INVESTMENT ADVISORY COUNCIL
WEDNESDAY, September 10, 2008

MEETING NO. 358

Members present:	Thomas Barnes Thomas Fiore, representing Robert Genuario Michael Freeman David (Duke) Himmelreich James Larkin, Chairman Stanley (Bud) Morten William Murray** Denise L. Nappier, Treasurer Sharon Palmer David Roth* Carol Thomas Peter Thor
Others present:	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 Donald Kirshbaum, Investment Officer David Holmgren, Principal Investment Officer Wayne Hypolite, Executive Assistant David Johnson, Principal 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 Lawrence Wilson, Assistant Treasurer-Cash Management Christina McGinnis, Executive Secretary Winifred (Winnie) Scalora, Administrative Assistant
Guests:	Bradley Atkins, Franklin Park Magali Azema-Barac, AIG Global Investment Corp. Laura Bachman, State Street Bank Joseph Barcic, Mercer Investment Consulting Thorsten Becker, Pyramis Global Advisors Trust Company Makaiya Brown, Mercer Investment Consulting Scott Booth, The Townsend Group Arup Datta, Numeric Investors, LLC Stephen Dean, AXA Rosenberg Group, LLC

* Left at 12:30 p.m.
** Left at 3:30 p.m.

Roy DiNicola, Numeric Investors, LLC
Anna Dopkin, T. Rowe Price
Jaeson Dubrovay, New England Pension Consultants
Michael Even, Numeric Investors, LLC
Alan Fields, AIG Global Investment Corp.
Maureen Freeman, AXA Rosenberg Group, LLC
Douglas Greenstein, T. Rowe Price
Arthur Greenwood, Pyramis Global Advisors Trust Company
M.P. Guinan, Guinan Associates
Ann Holcomb, T. Rowe Price
Alexandra Hill, Blackstone Real Estate Partners
Margaret Hearing, OSC-Retirement and Benefits
Robyn Kaplan-Cho, Connecticut Education Association
Harvey Kelly, Leumas Advisors
Michael Kelly, AIG Global Investment Corp.
Don Michak, Journal Inquirer
Julie Naunchek, CSEA-Retiree Council #400
John Power, Pyramis Global Advisors Trust Company
Bryan Schneider, New England Pension Consultants
Claire Shaugnessy, Rogerscasey
Gary Sumers, Blackstone Real Estate Partners
Cynthia Steer, Rogerscasey
Michael Wright, AXA Rosenberg Group, LLC

With a quorum present, Chairman James Larkin called the Investment Advisory Council ("IAC") Meeting to order at 9:00 A.M. Chairman Larkin introduced the newest IAC member, Stanley (Bud) Morten, and commented on his extensive background.

Approval of Minutes

Chairman Larkin asked for comments on the Minutes of the July 9, 2008 IAC meeting. **There being no comments, a motion was made by Duke Himmelreich, seconded by Carol Thomas, that the Minutes of the July 9, 2008 IAC meeting be accepted as drafted. The motion was passed unanimously. David Roth and Mr. Morten abstained from the vote as they were not at the meeting.**

Comments by the Treasurer

Treasurer Denise Nappier began by providing a brief recap of the Connecticut Retirement Plans and Trust Funds ("CRPTF") performance for the 2008 fiscal year and commented on how the CRPTF fared during the turbulent markets for that period. As a backdrop to the performance results discussion, she stated that during the 2008 fiscal year, the S&P 500 fell 13.12%. Treasurer Nappier noted that by comparison, the State Employees' Retirement Fund ("SERF"), the

Teachers' Retirement Fund ("TERF") and the Municipal Employees' Retirement Fund ("MERF") posted negative returns of 4.83%, 4.77% and 4.11% respectively. Treasurer Nappier said that while the results for SERF, TERF and MERF were negative, the plans outperformed their customized benchmarks by more than 200 basis points ("bps") due to the fact that they were well diversified with a defensive position to dampen volatility.

Treasurer Nappier commented on the CRPTF's lack of alternative strategies during these volatile markets and the importance of the plans to implement the Alternative Investment Fund ("AIF"). She compared the CRPTF, which was heavily weighted in stocks and bonds, to other pension plan peers that had more exposure to alternative investments and posted returns that were not as low as the CRPTF's return. Treasurer Nappier reiterated that the goal of the CRPTF alternative strategy was to move into an allocation of up to 8% and that the benefits of this strategy would be to invest in alternatives that do not correlate highly with other traditional asset classes, but improve diversification and dampen volatility. Treasurer Nappier further commented on the need to fully consider all variables of each plan, such as demographics, the liability stream, liquidity needs and various other factors that must be taken into consideration when determining the optimal asset allocation mix.

Treasurer Nappier continued that the AIF implementation was well underway and she introduced the CRPTF's two alternative investment consultants from the New England Pension Consultants ("NEPC") team, Jaeson Dubrovay and Bryan Schneider. Treasurer Nappier said that she and the Pension Fund Management Division ("PFM") were working with NEPC to develop Investment Policy Statement ("IPS") guidelines, which would be shared with the IAC in the near future. Mr. Dubrovay briefly commented on NEPC's role and said they look forward to working with the Treasurer and her staff.

Treasurer Nappier commented that as long-term investors, the CRPTF outperformed the actuarial assumed rate of 8.50% for the five-year period ended June 30, 2008 and the SERF, TERF and MERF returned 9.43%, 9.56% and 9.17%, respectively. She added that this includes fiscal year 2008 and noted that the prior fiscal year's returns were 17.34%.

Turning to today's agenda, Treasurer Nappier announced that the semi-finalists for the Mutual Equity Fund ("MEF") Enhanced Index and the MEF Active Extension Money Manager searches would make presentations.

Treasurer Nappier also stated that a presentation would be provided by The Blackstone Group ("Blackstone") on a European real estate opportunity in Blackstone Real Estate Partners Europe III ("BREP Europe III"). She noted that this fund was created by Blackstone to capitalize on the dynamics of the western European real estate markets and that the CRPTF had a small international exposure, approximately 2% versus a target of up to 20%. Treasurer Nappier said that the CRPTF's other international exposure included IL&FS, an all India fund, and Starwood Opportunity Fund VII, a global fund with assets in Asia, Europe and the Americas. Treasurer Nappier noted that Blackstone was a current manager for both real estate and private equity and the CRPTF had a previous real estate capital commitment to Blackstone VI and a private equity capital commitment to Blackstone Capital Partners III (1997 vintage). She said that the Office of the Treasurer ("OTT") would ask for a waiver for consideration of the 45-day review period since BREP Europe III was nearing its final stages of raising capital and planned to close soon.

Finally, Treasurer Nappier stated that the Watch List, the Connecticut Horizon Fund ("CHF"), the Short-Term Investment Fund ("STIF") and the quarterly reports would be presented. William Murray asked several questions regarding calculations and smoothing for the Teachers' Volunteer accounts within the TERF. Treasurer Nappier responded accordingly and stated that more information would be provided regarding the method for calculations.

Treasurer Nappier officially recognized Mr. Morten and said that the entire IAC welcomed their newest member. She stated that Mr. Morten's expertise and feedback on the many issues that come to the attention of the IAC would be an asset to the IAC.

CRPTF Final Performance for July 31, 2008 and the Fiscal Year Ended June 30, 2008 and the Update on the CRPTF Watch List

Lee Ann Palladino, Acting Chief Investment Officer, noted that Treasurer Nappier reported on the final CRPTF performance for the fiscal year ended June 31, 2008 and stated that she would focus her remarks on three areas; 1) the restructuring of the MEF, 2) the impact of the U.S. Treasury's decision to place the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") into conservatorship and 3) the Watch List.

Regarding the MEF, Ms. Palladino said that the strategic intent was to restructure the MEF in three phases. She stated that the first phase would be to restructure the Large Cap Active and there would be semi-finalists for two searches presented at this meeting; the next phase would be the Small and Mid Cap ("SMID") sub-asset class and the final phase, the 30% opportunistic allocation, would be reviewed on an ongoing basis. Further, Ms. Palladino commented that the MEF strategy is twofold: First, the active bench strength would be replenished and secondly, the MEF would be rebalanced within the asset allocation plan; declining from $8 billion to about $6.5 billion. Ms. Palladino commented on the current structure, the IPS parameters and how these searches would accommodate the MEF's strategic goals.

Ms. Palladino stated that our current enhanced index manager, Barclays Global Investors ("BGI"), represented 38% of the MEF and was formerly on the Watch List. She added that BGI was removed as concerns with its short-term performance and the concentration risk were resolved. Ultimately, Ms. Palladino stated, the CRPTF's exposure to BGI would be reduced from $3.1 billion to a $1 billion or less.

Next, Ms. Palladino discussed the second phase of the MEF restructure, the SMID search. She commented on TCW, which has been part of the SMID space and was placed on the Watch List for concerns about performance in both the short and longer term. Ms. Palladino recapped the performance of TCW over the short and long term. She then commented that TCW stated it expected strong performance over the next six to twelve months, evidenced by July and August where it significantly outperformed its benchmark. Ms. Palladino added that, in spite of recent performance gain, TCW would continue to be monitored closely.

Next, Ms. Palladino reported on the Core Fixed Income Fund ("CFIF"). Mr. Roth asked several questions and discussion ensued regarding the CFIF, the mortgage crisis and the Lehman Aggregate Index ("Lehman Ag") allocation to mortgage-backed securities, which Ms. Palladino satisfactorily answered.

Ms. Palladino discussed the recent U.S. Treasury's actions as it related to the government sponsored enterprises ("GSE"), Fannie Mae and Freddie Mac, and its impact on the CRPTF in general and the CFIF in particular. She discussed the U.S. Treasury's four-point plan to provide stability to the mortgage markets which included the placement of Fannie Mae and Freddie Mac into conservatorship, the establishment of a preferred stock purchase program, the establishment of a new secured lending credit facility and a temporary program to purchase GSE mortgage-backed securities. Ms. Palladino noted the impact to the CRPTF, which included a $54 million stock position, which represented two-tenths of one percent in common and preferred stock that was currently valued at approximately $1 million. She then stated that the $1.8 billion GSE fixed income securities represented 7% of the total CRPTF and would benefit from the U.S. Treasury plan as it strengthened the credit aspects of the debt.

Ms. Palladino reported that Western Asset Management ("WAMCO") was placed on the Watch List due to performance concerns. She then recapped WAMCO's performance over the six and twelve month periods. Ms. Palladino further commented on WAMCO's key staffing issues, and noted the concern about the risks associated with its strategy in view of the market environment and the void in leadership during a difficult market.

Ms. Palladino discussed the remaining Watch List money managers, INVESCO Global Asset Management ("INVESCO") and State Street Global Advisors ("SSGA"). She recapped INVESCO's performance and noted its recent positive performance trends. Finally, Ms. Palladino said that the CRPTF had $6.8 billion invested with SSGA, and noted that SSGA was placed on watch due to high level of senior management restructuring.

Chairman Larkin asked how long companies are on the Watch List. Ms. Palladino responded that a time frame is not used in determining if a company should be terminated or removed from the Watch List, but strategy and performance within the market environment are used in making this determination.

Presentations of Semi-Finalists for the Mutual Equity Fund Enhanced Index Managers

David Holmgren, Principal Investment Officer, provided opening remarks regarding the MEF Enhanced Index Search noting that the Large Cap Enhanced Index segment was targeted up to 30% of the MEF.

Mr. Holmgren then introduced the two firms that would provide presentations for the MEF Enhanced Index Search: AIG Global Investment Corporation ("AIG") and T. Rowe Price Global

Investment Services Limited ("T. Rowe Price"). He stated that both firms were very unique in the way each provided enhanced index management. Mr. Roth asked if AIG was considered to be stable relative to the financial concerns at its parent company. Mr. Holmgren said AIG was an independent and profitable subsidiary; however, the roll down from the parent's troubles was yet to be determined. Treasurer Nappier noted, in general, this management style was liquid and could be moved expeditiously if conditions were warranted.

Presentation by AIG Global Investment Corporation

AIG made a presentation to the IAC on the firm's enhanced index strategy. AIG was represented by Alan Fields, Managing Director of Business Development, Michael Kelly, Managing Director and Global Head of Client Asset Allocation and Structured Equities, and Magali Azema-Barac, Managing Director – Investment Strategies Research and Development. Mr. Fields provided an overview of AIG and cited its extensive capabilities and established track records in managing over $758 billion worldwide through a global reach with local insight. He then reported on AIG's representative partnerships, internal initiatives and its commitment to the State of Connecticut. Mr. Kelly stated that AIG's style uses both quantitative and qualitative principles. He commented on AIG's global equity philosophy and how it serves as the foundation of its research enhanced platform. Ms. Azema-Barac reported on AIG's method of categorizing and ranking companies. Mr. Kelly then provided details about AIG's research enhanced equity team.

Following the presentation by AIG, IAC members posed questions about whether or not AIG's performance changes were relative to up or down markets, the length of its track record, where its fundamental inputs come from, total number of analysts used, its investment process, whether it has been complimentary to BGI, where AIG gets its economic assumptions and what it expects for the coming year. The team from AIG answered these questions to the satisfaction of the IAC members.

Presentation by T. Rowe Price Global Investment Services Limited

T. Rowe Price made a presentation to the IAC on the firm's enhanced index strategy. T. Rowe Price was represented by Douglas Greenstein, Institutional Sales Executive, Ann Holcomb, Portfolio Manager/ Quantitative Analyst and Anna Dopkin, Director of Equity Research, North America. Mr. Greenstein stated that T. Rowe Price was both independently and publicly owned, with 25% of its stock owned by employees, and its U.S. structured research strategy assets under management as of June 30, 2008 were $19.7 billion. He further commented on T. Rowe Price's unique approach focusing on fundamental stock analysis. Ms. Holcomb provided highlights of T. Rowe Price's strategy for picking stocks, alpha sources and investment process. She then spoke about the principles followed for portfolio construction and commented on how stocks that were outside of the S&P 500 were chosen. Ms. Dopkin reported on T. Rowe Price's sector equity research analysts and noted that over 30 analysts contributed to the success of T. Rowe Price's U.S. structured research strategy. Ms. Holcomb added that T. Rowe Price's equity research team members all have similar duties, monitor and communicate daily and statistically have been stylistically neutral to the benchmark. She also reported on T. Rowe Price's performance relative to market returns and stated that it has shown strong performance in both growth and value markets, outperforming in 32 out of 36 of the last quarters with low risk.

Following the presentation by T. Rowe Price, IAC members commented on the presentation and posed questions regarding the "130/30" product. Questions were also asked about why analysts like certain stocks, what T. Rowe Price's analyst turnover has been, where its general economic assumptions come from, and its current view of the economy and markets. T. Rowe Price's team members responded to the IAC questions and comments.

Roll Call of Reactions for the Semi-finalists for MEF Enhanced Index Money Managers

Mr. Roth, Peter Thor, Thomas Fiore, Mr. Himmelreich, Mr. Murray, Mr. Morten, Thomas Barnes and Chairman Larkin all were in favor of T. Rowe Price. Ms. Thomas, Sharon Palmer and Michael Freeman commented positively on T. Rowe Price and AIG. Chairman Larkin added that T. Rowe Price better met the objective for compatibility with BGI and that he was not comfortable with AIG's track record.

Presentations of Semi-Finalists for the Mutual Equity Fund Active Extension Managers

Mr. Holmgren provided opening remarks and introduced the three firms that would provide presentations for the MEF Active Extension search: AXA Rosenberg Group, LLC ("AXA"), Numeric Investors, LLC ("Numeric") and Pyramis Global Advisors Trust Company ("Pyramis"). He said that the Active Extension managers, also termed "130/30" managers, would be included as part of the MEF's Large Cap active allocation. Mr. Holmgren stated that AXA's style was a hybrid quantitative and fundamental; Numeric's style was quantitative and Pyramis was a fundamental money manager; and that the purpose of multiple managers in this search was for diversification of strategy style. He added that this strategy was implemented by several large public plans successfully and many more public plans were moving towards this strategy. Mr. Holmgren added that the CRPTF was looking to invest up to $600 million initially or 2.2% of the CRPTF. Discussion ensued among the IAC members regarding the firms' histories, the potential of the "130/30" strategy to enhance the CRPTF's equity program and whether shorting or this strategy was better suited for a hedge fund firms. Mr. Holmgren pointed out that a "130/30" strategy closely tracks a benchmark.

Presentation by AXA Rosenberg Group, LLC

AXA made a presentation to the IAC on the firm's investment philosophy behind the "130/30" active extension strategy. AXA was represented by Michael Wright, Director of Sales and Marketing, Maureen Freeman, Director of Portfolio Management, and Stephen Dean, Product Strategist. Mr. Wright noted that AXA had over 340 clients and managed about $120 billion in assets with $2.7 billion in the active extension strategy. He further commented on AXA's 12-year relationship as a manager for the State of Connecticut in the U.S. SMID space. Mr. Wright commented on AXA's diversity and corporate citizenship, Connecticut's domestic equity brokerage program and expanding environmental social and governance research. Mr. Wright said AXA was a fundamental investor with a bottom-up process, quantitatively delivered. Mr. Dean spoke about AXA's investment philosophy and process by providing a history of the active extension product. He then provided an explanation of AXA's strategy and the use of valuation models, an earnings forecast model and a risk model. Ms. Freeman provided AXA's "130/30" strategy overview and its implementation process which included relationships with multiple prime brokers. She noted that the fund's benchmark was the Russell 1000 and their risk characteristics reflected the benchmark's characteristics.

Following the presentation by AXA, IAC members posed several questions including: How much shorting added to returns, how AXA made the earning forecasts, how risk characteristics were assessed and whether or nor risk assessment was quantitative driven. The AXA team answered these questions to the satisfaction of the IAC members.

Presentation by Numeric Investors, LLC

Numeric made a presentation to the IAC on the firm's active extension strategy. Numeric was represented by Roy DiNicola, Director of Institutional Sales, Michael Even, President and Chief Executive Office, and Arup Datta, Managing Director and Head of U.S. Core Equity Strategies Group. Mr. DiNicola provided a brief introduction of Numeric and said that it was founded in 1989 with the single goal of adding value to its clients' portfolios. He added that this had been accomplished through its disciplined systematic process, commitment to research and commitment to an aggressive stance on asset capacity management. Mr. DiNicola noted that Numeric was an institution-only firm with 75 institutional clients including public plans.

Mr. Evan reported on the business goals and philosophy of Numeric and stated that it was about alpha first and value-added investing. He then provided Numeric's asset breakdown by client type, the organizational structure and its "130/30" credentials. Mr. Evan noted Numeric's extensive shorting experience and described its investment beliefs and processes. Mr. Datta explained in more detail the investment process which included a history of the research of its "130/30" product. He stated that a fundamental concept was used to formulate the process and included valuation and information flows using the S&P 500 as its benchmark. Mr. Datta then spoke about Numeric's investment philosophy and what the portfolio would deliver going forward. Finally, Mr. Evan noted Numeric's history of long-term success.

In response to questions from IAC members, the Numeric team commented on the period used for reporting Numeric's track record and discussed the current market and how Numeric had fared as a quantitative money manager. The Numeric team commented on workforce diversity and corporate citizenship.

Presentation by Pyramis Global Advisors Trust Company

Pyramis made a presentation to the IAC on the firm's active extension strategy. Pyramis was represented by Arthur Greenwood, Senior Vice President and Relationship Manager, John Power, Senior Vice President, and Thorsten Becker, Sector Portfolio Manager. Mr. Greenwood provided an overview of Pyramis and spoke about its success in the "130/30" space. He stated that Pyramis had abundant resources, broadly at Fidelity as well as within the institutional focus of the Pyramis Global Advisors' team. Mr. Power provided an overview of Pyramis' equity investment philosophy and explained how it managed its "130/30" portfolio focusing on risk management. Mr. Becker provided information about the unique structure of the Pyramis sector team and noted that all sectors have beaten the benchmarks for ten years.

Following the presentation by Pyramis, IAC members posed questions regarding Pyramis' track record, the amount invested in Large Cap corporations, the variability in the annual performance of Large Caps, and its diversity. The Pyramis team answered these questions satisfactorily.

Roll Call of Reactions for the Semi-finalists for MEF Active Extension Money Managers

Messrs. Barnes, Murray, Freeman, Fiore, and Chairman Larkin were comfortable with all three active extension money managers. Mr. Himmelreich preferred Pyramis and Numeric. Mr. Morten and Ms. Thomas responded positively to AXA. Ms. Palmer and Mr. Thor were most comfortable with AXA and Numeric.

Presentation of Blackstone Real Estate Partners Europe III

David Johnson, Principal Investment Officer, provided opening remarks regarding BREP Europe III. Mr. Johnson stated that Blackstone VI, a global opportunity fund, presented to the IAC in 2007 for an investment of $100 million. He said that the fund was 40% committed with two primary investments, Equity Office and Hilton Hotels and both were performing well and ahead of plan. He noted that these purchases were public to private and this strategy would also be used for BREP Europe III. Mr. Johnson stated that Blackstone's strategies include purchasing European real estate properties that were undervalued; purchasing distressed debt and corporate and government divestitures; and expansion of existing operating platforms. He added that competition was low and Blackstone was qualified to execute these strategies. Mr. Johnson then spoke about Blackstone's staff and expertise and noted it completed 54 transactions in Europe for $3.4 billion in total equity; 28 of those investments had fully liquidated generating a 35.7 internal rate of return ("IRR") and a 2.2 multiple. He added that Blackstone, with its exposure to all European markets and major property types, would provide good diversification. Mr. Johnson said that BREP raised $17 billion in equity since 1991, completed 228 transactions and had a 39.2% IRR over the life of the firm for a 2.5 times multiple. Finally, Mr. Johnson noted good returns were repeated in both down and up markets, an indication of the manager's success in varying market environments.

Mr. Roth asked whether Blackstone's new publicly-traded status would impact its performance and discipline. Mr. Johnson and Scott Booth, Principal of The Townsend Group, both discussed the alignment of the limited partners to the general partner, and how the principals have utilized Blackstone stock to further align interests. Mr. Morten raised several concerns about the global perspective of investing in both old and emerging Europe. Treasurer Nappier stated that it was important to remember that these investments would be for the long term and the commitment period is generally over the next several years, and added that the draw down would take place when the opportunities arose.

Mr. Thor asked if there was a potential conflict with Hilton. Mr. Johnson said there was no conflict with Hilton because new Hilton Hotels could be declined by BREP Europe III. Mr. Johnson discussed the limited effect of Blackstone VI's co-investment of 20% to 40% in all BREP European III's in response to Chairman Larkin's question. Treasure Nappier noted that Blackstone's global platform had always included a co-investing strategy. Mr. Johnson discussed Blackstone's leverage strategy and the current adverse market environment that Blackstone has had a proven record of investing in. Mr. Morten asked about currency risk and Mr. Johnson replied that investing could be done either with euros or dollars. Both Mr. Morten and Mr. Roth expressed concern about purchasing properties since the dollar was so undervalued.

Presentation by The Blackstone Group

Blackstone made a presentation to the IAC on BREP III. Blackstone was represented by Alexandra Hill, Principal, and Gary Sumers, Senior Managing Director, who provided a brief history of their past experience, a brief overview of Blackstone and a presentation on BREP Europe III, which is a commingled closed-end fund focusing on public-to-private transactions, the sale of packages of real estate from public companies and the purchase of assets from government entities. Ms. Hill reported on BREP's investment performance and noted the consistency of the returns throughout all real estate cycles. Mr. Sumers highlighted Blackstone's investment strategies in 2001. He stated that Blackstone invests side-by-side with its limited partners and that it had invested over $1.5 billion of the $17.6 billion invested. He then covered the Blackstone team in Europe.

Mr. Sumers then reported on BREP's European investment strategy and noted that BREP sold $41 billion of real estate in 2007 within the U.S. and Europe and purchased non-traditional operational assets that had much higher yields such as student housing, healthcare, residential and distressed property to create value over time. He also discussed Blackstone's long standing European track record and European opportunities going forward. Mr. Sumers stated that in Europe, a substantial percentage of real estate has been owned by corporate and government agencies, and expects there will be a substantial number of corporate divestitures and commented on the many large corporations that own vast amounts of real estate so they will be liquidating within the next five years.

Following the presentation by Blackstone, Ms. Thomas asked questions regarding the overhead of the funds, noting that BREP Europe III had high fees. Mr. Sumers responded that the fee load has not changed, noted that Blackstone has added staff and offices so the resources are being put back into the company and stated it has provided the highest net returns over the past 17 years for its limited partners. Mr. Morten asked about the investment opportunities in the distressed European economy. Mr. Sumers responded that focusing on European investing has been profitable because even though the European economies have been slowing there have been many distress opportunities and Blackstone has been able to profit from these investments.

In response to additional questions, Mr. Sumers stated that Blackstone, the public company, had no debt, but investments would be leveraged at a rate of about 65%, and borrowed in the same currency as the revenue stream. Commenting on cultural changes in Blackstone since it moved from a private to a public company, Mr. Sumers stated that aside from investor accounting functions, nothing has changed. Ms. Hill responded to Ms. Palmer's concerns about workforce diversity and the lack of minorities and women in management positions.

Roll Call of Reactions for Blackstone Real Estate Partners Europe III

Chairman Larkin asked the members of the IAC to vote on this $50 million investment in BREP III and requested their comments.

Messrs. Barnes, Freeman, Himmelreich, Fiore, Thor, Mss. Palmer and Thomas, and Chairman Larkin supported the commitment. Messrs. Murray and Roth were not present for the vote. Mr. Morten abstained from the vote and said he had no concerns about Blackstone but he didn't have enough in-depth background information on this European transaction. Treasurer Nappier noted that many of the comments brought up today by the IAC members were already researched by staff members of the OTT as part of its due diligence process.

Chairman Larkin asked for a motion to waive the 45-day waiting period for Blackstone Real Estate Partners Europe III. **A motion was made by Peter Thor, seconded by Carol Thomas to waive the 45-day waiting period for BREP Europe III. Mr. Morten abstained; the motion was passed.**

Combined Investment Funds Review as of June 30, 2008

Joseph Barcic and Makaiya Brown of Mercer reported on the overall investment results for the Combined Investment Fund for the quarter and fiscal year ended June 30, 2008. Mr. Barcic discussed the attribution analysis, which was done at the fund level and showed the asset allocation and manager selection. Ms. Brown discussed the attribution for each fund, highlighting individual manager contributions. Mr. Himmelreich asked if the currency overlay was reflected in the performance of the developed international stock fund. Ms. Palladino commented on the currency overlay and stated it was not included in the June 30, 2008 quarterly report because of the transition to new overlay manager.

Private Investment Review as of March 31, 2008

Bradley Atkins of Franklin Park reported on the Private Investment Fund for the quarter ended March 31, 2008 and commented on the current state of the capital markets and how it has impacted the private equity portfolio. Mr. Atkins stated that the amount of capital that was invested per year going back to 1997 through the first quarter of 2008 declined about 33% versus all of 2007, demonstrating a substantial slow down. Mr. Atkins provided a highlight of how the PIF performed since 2002 versus current market conditions and noted that overall there was no significant impairment to the portfolio. He noted that in particular mezzanine funds were doing well and were taking advantage of the current credit conditions. Mr. Atkins said that all the funds were being watched and tracked very closely.

Following Mr. Atkins' report, Mr. Morten asked how the different PIFs were chosen in the mix between venture capital and buyout and about the target for venture capital strategies. Mr. Atkins responded and also noted that the program had been diversified and was opportunistic in terms of investment selection.

Connecticut Horizon Fund Review as of June 30, 2008

Claire Shaughnessy of Rogerscasey reported on the Connecticut Horizon Fund ("CHF") for the quarter and fiscal year ended June 30, 2008. Ms. Shaugnessy stated that the CHF was down only 34 bps, which was 81 bps ahead of its benchmark and for the fiscal year returned negative 7.61% to 186 bps ahead of its benchmark. She further noted that since its inception in September 2005 the fund has returned, net of all fees, 5.8% or 86 bps ahead of its benchmark. Ms. Shaughnessy reported that as of June 30, 2008 the CHF had a total of $693.9 million which was down slightly from March 31, 2008 due to the negative returns of the markets.

Following Ms. Shaughnessy's report, Treasurer Nappier commented that this program was launched in 2005 within a very short period of time, but noted that the graduation policy for existing money managers would have to be developed as this initiative was designed for emerging funds. Additionally, she noted that while CHF is diversified and serving as an incubator for new ideas and investment strategies, the program's investment guidelines may need to be amended. Treasurer Nappier then commented on the many facets of diversification and said that the fund has continued to give mainstream portfolios competition.

Short-Term Investment Fund Review as of June 30, 2008

Lawrence Wilson, Assistant Treasurer-Cash Management, reported on the performance of the STIF for the quarter and fiscal year ended June 30, 2008. He stated that the STIF's average annualized yield for the quarter was some 12 bps below the benchmark of similar money market funds and reflected the STIF's conservative investment strategy pursued since December 2007, in which a higher level of liquidity was maintained with a shorter average maturity. Mr. Wilson added that the STIF also restricted the types of securities it was purchasing and the average maturity was 22 days. He reported that for the fiscal year ended June 30, 2008 the STIF returned 4.13% or 6 bps above its benchmark and as a result earned an additional $3 million for the State of Connecticut, state agencies and local governments that invested in the STIF and added $1.9 million to its reserves. Mr. Wilson commented that, as reported several times over the past year, the STIF had one investment in Cheyne Finance, which went into receivership last year and went through a restructuring that was effective July 23, 2008 when the STIF exchanged the Cheyne position for pass-through notes in the name of Gryphon Funding. He added that with other senior creditors, the STIF owned a pro-rata share of the portfolio of securities that was underlying the Gryphon Fund's notes and this report valued the position at a level that represented recovery of about 76% of the STIFs original investment, but the reserves of $54 million covered that reduction without endangering the $1 per share net asset value or risking the loss of principal to any of its investors.

Chairman Larkin commented that the STIF is not under the purview of the IAC and that it has its own advisory council.

Other Business

Chairman Larkin provided a brief review of the IAC budget for the fiscal year ended June 30, 2008. An IAC member asked whether Governor Rell had lifted the travel ban. Treasurer Nappier stated that the travel ban was for general funds, but the IAC members still needed to be judicious even though they are covered under a separate fund. Chairman Larkin invited IAC members to submit agenda items for the October 8, 2008 meeting.

Comments by Chairman Larkin

There being no further business, the meeting was adjourned at 3:50 p.m.

An audio tape of this meeting was recorded.

Respectfully submitted,

DENISE L. NAPPIER
SECRETARY

Reviewed by

JAMES T. LARKIN
CHAIRMAN