INVESTMENT ADVISORY COUNCIL
WEDNESDAY, FEBRUARY 11, 2004

MEETING NO. 312

Members present:	Thomas Fiore, representing Marc S. Ryan Reginald Martin Denise L. Nappier, Treasurer Sharon Palmer Henry E. Parker Clarence (Dick) L. Roberts, Jr., Chairman Carol Thomas
Members absent:	Clare Barnett David Roth Rosalyn Schoonmaker
Others present:	Howard G. Rifkin, Deputy Treasurer Susan B. Sweeney, Chief Investment Officer Patricia DeMaras Associate Counsel Gary Draghi, Principal Investment Officer Gregory Franklin, Assistant Treasurer-Investments Guy Garcia, Principal Investment Officer Bernard Kavaler, Director of Communication Catherine E. LaMarr, General Counsel Meredith Miller, Assistant Treasurer- Policy Jason Price, PFM Intern David Scopelliti, Principal Investment Officer Robert Scott, Assistant General Counsel
Guests:	Raudline Etienne, CRA RogersCasey Cynthia Steer, CRA RogersCasey Margaret Riley, INVESCO Private Capital Harvey Kelly, Leumas Advisors Julie Naunchek, CSEA-Retiree Council #400 Barbara Randolph, A.G. Edwards & Sons, Inc. Maria Luce, State Street Corp. Timothy Barron, CRA RogersCasey Michael Iodice, CRA RogersCasey

Chairman Dick Roberts called the meeting to order at 9:30 A.M.

Opening Comments by the Treasurer

Treasurer Denise Nappier said that later in the meeting a presentation would be given by General Counsel Catherine LaMarr and Assistant General Counsel Robert Scott regarding a new policy of the Attorney General's Office concerning disclosure of gifts received from any vendor receiving a contract valued at greater than $100 thousand.

Treasurer Nappier noted that of the six firms interviewed, there will be presentations today by four finalists for the Constitution Fund Manager, which is valued at approximately $600 million.

Treasurer Nappier informed the IAC that at next month's meeting, someone from State Street Bank's Performance Analytics unit will be making a presentation on TUCs rankings and the analysis and research that goes into the preparation of these statistics. She also noted that at that time, the final rankings for December 31 for the Combined Retirement Plan and Trust Fund ("CRPTF") will be available.

Treasurer Nappier said that another presentation today will be from AIG HealthCare Partners, a finalist under consideration for a private equity mandate, on their new fund offering. She said that the pension fund currently has $100 million committed to AIG Global Emerging Markets Fund, and that commitment was made in 1997, with a different investment group within AIG.

Treasurer Nappier informed the IAC that interviews have been scheduled for the candidates for the Fund of Funds mandate on February 25 and 26, 2004 and all members of the IAC are invited to attend the interview sessions.

Chairman Roberts asked Treasurer Nappier if she would like to comment on the World Economic Forum that she recently attended. Treasurer Nappier said that it was an overwhelming experience with over 2000 participants, approximately 400 from the United States. She said that she sat on a panel that focused on long-term corporate strategies and how corporate executives deal with long-term strategies, as opposed to quarterly goals. She said that she focused on disclosures and whether or not they were adequate enough for investors to make informed decisions about a company. She said the three areas where she thought there was need for improvement were expensing of stock options, related party transactions and climate change. Treasurer Nappier indicated that most of her time dealt with the importance of companies indirectly affected by climate change and the need for them to begin to assess their liability and plan to mitigate climate risk and disclose those plans to investors. She said that the investor then would have an appreciation of what the companies are doing over the long-term so that the values of shares in those companies would not be adversely affected. Treasurer Nappier said that there was a lot of interest in climate change and other countries outside of the USA are far ahead in placing it high on their civic agendas. She said that she was asked if her main fiduciary responsibility is to invest in the primary interest of the beneficiaries. Treasurer Nappier made it clear that the primary responsibility is in the best interest of the beneficiaries. She explained that if companies do not plan to mitigate the climate risk today, the value of their shares may be

substantially impacted and that the primary reason for the Treasury's interest is as an investor, not an environmentalist. Treasurer Nappier feels that the panel on which she participated went across very well and thinks that there is now a global interest among institutional investors becoming involved on the issue of climate change.

Approval of Minutes

The Minutes of the January 14, 2004, Investment Advisory Council meeting were discussed. Chairman Roberts asked if there were any comments on the Minutes. Henry Parker asked that the words "lamented that he wonders" on Page 9, sixth line from the bottom of the page be changed to "wondered" regarding his remarks on the Goodwin Hotel. Treasurer Nappier commented that there seemed to be some confusion in the minutes relative to the diversity discussion beginning on page 2 and concluding on page 3. She said that there was not a clear distinction between workforce diversity and diversity as it pertains to the firms with which the Treasury does business. Subsequent to this, there was a lengthy discussion regarding the difference and the final outcome was that Reginald Martin made a formal request that the Treasurer consider establishing the "Parker Diversity Principles." **A motion was made by Carol Thomas, seconded by Mr. Martin, that the Minutes of the January 14, 2004 IAC meeting be accepted with the correction. The motion was passed unanimously.**

Susan Sweeney, Chief Investment Officer, introduced Jason Price who recently joined PFM as an intern. Ms. Sweeney noted that Mr. Price is working with PFM for the next six months but will leave at the end of the summer to attend Harvard Business School to pursue his MBA.

CRPTF Final Performance for November 2003

Ms. Sweeney reported that for the month of December, the CRPTF posted a return of 3.47%, which was 45 basis points below the benchmark return of 3.92%. She said that the strongest performer for the month, as well as for the quarter, fiscal year to date and full calendar year, was the International Stock Fund ("ISF"). Ms. Sweeney reported that for December, the ISF returned 7.37% vs. its benchmark return of 5.75%. She reported that the Mutual Equity Fund ("MEF") returned 4.46% for the month, which was close to its benchmark, the Russell 3000, at 4.57% and the Mutual Fixed Income Fund ("MFIF") returned 1.39%, 11 basis points behind its benchmark.

Ms. Sweeney indicated that the year 2003 was a strong one for the fund and that overall, the fund returned 19.52%, buoyed by strong domestic and international equity markets. She said the MEF returned 32.05% for the year, besting its benchmark by 99 basis points, and the ISF returned 37.45%, or 206 points ahead of its benchmark. Ms. Sweeney report that the Fixed Income Fund returned 8.12% for the year, ahead of the Lehman Aggregate by 401 basis points, but underperformed the customized benchmark return of 10.62% by 250 basis points. She explained that while the Lehman Aggregate is 73% of the MFIF benchmark, the other components are the Citigroup High Yield index, which returned 30.62% for the year, and a 10% weighting to Emerging Markets Debt ("EMD"), which posted almost a 29% return for the year. She also noted that while the MFIF benefited from the performance of its high yield managers, its underexposure to EMD had an impact on its performance versus its customized benchmark.

Ms. Sweeney said that Private Equity returned 1.39% for calendar 2003, which trailed Venture Economics by 167 basis points, but significantly lagged the S&P 500's return of 28.68%.

Ms. Sweeney reported that cash flow statistics for the year ended December 31 showed contributions to the Fund of $104 million, offset by withdrawals of $1.017 billion, for a net outflow of $913 million. She indicated that these statistics are just for PFM, which are the only statistics we have on an ongoing basis. She also said that PFM is working on the quarterly update for the cash flow report, but is experiencing some difficulty in extracting the necessary data from the CORE system, which is the new state wide accounting system that was implemented last year. Treasurer Nappier asked if the figure includes the early retirement benefits. Ms. Sweeney said that information is part of the data for which PFM is waiting. She added that the net outflow of $913 million will not change, what will change are the gross contributions and withdrawals.

Manager Persistence Presentation and Discussion

Raudline Etienne of CRA RogersCasey ("CRARC") introduced Timothy Barron, managing director and head of research at CRA RogersCasey. Mr. Barron reported on data retrieved from CRARC Equest database regarding the performance of managers. He reported that there are many variables that persistently predict manager success and that by assessing those variables, through an intensive analysis, it is possible to identify managers that will perform well in the future.

Mr. Martin asked if the Treasury has a written commitment to indexing. Treasurer Nappier said that the Treasury does not have a written commitment and that the Treasury's exposure to index funds is roughly 80% of the public equity and that the majority of that 80% is enhanced. She said that once there is a structural review of the public equity asset class the Treasury will look at the balance between passive and active.

Private Investment Fund Review as of September 30, 2003

Margaret Riley of INVESCO Private Capital gave a report on the Private Investment Fund for the quarter ending September 30, 2003. She began by commenting on the financial environment. She said that the second half of 2003 was characterized by strong gains in the public equity market, improved quarterly returns in private equity, overall economic improvement and an improved IPO market. Ms. Riley said the NASDAQ was up 49% and the S&P was up 26% and that generally private equity lags the public equity markets and INVESCO is hopeful that there will be good news during the upcoming months for the CRPTF. She said some reasons for the positive momentum have been IT spending and semiconductor chip sales and indicated that liquidity has significantly improved. Ms. Riley reported that there has been an increased demand in both buyout and venture in the power, gas and energy industry and that INVESCO is watching the industry closely and expects some innovative deals in that area during 2004.

Mr. Martin expressed concern that the cover letter on the report was not signed and asked why it was not signed. Ms. Riley said that the report generally has a computerized signature and said

that the lack of signature was just an oversight. She further elaborated on the group effort for the CRPTF account. Mr. Martin asked if there is one individual responsible for oversight of the account. Ms. Riley said that the lead relationship manager for the account is Mary Kelley. Mr. Martin expressed further concern relative to the person at INVESCO who accepts responsibility for the information and opinions in the report. Ms. Riley apologized for the omission of a signature and said that she, Mary Kelley and the CEO of INVESCO Private Capital would stand by the report.

Ms. Riley then reported on the numbers for quarter ending September 30, 2003, indicating that the total portfolio commitment was almost $3.8 billion, which represented investments in 44 partnerships. She said the amount called against committed is 78%, almost $3 billon. She said the majority of the portfolio is in the "harvesting stage", where the General Partners ("GPs") are looking for ways for the company to go public or through merger and acquisition. Ms. Riley said the distribution ratio is 57%. She reported that the total IRR, using an inception date of 1987, is 6.64%, up from the June 30 IRR of 6.32%. She said that during the quarter, there was an increase in the number of calls with almost $30 million being invested in some of the underlying funds and distribution of $35 million with a net inflow of $6 million for the quarter.

Interviews of Constitution Fund Manager Finalists

Ms. Sweeney said that there are four finalists making presentations today for the Crossroads Constitution Fund Manager and they are Portfolio Advisors, AIG, Credit Suisse First Boston and Fairview Capital.

Presentation by Portfolio Advisors, LLC

Portfolio Advisors, LLC ("PA") made a presentation to the IAC regarding management of the Constitution Liquidating Fund. PA was represented by Kenneth Wisdom, Senior Vice President; Donna Smolens, Managing Director; and William Indelicato, Managing Director. Their presentation included an overview of PA, the firm's venture capital investment capabilities, qualifications and monitoring process, the firm's performance record and the Constitution Fund transition plan.

Thomas Fiore asked if PA has done similar transitions from one fund manager to PA. Mr. Indelicato responded that PA has not specifically made a fund manager transfer, but that PA has, in a number of instances, taken on the responsibility of managing and advising an institutional client on a private equity portfolio, not through a limited partnership vehicle but through a separate account vehicle. Mr. Wisdom elaborated further by describing the relationship with the City and County of San Francisco and their relationship with Crossroads. He explained that PA, as an advisor, took over the Crossroads portfolio and folded it into the main core portfolio and that rather than transition the GP, PA transitioned the assets themselves and worked very closely with Crossroads and all the GPs to facilitate that process.

Treasurer Nappier asked that PA speak about their corporate citizenship profile. Mr. Indelicato said that 18 of the 21 staff reside in the State of Connecticut and are individually very active in

their local communities through the schools, churches and other local organizations. He explained that because the company is an LLC, PA as an entity does not make donations and is not directly active but that each individual member of the firm is very active in their individual communities. He said that PA hires and works with a number of Connecticut firms and in the city of Stamford, PA hires 1 or 2 young men each year to work in their office. Treasurer Nappier then asked PA to comment on their workforce diversity. Mr. Indelicato said he did not have those numbers with him, but that there are 4 women in the firm. Mr. Wisdom said that minorities represent about 20% of the firm.

Mr. Parker asked if PA had worked with staff from the Treasury to establish their timeline for the transition. Mr. Indelicato explained that they established the timeline based on their experience and the information in the RFP. Treasurer Nappier explained that each firm who responds to an RFP is asked to include information that the Treasury can evaluate to determine their level of understanding of the project.

Mr. Parker asked how many of the 21 employees owned 51% of the business. Mr. Indelicato said that the six senior professionals own approximately 75% of the firm. Mr. Parker asked if those senior professionals have a strategic program to achieve diversity in staff and good corporate citizenship. Ms. Smolens said that PA does have an equal opportunity policy that they follow and that they are actively recruiting women and minority candidates for a current open position. Mr. Indelicato said that the three founders of the firm do have a commitment to diversify their workforce but that they do not have written policy. Mr. Parker commented that he sees before him a Connecticut based firm, made up of young people and that his view is they need to have a plan, not something informal. He said in the universe of investment opportunity PA can be socially responsible and profitable as well, and they need a written policy relative to diversifying their workforce. Mr. Parker asked if this is something that they will consider and frame in a policy statement. Mr. Indelicato responded that they would consider this.

Mr. Fiore asked about PA's relationship with Crossroads during the San Francisco transition. Mr. Wisdom said that initially Crossroads did not want to relinquish the oversight of the assignment and once that hurdle was cleared by the San Francisco Council, PA stepped in and took over from there. He said that PA structured the entire transfer and document process, explained to the GPs how the transition would work and facilitated the process by taking the burden of the task away from staff. Mr. Wisdom said that the transfer was an intensive, high resource process and that PA facilitated all the transfers, made sure the documents were in order, that the GPs and everyone involved changed the agreements accordingly so that they no longer reflected a Crossroads vehicle in the limited partnership documents. Mr. Fiore asked if there were any material negative surprises discovered. Mr. Wisdom said that the biggest surprise was how materially the investments had been wound down and that in many cases the GP no longer existed and the money was in escrow. Ms. Smolens gave some detail on the different methods and vehicles used when funds are liquidated.

Presentation by AIG Global Investment Group

AIG Global Investment Group ("AIG") made a presentation to the IAC regarding management of the Constitution Liquidating Fund. AIG was represented by David Pinkerton, Managing Director/Group Head Alternative Investments; Steven Costabile, Managing Director; and Neil Johnson, Vice President. Their presentation included an overview of AIG, the firm's credibility, the scope of the project, project plan for transition and the firm's focus on diversity.

Mr. Fiore asked if AIG had ever dealt with Crossroads and, second, what does AIG view as the most difficult or challenging aspect transitioning from another manager to AIG. Mr. Costabile said that AIG has dealt with Crossroads in the past. He said he feels there are two difficult areas in making the transition. The first is working with the voluminous live data that is involved and second is to determine what has happened with documents, amendments, capital draw downs, and particularly, potential claw backs, because if there is money on the table AIG would want to ensure that CRPTF gets it back.

Mr. Parker asked about a time schedule for the transition. Mr. Johnson said that when AIG made their first presentation to the Treasury, they provided a very detailed GANT chart with timelines, but it was so small that no one was able to read it, so the presentation today is a summary of those tasks. Mr. Johnson offered assurance that AIG has already begun to work on this project with respect to start dates and end dates. Mr. Pinkerton said that in addition to those dates, there is a responsible party for every element of every phase of the project.

Presentation by Credit Suisse First Boston Private Equity

Credit Suisse First Boston Private Equity ("CSFB") made a presentation to the IAC regarding management of the Constitution Liquidating Fund. CSFB was represented by Michael Arpey, Managing Director Customized Fund Investment Group and Kelly Williams, Managing Director Customized Fund Investment Group. Their presentation included an overview of CSFB, the firm's plan for portfolio transition and management, the firm's commitment to workplace diversity and corporate citizenship.

Mr. Fiore asked if CSFB had ever had a relationship with Crossroads. Mr. Arpey did have a relationship with Crossroad when he was with the State of New York. Mr. Fiore then asked what CSFB would view as the most difficult or challenging aspect of doing a transition. Mr. Arpey said it would be managing the volume of information and ensuring that the transition is seamless to staff and ensuring that all the cash flow is correct.

Mr. Parker noted that CSFB supports CityKids and Robin Hood Foundations and asked if they were supporting Toigo or Jackie Robinson. Mr. Arpey said that the firm is actively involved in Toigo and routinely has Toigo Fellows as interns within the firm and has hired Toigo Fellows. Mr. Parker then asked if they had any association with the National Association of Securities Professionals ("NASP"). Ms. Williams said that she is quite sure that the firm does, but that their group does not.

Presentation by Fairview Capital

Fairview Capital ("Fairview") made a presentation to the IAC regarding management of the Constitution Liquidating Fund. Fairview was represented by JoAnn H. Price, President and Laurence C. Morse, Chief Executive Officer. Their presentation included an overview of Fairview, the firm's experience, the firm's management and operating plan for the Constitution Fund, the firm's portfolio and analysis, the firm's commitment to workplace diversity and corporate citizenship.

Mr. Fiore asked if Fairview had ever done a transition from another fund manager to themselves. Ms. Price said they have not done this before. Mr. Fiore asked if Fairview has dealt with Crossroads before. Ms. Price said they know Crossroads, but have not done business with them. Mr. Fiore asked what Fairview feels is the most difficult aspect of doing such a transition. Ms. Price said she feels the most difficult aspect will be getting full cooperation in obtaining data, but that they had prepared their presentation based on the assumption that they would not have this cooperation and would have to obtain the necessary data through other sources.

Mr. Parker commented that he thought Fairview presented a meticulously planned strategy and the program on social responsibility was extremely well done.

The comparison of the four firms was distributed and David Scopelliti, Principal Investment Officer, gave a brief overview of the search for the Constitution Fund Manager and the evaluation process utilized. At the request of Ms. Sweeney, Mr. Scopelliti reported on the scope of the fund. He said that there were three $100 million tranches of capital invested into the Constitution Fund in 1987, 1992 and 1995 and it did very well. He explained that in 1999 Crossroads stopped distributing cash to the State of Connecticut, reinvested and recommitted more than $300 million to new venture partnerships during 1999 and 2000. Mr. Scopelliti said that Crossroads has gone through two ownership changes, one in 1994/1995 and another in just the last six months. He also said that there are 98 underlying partnerships in the fund, about 75 of which are active, with the remainder in liquidation, having completed their 10 or 12 year partnership term. Mr. Scopelliti said there will be no redeployment, no new commitments to new venture funds out of Constitution Liquidating Fund and that currently, the underlying funds are being transferred from the Constitution Fund to the Constitution Liquidating Fund. The assignment of the manager who is selected will be to assume fiduciary responsibility, which will include making capital calls, distributions, executing amendments, consents and ongoing monitoring.

Mr. Fiore noted then that there are two primary tasks that the new manager will perform, the transition from Crossroads and oversee the entire fund. Ms. Sweeney confirmed this and reiterated that they will manage capital calls. She also pointed out that, as shown in the INVESCO report, the total commitment to Crossroads is $667 million. Ms. Sweeney said that as of September 30, $341 million had been called and there are more than $300 million of new uncalled commitments that will have to be reviewed and monitored. Distributions through September 30 were close to $900 million.

Mr. Parker asked for an update on the legal situation with Crossroads. Ms. LaMarr said that legal differences with Crossroads were settled and CRPTF is now in a position to transfer to a new manager. Mr. Scopelliti advised that 32 of the 76 partnerships have been transferred from the Constitution Fund to the Constitution Liquidating Fund and Crossroads has indicated to CRPTF that by the end of February close to 80% will be transferred and that by May 15 they will all be transferred.

Mr. Parker asked if CRPTF anticipates any problems with Lehman during the transition. Mr. Scopelliti said that Lehman Brothers indicated they will cooperate with this transition and will encourage Crossroads' full cooperation.

Roll Call of Reactions for Finalists for Constitution Fund Manager Finalists

Mr. Fiore said he chose AIG first because the task before the Treasury is so labor intensive and he feels a larger firm would be more able to handle the transition monitoring going forward. He chose CSFB second and Fairview third.

Mr. Martin chose Fairview, CSFB, AIG and PA in that order.

Mr. Parker said he selected Fairview because he thought they had the most meticulous plan for transition, they have good experience and they are a local firm. He chose PA second because they are a young, growing, Connecticut firm. He chose AIG third and CSFB fourth.

Ms. Thomas chose PA because it is a young, progressive, detail oriented, local firm. She chose the other three firms of Fairview, AIG and CSFB, in that order.

Sharon Palmer missed all of PA's and most of AIG's presentations. She said her inclination would be to choose a smaller firm rather than a larger firm.

Chairman Roberts said that he feels PA has superior capabilities in their computer tracking work. He said though that he would choose Fairview first, PA second, AIG third.

Treasurer Nappier said that the Treasury needs to be very clear about the kind of information that that firms are asked to submit for review. She said, by way of an example that the overall workforce diversity of an entire large company may be very different than the division that would be contracting with the Treasury. Treasurer Nappier also said that she feels with the larger firms that not only should the firm's senior management be present, but that the Treasury should demand that the person or persons in the firm who will be directly responsible for managing the CRPTF account be present at these meeting. She said the concern with the smaller firms is whether or not they have the capacity to do the reporting, which is a large part of the scope of work. Treasurer Nappier expressed a dilemma with regard to making a choice between the large and small firms. She said that while large firms have the capability of reporting and administrative, she believes that the small firms may play a better role as an investment advisor. She added that the people who were here representing the small firms will be the same people managing the account and that they have experience, if not with Crossroads, with the underlying

investments within the Constitution Fund itself. Treasurer Nappier also said that because of this dilemma she values the IAC perspective of balancing the large versus the small.

Presentation by and Consideration of AIG Health Care Partners, L.P.

AIG Healthcare Partners, L.P. ("AIGHCP") made a presentation to the IAC regarding their private equity fund. AIGHCP was represented by Michael Kluger, Managing Director; Daniel Tully, Managing Director; and Neil Johnson, Vice President. Their presentation included an overview of AIGHCP, investment highlights, investment strategy and track record.

Mr. Martin asked who orchestrated the deal between Merrill Lynch and AIGHCP. Mr. Kluger said that the four senior principals at AIGHCP all worked at Merrill Lynch. He said that Merrill Lynch was interested in getting back into private equity. Mr. Martin asked if Merrill Lynch Healthcare Partner still exists. Mr. Kluger informed him that it was acquired by AIGHCP.

Ms. Palmer explained her affiliation with the union and the fact that there are many healthcare workers in that union. She pointed out that the union has worked very hard to keep for profit hospitals out of Connecticut and said that she hoped that AIGHCP would not be looking to include for profit hospitals as part of their portfolio. Mr. Kluger said AIGHCP is very sensitive to that issue and that they have never in their 21 investments purchased a hospital or nursing home. He explained that AIGHCP is focused on technologically driven businesses.

Ms. Thomas asked about the total staffing of AIGHCP. Mr. Tully said that there are six professionals, two administrative and that they plan to add four more professionals over the next six to twelve months. Ms. Thomas asked about the diversity of the group. Mr. Tully said that there are no women or minorities at this time but they plan to use the resources of AIG to ensure that they address those issues as they move forward with additional hires. Ms. Thomas expressed the feeling that she does not think AIGHCP cuts pay and benefits to employees of companies they purchase in order to make a profit and asked AIGHCP to talk about the employees in these companies. Mr. Kluger said that they are basically given the same benefit and cost structure that they enjoy when they are part of a large company and that most of the documentation when they buy a division of a large company is about how the current employees will be treated. He said that at times there might be a substitution of a pension for a 401K or a 401K may be substituted for a pension. He said they focus on building businesses.

Mr. Parker said he likes the firm with respect to social responsibility and citizenship and the fact the company is in Connecticut. He suggested that AIGHCP make contact with NASP and the new Hispanic group. Mr. Kluger said that they will follow-up and that AIGHCP is very committed to building diversity.

Discussion of AIGHCP Presentation

The IAC members all agreed that AIGHCP would be a good investment. Chairman Roberts said that they will close the end of March and proposed that the IAC waive the 45-day comment period. Treasurer Nappier pointed out that last month, five firms were interviewed and the 45-

day comment period was not waived and that the comment period is honored whenever possible. She also noted that with private equity investments the Treasury has no control over timing. Mr. Martin asked if it was a mistake to have the 45-day comment period rule. Treasurer Nappier said that it is not a mistake because there may come a time when the IAC is asked to waive and they refuse because they have a real concern about a fund.

Ms. Thomas made a motion, Ms. Palmer seconded, that the IAC waive the 45-day comment period. The motion was passed unanimously.

Best Practices in Private Equity Agreements

Ms. LaMarr made a presentation to the IAC based on a request made by Mr. Parker at a previous IAC meeting that the IAC be provided with information on what the Treasurer's Office has done, and is doing, in developing "best practices" contract terms, particularly in the area of private equity investments. He said he would like a report to include information, which contrasts the terms of existing contracts and future contracts. Ms. LaMarr explained that this presentation is part 1 of a 2-part presentation concerning issues with respect to the CRPTF Private Investment Fund. Ms. LaMarr reviewed problems encountered with Pioneer, Triumph-Connecticut II, L.P., Crossroads Constitution, Keystone and Forstmann Little. She reported that Pioneer was a poor investment decision, that although the Treasury was the sole LP, there was a misalignment of interests. Ms. LaMarr said that the Treasury did not take advantage of a strong bargaining position to negotiate favorable contract terms. She said that, as directed by Treasurer Nappier, the terms of the contract were renegotiated. Ms. LaMarr said that in the case of Triumph, that was also a poor investment decision, the Treasury was, again, the sole LP and failed to negotiate favorable contract terms. She pointed out that the Triumph contract terms lacked specificity and the GP committed criminal acts. She said that with the help of the U.S. Attorney, the Treasury recaptured $125.2 million and that the Treasury is currently taking necessary steps to sever all relationships with Triumph entities.

Ms. LaMarr moved on to Crossroads, saying that the Treasury was, again, the sole LP and that there were vague contract terms, which the GP interpreted to its own advantage and withheld $380 million of assets that should have been distributed to the Treasury and instead recommitted those assets. Treasurer Nappier said that this was a unilateral and material change in historical relationship. She said up until the time she became Treasurer, the GP was routinely and regularly distributing assets to the Treasury and in 1999 these distributions stopped. Treasurer Nappier said that even though the Treasury demanded that those funds continue to be distributed back to the Treasury. She said that, instead, the GP recommitted those assets to new investments, which would not be harvested until years after the partnership was scheduled to end. Treasurer Nappier said this is more than vague contract terms; the GP changed its behavior with a contract that had worked well for 12 years. She said the solution here was that contract terms were renegotiated and the GP is being replaced.

Treasurer Nappier remarked that another issue that should be added to specific problems is the lack of due diligence. She further stated that the lack of due diligence also means that there was no review by the IAC body and as an example used the Triumph Connecticut II investment,

stating that the firm had not retained its portfolio manager before the Treasury committed to the fund. She further explained that if that fund offering had come before the IAC, she is sure that pointed questions regarding the portfolio manager would have been asked. Ms. Sweeney pointed out that entire $200 million was delivered shortly after signing of the contract.

Ms. LaMarr said that the problems with Keystone and Forstmann Little were not created by the contract and explained that with Keystone there was fraud and embezzlement. She said that the solution here is litigation and collaboration with the SEC and U.S. Attorney. She said the problem with Forstmann Little was that the terms of the agreement were violated and that the solution is litigation following failed attempts to negotiate a settlement.

Ms. LaMarr informed the IAC that Mr. Scopelliti and Patricia DeMaras, Associate Counsel will give part 2 of the presentation in the summer.

Mr. Parker commented that he was very pleased with the presentation and thanked Ms. LaMarr for her perseverance.

Presentation of the Attorney General New Requirements

Ms. LaMarr introduced Mr. Scott, Assistant General Counsel, and said he would be talking about the Attorney General ("AG") new requirements with respect to contracts. Mr. Scott explained that certain contracts require the approval of the AG's office as to form and legality. He said that contracts greater than or equal to $100 thousand, and amendments to those contracts, which the Treasury enters into, would require sworn affidavits by members of the IAC who participate in the selection process of a vendor. He explained that these affidavits state that to the best of your knowledge you have not received gifts, other than the ones listed on the affidavit, from that vendor in the past 10 years. There was some discussion regarding the date on which the 10-year time frame is based. Mr. Scott said the 10-year time frame is based on the date of the affidavit. There were some general questions from IAC members regarding what constitutes a gift, about employees changing companies, etc. Ms. LaMarr and Mr. Scott answered the questions as best they could with the understanding that there are some vague areas in this new requirement.

Mr. Parker pointed out that a financial disclosure is completed each year for the Ethics Commission. Ms. LaMarr said this is something in addition to that disclosure and said that she and Mr. Scott tried to negotiate an annual statement from each IAC member and Treasury staff who are involved in the vendor selection process, but the AG rejected the idea. Mr. Parker said that the Attorney General is a constitutional officer as is the Treasurer and he does not understand how he can make a decision that inhibits the Treasurer's capacity to prudently manage the fund. He said that if the AG begins to make demands on the IAC that are outrageous when they have gone through an elaborate program for the past 2 ½ years to make certain that everything is properly done and the State Legislature approved a variety of things last year, then maybe the State Legislature needs to become involved. Mr. Parker said he thinks that the AG is being super sensitive about this issue. Mr. Parker asked that the AG or a representative from his office come to an IAC meeting to discuss this issue with the IAC members. Mr. Scott that said by State statute the AG's office has complete authority to approve contracts as to valid legal

form. Mr. Scott also said that these affidavits were an alternative to complete moratorium on all contracts. He explained that what this new process means for IAC members is that if anyone is involved in the selection process of a vendor, i.e. sits in on a vendor presentation or participates in an interview during the course of a selection process, that member will be required to complete an affidavit. If a member was not present, that member is not required to sign an affidavit. Mr. Parker asked what would happen if he just refuses to sign the affidavit. Mr. Scott said the AG would not approve the contract. Mr. Scott also explained that the vendors have a version of the affidavit that they also are required to sign stating that they have not given gifts to anyone that participated in the selection process, other than the gifts listed on the affidavit. There was some discussion regarding the logistics of obtaining signatures on the affidavits. Affidavits will become a standing agenda items on the IAC monthly agenda.

Other Business

Status Report on Requests by IAC Members
Ms. Sweeney reported that the outstanding items on the Status Report have been covered, noting that part 2 of the "Best Practices" request will be presented later on in the summer.

Starting Time of IAC Meetings

Chairman Roberts noted that the starting time of IAC meetings is 9:00 a.m. and members should make an effort to be on time so that meetings can end timely.

Discussion of preliminary agenda for March 12, 2004 IAC meeting

Ms. Sweeney noted that the March agenda is an ambitious agenda, that it is a full quarterly meeting and that all reports will be based on the quarter ending December 31, 2003. She said since Private Equity gave a quarterly report today, they will not be giving a report at the March meeting. She said that several finalists for the Private Equity Consultants would be making presentations; State Street Bank will make a presentation on TUCS, also for quarter ending December 31; and that there is also the possibility that another private equity fund may make a presentation. Ms. Sweeney said that to the extent that it can be prepared, there will be an update to the cash flow report, but reminded everyone that the problem with CORE could hinder this report. The March meeting has been moved from Wednesday, March 10, to Friday, March 12.

There being no further business, the meeting was adjourned at 3:40 P.M.

Respectfully submitted,

DENISE L. NAPPIER
SECRETARY