

**INVESTMENT ADVISORY COUNCIL**  
**WEDNESDAY, October 11, 2006**

**MEETING NO. 339**

**Members present:**

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

**Others present:**

Howard G. Rifkin, Deputy Treasurer  
Susan B. Sweeney, Chief Investment Officer  
Robyn Belek, Deputy Director of Communication  
Patricia DeMaras, Associate Counsel  
Greg Franklin, Assistant Treasurer-Investments  
David Holmgren, Principal Investment Officer  
David Johnson, Principal Investment Officer  
Catherine E. LaMarr, General Counsel  
Shelagh McClure, Director of Compliance  
Meredith Miller, Assistant Treasurer-Policy  
Jason Price, Investment Officer  
Linda Tudan, Executive Assistant to the Treasurer  
Judy Balich, Executive Secretary

**Guests:**

Bradley Atkins, Franklin Park, LLC  
Laura Backman, State Street Bank  
Vonda Brunsting, Service Employees International Union  
Raudline Etienne, CRA RogersCasey  
Harvey Kelly, Leumas Advisors  
Julie Naunchek, CSEA-Retiree Council #400  
Daniel Schmitz, CRA RogersCasey  
Cynthia Steer, CRA RogersCasey  
Jeffrey Trencher, State Street Bank  
Marc Weiss, Pension Consulting Alliance  
Thomas Woodruff, Office of the Comptroller

Chairman Dick Roberts called the meeting to order at 9:05 A.M.

### Approval of Minutes

Chairman Roberts asked for comments on the Minutes of the September 13, 2006 Investment Advisory Council (“IAC”) Meeting. David Roth said that the minutes reflect that he seconded the motion for approval of the June 21, 2006 IAC Minutes and he said that he did not attend the June meeting and probably did not second the motion to approve those minutes. Chairman Roberts asked Judy Balich to check and edit the minutes as necessary. There being no further comments and noting that one exception, **a motion was made by Peter Thor, seconded by Michael Freeman, that the Minutes of the September 13, 2006 IAC meeting be accepted as drafted. The motion was passed unanimously.** (Note: Upon subsequently listening to the recording of the meeting, it was determined that the motion was seconded by Peter Thor.)

### Opening Comments by the Treasurer

Treasurer Denise Nappier began her remarks by announcing that after considering the IAC’s overwhelmingly positive feedback on the presentation by Court Square Capital Partners, II, she decided to commit \$100 million to this fund. She noted that this commitment would be subject to satisfactory contract negotiations.

Moving to the day’s agenda, Treasurer Nappier indicated that three current Connecticut Retirement Plans and Trust Funds (“CRPTF”) managers are back to present new fund offerings, one in real estate and two in private equity. She said that all three of these managers have performed well for the CRPTF. Treasurer Nappier said that the first fund being presented for consideration is an investment in Kohlberg, Kravis and Robert’s KKR 2006 Fund L. P. (“KKR 2006”). She noted that KKR 2006 is large, targeting total commitments of \$16 billion, and will focus on leveraged acquisitions of large cap companies in a variety of industries. Treasurer Nappier remarked that a few years ago Connecticut’s portfolio was somewhat over-weighted to the large buyout sector of the private equity market, but with the passage of time and the commitments that the CRPTF has made to other sub-sectors of the private equity market, Connecticut again needs to maintain its exposure to the mega-buyout space, and this is one of the best vehicles to do just that. She said that she is considering a commitment of up to \$150 million to this fund and that since this fund is in its final stages of fundraising, she would like to ask the Council to consider a waiver of the 45-day comment period on this opportunity.

Treasurer Nappier said that the real estate investment opportunity is Rockwood Capital Real Estate Partners Fund VII, L.P. (“Rockwood VII”), a group familiar to the IAC members. She noted that the CRPTF is a limited partner in Rockwood V and VI, both of which have produced solid results. Treasurer Nappier indicated that Rockwood VII is a closed end, commingled, value added real estate fund that will pursue a strategy similar to those of Rockwood’s prior funds, focusing on value creation strategies including redevelopment and repositioning, as well as some possible development in supply constrained markets. She said that she is considering a commitment of up to \$50 million to Rockwood VII and that because Rockwood would like to conclude its fundraising, she would request a waiver of the 45-day comment period on this investment.

Treasurer Nappier said that the third presentation this morning would be from Farmington-based Fairview Capital Partners (“Fairview”). She recalled that Fairview took over the management of the Crossroads Constitution Fund from the Crossroads Group in 2004. Treasurer Nappier provided some background information on the origins of that Fund in 1987 when Connecticut committed \$100 million through a fund-of-funds managed by Bigler Investment Management. She noted that since 1987 that investment, with two subsequent \$100 million commitments from the CRPTF, has achieved the remarkable performance of more than 20% annualized. Treasurer Nappier reminded the group that last year the CRPTF had committed \$200 million to Constitution Fund II (“Constitution II”), a separate account venture capital fund-of-funds under Fairview’s management, so that it could take advantage of the many relationships with top-tier venture funds that were established long ago in the Constitution Fund. She said that because Constitution II is essentially fully committed, Constitution Fund III (“Constitution III”) would be presented for consideration. She also said that Constitution III would follow the successful strategies of Constitution Funds I and II but that the pace of Constitution III would assume a more normalized track than that of Constitution II. Treasurer Nappier indicated that she is considering a commitment of up to \$300 million to this fund-of-funds.

Treasurer Nappier said that based on some informal feedback as well as additional comments received from some of the IAC members on the preliminary draft proxy voting guidelines, they have been removed from the agenda. Treasurer Nappier said that the IAC would be informed when the necessary reviews are complete and the IAC’s formal review process will begin.

#### **CRPTF Final Performance for August 2006**

Susan Sweeney, Chief Investment Officer, reported that for the month of August 2006, CRPTF returned 2.19%, which was 10 basis points below the benchmark without the manager objective added in, and 21 basis points below with the objective. She noted that looking out over the longer term, the CRPTF has outperformed its benchmark by 147 basis points annualized over the past seven years, and has exceeded its manager objective by 9 basis points annualized over the same period. Ms. Sweeney said that the domestic equity portfolio gained 2.01% in August, trailing its Russell 3000 benchmark, which rose 2.45%, by 44 basis points. Ms. Sweeney added that for the longer term, the Mutual Equity Fund has annualized 3.77% for the past seven years, outperforming its benchmark, which has risen an annualized 2.61%, by 116 basis points. Ms. Sweeney pointed out that although the CRPTF’s enhanced equity managers, BGI and AXA Rosenberg, trailed their benchmarks during August they both remain substantial out-performers over the longer periods exceeding their benchmarks for the past seven years by of 173 basis points and 485 basis points, respectively. She reported that CRPTF’s two active small/mid cap managers, Brown Capital and Trust Company of the West (“TCW”), bounced back in August after trailing in July. She said that during August, Brown rose 3.45% while TCW rose 2.78%, both exceeding their benchmarks by about 70 and 25 basis points respectively and that for the seven-year term, TCW has outperformed its benchmark by 458 basis points annualized while Brown underperformed in that period. Ms. Sweeney noted that the International Stock Fund gained 3.09% in August, outperforming its customized benchmark by 14 basis points. She said that there were two positive out-performers, Emerging Markets Management which gained 3.63% in August, a relative gain of 103 basis points and Massachusetts Financial Services (“MFS”) which gained 3.40%, a relative gain of 119 basis points. She also said that there were two negative small cap performers, Morgan Stanley and Schroders. Ms. Sweeney reported that

the currency overlay program added 53 basis points. Ms. Sweeney reported the fixed income portfolio posted a 1.47% return for August, trailing its benchmark by 20 basis points and the Lehman Brother Aggregate (“LBA”) by 6 basis points. She said that the standout in the group is Core manager, Western Asset Management, who has returned 7.93% for the seven years ended August, an excess performance of 164 basis points over the LBA. Ms. Sweeney noted that the returns for the Real Estate (“REF”) and Private Investment Funds (“PIF”) have just begun to be reported for June.

Subsequent to a concern expressed by Duke Himmelreich there was a lengthy discussion regarding investments in private equity and real estate. The pacing studies, target commitments and consultants’ awareness were reviewed. Treasurer Nappier said that in the future, when a fund offering is presented, information regarding the fund and the commitment and how the particular offering will fit with that fund would be included.

### **Securities Lending Review**

Jeffrey Trencher of State Street Bank provided a review of the Securities Lending activity as of August 31, 2006. His report on the performance summary comparing fiscal years 2005 and 2006, as well as summaries for July and August of 2006, included balance, utilization, and earnings and spread statistics. Mr. Trencher also provided a fiscal year performance variance analysis, an economic overview, portfolio strategy and separate account portfolio characteristics.

Mr. Trencher provided additional information on the Current Portfolio Strategy following a question from Cynthia Steer of CRARC. William Murray indicated that a glossary of terms for the report would be helpful and Treasurer Nappier requested that a glossary be included in future reports.

### **Presentation by KKR 2006 Fund, L.P.**

Jason Price, Investment Officer, provided introductory remarks regarding the KKR 2006 Fund, L.P. His remarks included the fact that Kohlberg Kravis Roberts & Co. (“KKR”) has been in business for thirty years and that CRPTF has current investments in two other KKR funds, KKR 1996 Fund, L.P and KKR Millennium Fund, L.P., which he noted is one of the best performing investments in PIF with a net IRR of over 50%.

Treasurer Nappier asked Brad Atkins of Franklin Park to comment on an October 10th Wall Street Journal (“WSJ”) article regarding an investigation by the Department of Justice on collusion in private equity. Mr. Atkins said that the article mentioned three firms, Silver Lake Partners, KKR and The Carlyle Group and that the article was assessing whether or not private equity firms are colluding on transactions. There was a subsequent discussion regarding collusion in the market and the potential of CRPTF’s overexposure in a single transaction through multiple investments. Mr. Himmelreich suggested that Treasurer Nappier could discuss the issue with other State Treasurers at meetings with her peers. Treasurer Nappier indicated that a better group within which to discuss the issue would be the Institutional Limited Partners Association and that she will ensure that CRPTF has representation at that meeting.

**Presentation by Kohlberg Kravis Roberts & Co.**

Kohlberg Kravis Roberts & Co. made a presentation to the IAC on KKR 2006. KKR was represented by Paul Raether, Partner and Alisa Wood, Principal. Mr. Raether provided an overview of the firm's experience, philosophy, strategy and industry expertise. He also talked about KKR's operational value added and Connecticut's investments in KKR. Ms. Wood discussed large buyout opportunities, the expanding need of equity and the firm's ten-year cash flow history.

Following the presentation by KKR, IAC members posed questions regarding the recent article regarding "club bids" and how much of a distraction it may cause and how it may impact business deals, the significant number of deals with negative returns, KKR's "100 day plan" for improving the performance of a company and KKR's lack of workforce diversity. Mr. Raether and Ms. Wood provided answers to all of the questions posed.

**Roll Call of Reactions for KKR 2006 Fund, L.P.**

James Larkin said that he was in favor of the investment without reservation. Mr. Freeman said that he was in favor of the investment. Mr. Murray said that he was impressed with Franklin Park's preliminary report, KKR's answers to the questions, with the exception of the workforce diversity, and supported the investment. Mr. Himmelreich said that he supported the investment. Thomas Fiore said that he supported the investment and thought KKR's answers to the questions were impressive but that they did need to work on workforce diversity. Mr. Thor said that he thought KKR was very weak on workforce diversity and he was a little nervous about the firm, but would support the investment. Sharon Palmer said that it was probably a sound investment, but that she thought the response to workforce diversity was a bad answer. Mr. Roth said that he was strongly in favor of the investment and though he understands the importance of workforce diversity, the honest answer from Mr. Raether on the subject should not be construed as a bad answer. Carol Thomas said that she supported the investment. Chairman Roberts said that he supported the investment and suggested referring KKR to the Toigo Foundation. Ms. Sweeney said that she had spoken with KKR about the Toigo Foundation.

Chairman Roberts asked for a motion to waive the 45-day comment period for KKR 2006 Fund, L.P. **A motion was made by Ms. Thomas, seconded by Ms. Palmer to waive the 45-day comment period for KKR 2006 Fund, L.P. The motion was passed unanimously.**

**Presentation by Rockwood Capital Real Estate Partners VII, L.P.**

David Johnson, Principal Investment Officer, provided opening remarks regarding Rockwood Capital Real Estate Partners, VII, L.P. In response to a question from Mr. Himmelreich earlier during the meeting, Mr. Johnson noted that CRPTF has \$540 million of outstanding commitments, which added to CRPTF's existing \$400 million portfolio is a total of \$940 million. He said that the 5% real estate asset allocation is approximately \$1.1 billion. He also noted that there is approximately \$250 million of older funds that would be liquidated over the next two years. Mr. Johnson reported that in line with the pacing study, CRPTF committed \$65 million in 2004, \$325 million in 2005, \$375 million in 2006 and is projecting \$340 million for 2007. He said that three and one-half years to build the REF to the \$1.1 billion level is a reasonable pace.

Marc Weiss of Pension Consulting Alliance (“PCA”) reviewed the due diligence conducted by PCA and added that since the due diligence, Rockwood Capital Corporation (“Rockwood”) has decided to move its offices from Greenwich, Connecticut to White Plains, New York. He said that the decision was made for various reasons, including convenience for existing employees and availability of space. Two of the principals of the firm will continue to reside in Connecticut and the firm will continue to support Connecticut-based charities. Mr. Johnson added that Rockwood VII would be CRPTF’s third commitment to Rockwood and that the total commitment for the three funds would be \$110 million, 20% of the current REF, but only 9.5% of the targeted \$1.1 billion. He reminded the IAC that the Investment Policy Statement allows 40% with a single manager.

Mr. Johnson addressed a concern expressed by Ms. Palmer at a previous meeting regarding the over-exposure to the Southeast area of the country and explained that Rockwood investments are directed to the Northeast and West Coast, which would begin to reduce CRPTF’s exposure to the Southeast. He said that an investment in Rockwood VII would also begin to build CRPTF’s core asset portfolio of apartments, offices, retail and industrial, the four groups on which Rockwood focuses. Mr. Johnson said that Rockwood’s history began in 1980 and they have a 15.8% portfolio IRR, an extraordinary number given the fact that Rockwood survived the real estate depression in the late 1980’s and the recession of the early 2000’s. He also said that the projected IRR for Rockwood Fund V, to which CRPTF has a \$40 million investment, is 23.7%.

#### **Presentation by Rockwood Capital Corporation**

Rockwood Capital Corporation made a presentation to the IAC regarding Rockwood Capital Real Estate Partners Fund VII, L.P. Rockwood was represented by Peter Falco, Senior Managing Director; Walter Schmidt, Senior Managing Director; and Jennifer Levy, Managing Director. At the request of Mr. Johnson, Mr. Falco spoke about the two lawsuits that Rockwood currently has pending against third parties for failure to adhere to contractual obligations. Mr. Falco then summarized Rockwood’s first six funds and talked about the investment strategy for Rockwood VII, including Rockwood’s use of four key factors; capital flows and liquidation; U.S. employment growth; U.S. population growth; and areas impacted by globalization population growth. Mr. Schmidt discussed the firm’s Fund V and Fund VI portfolios with details on illustrative investments of both Funds.

Ms. Thomas asked about the 25% of the investment that could be invested outside of the United States. Mr. Falco explained that in the previous six funds, Rockwood has not found an appropriate international investment, and they are not looking for international investments at this time. He said that Rockwood, however, is insistent on maintaining its flexibility in the event a major package of properties that includes an international component becomes available. He further explained that Rockwood invests with joint venture partners who would bring the appropriate expertise to manage the investments.

#### **Roll Call of Reactions for Rockwood Capital Real Estate Partners VII, L.P.**

Mr. Roth said that Rockwood has done a great job, returns are superior, the strategy is right and he is very supportive of the investment. Ms. Palmer, Mr. Thor, Mr. Fiore, Mr. Himmelreich, Mr.

Murray, Mr. Freeman, Mr. Larkin, Ms. Thomas and Chairman Roberts all said that they support the investment.

Chairman Roberts asked for a motion to waive the 45-day comment period for Rockwood Capital Real Estate Partners VII, L.P. **A motion was made by Mr. Larkin, seconded by Mr. Murray, to waive the IAC 45-day comment period for Rockwood Capital Real Estate Partners VII, L.P. The motion was passed unanimously.**

**Presentation by Fairview Constitution III, L.P.**

Mr. Price provided introductory remarks regarding Fairview Capital Partners noting that CRPTF's relationship with Fairview began in 2004 when Fairview assumed responsibility for managing Constitution Fund I. He further noted that CRPTF made an investment commitment to venture capital through Constitution II in the amount of \$200 million in January 2005. Mr. Price explained the reasons that CRPTF chose to partner with Fairview, which were to generate top tier returns in the venture space and to gain access to the top tier managers. Mr. Price acknowledged that the IAC members might have concerns regarding bringing the Constitution III opportunity so soon after committing to Constitution II and explained the reasons that CRPTF made a decision to consider this commitment. He also addressed the issue of the pacing of Constitution II, which has been much quicker than anticipated with almost 80% committed over 13 months and explained the reasons for this quick pace. Mr. Price said that if CRPTF were to make a commitment to Constitution III, it would constrain the investment pace and negotiate a lower fee structure.

Following the introductory remarks, IAC members asked questions regarding vintage year exposure and the ability to end the contract if CRPTF is not satisfied with the performance of Constitution III. The vintage year exposure was addressed in some detail by Mr. Atkins.

**Presentation by Fairview Capital Partners**

Fairview Capital Partners made a presentation to the IAC regarding Fairview Constitution III, L.P. Fairview was represented by JoAnn Price, co-founder and President and Rebecca Connolly. Ms. Price provided overviews of Fairview, Constitution Liquidating Funds, L.P and Constitution II. Ms. Connolly talked about Fairview's investment process and provided an overview of Constitution III. Ms. Price then talked about Constitution III's competitive advantage, which creates opportunity for its partners.

Following the presentation by Fairview, IAC members inquired further about vintage year exposure. Ms. Price and Ms. Connolly provided detailed responses to that inquiry.

**Roll Call of Reactions for Fairview Constitution III, L.P.**

Mr. Larkin said that he was comfortable with the investment as long as the annual investment amount is restricted. Mr. Freeman and Mr. Murray both said that they were fine with the investment. Mr. Himmelreich said that he would agree with the investment as long as the recommended annual investment restrictions are followed. Mr. Fiore said that he thought \$300 million is high, but would accept the investment based on the recommendation by Ms. Sweeney

and Franklin Park. Mr. Thor said that he would support the investment with the caveat of a fee reduction as recommended by Ms. Sweeney. Ms. Palmer said that the investment would be fine with a fee reduction. Mr. Roth said that Fairview does not have a real track record with CRPTF and he did not have a good understanding of Fairview's performance and he was uncomfortable with a \$300 million commitment, but would reluctantly go along with the investment based on the recommendations from Ms. Sweeney and Franklin Park. Ms. Thomas noted that she is somewhat uncomfortable with the vintage year concentration of the investment, but would support it based on all of the information provided. Chairman Roberts said that he supports the investment.

**Update on CRPTF Cash Flow**

Gregory Franklin, Assistant Treasurer-Investments, summarized the cash flow for fiscal year 2006 and the projection for fiscal year 2007.

Ms. Thomas asked Mr. Franklin to provide the figures for Teachers' Retirement Fund and State Employees' Retirement Fund. He said that he would get those figures for her.

**Other Business**

Chairman Roberts advised the Audit Committee that there would be a meeting on November 15, 2006 at 8:30 a.m. in the seventh floor small conference room.

**Status Report on Requests by IAC Members**

Ms. Sweeney noted that there is one pending item regarding PFM staffing.

**Preliminary Agenda for November 15, 2006 IAC Meeting**

Ms. Sweeney said that agenda items would include an update on the Watch List and that there may be a couple of private equity investment opportunities.

There being no further business, the meeting was adjourned at 12:50 P.M.

An audio tape of this meeting was recorded.

Respectfully submitted,



**DENISE L. NAPIER  
SECRETARY**