

**INVESTMENT ADVISORY COUNCIL
WEDNESDAY, DECEMBER 8, 2004**

MEETING NO. 321

Members present:

Thomas Fiore, representing
 Marc S. Ryan
Michael Freeman
James Larkin
William Murray
Denise L. Nappier, Treasurer
Sharon Palmer
Henry E. Parker
Clarence (Dick) L. Roberts, Jr., Chairman
David Roth
Carol Thomas

Absent:

Reginald Martin
Peter Thor

Others present:

Howard G. Rifkin, Deputy Treasurer
Susan B. Sweeney, Chief Investment Officer
Patricia DeMaras, Associate Counsel
Gary Draghi, Principal Investment Officer
Harold Johnson, Principal Investment Officer (Retired)
Greg Franklin, Assistant Treasurer-Investments
Catherine E. LaMarr, General Counsel
David Scopelliti, Principal Investment Officer
Judy Balich, Executive Secretary
Sarah Carter, Administrative Assistant

Guests:

Thomas Woodruff, Office of the Comptroller
Sean Quigley, State Street Corp.
Donna Trapp, State Street Corp.
Cynthia Steer, CRA RogersCasey
Raudline Etienne, CRA RogersCasey
Matt McCormick, CRA RogersCasey
Nori Gerardo Leitz, Pension Consulting Alliance
Marc Weiss, Pension Consulting Alliance
Harvey Kelly, Leumas Advisors
Julie Naunchek, CSEA-Retiree Council #400
Robyn Kaplan-Cho, Connecticut Education Association
Brian McDermott

Chairman Dick Roberts called the meeting to order at 9:10 A.M.

Chairman Roberts welcomed new member William Murray to his first meeting of the Investment Advisory Council.

Approval of Minutes

Chairman Roberts asked for comments on the Minutes of the November 10, 2004 Investment Advisory Council ("IAC") Meeting. There being no comments, **a motion was made by James Larkin, seconded by Michael Freeman, that the Minutes of the November 10, 2004 IAC meeting be accepted as drafted. The motion was passed unanimously.**

Opening Comments by the Treasurer

Treasurer Denise Nappier announced that following the quarterly IAC meeting today would be the first annual IAC holiday luncheon, which would also be a celebration of the years of service of two departing IAC members, Rosalyn Schoonmaker and Henry Parker.

Treasurer Nappier said that based on the presentations by RLJ Urban Lodging Fund, L.P. ("RLJ") and Parish Capital I, L.P. ("Parish"), the favorable feedback from the IAC and the IAC's waiver of the 45-day comment period, she has made a decision to make commitments to both managers. She said that RLJ will receive a commitment of \$25 million and Parish will receive a commitment of \$55 million.

Treasurer Nappier reported that CRPTF had prevailed in a recent ruling by the Securities and Exchange Commission ("SEC") concerning CRPTF's proposed shareholder resolution to permanently separate the positions of Chair of the Board and the CEO at Walt Disney Company. She said that the SEC ruling against the company, which had filed a *No Action Letter* with the SEC, requires that the resolution be included in the company's proxy statement to enable shareholders to vote on this issue.

Mr. Larkin asked for an opinion from Treasurer Nappier regarding the apparent fallout at CalPERS concerning its corporate governance activities and the related decision to not reappoint Sean Harrigan, president of the CalPERS Board. He said the fallout has been interpreted as a reaction to the strong position that CalPERS, Connecticut and others have taken on the issue of corporate governance. Treasurer Nappier said that Mr. Harrigan's membership on the board could possibly be resurrected by another appointing authority other than the governor, who had the right to name his own appointment. She also commented on the backlash from groups like the Business Roundtable to the level of shareholder activism that has grown out of the recent influx in corporate scandals, and reminded the IAC that the CRPTF's corporate governance policy initiatives pre-date these scandals and require a very diligent review of the issues before taking on an activist stance. A discussion about corporate governance matters ensued and Mr. Parker noted that CalPERS operates in a very political environment, unlike what we have here in Connecticut. Carol Thomas informed IAC members that she had compiled several newspaper articles on the subject, and it was agreed to distribute these articles to IAC members prior to the January 12, 2005 meeting.

CRPTF Final Performance for October 2004

Susan Sweeney, Chief Investment Officer, said that for the month of October 2004, the CRPTF returned 1.33%, which was 22 basis points below the benchmark. She said that for the calendar year to date, the combined investment fund returned 5.03%, 25 basis points ahead of the benchmark. Ms. Sweeney also said that the fund has increased \$226 million since the beginning of the 2004 calendar year, noting that this figure was after pension payments of \$681 million.

Combined Investment Funds Review as of September 30, 2004

Matthew McCormick of CRA RogersCasey reported on the Combined Investment Funds as of September 30, 2004. His report included a market overview with comments on the U.S. equity markets, international equity markets, emerging markets and fixed income. Mr. McCormick also reported on the CRPTF Fund performance including the Mutual Equity Fund, the International Stock Fund and the Mutual Fixed Income Fund. A general discussion followed regarding investment managers, the various funds and the investment market in general. Ms. Thomas requested that the IAC be provided with a brief synopsis of current actions and/or plans for each fund manager that is on the watch list.

Treasurer Nappier announced that Chairman Roberts would present a resolution to Mr. Parker.

Chairman Roberts read the resolution signed by Denise L. Nappier, Treasurer and Clarence L. Roberts, Jr., Chairman. The resolution read as follows:

WHEREAS, the protection and growth of the assets of the Connecticut Retirement Plans and Trust Funds is essential to the future financial security of government workers and retirees of our state, as well as to the economic strength of the State of Connecticut;

WHEREAS, the Investment Advisory Council and the Office of the State Treasurer wish to recognize the contributions of Henry E. Parker as State Treasurer for the State of Connecticut from 1975 to 1986 and as a member of the Investment Advisory Council from August 1999 to December 2004, having been appointed by The Honorable Moira Lyons, Speaker of the House of the Connecticut General Assembly;

WHEREAS, as Treasurer of the State, Mr. Parker left a legacy of commitment and accomplishment, which included being a founding member of the National Association of Securities Professionals, a founding member of the Council of Institutional Investors, an original Board Member of the Robert Toigo Foundation, the establishment of the YankeeMac program to promote home ownership, and the creation of the College Savings Bond program, an early effort to promote saving for education;

WHEREAS, Henry E. Parker has performed in equal measure on behalf of the people of Connecticut in his service on the Investment Advisory Council;

WHEREAS, in his Investment Advisory Council work, Mr. Parker never let any of us forget our obligations to equal opportunity and diversity in the workplace and, as a result, the Council has chosen to recognize this effort through the adoption of the Principles of Diversity and Cultural Competency;

WHEREAS, in addition, the work of the Council has benefited significantly from the overall diligence and insight that he exhibited in meeting the obligations of Council membership as have those participating in the Connecticut Retirement Plans and Trust Funds;

WHEREAS, his sincerity, integrity, and camaraderie will be greatly missed by his colleagues and the citizens of Connecticut;

NOW THEREFORE BE IT

RESOLVED, that the Investment Advisory Council and the Office of the Treasurer, for themselves and on behalf of the people of Connecticut, express gratitude and appreciation and acknowledge the substantial contributions of Henry E. Parker during his service as a member of the Council.

Adopted: This 8th Day of December 2004

Chairman Roberts asked for a motion to adopt the resolution for Henry E. Parker. Mr. Larkin made a motion to adopt the resolution and Ms. Thomas seconded the motion. The motion was passed unanimously.

Real Estate Fund Review as of June 30, 2004

Marc Weiss of Pension Consulting Alliance (“PCA”) reported on the Real Estate Fund as of June 30, 2004. PCA’s report included overall performance, an investment guideline review, the portfolio characteristics, commitments, market overview and valuation reconciliation. Mr. Weiss also provided information on unfunded commitments.

There was a discussion regarding the impact on the real estate market relative to the purchase of Sears by Kmart.

Commercial Mortgage Fund Review as of September 30, 2004

Gary Draghi, Principal Investment Officer, reported on the Commercial Mortgage Fund indicating that the value of the Fund as of September 30, 2004 was \$29.3 million.

Short-Term Investment Fund Review as of September 30, 2004

Harold Johnson, Principal Investment Officer, reported on the performance of the Short Term Investment Fund (“STIF”) for the quarter ending September 30, 2004. He noted that for the months of July, August and September, STIF earned an average effective yield of 1.49%, versus 1.15% for the average benchmark.

Other Business

Review of the IAC budget for the quarter ending September 30, 2004 and IAC Proposed Budget for FY ending June 30, 2005 and 2006

Chairman Roberts reviewed the FY 04 budget and the actual expenditures noting that the actual expenditures were well below the budgeted figure. He then reviewed the proposed budget figures for FY 05 and FY 06.

A motion was made by Mr. Larkin, seconded by Sharon Palmer, that the proposed budget be approved. The motion was passed unanimously.

Pension Funds Management Division's operating results as of September 30, 2004

Ms. Sweeney noted that the report is unaudited. Chairman Roberts asked if there were any comments on the report. There were none.

Status Report on Requests by IAC Members

Ms. Sweeney said that she is still working with the general counsel's office regarding the, soon to be renamed, **Principles of Diversity and Cultural Competency**.

Ms. Sweeney said that the issue of **Conference Speakers Who Pay to Speak** would include information on all pension consulting firms, as well as CRA RogersCasey.

Ms. Sweeney said that the **Cash Flow Projection for Fiscal Year 2006** is in process for the next meeting and Greg Franklin is reviewing how to incorporate that information from the figures available to him.

Discussion of Preliminary Agenda for January 12, 2005 IAC Meeting

Ms. Sweeney said that we would probably have a presentation by a private equity fund of funds manager, the Cash Flow Report, and the Corporate Governance Report. Ms. Thomas requested further discussion on the corporate governance backlash. Chairman Roberts suggested that Ms. Miller present this topic as part of her quarterly corporate governance report at the next IAC meeting. It was agreed to place this matter on the IAC agenda with Ms. Thomas presenting first, followed by Ms. Miller.

There being no further business, the meeting was adjourned at 10:50 A.M.

An audio tape of this meeting was recorded.

Respectfully submitted,

**DENISE L. NAPPIER
SECRETARY**