



INVESTMENT POLICY STATEMENT
State of Connecticut Retirement Plans & Trust Funds
APPENDIX C, SECTION I – COMPLIANCE POLICY
FOR IMPLEMENTATION OF STATUTORY
INVESTMENT RESTRICTIONS

I. Overview

The Connecticut General Statutes currently authorize the Treasurer to implement investment restrictions on companies doing business in Iran, Northern Ireland and Sudan. See Conn. Gen. Stat. §§3-13g, 3-13h and 3-21e. Each statute provides criteria for the Treasurer to consider in her evaluation of investments in a company, and authorizes actions, up to and including divestment, when warranted in the Treasurer's sole discretion.

This policy has been promulgated to implement the provisions of the statutes, to incorporate the requirements into the standard Investment Management Agreement, and to provide guidance to the Office of the Treasurer and investment managers on compliance. Any previous policies or interpretations of compliance with the MacBride Statute by the Office of the State Treasurer are hereby superseded by this policy.

At the sole discretion of the Treasurer, this policy may be changed from time to time. Managers will be notified in writing of any modification of this policy.

The standard form of "Investment Management Agreement" (the "Contract" or "IMA") between the investment manager (each an "Investment Manager" and, collectively, "Investment Managers") and the Treasurer obligates all Investment Managers to comply with investment restrictions imposed by the Treasurer under these statutes. Failure to comply with this policy shall be a breach of the Contract.

II. Process for Identifying Companies Subject to Investment Restriction(s)

1. The Office of the Treasurer is responsible for monitoring and identifying companies that meet the criteria for engagement under each statute. Monitoring activities may be undertaken internally or external resources may be used, including consultants, to identify companies that are candidates for engagement. Although priority will be given to engagement with companies in which the Connecticut Retirement Plans and Trust Funds (CRPTF) holds shares, engagement may be undertaken with companies in which no shares are held, based upon the Treasurer's authority to prohibit investment in a company, if warranted.
2. When a company has been identified as a candidate for engagement, it will be contacted in writing, to seek information on the company's business activities in the country at issue and other information identified in the statute. In addition, the Office of the Treasurer will offer to open a



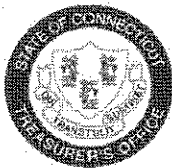
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dialogue with the company. Communication with a company may be conducted by the Treasurer's Office alone, or in concert with other partners, which may include other institutional investors or organizations made up of institutional investors. In all cases, the company will be given a timeframe for responding, and will be informed that failure to respond may be considered by the Treasurer in her evaluation of next steps.

3. The company's response, or lack of response, will be evaluated using factors set forth in law, and further communication with the company will be conducted, if desirable. Outside resources may be used to assist in the evaluation of the response. Based upon the evaluation of the company's response, a recommendation may be made to the Treasurer to exercise her authority under the statute to impose an investment restriction; e.g. divest and/or restrict future investment in the company. In the alternative, if it is determined that imposition of an investment restriction is not warranted, a recommendation may be made to no action be taken with regard to a company for reasons including, but not limited to:
 - a. No current activity or limited current activity in the country.
 - b. Company has announced its intention to cease business activities and has taken steps toward that end.
 - c. Company is undertaking substantial humanitarian activity or otherwise acting to the benefit of the local population, including employing citizens of the country.
 - d. Company has announced its intention to undertake substantial humanitarian activity or other activity that will benefit the local population.
4. The Treasurer will review the recommendation, and approve, disapprove or ask for additional information or action by staff.
5. If the Treasurer approves a recommendation to divest or restrict future investment in a company, the decision will be implemented, including providing notification to the company of the decision.

III. Process for Implementation of Investment Restriction

1. Whenever the Treasurer decides to impose an investment restriction, written notification will be provided to all Investment Managers. The notice shall identify the company, the required action and the time frame for implementation which ordinarily shall be 120 days. Investment



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Managers will be directed to notify the Treasurer when the required action has been fully implemented.

2. A Restricted Security list will be created, consisting of all companies for which the Treasurer has approved divestment/restriction on future investment.
3. At any time when the Treasurer's Office maintains a Restricted Security list, Investment Managers shall be required to certify at least annually:
 - a. It has adequate procedures in place to prevent acquisition of securities of restricted companies; and
 - b. It holds no Restricted Securities in portfolios it manages on behalf of CRPTF.

The Treasurer may limit her investment restriction solely to direct investments in a Restricted Security. In those instances where the CRPTF invests in a mutual fund, exchange traded fund or other form of commingled fund, the Treasurer shall encourage the Investment Manager of the commingled fund to consider alternative investments if practicable.

IV. Process if Investment Manager Purchases Restricted Security

1. The purchase of a Restricted Security violates this policy and is a breach of contract.
2. The Investment Manager shall divest any Restricted Security within 30 calendar days of acquisition unless the Treasurer specifies a longer period.
 - a. Additional remedies associated with the breach of contract shall be at the Investment Manager's own expense. Accordingly, the Investment Manager shall Acquisition costs (e.g. brokerage and other costs incurred to acquire the Restricted Security).
 - b. Disposition costs (e.g. brokerage and other costs incurred to sell the Restricted Security).
 - c. Realized losses, if any, based on purchase costs and the amount realized upon disposition of the Restricted Security.
 - d. Lost opportunity costs resulting from the use of funds to purchase and hold a Restricted Security. This shall be measured as the cost



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of the Restricted Security position multiplied by the difference between the investment return on the Restricted Security, as calculated by the Treasurer's master custodian bank, investment consultant or similar agent and the higher of (i) the average return on all other investments by the Investment Manager, as calculated by the Treasurer's master custodian bank, investment consultant or similar agent, or (ii) the average return of the Investment Manager's benchmark index, as calculated by the Treasurer's general consultant. These calculations will be prorated for the time period during which the Restricted Security is held.

V. Process if Investment Manager Fails to Divest Restricted Security Within Required Time Frame

1. The failure to divest within the required time frame violates this policy and is a breach of contract.
2. The Investment Manager shall divest any Restricted Security as soon as possible unless the Treasurer specifies a longer period.
3. Additional remedies associated with the breach of contract shall be at the Investment Manager's own expense. Accordingly, the Investment Manager shall be liable to reimburse the CRPTF for:
 - a. Acquisition costs (e.g. brokerage and other costs incurred to acquire the Restricted Security).
 - b. Disposition costs (e.g. brokerage and other costs incurred to sell the Restricted Security).
 - c. Realized losses, if any, based on purchase costs and the amount realized upon disposition of the Restricted Security.
 - d. Lost opportunity costs resulting from the use of funds to purchase and hold a Restricted Security. This shall be measured as the cost of the Restricted Security position multiplied by the difference between the investment return on the Restricted Security, as calculated by the Treasurer's master custodian bank, investment consultant or similar agent and the higher of (i) the average return on all other investments by the Investment Manager, as calculated by the Treasurer's master custodian bank, investment consultant or similar agent, or (ii) the average return of the Investment Manager's benchmark index, as calculated by the Treasurer's



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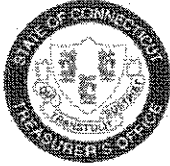
general consultant. These calculations will be prorated for the time period during which the Restricted Security is held.

VI. Duties of Managers

1. Investment Managers shall adhere to specific investment restrictions put in place by the Treasurer.
2. Upon notice from the Treasurer that an investment restriction has been imposed with respect to a particular company's security(ies), Investment Managers shall implement the restriction within the time frame indicated in the notice.
3. Investment Managers shall have procedures in place to monitor portfolios it manages on behalf of CRPTF and ensure against acquisition of Restricted Securities.
4. Whenever an Investment Manager breaches the contract by acquiring a Restricted Security, or failing to divest from a Restricted Security within the required time frame, the Investment Manager shall prepare all calculations required to determine the amount of reimbursement due the CRPTF. Such calculations shall be forwarded to the Office of the Treasurer within thirty (30) calendar days of disposition of the Restricted Security for acceptance and approval. The Investment Manager shall make all payments within thirty (30) calendar days after written notice of acceptance and approval has been received.
5. Investment Managers shall provide an annual certification that it (i) has adequate procedures in place to prevent acquisition of securities of restricted companies and (ii) holds no Restricted Securities within portfolios managed on behalf of CRPTF.

VII. Contract Requirements

1. The standard IMA shall require compliance with this policy, including requiring Investment Managers to:
 - a. comply with laws restricting investment and to adhere to specific restrictions put in place by the Treasurer;
 - b. continuously monitor portfolio holdings to identify holdings that may be Restricted Securities;



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- c. notify Treasurer in the event it purchases a Restricted Security;
- d. provide an annual certification that it (i) has adequate procedures in place to prevent acquisition of securities of restricted companies and (ii) holds no Restricted Securities; and
- e. respond to the Treasurer's inquiries related to its portfolio holdings.

VII. Treasurer's Rights

1. Consistent with the Contract, if this policy is not complied with, the Treasurer shall have the right to terminate the Contract. Notwithstanding termination of the Contract, in accordance with Sections IV and V above, the Investment Manager is still obligated to compensate the CRPTF for any amounts owed hereunder.
2. Failure to terminate the Contract for any breach shall not constitute a waiver of future breaches.
3. Notwithstanding any time period set forth in this policy, the Treasurer may extend the required time to divest in her sole discretion. Any extension will be based on fiduciary considerations. Circumstances which may give rise to consideration of an extension may include, but are not limited to (i) the existence of short-term market dislocations which would have a negative impact on the disposition; (ii) any negative impact such disposition may have upon other investment positions of the Office of the State Treasurer; (iii) evidence of measures that will result in compliance by the company with respect to the security(ies) in question within a time frame that would make divestment impractical; or (iv) other unusual circumstances.