into problems with real estate investments and may need some latitude so that the lawyers do not end up fighting with everyone to make certain that the Treasury gets a fair deal. He went on to say that once the Treasury appropriates the money then Rockwood will have drawdown privileges and he said he is trying to determine how the Treasury will protect these funds because they have had to go to court to get their money back from some firms who did not do what they were supposed to and now the Treasury is considering an investment with a firm that is not investing the industry standard of 1%. Treasurer Nappier said that the Treasury went

through a process over the past year to put the house of the real estate fund in order, a structure review that culminated with some guidelines by which this firm's fund offering was evaluated. She said that, as the IAC will recall, a responsible contractor policy was incorporated into the real estate guidelines and that during contract negotiations, any additional preferences that the Treasury may have will be negotiated. She said that for the most part the real estate guidelines really do speak to not only the Treasury's preferences but also whatever flexibility can be attained to ensure that CRPTF can monitor a fund in the best interest of the pension fund. She said that what is not available here today is the end product, which will be flexible enough for the Treasury and if it is not the contract negotiation phase will be completed unsuccessfully. Treasurer Nappier indicated that the Treasury will feel comfortable with their ability to supervise to the extent that it is necessary to ensure the long-term integrity and performance of this particular fund as is the case with all funds.

Mr. Parker commented that he found the term "legitimate minorities" offensive in the affirmative action part of the report. He said he thinks this is representative of the group of individuals in our society in the past who were not going to hire minorities under any circumstances and were looking for reasons why they did not have affirmative action programs. He said that Rockwood's report indicates that they do not have an affirmative action program. Mr. Parker asked then, if they have no affirmative action program, how they will diversify their work staff. He said that when Rockwood uses the phrase that they would hire qualified minorities, that indicates to him that they will use the excuse that they could not find any qualified minorities for the positions. Chairman Roberts said he understands Mr. Parker's point, but that is more appropriate to ask Rockwood directly. Chairman Roberts said that the consultant should have done this work.

Mr. Fiore said that the report indicates that for distributions, Rockwood takes care of themselves first, getting a 9% interest rate and then receiving the principal back. He asked if that is standard practice. Mr. Weiss said that the 9% goes to all investors, not just to the general partner. He said that the profits are split, 85/15. He said that there is a provision in the document, which is beneficial to investors, to set aside a portion of the distributions that they receive as general partner into escrow pending the resolution of the fund so that in the case that there is a diminished fund performance, there is cash to be clawed back.

Mr. Fiore then referred to page 10 of the PCA report that reads, "The Fund is organized as a Delaware limited partnership. The Fund will bear organizational and offering expenses (but not bear the fees for placement agents) …" Mr. Fiore asked what this means and why it is in the report. Mr. Weiss said that is positive in the sense that some organizations use placement agents to help them raise capital and then bill those fees as fund expenses. If Rockwood were to incur placement agent fees, those fees would be borne by the general partner and not by the investors in the fund.

Mr. Parker asked if the person who will have a seat on Rockwood's advisory board is appointed by the Treasurer. Mr. Draghi said that the Treasurer would designate the individual. Mr. Parker asked if that would be part of the contract to which Mr. Draghi responded that it would. Mr. Parker asked Mr. Weiss if PCA would be advising the Treasury in all of CRPTF's real estate investments to which Mr. Weiss responded that they would.

Presentation by Rockwood Capital Corporation Fund V

Rockwood Capital Corporation ("Rockwood") made a presentation to the IAC regarding their real estate fund. Rockwood was represented by Ed Kavounas, President; Walter Schmidt, Executive Vice President; Peter Falco, Executive Vice President; and Jennifer Levy, Vice President. Their presentation included an overview of Rockwood V, Fund V investors, highlights of Funds I, II, III, and IV, and Fund V investment strategies, initial investments and structure.

Chairman Roberts asked if the statements "legitimate minority enterprises" and "actively solicit qualified minorities" are direct quotes from the Connecticut Human Right Organization regulations, to which Mr. Kavounas responded that they are. Mr. Parker articulated that those are offensive terms and that the source does not matter and that the reason it is offensive is because the same terms are not used when referring to a majority. Mr. Kavounas said what Rockwood is trying to indicate is that they will attempt to ensure compliance with the regulations and that they are affirmatively active in attempting to diversify the firm as much as possible. Mr. Parker inquired how Rockwood diversifies their workforce if they do not employ an affirmative action plan, as indicated on the form they filled out. Mr. Kavounas explained that Rockwood has been hiring the best possible individuals from as broad a range as possible that they can, but that they have not had as active an approach toward diversity as they will try to have in the future. Mr. Parker said that he is more interested in what Rockwood plans to do for the future than in what they have done in the past.

Mr. Larkin commented on the success of Rockwood, even through some very troubling times, and that he feels Rockwood appears to be a good investment. He went on to say that he would have a difficult time recommending the investment to the Treasurer if the principals of Rockwood do not invest 1% of the overall target and feels that this 1% investment is essential. Mr. Kavounas said that Rockwood has three open funds at this time and they have invested $2 million into each fund and explained their reasons for not having more invested in Rockwood V. Mr. Larkin said that the internal matter between senior and junior partners has nothing to do with the consideration being made by the State of Connecticut.

Ms. Thomas asked what the rate of return was on the third fund. Mr. Kavounas said it is in the 13% range at this point. Ms. Thomas asked about the responsible contract policy and if Rockwood, when making investments with local partners, considers the aspect of loyalty of that partner to their employees. Mr. Kavounas said that when investing with local partners, one of the most important issues for Rockwood is how that partner responds to their employees and whether they have an organization with which Rockwood is comfortable. He said that Rockwood does not own 100% of the projects in which they invest, but does intend to encourage the responsible contactor agreement.

Ms. LaMarr followed-up on Mr. Kavounas response to Mr. Larkin's question and asked if the senior partners would consider a loan arrangement to the junior partners in order to meet the investment obligation and increase the contribution of Rockwood V to 1%. Mr. Kavounas said they could consider this and that Rockwood has reviewed the issue carefully and said that if the 1% investment is a condition that the Treasury would like to impose on Rockwood, they will take it seriously and will respond to the Treasury very quickly.

Mr. Parker asked if Rockwood would comment on the resignation of John Taylor, specifically who would take on his responsibilities and how that would impact their company. Mr. Kavounas said that prior to Mr. Taylor's retirement, he oversaw special projects, and managed some west

coast projects. Those functions have been assumed by Don Clark, who is in charge of west coast asset management. He said there is no impact except a heavier workload on Mr. Clark and his team, which has been easily handled.

Mr. Fiore referred to page 19 of the presentation and asked for an explanation of the exhibit because he reads it that real estate is in trouble and if that is the case, why should CRPTF be investing in real estate. Mr. Kavounas explained the dynamics of space demand, capital flow and capital value.

Roll Call of Reactions of Rockwood V

Mr. Larkin said that his opinion is that Rockwood is a very good real estate investment and his position is that Rockwood's partners should make a 1% investment in the fund.

Ms. Palmer said that she thinks Rockwood is a solid group with a good track record through some very difficult times in the real estate market. She said she would be more comfortable if Rockwood would invest more of their money, hopefully 1%, but does not think it should be a deal breaker.

Mr. Fiore said that he was completely comfortable with their presentation and it would be great if they would increase their investment to 1%, but that either way he is comfortable going forward with them.

Mr. Parker said that his view is that the 1% investment is important. He also said that he feels when real estate and private investment are combined, there are two problems together but he thinks the amount of money being considered is small compared to what is already invested in the private equity area. Mr. Parker said that if the demand that Rockwood invest the 1% is made, the Treasury has to be prepared to lose the opportunity. He also said that he is bothered by the short period of time that the Treasury has to determine whether or not they will make the investment.

Ms. Thomas said that her view is the same as that of Ms. Palmer.

Chairman Roberts said that he is comfortable with the investment and he feels that the issue of the 1% has been addressed. He said that Rockwood is closing on this fund on April 15, which is less than 45 days from now and if the Treasurer would like to move forward, the IAC will need to waive the 45 day review period. Mr. Fiore does not support the 45-day waiver.

Treasurer Nappier explained that the purpose of the 45-day comment period was first, to ensure that the IAC had an opportunity to review all the Treasurer's investment recommendations prior to implementation, and second, to give the IAC the opportunity, if necessary, to proceed to the next level of notifying the Governor with any concerns with the recommendation. She said the 45-day comment period was not intended to impede moving forward if the IAC felt comfortable to move forward with an investment. Mr. Fiore said that he appreciates the very qualified candidates that the Treasurer's office brings to the IAC and thinks that it is a compliment to the Treasurer's office and the integrity that has been reestablished after the scandal of the former administration. He said that he would still prefer to see the 45-day comment period because he felt that if that had been in practice five years ago, maybe some of the problems with private equity and real estate would not have occurred. Treasurer Nappier reiterated that the 45 days is there in the event that the IAC is not comfortable with an investment proposal. Ms. Thomas said

that she does not think that practice would have made any difference during the last administration because the IAC was not being informed of anything and she finds that she is comfortable waiving the 45-day comment period because the IAC is informed and feels there is a legitimate reason to move forward.

Ms. Thomas made a motion, Ms. Palmer seconded, that the IAC waive the 45-day comment period. Six IAC members voted in favor of the waiver. One member opposed the waiver. Chairman Roberts said the waiver was passed.

Chairman Roberts said that he had neglected to ask for a 45-day waiver on the private equity consultant and asked if it is necessary for that. Ms. Sweeney pointed out that the current contract expires at the end of June. Treasurer Nappier said that because we do not control the entire process, and that it must go to the Office of the Attorney General ("AG") along with a lot of other contracts this calendar year, she would like the additional time to work on the contract. She said the AG is not assigning any additional staff to the process and it could take them two or three months. Chairman Roberts said that he would like to move forward with the 45-day waiver for the private equity consultant.

Mr. Parker made a motion, Ms. Palmer seconded, that the IAC waive the 45-day comment period for the private equity consultant. The motion passed unanimously.

Real Estate Fund Review as of September 30, 2003

Mr. Weiss reviewed the quarterly performance report for the quarter ending September 30. He said that the portfolio as of September 30 had a value $444.5 million, relatively unchanged from the prior quarter. He said that no new commitments were made and $3.5 million of existing commitments were funded to Westport Senior Living Investment Fund. Mr. Weiss said that the Real Estate Fund ("REF") posted a gross return of 1.4%, 1% net, which was less than what was posted for the NCREIF Index of 2%. He said for the trailing 1, 3 and 5 year periods the portfolio underperformed the NCREIF Index for many of the same reasons that have previously been noted such as overweighting to low cash flowing investments and an overweight to non traditional property types.

Mr. Weiss reported that Timberland A, Walton Street II, New Boston IV and AEW Partners III exceeded the benchmark with net total returns of 3.6%, 3%, 2.9% and 2.5%, respectively. He reported that Goodwin Square and AEW Separate Account were below the benchmark but did produce positive net returns of 1.6% and 1.5%, respectively. He said that Westport Senior Living Investment Fund produced a negative return of 2.1% primarily due to some reorganization within some of the assets of that fund and some negative unrealized appreciation due to some valuation adjustments.

Mr. Weiss said that over the trailing one year period, favorable investment performance has been generated by Apollo III and New Boston IV; over the trailing three year period, New Boston IV and Walton Street II produced above benchmark returns; and over the trailing five year period, the negative performance was driven by the TimeSquare Separate Account, which delivered a negative 9.3% return.

Mr. Weiss reported on the status of the repositioning of the portfolio and said that it remains underweighted in core investments and, in terms of property sector, remained underweighted in apartment and industrial. He said that the fund is overweighted in opportunistic investments and,

in terms of property sector is overweighted in hotel. He said the only outstanding commitment at this time is to the Westport Senior Living Investment Fund where there is approximately $8 million to be funded.

Commercial Mortgage Fund Review as of December 31, 2003

Mr. Draghi reported on the Commercial Mortgage Fund indicating that the value of the Fund as of December 31 was $38.2 million. He said that the decrease in holdings was due to payoffs of the Bidermann Building and North Haven Crossing loans. Mr. Draghi informed the IAC that the Fund outperformed its benchmark, the Lehman Aggregate, by 227 basis points for the quarter, primarily due to the prepayment penalty of $800,000 that CRPTF received on the North Haven Crossing property. He said that the trailing ten-year performance numbers exceeded the benchmark by almost 241 basis points.

Combined Investment Funds Review as of December 31, 2003

Raudline Etienne of CRA RogersCasey reported on the overall investment results for the CRPTF as of December 31, 2003. Ms. Etienne reported that the year ended with strong capital market performance, for the first time since 1996, posting positive returns in all asset classes. She said that in all the major indices there were double-digit returns for both the quarter and the year. She said that another important factor for the quarter and the year was the depreciation of the dollar, which added significant returns for the fund's international investments. Ms. Etienne told the IAC that the ISF transition was completed in August so the fourth quarter was the first full quarter with the new program. She added that international exposure was quite beneficial particularly because it was unhedged. She reported that the emerging market equity return was up 56.3% for the year. She then reported that the domestic bond market for the quarter posted very slim returns but returned 4.1% for the full year, and that high yield returned 6.4% for the quarter and 30.6% for the year. Ms. Etienne also said that CRPTF's assets totaled $19.9 billion as of December 31, 2003 having gained 8.4% for the quarter and 19.6% for the year.

Treasurer Nappier asked Ms. Etienne to explain the 1% value added for the Mutual Equity Fund. Ms. Etienne said that the semi-active and active managers added significant value. Treasurer Nappier said that there has been discussion about how to add more beta with active management on the equity side and this would suggest the configuration right now is earning excess returns. Chairman Roberts asked if some of that would be the stock lending. Ms. Etienne said that is a small part and that a lot of it is value added from the active managers.

Ms. Etienne reported that the securities lending income for the quarter was $1.7 million.

Ms. Sweeney said that the foreign currency hedging program is set to go as of April 1, and that the contracts were just completed.

Quarterly Update on CRPTF Cash Flow as of December 31, 2003

Ms. Sweeney said that Mr. Franklin's update on CRPTF Cash Flow as of December 31, 2003 is a result of a request from the IAC for more information on the overall fund both on the asset and liability side and Mr. Franklin has developed this and is working with the other departments to modify this report. Mr. Franklin said that today's presentation is an update of the October 23 presentation made by Ms. Sweeney. He said that the report originates from the spring of 2003 when the early retirement incentive program from the state employees fund was implemented

and CRPTF did not know what kind of additional cash would be required to make benefit payments to those individuals taking early retirement. Mr. Franklin provided an overview of the layout of the report for the benefit of Mr. Larkin. He said that at the October meeting he provided the fiscal 2002 and 2003 summary data and monthly estimated data for fiscal 2004. He also said that the estimated contributions for fiscal 2004 are on pace and that for the first six months of fiscal 2004 contributions totaled $475 million, benefit payments totaled $936 million for a net flow of negative $461 million. Mr. Franklin said that for the fiscal year, the $1 billion in contributions and the $1.8 billion in benefit payments are on track with the Treasury's earlier fiscal 2004 prediction.

Treasurer Nappier asked how many months are actual to which Mr. Franklin replied that the actual figures are through December. Treasurer Nappier asked if the early retirement incentive benefits are included and Mr. Franklin said that they are included in the benefit payments.

Mr. Franklin talked about information from other areas on which CRPTF must rely and explained that when CRPTF reconciles and checks the books each month, the PFM numbers are a known entity, but that CRPTF does not always know ahead of time what the total contributions are from the state, the employees, and municipalities nor does CRPTF know the actual benefit payments are that are distributed to the participants. He said that CRPTF does know the amount given to the Comptroller's Office and the net outflow from the CRPTF. He also explained that the contributions for state employees from the State and from employees never actually become part of CRPTF, because the Comptroller's office requires all of those funds plus additional funds to be withdrawn from CRPTF in order to make benefit payments. Mr. Franklin said that CRPTF must obtain figures from the Cash Management Division, the Comptroller's Office and the Teachers' Retirement Board for the report. He said that the difficulty this year is that there is a new financial system that the state developed called CORE and the books for July have not yet been closed. Consequently, he noted, the figures from the Comptroller's Office may or may not change, but the figures within the CRPTF Fund are actual figures. Treasurer Nappier said that the bottom line is that CRPTF is short $602 million for fiscal 2004, which covers all of the operating costs as well, and as a result of the shortage, CRPTF must sweep additional assets from the managers. Mr. Franklin said that CRPTF would have to sell investments in order to make benefit payments so a policy was established to sweep interest and dividends earned by the managers to make benefit payments and whatever is left can be reinvested. Mr. Larkin commented that sweeping is not unusual and many companies sweep money to use for operating costs.

Ms. Thomas asked if the $135.2 million figure in the next year becomes a negative number. Mr. Franklin said that in the projections if CRPTF knows additional cash will be required, there is an opportunity to raise it. Treasurer Nappier said the numbers get fuzzy for the sweeps and that there should be a disciplined approach as to what should be the floor because as it stands now the estimate is $626.6 million in January 2004 and $135.2 million in June 2004. Mr. Franklin said that the estimated sweep is around $45 or $50 million per month but that in December the sweep included a distribution from Veritas Capital. Treasurer Nappier said that CRPTF should not wait until May or June, but should anticipate what the need will be and sweep more in May. Mr. Franklin said that it is very difficult to make the determination without Mr. Draghi and Mr. Scopelliti's estimates of what the Real Estate and Private Equity Funds will need for investments and those figures are provided at the beginning of the month. He said that it is difficult to ascertain from them what will be available for distribution. Treasurer Nappier said that CRPTF may need to set aside a special fund for that purpose and she does not think that the CRPTF cash needs should be driven by what is available to be swept. Mr. Franklin said that the CRPTF

policy is 1% for cash and the March number of $196 million is more in line with policy and that he feels comfortable that the amount that is there now will meet two months of benefit payments. Mr. Franklin said that what he does not know is how much will be needed for real estate, private equity and the fund of funds program. Treasurer Nappier said that the Treasury needs to revisit the 1% cash policy given the entire funding requirement this year and the fact that the State is entering a new budget cycle and contributions could be reduced even further. Ms. Sweeney indicated that this would be part of the asset allocation study. Treasurer Nappier does not think this is part of an asset allocation study because the asset liability study when the 1% was established was purely for investment purposes, not based on the liability stream. Ms. Etienne agreed that when that 1% was established it was based on a different liquidity and at the time seemed to be a reasonable investment portfolio.

Mr. Fiore said that he has always been interested in this report for both assets and cash because he feels it would be a useful tool for policymakers and it would be very helpful if he could take it back to Secretary Marc Ryan and show him that CRPTF is drawing down from what is, effectively, the savings account to pay for benefits. He said that he does not think this report clearly demonstrates that. Mr. Franklin said that Net Flows does show the difference between contributions and disbursements. Treasurer Nappier said that account purchases and investments must be taken into consideration because without those the Treasury would be out of business.

Ms. Sweeney said that the next quarter numbers are soft and CRPTF does not know what the distributions will be from the illiquid portfolios, nor what the capital calls will be from the those portfolios. She said that an important thing to know is that this cash number is fragmented because CRPTF operates with plans and trusts and that the cash is separated between Teachers, State Employees, etc. Treasurer Nappier reiterated that she is challenging the 1% policy and would feel more comfortable with more cash than the 1% because that amount no longer fits the needs of CRPTF.

Ms. Thomas would like to see, by plan, for 2002 and 2003 the benefit payment divided by the fund value to see what percentage the benefit payment is of the fund.

Short-Term Investment Fund Review as of December 31, 2003

Harold Johnson, Principal Investment Officer, said that he is retiring and he would like to thank the Treasurer and the IAC for all the support they have given the Short Term Investment Fund ("STIF") and him over the years. He also thanked Mr. Parker for hiring him those many years ago.

Mr. Johnson reported on the performance of STIF for the quarter ending December 31, 2003. He said that for the month of December, STIF earned an effective yield of 1.19% out performing the benchmark of 0.76%.

Report on Corporate Governance and MacBride Compliance

Meredith Miller, Assistant Treasurer-Policy, reviewed corporate governance and MacBride compliance activities for the quarter ended December 31, 2003. She reported that in this quarter the plan voted 179 domestic proxies, 54.9% of which were voted against management and 211 global proxies, 9% of which were voted against management. Ms. Miller said that Treasurer Nappier testified before the SEC and did a great job during what appeared to be an intense session of people presenting on the access rules. She said that the session might be viewed on

the SEC's web site by selecting that session. Ms. Miller reported that a shareholder resolution was filed in 2002 and 2003 with American Power Conversion in an effort to encourage the board to increase diversity and they have finally appointed a woman to their board and accepted some language in the nominating charter referencing diversity in terms of race and gender. She also reported that Jones Apparel agreed that they are willing to report their activities on global labor standards and vendors in the 10K.

Ms. Miller gave kudos to Don Kirshbaum, Investment Officer-Policy, on his efforts of negotiating with AEP, which resulted in the withdrawal of CRPTF's shareholder resolution in climate risk, as reported earlier in Treasurer Nappier's opening remarks. Treasurer Nappier concurred with Ms. Miller and offered her appreciation to Mr. Kirshbaum for his fine performance.

On a related matter, Treasurer Nappier said that recently the Governor announced his support of the Blue Ribbon Commission Report urging that in Connecticut, greenhouse gas emissions be significantly reduced.

Ms. Miller said that there have been a number of activities related to the creation of the Investor Network on Climate Risk ("INCR") subsequent to the Investors Summit convened by the Treasurer and the United Nations Foundation. She said that Treasurer Nappier has had teleconferences with the principals of that group and there will be a planning meeting in April in connection with the Coalition for Environmentally Responsible Economies. Ms. Miller reported the Treasurer sent a letter to Chairman Donaldson at the SEC requesting a meeting to discuss issues about disclosure and transparency. She said that there is ongoing work to draft a letter to vendors asking about how they are viewing this issue that the Treasurer recently held a session on this at NAST.

Ms. Miller reported that there has been no violation of the MacBride statute during the last quarter.

Treasurer Nappier spoke about the withdrawal of the Treasury's shareholder resolution at The Walt Disney Company. She said that she believes the Treasury's shareholder resolution was the impetus to the changes that took place on the board, not so much for who left the board, but who they brought on board. She said that Walt Disney appointed two independent members, one African-American and one Asian.

Mr. Parker said that he felt that this agenda item should be moved forward on the agenda in order to give the IAC the opportunity to discuss some issues in more depth, such as social responsibility and compliance with prudent investments.

Other Business

Chairman Roberts reminded everyone about the ethics statement that needs to be completed.

Review of the IAC budget for the quarter ending December 31, 2003

Ms. Sweeney reported that the IAC is operating under budget.

Pension Funds Management Division's operating results as of December 31, 2003

Ms. Sweeney said that this report summarizes the numbers that have been covered in various formats throughout the meeting.

Status Report on Requests by IAC Members

Ms. Sweeney said that the second part of the Best Practices presentation would be given at a future meeting. She said that Mr. Martin's request that the Parker Diversity Practices be established would require some work with the Treasurer. Ms. Sweeney said that at the last meeting Mr. Parker requested that the Attorney General's office make a presentation at an IAC meeting on the new requirement of signed affidavits for contracts. Ms. LaMarr said that she did make that request and had not been given an answer. She said that she would continue to follow-up with the AG's office.

Discussion of preliminary agenda for April 14, 2004 IAC meeting

Ms. Sweeney said that there would be four Fund of Funds finalist candidates making presentations and an update on the domestic equity brokerage program. She said that staff is working on a diversity tracking system so that the Treasury is able to monitor the diversity profile of all the mangers and that may or may not be ready for the next meeting.

The diversity profile of KPMG was distributed to the IAC members.

There being no further business, the meeting was adjourned at 4:15 P.M.

Respectfully submitted,

DENISE L. NAPPIER
SECRETARY