MEETING NO. 316

Members present: Reginald Martin
Denise L. Nappier, Treasurer
Sharon Palmer
Henry E. Parker
Clarence (Dick) L. Roberts, Jr., Chairman
David Roth
Rosalyn Schoonmaker
Carol Thomas

Members absent: Thomas Fiore, representing
Marc S. Ryan
James Larkin

Others present: Howard G. Rifkin, Deputy Treasurer
Susan B. Sweeney, Chief Investment Officer
Patricia DeMaras, Associate Counsel
Gary Draghi, Principal Investment Officer
Greg Franklin, Assistant Treasurer-Investments
Harold Johnson, Principal Investment Officer
Catherine E. LaMarr, General Counsel
David Scopelliti, Principal Investment Officer
Judy Balich, Administrative Assistant
Bryant Rich, PFM Intern
Marc Urso, PFM Intern
Ed Giannaros, PFM Intern

Guests: Sean Quigley, State Street Corporation
Cynthia Steer, CRA RogersCasey
Matthew McCormick, CRA RogersCasey
Mary Kelley, INVESCO Private Capital
Katie Cattanach, INVESCO Private Capital
Marc Weiss, Pension Consulting Alliance
Julie Naunchek, CSEA-Retiree Council #400
Barbara Randolph, A.G. Edwards & Sons, Inc.
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 May 12, 2004 Investment Advisory Council. There being no comments, a motion was made by Carol Thomas, seconded by Reginald Martin, that the Minutes of the May 12, 2004 IAC meeting be accepted. The motion was passed unanimously with one abstention by Henry Parker who had not been present at the May meeting.

Opening Comments by the Treasurer

Treasurer Denise Nappier reported that the contract with the new private equity general consultant should be signed soon and she expects them to be at the July IAC meeting. She announced that this would be the final meeting attended by INVESCO Private Capital (“INVESCO”) and thanked Mary Kelly, Katie Cattanach and INVESCO for all their hard work.

Treasurer Nappier noted that the 45-day comment period for Connecticut Horizon Fund expired on May 29 and anticipates giving a final report at the next IAC meeting.

With regard to the Global Custody and Securities Lending RFP, Treasurer Nappier reported that 5 major banks responded to the entire RFP and that there were 8 responses to the Securities Lending portion of the RFP. She indicated that interviews would take place the week of August 16 and that the IAC members would be notified when the dates are set.

Other items noted by Treasurer Nappier were that Charterhouse Equity would make a presentation at the meeting today and that Mary Kelley and Katie Cattanach would provide a pacing study update. She also reported that the Forstmann Little trial is in progress and no reference to the case would be made at this meeting.

Treasurer Nappier introduced 3 of the 10 interns working for the OTT this summer, Ed Giannaros, Marc Urso and Bryant Rich, all of whom are assigned to the Pension Funds Management Division.

Treasurer Nappier announced that having served on the IAC for 11 years, this is Rosalyn Schoonmaker’s last IAC meeting.

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 Rosalyn B. Schoonmaker as a member of the Investment
Advisory Council from August 1993 to June 2004 having been nominated to serve eleven years in this capacity by the Connecticut Education Association;

WHEREAS, Roslyn Schoonmaker’s conscientiousness and commitment to serve the people of Connecticut have made her an invaluable member of said Council, leaving a legacy of selflessness and dedication;

WHEREAS, the work of the Council benefited significantly from the diligence and insight that she exhibited in meeting the obligations of Council membership;

WHEREAS, the well being of her constituents, educators, government workers and retirees, were foremost in her decision-making process as investment policies were evaluated;

WHEREAS, her sincerity, integrity, and camaraderie will be greatly missed by her colleagues;

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 Rosalyn Schoonmaker during her service as a member of the Council.

Chairman Roberts made a motion to accept the resolution for Rosalyn Schoonmaker and Ms. Thomas seconded the motion. The motion was passed unanimously.

Ms. Schoonmaker said that she has enjoyed serving on the IAC for the past 11 years.

Treasurer Nappier noted that Corporate Governance is not on today’s agenda and that they would give their report at the July IAC meeting. She provided an update of the dealings with Disney. She also reported that she was asked to speak at a Money Magazine Summit on corporate governance.

Chairman Roberts asked Mr. Martin to advise the Council on the Audit Report. Mr. Martin noted that there were no issues in the report and that if any member would like a copy, they need only to ask. Chairman Roberts complemented Treasurer Nappier and the OTT staff for a “clean” audit.

CRPTF Final Performance for April 2004

Susan Sweeney, Chief Investment Officer, made comments regarding the investment returns of the combined investment funds for the period ending April 30, 2004.

Presentation by and Consideration of Charterhouse Equity Partners IV, L.P.

David Scopelliti, Principal Investment Officer, noted that Charterhouse Equity Partners IV, L.P. (“CEPIV”) is a private equity investment opportunity offered by Charthouse Group International (“Charthouse” or the “Firm”) in which Treasurer Nappier is recommending a $50 to $75
million investment. The goal of Charterhouse is to raise $750 million of commitments for CEPIV.

A discussion ensued relative to the workforce diversity of Charterhouse and the IAC members generally agreed that should the Treasurer decide to make a commitment to CEPIV, the Firm would need to make a commitment to focus on its workforce diversity. There was also a discussion about the past performance of the Firm and concerns of the IAC members about their performance. Various members of the IAC questioned what due diligence had been performed.

Treasurer Nappier expressed her agreement relative to the need for the Firm making a commitment to diversify their workforce and the use of a method to monitor the Firm’s progress. She explained, relative to due diligence, that the same degree of due diligence has been done on Charterhouse that is done on any company with which the Treasury is considering an investment. She further explained that INVESCO had prepared a thorough due diligence report and that the IAC was given an executive summary of that report.

Presentation by Charterhouse Group International

Charterhouse Group International made a presentation to the IAC regarding its fund opportunity for Charterhouse Equity Partners IV, L.P. Charterhouse was represented by Thomas Dirks, Managing Partner and CEO; Paul Varrochi, Principal; and Lori Hess, Partner. Their presentation included an overview of Charterhouse, their portfolio companies, their equity performance, their investment strategy, and their CEPIV investment activity/deal flow.

Following the presentation Mr. Parker addressed the issue of workforce diversity and being a good corporate citizen with CEPIV representatives. They were very receptive to the ideas put before them.

Sharon Palmer and Mr. Martin would like to make the investment. Mr. Parker, David Roth, Ms. Thomas, Ms Schoonmaker and Chairman Roberts all agree that the investment should be made, with the proviso that Charterhouse does focus on diversifying its workforce. Mr. Roth also feels that no more than a $50 million commitment should be made.

Combined Investment Funds Review as of March 31, 2004

Cynthia Steer and Matthew McCormick of CRA RogersCasey reported on the overall investment results for the Combined Investment Funds as of March 31, 2004. Ms. Steer reported on the broader picture including a market overview with comment on the U.S. equity markets, international equity markets, emerging markets and fixed income. Mr. McCormick reported on the CRPTF fund performance including the Mutual Equity Fund, The International Stock Fund and the Mutual Fixed Income Fund.

A discussion followed the presentation covering topics on the use of the information provided, acceptability of fund performance, real estate investment impact, securities lending and cash flow.

Private Investment Fund Review as of December 31, 2003
Mary Kelley and Katie Cattanach of INVESCO Private Capital reported on both the Private Investment Fund for the quarter ending December 31, 2003 and on the pacing study. Their report consisted of the private equity role in the portfolio, CRPTF portfolio as of 12/31/03, private equity outlook, private equity performance as of 6/11/04, CRPTF projected private equity cash flows, projected commitment level, commitment activity from 1999 to the present, suggested annual commitment targets and the implementation plan of $400 million.

On behalf of INVESCO, Ms. Kelley thanked Treasurer Nappier, members of the IAC and the Treasury staff for the opportunity to work with the State of Connecticut.

**Real Estate Fund Review as of December 31, 2003**

Marc Weiss of Pension Consulting Alliance (“PCA”) reported on the Real Estate Fund as of December 31, 2003. PCA’s report included overall performance, an investment guidelines review, the portfolio characteristics, commitments, market overview and valuation reconciliation. In response to a question from Mr. Parker, Treasurer Nappier noted that the current target for real estate investment is 5% and the current investment is slightly over 2%.

**Commercial Mortgage Fund Review as of March 31, 2004**

Gary Draghi, Principal Investment Officer, reported on the Commercial Mortgage Fund indicating that the value of the Fund as of March 31, 2004 was $37.3 million.

**Quarterly Update on CRPTF Cash Flow as of March 31, 2004**

Greg Franklin, Assistant Treasurer-Investments, gave an update on CRPTF Cash Flow as of March 31, 2004, noting that for the 9-month period, contributions were $742 million and benefit payments were $1,409 million with a net outflow of $667 million.

**Short-Term Investment Fund Review as of March 31, 2004**

Harold Johnson, Principal Investment Officer, reported on the performance of the Short Term Investment Fund (“STIF”) for the quarter ending March 31, 2004. He noted that for the months of January, February and March, STIF earned an average effective yield of 1.15%, versus 0.74% for the average benchmark.

**Other Business**

**Review of the IAC budget for the quarter ending March 31, 2003**

Chairman Roberts asked if there were any comments or questions on the budget review. There were none.

**Pension Funds Management Division’s operating results as of March 31, 2003**

Mr. Draghi noted that the net assets of the Fund are $20.5 billion.

**Status Report on Requests by IAC Members**

A report on Best Practices is targeted for the July IAC meeting.
Ms. Sweeney noted that she met with Mr. Martin regarding the **Parker Principles** and that she would draft a document and send it to Treasurer Nappier for her comments. Ms. Sweeney hopes to have the document for the next IAC meeting.

The **Attorney General Presentation** will be removed from the Status Report Requests based on the fact that the look back period has been changed from 10 years to 2 years due to a requirement passed by the legislature and adopted by the Attorney General.

Ms. Thomas and Mr. Franklin had a conversion about **Benefit Payments** and that item may now be removed from the Status Report Requests.

The request for more time for **Corporate Governance** has been resolved and will be removed from the Status Report Requests.

There was a brief discussion relative to the Education Committee. Chairman Roberts indicated that he has some ideas and would be working on this issue.

**Discussion of preliminary agenda for July 22, 2004 IAC meeting**

Besides a possible presentation on Best Practices by Mr. Scopelliti and Patricia DeMaras, Associate Counsel, and the Parker Principles, there may be another investment opportunity presented to the IAC.

Chairman Roberts noted that there would not be an IAC meeting in August but that interviews for the Master Custodian would take place for one or two days in August.

There being no further business, the meeting was adjourned at 12:15 P.M.

An audio tape of this meeting was recorded.

Respectfully submitted,

**DENISE L. NAPPIER**  
SECRETARY