

INVESTMENT ADVISORY COUNCIL
WEDNESDAY, July 13, 2005

MEETING NO. 328

Members present:

Thomas Fiore, representing
Robert L. Genuario
Michael Freeman
David (Duke) Himmelreich
Denise L. Nappier, Treasurer
Sharon Palmer
Clarence (Dick) L. Roberts, Jr., Chairman
David Roth
Carol Thomas
Peter Thor

Absent:

James Larkin
Reginald Martin
William Murray

Others present:

Howard G. Rifkin, Deputy Treasurer
Susan B. Sweeney, Chief Investment Officer
Pamela Bartol, Assistant Investment Officer
Robyn Belek, Deputy Director of Communication
Patricia DeMaras, Associate Counsel
Gary Draghi, Principal Investment Officer
Greg Franklin, Assistant Treasurer-Investments
Bernard Kavalier, Director of Communication
Catherine E. LaMarr, General Counsel
Shelagh McClure, Director of Compliance
Meredith Miller, Assistant Treasurer-Policy
David Scopelliti, Principal Investment Officer
Judy Balich, Executive Secretary
Sarah Carter, Administrative Assistant
Shane Douglas, Intern
Troy Jones, Intern
Michael Auger, Intern

Guests:

Bradley Atkins, Franklin Park, LLC Corporation
Raudline Etienne, CRA RogersCasey
Mary Phil Guinan, Guinan Associates
Harvey Kelly, Leumas Advisors
Jon Lender, Hartford Courant
Nori Gerardo Leitz, Pension Consulting Alliance
Carol Meyers, Service Employees International Union
Julie Naunchek, CSEA-Retiree Council #400
Jeff Nelson, Unite HERE
Juan Prieto, CRA RogersCasey
Daniel Schmitz, CRA RogersCasey
Cynthia Steer, CRA RogersCasey
Donna Trapp, State Street

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

Approval of Minutes

Chairman Roberts asked for comments on the Minutes of the June 9, 2005 Investment Advisory Council ("IAC") Meeting. There being no comments, **a motion was made by David Roth, seconded by Sharon Palmer, that the Minutes of the June 9, 2005 IAC meeting be accepted as drafted. The motion was passed unanimously with one abstention by Thomas Fiore who had not been present at the June meeting.**

Opening Comments by the Treasurer

Treasurer Denise Nappier announced her decision to make a commitment of \$30 million dollars to the Capri Select Income Fund, following the presentation at the June IAC meeting and the favorable feedback from the IAC members. She said that contract negotiations are underway and an August closing is expected.

Treasurer Nappier said that she has also decided to commit up to \$50 million to the New Boston Urban Strategy America Fund, following the presentation at the June IAC meeting, hearing the comments of the IAC members and evaluating the opportunity further. She said that contract negotiations are underway and closing is expected by the end of the summer.

Treasurer Nappier reported that the Master Custodian Contract with State Street Bank was fully executed with very favorable terms, and closed in June 2005. She noted that a key element in the execution of this contract was the flexibility and cooperation of the State Street team.

Treasurer Nappier announced that Landmark Equity Partners XIII, L.P. ("Landmark") has withdrawn its private equity fund offering and would not accept an investment by CRPTF. She said that Landmark made this decision based on the negative publicity surrounding CRPTF's consideration of this fund, but she believed that this fund offering would have been a good business deal for CRPTF.

Treasurer Nappier said that there would be two other investment opportunities presented at today's meeting. She said that the principals of Connecticut-based Starwood Global Opportunity VII, L.P., a closed-end opportunistic real estate fund, for which she is considering a \$50 million investment, would make a presentation. She noted that the fund would provide geographic diversity to the Real Estate Fund with investments in the United States, Europe and Asia. Treasurer Nappier indicated her concern regarding Starwood Capital Group's diversity profile and said that she had expressed her concerns to the general partner and indicated to them that she would expect improvement in the future.

Treasurer Nappier said that a presentation would be made today by the principals of ICV Capital Partners ("ICV") regarding its new fund offering ICV Partners II, L.P. ("ICV II"). She said that this is a unique firm specializing in control buyout investments in businesses that serve, operate or hire from America's inner cities or that are owned, managed by or serve ethnic minorities. Treasurer Nappier stated that she is considering an investment of between \$20 million and \$40 million. Treasurer Nappier noted that ICV is associated with the Initiative for a Competitive

Inner City (“ICIC”), a not-for-profit research and consulting organization founded and led by Michael Porter who is a well-known Harvard Business School professor.

CRPTF Final Performance for April 2005

Susan Sweeney, Chief Investment Officer, said that for the month of May 2005, the CRPTF returned 2.48%, which was 28 basis points below its benchmark. She said that for the fiscal year to date through May, the portfolio returned 9%, 11 basis points over the benchmark. She noted that for the 5 years ended May 31, 2005, the total fund exceeded its benchmark by 133 basis points, mostly attributable to the domestic and international equity portfolios. Ms. Sweeney added that the impact of the equity rebalancing done in May was that total fund equity exposure is now below its 60% statutory cap. She reported that the domestic equity portfolio returned 3.91% in May, which exceeded the Russell 3000 by 12 basis points and the S&P 500 by 73 basis points; for the fiscal year through May, the Mutual Equity Fund was 19 basis points behind the Russell 3000 but 95 basis points above the S&P 500; the International Stock Fund was 9 basis points below its benchmark in May and 27 basis points ahead for the fiscal year to date; the Mutual Fixed Income Fund returned 1.17% in May, which was 29 basis points below its custom benchmark, 9 basis points above the Lehman Aggregate; and the Private Investment Fund returned 8.2% through May.

Quarterly Update on CRPTF Watch List

Ms. Sweeney provided an update of the three managers currently on the CRPTF Watch List.

Ms. Sweeney reported that for fiscal year-to-date as of May 31, TIMCO/Citigroup has underperformed its benchmark by 92 basis points. She said that on June 24, Citigroup announced that it would sell its asset management business to Legg Mason in exchange for Legg Mason’s broker dealer business and other considerations. Ms. Sweeney said that CRPTF is monitoring the situation and does not know how the portfolio management personnel will be affected by this arrangement. She said that performance would continue to be monitored for the next two quarters and that TIMCO/Citigroup will make a presentation to the IAC at the September 2005 meeting.

Ms. Sweeney provided an update on Brown Capital, noting that CRPTF reduced the amount managed by Brown Capital by 50%, leaving them with \$177.1 million as of May 31, 2005. She said that as of May 31, 2005, Brown Capital lagged their custom benchmark by 493, 895 and 848 basis points for the one, two and three year periods. Ms. Sweeney said that April and May performance has shown improvement with the manager outperforming its benchmark by 66 and 157 basis points, respectively. She said that Brown Capital would make a presentation to the IAC at the September meeting.

Duke Himmelreich asked if Brown Capital provided CRPTF with any reasons for their underperformance. Ms. Sweeney said that Brown Capital said that they are not benchmark aware but have always been regarded as stock pickers. She said that their obliviousness to the benchmark has been detrimental, adding that they maintain that they are going through a bad period but do expect to rebound.

Ms. Sweeney reported on Morgan Stanley Magnum, noting that PFM continues to monitor this manager closely. She said that she met with several members of their firm at their New York office in May and one of the individuals with whom she met was Sandip Bhagat, hired after his departure from TIMCO. She said that Mr. Bhagat's role would be that of Head of Global Asset Allocation. Ms. Sweeney observed that on June 30, Morgan Stanley announced the appointment of John Mack as CEO, a move designed to quell the recent turmoil in the banking business. Ms. Sweeney said that during the recent rebalancing of the International Stock Fund portfolio to reduce CRPTF's overall equity cap to within statutory limits, \$50 million of assets were withdrawn from the Morgan Stanley Magnum portfolio.

Report on Corporate Governance and MacBride Compliance

Meredith Miller, Assistant Treasurer of Policy, reported on the Treasury's activities related to corporate governance and MacBride compliance for the period ending March 31, 2005. She provided a summary of statistics for both domestic proxy voting and global proxy voting and reported that there have been no violations of the MacBride Principles.

Ms. Miller said that it is notable that climate risk is one of the two main topics of the G8 Summit, an issue on which the Office of the Treasurer has placed considerable emphasis over the past three years. She said that toward the end of this proxy season CRPTF continued to negotiate with companies to provide reports on their global emissions and economic impact. Ms. Miller said that CRPTF was not as successful with General Motors as with Ford Motor and that Ford Motor has agreed to provide a comprehensive report on the economic impact of emissions.

Ms. Miller provided an update on the Investor Network on Climate Risk ("INCR"). She reported that the numbers of investors now active in the INCR has grown from approximately fourteen to over fifty. She noted that investors won the vote on a climate resolution at Exxon Mobil and won improvements in corporate practices on climate change in 2005 with Ford Motor, JP Morgan Chase, General Electric, seven oil companies and three major electric power companies.

Presentation by and Consideration of ICV Partners II, L.P.

David Scopelliti, Principal Investment Officer, made introductory remarks on ICV II. He noted that ICV is a small cap market buyout firm targeting businesses that serve, operate or hire from America's inner cities, or are owned, managed by, or serve ethnic minorities. Mr. Scopelliti indicated that ICV would pursue companies generating revenues between \$25 million and \$150 million in five broad industry segments: consumer, food/beverage, industrial manufacturing, and business and commercial services. Mr. Scopelliti pointed out that the May 2005 Pacing Study presented by Alignment Capital Group, recommended that CRPTF consider increasing its exposure to small segment of the buyout market.

Mr. Scopelliti stated that ICV was formed through the sponsorship of American Securities Capital Partners ("ASCP") and ICIC. He said that the firm began investing its first fund in 2000 with \$130 million of total capital commitments ("ICV I"). Further, he stated that ICV I has generated a gross IRR of 14.0% and a return on invested capital of 1.3 times.

Chairman Roberts inquired about the economic arrangement between ASCP and ICV. Bradley Atkins of Franklin Park said that ASCP is taking 23.75% of the funds carried interest and ICIC is

taking 5.0%. He said that the manager believes that ASCP's share is fair because of its role in sourcing deals, providing back office support and helping ICV with transaction due diligence.

Mr. Roth asked how active ASCP is in the business decisions at ICV. Mr. Atkins said that both Michael Fisch and Chuck Klein of ASCP are very involved in ICV's investment decisions and monitoring processes.

Presentation by ICV Capital Partners, LLC

ICV Capital Partners, LLC made a presentation to the IAC regarding ICV Partners II, L.P. ICV was represented by Willie Woods, Tarrus Richardson, Lloyd Metz and Cory Mims, all principals of the firm. Mr. Woods provided an overview of ICV I, ICV II, the firm's investment philosophy and corporate citizenship. Mr. Richardson talked about the experience of the firm's investment team and the firm's relationships with ASCP and ICIC. Mr. Metz discussed the focus of ICVCP investment opportunities and sources of deal flow. Mr. Mims talked about the firm's active portfolio management style.

Mr. Roth asked for clarification on the involvement of Mr. Fisch and Mr. Klein in ICV. Mr. Woods explained that Mr. Fisch serves on the investment committee and is the liaison between ICV and ASCP.

Roll Call of Reactions for ICV Partners II, L.P.

Carol Thomas said that ICV had an unusually clear presentation and that she supports the investment. Mr. Roth said that he is very impressed with their structure, target market and alignments and supports the investment. Ms. Palmer said that she is also impressed and feels that they are very solid. Peter Thor said that the presentation was remarkable and that they are an excellent firm. Mr. Fiore said that he is supportive and likes the emerging domestic market philosophy. Mr. Himmelreich said that he would support the investment, however, he expressed his concern that ASCP may be too controlling in the relationship with ICVCP. Chairman Roberts asked Mr. Atkins to comment on Mr. Himmelreich's concern.

Mr. Atkins said that Mr. Fisch helps ICV review and source deals, hire staff and is involved in other operational issues. He said that when ICV develops a more extensive track, ASCP's role and economic interest would diminish over time. Mr. Atkins said that both firms are very comfortable with their relationship and that there is an advantage for ICV to have ASCP as a partner. He noted that ICV has modeled their firm after ASCP. Mr. Atkins said that he feels that these factors mitigate the concern about the economic interest, involvement and oversight by ASCP.

Michael Freeman said that he had the same concern initially and also a concern about their experience, but that given their early performance and the fact that they are tied to ASCP, he thinks that it is a very exciting opportunity. Chairman Roberts said that they did a terrific job and CRPTF will be well served with them.

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

Presentation by and Consideration of Starwood Global Opportunity Fund VII

Gary Draghi, Principal Investment Officer, made introductory remarks on Starwood Global Opportunity Fund VII (“Starwood VII”). He said that this fund is being presented for consideration of approximately a \$50 million investment. Mr. Draghi said that Starwood Capital Group, LLC (“Starwood”) is the general partner of Starwood VII, headquartered in Greenwich, Connecticut and founded in 1991. He said that Starwood has sponsored eight funds, investing approximately \$2.6 billion of real estate equity capital in over 200 transactions with a performance track record that is deemed very strong. Mr. Draghi noted that Starwood VII is an Opportunistic closed end commingled real estate fund with a target size of \$1.5 billion, which is up slightly from the original estimated target of approximately \$1 billion. He said that the fund would include real estate and real estate-related investments such as mezzanine debt, senior housing, hotels with a significant component of international investments in Europe and Asia. Mr. Draghi said that this opportunity would be a diverse complement to the existing real estate portfolio. He pointed out that workforce diversity is not a strong point of Starwood, but that they have acknowledged that workforce diversity is a weak point and have responded to the concern expressed by Treasurer Nappier, PFM and the consultant.

Nori Gerardo Leitz of Pension Consulting Alliance (“PCA”) reported on the due diligence that PCA conducted on Starwood including a general background on the company, their track record with previous funds, the diversity issue and the management of the firm. Ms. Leitz said that the decision of Barry Sternlicht to return full time to the position of President and CEO of Starwood provides a greater level of comfort with the overall investment strategy and philosophy.

Mr. Roth asked if PCA’s analysis, considering Starwood’s extremely wide ranging strategy, found that Starwood has the necessary expertise to carry this out. Ms. Leitz said that she does not believe Starwood will cover the full range of possibilities mentioned and that Starwood’s investment objectives are not that much different from a typical Opportunity fund. She said there would be a significant investment, up to 25%, in the hotel space and Starwood has excellent expertise in that area. Ms. Leitz also noted that in the past, Mr. Sternlicht did a lot of work in the multifamily real estate area and she said that she believes that Starwood will invest in multifamily and senior living, both of which are substantial residential business components to those strategies, and which she views as a corollary to Starwood’s investment expertise in the hotel space.

Presentation by Starwood Capital Group, LLC

Starwood Capital Group, LLC made a presentation to the IAC regarding Starwood Global Opportunity Fund VII. Starwood was represented by Barry Sternlicht, President and CEO; Elizabeth Behnke, Vice President of Investor Relations; and Robin Josephs, Managing Director. Mr. Sternlicht talked about his return to Starwood as Chairman and CEO and his conviction to make positive changes to Starwood’s workforce diversity. He provided information on the firm’s background, business principles and alignment of general partner interest. Mr. Sternlicht

talked about Starwood's investment performance and historical annual performance in some detail. He briefly went over the firm's organization chart and office locations. Mr. Sternlicht highlighted several transactions that are closed or under contract for Starwood VII and emphasized the diversity of investments in all of Starwood's funds. Ms. Josephs talked about Starwood's corporate citizenship and workforce diversity, noting that Starwood has had conversations about workforce diversity with Treasurer Nappier and her staff and that this is an evolutionary process for their firm. She said that Starwood is committed to focusing on changing its workforce diversity and toward that end, Starwood has joined the Toigo Foundation and an organization in San Francisco that assists minority individuals with their careers. Ms. Josephs pointed out that on the information just distributed for workforce diversity and corporate citizenship, one of the questions on Exhibit A asked if the vendor uses minority business or suppliers and the answer should have been "Yes" rather than "No".

Ms. Palmer expressed her pleasure that Starwood is trying to make progress, but said that she would be much more impressed if the staffing report reflected more minorities in the company rather than the employees volunteering their own time for charities.

Mr. Thor asked what union interaction Starwood has in the United States, particularly in any successor arrangements that Starwood may have entered into in purchasing hotels, organizing drives and recognizing unions. Mr. Sternlicht said that Starwood is not a management company and has no preexisting relationship. He said that Starwood Hotel Company is one of the more favorable union hotel companies in the nation and Starwood has had a very good relationship with the union. Mr. Sternlicht said that Starwood teamed with the union and used union labor during the building of the Westin Convention Center and Hotel in Boston.

Mr. Roth asked where Starwood finds investment opportunities relative to property type and geographic location. Mr. Sternlicht said that Starwood is a coastal investor with a preference for residential investments primarily in California and Florida because they are growth states.

Roll Call of Reactions for Starwood Global Opportunity Fund VII

Mr. Freeman said that he is confident that an investment with Starwood will make money, but said that this was the most disconcerting presentation he has heard and expressed concern that Starwood may be providing "lip service" relative to workforce diversity. Chairman Roberts said that he noticed Mr. Sternlicht did not introduce himself and the presentation was very meandering and if not for the consultant, the IAC would not have had the proper information. Mr. Himmelreich strongly recommends the investment and the diversity that it brings to the real estate portfolio. Chairman Roberts added that Jim Larkin, who was not able to attend the meeting today, left a message that he strongly supports the investment in Starwood VII. Mr. Fiore said that he is comfortable with the investment and that their past performance was impressive, but added that he agrees that the presentation could have been much better. Mr. Thor said that he is moderately in favor of the investment and that he was bothered by the glib answer provided by Mr. Sternlicht in response to his question about the unions. Mr. Thor also noted that it is strategically sensible for Starwood to acknowledge that there is a problem within their company with regard to workforce diversity. Ms. Palmer is not supportive of the investment, noting that the presentation was poor, Mr. Sternlicht did not introduce the women or have them participate in the presentation and that Starwood seems to be a one-man-show. She said that they do not seem to understand the meaning of diversity and that troubles her from an

investment standpoint. Mr. Roth said that he thinks the criticisms that have been made are very fair, but that an opportunity to invest with Mr. Sternlicht is as good as it gets in the real estate market and it would be a mistake not to take the opportunity. Mr. Roth also said that he would look to the CRPTF staff to work with Starwood to establish goals for workforce diversity. Ms. Thomas said that she would vote “yes” but with distaste because of Starwood’s positions and status on union and diversity issues as well as Mr. Sternlicht’s negligence in introducing the women who were with him. Chairman Roberts said that from an investment point of view, it is a good investment.

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

Other Business

Status Report on Requests by IAC Members

Ms. Sweeney said that she plans to present the **Diversity Principles** at the September meeting.

Discussion of Preliminary Agenda for August 10, 2005 IAC Meeting

Chairman Roberts said that unless there is a pressing need for the August meeting, he would propose that it be canceled. There being no objections, the August 10, 2005 IAC meeting was canceled.

There being no further business, the meeting was adjourned at 11:40 A.M.

An audio tape of this meeting was recorded.

Respectfully submitted,

**DENISE L. NAPPIER
SECRETARY**