INVESTMENT ADVISORY COUNCIL
Wednesday, December 8, 2010

MEETING NO. 381

Members present:	Thomas Barnes Thomas Fiore, representing Brenda Sisco Michael Freeman David (Duke) Himmelreich Stanley (Bud) Morten William Murray Denise L. Nappier, Treasurer Sharon Palmer David Roth Joseph (Joe) D. Roxe, Chairman Carol Thomas Peter Thor*
Others present:	Howard G. Rifkin, Deputy Treasurer Linda Hershman, Assistant Deputy Treasurer/Chief of Staff M. Timothy (Tim) Corbett, Chief Investment Officer Lee Ann Palladino, Deputy Chief Investment Officer Joanne Dombrosky, Principal Investment Officer Wayne Hypolite, Executive Assistant Adrian Kingshott, Principal Investment Officer Donald Kirshbaum, Investment Officer Catherine LaMarr, General Counsel Shelagh McClure, Director of Compliance Christine Shaw, Director of Government Relations Reginald Tucker, Investment Officer Linda Tudan, Executive Assistant Lawrence Wilson, Assistant Treasurer-Cash Management Winifred (Winnie) Scalora, Administrative Assistant
Guests:	Bradley Atkins, Franklin Park Associates, LLC Joseph Barcic, Mercer Investment Consulting Scott Booth, The Townsend Group Robert Calabrese, State Street Bank & Trust Jeffrey Dishner, Starwood Capital Group Craig teDuits, State Street Bank & Trust Sean Gill, NEPC, LLC Rashid Hassan, Mercer Investment Consulting Alexandra Hill, The Blackstone Group Robin Kaplan-Cho, Connecticut Education Association Harvey Kelly, Leumas Advisors Louis Laccavole, SOC Teachers' Retirement Board Michael Nash, The Blackstone Group

***Arrived at 9:10 a.m.**

Randall Rothschild, The Blackstone Group
Scott Schwind, Rogerscasey
Adam Tosh, Rogerscasey

With a quorum present, Chairman Joseph Roxe called the Investment Advisory Council ("IAC") meeting to order at 9:05 a.m.

Approval of Minutes of the October 13, 2010 IAC Meeting

Chairman Roxe asked for comments on the Minutes of the October 13, 2010 IAC meeting. **There being no comments, a motion was made by David Roth, seconded by David Himmelreich, that the Minutes of the October 13, 2010 IAC meeting be accepted as drafted. The motion was passed with the exceptions of Stanley Morten, William Murray and Sharon Palmer who abstained due to their absence from the last meeting.**

Chief Investment Officer's Update on the Market, CRPTF Final Performance for the Quarter Ended September 30 and Month Ended October 31, 2010, Combined Investment Funds Review as of September 30, 2010, Watch List Update, Connecticut Horizon Fund Review for the Quarter Ended September 30, 2010 and Tail Risk Management Discussion

M. Timothy Corbett, Chief Investment Officer ("CIO"), began his remarks by providing an update on the capital market environment, its impact on the performance of the Connecticut Retirement Plans and Trust Funds ("CRPTF") and the economic outlook. He commented on three major events: (1) The second round of quantitative easing ("QE2") that Ben Bernanke, Chairman of the United States Federal Reserve, had implemented, and its short-term impact on the market; (2) the European sovereign debt concerns that resurfaced in November and inflation concerns within emerging markets; and (3) the current news about weaker payroll, higher unemployment and the Obama/Republican tax extension agreement. Mr. Corbett commented on the positive current economic data, but he added that there were longer term economic concerns. He then spoke about the insider trading allegations that were currently in the news.

Mr. Corbett then reported on the performance for the CRPTF for the month ended October 31, 2010. He reported that the Combined Investment Funds ("CIF") had increased 2.2% with pension fund assets at almost $24 billion, up $0.5 billion for the month ended October 31, 2010; increases of over 11% and 8.76% for the 2011 fiscal year and 2010 calendar year-to-date, respectively. With respect to fund performance, Mr. Corbett stated that five of the eight public market funds outperformed their benchmark in October, six of eight outperformed for the trailing quarter and five of eight outperformed for the 2010 calendar year-to-date and the trailing one year period. He commented on the Mutual Equity Fund ("MEF") performance and the asset allocations for the Teachers' Retirement Fund ("TERF") and the State Employees' Retirement Fund ("SERF").

With respect to performance for the quarter ended September 30, 2010, Mr. Corbett presented the overall investment results for the CIF. He reported that 10 of the 12 plans and trusts that have benchmarks outperformed for the calendar year to date; 11 of the 12 outperformed over the trailing one-year; the TERF, SERF and Municipal Employees' Retirement Fund ("MERF") outperformed for the trailing three-year horizon; and TERF outperformed, SERF was slightly flat and MERF underperformed for the trailing five-year horizon. Mr. Corbett noted that the TERF, SERF, MERF, Probate Judges Employees' Retirement Fund and State Judges' Retirement Fund were the most sophisticated of the CRPTF because they had allocations to the Real Estate and Private Investment Funds ("REF and "PIF"); therefore, performance over the near and long term differed from that of the other plans and trusts. In response to Chairman Roxe, Mr. Corbett provided brief explanations of the purpose of each of the plans and trusts. Deputy Treasurer Howard Rifkin stated that during the last asset and liability study, the underlying legal authorization and asset allocation of each fund was reviewed. Joseph Barcic, Principal, and Rashid Hassan, Associate, Mercer Investment Consulting, Inc., provided additional comments on the CIF. Mr. Barcic spoke about the MEF's benchmark and Mercer's two-market cycle analysis, which concluded that the MEF performed well over a fourteen-year horizon from June 1996 to June 2010. In response to Mr. Morten's question on whether indexing to the Russell 3000 was better, Mr. Barcic stated that 65% of the portfolio was already indexed or nearly indexed. Chairman Roxe commented that when thinking about indexing, we should keep in mind that: (1) over a 10-year period about 80% of managers do not outperform the index net of fees and (2) most of the return was based on asset allocation and not on managerial stock selection. He added that looking at month-to-month performance was probably not fruitful, and that focus should be on a longer-term quarterly or annual performance. Moving into 2011, Chairman Roxe commented that it was necessary to determine the discussions that would be most beneficial to the IAC. He then complimented Mr. Barcic on the CIF Report.

Mr. Corbett provided an update on the CRPTF Watch List as of September 30, 2010. He stated that BlackRock Investment Management LLC's ("BlackRock") scientific equity risk controlled mandate (formerly Barclays Global Investors' enhanced risk mandate), and BlackRock's core fixed income mandate remained on Watch due to organizational and investment process changes. Mr. Corbett added that BlackRock was applying considerable resources to address performance issues. He added that in both cases performance trends were positive, but both would remain on watch.

Mr. Corbett then reported on the Connecticut Horizon Fund for the quarter ended September 30, 2010. With respect to the public markets, he reported an outperformance relative to the CHF's benchmark of 34 basis points ("bps"), 23 bps, 32 bps, and 46 bps respectively, for the quarter ended September 30, 2010, the trailing year, the trailing three years and since inception. Mr. Corbett noted that manager diversity statistics had not changed. Regarding the private equity portfolio within the CHF, he stated that the portfolio was still relatively young and there were no new fund commitments for the quarter ended September 30, 2010.

Mr. Corbett led the continued discussion on Tail Risk Management. He began by recapping the discussions that were held at the September and October 2010 IAC Meetings. Mr. Corbett said that use of tail risk methods would be examined within the context of the broader Asset Allocation Study and Asset and Liability Analyses, which would be underway during 2011. In response to Mr. Morten, Mr. Corbett stated that the Asset Allocation Study would be formally started once the new general consultant has been hired.

Comments by the Treasurer

Treasurer Denise Nappier began by commenting on the economic improvements of Fiscal Year ("FY") 2010 and also noted that FY 2011 was poised well with positive performance results up 11.04% fiscal year-to-date. She then made several announcements regarding changes in the Office of the Treasurer ("OTT"). Treasurer Nappier announced that Meredith Miller, Assistant Treasurer for the Policy Unit, had accepted a new position. She added that this opportunity was a testament to the stature of the corporate governance field and to Ms. Miller's career and legacy at the OTT. Treasurer Nappier then announced that today's IAC meeting was the last for Deputy Treasurer Howard Rifkin and Chief of Staff Linda Hershman, who would both retire on December 31, 2010. She acknowledged the many years of service and dedication of these two professionals; and added that she could not express enough gratitude to both Howard and Linda for their exceptional skills and contributions. She then was joined by the IAC in extending her best wishes to Deputy Treasurer Rifkin and Chief of Staff Hershman. Treasurer Nappier then welcomed the newest member of the Pension Fund Management ("PFM") Division, Reginald Tucker as Investment Officer for the PIF, the Alternative Investment Fund ("AIF") and the REF, and noted that Mr. Tucker was a Robert Toigo Fellow, a distinguished MBA graduate-level fellowship for minority professionals committed to careers in finance. With respect to the CRPTF consultants, Treasurer Nappier announced that Cynthia Steer, Special Projects Consultant, had left Rogerscasey after nearly 10 years. She extended her thanks to Ms. Steer for her many dedicated years of consultant service to the CRPTF. Treasurer Nappier's final announcement was that the Town of Fairfield, CT, dismissed all claims against NEPC, the CRPTF's AIF consultant. She added that there was an out-of-court settlement in which Fairfield withdrew its claims and agreed to release NEPC from any claims it brought in the case.

Treasurer Nappier then commented on the recently completed bi-annual actuarial valuations for the CRPTF's two largest plans, TERF and SERF. She stated that the actuarial valuation of the systems' liabilities as of June 30, 2010, covering the FY 2009 and FY 2010 time frames, was recently released and it provided analysis of both the actuarial required contribution ("ARC") and the funding levels of both plans, among other pertinent information. She further stated that the funding ratio for TERF declined from 70.1% to 61.4% or $9.1 billion, and there would be a 30% increase in the State's annual contribution from FY 2011 to FY 2012 or $175 million. With respect to SERF, Treasurer Nappier reported that the funding ratio declined from 51.9% to 44.4% or $11.7 billion, and the annual contribution would be up about 8% for the State from FY 2011 to FY 2012 or $79 million. She added that the liability side had been growing more rapidly than the assets and that the impact of the 2010 actuarial valuation would be visited during the upcoming Asset Allocation and Asset/Liability Study. Discussion continued regarding the underfunding of the TERF and SERF, the ARC, annual contribution and funding practices and the actuarial assumptions.

Real Estate Fund Review as of June 30, 2010

Lee Ann Palladino, Deputy CIO, provided a report on the REF for the quarter ended June 30, 2010. Scott Booth, Principal of The Townsend Group, and Jeffrey Dishner, Head of Acquisitions, Starwood Capital Group, provided additional comments on the REF. Ms. Palladino began by reporting that the current market value of the REF was at $761 million or 3.5% of the CRPTF's total assets. She then provided the performance results for the REF and stated that it had underperformed its National Council for Real Estate Investment Fiduciaries ("NCREIF") index for all horizons from the quarter ended June 30, 2010 out to inception. Ms. Palladino noted that the three main drivers of the performance included: (1) the NCREIF itself, which is comprised of unlevered core properties; (2) the CRPTF did not have adequate vintage year diversification; and (3) the pre-1999 legacy funds were underperforming median returns. In response to Mr. Roth, Ms. Palladino explained and compared the differences in risk levels, return, ability to generate cash, and specific nuances of each strategy for Core, Value-add and Opportunistic investments. She then reported on the REF's performance by strategy against comparable benchmarks.

Ms. Palladino then provided an overview of real estate investment plans for the upcoming calendar year and commented on potential investment activity, by strategy. IAC members posed several questions about the OTT's real estate strategy. Ms. Palladino concluded her comments and responded to IAC questions by discussing an allocation to distressed real estate. She reminded IAC members of the strategic objectives of the REF, and concluded that an investment in distressed real estate complemented the REF objectives. Ms. Palladino said an allocation to distressed real estate would contribute to capital preservation, enhance cash flow, mitigate the effects of the j-curve and provide compelling risk adjusted returns.

Real Estate Market Discussion

Ms. Palladino provided opening remarks and introduced Mr. Dishner who provided a presentation entitled, "State of the Real Estate Market." Mr. Dishner began his comments by stating that while the real estate market had been through tumultuous times over the past few years, there were now signs of stability in many sectors. He then provided a general overview of current economic factors and elaborated on the following six areas of opportunities within the current real estate market: (1) the deep distressed debt market with supply continuing for several years; (2) the origination of new opportunistic debt, although the window was beginning to close; (3) expectation that selective core office and multifamily markets would be fruitful but competitive; (4) the importance of global exposure because real estate performance was highly correlated to demand and emerging markets would have demand for years; (5) expectation that the U.S. would benefit from demographic trends fueling housing growth eventually; and (6) the effects of the global recovery would impact hotels.

Mr. Dishner then spoke about the uncertainty and risks within the real estate market that had created unease for investors and commented on the following three areas of economic uncertainty: (1) stubborn unemployment; (2) uncertain regulatory environment; and (3) the uncertain fiscal and tax policy. He added that housing investment levels were the lowest in 50 years and despite record housing affordability, demand continued to be low. Mr. Dishner then elaborated on the benefits the low interest rates have had on the economy and in particular the commercial real estate market. He next spoke about the search for yield and noted that even with flat equity flows, real estate investment trust prices had increased dramatically. Mr. Dishner stated that new supply in most real estate asset classes was limited and that has allowed the real estate markets to begin recovering. He then spoke about the vacancy, cap rates and interest rates. Chairman Roxe commented that banks were unwilling to foreclose in order to protect their balance sheets and asked when the banks would begin foreclosing again. Mr. Dishner responded that banks held the majority of maturing real estate debt and were making money due to the low interest rates, and that should allow financial institutions to gradually repair their balance sheets over the next several years.

Consideration for the Search Process for the Real Estate Separate Account

Ms. Palladino presented a project plan timeline and evaluation/selection criteria for the Real Estate Separate Account search. She stated that the search would be conducted on a competitive basis utilizing the expedited search process by which the OTT primarily considered managers within the database universe of the REF consultant, The Townsend Group. Ms. Palladino said that the contract with AEW Capital Management, the current separate account manager, would expire on May 4, 2011. She elaborated on the screening and selection criteria.

Chairman Roxe asked for a motion to endorse the Search Process for the Real Estate Separate Account. **Carol Thomas entered a motion to move forward with this search. Ms. Palmer seconded the motion.** Mr. Morten then requested that the following be added to the screening selection criteria: the outlook for the core real estate market. In response to Mr. Murray's request, Ms. Palladino stated that Treasurer Nappier would invite IAC members to the interviews. Finally, Mr. Corbett commented that consideration was given with respect to providing this service in-house, but it was not deemed to be cost effective. Ms. Palladino said that the interview schedule will be provided to the IAC members per Chairman Roxe's request. **The motion was passed unanimously.**

Presentation by and Consideration of Blackstone Real Estate Special Situation Fund II

Ms. Palladino provided opening remarks and introduced Blackstone Real Estate Special Situation Fund II ("BSSF II"), a real estate investment value-add opportunity. She first provided a review of the strategic fit of distressed debt within the REF and noted that the value add strategy, currently at 23%, was at the low end of the range of 20% to 40%. Ms. Palladino stated that BSSF II expected to generate about 66% of its return from current income with the balance to appreciation and that its portfolio was constructed to preserve capital and generate current income. Ms. Palladino then commented on the advantages of investing in BSSF II and CRPTF's prior and current experience with Blackstone. Finally, she spoke about Blackstone's professional team and its 16 dedicated real estate debt professionals. Ms. Palladino stated that the commitment amount to BSSF II was not yet determined and that value-add strategies would be up to $100 million during the 2010 calendar year, in response to Thomas Fiore. Discussion ensued about value-add versus opportunistic debt. Thomas Barnes posed a question about BSSF II's team's prior real estate investment strategies and affiliations, Ms. Palmer posed a question about potential conflicts of interest and Peter Thor posed a question about a possible key man issue. Mr. Booth and Ms. Palladino responded to their satisfaction.

Presentation by The Blackstone Group

The Blackstone Group ("Blackstone"), represented by Alexandra L. Hill, Principal; Michael Nash, Senior Managing Director; and Randall Rothschild, Managing Director; made a presentation to the IAC on its firm's real estate investment opportunity. Ms. Hill began by commenting about the CRPTF's commitments in Blackstone Real Estate Partners VI, L.P., and Blackstone Real Estate Europe Partners, L.P. She said that BSSF II was focused on capital preservation and distributing current income on a quarterly basis. Mr. Nash provided an overview of Blackstone and commented on its small cohesive team, consistent investment strategy and track record for the past 20 years. Mr. Nash then spoke about BSSF II's investment strategy implementation within the evolving market environment. He commented on BSSF II's ability to earn strong returns and noted that as of September 30, 2010 it had gross returns of 32.6% and net returns of 26.4%. Mr. Nash commented that the strategy was agnostic to the economic outlook and would perform well in both strong and deteriorating environments given the strong credit underwriting standards.

In response to Mr. Roth's questions, Mr. Nash stated that BSSF II would purchase existing debt at a discount and underwrite new originations. He noted that Blackstone had an extensive long-standing relationship with the commercial mortgage community affording multiple sourcing options. Mr. Morten posed questions regarding duration risk for BSSF II and inflation expectations during the investment period. Mr. Nash responded that the expected life of a loan would be two to four years with contract life about five to seven years; however, should the economic cycle turn negative or interest rates increase, the loans could experience an extension in its expected life. He then commented on the benefits of floating rate loans and hedging interest rates. In response to Chairman Roxe, Mr. Nash stated that the Fund would be fully deployed by the end of the investment period (2013) given the expectation of robust investment activity. With respect to Mr. Morten's question about concentration risk, Mr. Nash said that borrower, asset type, geography and deal size were diversified, that Blackstone currently had an average deal size of 5% to 10% of the fund, and that any one deal is limited to 20% of the fund. He added that Blackstone had vast experience in the major property types and primarily invested in the major U.S. markets. Finally, in response to Mr. Barnes' question regarding Mr. Nash's involvement in Merrill Lynch, Mr. Nash qualified that Merrill's exposure to residential mortgages was an issue for the firm and not the commercial real estate function which Mr. Nash had managed.

Roll Call of Reactions for Blackstone Real Estate Special Situation Fund II, L.P.

Chairman Roxe requested the IAC members to provide input on Blackstone Real Estate Special

Situation Fund II, L.P. Messrs. Morten, Murray, Himmelreich, Fiore and Thor, Ms. Palmer, Mr. Roth, Ms. Thomas, Michael Freeman, Mr. Barnes and Chairman Roxe approved of the investment. Mr. Morten added that Mr. Nash was an excellent manager. Mr. Roth added that he was in favor of the investment, was also comfortable with Mr. Nash, and he expected reasonable returns, but that he believed the investment was risky. Chairman Roxe added that he would also like to see other investors in this area and that he was concerned about having too much exposure to any one manager.

Chairman Roxe asked for a motion to waive the 45-day comment period for Blackstone Real Estate Situation Fund II, L.P. **A motion was made by Mr. Morten, seconded by Ms. Thomas, to waive the 45-day comment period for** Blackstone Real Estate Special Situation Fund II, L.P**. The motion was passed unanimously.**

Consideration for the Search Process for an Investment Consultant

Ms. Palladino provided a project plan timeline and evaluation/selection criteria for the General Investment Consultant search. She first noted that Mercer Investment Consulting had decided to leave the investment consulting business for U.S. public fund defined benefit plans and would terminate the CRPTF's contract on March 31, 2011. Ms. Palladino stated that the search would be conducted on a competitive basis utilizing the Request for Proposal process. She then mentioned the major milestones of the project plan and discussed the screening selection criteria. She noted that the mandate called for both general consulting and risk management service. Mr. Morten requested that with regard to the screening selection criteria, each candidate should describe the optimum role of a general consultant to a large pension fund. He added that because the world was changing, relationships with general consultants also needed to be changed.

Chairman Roxe asked for a motion to endorse the Search Process for an Investment Consultant. **Mr. Freeman entered a motion to move forward with this search. Ms. Palmer seconded the motion. The motion was passed unanimously.**

Private Investment Fund Review as of June 30, 2010

Adrian Kingshott, Principal Investment Officer, reported on the PIF for the quarter ended June 30, 2010. Bradley Atkins, Chief Executive Officer of Franklin Park Associates, provided additional comments on the PIF. Mr. Kingshott began by stating that the performance was up 2% for the quarter ended June, 2010, which followed a 4% increase in the prior quarter. He also reported that the PIF returned a net internal rate of return ("IRR") of 17.3%, 2.2% and 8.9%, respectively for the one, three and five-year horizons, exceeding its benchmark by 2.9%, 3.5% and 9%, respectively. Mr. Kingshott stated that during the last quarter of FY 2010, $80 million of committed capital was invested and $104 million was received through distributions.

Mr. Kingshott stated that the fundraising market had stabilized and the U.S. venture and buyout investment activity had rebounded from its lows. He said that pricing trends were strengthening with the economy and the capital markets, and that leverage trends were also increasing. On a positive note, he stated that both the U.S. venture and buyout M&A and IPO exits were stable and improving.

Mr. Himmelreich posed questions about the lengthy time frames for some of the investments. Mr. Atkins responded that the typical life of a fund was ten years and that some funds extend for two or three years and finally liquidate within two to three additional years. With respect to unfunded commitments, Ms. Thomas asked whether they would stay unfunded or be partially drawn down and Mr. Kingshott replied that he expected the funds would be drawn down within one to two years.

Short-Term Investment Fund Review as of September 30, 2010

Lawrence Wilson, Assistant Treasurer-Cash Management, reported on the performance of the Short-Term Investment Fund for the quarter ended September 30, 2010. Mr. Wilson reported that the STIF had an average annualized yield of 25 bps, 14 bps over its benchmark, which is an average of similar money market mutual funds, first-tier institutional-rated money funds, resulting in an additional $1.7 million for state and local governments invested in the STIF. He stated that the STIF had maintained its conservative investments posture with a weighted average maturity of 21 days with 72% of assets available overnight or on a same-day basis and 48% of assets are in securities issued, guaranteed or insured by the U.S. government or federal agencies, in repurchase agreements backed by such securities, or in money funds comprised of such securities. In response to Chairman Roxe, Mr. Wilson stated that the remaining 52% was comprised of bank deposit instruments and bank commercial paper. He then commented on the STIF's cost structure, which was well below that of the industry. Chairman Roxe complimented Mr. Wilson on the results.

Other Business

Mr. Corbett presented the proposed IAC budget for the fiscal years ending June 30, 2011 and 2012. He noted that the FY 2010 reduction in spending was primarily due to savings from the travel, education and commuter costs. Mr. Corbett stated that the FY 2011 and FY 2012 budgets were below the FY 2010 budget by roughly $2,500 to $3,500 while maintaining the education costs. Finally, Mr. Corbett presented the budget for the quarter ended September 30, 2010, and he noted that it came in under budget due to not spending for education and travel. Chairman Roxe then asked for a motion to approve the IAC budget for the fiscal years ending June 30, 2011 and 2012. **Mr. Freeman entered a motion to approve the budget for the fiscal years ending June 30, 2011 and 2012. Ms. Thomas seconded the motion. The motion was passed unanimously. Mr. Freeman then congratulated Treasurer Nappier on her reelection.**

Comments by the Chairman

Chairman Roxe joined the IAC members in congratulating Treasurer Nappier on her reelection, and said that it was a well deserved victory. He remarked that Treasurer Nappier had done an excellent job and that she would be a crucial figure in shaping the economic outcome of the State over the next few years given the fiscal issues relating to the pension plans. Chairman Roxe concluded that we are fortunate to have Treasurer Nappier's leadership. Treasurer Nappier thanked Chairman Roxe and the IAC members for their supportive comments. In closing, Chairman Roxe commented on the issues to be reviewed and discussed during the 2011 calendar year. There being no further business, the meeting was adjourned at 1:15 p.m.

An audio tape of this meeting was recorded.

Respectfully submitted,

DENISE L. NAPPIER
SECRETARY

Reviewed by

JOSEPH D. ROXE
CHAIRMAN