

INVESTMENT ADVISORY COUNCIL
WEDNESDAY, February 8, 2006

MEETING NO. 333

Members present:

Michael Freeman
David (Duke) Himmelreich
James Larkin
William Murray
Denise L. Nappier, Treasurer
Sharon Palmer
Clarence (Dick) L. Roberts, Jr., Chairman
David Roth
Carol Thomas
Peter Thor

Absent:

Representation for
Robert L. Genuario

Others present:

Howard G. Rifkin, Deputy Treasurer
Susan B. Sweeney, Chief Investment Officer
Greg Franklin, Assistant Treasurer-Investments
Catherine E. LaMarr, General Counsel
Shelagh McClure, Director of Compliance
Jason Price, Investment Officer
David Scopelliti, Principal Investment Officer
Linda Tudan, Executive Assistant to the Treasurer
Judy Balich, Executive Secretary
Sarah Carter, Administrative Assistant

Guests:

Bradley Atkins, Franklin Park, LLC
Laura Backman, State Street Bank
Vonda Brunsting, Service Employees International Union
Michael Geffrard, President, Liati Group
Robyn Kaplan-Cho, Connecticut Education Association
Harvey Kelly, Leumas Advisors
Maria Luce, State Street Corporation
Julie Naunchek, CSEA-Retiree Council #400
Daniel Schmitz, CRA RogersCasey
Arnold West, ING Investment Management

Chairman Dick Roberts called the meeting to order at 9:00 A.M.

Approval of Minutes

Chairman Roberts noted that there were two sets of minutes to be approved. He asked for comments on the amended Minutes of the December 14, 2005 Investment Advisory Council ("IAC") Meeting. There being no comments, **a motion was made by James Larkin, seconded by David Roth, that the Minutes of the December 14, 2005 IAC meeting be accepted as amended. The motion was passed unanimously.**

Chairman Roberts asked for comments on the Minutes of the January 11, 2006 IAC Meeting. There being no comments, **a motion was made by Carol Thomas, seconded by William Murray, that the Minutes of the January 11, 2006 IAC meeting be accepted as drafted. The motion was passed unanimously.**

Opening Comments by the Treasurer

Treasurer Denise Nappier reported that the TUCS public funds rankings placed the Connecticut Retirement Plans and Trust Funds ("CRPTF") in the top quartile for the three month, fiscal year to date and calendar year to date periods ending December 31, 2005. She said that the report for the seven years ended December 31, 2005 placed CRPTF in the 17th percentile relative to its peer group.

Treasurer Nappier said that at last month's meeting, the IAC discussed the CRPTF's exposure to emerging markets, particularly in South Africa. She said that, coincidentally, today there would be a presentation to the IAC by a private equity fund that focuses on South Africa. She also noted that this fund is well established, has an impeccable performance record and promotes Black Economic Empowerment in South Africa, working closely with government officials.

Deputy Treasurer Howard Rifkin informed the IAC that Reginald Martin, by Connecticut State Statute¹, has been deemed to have resigned from the IAC. Deputy Treasurer Rifkin said that he spoke with Mr. Martin and sent a letter to Mr. Martin's appointing authority, the Senate Minority Leader, informing him of the situation. Deputy Treasurer Rifkin said that the decision of whether or not to reappoint Mr. Martin now lies with Senator Luis DeLuca.

CRPTF Final Performance for November 2005

Chief Investment Officer Susan Sweeney said that for the month of December 2005, the CRPTF returned 1.43%, which was 14 basis points ahead of the benchmark. She said that for the fiscal year to date and the calendar year the CRPTF outperformed its benchmarks by 49 basis points and 166 basis points, respectively. Ms. Sweeney said that there were three main factors attributing to the outperformance of the benchmark for the year, (1) the overweight versus target of international equities, (2) domestic equity and (3) private equity. She said that private equity

¹ Section 3-13b, Subsection (b) "Any member who fails to attend three consecutive meetings or who fails to attend fifty percent of all meetings held during any calendar year shall be deemed to have resigned from office."

performed at 17.8% for the year and because Venture Economics does not report on a monthly basis, the S&P 500 is a surrogate benchmark over the long term for private equity performance. Mr. Roth asked if the performance report could reflect the "S&P 500 plus 500 basis points" in the private equity breakout. Ms. Sweeney said that could be done and added that, in the "CMMI (with objective)" line at the total fund level, that excess return expectation is factored in. Ms. Sweeney said that domestic equity outperformed its benchmark by 54 basis points, primarily due to Barclay Global Investors' outperformance of its benchmark by 325 basis points for the year. She noted the large difference between the ISF benchmark and the Citigroup EPAC performance is attributable to the impact of foreign currency movements versus the U.S. Dollar. Ms. Sweeney said that the Mutual Fixed Income Fund returned 1.0%, 5 basis points below its custom benchmark and 5 basis points ahead of the Lehman Aggregate.

Principal Investment Officer David Scopelliti introduced Jason Price who joined the Pension Funds Management division today as an investment officer.

Presentation by Ethos Private Equity Fund V

Mr. Scopelliti provided introductory remarks indicating that Ethos Private Equity Fund V ("Ethos V") is a private equity buyout fund based in South Africa. He said that the buyout market is fueled by South African businesses that are changing hands due to increased black ownership and the country's economic development. Mr. Scopelliti added that the private equity returns in South Africa are significant and real.

Peter Thor asked if the buyout laws are different from those in the United States. Mr. Scopelliti said that the legal structure in South Africa is different from the U.S. and that CRPTF's Western European managers are investing capital in countries that have different legal structures and must operate within those frameworks. Mr. Thor asked if the restrictions on the social impact of buyouts are different in South Africa than in the U.S. Mr. Scopelliti said that he does not believe there are any social restrictions and that there is, in fact, a willingness by both the private sector and the government to encourage existing businesses to increase black ownership and grow. He also stated that the debt markets and equity markets are helping to fuel South Africa's expansion.

Mr. Roth asked (1) if there was any concern with regard to the majority of the investments being committed to one country and (2) for comments regarding the structure relative to the OPIC loan. Bradley Atkins of Franklin Park explained that OPIC is a U.S. Government agency with the objective of promoting economic development in emerging economies that employs its strategy through investments in private equity funds. He said that OPIC provides debt capital along side the private equity commitments and that its investment is senior to the equity commitment. Mr. Atkins said that up to 25% of Ethos V could be invested outside of South Africa, but that South Africa is the only true private equity market on the continent of Africa. Mr. Scopelliti added that the growth in the economy of South Africa and the diversification of industries within that country mitigates the issue of the entire fund being invested in one country.

Chairman Roberts asked about the currency status in South Africa. Mr. Atkins said that the rand is a flexible currency. He said that although it is an emerging economy, it has many characteristics of a developed economy and cited its infrastructure, legal system and political

system as examples of areas that are relatively developed. Mr. Atkins said that there is currency volatility and the rand does tend to fluctuate. Mr. Scopelliti said that CRPTF does have the option to invest as a rand or a dollar investor. Discussion followed regarding the risk between the dollar and the rand and the concentration of CRPTF's investment in South Africa.

Mr. Larkin and Mr. Thor expressed concern over the departure of key staff, which was addressed in detail by Ethos later during the meeting. Sharon Palmer asked if Ethos invested in the diamond market "blood trade" to which Mr. Atkins replied that he thought it did not. Mr. Scopelliti added that CRPTF's side letter would prohibit Ethos from doing so.

Mr. Larkin asked if there were any other public funds invested in Ethos. Mr. Atkins noted that New York State, New York City, CalPERS and CalSTRS were all investors with Ethos. Mr. Murray asked if the 1% investment by the General Partner was low. Mr. Atkins said that 1% is the market standard.

Presentation by Ethos Private Equity

Ethos Private Equity ("Ethos") made a presentation to the IAC on Ethos Private Equity Fund V, L.P. Ethos was represented by André Roux, CEO and Ngalaah Chuphi, Partner. Mr. Roux gave an overview of the firm, the firm's investment performance over a period of twenty-one years, information on the investment team, and the landscape of South Africa. Mr. Chuphi talked about Black Economic Empowerment and the firm's investment strategy. Mr. Roux concluded the presentation with a summary of the ways in which Ethos' credentials meet CRPTF's investor criteria.

Subsequent to the presentation by Ethos, IAC members posed questions regarding the departure of the three partners; methods for sourcing deal flow; investment in WACO International Limited; the statement, made by Ethos, in the presentation that there is a "strong civil society providing a significant 'watchdog' role" ; and efforts to assign a primary Ethos contact for the CRPTF. There were also a number of questions regarding Ethos' investments in Sub-Saharan African countries. Messrs. Roux and Chuphi provided detailed responses to all of the questions.

Roll Call of Reactions for Ethos Private Equity Fund V

Ms. Thomas said that she is comfortable with the investment and that she appreciated their thorough answers to questions. Mr. Roth said that he agreed with Ms. Thomas' comments and that given CRPTF's private equity profile and recognizing risks, it is an appropriate investment. Mr. Roth also added that he was very impressed with Messrs. Roux and Chuphi. Ms. Palmer said that she concurred. Mr. Thor said that he found the presentation remarkable and would endorse the investment. Duke Himmelreich said that he is very much in favor of the investment and said that there may be some currency issues over the five to ten year period because of the conversion between the dollar and the rand, but still thinks that it is an excellent decision. Mr. Murray said that he supports the investment. Michael Freeman expressed concern about the Sub-Saharan investments, but said that not only was their presentation one of the best he has seen, but they also provided in-depth answers to all the questions sufficiently so that he would whole-heartedly support the investment. Mr. Larkin said that he agrees with Mr. Freeman and

that, without qualification, feels that it is a good investment. Chairman Roberts said that it was an excellent presentation and whole-heartedly supports the investment.

Chairman Roberts asked for a motion to waive the 45-day comment period for Ethos. **A motion was made by Mr. Himmelreich, seconded by Ms. Thomas, to waive the IAC 45-day comment period. The motion was passed unanimously.**

Campaign Finance Update

General Counsel Catherine LaMarr asked if anyone had questions regarding the document distributed in the IAC package for Agenda Item #5. Treasurer Nappier asked Ms. LaMarr to state the rules for the minutes. Ms. LaMarr said that the specific prohibition is that no member of the IAC can solicit or make contributions to any candidate for the office of Treasurer. She said that in addition to that, no member of the IAC could solicit campaign contributions for any candidate from investment service providers. There were a number of questions posed by IAC members, most of which were answered by Ms. LaMarr, Treasurer Nappier and Deputy Treasurer Rifkin.

The most complicated question was asked by Mr. Roth regarding the co-hosting of a political fundraiser. Ms. LaMarr said that each co-host must be informed that they cannot solicit from the pool of people from which an IAC member is prohibited from soliciting. She explained that the action of one co-host could be attributed to all the co-hosts. Ms. LaMarr also said that if an IAC member solicits and receives a contribution from an individual within the financial services community, the firm for which the individual works would be prohibited from doing business with the Office of the Treasurer. Treasurer Nappier emphasized that certain individuals who make a political contribution to a State Treasury candidate may unknowingly exclude the firm for which he or she works from doing business with the Office of the Treasurer. Deputy Treasurer Rifkin noted that as an individual, the IAC member would potentially subject himself or herself to civil penalties from the Elections Enforcement Commission (“EEC”).

Ms. LaMarr said that she would seek written clarification from the EEC with regard to an IAC member co-hosting a fundraiser. She would also request language to be included with invitations to potential participants in a fundraiser. Ms. LaMarr said that if any IAC member had a question that he or she should not hesitate to contact her.

Other Business

Status Report on Requests by IAC Members

Ms. Sweeney reported that the OTT staff are still working on the **Diversity Principles** and hope to have the document soon.

Ms. Sweeney said that there would be an **Emerging Markets Presentation** at the March IAC meeting. She said that there would be a review of the emerging market exposure that the CRPTF has within the portfolio and Antoine van Agtmael, the president and founder of Emerging Markets Investor Corporation would provide information on emerging markets as an investment opportunity.

Ms. Thomas said that a concern was expressed in the past regarding staffing to support the Treasurer's efforts with the pension fund and would like a brief update on that situation.

Mr. Freeman asked if the IAC could receive a copy of the guidelines for the World Bank. Ms. LaMarr said that she would obtain a copy and provide them to the IAC members.

Mr. Himmelreich inquired about the \$1 billion in cash in the CRPTF. Ms. Sweeney explained that the \$1 billion is mostly cash held within managers' portfolios that is swept in and invested overnight.

Discussion of preliminary agenda for March 8, 2006 IAC meeting

Ms. Sweeney noted that, in addition to the regular quarterly meeting, there would be a presentation on emerging markets. She also mentioned that Fairview Capital, the fund of funds manager for Constitution Fund II, would be at the meeting providing an update on the fund as well as introducing one of Fund II's women-owned sub-managers.

Chairman Roberts noted that there is an Asset Allocation meeting Wednesday, February 15, 2006 and International Stock Fund manager interviews on Tuesday, March 14, 2006. Chairman Roberts asked for the list of firms to be interviewed. Ms. Sweeney said that four firms would be interviewed and that she would obtain the list for the IAC.

There being no further business, the meeting was adjourned at 11:00 A.M.

An audio tape of this meeting was recorded.

Respectfully submitted,



DENISE L. NAPPIER
SECRETARY