

**INVESTMENT ADVISORY COUNCIL  
WEDNESDAY, March 12, 2008**

**MEETING NO. 353**

**Members present:**

Michael Freeman  
Thomas Fiore, representing Robert Genuario  
David (Duke) Himmelreich  
James Larkin, Chairman  
William Murray  
Denise L. Nappier, Treasurer<sup>1</sup>  
Sharon Palmer  
Carol Thomas  
Peter Thor

**Absent:**

Thomas Barnes  
David Roth

**Others present:**

Linda Hershman, Assistant-Deputy Treasurer/Chief of Staff  
Lee Ann Palladino, Acting Chief Investment Officer  
Gregory Franklin, Assistant Treasurer-Investments  
Av Harris, Deputy Director of Communications  
David Holmgren, Principal Investment Officer  
Wayne Hypolite, Executive Assistant  
Catherine LaMarr, General Counsel  
Shelagh McClure, Director of Compliance  
Christina McGinnis, Executive Secretary  
Jason Price, Principal Investment Officer  
Linda Tudan, Chief Executive Assistant  
Lawrence Wilson, Assistant Treasurer-Cash Management

**Guests:**

Bradley Atkins, Franklin Park  
Laura Backman, State Street Bank  
Joseph Barcic, Mercer Investment Consulting  
Makaiya Brown, Mercer Investment Consulting  
Richard Nuzum, Mercer Investment Consulting  
Harvey Kelly, Leumas Advisors  
Julie Naunchek, CSEA-Retiree Council #400  
Winifred Scalora  
Tina Davis, Court Reporter

Chairman James Larkin called the Investment Advisory Council ("IAC") Meeting to order at 9:08 A.M.

<sup>1</sup>Arrived at 10:00 a.m.

**Approval of Minutes**

Chairman Larkin asked for comments on the Minutes of the February 20, 2008 IAC Meeting. **There being no comments, a motion was made by David (Duke) Himmelreich, seconded by Carol Thomas, that the Minutes of the February 20, 2008 IAC meeting be accepted as drafted. The motion was passed unanimously.**

**CRPTF Final Performance for December 2007 and January 2008**

Lee Ann Palladino, Acting Chief Investment Officer, began her remarks by welcoming all present to the IAC meeting. She also introduced Christina McGinnis, Executive Secretary, who would take the minutes at this meeting.

Ms. Palladino reported on the December 2007 and January 2008 performance for the Combined Investment Funds (“CIF”), the Teachers’ Retirement Fund (“TERF”), State Employees’ Retirement Fund (“SERF”) and Connecticut Municipal Employees’ Retirement Fund (“MERF”). With regard to the December 2007 performance, Ms. Palladino stated that December 2007 represents the half way point of fiscal year 2008, and the CIF posted a positive return of .96%. In particular, Ms. Palladino discussed the Real Estate Fund (“REF”) and the Private Investment Fund (“PIF”) quarterly results noting that both funds performed above public equity benchmarks, while underperforming the industry-specific benchmarks. Ms. Palladino then continued to report on January 2008 performance discussing the volatility in the equity markets and that the CIF fiscal year to date posted a -3.26% return. Ms. Palladino also discussed the performance of each of the public equity funds, MEF, Developed Market International Stock Fund (“DMISF”) and Emerging Market International Stock Fund (“EMISF”). She mentioned the strategy behind the three money manager searches and the asset allocation changes in relationship to the performance of all three public equity funds. She concluded her comments on performance by discussing how well the CIF and the three plans presented at this meeting have performed in these turbulent markets.

Chairman Larkin commented on the performance of the Connecticut Retirement Plans and Trust Funds (“CRPTF”) and stated that it has done extremely well, particularly in these markets.

**Update on the CRPTF Watch List**

Ms. Palladino stated that four money managers are on the CRPTF Watch List, and that three of these money managers were placed on the Watch List for performance concerns: Barclay’s Global Investors (“BGI”), Trust Company of the West (“TCW”) and INVESCO. She continued that the fourth Watch List candidate is State Street Global Advisors, which was placed on the Watch List for organizational issues. Ms. Palladino reviewed each candidate specifying recent money manager performance, actions that Pension Fund Management (“PFM”) has taken with regard to the candidates and relayed the investment consultant, Mercer’s, perspective on each of the candidates. An IAC member asked how PFM will assess TCW’s long-term performance

horizon. Ms. Palladino commented that when considering the manager's style, PFM will assess the fit the money manager has within the CIF and the competitiveness of the style versus other money managers within the same space.

**Consideration of the Search Process for The Mutual Equity Fund/Developed Markets International Stock Fund/Emerging Markets International Stock Fund**

David Holmgren, Principal Investment Officer, presented a project plan and evaluation criteria for selection within three money manager searches for the MEF, DMISF and the EMISF. He stated all three searches would be conducted on a competitive basis, utilizing our expedited search process by which we would primarily consider money managers within our consultant, Mercer's, universe of recommended managers. Mr. Holmgren said that the main purpose of the MEF search for large cap is to recapture bench strengths and to strategically align the overall portfolio with the newly adopted MEF structure and asset allocation plan. He added that PFM will entertain active extension strategies, such as "130/30", for potential components of the MEF. Mr. Holmgren continued that PFM would engage in a broad large cap active search to further diversify MEF's style biases, including growth and value, as well as concentration within risk controlled. He further discussed the remaining two searches, small cap international equity within DMISF and core emerging market equity mandates within EMISF. He stated the adoption of new asset allocation targets has significantly increased our exposure to these international markets, resulting in the need to retain more money managers. **Chairman Larkin asked for a motion to endorse all three search processes for the MEF, DMISF and the EMISF. A motion was made by Ms. Thomas, seconded by Mr. Himmelreich to conduct the searches. The motion was passed unanimously.**

**Comments by the Treasurer**

Treasurer Denise Nappier made a few brief comments about the IAC agenda. She discussed the presentation for a private equity opportunity in The Yucaipa American Alliance Fund II, L.P., ("Yucaipa II") which is being raised by The Yucaipa Companies ("Yucaipa"). Treasurer Nappier said that the primary focus of Yucaipa II would be to make leveraged acquisitions on underperforming companies where specific operating, labor and strategic short comings exist, particularly in the distribution, manufacturing and retail industries. She further commented on Yucaipa American Alliance Fund I ("Yucaipa I"), the first fund for Yucaipa, which generated strong returns with a gross return on income and internal rate of return of 1.6 times and 35.4%, respectively.

Treasurer Nappier discussed three search project plans that would occur throughout our public equity portfolios – both domestic and international. She outlined the two major factors that have led to these searches; the asset allocation policy target changes and the need to recapture bench strength and strategically realign the portfolio within their respective adopted structures. Treasurer Nappier particularly elaborated on the "active extension" strategy, better known as "120/20", stating that the strategy can be designed to fit within our existing allocation space for

active U.S. equity mandates. Treasurer Nappier said that we could draw upon existing active managers, which would be reviewed as part of the large cap search, and we could assess potential candidates. She continued by saying we would need to lift the long-only constraint and allow money managers to go short in order to incorporate this particular strategy within the MEF. Treasurer Nappier concluded her remarks by explaining that all three searches would be conducted on a competitive basis, utilizing an expedited search process. She clarified that this means the majority of candidates would come from our consultant's database, but that other money managers that contact the Office of the Treasurer may also be considered.

### **Presentation by Yucaipa American Alliance Fund, II**

Prior to the presentation by Yucaipa II, Chairman Larkin discussed his concerns regarding the investment, where he questioned a potential conflict of interest on the part of Yucaipa, the time commitment by Yucaipa's investment team to the fund and Managing Partner Ron Burkle's fee, and the potential union and labor issues. General Counsel Catherine LaMarr indicated there are no conflict of interest issues present in this investment opportunity. Treasurer Nappier stated that she raised the issue of key staff dedicated to the management of Yucaipa II as part of her due diligence, and that Yucaipa demonstrated the depth of key staff commitment to Yucaipa II to her satisfaction. Treasurer Nappier added that Yucaipa has a good rapport with the unions, that Yucaipa I has performed well, with an IRR of 35 percent, and that for the last three or four years the investment team has been intact.

Jason Price, Principal Investment Officer, provided opening remarks and introduced Yucaipa II, a private equity investment opportunity. He discussed Yucaipa II's fit within the PIF and reviewed its compliance with the investment policy guidelines. Mr. Price said that this manager was selected because of Yucaipa's unique ability to gain access to proprietary deal flow, in house labor specialists, strong relations with operating partners and Mr. Burkle's history of entrepreneurial success.

### **Presentation by Yucaipa Companies**

Yucaipa made a presentation to the IAC on Yucaipa II. Yucaipa was represented by Ms. Norice Rice, Principal, Mr. Ron Burkle, Managing Partner and Mr. Scott Stedman, Partner. Mr. Burkle provided an overview of the firm and its investment strategy. He discussed the company's team players and their professional backgrounds.

Following the presentation, Mr. Burkle answered questions from the IAC regarding Yucaipa, Yucaipa I and Yucaipa II, and the economics and structure of the deal; the role of the third party vendor, the GP co-investment from The California Public Employees' Retirement System ("CalPERS"), and investment strategy drift; Mr. Burkle's participation in Fund II, succession planning, management fees, and carried interest. Mr. Burkle responded to each of the questions.

**Roll Call of Reactions for consideration of Yucaipa American Alliance Fund, II**

Tom Fiore, Mr. Himmelreich, Peter Thor, Ms. Thomas, William Murray, Sharon Palmer and Michael Freeman were all comfortable with the Yucaipa opportunity. Chairman Larkin was comfortable, but with reservations. **Chairman Larkin asked for a motion to waive the 45-day comment period. A motion was made by Ms. Thomas, seconded by Mr. Freeman to waive the 45-day comment period for the Yucaipa American Alliance Fund, II. The motion was passed unanimously.**

**Connecticut Horizon Fund Review as of December 31, 2007**

Mr. Holmgren, reported on the Connecticut Horizon Fund (“CHF”) through the quarter ending December 31, 2007. He stated for calendar 2007, CHF rose 8.37% versus 5.19% for the Connecticut Horizon Index, an outperformance of 318 basis points. He discussed the highlights of the fund-of-fund manager’s performance to their respective benchmarks, the distribution of the 49 sub-managers assets by program targets and new sub-managers added during the Fourth Quarter.

**Combined Investment Funds Review as of December 31, 2007**

Joseph Barcic, Rich Nuzum and Makaiya Brown, Mercer representatives, reported on the CIF as of December 31, 2007. Mr. Barcic provided an overview of the capital markets performance with comments on the economic environment, US equities, international equity and fixed income markets. Ms. Brown reported on CRPTF fund performance, including the MEF, International Stock Fund and Mutual Fixed Income Fund. Mr. Barcic and Mr. Nuzum responded to questions from the IAC regarding currency markets.

**Private Investment Fund Review as of September 30, 2007**

Bradley Atkins of Franklin Park reported on the Private Investment Fund (“PIF”) for the quarter ending September 30, 2007. His report consisted of an executive summary that included portfolio holdings, benchmark performance and commitments made during calendar year 2007. Mr. Atkins stated that for calendar year 2007, the CRPTF closed on commitments of \$895 million to nine private equity funds. Mr. Atkins responded to questions from the IAC members regarding the vintage year funds and performance issues.

**Short-Term Investment Fund Review as of December 31, 2007**

Lawrence Wilson, Assistant Treasurer-Cash Management, reported on the performance of the Short-Term Investment Fund (“STIF”) as of December 31, 2007. He provided an update of the overall economy including a review of the direction of short-term interest rates. Mr. Wilson

stated that STIF earned an average annualized yield of 4.92%, 15 basis points higher than STIF's benchmark. He gave an update on the \$100 million position in Cheyne Finance medium-term notes, which is still a concern and is currently under control of receivers. He noted the restructure is scheduled to be complete by end of April, 2008. Mr. Wilson added that Citigroup's sponsored structured investment vehicles (SIV's) are now supported directly by Citigroup and were brought onto Citigroup's balance sheet. Their AAA rating has been affirmed by Moody's Investors Service and Standard and Poor's. He noted that STIF currently has a \$52.7 million reserve in place to absorb any potential loss and protect our investors. Mr. Wilson stated STIF's liquidity position is currently more than \$3.5 billion, or 70 % of fund assets. Mr. Wilson responded to questions from the IAC regarding Cheyne Finance and fund withdrawals.

**Comments by Chairman Larkin**

Chairman Larkin congratulated the Treasurer for hiring Av Harris, Deputy Director of Communications, and commented on the press releases from the Treasurer's office last month.

**Other Business**

Chairman Larkin invited IAC members to submit agenda items for the April 9, 2008 meeting. Mr. Larkin stated that the IAC budget would be reviewed at the next meeting. Ms Palladino reminded all of the IAC members to file their official State ethic forms and added it could be accessed online.

There being no further business, the meeting was adjourned at 12:35 p.m.

**An audio tape of this meeting was recorded and a court reporter was present.**

**Respectfully submitted,**



**DENISE L NAPPIER**

**SECRETARY**

**Reviewed by**



**JAMES T. LARKIN**

**CHAIRMAN**