INVESTMENT ADVISORY COUNCIL
WEDNESDAY, May 14, 2008

MEETING NO. 355

Members present:	Thomas Barnes Thomas Fiore, representing Robert Genuario Michael Freeman James Larkin, Chairman William Murray Denise L. Nappier, Treasurer Sharon Palmer David Roth Carol Thomas Peter Thor
Absent:	David (Duke) Himmelreich
Others present:	Howard G. Rifkin, Deputy Treasurer Linda Hershman, Assistant-Deputy Treasurer/Chief of Staff Lee Ann Palladino, Acting Chief Investment Officer Joanne Dombrosky, Principal Investment Officer Gregory Franklin, Assistant Treasurer-Investments David Holmgren, Principal Investment Officer Wayne Hypolite, Executive Assistant David Johnson, Principal Investment Officer Donald Kirshbaum, Investment Officer Catherine LaMarr, General Counsel Shelagh McClure, Director of Compliance Meredith Miller, Assistant Treasurer-Policy Christine Palm, Communications Jason Price, Principal Investment Officer Linda Tudan, Chief Executive Assistant Christina McGinnis, Executive Secretary Winifred (Winnie) Scalora, Administrative Assistant
Guests:	Bradley Atkins, Franklin Park Laura Backman, State Street Bank Joseph Barcic, Mercer Investment Consulting Makaiya Brown, Mercer Investment Consulting Vonda Brunsting, Service Employees International Union M. P. Guinan, Guinan Associates Margaret Hearing, OSC Retirement & Benefits Division Harvey Kelly, Leumas Advisors Jacqueline Lyons, State Street Bank

Julie Naunchek, CSEA-Retiree Council #400
Claire Shaughnessy, Rogerscasey
Johnson Shum, State Street Bank
Cynthia Steer, Rogerscasey
A. B. West, ING
Dominic Williams, Service Employees International Union

Chairman James Larkin called the Investment Advisory Council ("IAC") meeting to order at 9:05 A.M.

__Approval of Minutes__

Chairman Larkin asked for comments on the Minutes of the April 9, 2008 IAC meeting. **There being no comments, a motion was made by David Roth, seconded by William Murray, that the Minutes of the April 9, 2008 IAC meeting be accepted as drafted. The motion was passed unanimously.**

__Comments by the Treasurer__

Treasurer Nappier gave a staffing update in the Pension Funds Management Division ("PFM") and introduced Joanne Dombrosky as the new Fixed Income Principal Investment Officer. She said that Ms. Dombrosky would be responsible for the four fixed income funds including the Core Fixed Income Fund ("CFIF"), High Yield Bond Fund, Emerging Market Debt Fund and Inflation-Linked Bond Fund ("ILBF"), as well as oversight of the Liquidity Fund ("LF"). Ms. Dombrosky briefly addressed the IAC and said she looked forward to being a productive member of the Treasurer's team.

Treasurer Nappier presented a final update on the $2 billion Pension Obligation Bond ("POB") sale. She reported that the final cost of funds is 5.88%, well within the targeted range and below the 8.50% actuarial liability rate. She said the POB issue closed on April 30, 2008, and the funds were immediately invested according to the Investment Policy Statement ("IPS") asset allocation plan. Treasurer Nappier thanked all the participants in what she described as a monumental achievement and a win-win situation for teachers who rely on the pension fund for their future financial security and for the state's taxpayers with projected savings estimated in excess of $2 billion. She added that the state is now bound by the provisions of the completed POB sale to fully contribute the actuarially recommended annual contribution to TERF for as long as the bonds remain outstanding.

Treasurer Nappier announced that after reviewing the IAC's feedback following the presentation by Levine Leichtman Capital Partners, LLC ("Levine Leichtman") at the April 9, 2008 meeting along with the consultant's feedback and the due diligence process, she has decided to commit $75 million to Levine Leichtman Capital Partners IV, L.P. pending successful contract negotiations. She noted that Levine Liechtman's primary focus is to make mezzanine debt and structured equity investments in middle market U.S. companies.

Treasurer Nappier reported on her decision regarding the presentation at the March 12, 2008 IAC meeting of The Yucaipa American Alliance Fund II, L.P., ("Yucaipa") by The Yucaipa Companies, a private equity opportunity, which would make leveraged acquisitions of underperforming companies with specific operating labor and strategic short comings, particularly in the distribution, manufacturing and retail industries. Treasurer Nappier said that after careful consideration of the feedback from the IAC, review of additional information, and a follow-up discussion with Yucaipa's founder, she has decided to make a $75 million commitment to this fund pending successful contract negotiations.

Turning to today's agenda, Treasurer Nappier offered some comments on the LF structure review to be presented by Rogerscasey. She reviewed the merits of strategically managing cash, noting that the changing demographics of the pension plans have resulted in a net outflow of benefit payments and that CRPTF's overall allocation of 16% to the illiquid investment vehicles of private equity and real estate hinder the use of sweeping from these assets to cover cash needs. Treasurer Nappier added that the objective of the LF would be to provide a liquid source of funds to meet cash demands so that the CRPTF could maintain a fully-invested position in the core portfolio. She said this would be accomplished by creating a tiered structure, which would allow cash to be invested along the short-end of the yield curve.

Treasurer Nappier said the money manager search project plan and selection criteria for the LF would be presented. She added that because the searches for the LF are custom mandates, her recommendation would be for an expedited money manager search, primarily using CRPTF'S consultants' database. Treasurer Nappier asked Catherine LaMarr, General Counsel, to comment on the appropriate IAC process for structure reviews and IPS Appendix modifications, given the recent changes to the IPS and the pending business on the agenda before the IAC. Ms. LaMarr stated that endorsement of the structure review is dictated by policy, as opposed to statute. Further, she stated, with regard to the proposed modifications of IPS asset allocation policy targets and ranges, changes to the policy weights as amended through the appendix modification process are within statutory parameters.

Treasurer Nappier stated that the final agenda item is the IPS Appendix modification for asset allocation changes to five of the CRPTF plans for consideration. She stated that, as Ms. LaMarr pointed out, these changes would not require invoking the formal IPS approval process. Treasurer Nappier then stated her recommendation on modifications to the asset allocation policy targets and ranges for five plans: the Teachers' Retirement Fund ("TERF"), State Employees' Retirement Fund ("SERF"), Connecticut Municipal Employees' Retirement Fund ("CMERF"), Probate Judges Retirement Fund ("PROB") and State Judges Retirement Fund ("JURF"). She noted that the changes to the asset allocation policy targets and ranges have been driven by the need to provide an appropriate allocation to the LF. Treasurer Nappier further added that, as an offset to this increase to the LF, other asset classes would be decreased on a pro-rata basis.

Treasurer Nappier reiterated that the management of cash would become more strategic over time, and the liquidity needs of the plans and trusts would be reviewed on an annual basis, thus leading to IPS Appendix modification recommendations on an as-needed basis. She noted that upon receipt of feedback from the IAC members on these IPS Appendix modifications, consideration for approval would be taken up at the June IAC meeting.

Treasurer Nappier stated that Lee Ann Palladino, Acting Chief Investment Officer, would provide an update on the CRPTF Watch List. She also said that a review of Securities Lending activity for the quarter ending March 31, 2008 would be provided by State Street Bank.

Treasurer Nappier briefly commented that, during April 2008, four of the nation's largest companies, together representing roughly $109 billion in total revenues, settled shareholder resolutions with the CRPTF, which had requested the companies to provide more detailed disclosure to investors on internal pay equity and compensation consultant independence. Treasurer Nappier stated that in a precedent-setting move by a major U.S. company, Caterpillar would disclose the fees paid to the consultants engaged by the board compensation committee and other management services, in addition to the consultant's equity interest in the parent consultant firm. She further noted that a letter had been sent to the Securities and Exchange Commission ("SEC") calling on the SEC to require disclosure on the independence of board compensation consultants similar to that agreed to by Caterpillar. Treasurer Nappier commented that this would provide investors the information needed to better evaluate executive pay packages, allowing them to make fully informed investment decisions.

Chairman Larkin stated that this was a major achievement.

Finally, Treasurer Nappier stated that Corporate Governance has been quite active during the past month and that Assistant Treasurer Meredith Miller and Investment Officer Donald Kirshbaum would provide a more in-depth summation of this activity at the end of this meeting.

CRPTF Final Performance for April 2008

Ms. Palladino reported on the performance of the Combined Investment Funds ("CIF"), the investment of the POB, the rebalance of five plans, and a discussion of the risk profile of the plans. She stated that for the month ended March 2008, the CIF totaled $24.3 billion prior to the addition of $2 billion for the POB at the end of April 2008, which brought the total assets under management to about $26.3 billion. Ms. Palladino reported that the $2 billion was invested in the TERF according to the asset allocation parameters. She also noted that along with the investment of these new funds, the first major rebalance to the IPS policy targets of the five plans was completed.

Ms. Palladino recapped the market performance stating that for the month of March, the CIF fell .90% lowering the fiscal-year-to-date ("FYTD") return to a negative 4.28%. She said that world equity markets continued to demonstrate high volatility, but both the U.S. and international markets were beginning to respond positively since the Fed's action in March.

Ms. Palladino reported that the credit markets have also responded positively since the middle of March and that credit spreads have narrowed. She then stated that there has been some deterioration in the CFIF performance, particularly over the FYTD horizon. Ms. Palladino said that the CFIF has underperformed for the 3-year period and in particular for the 1-year period by 171 basis points ("bps") due to over allocation to Collateralized Mortgage Obligation's and under allocation to Treasury.

Regarding the TERF, Ms. Palladino reported the market value of $12.8 billion is now at $14.8 billion and that the TERF did outperform the benchmark by 177 bps. Ms. Palladino reviewed the rebalancing of each of the funds within TERF and discussed current balances in relation to policy targets. She noted that the Emerging Market Equity Fund and ILBF were under policy ranges and that searches were needed to increase manager capacity in these funds.

Ms. Palladino then addressed the longer-term performance, stating that the TERF outperformed in the three and the seven-year returns and underperformed in the five-year returns. She then covered TERF's risk profile pointing out that over time both the benchmark and the plan's risk declined and, in general, the TERF has taken on less risk than the benchmark. Ms. Palladino outlined the reduction in risk due to changes in the market and strategic decisions. She reported that overall, the three-year horizon showed the best risk/return profile as a result of the implementation of several strategic moves over the last 10 years, which included increasing the CRPTF's exposure internationally and diversifying into alternative investments of private equity and real estate.

Ms. Palladino reviewed the SERF and MERF and discussed the performance, rebalance and risk profile of each fund.

Chairman Larkin commented that this form of reporting is tremendously helpful for IAC members.

Update on CRPTF Watch List

Ms. Palladino stated that four money managers remain 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 Global Asset Management ("INVESCO"). She continued that the fourth Watch List candidate is State Street Global Advisors ("SSGA"), which was placed on the Watch List for management restructure. Ms. Palladino gave an update on what transpired since the last quarter stating that BGI's trend for losses have stopped and has had a positive return of 20 bps for the quarter but will remain on the Watch List until a stronger trend emerges. Ms. Palladino, responding to a question from an IAC member, discussed BGI's factor model, the generation of "false" signals and the disconnect in its strategy due to the volatility in the market associated with credit dislocation last summer. Ms. Palladino recapped TCW's underperformance over the last quarter, the one-year and the three-year horizons; however, in the very long term, TCW gained 217 bps above benchmark performance. She noted that PFM staff made two on-site visits to TCW and found its investment process to be sound and that its strategy performs well in very long-term horizons. She added that TCW would also remain on the Watch List until the MEF review is complete. Ms. Palladino reported on the underperformance of INVESCO since inception. She said that an on-site visit was conducted to review its fundamental screening process, and INVESCO will remain on watch until PFM has completed their review of its screening process. Ms. Palladino also shared Mercer's perspective on each of the managers. Finally, she reported that staffing at SSGA appears to be stabilizing as it announced the hiring of a new Chief Executive Officer ("CEO"). She noted that with the organizational restructuring in place, assessment of its compatibility with CRPTF's requirements can begin.

Securities Lending Quarterly Review

Johnson Shum, of State Street Bank, provided a review of Securities Lending activity for the quarter ending March 31, 2008. Mr. Shum shared a program summary of the earnings and performance results. He cited that U.S. equity and government programs contributed approximately 73% of total earnings for the 2008 fiscal year and the U.S. non-equities program continues to be strong. Mr. Shum then reported on the historical trend of earnings over the last eight calendar years, indicating that for the 2007 calendar year the CRPTF's total earnings from Securities Lending was $16.25 million and that for the first quarter of 2008 the total earnings were $8.5 million or almost 52% of the total for 2007. He also said that the top ten borrowers represented 65% of the State of Connecticut's total lending activity. Mr. Shum responded to a question from an IAC member about the United Kingdom's ("UK") residential mortgage position, noting that the UK residential mortgage market is highly regulated, there is no new supply for housing and the UK sector has shown excellent returns. Finally, Mr. Shum reported on the yield performance summary through April 2008 and said that the widening of spreads since August 2007 was very favorable for the Securities Lending program. An IAC member asked where the return from this program shows up in CRPTF's performance data. Ms. Palladino replied that it is included as part of the net returns presented to the IAC through the monthly CRPTF performance review.

Consideration of the Liquidity Fund Structure Review and Money Manager Search Project Plan

Cynthia Steer and Claire Shaughnessy, of Rogerscasey, made a presentation to the IAC regarding the LF. Ms. Steer presented the recommendations for the LF structure based upon the asset allocation study that was done by the Office of the Treasurer with the assistance of Rogerscasey. Ms. Steer stated that the results of the study included a recommendation to create a LF for the plans within the CRPTF and she noted that the downturn in the markets of 2007-2008 underscored the need for proper liquidity management. Ms. Steer then explained the objective and rationale of the LF, the sizing methodology and the sizing by plan.

Ms. Steer reported that the LF will be structured to have three tiers. She continued that the first tier would have the highest liquidity with a very short duration; and the second and third tiers would have slightly longer durations, seeking diversification and partial hedging against short-term movements in interest rates and dollar depreciation through the use of floating rate and non-dollar instruments. Ms. Steer noted that the cash and rebalancing would be managed by PFM staff, which is a unique and dynamic approach and would create a better understanding of the full cash dynamics of overall contributions, benefit payments and the investment cycle for the CRPTF.

Ms. Shaugnessy discussed the proposed investment structure, the LF parameters and the summary of managers' guidelines. IAC members asked about the percent of the TERF that has been allocated to cash, how increasing the LF would impact the return versus the asset liability study, whether early retirement and other events were considered, and how the tiered structure would enhance return. A discussion on these topics ensued, and it was noted that this structure would result in a more efficient fund, which would help to maintain, if not enhance returns when compared to the asset liability study; PFM staff would manage the LF and keep the core of the portfolio fully invested; conversely, in the past, these funds were invested in money market-like funds and were not managed; and the LF would be reviewed on an annual basis so adjustments could be made to compensate for any retirement incentive program or unforeseen policy changes.

Ms. Palladino provided a project plan timeline and screening/selection criteria for the LF manager search. She said that this would be an expedited search using the CRPTF'S consultants' database and expects that recommended finalists could be presented at the August IAC meeting. She further noted the importance of completing the LF search and said she was targeting the completion of the search by November 30, 2008. Ms. Palladino then presented the screening and selection criteria for the search.

Chairman Larkin then asked for a motion to endorse the Liquidity Fund Structure Plan. Carol Thomas entered a motion to move forward with this plan. Thomas Fiore seconded the motion. The motion was passed unanimously.

Consideration of the Investment Policy Statement Appendix Modifications

Ms. Palladino presented the Treasurer's recommended revisions to Appendix A, Section I, of the IPS for review by the IAC. She discussed the process for sizing the LF ranges and the pro-rating of the remaining funds. She noted the customizations specific to each plan. Deputy Treasurer Rifkin cited that upon reviewing the information, if any of the members of the IAC had comments or questions over the next few weeks, they should communicate directly with Ms. Palladino before the next IAC meeting so these items could be addressed before the approval process at the June 11, 2008 meeting.

Other Business

Assistant Treasurer Meredith Miller stated that Treasurer Nappier served on a very distinguished panel in Amsterdam at a conference held by the Global Reporting Initiative ("GRI"), a framework for reporting on sustainability issues. She added that these issues include climate change, investment in the community, diversity, investment in employees along with global labor standards and workplace protections. Ms. Miller said that Treasurer Nappier discussed discrete issues on sustainability in the Middle East with Queen Noor of Jordan, and the Prince of Orange (heir to the throne of the Netherlands). She cited that this conference set the stage for issues about materiality and disclosure of climate change issues having a financial impact and the need for regulatory agencies to require reporting by companies on climate change.

Ms. Miller also reported that Treasurer Nappier and representatives of the Rockefeller family stood together on April 30, 2008 at a press conference in New York City discussing the Exxon Mobil shareholder proposal to separate the Chair and the CEO which is an annual meeting agenda item. She stated that Treasurer Nappier has also held a leadership role over the past two and a half years in trying to approach Exxon's board to discuss the company's handling of climate change issues. Ms. Miller noted that the Rockefeller family, descendants of the founder of Standard Oil and therefore the longest continuous shareholders of Exxon Mobil, have also tried to meet with the board and this press conference was the first time they have brought the family's concerns to the public. Ms. Miller said that not only the Rockefeller family, but also many institutional investors have come out in support of this separation which would hopefully lead to direct discussions with the board.

Don Kirshbaum, Investment Officer, reported on executive compensation, citing that the Treasurer's Office has been working on the advisory vote on executive pay, also known as "say-on-pay," and that several shareholder resolutions have been filed. He noted that movement on this issue has been slow on the corporate level, but work will continue with the proxy advisory services and shareholders to enhance analysis on executive compensation.

Mr. Kirshbaum cited that the Treasurer's office has been working with the Interfaith Center on Corporate Responsibility and reached an agreement with Ford to set greenhouse gas emission goals and disclose how they intend to meet the new fuel economy standards. He also cited that the Treasurer's Office would continue to have ongoing conversations with General Motors. Finally, he commented that in the electric utility area, federal legislation to place mandatory caps on greenhouse gas emissions was likely to pass in 2009, which would have a direct impact on the costs of generating electric power, particularly from coal. In addition, new rate structures would be considered throughout the country that would provide incentives for energy conservation. These two changes will have significant impacts on both the costs and revenues of electric utility companies, and the Treasurer's office is working with several of them to study and disclose these impacts.

Treasurer Nappier complimented the Policy Unit and stated that these issues have been extremely important to all. She also noted that Exxon Mobil has been CRPTF's single largest holding and engaging the company was a huge accomplishment. Chairman Larkin agreed that if Exxon Mobil comes around with regards to governance and management, the rest of the industry would also fall into line.

Comments by Chairman Larkin
Chairman Larkin congratulated Treasurer Nappier on her accomplishments over the past couple of months, including the success of the POB sale and the fact that the legislature agreed to honor the actuarial requirements.

Discussion of preliminary agenda for June 11, 2008 IAC meeting
Chairman Larkin invited IAC members to submit agenda items for the June 11, 2008 meeting. There being no further business, the meeting was adjourned at 11:20 a.m.

An audio tape of this meeting was recorded.

Respectfully submitted,

Denise L Nappier

DENISE L NAPPIER
SECRETARY

Reviewed by

J. T. Larkin

JAMES T. LARKIN
CHAIRMAN